Purchasing Agents and the Local Budget Process

What Purchasing Agents Need to Know About the Local Budget Process

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Budget Concepts

- Budget is part of a fully integrated financial system that includes: tax assessment, tax collection, debt management, and fiscal control systems
- Provides spending authority: no appropriation = no spending
- Balanced budget: Revenues = Appropriation
- Tax levy authority
- Adopted by governing body
- A spending plan

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DLGS Approval

- NJ is the only state to review all local unit budgets. Driven by political considerations stemming from reliance on property tax rate to fund local government
- DLGS review or via “local examination” rule
- Ensure revenues are not over anticipated
- Statutory purposes for all appropriations
- Debt service is appropriated in full
- Compliance with other laws, i.e., levy cap
- Introduction, public hearing and adoption cycle

Preparation

- Prepared in advance of fiscal year
- Process driven by form of government
- Calendar is statutory, subject to modification by DLGS
- Worst case scenario of late budgets; DLGS will warn, then can act to set the levy or adopt line items at prior year level.
## Temporary Budget

- Covers spending from start of FY to adoption
- Initially 26.25% of prior year total, but can be allocated by line item as needed
- Emergency temporary appropriations when temporary budget is extinguished
- Post FY adoption principle driven by desire for solvency; you need to know prior year’s actual revenues to ensure solvency this year

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## Budget document

- “Data Sheet”
- Introduction/Adoption Page
- Budget Message
  - What’s up and down
  - 1976 cap Inside/Outside cap explanation
  - General information
- New user friendly budget
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Revenues

- Relies on unaudited calculations from Annual Financial Statements (solvency issue)
  - Realized revenues
  - Surplus (fund balance) calculation
  - Tax collection rate
- Various pages based on type of revenue
- Cannot over anticipate from prior year or evidence is provided
- Special items – general and offset with an appropriation

Appropriations

- In and outside of appropriation cap
- Basic line items: S&W (Salary and Wages) and OE (Other Expense)
- Separate sections
  - Routine – generally organized by department structure
  - Statutory appropriations
  - Deferred charges
  - Debt Service
- Section summary pages
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Other

• Utilities – similar budgets for each utility operation
• Appendix – surplus calculation
• Capital budget plan
  – Different time horizons for small and large
  – Shows projects and financing time frames
  – Shows anticipated financing model
  – It’s a PLAN!

Budget Amendments

• Special items of revenue (c.159)
  – Offset with an appropriation to allow unexpected spending
• Emergencies
  – Health, safety, or welfare – declared by chief executive
  – Funds must be raised the following year – deferred charge
  – Funded via surplus or borrowing via notes
• Transfers
  – Moving an appropriation between line items
  – When can they be done
  – Mechanism to accomplish – 2/3 governing body approval
Reserve Years

- Keeps balances from year just ended alive; aids in solvency and provides funds for late bills (which in our encumbrance era age should be limited)
- At end of the reserve year, the remaining balance lapses into surplus

Appropriation Refunds

- Sometimes municipalities get payments that can offset appropriation spending
- Historically, these payments would be “charged” to an line item, thus increasing an appropriation. But...
- Current budget law and DLGS procedures do not allow for these “appropriation refunds.
- If you get refunds, if you want to bring them in as an appropriation, it can be done as a c.159 Budget Amendment
- Auditors will call you on it.
Encumbrance System

- It should be obvious – it prevents funds from being used for more than one purpose and over-commitments, thus preventing over-expenditures. Which can be a crime.

Bill Payment Ordinance

- NJSA 40A:5-17 provides a default process requiring governing body approval prior to payment
- Can be modified by governing body in local administrative code
- Some forms of government have their own default – which can be modified.
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**New Procurement/Budget Policy Issues**

- Moving from Capital Expenditures (CapEx) to Operating Expenditures (OpEx)
  - From owning to leasing/renting
  - Technology ___ as a service
- Impact of cooperative purchasing evolution
- Procurement software and improving “cycle” time
- How can you save your agency money?

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