



A Guide to Local
Government
Annual Budgeting

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The Budgeting Process

The annual budget process is a structured, multi-phase operation that aligns financial planning and revenues with community priorities.

While specific timelines, procedures, and participants vary by jurisdiction, the core components remain consistent across most municipalities. This guide provides an introductory look at the budgeting process and practices nationwide, enhanced by key details from authoritative sources and best practices.

So, let's dive right in.

Budget Development

The budget preparation process typically begins six months into the current fiscal year and takes between six to nine months from initial planning to final approval.



Strategic Alignment

A successful budget process should begin with city leaders articulating a clear vision, identifying community and department goals, and undertaking a strategic plan.

Budgets increasingly use priority-based frameworks, linking expenditures to community outcomes like public safety or infrastructure.

Departmental Requests

Heads of administrative units submit expenditure estimates and revenue projections to the budget office, typically 6–9 months before the fiscal year begins.

These requests are reviewed by the chief executive (e.g., city manager) and finance director.

We will use the term finance director through-out this guide since 42% of smaller municipalities combine the roles of finance director and treasurer.

Executive Proposal

Meetings are held with the department directors and budget staff to go over requests. The mayor or chief executive drafts a preliminary budget, balancing departmental needs with revenue forecasts.

Once the chief executive drafts a proposed budget, it goes to the legislative body (e.g. city council, county council, or county board) for approval.

This process can take up to six months, allowing for thorough review and modifications.

Budget Review & Approval

Legislative Scrutiny

The city council or county board holds work sessions and public hearings to analyze the proposed budget.

Specialized committees are often formed to oversee various portions of the budget. For example, New York City conducts two rounds of hearings (March–April and April–June).

Public Engagement

Government should and can make the budgeting process more accessible to the public and here are some strategies to help:

1. Simplify and demystify budget information
 - Translate technical jargon into everyday language
 - Use infographics and visual representations to explain complex financial data
 - Provide context for financial decisions in clear, non-technical terms
2. Increase transparency and communication
 - Publish regular financial updates in publicly accessible forums
 - Use multiple channels, including websites, social media, and community meetings
 - Create interactive online budget tools for the public to use.
3. Encourage public participation
 - Host budget workshops and town hall meetings for direct engagement
 - Conduct public surveys to gather input on community priorities



- Establish budget advisory committees with diverse community representation
4. Educate the public
Provide clear information about the budget process and its impact on the community.
- Offer budget literacy programs to help residents understand financial concepts
 - Use formats that encourage discussion about trade-offs, such as budget simulation “games”
5. Ensure inclusivity
Make efforts to include typically underrepresented groups in the budgeting process.
- Recruit a diverse mix of participants for advisory committees and workshops
 - Use inclusive outreach strategies to reach all segments of the community
6. Leverage technology
Develop user-friendly budget dashboards and websites
- Utilize social media platforms for budget updates and engagement
 - Implement online participatory budgeting tools
7. Provide feedback loops
Communicate how public input influenced final budget decisions
- Share the outcomes and impacts of budget allocations on the community

By implementing these strategies, local governments and agencies can foster greater community engagement and build trust.



Adoption

The governing body votes to adopt the final budget. This typically requires a majority vote of all members of the body.

Final approval typically occurs 1–2 months before the fiscal year begins. If deadlines are missed, preliminary budgets may take effect automatically.

Implementation & Monitoring

Fund Allocation

- Departments receive appropriations, with priority-based budgets streamlining resource distribution.

Oversight

Finance offices track expenditures monthly, ensuring compliance with approved plans with unspent funds often reverting to general reserves.

Mid-Year Adjustments

Unexpected revenue shortfalls or emergencies may trigger budget modifications.



Role of Technology

User-friendly technology can drastically reduce the time spent on the budgeting process by:

- Automating calculations
- Highlighting trends and exceptions
- Centralizing communications
- Increasing access to budget data on demand

Audit & Reconciliation

Annual Financial Report

A Comprehensive Annual Financial Report (CAFR), now known as an Annual Comprehensive Financial Report (ACFR), is a detailed financial report prepared by state, municipal, or other governmental entities in the United States.

It provides a thorough presentation of the entity’s financial condition, complying with accounting standards set by the Governmental Accounting Standards Board (GASB).

The ACFR consists of three main sections:

1. Introductory Section: Contains a transmittal letter, organization chart, and list of principal officials.

The Budgeting Process

2. Financial Section: Includes the independent auditor’s report, management’s discussion and analysis, basic financial statements, notes to the statements, and required supplementary information

3. Statistical Section: Provides additional financial, economic, and demographic information, often covering multiple years to show trends.

This report goes beyond minimum accounting requirements, aiming for transparency and full disclosure of the entity’s financial activities and balances for each fiscal year.

It is audited by an independent accounting firm using generally accepted government auditing standards, ensuring its accuracy and reliability.

The ACFR serves as a comprehensive tool for government managers, policymakers, and the public to assess financial health and performance.



Performance Audits

Performance audits examine the efficiency and effectiveness of government programs and operations.

They focus on the “three E’s”: economy (keeping costs low), efficiency (maximizing resource use), and effectiveness (achieving program objectives).

These audits aim to improve program performance, reduce costs, and facilitate informed decision-making.

Key aspects of performance audits include:

- Evaluating programs against objective criteria or best practices
- Assessing whether programs are working as intended to achieve stated goals
- Providing recommendations for improvements and cost savings
- Examining a wide range of issues beyond just financial data

Performance audits provide a broader assessment of program effectiveness and efficiency, whereas CAFRs focus on presenting a detailed and accurate financial picture of the government entity.

Best Practices for Local Government Budgeting

1. Establish a clear, well-defined process with visual representations like budget calendars and timelines.

2. Start with a vision and strategic plan, ensuring citizen input informs and guides that vision.

3. Prioritize key challenges rather than attempting to tackle everything at once.

4. Use cloud-based software to keep budget data up-to-date and reduce manual reconciliation.

Challenges and Solutions

Common challenges in local government budgeting include:

Balancing Short-term and Long-term Goals

Challenge: Difficulty in prioritizing immediate needs versus long-term strategic objectives.

Solution: Start with a clear vision and strategic plan. Keep long-term goals visible throughout the budgeting process and align capital projects with these priorities.

Infrastructure Costs

Challenge: Managing the significant costs associated with maintaining and upgrading infrastructure.

Solution: Develop comprehensive asset management plans and prioritize infrastructure investments based on long-term impact and community needs. Consider innovative financing options such as public-private partnerships.

Unfunded Mandates

Challenge: Dealing with the costs of unfunded state and federal mandates.

Solution: Advocate for intergovernmental cooperation and seek alternative funding sources. Implement efficient service delivery models to offset increased costs.

Inefficient Reporting and Data Management

Challenge: Time-consuming reporting processes and difficulty in accessing real-time financial data.

Solution: Implement modern budgeting software that provides real-time, on-demand reports and dashboards. Ensure the chosen technology solution allows for easy configuration of reports without relying on IT department assistance.

By addressing these challenges with targeted solutions, local governments can improve their budgeting processes, enhance transparency, and better serve their communities.