

## **The Link Between the Budget Process and Actual Expenditures:**

### **The Budget Compilation Process:**

In June the controller conducts budget meetings with each department head. The controller uses a zero based budgeting method which requires department heads to specifically justify by item, their spending every year. The budget is revised several times with the approval of the Mayor and the Controller until there is a fundable budget. The budget is submitted to the City Council in September and must be approved by November. The final step is the submission of the budget to the Department of Local Government Finance (DLGF) for approval.

### **Budget Submission to the DLGF:**

The DLGF receives the budget in November and examines the expenditures to verify that the budget is fundable. Each government unit (township and metropolitan area) has a certified maximum levy. The maximum certified levy is the total amount that can be collected from property owners in the form of property tax. The maximum certified levy currently is growing at a rate of 2.9% per year. The DLGF examines the fundability of each fund based on the following:

To put it simply:

June Current cash balance:

Less expected expenditures June – December:

Less expected expenditures January – December (following year)

Plus other intergovernmental revenues June – December (current year):

Plus Miscellaneous Revenues June – December (current year):

Plus expected intergovernmental revenue January – December (following year)

Plus expected Miscellaneous Revenue January – December (following year)

Less Encumbrances carried forward

The result is the amount that must be funded via property tax. The resulting amount is compared with the total certified levy that is allowed within those taxing units. If it is greater than the total certified levy then the budget must be cut. If it is less than the certified levy, you have a fundable budget and it is approved.

However, there is some additional complexity. Since Governor Daniels passed his property tax cap legislation, the City of Terre Haute only collects 75%-80% of their certified levy. Therefore, it is important that the City turn in the maximum amount that can be funded within the bounds of the total certified levy. Government efficiency is a result of managing the budget.

### Actual Expenditures as Related to the Budget:

Let's take a look at the way that the Bennett administration has managed their budget. In 2007 the previous administration turned in a budget to the DLGF of \$73,443,429 for FY2008. The actual expenditures within the same funds for 2008 were \$64,409,896. That equates to a reduction of \$9,033,533. If you look at actual expenditures including the DLGF submitted funds and capitalized projects, you will find a significant gap in spending between 2007 and 2008. The reduction in spending between the two years comes to \$10,511,000. Based on 2007 spending, the total spending reduction (DLGF budget funds plus capitalized projects) estimated for 2011 is \$16,892,396 (\$85,962,560 - \$69,070,164). Please see Comparison of Actual Expenditures 2007-2010 worksheet.

In summary, the budget that is submitted to the DLGF and approved by the city council is a document that is designed to be funded based on the established total certified levy. Actual expenditures are managed on a monthly basis to match actual needs based on the zero based budgeting process, current cash flows and gained efficiencies. The financial efficacy of an administration can only be judged based on actual expenditures.