

2. BUDGETING

2.1 Budgeting Principles 2.1.2 Design and Prescription

SYSTEM DESIGN

2.1.2.10 The BARS is designed to allow formal integration of budgeting and accounting for all fund types in a governmental accounting system. The budget formats allow for different levels of detail for different levels of management.

2.1.2.20 For governmental fund types, the BARS is premised on the use of appropriated budgeting, which can be supplemented or (where statutes permit) replaced by capital improvement, project or program budgets that cover multiple/partial fiscal periods or cross organizational boundaries. For proprietary fund types, BARS provides two budgeting options. A municipality may elect to budget proprietary funds by establishing fixed dollar budgets as for governmental funds; or a municipality may elect to use *working capital* budgeting, which combines flexible budgeting for current operations with fixed limits on long-range sources and uses of assets.

RULES

2.1.2.30 WHAT FUNDS MUST HAVE BUDGETS?

1. Normally all general (current expense), special revenue, and proprietary funds of local governments must have annual/biennial appropriated budgets.
2. Normally debt service and capital project fund budget requirements are met by the continuing appropriation contained in the enabling ordinance or resolution. These funds do not need annual/biennial appropriated budgets.
3. Normally permanent funds are subject to the trust agreement and their use is restricted by such. The governments do not need to budget for these funds.

2.1.2.40 WHAT KINDS OF BUDGETS ARE REQUIRED OR ALLOWED?

4. Each local government must prepare a comprehensive, entity-wide budget document of all anticipated resources and outlays for the fiscal period, **including** those funds for which appropriated budgets are not required and including estimates of the annual/biennial portion of continuing appropriations.
5. Annual/biennial appropriated budgets are required by statute for nearly all expenditures made from the general (current expense), special revenue and proprietary funds of local governments. Annual/biennial appropriated budgets are also required for other funds that set tax levies.
6. Proprietary funds may use working capital budgets to satisfy statutory budget requirements.
7. An entity-wide capital improvements budget may be used instead of fund-by-fund budgets to appropriate expenditures for plant, property and equipment.

2.1.2.50

WHAT DETAIL IS REQUIRED?

8. Where annual/biennial appropriated budgets must be legally adopted by ordinance or resolution, they should be adopted at the department or fund level. A single ordinance or resolution should contain all annual/biennial appropriated operating budgets for the entire government. A separate ordinance or resolution may be used for annual/biennial appropriated capital improvements budgets. Normally, budgets are initially prepared at the level of expenditure objects, but they should be summarized into broad categories of services for appropriation. This does not preclude detailed budgets from being used by departmental managers, but it does allow them the discretion they need to manage their departments.
9. The prescribed chart of accounts is to be used for budget preparation, except that budget detail need not specify subobjects of expenditure. Budgets should include not only revenue and expenditure/expense accounts, but also other financing sources and uses, transfers, contributions of capital, and beginning and ending fund balances or working capital (RCW [35.33.011](#) and RCW [36.40.090](#)).

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SPECIAL RULES BY FUND TYPE

10. Some special revenue funds are authorized to budget on a project basis (such as cumulative reserve funds), and some special revenue funds are exempt from appropriated budget requirements (such as the county treasurers' Operations and Maintenance funds). Nonetheless, estimated annual/biennial resources and outlays for such funds must be included in the comprehensive budget (Item 4 above).
11. Appropriated budgets for debt service funds are not normally required. While Washington State budget statutes do not exclude debt service funds from annual/biennial appropriated budget requirements, RCW [39.48.020](#) requires that all resolutions or ordinances authorizing the sale of G.O. debt must include an amortization schedule to list interest payments and fix the annual maturities of the debt throughout the life of the issue; accordingly, the bond resolution or ordinance serves as a perfectly adequate budget for the entire life of the issue. The same principle applies to installment purchases and lease purchase agreements. Other debt payments accounted for in debt service funds are normally financed by contributions from other funds of the same government, and the amounts have already been budgeted as transfers to the debt service funds; rebudgeting the expenditures in the debt service fund serves no useful purpose. All debt service fund revenues and the current portion of the amortization schedule must be included in the comprehensive budget (Item 4 above).
12. Capital project funds may be budgeted either on an annual/biennial basis or on a project basis. The budget statutes for cities and counties provide that most appropriations lapse at the end of the fiscal period, but that the lapses do not prevent payments on "uncompleted improvements in progress" (RCW [36.40.200](#)). In addition, most capital projects are funded by debt issues; the authorization for the debt issue is normally accompanied by official legislative action on the projects to be funded by the debt. City statutes are explicit about the unlapsed status of appropriations in such funds (RCW [35.32A.080](#), RCW [35.33.151](#) and RCW [35A.33.150](#)). These statutes are interpreted to permit project budgeting of capital project funds. If project budgeting is employed, annual/biennial estimates of project resources and outlays must be incorporated in the comprehensive budget (Item 4 above). (Also see [Capital Improvement Budget](#).)
13. Capital projects that involve special assessment districts should be budgeted on a project basis. Although improvement district statutes vary, they normally require formal adoption of an

assessment roll. The LID formation ordinance is a perfectly adequate budget for the life of the LID. The amount of the assessment roll is determined by the estimated costs of construction and of debt service, which are accordingly approved by the same action. If construction costs exceed estimates, legislative approval is normally required; that approval should be recorded as a budget modification. Annual/biennial estimates of resources and outlays must be incorporated in the comprehensive budget (Item 4 above).

14. Fiduciary funds are not generally subject to budget requirements, but there are some exceptions: agency funds used to account for pass-through resources may require formal budgetary integration to establish adequate fiscal control over subgrants. Nonbudgeted fiduciary funds normally should not be included in the comprehensive budget, because they do not represent resources or outlays that benefit the local government itself. Budgeted fiduciary funds must be included in the comprehensive budget (Item 4 above).
15. All proprietary funds must be budgeted on an annual/biennial basis, according to either of the two methods described below. These budgets must be included in the comprehensive budget (Item 4 above).

Option 1 – Budgeting by Object

This option requires separating expenditures from expenses; that is, the budget appropriates most cash disbursements, whether or not the transactions are accounted for as expenses. The budget procedures chapter discusses two different ways of using the accounting system to do this kind of budgeting.

When using this option, budget monitor reports for proprietary funds reflect budgetary compliance data only and are not intended to present results of operations in conformance with generally accepted accounting principles (GAAP).

Option 2 – Working Capital Budgeting

This method of budgeting involves two separate budget aims within one budget document. First, current operations are flexibly budgeted to result in a specific level of new cash flow from operations (the excess of revenues over expenses). Second, all long-range sources and uses of assets are controlled by fixed budgeting. (You may also control the liquidity of selected current assets by fixed budgeting.) In other words, the flexible portion of the budget permits revenues and expenses for current operations to increase or decrease as the demand for service fluctuates. The control over current operations is set by the ordinance or resolution that establishes specific rates/charges for goods and services that are routinely furnished as the fund's primary objective. The fixed portion of the budget controls the dollars that will be accumulated for or spent on expansion and replacement of the facilities that the proprietary fund uses to provide its goods and services.

BUDGET PROCESS

2.1.2.70 The steps listed below are used to develop all types of budgets. See procedures for more detail on each step.

1. The Budget Calendar

The budget director should review the applicable RCWs for statutory dates and develop a budget calendar after appropriate consultation with legislative and executive officers. The calendar should identify preparation periods and deadlines for each of the following steps.

2. Policy Guidelines

Executive and legislative officials should meet to discuss revenue trends, economic prospects, major cost items and service objectives to be reflected in the budget. These discussions should result in overall guidelines for departments to use in making budget requests. These guidelines become part of the *Goals and Priorities Statement*.

3. Budget Instructions

The budget director should prepare a budget manual. The Manual contains forms and instructions suitable for most local governments. The budget manual should contain a budget calendar, a description of the budget process, management and legislative policy guidelines, lists of goals and priorities, instructions on how to complete required forms, data on overhead expenditures (such as salary increases, fringe benefit factors, insurance and utilities) and rates for interfund services such as accounting, data processing, photocopying, printing and equipment rental.

4. The Call and Goals and Priorities Statement

The *Call* and a *Goals and Priorities Statement* (see samples) are issued simultaneously to communicate policy guidelines and budget instructions to the operating departments.

5. Detailed Expenditure Requests

These are prepared by individual departments and submitted to the budget director for review. The requests should contain narrative justifications. All outlays, including ending fund balance, continuing appropriations, encumbrances and non-budgeted funds, must be included in the budget estimates. Some examples of methods used to develop budget estimates are: 1) listing of requirements (objects), 2) extrapolating from the old budget, or 3) developing measurements of service efforts and accomplishments. This last method quantifies the demands placed on your government for goods and services. Some examples of measurable services are the number of inspections, repairs, permits, arrests, cases filed, properties reassessed, documents processed, etc. Illustrative forms and completed sample budgets are presented in later sections of this manual. The Manual provides additional instructions for enterprise and capital improvement budgets.

6. Revenue Estimates

These estimates are normally prepared by the budget director, with appropriate input from department heads and direction from the executive and legislative policymakers. The estimates should include all resources, not merely those categorized as revenues. The estimates should be reviewed throughout the budget process and especially carefully one last time just before final budget action is taken by the legislative body.

7. Budget Review

This process is intended to establish priorities for governmental services and capital improvements and to bring the budget requests into balance with available resources. It is normally a function of the budget officer and the chief executive.

8. The Budget Document and Message

The budget document is prepared by the budget director and the chief executive when the budget review process is complete. It contains estimated resources and proposed expenditures with detailed justification of the recommended budget. This document should contain a summary at the Basub level by department in order to focus attention on the broad categories of service and the objectives of the unit of government. For similar reasons, the document should be comprehensive, including nonbudgeted funds and the annual/biennial portion of continuing appropriations. Either in an accompanying narrative or by using a BARS code subdivision, the comprehensive budget must indicate which portions are annual/biennial appropriations, which are portions of continuing appropriations, and which are estimates where no appropriation is required. This is necessary in order for citizens, council members, managers, and auditors to understand what limits are set in the budget document and what action would be required to change the estimates and appropriations.

The chief executive should include in this document his/her budget message, to describe the major assumptions underlying the budget, significant changes in the proposed budget from the current year budget, and major issues the legislative body must address, such as the tax levies, bond issues, and project amendments. (RCW [35.33.057](#) and RCW [35A.33.055](#) require budget messages for cities.)

9. Budget Hearings and Adoption

One or more formal public hearings are required by statute before the budget is adopted. Special meetings may be scheduled prior to the public hearings, in order to brief and address the concerns of the council or commission on the budget. After the public hearings, the legislative body should complete its deliberations and make its final adjustments to the proposed budget. Revenue estimates should be reviewed one last time, and then the legislative body should adopt (by ordinance in cities, by resolution in counties) those portions of the comprehensive budget which require annual/biennial appropriations, along with related revenue ordinances or resolutions. (See sample ordinances in [Budget Calendar and Example](#).)

10. Recording the Budget

The annual/biennial appropriations contained in the comprehensive budget must be recorded in the subsidiary ledgers to permit comparisons between estimated and actual resources and to compare and control expenditures with appropriations. These subsidiary ledgers are summarized in control accounts in the general ledger. The nonbudgeted portions and

continuing appropriations contained in the comprehensive budget may also be recorded to provide management control. Note that for continuing appropriations, what should be monitored is not the annual/biennial portion but the overall project or debt schedule. When posting these amounts to the subsidiary ledger, the annual/biennial appropriations may be separated from the nonbudgeted or continuing appropriations by using a BARS code subdivision.

11. Mid-Biennium Review and Modification

Procedures for mid-biennial budget review and modification for cities and towns are prescribed in RCW [35.34.130](#) and RCW [35A.34.130](#).

Counties are also required to provide by ordinance/resolution for a mid-biennial budget review and modification for the second year of biennium (RCW [36.40.250](#)).

The ordinance/resolution should contain procedures for distribution of proposed modifications to the county's legislative body and public. It should provide for hearing(s). The ordinance/resolution should require that such review and modification will occur no later than the conclusion of the first quarter of the second year of the fiscal biennium. The appropriate officer should prepare proposed budget modifications and publish a notice of hearing(s) in the same way other hearings notices are published. The budget modification ordinance/resolution should be approved in the same manner as others.

The completed copy of adopted budget modifications should be sent to the State Auditor's Office.