

# Moody's Analysis of Local Government Budgeting Practices

**Virginia GFOA**

**Presented by:**

**Robyn Kapiloff**



**May 3, 2005**

**Moody's Investors Service**

# The Basics of Bond Analysis

- Debt Profile
- Local Economy
- Management
- Finances
  - includes present financial position and historical position
  - budgeting, financial projections and long range planning



# Budget as Policy Document

---

- Integral in rating process
- Tangible communication of programmatic, capital and financial goals



# Successful Revenue Budgeting

- is conservative
- is based on trends
- adjusts for one-time events or unusual economic conditions
- uses current year projections as a starting point
- considers potential impact of pressure at other levels of government
- incorporates operating budget impact of capital projects and planned capital borrowing
- one time revenue for one time uses



# Budgeting Property Tax Receipts

- Should reflect conservative valuation estimates
- Growth assumed in valuation should be consistent with multi-year trend
- Should reflect development in final stages, not development that may not materialize within taxyear



# Non Property Tax Budgeting

- Should be conservative given economic variability and based on multi-year trends
- Should consider cycles and incorporate experience in other relevant economic cycles
- Should reflect knowledge of local service area and economy



# Successful Expenditure Budgeting

- **Incorporates realistic growth experience:**
  - health insurance and pension costs
  - incorporates economic drivers in social service program projections
  - includes inflationary adjustments throughout
- **Growth related demands**
- **Operational costs associated with capital investments**



# Budgeting for your taxbase

---

- Stagnating vs. growing taxbase
- School enrollment impact
- Infrastructure/ Debt impact
- Focus on economic development and unique community attributes



# Budgeting for Education

- **Formula based agreements with school districts:**
  1. Add predictability
  2. Lessen political risk
- **Enrollment projections facilitate planning**
- **Long range planning for capital needs and operating budget impact critical**



# Budgeting Fund Balance

- Most conservative use if for non-recurring expenditures
- Focus on structural balance
- No perfect number or percent
- Appropriate fund balance varies based on variability of revenues, expenditure flexibility, revenue raising options
- Individual ratings may factor certain relative level of fund balance with any significant departure potentially impacting rating



# Red Flag Analysis of Financials

- Decline in property tax collections or tax base
- Dip in fund balances; operating losses
- Decline in revenue stream
- Negative budget to actual variability
- Accelerated pace of expenditure growth
- Qualified audit report; delay in audit
- Reliance on operating transfers unrelated to operating mission
- Reliance on one shot revenues
- Failure to adhere to adopted policies or goals
- Lack of financial goals or objectives



# Successful Long Range Planning

## ■ IS:

- a tool to drive local government decisions
- conservative
- inclusive of capital budget impacts
- reflective of long range goals and fiscal policies
- benchmark driven

## ■ IS NOT:

- a wish list
- a contract
- a political campaign
- a best case scenario

