

**Executive Office
of the Mayor**

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April 8, 2018

Mr. Bratton and Mr. Tobias,

I am looking forward to our meeting on Tuesday and I hope that we can discuss some of the various components of the Operating and Capital Budgets that we should be addressing in the policy statement for the governing body. Since this is my first attempt at facing my first budget process, I will need your professional help.

Key Components of the Operating Budget

The operating budget lays government's financial plan for the upcoming fiscal year. Generally, the chief administrative officer will prepare a budget for the governing body to review, revise, and adopt. Budget preparation and review are based on guidelines and priorities established by the leadership team.

- A message from the chief executive highlighting major program and service priorities, changes from previous years, and key challenges for the current year, and summarizing revenue and expenditures
- A summary of program priorities, and a breakdown of how money is allocated to carry out those priorities and produce specific outcomes
- Details on revenue—where the money will come from, how sources of revenue have changed, and issues for further study
- Details on expenditures organized by program and department, including operating expenses for the specific fiscal year and capital expenses that can be spread over multiple years for public improvements and acquisitions
- Quantitative performance measures that show results that will be achieved by spending the money as proposed
- Comparative data showing how spending has changed over several years, including, in some cases, projections for the following year.

Key Components of the Capital Budget

Our government needs to develop separate budgets and plans for capital needs, and then include the one year annual costs for the capital budget in the operating budget.

- A comprehensive capital improvement plan that lists all the capital project activities that the government is undertaking within the coming fiscal year
 - Proposed funding for capital projects, including any state or federal funding and whether the project will be funded by local revenues—usually called pay as-you-go—or will require borrowing that will produce long-term debt
 - Annual operating costs for capital projects such as staffing, utilities, and equipment. Because most capital projects create ongoing increases in operating expenses, the two budgets must be connected.
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Analyzing and Interpreting the Budget: Questions to Ask

The governing body can assess the proposed budget by asking the following questions:

- **Does the budget reflect local priorities?** Review the budget against your leadership team's policy goals and priorities to make sure that it allocates money appropriately. If something is missing, ask why.
- **Is the budget balanced, and was it balanced in prior years?** Under state law, local governments must adopt "balanced" budgets. Your job is to make sure the financial assumptions for revenues and expenditures that produce the balanced budget proposal are sound.
- **How is your revenue structure changing?** Examine revenue trends to assess how reliable the revenue projections are, and what any changes in your revenue structure will mean for this budget and the community's longer-term financial health.
- **How is the program expenditure plan changing?** In looking at expenditure requests, which are usually organized by programs, departments, or cost centers, focus on areas where significant changes are proposed and ask why.
- **How do proposed capital projects support local priorities, and how does long-term spending affect long-term financial health?** Make sure that proposed capital spending projects are consistent with agreed-upon priorities, and take some time to review and discuss funding for capital projects. Funding may come from multiple sources, such as bond issues (which must be approved in a referendum), grants, tax increment financing revenue, and private contributions.
- **Does the budget include reserves for emergencies?** Is the budget just balanced or does it include money for emergencies? If your local government is not appropriating money to a reserve account, you may be living on the edge. Reserve funds help municipal governments meet future fiscal challenges. In addition, bond underwriters look at reserves as an indicator of fiscal responsibility, so a healthy reserve can increase credit ratings and decrease costs of local debt.

Look forward to working with you on Tuesday. Thanks.

Sincerely yours,



Edward Estes
Mayor
City of Glenarden

