

# STRETCHING

## THE BUDGET CYCLE

Barbara Whitehorn and Stefan Jaskulak look at the budget process of two governments to explore the benefits of a longer budget cycle.



## Asheville's Expanded Process Provides More Communication and a Better Budget

BY BARBARA WHITEHORN

**W**hen the City of Asheville, North Carolina expanded its annual budget process from six to ten months, it was the most significant change—and the biggest improvement—made to the program in recent years. The reason behind it was communication.

The State of North Carolina requires one public hearing to be held after the presentation of the manager's recommended budget and before the budget is adopted. The manager's recommended budget was presented to the city council in May, and the budget was formally adopted in June, so there wasn't time to make significant changes based on input during the hearing. The community was frustrated that the budget was essentially done and dusted before they had an opportunity to voice their opinions. Community members have opportunities to attend and speak at council meetings and at more specialized board and commission meetings, but this doesn't replace the opportunity to provide direct input on the budget.

The citizens of Asheville take an active role in their local government, and community advocates, activists, and individuals all want their voices heard in the budget process. Most city council meetings are full to capacity, and overflow rooms are regularly needed. (Since March 2020, all Asheville City Council meetings have been virtual because of the COVID-19 pandemic.) Protesters often gather outside of City Hall during council meetings, and public comment frequently lasts for hours. Working in a community where the residents care so deeply about their city is a privilege, but it does create a challenge when it comes to developing a budget process that ensures the voices of the community will be heard.

And while the city expanded the budget timeline to allow additional time for public input, the change has also provided other opportunities: better engagement with the city council, improved priority setting and alignment of the budget with strategic goals, and the ability to minimize surprises that pop up at the end of the budget cycle.

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### COMMUNITY ENGAGEMENT AND EDUCATION

Good public engagement is extremely challenging. It is easy to put together a survey that isn't statistically significant or to host open meetings at City Hall, but it is much more difficult to ensure that the public input received truly represents the community. By expanding the budget process timeline, Asheville is able to plan intentional and equitable community engagement that includes meetings at varying times during the day and at strategically chosen locations on transit routes to ensure that transportation and work schedules won't be barriers to attendance. The city also uses Twitter, Facebook, and local media outlets to share information about the budget process and other financial information. The city has a dedicated communications staff member in the finance department to coordinate the communications and engagement, which are ideally completed early in the budget process (September to November) so community priorities can be communicated to the council and included in strategic goals.

### COUNCIL ENGAGEMENT

With a community as active as Asheville, the city council must be well-informed throughout the budget process. During the early months of the process, which are primarily internally focused, the council is kept informed through regular check-ins with the city manager, who



EXHIBIT 1	ASHEVILLE'S BUDGET SCHEDULE
SEPTEMBER	<ul style="list-style-type: none"> <li>Operating and capital budget process kick-off</li> <li>Capital budget cost and cash flow review</li> <li>New capital project submissions</li> <li>Community engagement</li> </ul>
OCTOBER	<ul style="list-style-type: none"> <li>Initial operating revenue and expenditure assumptions</li> <li>Department director budget retreat</li> <li>Prioritization of capital project submissions</li> <li>Community engagement</li> </ul>
NOVEMBER	<ul style="list-style-type: none"> <li>Departmental base budgets developed by budget team</li> <li>Community engagement</li> </ul>
DECEMBER	<ul style="list-style-type: none"> <li>Supplemental operating budget requests from departments submitted</li> <li>Budget team meetings with Departments to review base budgets</li> </ul>
JANUARY	<ul style="list-style-type: none"> <li>City council retreat; council strategic goals confirmed or updated</li> <li>Revenue and expenditure assumptions reviewed and adjusted as necessary</li> <li>Supplemental operating budget requests reviewed</li> </ul>
FEBRUARY	<ul style="list-style-type: none"> <li>City council work session No. 1: capital budget presentation</li> </ul>
MARCH	<ul style="list-style-type: none"> <li>City Council work session No. 2: operating budget</li> <li>City council work session No. 3: operating budget</li> </ul>
APRIL	<ul style="list-style-type: none"> <li>City council work session No. 4: operating budget</li> <li>City council work session No. 5 (if necessary)</li> </ul>
MAY	<ul style="list-style-type: none"> <li>Presentation of manager's recommended budget</li> <li>Public hearing on the budget</li> </ul>
JUNE	<ul style="list-style-type: none"> <li>Adoption of the annual budget</li> </ul>



provides updates about economic conditions, revenue trends, vacancy rates, and current budget performance as well as assumptions for the next year's budget. These check-ins ensure that the council is not surprised by a declining revenue trend or a variance from the budget.

The council's first comprehensive look at the budget is at its annual council retreat, usually held in January. Council members and representatives of local media both attend, along with a significant number of local activists and other interested community members. The retreat marks the first time the council and public see the total budget: revenue growth assumptions, expenditures increases and decreases, changes in programming, the next phase of capital projects, etc. The information is not presented in detail; instead, it is summarized, with major cost drivers and significant changes in revenue highlighted. The chief financial officer usually sets the economic scene and then introduces the assistant director of finance, budget, and forecasting, who takes attendees through the forecast and assumptions. At this point, the council is presented with a preliminary forecasted surplus or deficit, with the caveat that some revenues lag significantly for reporting, and there will be changes in assumptions. The council is presented with the results of any community engagement, and it also reviews the biannual community survey and revisits its strategic priorities to either affirm or adjust them. These are the high-level strategic goals that the budget should align with.

After the retreat, there are three to five additional two-hour council work sessions that are, of course, open to the public and media. These work sessions are spread out through February, March, and



April. Their purpose is to ensure that the capital and operating budget projects and programs are aligned with the strategic goals the council provided at the retreat. These work sessions provide the council with much more detail and if cuts are necessary to balance the budget, this is when staff will lay out potential savings opportunities for the council to weigh in on.

#### PRIORITY SETTING AND STRATEGIC ALIGNMENT

The longer budget process allows the department directors to play a much more active role in developing the budget. Before the timeline was expanded, directors had little opportunity to work on setting citywide priorities or evaluating programs and projects outside of their functional areas. The expanded timeline includes a department director budget retreat in October, where directors prioritize capital project submissions against council priorities and equity goals. The directors work collaboratively, and some new budget initiatives are submitted as cross-departmental projects and programs—something that rarely happened before the budget process was expanded. This collaboration has inspired more teamwork and communication throughout the organization, an unexpected dividend.

The city is now working on an initiative to make sure all its practices and processes are data-driven and outcomes-based, embedding accountability, decision-making, and transparency. This initiative, which will inform project, programmatic, and budgetary decisions throughout the city, will become a major driver of decision-making in the budget process. With the expanded budget timeline, data collection and analysis can be slotted into the existing process without a major shift in the timing of current budget planning and communications.

When the citizens of Asheville, North Carolina, expressed frustration that they weren't given an opportunity to voice their opinion on the annual budget, the city expanded the budget process from six to ten months to allow more time for public input.

#### KEEP IN MIND

An expanded budget process timeline met the city's initial goal of improved community engagement and education, as well as improving council communication and enabling internal staff to collaborate more effectively in building the budget. Nevertheless, the expanded process has its downsides. There are key challenges that any organization considering an expanded process should be mindful of:

- Operating revenue estimates made early in the process must be regularly reevaluated and adjusted for new economic and trend information.
- If salary data from the financial system is used for expenditure estimates early in the process, the salary data should be updated later in the year to account for new hires, raises, promotions, and other changes that may affect total salaries.
- When capital estimates are made early, some inflation or an additional amount of contingency should be included.
- Capital costs submitted early in the process should be reevaluated in light of construction cost indices closer to the end of the budget process and adjusted as necessary for greater-than-anticipated levels of inflation.

On the non-technical side, budget fatigue is real. While it is becoming the norm in Asheville for the budget process to run from September through June, the budget team tries to be careful not to overwhelm the departments with requests. This year, the budget team took over the base budget entry, which previously was a department function. On the one hand, this allows the budget department some additional control over expenditures, which is helpful in challenging economic times. The real purpose, though, was to alleviate some of the pressure on departments to continually work on their budgets. Departments are currently using an equity tool to evaluate programs and projects, and with more data-driven decision-making, they will be participating in gathering data and completing more analyses throughout the year.

#### CONCLUSION

Overall, the expanded budget process serves Asheville well. It provides more time to identify new opportunities, evaluate existing programs and projects, and better communicate with the council and engage the community. Asheville's budget process will continue to evolve, with the goal of better serving the community with each iteration.

**Barbara Whitehorn** served as the chief financial officer and director of finance and management services for the City of Asheville, North Carolina for seven years before joining the City of San Bernardino, California, as finance director in February.





## Midpen's Budget Process Leads to Smooth Sailing

BY STEFAN JASKULAK

**T**he budget development process at Midpeninsula Regional Open Space District (Midpen) is almost a year long. The time is invested in collaborating with department staff and Midpen's board of directors to involve all parties early in the process.

As a result, the budget team has better communication with the departments, making budget adjustments easier to implement. It also obtains incremental approval from the board to avoid any surprises and to make the adoption process smoother for all parties involved. (See Exhibit 1 for Midpen's budget schedule.)

### STRATEGIC PLANNING

Midpen starts developing its budget by taking an environmental scan in October. The budget team polls the department managers with a questionnaire to determine if there have been any significant changes or events that could have a positive or negative effect on the District. These could be economic influences, leadership changes, technology advancements, demand and supply for labor, emerging political issues, partner relationships, and so on. The budget team then collates the feedback from the departments into a cohesive story that is presented to the board of directors at a retreat in December.

At the December retreat, the board reviews the environmental scan and updates the District's strategic goals. The District's four strategic goals, along with objectives related to each goal, are aligned with the four programs in the capital improvement and action plan, which forms the basis of the annual budget. These four programs are land acquisitions and preservation, natural resource protection and restoration, public access, education and outreach, and assets and organizational support. The first three goals relate directly to the District's mission statement, while the fourth supports the organization itself. (See Exhibit 2.)

The second component of the December retreat is a discussion about focus areas, which comprise large continuing projects and emerging issues to tackle during the upcoming fiscal year. Once the board has updated the strategic goals and objectives and provided feedback on the focus areas, the general manager and staff can start developing the capital improvement and action plan.

### CAPITAL IMPROVEMENT AND ACTION PLAN

The capital improvement and action plan (CIAP) is a combination of the traditional capital improvement plan and also includes other operating projects that don't rise to the expenditure level

Midpeninsula Regional Open Space District is an independent special district in the San Francisco Bay area that has preserved a regional greenbelt system of nearly 65,000 acres of public land and manages 26 open space preserves.

of capitalization. The CIAP consists of a significant percentage of projects continuing from the prior year, as much as 60 to 70 percent. The departments develop a preliminary scope for their projects and projected progress for the upcoming fiscal years. This is subject to change after the board's strategic planning retreat, or in the event budget adjustments are needed.

**Resource Loading.** Based on the preliminary project scope, the Budget and Analysis Department convenes several large group meetings with all department managers to discuss resource loading. At these meetings, resource allocations—the number of staff hours per department per project—are reviewed and discussed. For each staff member, total annual work hours are reduced by vacation and sick time, and also by core hours, which provide availability for standing meetings and administrative tasks. The remaining hours are available for projects and are resource loaded and allocated to projects.

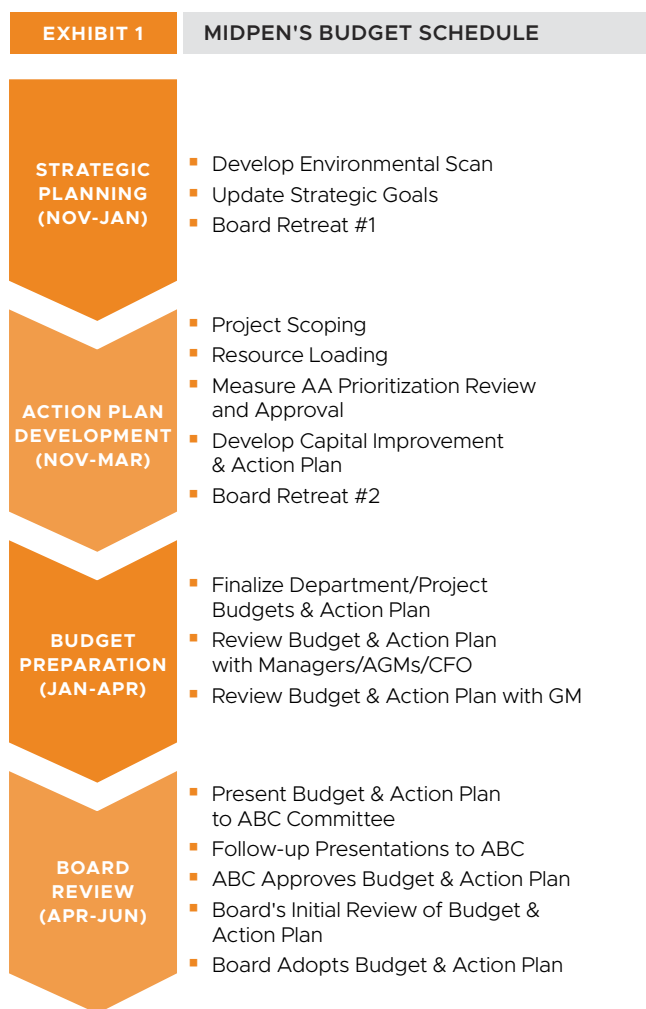
The District places great importance on resource loading because it wants to ensure that its list of proposed projects, which is typically ambitious, is actually feasible. Even with conservative resource loading, the District typically completes 50 to 55 percent of the proposed project scopes in the fiscal year, with 10 percent deferred to the following year, and approximately 35 to 40 percent wrapping up shortly after the end of the fiscal year.

**Second Board Retreat.** The second board retreat is scheduled for early March to discuss and finalize the list of projects and the project scope for the next fiscal year. The proposed list, typically more than 100 projects, is discussed in detail, and the board may adjust scope or description, remove a project or two, or add a few at this meeting. This proposed list of projects is resource-loaded ahead of the retreat. A high-level budget check for the operating expenses and the proposed projects is also included at this meeting to ensure that the projects are feasible within the projected revenues and available bond proceeds. Operating expenses are projected using certain inflationary factors, and project budgets are estimated.

The projects of the CIAP are grouped into four programs, with the total number of projects within each program fairly constant, year to year. (See Exhibit 3.)

## FINALIZING THE BUDGET

After the board has provided its feedback on the strategic planning goals and objectives and the proposed CIAP, the proverbial pencil is put to paper, and the capital project budgets and operating budgets are finalized. The District has five



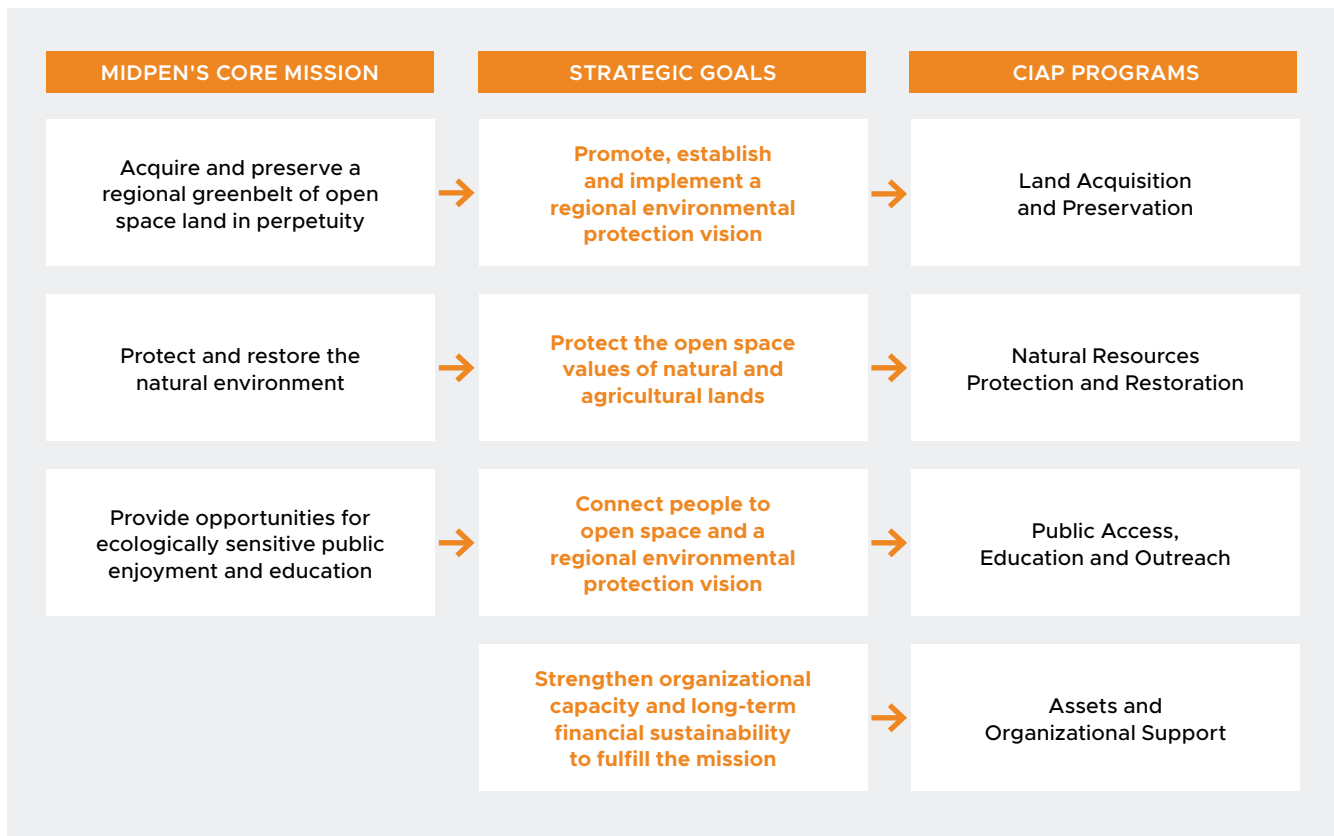
funds: a general fund, Hawthorns restricted fund, measure AA bond capital fund, general fund capital, and debt service.

The District's board-appointed controller provides the revenue projections in March, with updates in April to ensure the budget capacity is as accurate as possible. The controller also maintains his 30-year cash flow model and tests the budget against the 30-year model during the stages of development.

**Internal Review.** The Budget and Analysis Department uses the months of March and April to develop the budget and subsequently to review this proposed budget with the department managers, the assistant general managers, and the chief financial officer (CFO). Over the last five years, the District has undergone a robust growth spurt, the result of a large bond measure for capital projects and land acquisitions that was passed by the voters in 2014. The growth trajectory has

## EXHIBIT 2

## MIDPEN'S STRATEGIC GOALS



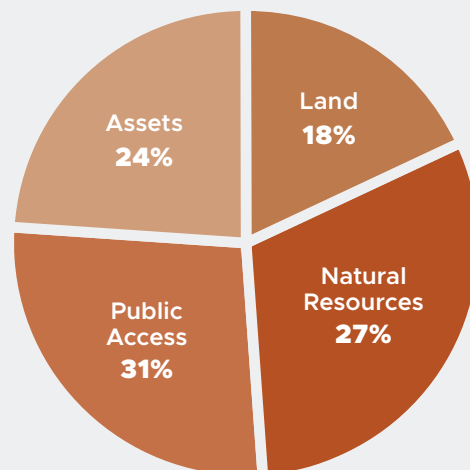
leveled off, but new position requests made by department managers are reviewed by the assistant general managers and CFO before this stage. Not every new position request is granted.

During these budget review meetings, budget performance expectations for the current fiscal year are also taken into consideration, including spending variances (over or under), or delayed spending, on operating funds and projects that are likely to be finished up after the end of the fiscal year. The budget team makes adjustments to scope, schedule, and budget at these meetings to fine-tune the numbers, and to anticipate questions from the general manager and the board of directors. Lastly, the general manager reviews the budget with the CFO and the assistant general managers, making final adjustments before the budget moves forward to the board committee review.

**Committee Review.** The board of directors' Action Plan & Budget Committee (ABC) reviews the annual budget. This review is split over two meetings to preserve focus and to provide the opportunity to answer any outstanding questions at the second meeting. Both of these meetings are usually scheduled for May.

## EXHIBIT 3

## PROGRAM SPLIT FOR FISCAL 2020 TO 2021





At the first ABC meeting, the CFO starts with a high-level overview of the budget by fund, category, impacts to fund balance, and trending information. The board-appointed controller provides revenue projections and discussion. Next, the ABC reviews the budgets by department, with changes from the prior fiscal year highlighted. Lastly, the assistant general managers present the four programs of the CIAP (typically two programs at the first ABC meeting and two programs at the second). Any questions that were not immediately or adequately addressed at the first ABC meeting are discussed and addressed at the second meeting.

**Board Review and Adoption.** In late May or early June, the board holds a public hearing for the proposed budget during a regularly scheduled board meeting. Virtually the same presentation as was provided at ABC is provided to the board, albeit somewhat accelerated and truncated (all board meetings and ABC meetings are public meetings). The public hearing meeting provides the board and the public with an opportunity to ask questions about the budget and the CIAP. If the board has significant questions or changes to the budget, the ABC will meet the following week. Adoption is scheduled for the subsequent board meeting in June, and the new budget goes into effect July 1.

## CONCLUSION

At times during the budget process, the budget analysts, department managers, and everyone else are juggling at least two fiscal years—and in the beginning, even three years—of financial data: audit and comprehensive annual financial report data for the prior year, budget management of the current year, and budget preparation for the upcoming fiscal year. (See Exhibit 4.) At this point, the budget management processes are as close to a steady state as possible. There is always room for improvement and adjustment, but the process and timelines are largely predictable.

While the budget process itself is lengthy, getting the board involved with the strategic planning in December and again in March to finalize the CIAP is invaluable. The involvement of the board early on virtually ensures that there are no surprises when the ABC committee and the full board finally review and adopt the proposed budget. ■

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