



Budget Basics in Virginia Local Government

Presented By:
Amanda Lickey Six
Director of Finance



Agenda

Role of Elected Officials

Foundational Items

Budget Language Made Simple

More Than Numbers: The Budget Tells Your Community's Story

Governance & Guidance

Local Government Revenue

Local Government Expenditures

Capital Improvements Plan

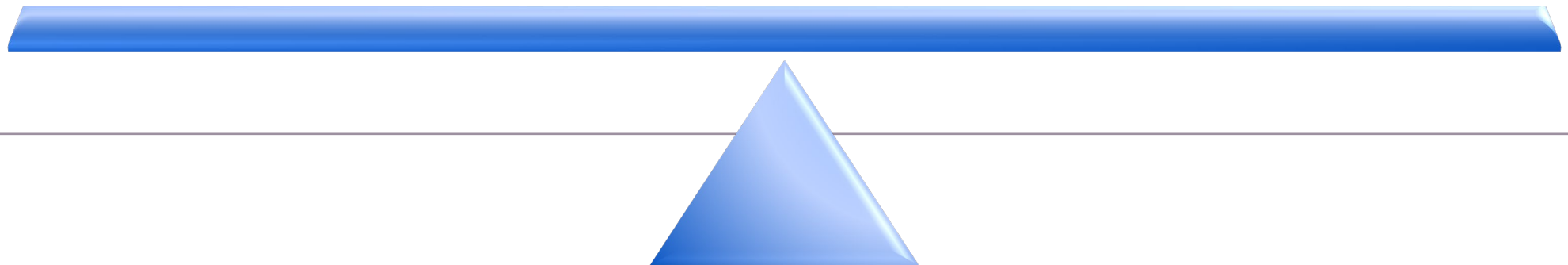
Public Perception

Communication and Transparency

Role of Elected Officials

Approving the budget, advocating for local priorities, ensuring alignment with community needs

Striking a Balance

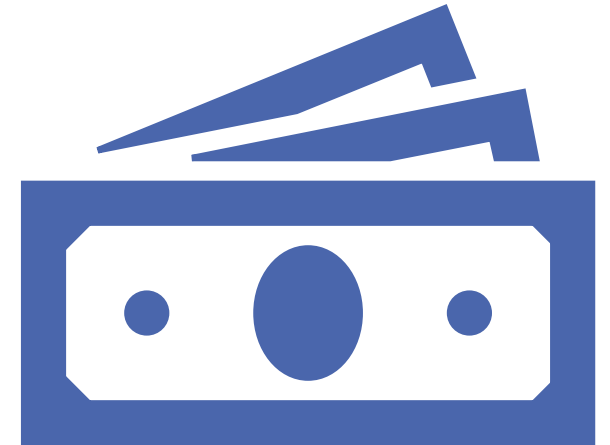


Role of Elected Officials

- Elected officials are engaging with citizens daily
 - That information is conveyed to administration and incorporated into budget priorities
- Administration is communicating regularly with elected officials regarding opportunities or challenges with a fiscal impact
- Elicit ongoing public involvement including communication with elected officials, administration, public comment periods, Town Hall Meetings and the public hearing
- Adoption & appropriation of all funds

Budget Language Made Simple

- **Appropriation** – Legal authority granted to spend funds.
- **Revenue** – Income received during the current year (taxes, fees, and other sources)
- **Expenditure** – Costs incurred during the current year
- **Encumbrance** – A commitment for goods or services not yet received (e.g., purchase orders); becomes an expenditure once fulfilled
- **Fund** – A self-balancing set of accounts used to track resources for a specific purpose (Assets = Liabilities + Equity)
- **BT (Budget Transfer)** – Moving funds between uses without changing the total approved budget
- **BS (Budget Supplement)** – Requesting additional appropriation authority for new revenue identified after budget adoption, for a specific purpose
- **Recurring Expenditure** – Ongoing annual commitments supported by reliable revenue
- **One-Time Expenditure** - Single-year items funded with temporary or one-time revenue
- **Debt** - total amount borrowed
- **Debt Service** - payments of principal and interest on borrowed funds
- **Fiscal Year** – local accounting year, running from July 1 through June 30



Foundational Items



Adopted Financial Policies

Clear instruction for staff
Ground rules for everyone



Balanced Budget & Financial Planning

Fiscal responsibility
Sustainable financial planning



Financial Reporting & Communications

Budget/Finance Committee
Quarterly Updates



Finance Staff

Access to Training
Open Communication

More Than Numbers: The Budget Tells Your Community's Story



Tells the Community's Story

More than numbers—reflects the community's values, priorities, and future direction



Reveals Priorities

Funding decisions show what matters most—education, public safety, infrastructure—and align with the strategic plan



Five Year Capital Improvements Plan (CIP)

Investments in key areas demonstrate long-term goals and connect today's decisions to future outcomes



Long-Term Financial Plan

Forecasts revenues and expenditures over the next three to five years to support sustainable decision-making



Transparency & Accountability

Clear communication and progress tracking ensure elected officials are meeting community needs



Balancing Resources & Goals

Reflects tough choices based on available revenue and the trade-offs between competing priorities

Governance & Guidance

Local Governing Body Adopts Budget & Sets Financial Policies

Commonwealth of Virginia – defines financial and operational parameters

- “Dillon Rule” State – local governments only have powers explicitly granted by the Code of Virginia, including operational and taxation authority
- Auditor of Public Accounts – oversees local government financial reporting

GASB – Governmental Accounting Standards Board

- Sets standards and defines “Generally Accepted Accounting Principles” for governmental accounting

Federal Government – Provides guidelines for projects and programs that receive federal funds

Governance & Guidance



15.2-2503 – Budget Approval & Tax Rate

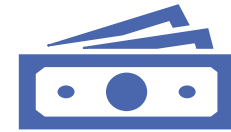
The governing body must approve the budget and set the tax rate **by July 1** (start of the fiscal year).



15.2-2506 – Budget Notice & Appropriations

A public notice must include:

- Summary of total revenues and expenditures for each fund
- Current and proposed real estate and personal property tax rates
- **No funds can be spent** until the governing body formally appropriates them (annually, semiannually, quarterly, or monthly).



15.2-2507 – Budget Amendments

Localities may adjust the budget during the fiscal year.

Amendments exceeding **1% of total expenditures** require a published notice and **public hearing**.

Local Government Revenue

Real Estate and Personal Property Taxes

- Largest source of local revenue, typically derived from both residential and commercial properties.
- Provides a stable base, but subject to property value assessments and market trends.

Sales Taxes

- Local portion of state sales tax, collected on retail transactions.
- Sensitive to changes in consumer spending and economic cycles.

Meals & Lodging Taxes

- Levied on local restaurants, bars, and hotels.
- Revenue depends on tourism, local dining trends, and hotel occupancy rates.

State/Federal Grants

- Funds provided for specific programs or general support, including education, infrastructure, and public safety.
- Often subject to legislative changes and grant availability.

Fees and Fines

- Includes charges for permits, licenses, and penalties.
- Typically, less predictable than tax revenue but can be used to recover costs of specific services.

Local Government Revenue

Revenue Trends

- **Property Taxes:** Historically, steady growth, though market fluctuations can impact collections. Post-COVID housing demand recovery may have accelerated property value assessments in certain areas.
- **Sales Taxes:** May have seen declines during economic downturns or periods of restricted consumer spending but recover with economic growth.
- **Meals & Lodging Taxes:** Strongly tied to tourism and local hospitality industry performance.
- **Grants:** Variability depends on state/federal budgets and specific program funding cycles.
- **Fees & Fines:** Minor contributor overall but can fluctuate with regulatory changes or enforcement intensity.

Challenges

- **Revenue Volatility:** Certain streams, especially sales taxes, meals & lodging taxes, and fees, are highly sensitive to economic conditions.
- **Property Tax Limitations:** Economic downturns or changes in property assessments can reduce the reliability of this traditionally stable revenue source.
- **Grant Dependence:** Overreliance on state/federal grants exposes the local government to policy and budgetary shifts outside its control.
- **Economic Sensitivity:** Events such as recessions, pandemics, or housing market instability can significantly impact collections across multiple categories.

Local Government Expenditures

Public Safety

- Includes police, fire, and emergency medical services.
- Typically, one of the largest portions of the local budget due to personnel, equipment, and training costs.

Education

- Funding for K-12 schools and local community colleges.
- Costs include salaries, facilities maintenance, instructional programs, and transportation.

Healthcare and Human Services

- Covers public health programs, social services, and support for vulnerable populations.
- Expenditure can vary based on population needs, public health emergencies, and program expansions.

Public Works and Infrastructure

- Road maintenance, sanitation, utilities, and other essential services.
- Spending often spikes with major infrastructure projects or emergency repairs.

Parks and Recreation

- Maintenance of public parks, recreational facilities, and programming.
- Smaller budget share but essential for quality-of-life initiatives and community engagement.

Local Government Expenditures

Expenditure Trends

- **Public Safety:** Generally stable but rising with personnel costs, benefit obligations, and equipment/software upgrades.
- **Education:** Gradual increase over time due to inflation, personnel costs, enrollment growth, and program expansion.
- **Healthcare and Human Services:** inflation in healthcare is generally high and there have been a lot of changes post COVID in human services that impact funding
- **Public Works and Infrastructure:** Peaks occur with major construction or maintenance projects; otherwise, growth aligns with inflation, utility costs and age of infrastructure.
- **Parks and Recreation:** highly dependent on locality programming and project focus

Challenges

- **Rising Costs:** Inflation affects salaries, materials, and operational expenses across all categories.
- **Healthcare & Pension Obligations:** Increasing benefits costs for employees can consume larger portions of the budget.
- **Operational Pressure:** Balancing quality services with limited revenue can create difficult trade-offs.
- **Unexpected Events:** Natural disasters, public health crises, or infrastructure emergencies can strain resources and shift planned spending.

Capital Improvements Plan (CIP)



Purpose: long-term planning for large capital projects, typically those more than \$25,000 (e.g., road construction, new public buildings)



Focusing on:

Maintenance of existing infrastructure and facilities

New initiatives that align with vision, strategic goals, and community priorities.



Benefit: serves as a roadmap for capital spending and long-term planning, balancing needs, costs, and funding availability.

Public Perception

Government leaders make decisions for a living. With good decision-making, they can greatly improve the lives of their constituents and further their own careers. But decision-making is messy. It is often done by groups, so there are conflicting points of view. It is usually time constrained, so there isn't time to consider everything. There is always uncertainty, usually more than we realize. And it is done by humans, so it comes with the myriad well-documented cognitive biases and inconsistencies (i.e., “noise”) in human thought.

Bias vs Noise, Explained

Bias: Systematic pattern of deviation from rational decision-making. Examples include present bias (the human tendency to focus on immediate versus long-term considerations) and status quo bias (the tendency to favor current options and not give new options a fair shake).

Noise: Unrecognized inconsistency in judgment. Inconsistency may be between judgments of the same person at different times, or between judgments of similar options. Noise may also be between judgments of the same option by different people who were thought to have similar information and generally aligned interests.



THE BUDGET OFFICER'S FOUR JOB RESPONSIBILITIES AS DECISION ARCHITECT*

Widen the option set:

The budget officer's role in budget preparation gives them a bird's-eye view on the wide set of activities the government must pursue. They can thus help decision-makers see the big picture and find a wider set of possible solutions.

Test assumptions:

The budget officer's examination of calculations and projections gives them a unique perspective on the assumptions and uncertainties of project proposals. They can thus help decision-makers identify uncertainties and test assumptions before overinvesting.

Find high-value options:

Budget officers see which trade-offs are being made and which ones may still need to be considered. They can help decision-makers choose highest-value options.

Foster trust in the process:

Budget officer's ethos of objectivity (if not neutrality) puts them in a position to foster trust in good decision processes.

Communication & Transparency

Throughout the Budget Cycle:

- Share Key Dates: Publish work sessions, public hearings, and adoption dates on website, social media, and local media
- Hold Public Work Sessions: elected officials review budget proposals; sessions open for public observation
- Keep the Public Informed: Provide updates and clear summaries via meetings and online platforms
- Public Input: Gather feedback through hearings, town halls and other civic engagement opportunities to incorporate into decisions

To Enjoy the Sustained Advantages of:

- Increases transparency and public trust in the budgeting process
- Encourages community engagement and informed decision-making
- Helps elected officials make decisions that reflect community priorities



Questions

Thank you for your willingness to serve your community!