



# **Local Government Budgeting Review**

**Presented By:** Peter Stephenson, VRSA Local Government Specialist



## ABOUT VRSA

- VRSA is here to protect our members and their employees so they may effectively serve their communities.
- VRSA is committed to providing members with stable rates and pricing over time – we have no plans to change this approach.
- VRSA provides robust education, training and resources to help our members manage their risk.



# LOCAL GOVERNMENT CONSULTING

- Identifying emerging risks and challenges in local government finance, budgeting and compliance
- Leadership consulting

**VRSA**  
Virginia Risk Sharing Association



### Local Government Consulting

The Virginia Risk Sharing Association (VRSA) is proud to offer the consulting services and resources of a past town manager with more than 30 years of local government experience as our Local Government Specialist.

VRSA's Local Government Specialist focuses on building relationships with members, local and regional government organizations, and associations. This position has been created to provide an additional avenue in which VRSA can continue to partner with local governments to help them protect their assets and achieve their strategic goals.

**Services include:**

- Identifying emerging risks and challenges in local government finance, budgeting, and compliance
- Leadership consulting:
  - Council/manager governance
  - Community relationship management
  - Ethics
  - Strategic planning
  - Effective service delivery

**Experience**

- More than 20 years as the Smithfield town manager
- Previously served as deputy town manager and principal planner for the Town of Leesburg
- Held planning roles with James City County and the City of Charlottesville
- Past chair of the VMLIP Members' Supervisory Board, where he was a member for more than 10 years
- Virginia Local Government Management Association (VLGMA) and International City/County Management Association (ICMA) life member and retired credentialed member
- VLGMA past president
- Certified planner, American Institute of Certified Planners (AICP)

**"I am thrilled to be able to combine my passion for pooling with my career of service to Virginia local government. VRSA consistently adds value for its members, and I am proud to be a part of the team in this new role."**

**- Peter Stephenson.**

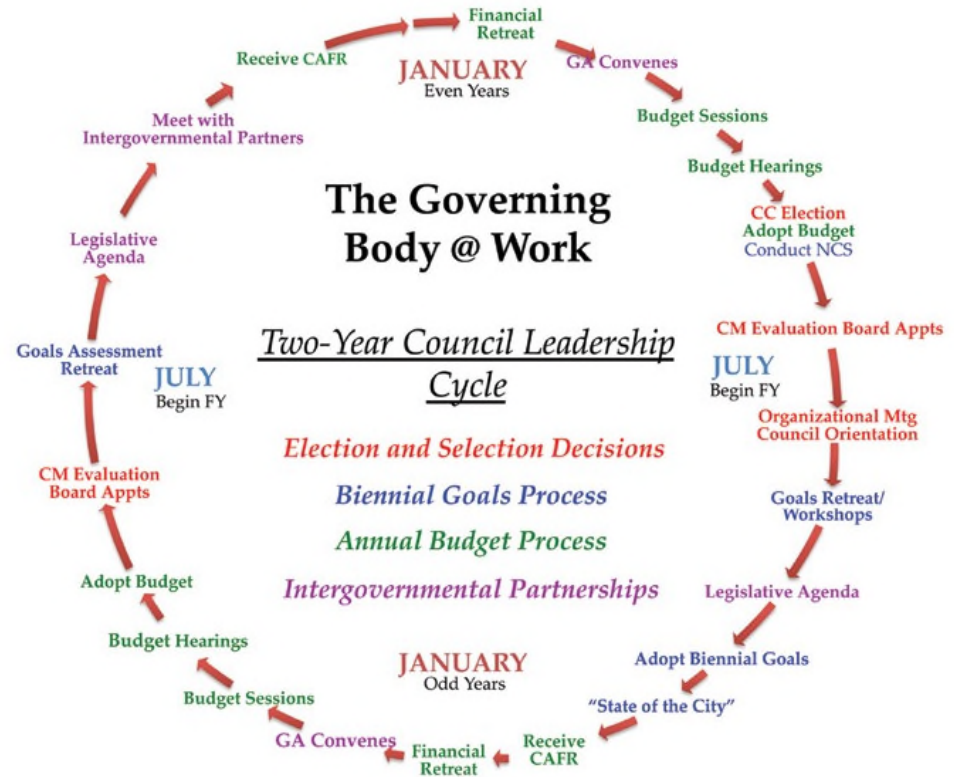
Contact Peter Stephenson  
at: 804-363-8186  
or: pstephenson@vrsa.us

[www.vrsa.us](http://www.vrsa.us) | 800-963-6800



# CYCLES OF COUNCIL LEADERSHIP

## The Cycles of Council Leadership



Budgets should reflect the values  
and priorities of the community.



# BUDGETING

- Purpose of a Budget
- Types of budgets:
  - ❖ Operating
  - ❖ Capital

## CHAPTER 9

### Budgeting

By Betty S. Long, Stephanie Dean Davis, Victoria McNiff, and Alisande Tombarge

Sound financial management and budgeting are essential for the effective delivery of government services. A government that shows it is thinking strategically, planning for the future, basing its spending decisions on citizen input, and managing its financial resources wisely can develop and retain the confidence of its citizens.

Depending on a locality's size, the individual responsible for preparing the budget varies. In the smallest of localities, it may be the mayor. In other localities it may be the city or town manager, and in still others it may be a budget or finance director and his or her staff.

#### Purpose of a Budget

The primary purposes of a governmental budget are to account for and control the use of public resources and to provide a legitimate process for the expenditure of public funds. But budgeting is more than just a device to authorize and control revenue raising and spending. It is the principal vehicle for setting fiscal and program policy. Budgets are also used to:

- Establish priorities for the local government
- Plan for the rational distribution of resources
- Establish performance objectives and desired outcomes and relate them to expenditures
- Evaluate the performance of departments and programs
- Explain to citizens the types and levels of services funded with their tax dollars
- Ensure that funds are expended in a way that meets the planned budget objectives

The economic and political changes of the last two decades have placed greater emphasis on the budget process. Resistance to higher taxes, coupled with increased demand for services, requires localities to develop budgets that are sound, understandable, and acceptable to their citizens.

The budget process is by its nature an exercise in conflict resolution and compromise. This is not bad. It reflects the fact that all players involved – elected officials, managers, department heads, budget analysts, and citizens – have a different perspective on the budget process. A natural tension exists between the desire to provide services to citizens and the need to be fiscally prudent. As such, negotiation and compromise will always be hallmarks of the budget process.

Most localities prepare two types of budgets each year:

1. **Operating Budget.** Applies to the recurring or one-time activities that are financed through current revenues. Operating budgets typically appropriate funds for one fiscal year and appropriations cease on the last day of the fiscal year.
2. **Capital Budget.** Addresses long-term physical improvements that involve longer life spans, long-range revenues, and relatively high costs. Capital budgets typically appropriate funds through the life of the project.

These budgets are closely related, and each one contributes to the sound fiscal management of the community.

#### Budget Preparation

Budget preparation involves many technical and procedural considerations, but fortunately for the council these are the manager's responsibility. In towns where the mayor acts as the chief executive, however, the mayor is responsible for the timely submission of the budget.

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## BUDGET PREPARATION

- Ensure the budget reflects a locality's priorities:
  - ❖ Mission statement
  - ❖ Citizens surveys, forums, etc.
  - ❖ Adopted policies
  - ❖ Citizen board and commission recommendations
  - ❖ Existing financial policies



# OPERATING BUDGET

- Uniform fiscal year
- Required contents:
  - ❖ Amount appropriated and expended during previous fiscal year
  - ❖ Current fiscal year's appropriations and expected expenditures
  - ❖ Proposed expenditures
- Must include:
  - ❖ A statement of the contemplated revenue, disbursements, liabilities, reserves, and surplus or deficit
  - ❖ Itemized and complete financial balance sheet for preceding year.

**Required Contents of the Budget.** The Code, which specifies the minimum information to be included in the budget, requires only that the budget show, for each expenditure item:

- Amount appropriated and expended during the preceding fiscal year
- Current fiscal year's appropriations and expected expenditures
- Proposed expenditures for the coming fiscal year and any increases or decreases that are proposed

The budget must be accompanied by:

- A statement of the contemplated revenue and disbursements, liabilities, reserves, and surplus or deficit of the locality as of the date the budget was prepared
- An itemized and complete financial balance sheet for the preceding fiscal year

Many local governments exceed these minimum requirements by including narrative descriptions of programs, discussions of goals and objectives, and quantitative performance measures.

**Reserve for Contingencies.** Under state law, the budget may include a reasonable reserve for contingencies.

**Dates for Budget Submission & Adoption.** State law requires all officers and heads of departments, agencies, and commissions to submit to the governing body, on or before April 1 of each year, an estimate of the amount of money needed in the upcoming fiscal year. If the estimates are not submitted, the clerk of the governing body or other designated person must prepare the estimate. As a practical matter, this means the estimates must be submitted well in advance of April 1, so that a coordinated, comprehensive budget request can be submitted to the governing body. The governing body must approve the budget and fix a tax rate by July 1. However, because state law requires that the school budget be adopted either by May 15 or within 30 days of receiving the estimates of state aid for education, cities and towns that operate school divisions must adopt their budget in time to meet the earlier school deadline.

**Public Hearing.** At least one public hearing must be held before adopting the budget. Notification of the hearing and a synopsis of the budget must be published at least one week before the hearing. The hearing on the local and school budgets must be held at least one week before the budgets must be approved.

**Tax Rates.** Any proposal for a tax increase must be published in a newspaper at least seven days before adoption, and a public hearing must be held before adopting the tax increase. When the reassessment of real property results in the total real property tax levies increasing by more than 1 percent, a locality must reduce its real property tax rate to produce no more than 101 percent of the previous year's real property tax levies. However, a locality may set the real property tax rate at a level that exceeds 101 percent of the prior year's levies if it first publishes a notice of its intent in the newspaper seven days prior to a public hearing on the proposed tax rate. The public hearing may be held at the same time as the budget hearing.

**Need for Appropriation.** No funds can be expended until the governing body has made an annual, semi-annual, quarterly, or monthly appropriation for such contemplated expenditures. Furthermore, unless otherwise specified by law, the governing body is not required to appropriate funds raised by general taxes for any purpose other than to pay the principal and interest on bonds and other legal obligations arising under contracts executed or approved by the governing body.

**Appropriations for Public Schools.** The appropriation for public schools shall not be less than the cost apportioned to the governing body for maintaining an educational program meeting the Stateboard of Quality.

**Budget Amendment.** During the fiscal year, the budget may be amended to increase the total amount appropriated. However, if an amendment equals 1 percent of the total revenue shown in the currently adopted budget a notice of public hearing must be published seven days prior to the public hearing and public meeting date.

**Charter Provisions.** The governing body may elect to comply with the Code provisions governing local budgets rather than those contained in its city or town charter. There should not be substantial conflicts between these two documents.





# OPERATING BUDGET

- Dates for budget submission and adoption
- Public hearing
- Tax rates
- Need for appropriation

**Required Contents of the Budget.** The Code, which specifies the minimum information to be included in the budget, requires only that the budget show, for each expenditure item:

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## BUDGET PROCESS

- A budget is always a work in process.



## QUESTIONS TO ASK WHEN REVIEWING THE BUDGET

### Questions to ask when reviewing the budget

- Do the budget recommendations reflect the priorities of the governing body and constituents?
- Does the budget strike an appropriate balance among the many different constituencies served by the locality?
- Is the budget consistent with the long-term goals of the community?
- If tax reductions are contemplated, what effect will the reduced revenues have on the locality's ability to provide services?
- Is the proposed budget dependent on any revenue initiatives--tax or fee increases or the imposition of new taxes or fees? If so, what is the effect on the budget if the governing body does not enact the revenue measures?
- Are the assumptions underlying the revenue and expenditure estimates sound? Have all expenditures and foreseeable contingencies been included?
- Does the budget contain a reserve for contingencies that cannot be anticipated?
- Does the budget contain adequate funding for new mandates or local initiatives that must be absorbed (e.g., opening a new library, complying with recycling mandates)?
- Does the budget include programs or services that are not essential and therefore could be eliminated to provide funds for more pressing needs?
- What major programs are funded by the locality, what are the performance objectives associated with these programs, and what are the resources required to support these programs?
- Is it possible to identify and understand the trends in the largest line-item expenditures in the budget?
- Can any significant swings in expenditures from year-to-year be explained?



## BUDGET EXECUTION

- The manager and staff are primarily responsible for budget execution
- Monthly monitoring of revenues and expenditures is an essential part of the budget execution process



# CAPITAL BUDGET

- A primary responsibility of local officials is to preserve, maintain and improve a community's stock of local buildings, roads, bridges, schools, parks, water and sewer lines, and equipment.

Another major change beginning to appear in local government is abandoning the "use it or lose it" approach to budgets. This approach dictates that most agencies lose whatever funds have not been spent by the end of the fiscal year – thus creating an incentive to spend all available funds, no matter what. In addition, the "use it or lose it" approach does not account for the overall financial condition of the local government. For example, overspending by the police department due to an emergency needs to be covered by expenditure savings in other departments, revenue supplies if there are any at year-end, or use of fund balances. Allowing for normal expenditure of funds throughout the year and then assessing the results of operations after the fiscal year ends results in better financial performance. Many localities will request "carry forward" items from departments at the end of the fiscal year. Those carryforward items will be considered after the results of financial operations are known and may be funded from a surplus that exists in the consolidated fund balance book-overs and above-fund-balances income.

## Capital Budget

All communities, regardless of size, need to consider their needs for capital improvements. A primary responsibility of local officials is to preserve, maintain, and improve a community's stock of local buildings, roads, bridges, schools, parks, water and sewer lines, and equipment. All of these require significant financial investments that must be weighed against competing demands for funds.

Often the practice is to wait until the need for a capital expenditure is essential, i.e., an emergency arises, or action is required to comply with a federal or state mandate. This approach does not contribute to prudent management of a community's resources, and it also can result in significant cost increases to pay for the needed improvements. While small communities may think they lack the staff support and expertise to undertake a formal capital budget process, even a very simple evaluation of capital needs can produce important benefits for the community.

The capital budget presents the governing body with a different challenge from that of the operating budget. The challenge is to develop a multi-year plan that addresses adequately the physical or infrastructure needs of the community. In the case of more established localities, the major concern is maintaining aging buildings, roads, bridges, and water and sewer systems. Growing localities must focus more on ensuring that facilities are adequate for a rapidly increasing population.

A capital budget based on a sound capital improvements program (CIP) is vital to the long-term health of a community. In its most basic form, the CIP is a five-year schedule of capital improvements, in order of priority. The CIP lists each capital item approved by the governing body, the year in which it will be purchased or started, the amount to be spent in each year, and the proposed method of financing. The CIP includes future projects for which financing has not been secured or legally authorized. As a result, the "outlays" of the CIP are subject to change. The first year of the CIP is typically referred to as the capital budget. The capital budget is a legal document that appropriates money for projects included in the first year of the CIP and authorizes the necessary funding mechanisms to pay for them. It is often incorporated into a locality's operating budget adoption process. In essence, the capital budget is the link between the CIP and the annual budget and appropriations process.

A formal capital planning process that encourages all interested constituencies and local departments to participate helps to minimize criticism and objections to major capital projects. The CIP is an important tool for shaping a community's future; ideally, it should reflect citizens' views on optimal levels of growth and their willingness to pay for it.

A sound capital program must realistically assess the jurisdiction's ability to afford the projects it considers. This includes not only the cost to construct the facility, but also the cost of maintaining and operating it. The capital budget has significant implications for a locality's operating budget. Cost estimates for all capital projects should include projected changes in work-force requirements, utility costs, and risk management considerations, to name just a few items.

## Interdepartmental Cost Representation

While the CIP process can be organized in various ways, it is essential that it be coordinated from a single point. The Code of Virginia § 15.2-2229 says the planning commission may, and at the request of the governing body shall, prepare and annually revise a capital improvements program based on the comprehensive plan of the locality, for a



## CAPITAL BUDGET

- Challenge to develop a multi-year plan that addresses adequately the physical or infrastructure needs of the community.
- Based on a capital improvements program
  - ❖ Five-year schedule of capital improvements



# CAPITAL IMPROVEMENTS PROGRAM

- *Code of Virginia: § 15.2-2239*
- Planning commission may, and at the request of the governing body shall, prepare and annually revise a capital improvements program
- Based on the comprehensive plan of the locality

## Responsibility for Preparation

While the CIP process can be organized in various ways, it is essential that it be coordinated from a single point. The Code of Virginia § 15.2-2239, says the planning commission may, and at the request of the governing body shall, prepare and annually revise a capital improvements program based on the comprehensive plan of the locality, for a

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## CHAPTER 9 • BUDGETING

period not to exceed the ensuing five years. The CIP is to be submitted to the governing body or manager; it shall address the commission's recommendations regarding capital projects for the next fiscal year, including the cost of the projects and how they will be financed to include life cycle costs. It also requires the commission to consult with the manager, department heads, and interested citizens in preparing the CIP, and to hold public hearings. CIP preparation can be centralized in the finance office with staff coordination between the operating and capital budget or the planning office with staff coordination on capital projects and then sent to the finance office for coordination with the operating budget.

Where a planning commission does not exist, the best approach may be to form a CIP committee. The committee could include members of the governing body, the public works director and other key department heads, finance or budget officer, planning official, school official, civic and business leaders, and the general public.

The individual in charge of coordinating the CIP process should also ensure that the CIP considers the plans of nearby local or regional entities (e.g., adjoining localities or counties, special service districts, state agencies, federal facilities).

## Planning for the CIP

Long-range planning should precede the development of a CIP. The types of long-range planning include the following.

**Development of a Comprehensive Plan.** The Code requires that every governing body in the Commonwealth adopt a comprehensive plan. The plan projects physical land use in the locality and recommends policies for its control. The implications of proposed capital improvements should be considered in light of the goals of the comprehensive plan.

**Long-Range Work Programs.** Each local department should develop a work program that attempts to identify the services it expects to provide over a 5- or 10-year period, and what capital projects would be required to be able to deliver those services.

*Handbook for Virginia Mayors & Council Members*



## FINANCING CAPITAL PROJECTS

- Pay-as-you-go financing
- Debt financing





## OTHER WAYS TO ISSUE DEBT



- Virginia Public School Authority
- Literary Fund
- Virginia Resources Authority
- Industrial Development Authority
- Public-Private Transportation Act
- Public-Private Education Facilities and Infrastructure Act
- VML/VACo Finance & Pooled Bond Program

# AUDITING

- The purpose of the audit is to determine the legality of disbursements and the financial condition of the locality.



# HANDBOOK FOR VIRGINIA MAYORS AND COUNCIL MEMBERS

- Authors:
  - ❖ Betty S. Long, former deputy director of the Virginia Municipal League
  - ❖ Stephanie Dean Davis, Ph.D.
  - ❖ Victoria McNiff, MPA Candidate
  - ❖ Alisande Tombarge, MURP Candidate

## **Handbook for Virginia Mayors & Council Members**

Seventh Edition – August 2021

Edited by  
Rob Bullington, Mary Jo Fields, Michelle Gowdy, and Steve Owen



## RELATED AGENCIES AND PUBLICATIONS

### CHAPTER 9 • BUDGETING

#### Related Agencies & Publications

##### Auditor of Public Accounts

[www.apa.state.va.us](http://www.apa.state.va.us)  
PO Box 1295  
James Monroe Building  
101 North 14th Street, 8th Floor  
Richmond, VA 23218  
804.225.3350

Publications include the annual *Comparative Report of Local Government Revenues and Expenditures*, available online at <http://www.apa.state.va.us/Local%20Government.aspx>

##### Virginia Department of Taxation

[www.tax.virginia.gov](http://www.tax.virginia.gov)  
Office of the Commissioner  
1957 Westmoreland Street  
Richmond, VA 23230  
804.367.8031

Publications include *Local Tax Rates (annual)*, available online at [www.tax.virginia.gov/local-tax-rates\\_Assessment](http://www.tax.virginia.gov/local-tax-rates_Assessment)  
*Sales Ratio Study (annual)*, available online at [www.tax.virginia.gov/assessment-sales-ratios-studies](http://www.tax.virginia.gov/assessment-sales-ratios-studies)

##### Virginia Government Finance Officers' Association

[www.vgfoa.org](http://www.vgfoa.org)  
8 East Canal St  
Richmond, VA 23219  
804.648.0635

##### International City Management Association (ICMA)

[www.icma.org](http://www.icma.org)  
777 North Capitol Street, NE, Suite 500  
Washington, DC 20002-4201  
202.962.3680

ICMA publications include:

- Bartle, John R., *Management Policies in Local Government Finance*. Sixth Edition. 2013.
- Bland, Robert L., and Michael R. Overton. *A Budgeting Guide for Local Government*. Fourth Edition. 2019.
- Marlowe, Justin, et al. *Capital Budgeting and Finance: A Guide for Local Governments*. Second Edition. 2009.

Order online at <https://bookstore.icma.org/print-publications-e1.aspx>

##### Governmental Finance Officers Association (GFOA)

[www.gfoa.org](http://www.gfoa.org)  
203 N. LaSalle St  
Suite 2700  
Chicago, IL 60601  
312.977.9700

The association's Elected Officials' Guide series includes booklets on:

- Fund balances and net assets
- Performance measurement
- Multi-year budgeting
- Procurement
- Revenue forecasting
- Public retirement plans
- Auditing
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- Internal controls
- New reporting model
- Investing Government finance

Order online at [www.gfoa.org/cog](http://www.gfoa.org/cog) or [www.gfoa.org/publications](http://www.gfoa.org/publications)

##### Virginia Municipal League (VML)

[www.vml.org](http://www.vml.org)  
P.O. Box 12164  
Richmond, VA 23241  
804.649.8471

##### Weldon Cooper Center for Public Service

[www.coopercenter.org](http://www.coopercenter.org)  
University of Virginia  
2400 Old Ivy Road  
Charlottesville, VA 22903-4827  
434.982.5522



# TABLE: TAXING AUTHORITIES AVAILABLE TO LOCAL GOVERNMENTS AND STATE IMPOSED RESTRICTIONS

(Pages 81 & 82)

**Table: Taxing Authorities Available to Local Governments & State-Imposed Restrictions**

Tax	Local Government with Authority to Levy	State Code Section	Any Restrictions?
<b>Taxes on Property</b>			
Real Property	Cities, counties, & towns	<a href="#">§ 58.1-3200</a> through <a href="#">§ 58.1-3389</a>	Unrestricted
Tangible personal property ('car tax')	Cities, counties, & towns	<a href="#">§ 58.1-3500</a> through <a href="#">§ 58.1-3521</a>	Yes
Machinery & tools	Cities, counties, & towns	<a href="#">§ 58.1-3507</a>	Yes
Merchants' capital	Cities, counties, & towns	<a href="#">§ 58.1-3509</a> and <a href="#">§ 58.1-3510</a>	Yes
Short-term rental property	Cities, counties, & towns	<a href="#">§ 58.1-3510.5</a>	Yes
<b>Taxes on Individuals</b>			
Sales & use	Cities & counties; <i>not towns</i>	<a href="#">§ 58.1-605</a>	Yes
Motor vehicle license	Cities, counties, & towns	<a href="#">§ 46.2-752</a>	Yes
Utility - consumers	Cities, counties, & towns	<a href="#">§ 58.1-3814</a>	Yes. The Virginia communications sales and use tax replaced the local consumer utility tax on land line and wireless phones and cable television service except where grandfathered in.
Meals	Cities, counties & towns	<a href="#">§ 58.1-3833</a> and <a href="#">§ 58.1-3834</a> (counties) <a href="#">§ 58.1-3840</a> (cities & towns)	Yes
Cigarettes	Cities & towns; certain counties (Fairfax & Arlington)	<a href="#">§ 58.1-3830</a> and <a href="#">§ 58.1-3840</a> (cities & towns)	No limit on cities & towns; Fairfax & Arlington may levy up to 5 cents per pack or the amount levied under state law.
Transient occupancy (lodging)	Cities, counties, & towns	<a href="#">§ 58.1-3819</a> (counties) and <a href="#">§ 58.1-3840</a> (cities & towns)	No restrictions on cities & towns; several restrictions on county rates & dedication of revenues.



# TABLE: TAXING AUTHORITIES AVAILABLE TO LOCAL GOVERNMENTS AND STATE IMPOSED RESTRICTIONS (Pages 81 & 82)

Tax	Local Government with Authority to Levy	State Code Section	Any Restrictions?
Admissions	Cities & towns; certain counties	<a href="#">§ 58.1-3817</a> and <a href="#">§ 58.1-3818</a> <a href="#">§ 58.1-3840</a> (cities & towns)	No restrictions on cities & towns; several restrictions on county rates & application.
Recordation	Cities & counties	<a href="#">§ 58.1-3800</a>	Yes
Probate	Cities & counties	<a href="#">§ 58.1-1711</a> through <a href="#">§ 58.1-1718</a>	Yes
<b>Taxes on Businesses</b>			
Business, professional, & occupational license	Cities, counties, & towns	<a href="#">§ 58.1-3700</a> through <a href="#">§ 58.1-3735</a>	Yes. In addition, counties cannot levy in towns that use the tax without town permission.
Daily rental property	Cities, counties, towns	<a href="#">§ 58.1-3510.4</a>	Yes
Coal severance	Cities & counties	<a href="#">§ 58.1-3741</a>	Yes
Gas severance	Cities & counties	<a href="#">§ 58.1-3712</a>	Yes
Coal & gas road improvement	Cities & counties	<a href="#">§ 58.1-3713</a>	Yes
Oil severance	Cities & counties	<a href="#">§ 58.1-3713.3</a>	Yes
Utility license	Cities, counties, & towns	<a href="#">§ 58.1-3731</a>	Yes.
Alcohol license	Cities, counties, & towns	<a href="#">§ 4.1-205</a>	Yes.
Bank franchise	Cities, counties, & towns	<a href="#">§ 58.1-1200</a> through <a href="#">§ 58.1-1217</a>	Yes. Rates are 'capped' at 80% of state rate; county tax does not apply in towns.
Cable TV franchise	Cities, counties, & towns	<a href="#">§ 15.2-2108</a>	Eliminated, Virginia Communications Sales and Use tax replaced
Communications sales & use	<b>State tax</b> distributed by the Virginia Department of Taxation to localities based on a percentage derived from their participation in the local taxes that this flat rate tax replaced.	<a href="#">§ 58.1-645</a> through <a href="#">§ 58.1-662</a>	Replaced several locally levied taxes: the consumer utility tax on land line and wireless telephone service, the E-911 tax on land-line telephone service, a portion of the BPOL tax, the local video programming excise tax on cable television services, and the local consumer utility tax on cable television service.



# RISK MANAGEMENT

- Enterprise Risk Management
- Role of Governing Body in Risk Management

## CHAPTER 26

### Risk Management

By Marcus Henkel

Local governments make important decisions each day as they serve their communities. Decisions may involve daily operations – utilities, public safety, refuse and parks – or may be responses to new challenges and uncertainties like COVID-19. Often these decisions not only impact the lives of citizens, but staff as well, in environments that are changing more rapidly than ever before.

How do local governments ensure they make decisions that support their communities and strategic objectives? How can local governments be more thoughtful, inclusive, and transparent in their decision making?

Traditional risk management focuses on a narrow approach to managing risks or uncertainties – often associated with losses arising from property damage, liability suits and worker injuries. With this approach, little consideration is given to how disparate risks relate to each other, and their potential value or impact to the organization. There are benefits for organizations that think differently about how they manage risks, including examining plausible futures as they serve their community.

#### Enterprise Risk Management

Enterprise Risk Management (ERM) focuses on managing all risks or uncertainties across the organization, including the re-evaluation of risk in the decision-making process. ERM is a top-down process to collectively manage financial, operational, and strategic risks. No two ERM approaches will be identical. Every ERM program is and should reflect the unique culture, values, goals, and risk appetite – the amount of acceptable risk in pursuit of strategic objectives – of the organization.

Of course, an organization considering ERM may refer to standards set by reliable organizations. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines ERM thusly:

*A process, effected by an entity's board of directors, management, and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.*

This process can be an important strategic tool for the governing body and top management who are expected to set in the organization's risk culture, or set of shared attitudes, and risk appetite.

To get a clearer picture of how ERM works, let's walk through a scenario.

A city's recreation center remains closed in response to COVID-19. It is now spring of 2021 and the city is contemplating whether to reopen the center for community gatherings.

As the staff starts working through this decision, they first identify which strategic objectives are supported by reopening the recreation center. In this example, the decision to reopen is supported because it furthers the city's strategic objectives to strengthen the neighboring communities. The staff holds conversations among themselves and various interested parties to identify and document considerations, including:

- Team members involved in the decision process.
- Issues that may require input by the governing body and top management.
- Internal and external stakeholders who may influence or be influenced by the decision.



# RISK MANAGEMENT

- Contract Review
- Risk Transfer vs. Risk Financing

## Risk Transfer vs. Risk Financing

Every year, local governments should evaluate their protections in relation to their activities, exposures, and risk management programs. A variety of techniques may be used to manage risk.

Risk transfer shifts risk from one party to another through group self-insurance pools. Most local governments in Virginia participate in group self-insurance risk pools (formed under Code of Virginia §15.2-2700). Local governments participating in group self-insurance risk pools contribute to a shared fund that in turn pays for the losses and risk management services for the participating members. The risk of the individual members is collectively shared by all the members.

Risk financing means that a local government decides to finance their risks themselves through self-insurance. Regardless of the method used, it is important that local governments evaluate the technique chosen to meet the organization's risk goals. These goals include paying for losses, managing the cost of risk, managing cash flow variability, maintaining appropriate level of liquidity, and complying with legal requirements.

Below are the major types of coverage which may be transferred, financed, or managed by local governments.

### Automobile Liability

Automobile liability coverage protects the local government, elected and appointed officials, and employees from claims arising from negligent acts involving vehicles driven with permission that result in bodily injury or property damage to third parties. Coverage includes defense costs as well as damages. The typical limit is \$1 million per occurrence.

### Automobile Physical Damage

Automobile physical damage coverage protects the local government from physical damage loss to owned vehicles or those leased for six months or more. Physical damage coverage includes both collision, which covers the vehicle if it collides with another object or overturns; and comprehensive, which covers the vehicle for other losses, such as fire, theft, or vandalism. Physical damage coverage is written on the basis of actual cash value or replacement cost coverage.

### General Liability

General liability coverage protects the local government, elected and appointed officials, and employees from claims arising from negligent operations that result in bodily injury or property damage to third parties. Coverage includes defense costs as well as damages. The typical limit is \$1 million per occurrence.

### Public Officials' Liability

Public officials' liability coverage protects the local government, elected and appointed officials, and employees from suits arising from alleged wrongful acts. Land use and employment discrimination are common examples. The coverage provides defense costs as well as payment of damages. Typical limits are \$1 million per occurrence.

### Law Enforcement Liability

Law enforcement liability coverage protects the local government, elected and appointed officials, and law enforcement personnel from suits arising from alleged wrongful acts. Use of excessive force and other civil rights violations are common examples. The coverage provides defense costs as well as payment of damages. Typical limits are \$1 million per occurrence.

### Excess Liability

Excess liability coverage provides coverage in excess of general liability, automobile liability, public officials' liability, law enforcement liability, and employers' liability. Limits should be in proportion to the activities and exposures of the local government.





## RISK MANAGEMENT

- Automobile Liability
- Automobile Physical Damage
- General Liability
- Public Officials' Liability
- Law Enforcement Liability
- Excess Liability
- No Fault Damage
- Cyber Liability
- Property
- Boiler & Machinery
- Flood
- Earthquake
- Line of Duty Act
- Crime
- Workers' Compensation and Employers' Liability
- Other Coverages





ANY  
QUESTIONS?

