

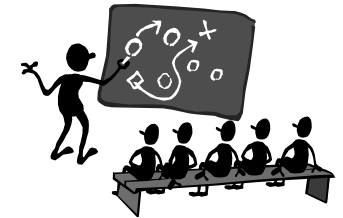
# The Budget Process

For Local Governments  
in Multnomah County

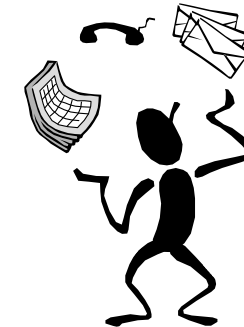
Proposed Budget



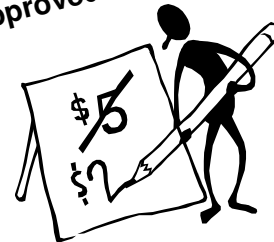
Budget Committee



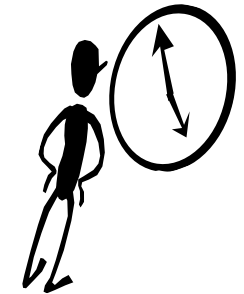
Notice of Public hearing



Approved Budget



Adopted Budget



Deadlines

Local Budget Law



January 2012

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# The Budget Process for Local Governments in Multnomah County

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This booklet is published by the Multnomah County Tax Supervising and Conservation Commission (TSCC) to provide budget committee members, governing boards and citizens with an overview of the budget process. For a more comprehensive look at the process refer to the *Budget Manual for Local Governments in Multnomah County*, also published by TSCC.

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## **Introduction**

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### **Principals of the Budget Process**

#### **Local Budget Law**

While many states have specific laws that require local governments to prepare and adopt annual budgets, Oregon's budgeting system is considered to be one of the most progressive in the nation. Oregon's Local Budget Law applies to approximately 1,500 local governments throughout the state by:

- ◆ Establishing standard procedures for preparing, presenting and administering the budgets of Oregon's local governments.
- ◆ Encouraging citizen involvement in the preparation of the budget before its formal adoption.
- ◆ Providing a method of estimating revenues, expenditures and proposed taxes.
- ◆ Offering a means of outlining the programs and services provided by local governments and the fiscal policy used to carry them out.

#### **The Tax Supervising and Conservation Commission (TSCC)**

In Multnomah County, in addition to the statewide Local Budget Law, taxing districts that are required to follow local budget law may also be subject to the TSCC. Starting in 2010-11 districts with a population under 200,000 may opt out of the TSCC's jurisdiction. To date, 11 districts have opted out. The Commission is an independent, impartial panel of citizen volunteers appointed by the Governor to monitor the financial affairs of local governments. The Commission was established in 1919. Oregon law requires a Commission in counties once its population, exceeds 500,000 unless the County adopts an alternate method of publishing summary budget information for all districts. ORS 294.608.

The Commission annually serves the taxpayers by providing an extensive review of the budgets of the local governments under its jurisdiction. The reviews are both procedural and substantive in nature. Procedural checks establish compliance with the various laws governing local finance, particularly local budget law. They include such steps as verifying that the approved tax levies are within the constitutional limits and substantiated by budgets, ensuring that public notice requirements have been met, and validating that financial information is included in adequate detail. A substantive review of program content, the reasonableness of estimates, and the coordination of financial planning among various units is also performed. The Commission must certify whether or not it has any objections or recommendations to make with respect to the budget prior to adoption.

The Commission provides an independent and objective forum, by way of public hearings, at which citizens may obtain information and express their

## Introduction

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views regarding the budget. Commission members represent the public at these hearings by asking questions indicative of the community at large. TSCC Public hearings are mandatory for taxing districts with more than 200,000 population and may be requested by the other districts. The Commission holds additional public hearings throughout the year on every new local option levy and bond levy request placed before the voters.

The Tax Supervising and Conservation Commission protects and represents the public interest by:

- ◆ Ensuring Multnomah County governments comply with Local Budget Law.
- ◆ Communicating local government financial information in a clear, objective, unbiased manner.
- ◆ Providing local government staff with technical advice and assistance.
- ◆ Promoting the efficiency and effectiveness of local governments.

### Local Governments Subject to TSCC Review \*

#### Multnomah County

Dunthorpe-Riverdale Sewer Service  
Mid-County Street Lighting Service

#### Regional Districts

Metro  
Port of Portland  
TriMet  
East Multnomah SWCD  
West Multnomah SWCD

#### Cities / Urban Renewal Agencies

City of Portland  
Portland Development Commission  
City of Gresham  
Gresham Redevelopment Comm.  
City of Maywood Park

#### Community Colleges

Mt. Hood Community College  
Portland Community College

#### K-12 Education Districts

Multnomah Education Service District  
Portland SD No. 1J  
Gresham-Barlow SD No. 10J  
Corbett SD No. 39

#### Fire Districts

Multnomah RFPD No. 10  
Riverdale RFPD No. 11J  
Sauvie Island RFPD No. 30J

#### Water Districts

Alto Park Water  
Burlington Water  
Corbett Water  
Lusted Water  
Palatine Hill Water  
Valley View Water

\* As of January 1, 2012

## **The Budget Process**

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### **Budget Calendar**

A District's budget process can best be viewed by looking at the budget calendar that is produced by the budget officer. The calendar outlines the meetings schedule as well as the required elements of the process. At a minimum the following 13 steps must be included in the calendar

1. Governing Body appoints Budget Officer.
2. Governing body appoints Budget Committee Members.
3. Budget Officer prepares Proposed Budget.
4. Budget Officer publishes 1st Notice of Budget Committee Meeting 5-30 days prior to the meeting or posts notice on district's web site.
5. Budget Officer publishes 2nd Notice of Budget Committee Meeting within 5-30 day period. (If notice posted on district's web site, 2nd notice is published at least 5 days prior to the meeting.)
6. Budget Committee meets.
7. Budget Committee approves budget and establishes maximum property tax levy rate or dollar amount.
8. Approved Budget filed with TSCC by May 15.
9. Approved Budget Summary and Notice of Budget Hearing published 5-30 days prior to public hearing.
10. Budget Hearing held with Governing Body.
11. Governing Body adopts budget and enacts Resolutions, including response to TSCC Certification Letter by June 30.
12. Adopted Budget and Certification Letter response filed with TSCC 15 days after adoption.
13. Levy Certification filed with assessor's office by July 15.
14. Budget document filed with county clerk by September 30.

This calendar can be expanded to include any meetings or events that are unique to a district such as internal procedural deadlines, local option or bond levy elections or training sessions.

## The Budget Process

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### Budget Officer

The first step in the budget process is the appointment of the budget officer. The Budget Officer, appointed by the board, is responsible for preparing the proposed budget document. For some entities the charter will dictate the person or position that is responsible for the budget officer duties.

#### The Budget Officer

- ◆ Cannot be an appointive member of the budget committee.
- ◆ Can be either member of Governing Body or staff member.
- ◆ Does not have to live within the boundaries of the local government unless required by the local government's charter.

#### Duties of the Budget Officer

- ◆ Prepares the budget calendar.
- ◆ Prepares the proposed budget document.
- ◆ Publishes the Notice of Budget Committee Meeting that:
  - Notifies the public of the opportunity to ask questions or comment on the proposed budget.
  - Is published twice, 5 to 30 days before the committee meeting or published once 5 days before and on the district's web site 10 days before the meeting. If the notice is mailed or hand delivered only one notice is required not later than 10 days before the meeting.

### The Budget Message

The budget message is prepared by the executive officer or the governing body chair. It is delivered to the budget committee at its first meeting and must:

- ◆ Explain the budget document.
- ◆ Include a brief description of the proposed financial policies.
- ◆ Describe the important features of the budget document in connection with the financial policies of the local government.
- ◆ Explain the reason for changes in appropriations and revenues.
- ◆ Explain the major changes in financial policy.
- ◆ Explain reasons for any planned change in the basis of accounting and the effect of that change on operations.

## **The Budget Document**

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### **Purpose of the Budget Document**

The budget is a guide to the financial management of the local government. It also provides information and encourages public participation in the governmental process. The final adopted budget document will control all financial activities during the time span of that budget.

### **Time-Span of the Budget**

Oregon law allows districts two options when preparing a budget. The budget can be prepared for 12 months (fiscal year) or 24 months (budget period or biennial budget). Both the 12 and 24 month budgets begin on July 1 and end on June 30. If a biennial budget is used all resources and requirements are stated in terms of the full 24 months . However, the property tax levies are itemized by each year in which they will be certified to the county assessor.

### **Funds**

The budget is comprised of one or more funds. A fund is used to record the resources and expenditures of an activity of the district and to control the use of restricted or dedicated revenues. The number of funds in the budget will depend on the complexity and level of activity of the district. The number of funds can range from one Fund at a specific purpose district to over 90 Funds at a large district. The most commonly used funds are:

- ◆ General Fund - used for the financial transactions of the day-to-day operations. Can be used whenever a specific type of fund is not required.
- ◆ Capital Project Fund - used to record all resources and expenditures related to nonrecurring major expenditure items. Also used for the proceeds from the sale of general obligation bonds.
- ◆ Debt Service Fund - used to record the payments of principal and interest on all general obligation (GO) bonds. There may be several GO bond issues accounted for in one debt service fund with separate accounts for each bond issue within the fund.
- ◆ Special Revenue Fund –used to record revenue of specific taxes or other revenue dedicated for specific expenditures.
- ◆ Enterprise Fund - used to record transactions relating to services that are self-supporting from user charges and fees.
- ◆ Reserve Fund - used to accumulate money over a period of time for a specific purpose.
- ◆ Internal Service Fund - used to account for services provided by one department or agency to another department or agency.

## The Budget Document

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### Required Budget Data

Detail for each fund will be shown in a spreadsheet format. These budget document detail sheets are the heart of the budget. They show in detail the planned requirements and resources the local government needs to carry out its purpose. Each budget form provides current fiscal year or budget period detail, two previous audited fiscal years or budget periods of detail, and columns for the proposed, approved and adopted budget for the upcoming fiscal year or budget period. The columns for the 2012-13 budget being prepared would look like the following:

2009-10 Actual	2010-11 Actual	2011-12 Budget	2012-13 Proposed	2012-13 Approved	2012-13 Adopted
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### Audited Data

The first two columns to the left of the spreadsheet show the actual expenditures and resources for the two preceding fiscal years or budget periods for each fund and come directly from the District's audit for that year or budget period. These audited figures provide a history of what actually happened.

Historical data provides a base for estimating the upcoming budget expenditures and resources. They can also be used to compare to the current budget estimates when making decisions during the budget process.

### Current Budgeted Resources and Expenditures

The third column from the left shows the estimated expenditures and resources adopted for the current fiscal year or budget period. These amounts come from the current budget document and may be updated for any changes authorized by governing body resolutions or ordinances, including supplemental budgets, adopted during the current fiscal year or budget period.

This gives up-to-date budgeted figures so comparisons can be made to estimates shown for the coming fiscal year or budget period.

### Ensuing Year Proposed, Approved and Adopted Columns

The three columns on the right are for the budget being prepared. The third from the right represents the Proposed Budget numbers being presented to the Budget Committee. The two columns to the right should be blank in the document received by the budget committee. One column will be completed by the budget committee to reflect the budget as the committee approves it. The last column will be completed by the governing body when the budget is adopted.



## The Budget Document

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### Resources and Requirements

The detail for each fund is separated into Resources and Requirements.

#### Budget Resources

Each local government must estimate and budget all of its anticipated resources for the upcoming fiscal year or budget period. Budget resources include current year property taxes, cash balances, investments, prior year taxes, fees, interest, grants, interfund transfers and revenues from any other sources.

A negative resource is never shown in the budget. Rather than show a deficit amount as a resource the amount should be included in the appropriate category as a requirement.

A more detailed description of property taxes is given in the following two pages.

#### Budget Requirements

A corresponding estimate of all budget requirements must also be prepared. The expenditures for each fund must be identified in one of three ways: organizational unit (police, fire, administration), program (instruction, community services), or by object classification if there is only one organizational unit or program. Requirements within each organizational unit or program will be detailed in the following object classifications:

- ◆ **Personnel Services** - includes salaries, payroll taxes, fringe benefits, and miscellaneous costs associated with salary expenditures, such as overtime. The cost of part-time employees are included when figuring personnel services.
- ◆ **Materials and Services** - contractual services, materials, office supplies, operating expenses and other charges (such as education or travel).
- ◆ **Capital Outlay** - includes expenditures for land, buildings, improvements, machinery or equipment with a useful life of greater than one year and that exceed a dollar threshold established by the district.
- ◆ **Debt Service** - principal and interest payments on debt such as bonds.
- ◆ **Contingency** - an estimated amount set aside based on the assumption that unforeseen spending may become necessary in an operating fund.
- ◆ **Reserve for Future Expenditure** - an amount set aside to accumulate money over a number of years for a specific purpose.
- ◆ **Unappropriated Ending Fund Balance** - an amount set aside to provide the local government with a cash balance with which to begin the following fiscal year. This amount is never appropriated.

### Types of Property Taxes

Many local governments rely on local property taxes to finance services they offer. In some cases, services are paid for entirely by this one revenue source. Both the Oregon Constitution and Oregon law limit the amount and type of property taxes that can be imposed. Each local government should refer to the statutes under which it was formed to determine its statutory taxing authority. Four types of property tax levies are available, each fulfilling a specific purpose.

#### Permanent Rate Limit Taxes

A permanent rate is a property tax rate expressed in dollars per thousand of assessed value. The constitution allows a local government to annually collect, through its permanent rate limit, the amount of property taxes generated when that rate is applied to the assessed value of the local government. Revenue from the permanent rate is used for general operating purposes. The permanent rate cannot be increased or decreased by the voters. Taxes from the permanent rate are subject to the constitutional limits of Measure 5 (\$5 per \$1,000 for education districts and \$10 for non-education or general government districts).

#### Local Option Taxes

When a local government has no permanent rate or when the permanent rate does not provide enough revenue to meet estimated expenditures, the local government may ask voters to approve a local option tax. Authority can be given as a dollar amount (that must be the same each year) or as a rate. Local option taxes can be used for general operations, a specific purpose or capital projects. Local option taxes used for general operating purposes can be imposed from one to five years. Local option taxes used for capital projects may be imposed for the expected useful life of the capital asset to be purchased or constructed or 10 years, whichever is less. Local option taxes are subject to the constitutional limits of Measure 5 and are reduced before any other taxes.

#### Bonded Debt Taxes

The Oregon Revised Statutes allow local governments to impose taxes for general obligation bond principal and interest without annual voter approval. Levy approval is considered to have been gained when voters originally approved the bonds. The debt service levy amount is limited to the payment of principal and interest necessary to retire the bonds. Taxes to repay general obligation bonds are not subject to the constitutional limits of Measure 5.

#### Other Qualified Obligations

When the Constitution was amended by Measure 50 certain existing qualified obligations were identified as "Gap Bonds" or "Other Qualified Obligations" and were not reduced when Measure 50 was implemented. State-wide, the only taxing district with a levy remaining in this category is the City of Portland's Fire and Police Disability and Retirement Fund (FPD&R) levy.

### Taxes Not To Be Collected

Not all of the taxes certified for collection will be collected. Three factors that can reduce collections must be taken into consideration when calculating tax revenues on which the budget will be built: loss due to discounts, loss due to failure to pay and loss due to constitutional limits. If the estimate of taxes not to be collected is too high or too low, the amount of taxes received will be more or less than the amount estimated in the budget.

#### Loss Due to Discounts and Failure to Pay

Property owners can receive a three or two percent discount if all or 2/3 of the property tax bill is paid by November 15. At the same time, some taxpayers fail to pay their property taxes at all. Local governments must take both of these factors into consideration when estimating taxes to be received. The amount of tax revenue lost from both discounts and failure to pay varies from year to year. Since 2000 it has ranged from 5.2% to 6.0%.

#### Constitutional Limit (Measure 5)

Ballot Measure 5 limits the amount of taxes that can be collected from an individual property. Total taxes on an individual property are limited to \$10 per thousand of real market value for general government purposes and \$5 per thousand for education purposes. Bond levies are not limited under the measure.

Determining the amount that will be lost because of the constitutional limit can be a complicated process. Historical data provides the best estimate; however, if the taxing situation is changing, such as other local governments losing or gaining taxing authority, the amount of loss can change. Also, if real market value is declining (or increasing), more (or less) loss could be experienced.

### Property Tax Levies

A local government may call a tax election when the taxes to be received are not sufficient to cover the budgetary requirements of the district. Taxing authority may be voted on **before** the budget process begins, **during** the budget process, or **after** the end of the budget process.

The budget should include any anticipated additional tax authority, even if the election has not been held. If the tax request passes, no revision to the budget is needed. If the tax fails, the budget can be revised downward or another election scheduled.

Local governments in Multnomah County placing a local option levy or general obligation bond measure on the ballot must have a public hearing held by the TSCC Commissioners.

## The Budget Committee

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### Membership of Budget Committee

#### For Districts with populations of 200,000 or less

The governing body of every local government in Oregon must establish a budget committee which includes appointed citizen members. Local governments under the jurisdiction of a TSCC with a population that exceeds 200,000 must also establish a budget committee, but it may or may not appoint citizen members.

The budget committee is composed of the governing board and an equal number of electors appointed by the governing body. Even if there are vacancies on the board the full number of budget committee members will be appointed. For example a five member governing body with one vacancy would appoint five electors to serve on the committee.

No member of the budget committee may receive compensation for services as a member of the budget committee.

#### The Budget Committee Appointed Members:

- ◆ Must live within the district boundaries.
- ◆ Cannot be officers, agents or employees of the local government.
- ◆ Serve three-year terms. The terms must be staggered so that about one-third of the terms end each year. If a 24 month budget is prepared, term of service is four years with one-fourth of the terms expiring annually.
- ◆ Have equal authority with the governing board during the budget committee process.
- ◆ Can be spouses of officers, agents or employees of the district.

#### For Districts with populations of more than 200,000

The governing body of each district in Multnomah County with a population of more than 200,000 acts as the budget committee unless the governing body has adopted a resolution formally declaring their intent to add citizens to the budget committee. ORS 294.423.

Multnomah County districts that fall in this category are: Multnomah County, East Multnomah SWCD, Metro, Port of Portland, TriMet, Portland Development Commission, City of Portland, Mt. Hood Community College, Portland Community College, Multnomah Education Service District and Portland School District 1J.

## **The Budget Committee**

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### **Duties of the Budget Committee**

#### **The Budget Committee at Work**

- ◆ Budget committee members should develop a general understanding of the budget process, the departments and programs included in the budget document, and the legal constraints imposed on the local government's tax levy after budget committee approval.
- ◆ Elect committee officers from among the membership.
- ◆ The budget committee generally studies the budget by comparing the actual data from two previous budgets, the current budgeted data, and the figures proposed by the budget officer.
- ◆ The budget committee accepts testimony and/or questions from the public.
- ◆ The budget committee may reduce or increase any of the estimates proposed by the budget officer, as long as each fund stays in balance.
- ◆ The budget committee may ask questions of the executive officer or other staff and request additional information.
- ◆ The budget committee may demand and receive any information it needs in order to make decisions about the budget. The committee uses the information to approve expenditures and balance each fund.
- ◆ The budget committee will complete the second column from the right on all budget detail sheets.
- ◆ The budget committee may approve the proposed budget at the first meeting or at a subsequent meeting.

#### **The Official Duties of the Budget Committee**

- ◆ Meet publicly to review the proposed budget document.
- ◆ Provide an opportunity for the public to ask questions and comment on the budget.
- ◆ Approve the budget with all funds in balance.
- ◆ Approve the maximum rate or dollar amount of property taxes.

## The Budget Committee

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### Quorum for Budget Committee Meetings

#### Quorum Needed to Hold Meeting or Take Any Action

The budget committee must have a quorum or majority of the total **membership** of the committee present in order to hold a meeting or to take any formal action. A majority is one more than half the number of the membership, not a majority of those present. For example, if the budget committee has 10 members, six must be present to hold a meeting. Whenever a vote is taken a majority voting "yes" is required to approve an action.

#### Counting Membership

Unfilled positions on the budget committee impact the number of members required to constitute a quorum or majority, depending on where the vacancy occurs.

#### Unfilled Positions in Appointed Members

If there are vacancies on the budget committee because a sufficient number of appointive members who are willing to serve could not be found, the total membership of the committee is reduced. For example:

5 Elected Members  
3 Appointed Members  
8 Total Members - 5 must be present to hold a meeting  
or vote yes to take any action

#### Unfilled Positions in Elected Board Members

If there are vacancies on the governing board, a full number of electors are appointed and the membership is not reduced. For example:

3 Elected Members  
2 Elected Positions are Vacant  
5 Appointed Members  
10 Total Members - 6 must be present to hold a meeting  
or vote yes to take any action

#### Minutes of the Budget Committee Meetings

Careful minutes should be kept for all budget committee meetings. They will be used to verify that the required formal actions were taken by the committee. If the proposed budget is revised the minutes should clearly indicate those changes.

## **The Budget Committee**

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### **Meetings of the Budget Committee**

At the first meeting the budget committee must:

- ◆ Elect a presiding officer from among the members.
  - Appointed members can hold this position.
  - Other officers may be elected but this is not required.
- ◆ Receive the proposed budget document.
- ◆ Receive the budget message.

### **The Budget Document**

The proposed budget document is received by the budget committee at its first meeting. The budget is a financial plan that includes estimates of expenditures and revenues for a single fiscal year or for a budget period of 24 months.

### **Can the Budget Document Be Distributed Earlier?**

The budget officer may make the proposed budget available to members of the budget committee at any time before the first meeting. If the budget document is released before the first meeting, it must also be made available to the public.

Committee members may not discuss or deliberate on the budget prior to the first meeting of the budget committee. ORS 294.426(6)(a). The formal presentation of the budget will be made at the first budget committee meeting.

### **Budget Committee is Required to Receive Public Input**

The budget committee must hear and consider any testimony presented by the public about the budget. If public input is not allowed at the first public meeting of the budget committee then a second (or more) meeting is required. The public notices must notify the public at which meeting public input will be taken.

- ◆ The budget committee can establish procedures for taking testimony.
- ◆ Time limits can be set as long as all parties or sides on issues are treated equally.

### **Other Budget Committee Meetings**

The budget committee may meet from time to time throughout the year, at the discretion of the governing body, for purposes such as training or to receive budget updates. All of these meetings are open to the public, and notice of the meeting must be given.

## The Budget Committee

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### Formal Actions Required of the Budget Committee

#### Approve the Budget

- ◆ The expenditures for each fund must be approved.
- ◆ In every fund total requirements must equal total resources.
- ◆ A vote to approve the budget must be taken.  
The method for approving the budget is discretionary. Some budget committees approve the budget as a whole, others approve it fund by fund and others break the approval down to a more finite level.
- ◆ The budget committee must vote to set the maximum property tax levy rate or amount for each fiscal year to which the budget document applies.

#### Set the Maximum Property Tax Levy Rate or Amount

The budget officer will provide calculations for the tax levies that must be taken into consideration before the vote to set the levies is taken. When whole dollar levies are approved they must be greater than the amounts shown on the detail sheets to take into consideration the taxes that will not be collected. Not all of the taxes billed will be paid timely, and taxes paid early can qualify for discounts. Collections can also be reduced due to Measure 5 limits.

- ◆ Permanent rate. If the full permanent rate is to be levied:
  - Simply state the rate in the motion: "levy a rate of \$2.6988 per \$1,000 of assessed value".
  - Do not round the amount for the permanent rate; it must be specific.
  - Do not attach a dollar amount to the permanent rate, or the collections could be limited by the dollar amount.
- ◆ Permanent Rate. If less than the full permanent rate is to be levied it can be either a rate or a dollar amount.
- ◆ Local option levies can be either a rate or a dollar amount, depending on how they were presented to the voters. Districts can always levy less than the full authority. If no levy is approved in any given year, the life of the local option levy is not extended.
- ◆ Bond levies are always stated as a dollar amount; never as a rate.



## **The Approved Budget Document**

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### **Budget Committee Submits Approved Budget to Board**

After the budget committee has approved the budget, set the maximum property tax levy rates or amounts and submits the Approved Budget to the governing body their work as the budget committee is finished.

The governing body's power to change the approved budget is limited. For a fiscal year budget the governing body cannot increase expenditures in a fund by more than \$5,000 or 10 percent, whichever is greater. For a 24 month budget the limitation is \$10,000 or 10 percent. Also, the governing body cannot increase the tax levy rate or amount approved by the budget committee. If the governing body wants to exceed either of these limits, it must re-publish a revised budget summary and hearing notice, re-submit the revised budget to TSCC, and hold another hearing. (See page 20 for more details.)

The Tax Supervising and Conservation Commission, through objections certified in writing, can require the governing board to make changes in the approved budget.

### **Filing Approved Budget with TSCC**

Once the budget committee has completed its work and has approved the document, a complete copy of the budget must be filed with the TSCC. The filing deadline is May 15 and 30 days prior to the public hearing (20 days if the commission will be conducting the public hearing). An extension can be granted upon written request. A \$50 per day penalty can be assessed if a district fails, neglects or refuses to submit its annual budget to the commission on or before May 15.

TSCC will review the approved budget and will send a Certification Letter to the governing board for districts holding their own hearing. Included in the letter will be any objections or recommendations of the Commission. The governing body must review that letter during the public hearing and specifically respond to any concerns of the Commission.

For districts where the TSCC Commissioners will be holding the public hearing the Certification Letter will not be issued until after the hearing. Any objections or recommendations that are proposed for the letter will be provided to district staff prior to the hearing and will be discussed at the hearing.

### **Budget Summary and Notice of Budget Hearing**

Each local government in Multnomah County must publish a summary of the Approved Budget as it was approved by the budget committee, including the rates or dollar amounts of the tax levies. The publication also serves to notify the public of the date, place and time of the upcoming public hearing.

## The Approved Budget Document

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### Public Hearing

Every local government that is subject to Local Budget Law is required to hold a public hearing prior to the adoption of the budget. For districts of 200,000 or less population the public hearing is usually conducted by the governing body of the district. Upon written request by the district the Tax Supervising and Conservation Commission will conduct a public hearing. For districts with populations in excess of 200,000 the public hearing must be conducted by TSCC.

#### The Public Hearing Conducted by the Governing Body

##### Quorum Needed to Hold Meeting

The governing body must have a quorum, or majority of the total membership of the governing body, present in order to hold a meeting or to take action. A majority is one more than half the number of the membership, not a majority of those present.

For example, if the governing body has five members, three must be present to hold a meeting. If there are vacant positions on the board the membership is not reduced for purposes of determining a quorum in the budget process.

##### Public Testimony

The governing body:

- ◆ Receives testimony from persons present.
- ◆ Responds to questions from all interested parties about the budget and the fiscal policy decisions reflected in the budget.
- ◆ Can establish procedures for taking testimony. Time limits can be set as long as all parties or sides on issues are treated equally.
- ◆ Reviews the TSCC Certification Letter at the public hearing. The letter may contain objections or recommendations that will require action before the budget can be adopted.

##### Public Hearing Closed

Once all of the public testimony, both for and against the budget, and any additional information is presented the budget hearing can be closed. The formal adoption process can be completed immediately after the public hearing or at any subsequent regular business meeting of the governing body.

## **The Approved Budget Document**

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### **The Public Hearing Conducted by the TSCC Commission**

For districts with populations greater than 200,000 the law requires TSCC to hold the hearing. In Multnomah County those districts are: The County, East Multnomah SWCD, Metro, Port of Portland, TriMet, Portland Development Commission, City of Portland, Mt. Hood Community College, Portland Community College, Multnomah ESD and Portland School District No. 1J. All other districts in Multnomah County have the governing body conduct the public hearing unless the district has requested that TSCC conduct the hearing.

### **Quorum of the Governing Body**

The governing body should have a quorum, or majority of the total membership of the governing body, present at the public hearing.

### **Format of the Hearing**

The public hearing is conducted by Tax Supervising and Conservation Commissioners.

- ◆ An overview of the budget is usually presented by the district.
- ◆ The governing board of the district will be asked to respond to questions from the Commissioners about the budget and the fiscal policy decisions reflected in the budget.
- ◆ The Commission will receive testimony from any persons present.
- ◆ The governing board of the district will be asked to respond to questions from all interested parties about the budget and the fiscal policy decisions reflected in the budget.
- ◆ Objections and/or Recommendations proposed to be included in the Certification Letter will be discussed.

### **Public Hearing Closed**

Once all of the public testimony, both for and against the budget, and any additional information is presented the TSCC Commissioners will close the public hearing. The formal adoption process of the budget can be completed at any regular business meeting of the district governing body.

### **TSCC Certification Letter**

Budget concerns of the Commission, including any objections or recommendations, will be outlined in the TSCC Certification Letter that will be issued following the hearing.

## Adopting The Budget

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### **Actions by the Governing Body in Adopting the Budget**

The governing body can adopt the budget only after the public hearing has been completed either by the governing body or by TSCC. However, it does not have to take any action on the same day the public hearing is held. If the governing body refrains from adopting the budget until as close as possible to June 30, the budget can be adjusted to reflect changes in the resources or expenditures from earlier estimates.

Formally adopting the budget, making appropriations, declaring and categorizing the property taxes, and responding to the TSCC Certification Letter can be done at any regularly scheduled public meeting of the governing body after the public hearing and before July 1.

### **Significance of the July 1 Date**

An appropriation is the authorization for the governing body to spend money and incur obligations for specific purposes. It is critical that a local government have an adopted budget and proper appropriations in place on July 1 as spending authority from the previous budget expires on June 30. Without an adopted budget and proper appropriations, the local government has no legal authority to spend money or incur debt. The budget also provides the authority to levy property taxes.

Spending by the governing body for the new fiscal year or budget period without proper appropriations is unlawful. Since every district has ongoing costs for day-to-day operations if the budget is not adopted and appropriations are not set in place by July 1, the district will be spending money unlawfully.

### **Considerations in Adopting the Budget**

The governing body must take all information available into consideration when adopting the budget. This information includes the public testimony, both for and against the budget, presented at the public hearing and the TSCC Certification Letter. The governing body must also take into account any new information presented before adoption.

It is important that the governing body carefully consider the budget it adopts. Only limited changes to the budget are allowed after it has been adopted. Generally, changes are not allowed for resources and expenditures that the governing body had knowledge of before adopting the budget.

The governing body has the final responsibility for allocating the resources of the budget to the programs or departments of the local government. The board may inform the appointive members of the budget committee if different figures are approved when the budget is adopted. This is a policy decision of the local government and not a statutory requirement.

## Adopting The Budget

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### Changing the Approved Budget

The governing body of a local government has the power to change anything within the approved budget. Some changes to the budget can be made by a vote of the governing body; other changes will require a much more detailed process.

#### Changes that can be made by a vote:

- ◆ Decrease resources, expenditures or tax levies. There are no restrictions on any budget decreases.
- ◆ Increase budget committee approved total expenditures in any fund by not more than \$5,000 in a fiscal year budget or \$10,000 in a 24 month budget, or 10 percent, whichever is greater. For this test each fund is looked at individually.
- ◆ Respond to objections listed in the Certification Letter from TSCC.

#### Changes that can be made if the governing body submits a new budget to TSCC, re-publishes the new budget summary, and holds another public hearing:

- ◆ Increase the property tax levy approved by the budget committee.
- ◆ Increase expenditures by more than \$5,000 (\$10,000 for a biennial budget) or 10 percent, whichever is greater, in any fund.

#### Required Formal Action by the Governing Body on the Budget

Sometime after the public hearing, at a regularly scheduled meeting, each local government in Multnomah County must:

- ◆ Enact the proper resolutions or ordinances to:
  - Adopt the budget.
  - Make appropriations.
  - Declare the *ad valorem* property tax rate or amount if levying a tax.
  - Categorize the *ad valorem* property tax rate or amount as provided in ORS 310.060 (Ballot Measure 5).
- ◆ Respond to the TSCC Certification Letter.

The governing body can pass one resolution or ordinance with several parts, separate resolutions or ordinances for each required action, or any combination thereof. These actions must be taken by the end of the day on June 30.

## Adopting The Budget

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### Budget Resolutions or Ordinances

A resolution is a formal expression of the opinion or will of an official body. An ordinance has the character of an enactment of law by an established authority. The resolution or ordinance is dated and signed by an authorized official of the municipal corporation. Under Local Budget Law, a resolution or ordinance by the governing body provides the legal authority to:

- ◆ Establish or dissolve funds.
- ◆ Make appropriations for expenditures.
- ◆ Adopt a budget, impose and categorize taxes.
- ◆ Take all other legal actions pertaining to budgeting or making tax levies.

#### To Adopt the Budget

Every district must take action to adopt the budget. The resolution or ordinance adopting the budget should state the total aggregate amount of all budget requirements. A resolution or ordinance that adopts the budget by referring to the “attached budget” and gives no total dollar amount is not preferred.

#### To Make Appropriations

Every district must specify appropriations in a resolution or ordinance. A schedule of appropriations is included in the resolution or ordinance. This schedule provides the local government with legal spending authority throughout the fiscal year.

For each fund a separate appropriation is made for each organizational unit or program. Items that cannot be specifically identified to an organizational unit or program, such as transfers, debt service, and operating contingency, must be appropriated separately in the fund.

For local governments where the terms “organizational unit” or “program” do not apply, amounts must be appropriated for personnel services, materials and services, capital outlay, debt service, transfers, and contingency for each fund.

A resolution or ordinance that makes appropriations by referring to the “attached budget” and does not include a schedule of appropriations by fund is not in compliance with local budget law.

#### Do not appropriate:

- ◆ The unappropriated ending fund balance.
- ◆ The reserved for future expenditure budgetary requirement.

## **Adopting The Budget**

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### **To Levy Ad Valorem Taxes**

Local governments that are levying a tax must declare the tax rate and/or dollar amount by resolution or ordinance. The resolution or ordinance should state the rate and/or the whole dollar amount of property taxes being certified to the county assessor. If a biennial budget is being adopted the rate or amount is required to be specified for each of the two fiscal years of the budget period.

When certifying a tax rate no total dollar amount is associated with the rate in the resolution. For example a district only certifying the permanent rate would “levy a rate of \$2.6988 per \$1,000 of Assessed Value.”

### **To Categorize the Tax**

If the governing body is levying a tax it must declare, through resolution or ordinance, the tax limitation category under Ballot Measure 5. This is the basis for certifying the tax limitation categorization to the county assessor. The tax categories are “for purpose of funding the public school system” (education), “for purpose of funding government operations other than the public school system” (general government), and excluded from limitation. Often the categorization of tax is included in the resolution or ordinance levying the tax.

### **Responding to TSCC Certification Letter**

Local governments under the jurisdiction of TSCC is required to respond to the TSCC Certification Letter by addressing any objections or recommendations in a resolution, ordinance or letter.

## **Adopted Budget Filing Requirements**

### **TSCC**

Within 15 days after adoption, local governments in Multnomah County subject to Local Budget Law must file with the Tax Supervising and Conservation Commission a complete copy of the adopted budget document, Resolutions and property tax levy certification (LB-50, ED-50 or UR-50). An extension of time can be requested in writing.

### **County Assessor's Office**

Resolutions and a property tax levy certification form (LB-50, ED-50 or UR-50) must be filed with the county assessor by July 15. If the district lies in more than one county the documents are filed with the county assessor of each county.

### **County Clerk**

By September 30 a copy of the budget document must be filed with the County Clerk. If the district lies in more than one county the budget is filed with the clerk of each county. Filing with TSCC is in lieu of filing with Multnomah County.

## **Changes After Adoption**

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### **Expenditures Limited During Fiscal Year**

Once the budget has been adopted and appropriations approved by the governing body only limited changes can be made under local budget law. The Resolution Making Appropriations establishes the legal authority for the district to expend funds. Spending more than this authority, even by \$1 is a violation of local budget law. Spending needs to be tracked carefully during the year.

The level of expenditures included in the budget assumes a certain level of resources. If for whatever reason these resources are less than budgeted, then spending may need to be curtailed to stay within the available resources. Simply because an expense is budgeted and legally appropriated does not mean it can be made. Spending money that is not available (deficit spending) is also a violation of local budget law.

### **Changes Allowed Under Certain Circumstances**

However, the budget resources and requirements were merely estimates. Because situations can change from the time the budget was first prepared, starting in January prior to the start of the fiscal year or budget period, local budget law provides a number of avenues for changing a budget after it has been adopted. There are generally five types of changes allowed:

- ◆ Reduction in budgeted resources and requirements. A district can reduce the budget in response to revenue that is less than anticipated by completing a supplemental budget.
- ◆ Exceptions to local budget law in certain cases allow a district to make changes with governing body approval. Some exceptions, such as the expenditure of certain bond proceeds, do not require approval (although it is always advisable to get approval).
- ◆ Transfers within funds are allowed with governing body approval. This includes transferring appropriation authority from one category to another (Materials and Services is reduced while Personnel Services is increased by the same amount). It also includes transfers from General Operating Contingency to an expenditure category. However, if the transfer from contingency amounts to more than 15% of a fund's appropriations a supplemental budget must be used.
- ◆ Supplemental budget increasing expenditures in a fund by 10% or less. These changes require public notice of the governing body meeting where the supplemental budget will be considered.
- ◆ Supplemental budget increasing expenditures in a fund by more than 10%. These changes require a public hearing conducted by the governing body. The notice of the meeting must include a summary of the proposed changes in any fund increasing by more than 10%.



## **Budget Law Violations**

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### **Failure to Follow Local Budget Law**

If Local Budget Law is thought to be violated, the county assessor, county court, board of county commissioners, Department of Revenue, Tax Supervising and Conservation Commission, or 10 or more interested taxpayers may file an appeal to the regular division of the Oregon Tax Court. If an appeal is filed the local government has the responsibility of defending itself before the court. If the Tax Court finds that the local government has not “substantially” complied with Local Budget Law, it can declare void or modify the local government’s tax levy. The appeal to the Tax Court must be made within 30 days from the time the notice of tax is submitted to the county assessor.

### **Certification of Tax in Excess of Limits**

The assessor and the Department of Revenue use the information on the tax certification form to verify that the tax levies are within constitutional and statutory limits. If it is found that the tax exceeds the limits, the Department of Revenue will notify the local government and the county assessor that the tax must be reduced. The local government will be asked to submit new certification forms. The department has the authority to order the reduction if the district fails to resubmit the forms as requested.

If the local government does not agree with the decision of the Department of Revenue it has the right to appeal the action to the Oregon Tax Court. The 30 day time limit does not apply to these types of violations.

### **Limits Associated with Appropriations**

After the budget is adopted the local government must stay within the appropriations set for the fiscal year or budget period. It is illegal to overspend an appropriation by even \$1. If a need arises to exceed an appropriation the local government must first adopt a supplemental budget by formal action. This can be done only after a duly noticed public meeting at which time citizens are given an opportunity to be heard.

If the amount of the change in expenditures is more than 10% of the expenditures of any fund, a public hearing must be held by the governing body before taking action on the supplemental budget.

### **Public Officials Personally Liable**

ORS 294.100 states “It is unlawful for any public official to expend any money in excess of the amounts, or for any other or different purpose than provided by law.” If found guilty, a public official could be civilly liable and ordered to return any money spent illegally to the district.

## Glossary

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**Accrual Basis.** Method of accounting recognizing transactions when they occur without regard for cash flow timing.

**Adopted Budget.** Financial plan adopted by the governing body for the fiscal year or budget period.

**Ad Valorem Tax.** A property tax computed as a percentage of the value of taxable property, based on the Assessed Value.

**Appropriation.** Authorization for spending a specific amount of money for a specific purpose during a fiscal year or budget period. It is presented in a resolution or ordinance adopted by the governing body.

**Approved Budget.** The budget that has been approved by the budget committee.

**Assessed Value.** The value set on real and personal property as a basis for imposing taxes. It is the lesser of the property's maximum assessed value (the value that grows by 3%) or real market value.

**Assessment Date.** January 1 prior to the start of the fiscal year. The date on which the real market value of property is set.

**Audit.** The review and appraisal of a municipal corporation's accounts and fiscal affairs conducted by an accountant under contract or the Secretary of State. A report is issued by the auditor expressing an opinion about the district's financial statements and compliance with requirements, orders and regulations.

**Biennial Budget.** A budget period of 24 months or two fiscal years. Begins on July 1 and ends on June 30.

**Budget.** Written report showing the

local government's comprehensive financial plan for one fiscal year or a 24 month budget period.

**Budget Committee.** Fiscal planning board of a local government.

**Budget Message.** Written explanation of the budget and the local government's financial priorities. It is prepared and presented by the executive officer or chairperson of the governing body.

**Budget Officer.** Person designated to assemble budget material and information and to physically prepare the proposed budget.

**Budget Period.** A 24-month period from July 1 through June 30 to which the biennial operating budget applies.

**Capital Outlay.** Items which have a useful life of one or more years and exceed a dollar threshold established by the district, such as land, buildings, machinery, or equipment.

**Capital Projects Fund.** A fund to account for resources, such as bond sale proceeds, to be used for major capital item purchase or construction.

**Cash Basis.** System of accounting under which revenues are accounted for only when received in cash, and expenditures are accounted for only when paid.

**Categories of Measure 5 Limitation.** Taxes on property are placed in one of three categories: Education, General Government, or Excluded from Limitation before the constitutional limits are tested.

**Contingency.** An estimate in an operating fund for unforeseen spending that may become necessary.

## Glossary

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**Current Budget Period.** The budget period currently in progress.

**Current Year.** The fiscal year currently in progress.

**District or Taxing District.** Synonymous with “municipal corporation”.

**Debt Service Fund.** A fund established to account for payment of long-term debt principal and interest.

**Double Majority.** An election in March or September where, to approve a property tax measure, at least 50 percent of the registered voters are required to cast a ballot, and more than 50 percent vote “yes”.

**Education Category.** The category for taxes that will be used to support the public school system. Limit is \$5 per \$1,000 of real market value.

**Encumbrance.** An obligation for which part of the appropriation is reserved.

**Ensuing Budget Period.** The budget period following the current budget period for which a budget is being prepared.

**Ensuing Year.** The fiscal year following the current year for which a budget is being prepared.

**Enterprise Fund.** A fund established to account for operations that are financed and operated in a manner similar to private business enterprises. They are usually self-supporting. Examples of enterprise funds are water, gas, electric utilities, swimming pools, airports, parking garages, transit systems, and ports.

**Excluded from Limitation Category.** The category for taxes exempt from limitations under Ballot Measure 5. Primarily taxes used to pay principal

and interest on exempt bonded indebtedness.

**Expenditures.** Total amount incurred if accounts are kept on an accrual basis; total amount paid if accounts are kept on a cash basis. Requirements less interfund transfers, general operating contingencies and unappropriated ending fund balance.

**Fiscal Year.** A 12-month period from July 1 through June 30 to which the annual operating budget applies.

**Fund.** A fiscal and accounting entity with self-balancing accounts to record cash and other financial resources, related liabilities, balances and changes, all segregated for specific, regulated activities and objectives. Fund types include: general, special revenue, debt service, capital projects, special assessment, enterprise, internal service, trust and agency, and reserve.

**Gap Bonds.** A portion of a local government’s property tax levy that is used to repay qualified taxing district obligations.

**General Fund.** A fund used to account for most budget activities except for those activities required to be accounted for in another fund.

**General Government Category.** The category for taxes used to support general government operations that are not for the purposes of funding the public school system. Limit is \$10 per \$1,000 of real market value.

**Governing Body.** County court, board of commissioners, city council, school board, board of trustees, board of directors, or other managing board of a local government unit.

**Grant.** A donation or contribution in cash for a specified purpose or

## Glossary

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function, or general purpose.

**Interfund Loans.** Loans made by one fund to another and authorized by resolution or ordinance.

**Internal Service Fund.** A fund used to account for activities when goods or services are provided by one department or agency to other departments or agencies on a cost-reimbursement basis.

**Levy.** Rate or dollar amount of ad valorem tax certified by a local government for the support of governmental activities.

**Liabilities.** Debt or other legal obligation arising from transactions in the past which must be liquidated, renewed, or refunded at a future date; does not include encumbrances.

**Local Option Tax.** Voter approved temporary taxing authority that is in addition to the taxes generated by the permanent tax rate. Local option taxes can be for general operations, a specific purpose or capital projects. They are limited to five years unless they are for a capital project, then they are limited to the useful life of the project or 10 years, whichever is less.

**Measure 5 Constitutional Limits.** Established by amendment to Oregon Constitution in 1990. The maximum amount of tax on property that can be collected from an individual property in each category of limitation.

**Municipal Corporation.** Any city, county, port, school district, community college, public or quasi-public corporation operated by a separate board or commission.

**OAR.** Oregon Administrative Rule. Written to clarify Oregon law. Has the authority of law.

**ORS.** Oregon Revised Statute. Oregon laws established by the legislature.

**Object Classification.** A grouping of expenditures, such as personnel services, materials and services, capital outlay, debt services, and other types of requirements.

**Ordinance.** A formal legislative enactment by the governing board of a municipality.

**Organizational Unit.** Any administrative subdivision of the local government, especially one charged with carrying on one or more specific functions such as a department, office or division.

**Personnel Services.** Expenses related to the compensation of employees, such as wages, health and accident insurance premiums, Social Security, other payroll taxes and retirement contributions.

**Permanent Rate Limit.** The maximum rate of ad valorem property taxes that a local government can impose without voter approval. Taxes generated from the permanent rate limit can be used for any purpose. No action of the local government can increase or decrease a permanent rate limit once it is established.

**Prior Year Taxes.** Taxes collected for fiscal years preceding the current one. Revenues from these taxes are treated as non-tax resources in the budget.

**Program.** A group of related activities to accomplish a major service or function for which the local government is responsible.

**Program Budget.** A budget based on

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the programs of the local government.

**Property Taxes.** Ad valorem tax certified to the county assessor by a local government unit.

**Proposed Budget.** Financial and operating plan prepared by the budget officer. It is submitted to the public and the budget committee for review.

**Publication.** Public notice given by publication in a newspaper of general circulation within the boundaries of the local government; mailing through the U.S. Postal Service by first class mail to each street address within the boundaries of the local government; or hand delivery to each street address within the boundaries of the local government.

**Qualified Taxing District Obligation.** A portion of a district's property tax levy in 1997-98 that was not subject to the state-wide 17% reduction.

**Quorum.** The minimum number of officers and members of a committee or organization who must be present for the valid transaction of business.

**Real Market Value (RMV).** The amount in cash which could reasonably be expected by an informed seller from an informed buyer in an arm's-length transaction as of the assessment date. In most cases, the value used to test the constitutional limits.

**Requirement.** The sum of all appropriated and unappropriated items in a fund. Total requirements must always equal total resources in a fund.

**Reserve Fund.** Established to accumulate money over time for a

specific purpose, such as purchase of new equipment.

**Resolution.** A formal order of a governing body; it has lower legal status than an ordinance.

**Resource.** Estimated beginning funds on hand plus anticipated receipts.

**Special Revenue Fund.** A fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

**Supplemental Budget.** A financial plan prepared to meet unexpected needs or to spend revenues not anticipated when the regular budget was adopted.

**Tax Rate.** The amount of tax stated in terms of a unit of tax for each \$1,000 of assessed value of taxable property.

**Transfers.** Amounts moved from one fund to finance activities in another fund. They are shown as appropriations in the originating fund and resources in the receiving fund.

**Trust and Agency Fund.** A fund used to account for activities of assets held in trust by a local government.

**Unappropriated Ending Fund Balance.** Amount set aside in the budget to be used as a cash carryover to the next fiscal year or budget period. It provides the local government with cash until tax money is received from the county treasurer in November. This amount cannot be transferred or used through a supplemental budget, unless necessitated by a qualifying emergency.