# THE FAULKNER COUNTY BUDGET PROCESS

By

John C. Pickett

February 2019

# PURPOSE

TO DESCRIBE THE COUNTY'S BUDGET PROCESS AND THE INTERACTIONS OF REVENUES AND EXPENSES BY:

1. EXPLAINING THE COUNTY'S ACCOUNTING SYSTEM

2. DESCRIBING THE HISTORICAL PATTERN OF REVENUES AND EXPENSES FROM 2014 – 2019

3. SHOWING THE EXPECTED REVENUES AND EXPENSES FOR 2019

4. COMMENTING ON SOME OF THE EXPECTED 2020 REVENUE SOURCES

CONTENTS

## I. MANAGERIAL CONTROL BY THE QC

The QC exercises managerial oversite of the operations of the other constitutional offices (the departments) by controlling the appropriations and personnel assigned to each department.

Once the budget and personnel are determined for a department, the department head is bound (constrained) by the dollar amounts in each category and the number of personnel assigned to the department.

However, the day-to-day expenditures and personnel assignments in a department is under the control of the department head. The QC cannot inject itself into the operations of a department. The QC may investigate the internal operations of a department and make recommendations, but it cannot mandate internal department operations.

One caveat is that if a department head wants to move funds from one category to another during a year, the QC has oversight authority.

Generally, as Faulkner County's population increases and economic activity expands, departments request more funds and staff. The overriding constraint in past, present and future years is that County's revenues will finance only a modest increase in all department budgets.

# II. ACCOUNTING SYSTEM

## A. FUND ACCOUNTING

The books and records maintained by the Treasurer’s office follow the accounting convention known as “fund accounting.”

> Nonprofit organizations and government agencies have special requirements to show, in financial statements and reports, how money is spent, rather than how much profit was earned. Unlike profit oriented businesses, which use a single set of self-balancing accounts (or general ledger), nonprofits can have more than one general ledger (or fund), depending on their financial reporting requirements An accountant for such an entity must be able to produce reports detailing the expenditures and revenues for each of the organization's individual funds and reports that summarize the organization's financial activities across all of its funds.
>
> Fund accounting distinguishes between two primary classes of funds. Those funds that have an unrestricted use that can be spent for any purposes by the organization and those that have a restricted use. Unrestricted use are funds recorded in the fund titled ‘County General.’
>
> The reason for the restriction can be for several different reasons. Examples include legal requirements, where the moneys can only be lawfully used for a specific purpose, or a restriction imposed by the donor or provider. These donor/provider restrictions are usually communicated in writing and may be found in the terms of an agreement, government grant, statute, will or gift.

When using the fund accounting method, an organization can separate the financial resources between those immediately available for ongoing operations and those intended for a donor's or State statute's specified reason. This also provides an audit trail that all moneys have been spent for their intended purpose and thereby released from the restriction.

The Arkansas Legislature passes Acts that detail how counties must record financial transactions. The Arkansas Department of Legislative Audit audits the Treasurer's books and records to ensure that the County's financial transactions are recorded accurately.

Legislative Audit provides a chart of accounts 'County Financial Management System Manual' (Revised August 1, 2013). This document sets out the revenue and expense codes by fund used to record the County's financial transactions.  Mr. Sanson can provide a copy of the 'Manual'.

Think of 'fund accounting' as a separate revenue and expense statement for each fund. Each fund is separate and is not comingled like a for-profit business co-mingles all sales into one account, such as 'gross sales.'

The only account that is roughly like a private business 'gross sales' account is the 'County General' fund.

The table of contents in the Faulkner County Budget 2019 shows the various fund and department codes.

## B. DEPARTMENT ACCOUNTS

A department's budget is separated into four major categories. These are:

Personal Services

Supplies

Other Services and Charges

Capital Outlay

Each group may have many separate line items which may be different among departments. The differences reflect the different functions and duties among the departments.

The terms 'above the line' and 'below the line' are used when discussing the budget. Above the line refers to all line items for personal services and below the line refers to all other line items listed in the supplies, other services and charges, and capital outlay accounts.

For example, see pages 23 and 24 in the 2019 Budget.

## C. DEPARTMENT TRANSFERS

As the department head manages its budget during the year, each may transfer funds from one-line item to another within a category without the QC's approval. The department head may not transfer funds among the categories without a further investigation and final approval by the QC.

The QC will approve these transfers after its consideration so that the Treasurer can record the transfers in the correct accounts. Recording the receipts and expenditures in the proper accounts and approval by the QC is necessary to avoid any auditor's complaints.

As an example, the QC passed Ordinance 19-02 on 17 January 2019. The sections transferred dollars (some as small as $1.00) within a department from and to different accounts. These transfers accomplished two objects. First, to adjust the dollar amounts in an account so that the balance is not negative. Second, to insure the expenditure was recorded in the proper account.

Legislative Audit insures that the expenditure was recorded in the correct account (a department cannot pay for computer paper out of a capital account) and that the QC authorized the expenditure.

However, the QC considers transfers between categories more carefully. Transferring funds from the capital account to personal services or vice-versa requires a thorough investigation by the QC. A typical transfer between categories is accomplished by shifting funds among personal services, supplies, other services and charges, and capital categories.

When a transfer between categories is requested, the usual justification is "funds are available and no increase in funding is requested." This justification is true, but it may have a direct impact on next year's budget. If next year's budget request includes amounts that do not reflect the reduction in the source of funds used for employee raises this year, then the QC is approving 'salary creep.' While "salary creep" is not inherently harmful, the QC should (because it is responsible for the taxpayer's funds) understand the process which results in salary increases.

D. SALARY ADJUSTMENTS

There are two types of salary adjustments. One is the recent across the board increase like the recent 4% cost-of-living approved in the 2019 budget.

The second is increases for individual employees.

Periodic salary adjustments are necessary. The question is how a department head establishes clearly (the proof) the need for and amount of a salary increase. She undertakes a salary survey. Generally, a salary survey to support a change in a County employee's salary using private sector salaries moves the analysis closer to a comparison of 'apples' and 'oranges.' There are many differences in public and private salaries, including retirement, health benefits, insurance and duties.

No salary survey is perfect. However, one is necessary. The annual Arkansas Association of Counties salary survey provides a single source for salary updates across all departments. If departments use different survey data, then maintaining consistent and uniform data among the departments becomes impossible.

The Arkansas Association of Counties publishes a survey 'County Government Salary Survey' of county budgets annually. It is available mid-year and contains data for the previous year. Most counties are included, but some are not. Justice Houston distributed a listing of all Faulkner County employee's salary and benefits and the 2018 Salary Survey recently.

The Arkansas Legislature has grouped counties into classes based on population. Faulkner is a Class 6 county, along with Craighead, Garland, Jefferson, Saline, Sebastian and

White. Class 6 counties have a population range of 70,000 – 199,999. The estimated population of Faulkner County in mid-2018 is 123,654.

The mechanics of a salary survey include creating a spreadsheet for each employee and:

Identify the employee

Record the salary of similar employees in each of the other six counties.

This sometimes becomes tricky, because job titles, duties and descriptions may vary among counties.

Calculate the mean of the salary for the employee in the six counties but do not include the Faulkner County employee's salary when calculating the mean.

Draw a horizontal line to depict the data for the employee.

The lower end of the line shows the lowest salary in the six counties.

The upper end of the line shows the highest salary in the six counties.

A tick marks the mean of the six counties along the line.

Another mark (an asterisk) denotes the salary of the Faulkner County employee.

The line graph shows the Faulkner County employee's salary relative to the other Class six counties.

An example:

```
|---------------------------|-------------|---------------------------------------------------------------------|
$32,000                     *             ^                                                              $43,500
```

• - Employee's salary = $35,000

^ - Average of other Class 6 counties = $37,000

Analysis of the line graph and tick marks:

> If the asterisk for the Faulkner County employee is below the mean of the other six counties, then an increase is in order.
>
> > The increase may equal the difference between the employee's salary and the mean.
> >
> > The increase may equal the difference between the employee's salary to somewhere between the mean and the maximum of the six counties.
> >
> > There are no definitive rules for selecting one of the alternatives listed above. The choice depends in part on equity among the other employees in the department and funds available.
>
> If the asterisk for the Faulkner County employee is above the mean of the other six counties, then an increase may or may not be in order.
>
> > Again, an increase depends in part on equity among the other employees in the department and funds available.

## E. SALARY RELATED EXPENSES

Increases in the number of personnel are associated with direct and indirect salary expenses.

The following table shows the line items and percentages associated with each dollar of salary and the dollar amount of different types of insurance policies available to County employees. The example was provided by Ms. Darter using a full-time employee's salary of $50,000 as an example.

| PERCENT and DOLLAR AMOUNTS ADDED TO SALARIES | | | |
|---|---|---|---|
| | | | |
| | Salaries, Full-time | Salaries, Part-time | Overtime |
| | | | |
| Social Security Matching | 7.65% | 7.65% | 7.65% |
| Retirement Matching | 15.32% | 15.32% | 15.32% |
| Health Insurance Matching | $7,551.00 | | |
| Workman's Compensation | 0.25% | | |
| Unemployment Compensation | 1% | | |
| Life Insurance | $102.00 | | |
| Dental / Vision | $360.24 | | |
| | | | |
| | EXAMPLE | | |
| | | | |
| Employee Salary | $ 50,000.00 | $ 50,000.00 | |
| Social Security Matching | x 7.65% | $ 3,825.00 | |
| Retirement Matching | x 15.32% | $ 7,660.00 | |
| Workmen's Comp | Long formula | $ 154.00 | |
| Unemployment | x 1% | $ 500.00 | |
| | | $ 62,139.00 | |
| | Health | $ 7,551.00 | |
| | Life | $ 102.00 | |
| | Dental/Vision | $ 360.24 | |
| | | $ 70,152.24 | |

The mandatory salary related expenses add 40% to the employee's base salary.

F. DEFERED EXPENSES

During the drafting of the budget (in mid-November), initial estimates of expenses usually exceed the available to appropriate.

To reconcile expenses and revenues, two actions are available. First, expenses can be reduced permanently. Second, expenses can be reduced temporarily. The second uses deferred expenses as the vehicle to achieve the equality of expenses and revenues.

During the preparation of the 2018 budget, Ms. Darter volunteered to reduce many of her office's expenses to $0.00 (See page 5 of the 2018 Budget). One of the items reduced was for utilities expenses. When this expense was discussed by the QC, it was explicitly stated that once the final carry-over amount was known in February 2019, an ordinance would add to the County Clerk's utility appropriation.

During the preparation of the 2019 budget, Ms. Thorn's budget for the coroner's office included $30,000 to replace a truck. Also, when Ms. Bellott submitted the 911 budget it included $38,000 for the expense of a hazard mitigation plan.

These two expenses were omitted in the 2019 Budget approved by the QC in December 2018. However, during the discussion of both expense items, it became clear that both could be temporarily omitted from the budget but not permanently. The new truck was to replace one that is at the end of its economic life. FEMA requires the hazard mitigation plan to be undated every five years for the County to remain eligible for grant funds.

These two items will be funded from unappropriated funds during the February or March 2019 QC meetings.

Deferring expenses is an accounting technique used to insure expenses equal revenues. The underlying assumption is that when the previous year's expenses become final, then carry-over will be enough to fund the deferred expenses. If the carry-over is insufficient to fund all the deferred expenses, then trouble arises.

## G. TIMELINE

| DATE | ACTIVITY |
|---|---|
| Mid-October | Judge's office sends a request to department heads to prepare a proposed next year's budget. |
| | Judge's office sends a request to the Treasurer to prepare a forecast of next year's revenues and carry-over. |
| Mid-November | Preliminary budgets and revenues are received. Reconciliation of proposed budgets and revenues begins. |

| | |
|---|---|
| November QC Meeting | Weekly Budget & Finance Committee meetings announced. |
| Mid-December | Final budget completed and distributed to QC members. |
| December QC Meeting | Next year's budget approved. |
| Next year's monthly Budget & Finance Committee Meetings | Considers transfers and new appropriations as proposed by department heads. |
| Monthly QC Meetings | Acts on recommendations by Budget & Finance Committee. |

# III. THE HISTORICAL PATTERN OF REVENUES FROM 2014 – 2019

## A. QUICK SUMMARY

Faulkner County is like a household or business in that it has limited funds available to spend.  The limitation is sometimes referred to as a ‘budget constraint.’

In addition to department heads submitting their proposed budget, the Treasurer prepares its estimate of next year’s unappropriated revenues.

State statutes require that counties approve a ‘balanced budget’ by 31 December.

The Judge’s office summarizes the proposed department budgets and the expected unappropriated revenues.

The Budget and Finance Committee conducts hearings to reconcile the department’s request with the Treasurer’s forecast of funds available to appropriated.

The reconciliation focuses on department budgets and County’s General Revenues.

Once reconciled, the proposed balanced budget is submitted to the QC for its consideration and approval.

## B. COUNTY’s GENERAL REVENUES

The top of page *i* in the 2019 Budget lists the source of the estimated County’s General Revenues by fund.

Estimated fund balance is the carry-over of funds not spent in the previous year by departments funded by County General excluding earmarked funds.

State aid is funds received from general revenue turnback, highway revenue turnback, severance taxes, and 13 other sources.

Property tax is the net property tax collected.

Fines, forfeitures and costs are revenues collected the courts.

Interest income is revenue from funds placed on deposit.

Officers fees are revenue collected by the Sherriff and the Courts.

Jail fees are reimbursement from the State for housing State prisoners and booking fees and related charges.

There are no franchise fees currently collected. This line item will be eliminated from future annual budgets until franchise fees are collected.

Treasurer’s and Collector’s and Assessor’s commissions are revenues charged by these departments against revenues received by other departments. All commissions are statutory.

Other revenues originate from various miscellaneous sources

Transfers In:

> Transfers from County Recorder’s cost fund is a one-time transfer from the Circuit Clerk
>
> Transfers from Circuit Court Automation

Transfers from Jail Juvenile Grant

Transfers to Capital Improvement Fund is negative and represents funds sequestered for future capital improvement.

Total Funds Available is the total of County "General Revenues" available for funding County operations.

The column headed "Recommended Fund reserve" is the amount mandated by State statutes (10%) plus an additional 2% approved by the QC to fund unanticipated or extraordinary expenses which may occur during the year. State statutes provide very limited use of the funds in the mandated 10% reserve.

Pages i – vii show the other earmarked funds.

Page ix summarizes the 2019 County appropriations by fund which total $43,737,817.08.

Page x summarizes the 2019 County appropriations by department which total $43,737,817.08.

There are two total amounts that attract the most attention.

The budget funded by County General Revenues - $13,227,849.77

The total budget funded from all sources - $43,737,817.08

The difference between these two totals is the $13m reflects the amount available to appropriate and the $43m includes the $13m plus the total of all other funds as shown on pages *i – v* in the 2019 Budget.

There is $147,132.07 remaining in County General available to appropriate. This amount may change during the year when the final carryover numbers are available in February.

The forecasted annual revenue is not updated during the year.

The forecasted annual revenue reflects very conservative estimates.  Conservative means low, but not so low that departments cannot conduct the public's business.  The Treasurer's and QC's greatest fear is expenses exceeding revenues prompting an unanticipated reduction in all department's budgets.

Note that the fear focuses on the budgeted revenues and expenses. The fear does not focus on 'running out of cash'.

## C.  THE DATA

The County's annual total budgets beginning in 2010 is shown in the following table.

| FAULKNER COUNTY's ANNUAL TOTAL BUDGETS | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| NOMINAL (CURRENT) $ | $29,511,039.71 | $29,991,850.49 | $32,817,913.67 | $34,206,174.76 | $36,051,343.07 | $37,980,443.31 | $47,793,288.09 | $45,035,304.48 | $40,438,439.25 | $43,737,817.08 |
| CPI | 218.076 | 224.923 | 229.586 | 232.952 | 236.707 | 236.993 | 240.006 | 245.139 | 251.108 | 254.736 |
| POPULATION | 2,921,737 | 2,938,640 | 2,949,208 | 2,956,780 | 2,964,800 | 2,973,626 | 2,988,231 | 3,004,279 | 3,015,077 | 3,025,875 |
| NOMINAL $ PER CAPITA | $10.10 | $10.21 | $11.13 | $11.57 | $12.16 | $12.77 | $15.99 | $14.99 | $13.41 | $14.45 |
| | | | | | | | | | | |
| REAL (DEFLATED) $ | $29,511,039.71 | $29,078,852.71 | $31,172,629.61 | $32,021,814.65 | $33,213,773.53 | $34,948,809.27 | $43,426,285.57 | $40,063,470.36 | $35,118,965.06 | $37,443,346.04 |

NOMINAL (CURRENT) $ - from the annual County budget books

CPI – the consumer price index from the Bureau of Labor Statistics

POPULATION – Annual population estimates from the Bureau of the Census

NOMINAL $ PER CAPITA – Nominal (Current) $ divided by population

REAL (DEFLATED) $ - Nominal $ divided by the ratio of current year CPI divided by the CPI in 2010. This deflates the annual nominal $ to the base of 2010 dollars. Example: The $43.7m in 2019 only purchases $37.4m expressed in 2010 dollars.

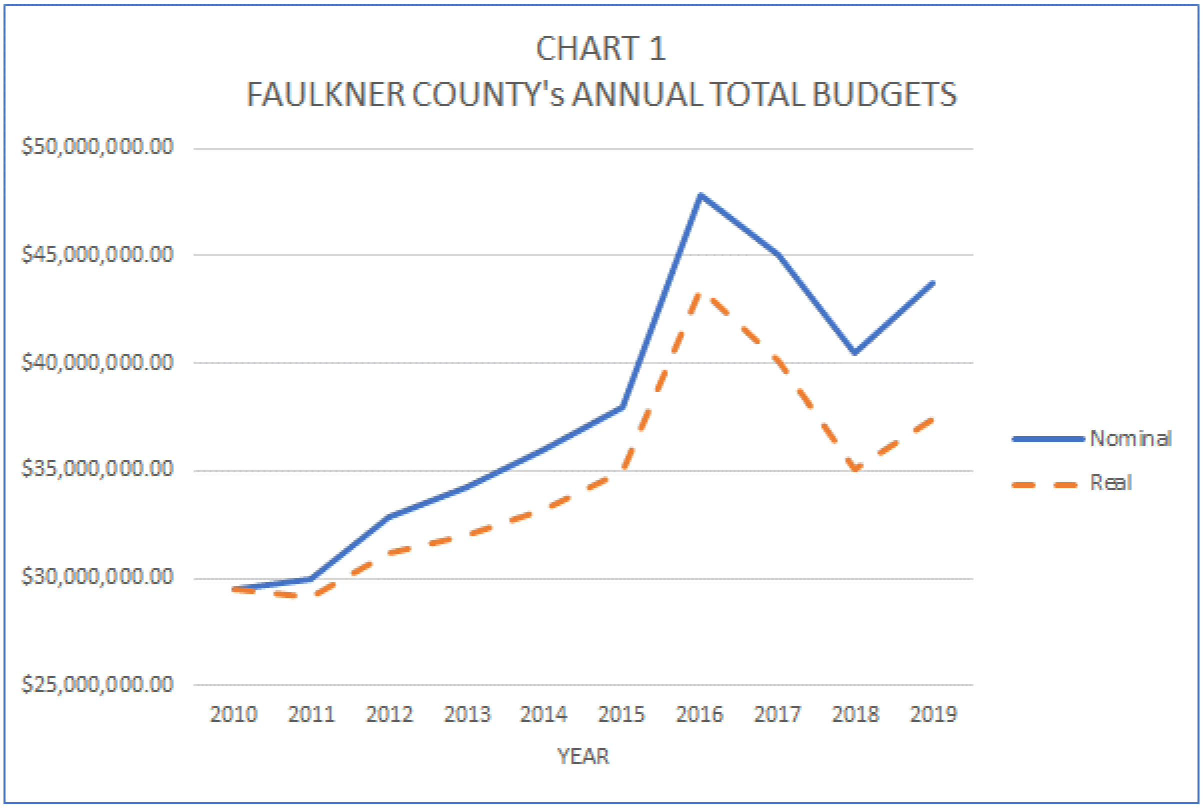



Chart 1 is a picture of Faulkner County's annual budget in nominal (current $) and real $ for the last 10 years. Both lines reveal a strong upward trend. The budget in 2016 became 'out-of-control' which was followed by the QC gaining control in 2017 - 2019. The budget in 2019 is returning to the trendline. The term 'out-of-control' refers to an increase in expenses exceeding a sustainable increase in revenues.

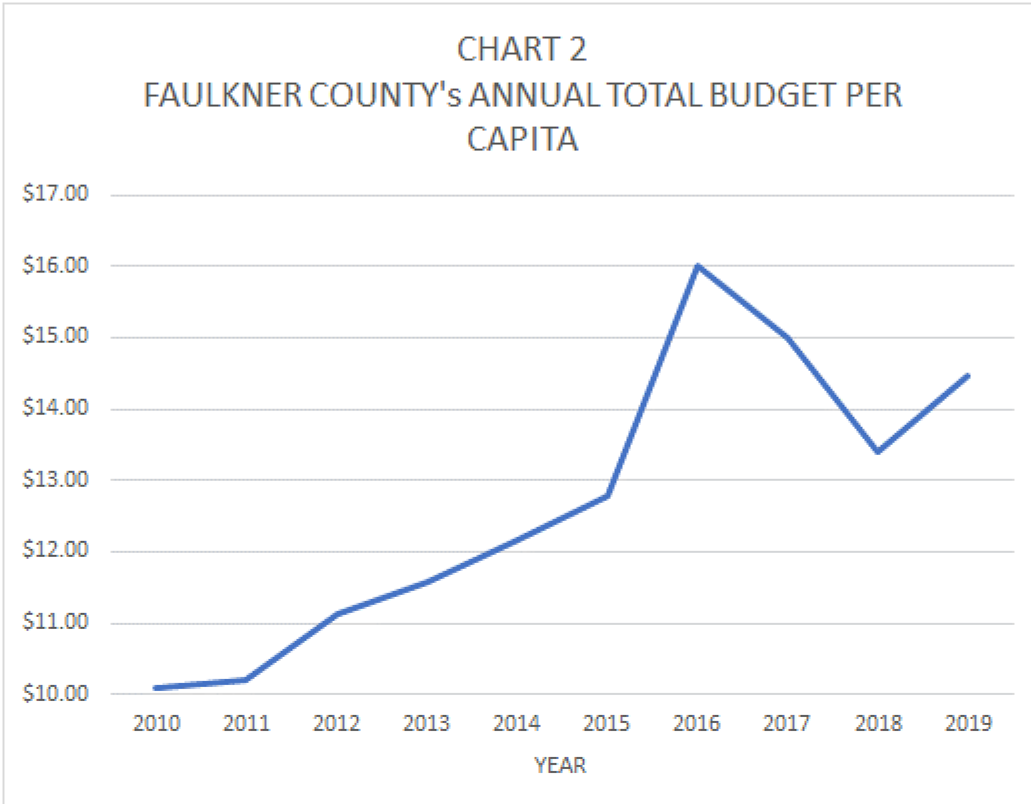



Chart 2 shows the County's total budget expressed as per capita. Its shape follows the same pattern as Chart 1. Comments regarding Chart 2 are the same as Chart 1.

The following table shows the sources of the ‘County General’ revenue 2014 – 2019. The years 2010 – 2013 are omitted because the County installed a new State mandated accounting system effective in 2014. The new system moved from a three-digit to a four-digit account coding scheme.

SOURCES OF FAULKNER COUNTY GENERAL REVENUE

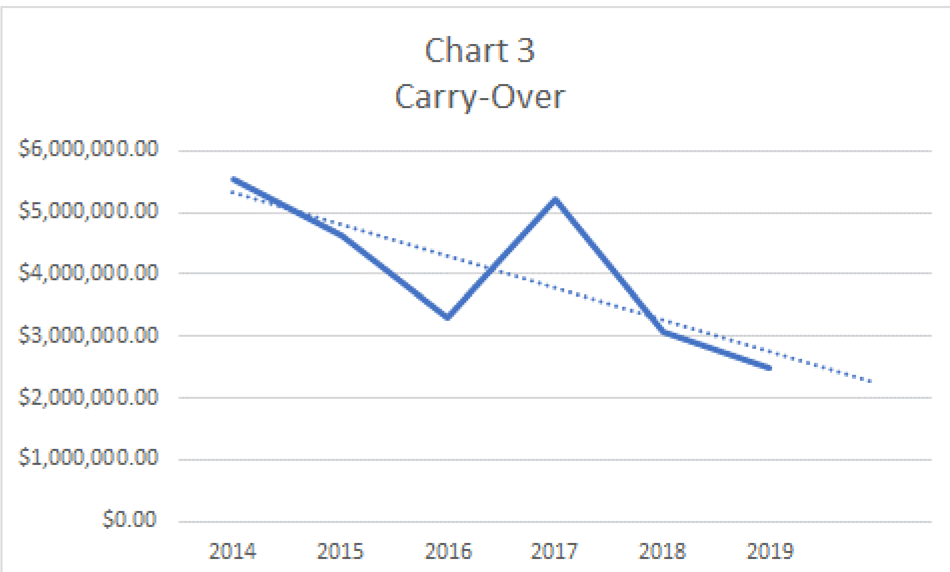
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Percentage of 2019 | Percentage of Total 2014 - 2019 |
|---|---|---|---|---|---|---|---|---|
| Carry-Over | $5,550,000.00 | $4,630,000.00 | $3,286,195.42 | $5,214,040.05 | $3,079,462.74 | $2,486,893.00 | 16.36% | 24.20% |
| State Aid | 1,436,396.00 | 1,469,460.00 | 1,114,500.00 | 1,125,000.00 | 1,225,000.00 | 1,210,000.00 | 7.96 | 7.57 |
| Property Taxes | 6,349,500.00 | 6,765,505.00 | 7,219,550.00 | 7,445,500.00 | 7,620,000.00 | 8,045,750.00 | 52.94 | 43.37 |
| Fines, Forfeitures and Costs | 685,235.00 | 705,235.00 | 738,000.00 | 608,000.00 | 692,000.00 | 774,000.00 | 5.09 | 4.19 |
| Interest Income | 16,600.00 | 16,000.00 | 18,000.00 | 18,000.00 | 18,000.00 | 45,000.00 | 0.30 | 0.13 |
| Officers Fees | 173,750.00 | 173,550.00 | 195,000.00 | 223,800.00 | 221,000.00 | 221,500.00 | 1.46 | 1.21 |
| Jail Fees | 245,000.00 | 500,000.00 | 685,000.00 | 885,000.00 | 813,000.00 | 737,500.00 | 4.85 | 3.86 |
| Franchise Fees | 16,500.00 | 14,000.00 | 4,000.00 | | | | | |
| Treasurer's Commission | 260,000.00 | 290,000.00 | 270,000.00 | 295,000.00 | 280,000.00 | 265,000.00 | 1.74 | 1.66 |
| Collector's Commission | 385,000.00 | 440,000.00 | 425,000.00 | 460,000.00 | 458,800.00 | 458,000.00 | 3.01 | 2.62 |
| Assessor's Salary and Expense | 955,000.00 | 1,063,500.00 | 2,090,000.00 | 1,000,000.00 | 1,232,300.00 | 1,250,000.00 | 8.22 | 7.58 |
| Other | 425,800.00 | 435,720.00 | 373,200.00 | 398,000.00 | 368,500.00 | 419,500.00 | 2.76 | 2.42 |
| Transfers In* | 402,178.00 | 285,000.00 | 165,000.00 | 15,000.00 | 15,000.00 | 285,700.00 | 1.88 | 1.17 |
| Other Financing Sources | 2,000,000.00 | | | | | | | |
| Less Capital Improvement Fund | | | | | -1,000,000.00 | -1,000,000.00 | -6.58 | |
| | | | | | | | | |
| Total | $18,900,959.00 | $16,787,970.00 | $16,583,445.42 | $17,687,340.05 | $15,023,062.74 | $15,198,843.00 | | |
| | | | | | | | | |
| Total Revenues 2014 - 2019 | $100,181,620.21 | | | | | | | |

* Transfers In is the sum of miscellaneous sources of revenue which varies by year

The interesting statistics are the last two columns showing percentages. If the sum of the six years’ budgets for each revenue source is calculated (not shown in the table) and divided by the total county general budgets for all years ($100,181,620.21), then the average percentages for each source is shown in the last column. During the last six years, the primary source of county general revenue is from property taxes followed by carry-over. There is a tie for third place between state aid and assessor’s salary and expense. Eighty-three percent of county general revenues are from these four sources. The remaining 17% is sprinkled among the other sources.

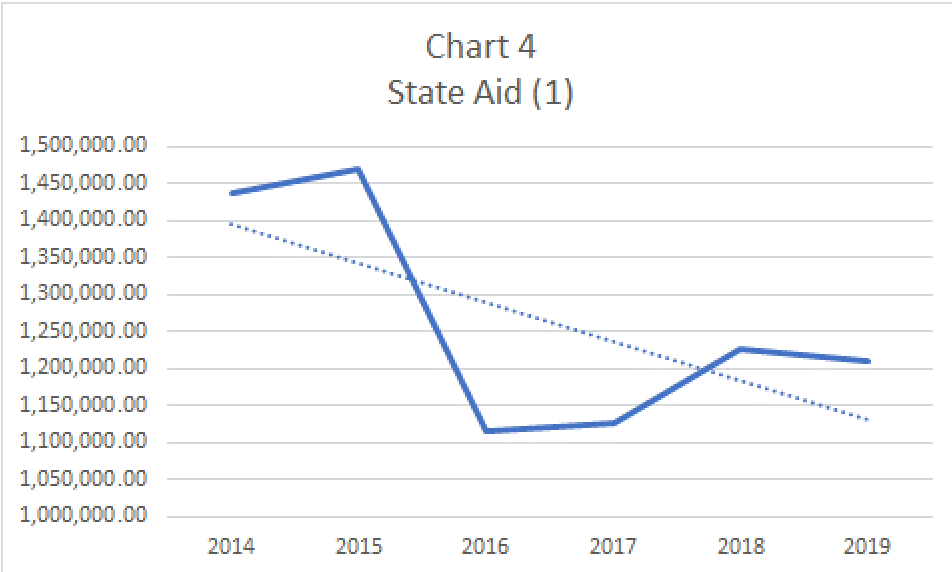
The next to last column shows the percentage from each source in the 2019. The top four sources have declined from 83% to 78%. The big change is noted in the decline in carry-over from 24.2% to 16.36% and the relative increase in the percent of property tax from 43.37% to 52.94%. Near 70% of county general revenue originates from carry-over and property taxes.

The pattern of annual revenue received from carry-over is shown in Chart 3.

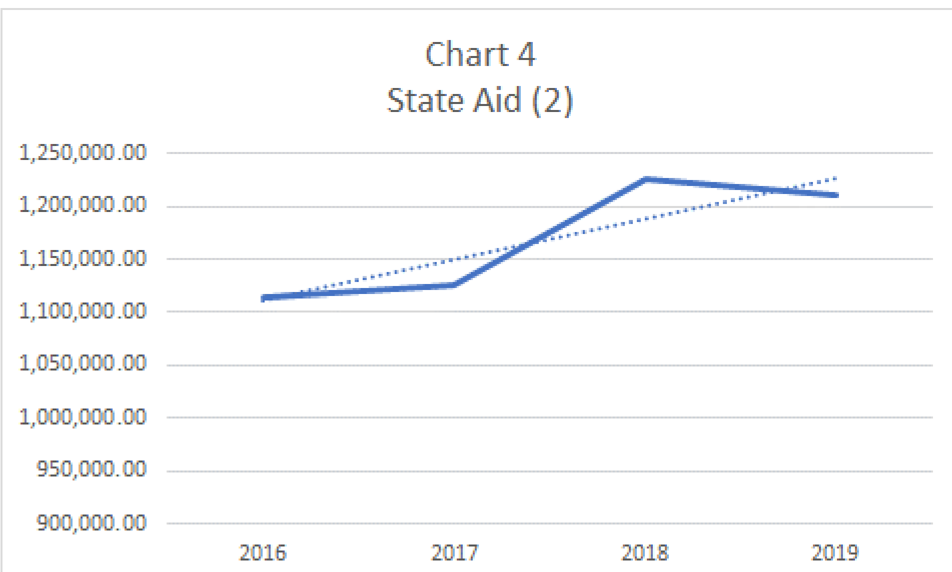



The dotted line is superimposed on the data and shows the simple linear trend during the six years.

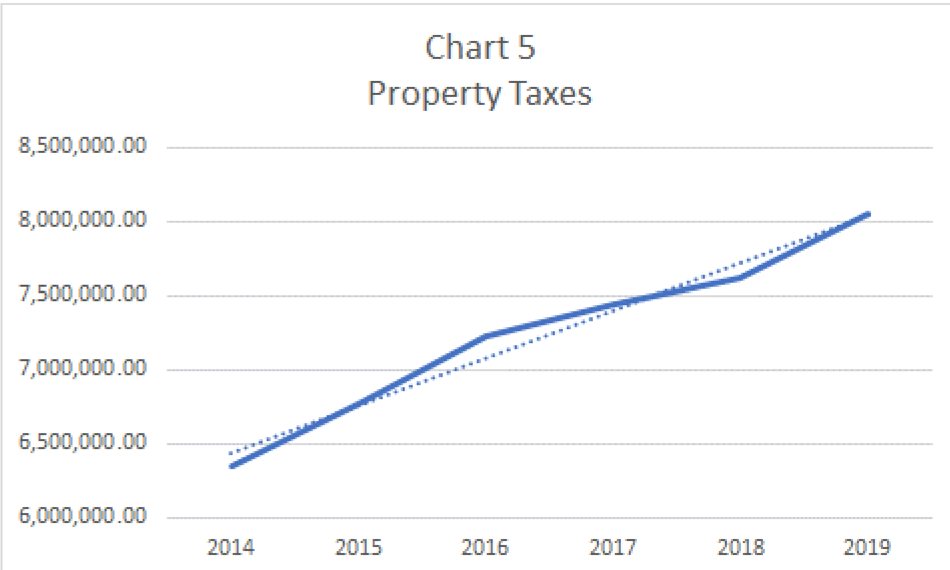
The pattern of state aid is shown in Chart 4.




State aid declined significantly during 2015 resulting from a decline in severance tax receipts. State aid stabilizes beginning in 2016. Chart 4 – State Aid (2) shows only the data from 2016 – 2019 and exhibits much less year-to-year variation. The trend line is slightly upward sloping in contrast to the declining trend when 2014 and 2015 is included.



Property taxes are the County's principle source of revenue. Chart 5 reveals a smooth (less up-and down) in the annual collections.




Property tax collections reflect the combined effect of assessment, new construction, demolition, tax rate, tax payments and demographics. The net effect of all the factors affecting property tax collections shows a distinct upward trend with little variation.

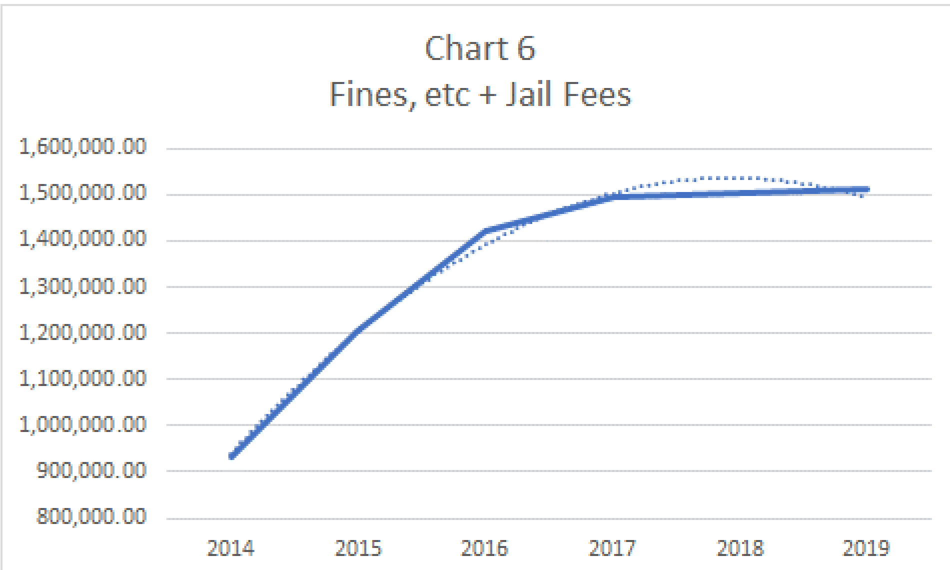
Our assessor's office makes a concerted and successful effort to assess property in Faulkner County. State statutes require reassessment at least every three years. Our Assessor diligently updates the value of real and personal property to the current market price. The assessed value for property taxes equals 20 percent of the market value.

State statutes limit the property tax rate the QC can levy to a maximum of five mills. A mill equals $.001 or 1/1000 of a dollar. Using the estimate net property tax collections in 2019 of

$8,045,750 and the County’s current levy of 4.5 mills, results in $1,787,944 collected per mill levied.

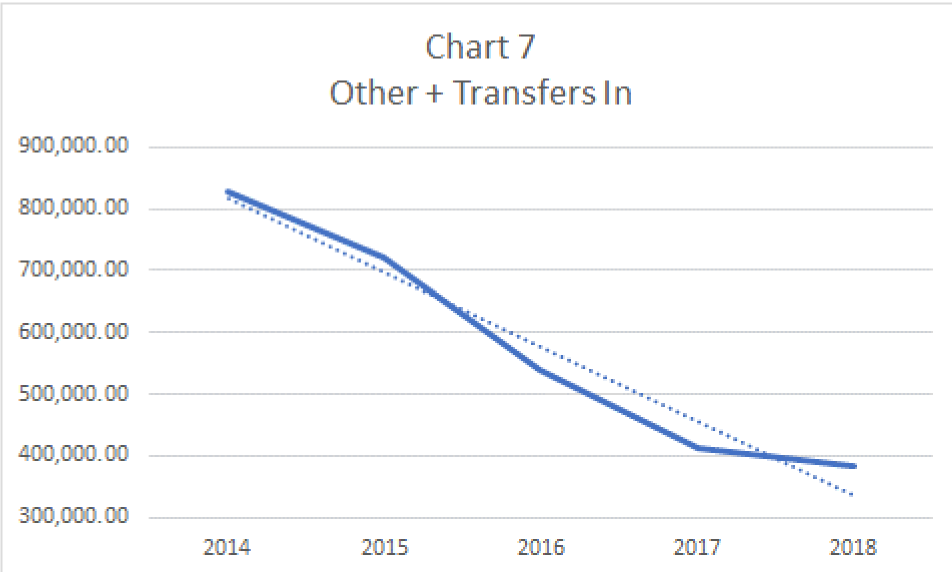
The average net property tax collections increase $322,020 annually in the County.

Chart 6 adds the revenue sources from Fines, Forfeitures & Costs and Jail Fees together into one data series.




The plot of the sum of these two sources is curvy.  The trend line reflects the curvature. In 2019 revenues appear to flatten or begin declining slightly.

Chart 7 plots the sum of Other and Transfers In from 2014 to only 2018. It reveals a nice smooth (little up-and-down variation) graph shown by the trend line.



However, examine Chart 8 which adds 2019 to the graph. So, why the upward spike in 2019? This series includes Transfers In, and Ms. Taylor transferred $250,000 from her County Recorder's Cost Fund to County General. Without this transfer, the four percent across the board salary increase would not have be achieved. This transfer (along with all department heads shaving the below the line expenses to the bone) saved the day for the salary increase in our 2019 budget. But …and getting a little ahead … absent a transfer from this or another source, the 2020 budget will be difficult.

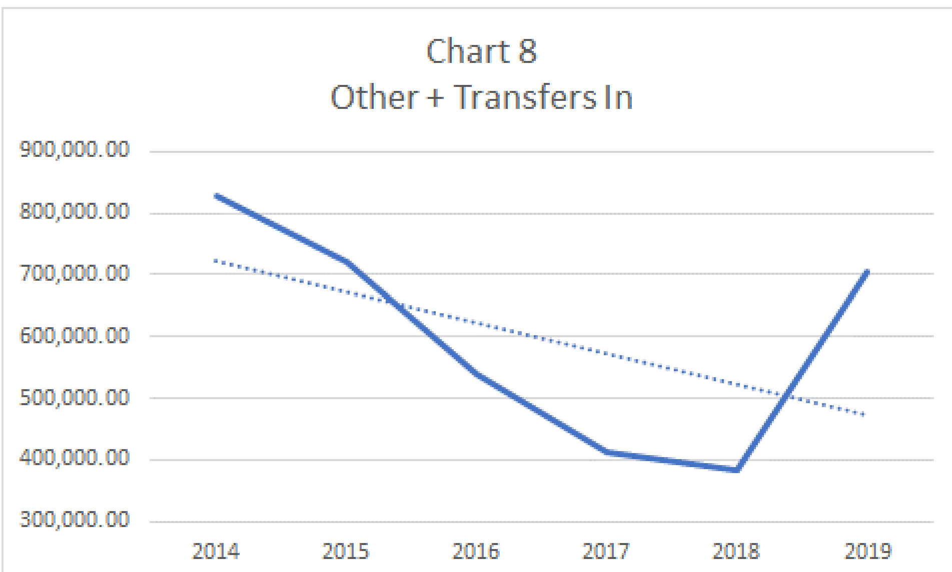
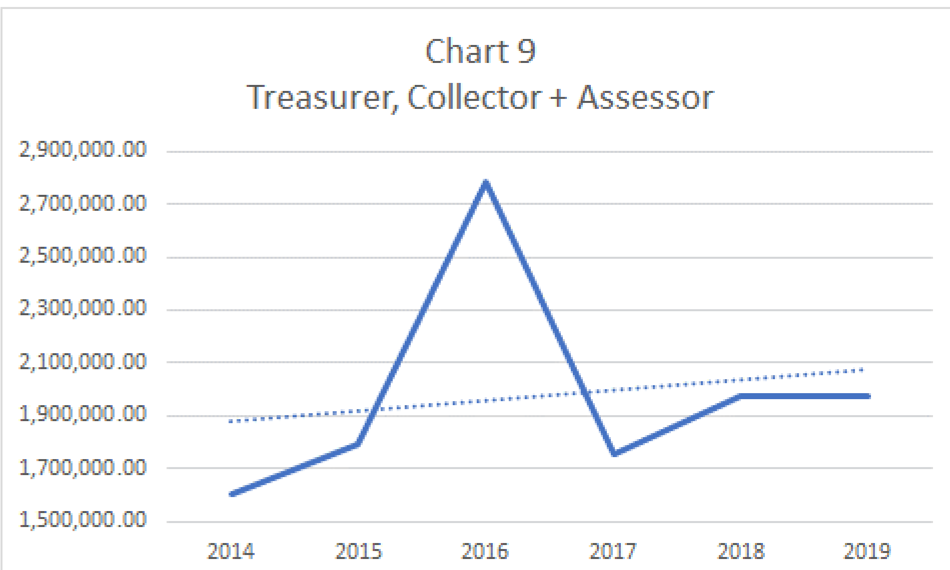


Chart 9 adds the Treasurer's Commission, Collector's Commission and Assessor's Salary and Expense together into one data series. The trendline passes through the mid-points. The large increase in 2016 added nearly $1m to the county general revenues. The large jump is a one-time addition and did not continue in subsequent years. This, and other one-time increases and decreases, results in significant consternation when drafting the next year's budget. There is great pressure to increase spending resulting from a one-time increase this year knowing that the change may not repeat itself in the following year.



A summary of the 2019 sources of revenue is shown in the following table.

| SUMMARY OF THE SOURCES OF REVENUE FOR 2019 | |
|---|---|
| | PERCENT |
| Property Taxes | 52.94 |
| Carry-Over | 16.23 |
| Treasurer, Collector & Assessor | 14.71 |
| Fines, Forfeitures and Costs + Jail Fees | 9.94 |
| State Aid | 7.96 |
| All Other | 4.8 |
| Capital Improvement* | -6.58 |
| | |
| * Capital Improvement entered as negative reflecting | |
| a reduction in funds available | |

## D. COMMENTS ON SOME OF THE EXPECTED 2020 REVENUE SOURCES

One source of County General revenue can be forecasted accurately – Net Property Tax – see Chart 6 above. The forecasting accuracy reflects the little year-to-year fluctuations around the trend line. A simple linear extension of the trend line results in an accurate future value.

All the other sources of the County's revenue exhibit significant fluctuations around the trend line. These fluctuations result in statistical estimates of next year's expected revenue having errors when the errors are measured by the forecast minus the actual values.

So what techniques are used to avoid errors when budgeting? There are two.

First, if a revenue source exhibits a large increase or decrease, then the analyst looks to the accounting records to pinpoint the source of the fluctuation. Once identified, the analyst asks, 'will the source repeat itself in the future?' If the answer is either 'yes' or 'no', then the forecast is adjusted accordingly. In the accounting world, this type of adjustment is known as 'adjusting for known changes.'

Second, the analyst forecasts conservatively, that is, low. Not low-balled where the intent is to fog or mislead. Just low so that the consequences of high forecasts are not disruptive when managing the budget in the coming months.

Since all forecasts have errors, how does the Treasurer and QC manage the errors? All forecasting errors, whether positive or negative, flow through to the next year’s revenue forecast in the Carry-Over account.  If the actual expenditures are less than the budgeted amount, then the carry-over balance is high and visa-versa.

In addition to the forecasting errors, there is another source of fluctuations in the carry-over account. In the preparation of the budgets in the past years, revenues have not exhibited any significant increase. The consequence is that departments have had to reduce their below-the-line expenses.  This reduction in below the line expenses has been significant when the 2019 budget was prepared. Consequently, departments have transferred actual expenses among the budgeted accounts so that the amounts budgeted in the four categories and in total do not exceed the budgeted amounts.

The final effect of department’s day-to-day management of their actual expenses against their budgeted amounts is to reduce the unspent balances at the end of the year.  Hence, carry-over into the next year is less.

Chart 3 above shows the marked decline in carry-over funds. Expect the decline to continue.

Sales tax collections are not a source of ‘County General’ revenues, because these revenues are earmarked for roads and criminal justice. Sales tax revenue is split 50 – 50 between roads and criminal justice.  Sales tax collections began in May 2000.

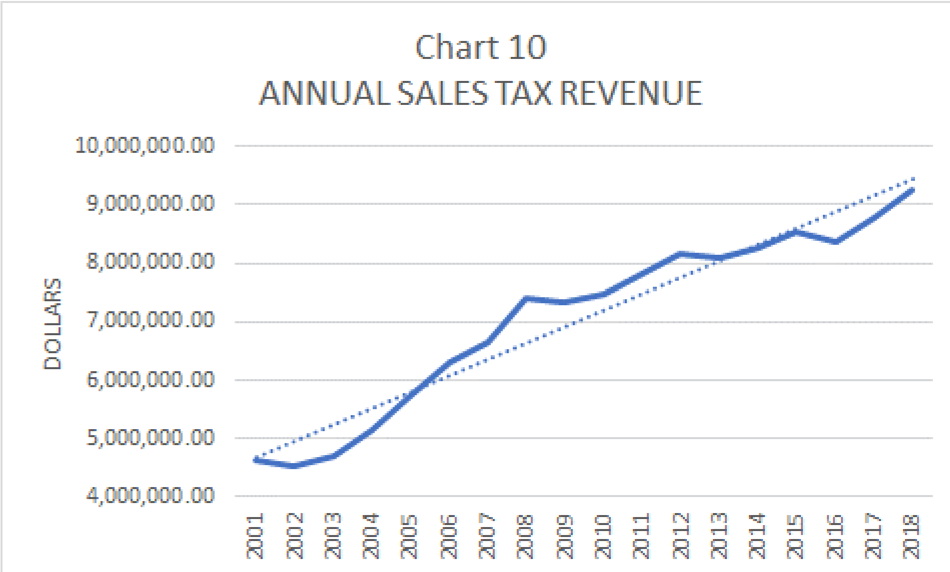



Chart 10 shows sales tax collections exhibits some but not a significant year-to-year variation. The variations around the trend reflect changes in the taxable retail sales in the County, which follow the pattern of retail sales in the U.S.

Sales tax collections dipped in 2016 but began to return to the trend line in 2017.

The County-wide tax rate is $.005 per dollar of taxable sales.

The trend line from 2001 through 2018 results in the County's sales tax collections increasing by an average of $280,036 each year.

# IV. SUMMARY

## “LET THE NUMBERS TELL THEIR STORY”

During the past five years, the net increase in Faulkner County’s revenues show a modest annual increase, and this is expected to continue in the foreseeable future.

Given that the net effect of all the factors affecting the County’s General Revenues results in only a modest annual increase, the remaining unappropriated funds will be available to fund the expenses deferred to 2019.

However, the balance remaining in unappropriated funds will fund a small increase in some expenses but will be insufficient to fund significant increases in either above or below the line expenditures in 2019, especially increases that continue in 2020.