

# Understanding The College Park City Budget

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## **Author's Note**

This is a living document intended to help my ex-constituents understand the proposed 2025 City Budget, and to follow Mayor and Council's (M&C's) deliberation in the upcoming Budget Work Sessions, if they so choose to attend them (as of this date I know of no plan to stream the deliberations). Hopefully this document also will enable my ex-constituents to ask intelligent questions during the public hearings that follow the Work Sessions, and that precede Budget Approval. I will be updating this document on my website over the next several weeks as needed.

## **Background**

College Park is a small city having, with recent housing developments, probably only around 15,000+ residents, and only about 11 square miles in area. Yet it has a large and complex budget, with 22 different funds to account for its various financial transactions. These range from: the General Fund, which deals with typical city governance and services (e.g. legislating, administrating, providing public works, safety, recreation); to the Power Fund, which includes purchasing and distribution of electricity from our multi-city-owned cooperative (MEAG); to the GICC, Arena, & Golf Course Funds, which operate as city-owned enterprises to support our local tourist business; to various funds that enable separate

accounting for: the city-owned FAA Office Building, federal grants received, special city taxes (e.g. Municipal Option Sales Tax - MOST); Etc.

Understanding our City Budget may seem like a daunting task. When I was first overwhelmed by it 16 years ago, I applied my MBA and my business-oriented financial experience to understanding governmental budgeting. For those who would like to do the same (perhaps to a lesser depth) **hopefully this tutorial will facilitate your understanding.** In addition to a Budget Work Session Schedule and PDFs of the Budget itself, the City website contains on its ["Budget Meetings"](#) page a link to a viewable/downloadable **"FY2024-2025 Recommended Budget Presentation.pdf"**. I will reference this Budget Overview in this tutorial. Also worth reading on that webpage is the PDF of the Interim City Manager's **"Budget Transmittal Letter" to M&C**, dated 4/18/2024.

## **Revenue and Expenses**

While assets and liabilities (e.g., buildings/equipment and bond debt) are a very important financial view of the City, it is a more static view. I expect most of the time/focus of the budget discussions in the upcoming meetings will be on the upcoming fiscal year 2025's (7/1/2024 - 6/30/2025) estimated anticipated revenue and expenses. **Accounting rules require that they be budgeted as equal.**

If at the end of the fiscal year, actual revenue turns out to be higher than actual expenses, our Fund Balance ("savings account in the bank") will get bigger, as the overage effectively will be added to the list of the year's

expenses as a transfer to the Fund Balance (deposit to our "savings account"). If the reverse is true, the deficit will be subtracted from the Fund Balance (withdrawal from our "savings account") as a transfer into the list of the year's revenue items, and the Fund Balance will get smaller. During the year, there are periodic adjustments (amendments) to the budget to account for various good and bad surprises. If the surprises are good we may decide that we can add expense items (e.g., give a bigger Holiday bonus to employees). If bad, we may decide to delay some expense items (e.g, buying new office furniture). If we have had several bad years (like during COVID), we may decide that the fund balance is getting too low to provide a safety cushion against more bad news. We then may decide that we have to build up our fund balance by raising property taxes (like I successfully urged M&C to do for 2022 property taxes), and reduce some expenses, so actual yearly revenue will exceed actual yearly expenses. Once things improve we then can return to the lower tax rate (like I successfully urged M&C to do for 2023 property taxes), and increase expenses.

Department Heads are responsible for submitting, and later managing (as approved by M&C), their portion of the overall budget. Experienced managers will want to build some contingency in their budget for the unexpected by estimating a little high on expenses, or a little low on revenue (Note that some Department Heads do not have any significant assigned revenue sources.). If the contingency is not specifically identified in the budget, it is up to the City Manager and M&C, during their respective budget reviews, to find it. And if necessary, to adjust it (down or up) to an appropriate

level (Yes, I have actually identified unrealistically low expense estimates and suggested they be increased.).

### **Inter-fund Transfers**

We have seen how the **total budget's Revenue and Expense are kept equal**. A similar, but slightly different, process is applied to make them equal in each of the 22 accounting funds. For example, the General Fund has **seven revenue categories** that are dedicated to it (**See "General Fund revenues by sources"- Page 12 in the "FY2024-2025 Recommended Budget Presentation.pdf".**) from Ad Valorem (property) taxes to Interest Income. But to match the estimated \$45,649,378 of anticipated fiscal 2025 General Fund expenses, roughly \$10M more of revenue has to be transferred-in (**8th revenue category**) from other funds to supplement the revenue sources (Property taxes, Licenses and Permits, etc.) that are inherently assigned to the General Fund.

It should also be noted **that the \$17M in Ad Valorem taxes only covers 37.2 percent of General Fund Expenses. So if ~\$10M were not available from other funds to subsidize the General Fund, property taxes would increase dramatically, or expenses for the services/functions (e.g., Public Safety) provided by the General Fund would have to be significantly reduced.** In other words, a portion of excess revenue from other funds (Power, Hospitality, FAA, Car Rental, and Storm Water) is keeping property taxes lower, and services better. This explains why the City was hit so hard when COVID particularly impacted Hospitality and Rental Car revenue. **Note that inter-fund transfers get counted as an expense (transfer-**

**out) in one fund, and as revenue (transfer-in) in the other fund.** Since, revenues and expenses must be equal within each fund, the total amount that flows between funds appears doubled in the overall budget summation. In the 2025 Budget, nearly \$25M in inter-fund transfers is counted twice. **I.e., total City Budget revenue, or total City Budget expenses, which must be equal, is nearly \$25M less than it appears, due to inter-fund transfers.**

### **Restricted-Use Money vs Fungible Money**

Some of our revenue is restricted as to its use and can't be transferred to another fund. Grant money given for a specific purpose may be restricted from being transferred to another of the 22 Funds that serves a different purpose, or even restricted from being used for a different purpose within the same fund. However, a restricted grant to a fund that receives other revenue may allow more of that other revenue to be spent on items for which the grant was not intended, or even transferred to another fund, i.e. this money is fungible.

Some transfers are treated as inter-fund loans, that are intended to be paid back. Our Auditors expect there to be a plan for repayment over time. E.g., loans from the Power Fund (currently a money-maker for the City) have been an "audit finding" because of a lack of a plan for timely repayment, resulting in pressure from the auditors to write-off the loans.