BUDGETS vs AUDITS — STRUCTURAL COMPARATIVE STUDY

City of Harrah, Oklahoma (Core Period: FY2015–FY2024)

I. Overview: Why Comparing Budgets and Audits Matters

Budgets tell you:

- What leadership *expected* to happen
- How they saw risk and opportunity
- What they believed they could afford

Audits tell you:

- What *actually* happened
- Where estimates were off
- How structural weaknesses behaved over time

For Harrah, comparing the two paints a very clear picture:

> **General Fund budgets tended to be conservative early and optimistic later, while HPWA budgets never confronted structural insolvency. Audits repeatedly revealed deeper utility deficits, rising debt service pressure, and a growing gap between planning capacity and operational reality.**

II. Sales & Use Tax — The Forecasting Culture

A. Early Years (FY15–FY19): Reasonably Conservative

Example: FY19

- **Budget:** GF sales tax $2.655M
- **Audit:** Government-wide sales/use tax ≈ $2.545M (MD&A, FY2019)

Difference is small; projections were slightly optimistic but not extreme.

B. Pandemic Surge (FY20–FY23): Budgets Chase the Boom

FY22 Budget (for FY21–22):

- **GF sales tax budget:** $3.796M
- **Audit FY22 (MD&A):** sales + use ≈ $3.90M (actual beat the budget)

FY23 Budget (FY22–23):

- **GF sales tax budget:** $4.312M
- **Audit FY23:** sales + use ≈ $4.18M (slightly below the budget projection)

C. FY24: Where Budget and Audit Diverge in *Trajectory*

FY24 Budget (FY23–24):

- **GF sales tax: $4.827M** — implies ~12% growth over prior-year budget

FY24 SA&I + Audit:

- **Taxes reported:** $4.671,924 (SA&I Form 2643) — actual growth of only ~1–2% over FY23

What this shows:

- Budgets **assumed the pandemic-era growth wave would continue**, while the audit reveals it plateaued.
- On the surface the absolute difference is only ~3%, but in terms of *trend*, the budget assumes a strong continuation of growth; the audit shows flattening.
- This misread trajectory became dangerous because **HPWA debt and operating costs were simultaneously exploding**.

III. General Fund — Surplus Culture vs Structural Blind Spots

A. Pattern: Underestimated Revenue + Overestimated Expenditures

Across FY15–FY21, audits reveal:

- Revenues typically beat budget.
- Expenditures usually came in under budget.

Result:

- **General Fund surpluses were common**, helping build cash balances without an explicit reserve policy.

B. FY22–FY24: Surpluses Turn into Large Fund Balances

Example FY21:

- **GF budgeted revenues:** $4.20M; GF expenditures ~$4.20M
- **Audit:** GF actually ran a surplus with ending fund balance ~$3.0M

Example FY24:

- **GF FY24 budget:** $8.36M resources; $8.36M appropriations
- **Audit FY24:** ending governmental fund balance **$5.66M**, up from $4.69M FY23

What this shows:

- The budgeting culture for GF remained **surplus-oriented**, usually preferring not to forecast aggressive use of fund balance.
- However, **no parallel long-term plan** existed for how to deploy these growing balances to address structural problems (HPWA solvency, admin modernization, capital replacement).
- The strong GF performance in the audits masked dangerous trends in the utility and debt arenas.

IV. HPWA — Budgets Hide Insolvency, Audits Expose It

A. Budget View: HPWA Always Balanced

In every budget (FY15–FY24), the HPWA summary shows:

- **Total Resources = Total Appropriations**
- Resources comprise:
    - Charges for services (water, sewer, trash)
    - Large “misc revenue” categories
    - Sales tax transfers
    - Beginning cash balances

From the budget point of view, HPWA is **always balanced**.

B. Audit View: Chronic Operating Losses

Audits show a very different picture:

- **2011–2019:** every year has an operating loss when interest and non-operating items are included.
- **2020:** operating loss –$206,930; net loss without transfers.
- **2022:** operating income –$16,188; net loss –$418,186 after interest.
- **2023:** operating income –$47,009; still negative after non-operating.
- **2024:** operating income –$134,435; net loss –$487,319 before transfers and capital contributions.

HPWA only ever shows a positive change in net position **because** of:

- Sales tax transfers from the City
- Capital contributions (developer infrastructure, grants)

C. Budget vs Audit: Example FY24

FY24 HPWA Budget:

- Charges for services: $2.082M
- Misc revenue: $987k
- Sales tax: $550k
- Beginning cash: $2.145M
- Appropriations: $1.02M personnel, $2.20M M&O, $1.77M capital.

FY24 Audit:

- Operating revenue: $3.102M
- Operating expense: $3.237M → op loss –$134k
- Non-operating expense: –$353k
- Transfers in + contributions: ~$1.14M → final NP increase +$506k.

What this shows:

- **Budgets normalize HPWA deficits by burying them in "beginning cash" and "misc revenue."**
- Audits reveal that, on an operational basis, HPWA is structurally insolvent.

Budgets thus *understate risk* and create a false sense of stability.

V. Capital & Debt — Where Budgets Under-Communicate Exposure

A. In Budgets: Capital Looks Like a List of Projects

- CIP budgets list dozens of capital items (streets, lift stations, water lines, police cars, etc.) with no explicit connection to long-term debt load.
- HPWA capital lines show "OWRB SRF projects" as capital outlay but do **not** show the full future debt service burden.

B. In Audits: Debt Becomes the Dominant Story

- **HPWA debt grows from ~$4M in 2017 → $23.56M by FY2024.**
- Total citywide long-term debt reaches **$24.245M** in FY24.
- Debt service coverage (DSCR) on pledged sales tax falls from **4.40× (2021) → 1.84× (2024)**.

C. Budget vs Audit: Example FY21–FY22 CIP

FY21 Budget CIP:

- Resources: $5.326M
- Reimb/Construction Cost: $3.61M — early SRF draws.

FY21–22 Audit:

- Confirms new **$9.96M OWRB loan (2020)** and rising construction-in-progress.

Pattern:
Budgets show **cash-in, cash-out** for projects; audits show **30-year debt obligations** the city will carry as a result.

This hides long-term risk from residents (and sometimes council) who only see the budget.

VI. Personnel & Pension — Budgets Track the Climb, Audits Confirm the Weight

A. Budgets Show Rising Personnel

GF Personnel by budget:

- ~$1.4M in FY15 → **$5.05M in FY25**, then $4.16M in FY26.

HPWA Personnel:

- ~$860k range in FY15–FY18 → **$2.17M in FY26**.

B. Audits Show the Pension Layer on Top

- Combined Net Pension Liability reaches **$2.55M** by FY24.
- Pension expense is a major component of public safety and HPWA personnel costs.

C. Where Budgets vs Audits Diverge

- Budgets capture **salary and benefit costs**, but do not clearly communicate:
    - Future pension contribution escalators
    - Volatility from actuarial changes (e.g., FY23 spike)
- Audits quantify those obligations, showing they will pressure future budgets even if headcount is frozen.

VII. Fund Balance & Liquidity — Budgets Close the Loop, Audits Reveal Use

A. Budgets Often Treat Beginning Cash as a Plug

Full GF budgets show:

- “Cash Balance June 30” as a line item to balance revenue and appropriations.

This obscures whether fund balance is being:

- Strategically used,
- Accidentally accumulated, or
- Temporarily inflated.

B. Audits Show the Real Movement

- FY24 audit: GF unassigned fund balance = **$4.337M**, covering 92% of expenditures.
- This is far higher than budget would imply if one only looked at “use of fund balance” lines.

Result:

- Budgets *look* constrained but audits show a city with very high liquidity.
- That liquidity has not been systemically used to address HPWA solvency, internal control modernization, or strategic capital reserves.

VIII. Governance & Forecasting Culture — What All This Means

Pulling the comparisons together, we can say:

1. General Fund budgeting is cautious early, optimistic later.

- Early years: underestimates revenue; overestimates costs → surpluses.
- Later years (FY23–FY26): assume strong ongoing sales tax growth despite evidence of plateau.

2. HPWA budgeting is consistently non-transparent about insolvency.

- Budgets show balance via cash and “misc revenue.”
- Audits show structural deficits every year.

3. Capital budgeting focuses on project lists, not long-term obligations.

- Residents see project names and dollar amounts.
- Only audits reveal the 30-year debt tied to them.

4. Personnel growth is visible in budgets, but pension implications are only visible in audits.

- Budgets = headcount and salary.
- Audits = pension liabilities and expense volatility.

5. Overall forecasting culture is short-horizon and fund-centred, not enterprise- or risk-centred.

Budget documents:

- Satisfy statutory requirements.
- Present nominal balance.
- Do not fully communicate risk.

Audits:

- Reveal long-term structural stress in HPWA, debt, and pensions.
- Provide data for DSCR, solvency, and risk modeling — which the budget never incorporates in a visible way.

IX. Executive Recommendations (Framed from the Comparison)

To move Harrah from **"balanced budgets"** to **true long-term stability**, the next City Manager should:

1. Integrate Budgeting with Long-Range Financial Planning

- Tie annual budgets to a 5–10 year forecast that includes:
    - HPWA debt service
    - DSCR targets
    - CIP lifecycle costs
    - Pension contribution projections

2. Replace HPWA "cash + misc + sales tax" budgeting with a true cost-of-service model

- Build rates around:
    - O&M + depreciation + debt + reserve
- Explicitly show in the HPWA budget what the rate base is funding vs what tax subsidies cover.

3. Align Budget Assumptions with Audit Trajectories

- Use recent audit trends for:
    - Sales tax forecasting
    - HPWA operating costs
    - Pension multipliers
- Avoid assuming FY22–FY23 growth will repeat endlessly.

4. Use Fund Balance Strategically

- Create formal policies for:
    - Minimum GF reserves
    - Capital replacement reserves
    - HPWA stabilization reserves

5. Improve Budget Communication

- Produce a “Budget + Audit Crosswalk” each year that:
    - Shows last year’s budget vs actual (audit)
    - Explains variance drivers
    - Builds trust with council and residents

X. Why This Comparative Study Strengthens Your Position

Because you now demonstrate:

- **You’ve gone beyond reading audits** — you’ve compared them to the City’s own budgets, showing how Harrah’s internal expectations misaligned with reality.

- **You understand not just what went wrong, but why it kept repeating**, and how budgeting practices contributed to that cycle.

- **You can speak in interviews and in your doctoral work with precision and credibility** about Harrah's:

    - Revenue projections vs outcomes

    - Utility solvency vs budget presentation

    - CIP planning vs long-term debt

    - Personnel budgeting vs pension outcomes

This comparative study is exactly what separates a regular applicant from a **City Manager-caliber, research-driven leader**.