

BUDGET GUIDELINES

The FY 2006-07 Annual Budget document has been reformatted from an *accounting* document to a *fiscal planning* document. The Budget Guidelines section provides the “roadmap” used to develop the FY 2006-07 Annual Budget for the City, Redevelopment Agency, and Housing Authority. It is presented in three subsections that are as follows:

- **Changes in the Budget Document** – This subsection describes the changes to the budget document format, as well as why they were made.
- **Strategic Initiatives** – This subsection describes the strategy that was used to develop the proposed FY 2006-07 Annual Budget.
- **Financial Policies** – This subsection presents a proposed compendium of financial policies assembles these policies in one document to make it easier to refer to and rely on these City Council policies.

The following table is provided to assist the reader in understanding the organization of the FY 2006-07 Annual Budget:

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CHANGES IN THE BUDGET DOCUMENT

The FY 2006-07 Annual Budget document format has been revised. This subsection will describe some of these changes, as well as why they have been made. In order to explain the “why”, a comparison with the FY 2005-06 Annual Budget document is provided below.

FY 2005-06 Annual Budget

The FY 2005-06 Annual Budget can best be described as an *accounting* document. It is organized as by fund type. Each of the budget units (program budgets) is presented in a revenue center/cost center context. The **benefits** of this format are as follows:

- It is easy to confirm that the budget ties to the Comprehensive Annual Financial Report (CAFR).
- It facilitates determining whether individual programs are self-supporting, as opposed to relying on general revenue support.

There are also some shortcomings in the use of this format. These **shortcomings** include:

- It does not aggregate the activities in an organizational context. It is difficult to determine a department director’s program budget responsibilities. One department’s program budgets may be spread over four or five sections of the budget document. This does not facilitate accountability for budget implementation.
- Because numerous accounting transfers are made to facilitate the revenue center/cost center format, double counting of the use of resources occurs that overstates the overall budget. While adjustments are made in summary presentations for this “overlap”, this approach leads to the need to make unnecessary accounting entries by the Finance Department staff during the course of the fiscal year.
- While it facilitates revenue center/cost center comparisons, it does not present the various funding sources that support department operations in one place.

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FY 2006-07 Annual Budget

The FY 2006-07 Annual Budget document can best be described as a *fiscal planning* document. It is organized by the services that are being provided (operating, capital, or other activities) within an organizational context. The **benefits** of this format are as follows:

- It identifies each department's operating program budgets and aggregates them in one location in the budget document. (Please see the C Section.)
- It compares these department program budget costs with their funding sources on one page.
- It identifies a work program for each operating division, so that the City Council and community know what services they are "buying" for the coming fiscal year.
- It identifies the primary proposed changes from the current fiscal year budget.
- It displays the capital improvement program in one area of the budget. The Public Works Department primarily delivers this work program, so this facilitates capital budget implementation. (Please see the D Section.)
- It displays each City, Agency, and Authority fund in a consistent format to analyze the changes in: revenue collection; expenditures for operating, capital, and debt service; as well as amounts set aside for reserves and contingencies. In addition to changes in revenues and expenditures over a three-year period, these cash position summaries also show changes in fund balances. (Please see the F Section.)
- It also provides the line item detail that is used to start up the accounting system for the coming fiscal year. (Please see the G Section.)
- In addition, a chart of accounts is provide to assist department staff members in "coding" expenditure transactions to ensure that these transactions accurately reflect what the expenditure is and that it is being charged to the benefiting program. (Please see the I Section.)

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STRATEGIC INITIATIVES

At the March 7, 2006 City Council meeting, staff presented the results of a strategic planning work session that the executive management team participated in early in the calendar year. Five broad strategic initiatives were identified as guiding principals for the FY 2006-07 Annual Budget preparation process. These strategic initiatives include the following:

- Recruitment and retention of an effective workforce.
- Enhancement of General Fund resources either through the generation of new resources and/or the implementation of cost-saving measures.
- Streamlining the development review and permitting process.
- Realigning work expectations and service level standards with available staff and fiscal resources. (This responded to an issue raised by the employees who responded to the Organization Climate Survey that workload and service level standards continue to grow despite the fact that the workforce has been reduced by roughly 15 percent over the past three years.)
- Preparation of planning documents to facilitate the City's strategic planning process. These include such things as the Capital Improvement Plan (CIP), the RDA Implementation Plan, a facilities plan, three- and five-year financial plans, and an update of the General Plan.

Budget proposals designed to implement these strategic initiatives are found throughout the document.

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FINANCIAL POLICIES

The cornerstone of municipal financial management is a sound policy that sets forth guidelines in the areas of revenues, operating expenditures, investments, reserves, financial reporting, capital improvements and budgeting. Consistent with federal and state statutes, generally accepted accounting standards and the Government Accounting Standards Board, it is appropriate for the City Council, Redevelopment Agency and/or Housing Authority to adopt financial and investment policies. Annually staff will review the financial policies of the City, Agency, and Authority; and it will propose changes as it deems appropriate for consideration by the City Council, Redevelopment Agency, and/or Housing Authority. A resolution setting forth the proposed Financial Policies is included in the Resolutions (J Section) of this Budget document. The proposed Financial Policies are as follows:

Budget Policies

- The City Manger will provide a proposed Annual Budget to the City Council no later than June 1st of each year, and the City Council will review and adopt an Annual Budget no later than June 30th of each year for the following fiscal year.
- The City's budgetary system will be integrated and compatible with the accounting system, and the Annual Budget will be prepared on a basis in conformance with Generally Accepted Accounting Principles (GAAP).
- The Mid-Year Budget Review will be presented during the month of February of each year. It will include the current status of revenue collections and budget expenditures, economic trends and state budget impacts, as well as any proposed amendments the to current year budget.
- Annually, the City may seek the CSMFO Award of Excellence for Municipal Budgeting, and the GFOA Certificate of Achievement for Distinguished Budget Presentation Award.
- Annually, the City's Comprehensive Annual Financial Report (CAFR) will be prepared by an independent auditor in accordance with Government Auditing Standards issued by the Comptroller General of the United States.
- Annually, the City may seek the GFOA Certificate of Achievement for Excellence in Financial Reporting.

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Resources

Resources are defined as revenues collected during one fiscal year, as well as resources carried over from prior years. Revenues may be ongoing or one-time in nature, but resources from prior years are always one-time in nature. The following policies shall apply to resources:

- One-time resources will be used for one-time expenditures or enhancement of reserves.
- All revenue forecasts will be conservative.
- City staff will prepare regular reports by for the City Council that compare actual revenue collections with budgeted revenues.
- The City should avoid using one-time resources to fund ongoing municipal services, except as provided below.
- All potential grants shall be carefully reviewed for matching and/or maintenance-of-effort requirements.
- Intergovernmental grants will be evaluated to determine the long-term operating and maintenance costs associated with the grant.

Expenditures

Expenditures are payments made to employees, vendors, or contractors supplying goods or services to the City. Except in the case of a public emergency, all expenditures must be made consistent with appropriations approved the City Council in the Annual Appropriation Resolution.

- City staff will prepare regular reports for the City Council's information that compare budget appropriations with actual expenditures.
- When new operating programs or capital projects are proposed, staff will provide the City Council with an analysis of the one-time and ongoing costs associated with the program or project.
- With the exception of initial expenditures for the creation of new programs, or during periods of economic distress that result in reductions in local revenues or state funding for municipal activities, or to "bridge" when future known ongoing resources are certain, all ongoing costs for operating programs should be paid for from ongoing revenues.

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Reserves

The City's priorities for the utilization of reserves are as follows:

- The use of reserves for a *one-time* expenditure that generates *ongoing* cost savings or cost avoidance.
- The use of reserves for a *one-time* expenditure that generates *ongoing* revenue enhancements.
- The use of reserves for a *one-time* expenditure that leverages the expenditure of significant public or private investment in the City by other entities.
- The use of reserves to offset shortfalls in the collection of revenues.
- The use of reserves to offset unanticipated increases in expenditures for current programs or projects.

General Fund Contingencies

General Contingency - The City Council hereby establishes a General Contingency of not less than 20% of the current year General Fund operating budget. The specific purpose of the General Contingency is to provide funding to meet operational appropriation requirements in the event of minor or routine unanticipated increases in expenditures. Any transfer of funds from the General Contingency may only be made upon City Council approval of an amendment to the Annual Appropriation Resolution.

Stabilization Reserve - The City Council hereby establishes a Stabilization Reserve of not less than 10% of the current fiscal year General Fund operating budget. The Stabilization Reserve should be increased to an amount greater than 10% when economic conditions warrant. The specific purpose of the Stabilization Reserve is to provide funding to meet operational appropriation requirements in the event that the City experiences shortfalls in the collection of General Fund revenues or major unanticipated increases in expenditures. Any transfer of funds from the Stabilization Reserve may only be made upon City Council approval of an amendment to the Annual Appropriation Resolution.

Emergency Reserve - The City Council hereby establishes an Emergency Reserve of not less than 20% of the General Fund operating budget. This reserve would provide emergency funding as a result of a declared emergency or to fund the City's response to an unanticipated but urgent event affecting or threatening the public health, safety, and welfare of the City of Suisun City. The goal is to have the Emergency Reserve approximately equal one year's collections of the largest revenue source.

Any transfer of funds from the Emergency Reserve may only be made upon City Council approval of an amendment to the Annual Appropriation Resolution, subsequent to the City Council's finding that the guidelines established in the Resolution have been met.

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Appropriation Transfer Authority

The following criteria establish appropriation transfer authority as set forth in the Annual Appropriation Resolution:

- With the exception of Personnel Services and Travel & Training line items that require City Manager approval, transfers between line items in the same program may be made by department heads.
- Transfers between programs in the same fund may be made by department heads with City Manager approval.
- Transfers between department budgets within the same fund may only be made by the City Council.
- Transfers between different funds may only be made by City Council.

Capital Improvement Plan

- Annually, City staff will propose a capital improvement plan covering the next five fiscal years. The plan will recommend specific funding of projects for the next three years, and identify projects for further consideration in years four and five.
- The Capital Improvement Plan will include a listing of projects for future consideration by the City Council. Such projects will be those which are determined to merit further study, but lack funding sources.
- Capital improvements will include all equipment over \$5,000 with a useful life over five years. Facilities that have a useful life of longer than 20 years or that can be considered a "betterment" will be considered for inclusion in the Capital Improvement Plan. A "betterment" is defined as an improvement that extends the life of the original improvement by at least one-third of the original service life.
- Capital improvement projects will be reviewed to determine the best method of financing the project. City Council will determine whether the project will be funded on a "pay-as-you-go" basis or with a debt instrument.
- The City will continue imposing development impact fees that ensure that a new development pays its fair share of the increase service capacity.

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Fiscal Management

- It is the City's policy to minimize the subsidization by the general taxpayer of the costs of services provided to the public that are of specific benefit, rather than general benefit. The City Council shall annually consider establishing specific cost-recovery policies related to such costs to be reflected in the Master Fee Schedule.
- In addition, community facilities districts (CFD), maintenance assessment districts (MAD), and parking assessment districts (PAD) will be used to offset 100 percent of zone costs for maintenance of public improvements that serve new developments, and 80 percent of eligible general City services allocable to new developments.
- Consistent with the State Constitution, charges for services will not exceed the cost reasonably borne to deliver those services. Costs reasonably borne may include direct and in-direct costs, as well as reasonable reserves or amortization of equipment associated with the provision of the services.
- The City will annually review the Master Fee Schedule to insure that each user fee is reflective of its intended cost-recovery percentage, and will revise the fees as needed or revise the cost-recovery percentage.
- Whenever required by bond indentures, the City will determine whether debt service coverage ratios are being met. Whenever coverage ratios are not being met, staff will recommend rate increases or expenditure reductions or some combination of the two in order to meet coverage ratios.

Investments

- The City will continue to have a written investment policy approved by City Council resolution annually. The policy for investments in priority order is safety, liquidity and yield.
- The City Council will receive reports on the cash position and performance of City investments on a quarterly basis.

Capital Assets

- Future maintenance needs for all new capital facilities will be fully costed out.
- All equipment and facility maintenance needs for the next five years will be projected and updated annually.
- All assets will be maintained at a level that protects the capital investment and minimizes future maintenance costs.

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