

## BUDGET GUIDELINES

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The FY 2014-15 Annual Budget document has been formatted as a *fiscal planning* document rather than *accounting* document. The Budget Guidelines section provides the “roadmap” that was used to develop the FY 2014-15 Annual Budget for the City, Redevelopment Agency, and Housing Authority. It is presented in three subsections that are as follows:

- **Budget Document Format** – This subsection describes the budget document format, as well as several new features.
- **Budget Objectives** – This subsection describes the City Council objectives that were incorporated into the proposed FY 2014-15 Annual Budget.
- **Financial Policies** – This subsection presents a proposed compendium of financial policies assembled into one document to make it easier to refer to and rely upon these City Council policies. They are the same policies previously adopted by the City Council.

The following table is provided to assist the reader in understanding the organization of the FY 2014-15 Annual Budget:

<u>Section Title</u>	<u>Section Letter</u>
Budget Guidelines	A
Budget Overview	B
Department Operating Budgets	C
Major Capital Improvement Program	D
Other Activities	E
Cash Position Summaries	F
Revenue & Expenditure Detail	G
Staffing Detail	H
Chart of Accounts	I
Budget Resolutions	J

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### BUDGET DOCUMENT FORMAT

The FY 2014-15 Annual Budget document format is essentially the same as last year's budget document. This subsection will describe the overall organization, as well as some of the changes that have been incorporated.

### FY 2014-15 Annual Budget

The FY 2013-14 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:

- An overall budget summary. (Please see the B Section.)
- The FY 2014-15 Annual Budget document 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 Council and community may know what services they are "buying" for FY 2014-15.
- It identifies the primary proposed changes from the current fiscal year budget.
- It displays the first year of the Five-Year Capital Improvement Plan (CIP) in one section. The Building & Public Works Department primarily delivers this work program, so this facilitates CIP implementation. The CIP includes a capital project page for each project that is proposed for funding in FY 2014-15. Each page describes the project, the current status, what is proposed to be accomplished in FY 2014-15, as well as the funding sources and uses over the life of the project. In some cases in future years, funding is not yet identified. (Please see the D Section.)
- The Cash Position Summaries Section 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 four-year period, these cash position summaries also show changes in fund balances and descriptions for each fund. (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. This information is sorted by revenues or expenditures within funds. (Please see the G Section.)
- The Staffing Detail Section summaries staffing. (Please see the H Section.)
- In addition, a chart of accounts is provided to assist department staff members in "coding" revenue and expenditure transactions to ensure that these transactions accurately reflect what the revenue or expenditure is and that it is being properly reflected in the benefiting program. (Please see the I Section.)

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**Sections of the Budget Document**

The previous sections provided an overview of major components of the General Fund and Redevelopment Agency. The detail data supporting these summaries are contained throughout the balance of the FY 2014-15 Annual Budget document, which is organized into ten major sections.

Highlights of what can be found, as well as where it can be found is presented in the following table:

<b>OVERVIEW OF SECTIONS OF THE BUDGET DOCUMENT</b>		
<b>Section</b>	<b>Section Title</b>	<b>Summary of Content</b>
A	Budget Guidelines	<ul style="list-style-type: none"> <li>• Changes to the budget document format.</li> <li>• Strategic initiatives to guide budget development.</li> <li>• Financial policies.</li> </ul>
B	Budget Overview	<ul style="list-style-type: none"> <li>• Executive summary of the FY 2014-15 Annual Budget the organization-wide summary, with an emphasis on the General Fund and the RDA.</li> </ul>
C	Department Operating Budgets	<ul style="list-style-type: none"> <li>• Program and staffing organization chart.</li> <li>• Departmental accomplishments.</li> <li>• Departmental goals.</li> <li>• Department/division work programs.</li> <li>• Department/division service refinements.</li> <li>• Supporting expenditure, staffing and funding data.</li> </ul>
D	Major Capital Improvement Program	<ul style="list-style-type: none"> <li>• City and RDA major capital projects.</li> <li>• Funding summary.</li> <li>• Projects by fund.</li> <li>• Projects by category.</li> <li>• Project descriptions &amp; project schedules.</li> </ul>
E	Other Activities	<ul style="list-style-type: none"> <li>• Internal Service funded activities.</li> <li>• Debt Service activities.</li> <li>• Contingencies.</li> <li>• Transfer to other Funds or Agencies.</li> </ul>
F	Cash Position Summaries	<ul style="list-style-type: none"> <li>• Resources and Use of Resources summarized for all individual Funds.</li> </ul>

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<b>OVERVIEW OF SECTIONS OF THE BUDGET DOCUMENT</b>		
<b>Section</b>	<b>Section Title</b>	<b>Summary of Content</b>
G	Revenue & Expenditure Detail	<ul style="list-style-type: none"> <li>• Revenue and expenditure line-item detail organized by Fund.</li> </ul>
H	Staffing Detail	<ul style="list-style-type: none"> <li>• Staffing history by Department.</li> <li>• Staffing history by job classification.</li> </ul>
I	Chart of Accounts	<ul style="list-style-type: none"> <li>• Description of the City's accounting &amp; budgeting structure.</li> <li>• Accounting classification structure.</li> <li>• Organization of funds.</li> <li>• Dept/Division/Program codes.</li> <li>• Revenue accounts.</li> <li>• Expenditure accounts.</li> </ul>
J	Budget Resolutions	<ul style="list-style-type: none"> <li>• City Annual Appropriation Resolution.</li> <li>• Agency Annual Appropriation Resolution.</li> <li>• Housing Authority Annual Appropriation Resolution.</li> <li>• Master Fee Schedule Resolution.</li> <li>• Salary Resolution.</li> <li>• Gann Appropriation Limit Resolution.</li> </ul>

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### BUDGET OBJECTIVES

On **June 30, 2011**, Governor Brown signed AB 1X 26 and AB 1X 27 into law. On July 18, 2011, the League of California Cities and the California Redevelopment Association filed a lawsuit challenging the constitutionality of these two laws. On **December 29, 2011**, the State Supreme Court ruled that AB 1X 26 was constitutional. On **June 27, 2012**, the Legislature passed and the Governor signed AB 1484, the budget trailer bill that gave enormous power to the State Department of Finance (DOF) to implement the destruction of redevelopment agencies, as well as the confiscation of local resources and assets to fund state budget shortfalls. The City has had to fight to attempt to retain millions of dollars of local assets and resources. In most cases the City has been very successful. As of this writing, over \$2 million dollars of General Fund resources are at risk.

On **February 18, 2014**, the Council conducted the Mid-Year Fiscal Review. Staff reported after over five years, there were signs that the primary tax revenues (Property Taxes and Sales Tax) in the General Fund are beginning to grow again. The Council directed staff to prepare the FY 2014-15 Annual Budget using the following criteria:

- Continue with temporary salary reductions of 5% for all employees.
- Continue to analyze operational efficiencies when dealing with vacancies.
- Continue with the selective hiring freeze by requiring Council approval prior to filling any vacancy.
- Recognize that staffing levels are at the point **where service levels are impacted**, though no major service area has been cut completely. Further staffing reductions would exacerbate this situation.

Through the use of these strategies, a status quo budget for FY 2014-15 was anticipated. In addition General Fund Reserves would be utilized due to the delay in the opening of the Walmart, and due to the continued litigation with the DOF.

On **May 20, 2014**, the Council conducted the FY 2014-15 Annual Budget Workshop. The Council was informed that the staff had indeed prepared a status quo budget. The FY 2014-15 General Fund would include the Emergency Reserves of 18.5% (1.5% under the Council's policy of 20%) pending outcome of unknowns such as redevelopment litigation and legislative mandates. Council directed staff to include:

- Funding for a restoration of one-half of the 5.0% salary and hours concessions.
- Funding for Montebello Vista MAD election to potentially enhance resources available to provide the desired level of service in that district.

Council directed staff to produce the FY 2014-15 Annual Budget document based on these elements.

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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. The proposed Financial Policies are as follows:

#### Budget Policies

- The City Manager will provide a proposed Annual Budget to the City Council no later than June 1<sup>st</sup> of each year, and the City Council will review and adopt an Annual Budget no later than June 30<sup>th</sup> 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 to the current year budget.
- Annually, the City may seek the CSMFO Award of Excellence for Municipal Budgeting, as well as 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.

#### 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.

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- City staff will prepare regular reports 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.

### **Establishment of Contingencies & Reserves**

General Fund Emergency Reserve - The City Council hereby establishes an Emergency Reserve goal of not less than 20% of the current fiscal year General Fund operating budget net of Transfers to Other Funds or Agencies. The specific purpose of the Emergency 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 Emergency Reserve may only be made upon City Council approval of an amendment to the Annual Appropriation Resolution.

General Fund General Contingency - The City Council hereby establishes a General Contingency. 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. The General Contingency will be equal to total General Fund reserves less the Emergency Reserve.

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Self-Insurance Fund Reserves - The Workers' Compensation Self-Insurance Fund should have sufficient reserves to cover known claims, as well as the self-insurance retention (SIR) of \$250,000. The Liability Self-Insurance Fund should have reserves that would cover two times its SIR of \$25,000. The proposed reserves of both of these funds far exceed these minimum reserves.

Housing Authority Emergency Reserve - The Housing Authority hereby establishes an Emergency Reserve of not less than 20% of the current fiscal year HA Administrative Fund operating budget net of Transfers to Other Funds or Agencies. The specific purpose of the Emergency Reserve is to provide funding to meet operational appropriation requirements in the event that the City experiences shortfalls in the collection of HA Administrative Fund revenues or major unanticipated increases in expenditures. Any transfer of funds from the Emergency Reserve for use in the operating budget may only be made upon Housing Authority approval of an amendment to the Annual Appropriation Resolution.

Housing Authority General Contingency - The Housing Authority hereby establishes an HA Administrative Fund General Contingency. The specific purpose of the HA Administrative Fund General Contingency is to provide funding to meet operational appropriation requirements in the event of minor or routine unanticipated increases in expenditures. The General Contingency will be equal to total 10% of the current fiscal year HA Administrative Fund operating budget net of Transfers to Other Funds or Agencies. Any transfer of funds from the General Contingency for use in the operating budget may only be made upon Housing Authority approval of an amendment to the Annual Appropriation Resolution.

### **Use of Contingencies & Reserves**

The City's priorities for the utilization of contingencies and 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.

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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.

### **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.

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- 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.