

# Budget Guide

## **Introduction**

Historically, the City of Palm Bay's Budget document has followed a financial operating format geared toward providing the reader with a detailed explanation of where current and immediate past dollars were being spent. Over time a limited amount of supplemental policy information was added. Within the past thirty years decreasing federal and state revenue sharing, tightening resources, and growing resistance to higher taxes has created distrust and suspicion of government among many citizens. One response to this "do more with less" environment is to provide decision-makers (directors, managers, elected officials, and citizens) with increased detail concerning expenditures. This course of action typically leads to every line-item within the budget being included in the annual document so decision-makers can scrutinize any and all increasing expenditures. However well-intended, these efforts typically only provoke further criticism over costs of government by focusing only on increasing costs and not addressing the needs and benefits of said expenditures. This approach, in part, led to the previous 800 plus page format of the budget document, which was mostly devoted to redundant financial information with sparsely scattered policy and operational information.

An alternate response to growing concerns about the rising cost of government is to better explain why additional resources are needed, what the additional resources will be used for, the anticipated results of receiving additional resources, and the cost of these additional resources. The City of Palm Bay began following this alternate approach with the FY 07 Budget.

## **Base Budget**

The base budget is comprised of recurring costs and is calculated and loaded into H.T.E. by the Budget Office. The base budget, consisting of the prior year's originally approved budget, minus one-time adjustment costs, will be entered into the proper H.T.E. field by the Budget Office. Due to current economic conditions there is not a percentage increase in operating expenses within the base budget. Departments will be able to adjust the budget amounts in their line item accounts, and instructions for this entry in H.T.E. are found in the Budget Entry section of this document (Section III). Departments must use the "Miscellaneous Information" section within the H.T.E. budget entry fields, in that the tracking of expenditures will be easier.

## **Direct Use of H.T.E. by Departments**

Specifically, departments will enter/edit the following information in H.T.E.:

- **FY 11 Year-End Estimates**: All current year account budgets will be used to form the initial year-end estimates, essentially implying that all budgeted funds will be expended. Internal Service Fund personnel are expected to review this information for accuracy and modify the appropriate year-end estimates accordingly.
- **FY 12 Base Budget**: The initial base was entered into H.T.E. by the Budget Office.
- **FY 12 Adjustments**: Each Adjustment request will be entered into the appropriately numbered Budget Level in H.T.E.

As begun in FY 07, departments directly enter their budgetary requests into the H.T.E. system. This direct entry enables departmental personnel to later monitor changes made to specific line items as a result of the City Manager's decisions regarding funding levels for the proposed budget. Although the Budget Office will strive to keep departments informed of the City Manager's decisions, the ability to review the status of proposed line items will provide a secondary source of information.

Additionally, operating expense detail information, previously listed within the paper Budget Document (FY 06 and prior), will be listed under the "Miscellaneous Information" sections within H.T.E. An example from the FY 06 Police Department Special Operations Division budget is listed below.

5204	UNIFORMS/CLOTHING	18,300
	Replacement staff uniforms, badges, rain gear, etc. for division	2,500
	Motorcycle uniform replacements	4,800
	New sworn uniforms	6,600
	For New Officer	4,400

Beginning in FY 07, and remaining the same this year, the following summarized information will appear in the budget document.

5204	UNIFORMS/CLOTHING	18,300
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However, departmental personnel will be able to input as much supplemental information as needed within the "Miscellaneous Information" fields in H.T.E., which will be available throughout the year in a paperless format via their computer screen.

### **Department Narrative Information within the Budget Document**

Beginning in FY 07 the pages within the Budget document, which summarize the individual departments and divisions, were revised to contain additional narrative information, while the line item budget tables were shifted to the an accompanying document.

Specifically, the following information shall be provided for department:

- Department title
- Functional organization chart
- Mission Statement
- Brief description of core services
- Long-term Goals
- FY 11 Accomplishments (status of FY 10 objectives)
- FY 12 Objectives
- Table summary of expenditures and FTEs
- Performance measures

### **Revised Departmental Performance Measurement Format**

In FY 07 divisions first began listing performance measures. The next step, in the development of a performance-based budget preparation process and document, is the addition of "estimate/actual" columns inserted next to the "Budget" columns. This side by side comparison of estimates/actual data to the approved budget figures each fiscal year will provide maximum clarity concerning the results of expended resources.

### **Budget Legal Basis**

The City Code relating to Finance and Budget, along with the City Charter and State Statutes, establishes the legal basis for the budget. The City Code was revised in January 2000. The main purpose of this revision was to separate detailed criteria from policy, allowing for flexibility in annual budget and CIP document content, procedure, and presentation, which changes with industry standards from year to year and changes with preferences of City Managers and Council. At the same time, the Management Administrative Code was updated to include the details that can easily be amended annually if needed. The City Code, now containing only policy measures in adherence to law, will not have to be updated as frequently.

Besides removing detail, the revision to the City Code included one other important change. The Annual Budget can be adopted by simple majority of Council members present at the public hearing. This is a change from adoption by majority of all Council members (three) whether present or not. This is to ensure the budget is adopted in a timely fashion to meet all State Truth in Millage (TRIM) requirements.

Per Florida State Statutes, Chapter 166, Section 166.241, the governing body of each municipality must adopt a balanced budget each fiscal year. A balanced budget is described as the amount available from

taxation and other sources (revenues), including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. The City of Palm Bay Management Administrative Code, Policy Number 19, Section 19.13-D further emphasizes that the budget must remain balanced at all times.

### **Basis of Accounting**

The system used by governments to determine when budgeted revenues have been realized and when budgeted expenditures have been incurred is known as the "Budgetary Basis of Accounting."

General government revenues and expenditure accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements, which govern the City's operations. The Governmental Fund Type Budgets for the City of Palm Bay are prepared on the modified accrual basis of accounting. Proprietary Fund Type Budgets are prepared on the accrual basis of accounting. This process varies generally accepted accounting principles as a result of provisions made to treat encumbrances as budgeted expenditures in the year of the commitment to purchase. Budgets in governmental funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitments. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. While appropriations lapse at the end of the fiscal year, the succeeding year's budget is automatically increased per the re-appropriations of encumbrances and capital projects with unencumbered balances.

Private-sector standards of accounting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

### **Basis of Budgeting**

The City of Palm Bay's budget is prepared on a cash flow basis. Under cash flow basis, revenues are recognized when received and expenditures are recognized when paid.

Specifically, the City's General Fund budget is prepared on a basis other than generally accepted accounting principles (GAAP basis). The actual results of operations are presented on a "budget (cash) basis" to provide a meaningful comparison of actual results with the budget. The major difference between the budget and GAAP basis are that:

1. Revenues are recorded when cash is received, (budget) as opposed to when susceptible to actual (GAAP).
2. Encumbered and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to reservation of fund balance (GAAP).

Enterprise Funds are budgeted on a cash basis with the exception that revenues are recognized when billed. Debt service appropriations and capital outlay expenses are included, but not depreciation. In all funds, encumbrances are treated as expenditures for purposes of calculating the balance carried forward. The budget is prepared in a line item format, but published in an easy to read and understand summary format.

### **Budget Amendments**

The total budgeted expenditures cannot exceed the final appropriations once the budget is adopted. An individual fund may only be amended through formal approval of the City Council by an Ordinance. The City Charter authorizes the City Manager to approve the transfer of unencumbered amounts between any expenditure classification within an office, department or agency within the same fund. These internal transfers are reviewed by the appropriate operating manager, by the Budget staff, and (when affecting personal services or capital outlay) by the City Manager. Budgetary integrity is established for control

purposes at the category of expenditure level (personnel, operating, capital and transfers) and is tracked in the City's computerized financial system. The June 2000 revision of the City Code also deleted the necessity for approval of use of contingency funds by Council, as the City no longer uses contingencies in the same manner, or to the same extent, as when the Code was last revised in 1996. (Ordinance No. 2000-17, Chapter 35)

## 2012 Narrative Budget Preparation Calendar

2011	Start	Finish	Task
	02/10/11	02/23/11	FM request submitted (All Depts) to Parks & Rec Dept: FM Div.
Mar	03/07/11	03/18/11	Cost schedules developed by I2d & Fleet.
	03/14/11	03/25/11	Budget Office/CMO develops Net Capital Funding parameters for CIP
	03/18/11	03/18/11	FY12 Budget Preview Meetings (all Depts.)
	03/21/11	04/29/11	Base Budget Developed
	03/25/11	04/21/11	Conceptual SLA List submitted (all Depts.)
	03/28/11	04/08/11	List of Divs. and personnel allocation submitted (all Depts.)
	03/28/11	04/20/11	CIP requests submitted (All depts.)
April	04/04/11	06/03/11	Revenue projections developed
	04/04/11	04/29/11	Internal Service Depts. Budget requests submitted
	04/11/11	04/14/11	FY 11 Midyear Review and FY 12 Priorities Council Workshop
	04/25/11	04/27/11	CIP Review meetings with CM (Applicable Depts.)
May	05/09/11	05/09/11	Base Budget set and HTE fields opened to departments
	05/09/11	06/03/11	Operating budget requests, narratives & Performance Measurements submitted (All Depts.)
June	06/01/11	06/01/11	Preliminary taxable valuation data due
	06/09/11	06/09/11	Council Workshop
	06/23/11	06/23/11	Council Workshop
	06/30/11	06/30/11	Certified taxable valuation data received
July	06/27/11	07/01/11	Budget Review meetings with CM (all Depts.) Final H.T.E. entry and narrative inform. Revisions (all depts.)
	07/07/11	07/07/11	Council approves tentative millage rate, roll-back rate, Public Hearing dates, & CIP (dates TBD) Preliminary Proposed Budget to Council
Aug	08/03/11	08/03/11	Telephone Town Hall meeting on Proposed FY 12 Budget
	08/23/11	08/23/11	Council workshop
	08/22/11	09/02/11	Revisions made based on Council workshop
Sept	09/06/11	09/06/11	1st Public Hearing to Approve Budget (Exact Date TBD) Revised Proposed Budget Distributed
	09/22/11	09/22/11	2nd Public Hearing to Approve Budget (Exact Date TBD)

## **Financial Policies**

### **Investment Policy**

Investments in the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio and to meet the cash flow demands of City operations.

- To maintain the safety of public funds, the City shall diversify its investments to avoid incurring unreasonable and avoidable risk.
- The City's investment strategy shall provide sufficient liquidity to meet the City's operating, payroll, and capital requirements.
- The City's investment portfolio shall be designed with the intent of attaining a market rate of return throughout budgetary and economic cycles, while minimizing investment risk.
- Asset protection measures required by new Florida Statute changes have been incorporated.

### **Accounting and Reporting Policy**

All financial transactions of the City shall be properly authorized, documented, and reported.

- All disbursements of funds shall be within budget limits, authorized at the appropriate level, and supported with proper documentation.
- Quarterly financial and performance reports shall be prepared and distributed to the City Council, City Manager, and Department Heads.
- An independent audit of the City's financial books, records, statements, and reports shall be conducted by a Certified Public Accountant annually.

### **Position Authorization and Attrition**

Only positions authorized by City Council, funded in the budget, and operationally warranted shall be filled.

- Positions shall be authorized by City Council annually through the budget process or by budget amendments as needed and as funding exists.
- Vacant positions will be reviewed by the Department Head and the Human Resources Director before the position is filled to ensure the need and urgency of filling the position warrants immediate recruitment.

### **Grant Management**

Outside sources of revenue through grant funding shall be maximized. However, careful consideration of departmental objectives and programming priorities shall be given before grant applications are prepared. Duplication of services shall be avoided and expanded levels of service shall be analyzed thoroughly before proceeding with a funding request.

### **Budget Preparation and Adjustment**

The annual City budget shall be planned and prepared to conform to State law and Palm Bay City Code, Chapter 35.

- The legal level of authority shall be at the department level.
- The annual City budget shall be approved by September 27th preceding the fiscal year which begins October 1 and ends September 30.
- During the development of the budget, the impact of the proposed budget on the next two fiscal years will be evaluated.
- Once the budget has been adopted, the City Manager may authorize the transfer of any unencumbered appropriation balance between general classifications of expenditures within a department.
- At the close of each fiscal year, the unencumbered balance of each appropriation shall revert to the respective fund from which it was appropriated.

## **Debt Management**

Borrowing in the City shall be undertaken in a manner which seeks to ensure efficiency and equity for the taxpayers.

- Efficiency means getting the best return for a given commitment of resources. When the efficiency, with which government services are performed, can be greatly increased by substituting capital expenditures for current expenditures, debt shall be considered.
- Equity means that the beneficiaries from capital expenditures shall pay for them. Maturity of the debt shall be approximately equivalent to the period over which the capital will be used.

## **Working Capital/Fund Balance**

A working capital reserve shall be maintained in the General Fund to ensure adequate cash flow. This reserve should be an amount equal to ten percent of budgeted operating expenditures.

- An adequate reserve will be maintained in the Building Fund for stabilization in the event of downswings in construction.
- Adequate fund balances and reserves shall be maintained in the Debt Funds to ensure timely payment of debt obligations when due.
- Adequate amounts of retained earnings shall be maintained in the Utility Funds to comply with bond covenants. Reserves are maintained at 15% of budgeted operating expenditures or at a level to comply with bond covenants.
- In the Employee Health Insurance Fund, two months claims anticipated cost shall be maintained as contingency fund balance.
- In the Risk Management Fund, the anticipated claims payable for the next fiscal year, as actuarially determined, shall be maintained as unreserved fund balance.

## **Preservation of Capital Assets**

Sufficient funds shall be appropriated each year for the purpose of preserving and replacing capital assets that are vital to the ongoing delivery of government services.

- Specific schedules for routine capital maintenance of City facilities shall be developed and funded as revenues allow.
- Specific schedules for the replacement of vehicles and computer equipment shall be developed and funded as revenues allow.