



# GUIDE TO THE BUDGET PROCESS

## WHAT IS THE BUDGET?

The Biennial Budget sets forth a strategic resource allocation plan that addresses the City Council's Strategic Goals. For the fiscal year that will begin on July 1, 2016, we are converting our City from an Annual budget to a Biennial budget. The Budget is a policy document, financial plan, operations guide, and communication device all in one.

The City's Budget accomplishes the following:

- Determines the quality and quantity of City programs and services;
- Details expenditure requirements and the estimated revenue available to meet these requirements;
- Connects the activities of individual City Departments to the City Council's Strategic Goals;
- Sets targets and provides a means of measuring actual accomplishments against goals; and
- Serves as a communication device that promotes the City's vision and direction, fiscal health and vitality, and what the public is getting for its tax dollars.

Through the Biennial Budget document, the City demonstrates its accountability to its residents, customers, and the community-at-large. Additionally, the Biennial Budget provides the legal authority for expenditures and a means for control of municipal operations throughout the fiscal year. Accordingly, the City Charter mandates that a budget be adopted prior to the beginning of the fiscal year.

The budget process furnishes departments with an opportunity to justify departmental work programs, to propose changes in services, and to recommend revisions in organizational structure and work methods. It also enables the City Manager to review these aspects and make appropriate recommendations to the City Council.

Presentation of the budget to the City Council provides an opportunity to explain municipal programs and organizational structures. It also allows the Council to judge the adequacy of the proposed operating programs, to determine basic organizational and personnel staffing patterns, and to establish the level of municipal services to be rendered with the available resources.

In order to accomplish these objectives, the budget must combine a detailed explanation of anticipated financial resources for the ensuing fiscal year with proposed expenditures, supported by sufficient information on the proposed programs and activities to assess the appropriateness of the recommended levels of services.

## THE OPERATING BUDGET, CAPITAL BUDGET, AND CAPITAL IMPROVEMENT PROGRAM

The Biennial Budget document contains information about both the City's operating and capital budgets for a particular fiscal year. Typically, when one refers to the City's Biennial Budget, the meaning is the combination of the operating and capital budgets. The operating budget details the funding for the day-to-day operations and obligations of the City for a particular fiscal year such as personnel costs, vendors and contractors, utilities, building maintenance, and debt payments. The capital budget details planned expenditures for the same fiscal year to construct, maintain, or improve City facilities such as fire and police stations, parks, recreation centers, sewers, and electric and water infrastructure.

The Capital Improvement Program (CIP) is a separate five-year planning document that details planned capital expenditures. Capital projects range from road maintenance or construction to the renovation of municipal buildings, recreation centers and ball fields, to water main and sewerage system replacement. The CIP relates these capital projects' needs to the financial sources that will support their realization and the timeframe in which both the financing and work will take place. With a life span of five years, capital improvement projects typically carry considerable future impact. They are often financed over a longer period of time, in effect spreading the cost of the project across generations of users. Because of the more long-term nature of the CIP and the sometimes complex nature of capital project financing, the CIP is presented in a separate document. However, the first two years of the CIP are integrally related to the Biennial Budget document, and so a summary of the CIP is provided in Section J.

Most expenditures found in the first two years the CIP are included in the Biennial Budget's capital budget component. However, certain projects for which funding is not yet secure or planning is not complete are budgeted through supplemental appropriations later during the fiscal year. Additionally, debt-financed projects are typically reflected twice in the Biennial Budget as an original capital expenditure from the proceeds of the debt and as payments of principal and interest over a number of years. For example, the City's Measure G Bond Initiative funded construction of various projects for the Riverside Fire Department several years ago. Because bonds were issued to fund these projects, payments of principal and interest are still shown in the Biennial Budget each year until fully paid off.

## HOW IS THE BUDGET DEVELOPED?

The City of Riverside's fiscal year begins each July first and concludes on June 30. In accordance with fundamental democratic principles, the City embraces the notion and practice of citizen participation, especially in key planning and resource allocation activities. Therefore, the development of the budget process begins early in the prior fiscal year to ensure adequate planning and community input into that planning. Departments obtain citizen input through Boards and Commission meetings, Mayor's Night Out forums, community meetings, public hearings, online forums, and other forms of written and oral communication.

The development of the Biennial Budget is comprised of three distinct phases.

- Phase One: Strategic Program Assessment
- Phase Two: Budget Directive and Departmental Submittal
- Phase Three: Budget Preparation and Adoption

Phase One is the planning phase. Departments focus on the what, why, how, and how well they deliver individual services. This phase can begin as early as the start of the previous fiscal year. Phase Two consists of the City Manager's Budget Policy Directive and Departmental Budget Submittal, and runs from December through February. Phase Three covers the period when preliminary financials are presented publicly and then the Preliminary Budget is prepared and presented to the City Council through Budget Adoption.

### PHASE ONE: STRATEGIC PROGRAM ASSESSMENT

Program Assessment is a crucial component of the Budget Development process. It engages City staff in linking past assumptions and decisions with current issues before focusing on dollars. Program Assessment is also designed to elicit evaluation of current service delivery efforts, as well as to provide baseline and performance information on the services (activities) that a Department currently provides. Program Assessment is conducted around five main themes: the What, Why, How, How Well, and Impact of the program in question.

### PHASE TWO: BUDGET DIRECTIVE AND DEPARTMENTAL SUBMITTAL

The City Manager establishes a Budget Directive based on short and long-term financial and organizational goals. The Directive is issued to the departments in December at a meeting attended by the City's Departmental Budget Coordinators and key staff from the Finance Department and Administration Division of the Office of the City Manager. Policy directives, general budgeting guidelines, and the technical and procedural aspects of preparing the budget are discussed. The Budget Preparation Manual, distributed to each departmental representative in electronic format, provides the information necessary to prepare the Budget Submittal in an accurate and timely manner. Departments have approximately two months to prepare their budgets based on the City Manager's Budget Directive.

A City Manager Review is then conducted for each Department including the City Manager or applicable Assistant City Manager, key staff from the Finance Department and Administration Division of the Office of the City Manager, Department Heads, and Departmental Budget Coordinators. Staff presents an overview of the department's adopted budget, including increases, reductions, and/or other significant budgetary changes.

Figure 1 – Budget Process at a Glance

### PHASE THREE: BUDGET PREPARATION AND ADOPTION

This phase consists of the preparation of the City Manager's recommended Budget through Budget Adoption. Early on, before the budget is fully formulated, the phase also includes presentation of the preliminary financials and contemplated budget reduction measures.

Included in this phase is also the publication of various easy-to-read budget publications for wider distribution to the general public. Although the City strives to avoid as much technical language as possible, budget documents can still be rather cumbersome and dense in nature. The user-friendly summarized budget brochures provide financial summaries for the various internal and external constituents. Once the City Manager Reviews have taken place and all departmental budget issues are resolved, the Finance Department prepares the Recommended Budget.

The City Manager presents the Recommended Budget to the City Council in one or more workshop sessions typically held in April and May. Public comment is encouraged throughout the process, and a budget specific Public Hearing is expressly held for public participation in June. Subsequent to the Public Hearing, the City Manager will ask the City Council to adopt the Biennial Budget with any necessary revisions made between the time of the publication of the Budget and the date of adoption. The Biennial Budget is effective July first, and the printed document is available as soon as the year-end accounting and final cost allocation plan are completed.



## **BASIS OF BUDGETING**

### ACCOUNTING VERSUS BUDGETARY BASIS

The modified accrual basis of accounting is used by all General, Special Revenue, Debt Service, and Capital Projects Funds. This means that revenues are recognized when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when liabilities are incurred, except that principal and interest payments on long-term debt are recognized as expenditures when due. The accrual basis of accounting is utilized by all Enterprise and Internal Service Funds. This means that revenues are recorded when earned and that expenses are recorded at the time liabilities are incurred.

The City's basis for budgeting is consistent with accounting principles generally accepted in the United States of America and with the City's financial statements as presented in the Comprehensive Annual Financial Report (CAFR). Exceptions are as follows:

- Capital expenditures within the Enterprise Funds and Internal Service Funds are recorded as assets on an accounting basis but are shown as expenditures on a budgetary basis.

- Depreciation of capital assets and amortization of various deferred charges are recorded on an accounting basis only.
- Principal payments on long-term debt within the Enterprise Funds and Internal Service Funds are applied to the outstanding liability on an accounting basis but are shown as expenditures on a budgetary basis.

The budget appropriates revenues and expenses for all of the City's funds (General, Special Revenue, Enterprise, etc.).

## ACCOUNTING STRUCTURE AND TERMINOLOGY

The complexities of the account structure utilized by the City do not lend themselves to a narrative and straight-forward description. However, some brief discussion is warranted to assist with reviewing the City's budget. In the Departmental Budget Detail sections of the Biennial Budget, expenditures are shown by General Ledger (GL) account. In certain other sections of the Biennial Budget, such as the Revenue Summary, GL accounts may also be shown. These GL accounts are the fundamental building blocks through which the budget is constructed. The City's GL structure includes two primary components: key and object.

GL keys are seven digit numbers representing the location of the expenditure (such as the Police Department). For expenditures, the first two digits are the Department number of the organizational unit, digits three and four are the Division (an organizational unit within a Department), digits five and six are the Section (an organizational unit within a Division), and the final digit is used for various purposes. Data is presented in the Departmental Budget Detail at the Section level. Additionally, certain projects have their own GL key starting with the number nine and will be shown with the budget for the responsible Department. For revenue, GL keys typically begin with four zeros and end with the three-digit number of the applicable fund.

GL objects are six digit numbers indicating the type of expenditure or revenue (such as telephone expense). Each of these objects has a text description. For expenditures, this description can be found next to the individual line item in the Departmental Budget Detail. For revenues, the object description is the category of revenue.

## **COST ALLOCATION PLAN AND DIRECT CHARGES**

The City employs a complex multi-step plan for distributing the costs of internal services to various Departments and funds. Through these allocations, a more realistic picture of the cost of doing business for the City's various organizational units and services is obtained.

For example, the budgets for internal service Departments (such as Human Resources and Information Systems) are allocated to public service Departments (such as the Police Department and Public Works Department). This allocation of costs adjusts each Department's budget to a truer representation of the cost for providing its services to the City's citizens and customers. Any fees or charges set for city Services are then based upon the expenditures of this adjusted budget, which includes an appropriate amount of overhead or allocated costs.

Allocated costs are primarily determined through the City's Cost Allocation Plan (CAP). The CAP uses various statistical data to distribute the identified service costs to the appropriate Departments and funds. Additionally, in certain circumstances direct charges from one organizational unit to another are included in the budget outside of the CAP. Direct charges are typically utilized when the origin and destination of a specific cost are readily apparent and fixed.

## **FINANCIAL AND OPERATIONAL POLICIES**

The City's budget development is shaped by several financial and operational policies. These policies promote and ensure organizational continuity, consistency, transparency, and responsibility from year to year. This section identifies some of the major short and long-term planning documents, financial and operational policies, and fiscal management tools that the City of Riverside employs in order to guarantee fiscal and programmatic integrity and to guide the development of the City's Biennial Budget.

## FIVE YEAR GENERAL FUND FINANCIAL PLAN

The City's Five Year Financial Plan projects the fiscal health of the City's General Fund and allows the policy makers and management to understand the fiscal gaps that may exist between revenue projections and projected expenditure requirements.

Revenue estimates for the five-year plan are prepared through an objective, analytical process based on year-to-date trends, prior years' data, and anticipated one-time adjustments. In all instances, the City provides reasonable revenue projections to prevent undue or unbalanced reliance on certain revenues and to ensure the ability to provide ongoing services.

Using the Five Year General Fund Financial Plan as a guide, the Finance Department issues budget targets to Departments in order to submit budget proposals that are constrained by the resources anticipated to be available in the upcoming fiscal year.

## PROPOSITION 4 (GANN) APPROPRIATION LIMIT

In the late 1970s, Paul Gann and other spending-limit advocates drafted a spending-limit initiative to restrict growth of tax-funded programs and services. The measure was placed on the November 1979 ballot as Proposition 4 or the "Gann Initiative." The Gann initiative passed and Article 13-B was added to the California Constitution. In the late 1980s/early 1990s, additional amendments were made to improve the legislation.

For state and local governments, the California Government Code (beginning section 7900) mandates that the total annual appropriations subject to the limitation shall not exceed the prior year appropriations Limit. This limitation can be adjusted for the change in cost of living and population, except as otherwise provided in the government code. Section 7910 of the code provides that the governing body of each jurisdiction shall annually establish its Appropriations Limit by resolution.

The Appropriations Limit is calculated by determining appropriations financed by proceeds of taxes in the 1978/79 base year and adjusting the limit each subsequent year for changes in the cost of living and population. This Appropriation Limit is the maximum limit of proceeds from taxes the City may collect or spend each year. Appropriations financed by proceeds of taxes are limited to actual revenues collected if they are lower than the limit. The Appropriations Limit may be amended at any time during the fiscal year to reflect new data.

The cost of living adjustment may be based upon the changes in the California per capita personal income or the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction. The population adjustment may be based on the changes in the City population or population growth within the County. The annual adjustment factors used for the 2016/17 calculation uses the change in California per capita income and the change in the City's population.

In June 2016, the City Council adopted a resolution to establish the City of Riverside's annual Appropriations Limit at \$307.2 million for FY 2016/17. Actual proceeds from taxes available for appropriations as estimated in the FY 2016/17 budget are \$204.5 million which is \$102.6 million or 33 percent less than our limit. The FY 2017/18 Appropriations Limit is expected to be established in June 2017.

For more detail about the GANN Limit calculation, please see Appendix C: City of Riverside Appropriation Limit Calculation through Appendix D: City of Riverside Permitted Appropriation Growth Rate.

## BALANCED BUDGET

The City's policy is to adopt a balanced budget, which means that planned expenditures do not exceed planned funds available. Available funds may include the use of fund balances on hand, provided that in the case of the General Fund the available Reserve is at the 15 percent level or measures are identified to replenish the Reserve.

## ADJUSTMENTS TO THE ADOPTED BUDGET

Per the City Charter, Section 601 (d), the City Manager shall "keep the City Council advised of the financial condition and future needs of the City and make such recommendations as may seem desirable to the City Manager." In order to accomplish this mandate, the City Manager Biennially presents a mid-year fiscal review to the City Council, typically in February. This review includes needed adjustments to personnel and non-personnel budgets that have been identified by staff since the adoption of the Biennial Budget. Additionally, at any meeting after the adoption of the budget, whether before or after the Mid-Year Review, the City Council may amend or supplement the budget by motion adopted by the affirmative votes of at least five members to authorize the transfer of unused balances appropriated for one purpose to another purpose or to appropriate available funds not included in the budget. The Biennial Budget, as adopted by the City Council, establishes the total appropriation provided for each city department's operations. To ensure that the expenditures of each Department do not exceed the departmental appropriation, expenditures for each Department are legally limited to the amounts authorized by the City Council in the budget document, plus carryover amounts and supplemental appropriations individually approved by the City Council. The City Manager is legally authorized to transfer budgeted amounts between Divisions and accounts within the same Department and Fund over the course of a fiscal year. Transfer of appropriations between Departments or funds and increased appropriations must be authorized by the City Council. Thus, expenditures may not legally exceed budgeted appropriations at the Department level within a Fund. City Council approval is also required for all transfers from unappropriated fund balances or contingency reserves.

## CONTINUED/CARRYOVER APPROPRIATIONS

The City's Municipal Code states that all unexpended or unencumbered appropriations shall lapse at the end of the fiscal year, except for appropriations for capital projects that are required for the completion of the approved project. Other encumbered funds from the previous fiscal year are carried over to the current fiscal year through a list of continued appropriations. Additionally, the City has established a carryover review process during which Departments submit justification for unencumbered, available funds that are requested for carryover. The final list of continued appropriations, including both encumbrances from the previous year and unencumbered funds approved for carryover, is then adopted by the City Council and becomes part of the City's Biennial Budget. These continuing appropriations are not included in the Biennial Budget document.

## DEPARTMENTAL MANAGED SAVINGS

Following a long-standing practice, this budget continues relying on managed savings to help forecast anticipated positions and spending efficiencies, and utilize them for budget balancing. While in prior years, managed savings represented negative expenditures at the bottom line of the General Fund overall expenditures, this Biennial Budget for the first time allocates specific savings target to each city department, and contains specific plans to achieve those targets.

## GENERAL FUND RESERVE

The City strives to maintain a General Fund reserve amount equivalent to 15 percent of the General Fund expenditure budget. This reserve is intended to provide a cushion against fluctuations in revenue and expenses. The 15 percent level is a minimum threshold required by bond rating agencies and recommended by the Government Finance Officers Association (GFOA).

## ONE TIME REVENUES

The City's policy is to avoid the use of one time revenues to fund ongoing operations. Usage of one time revenue may be occasionally appropriate to bridge short-term gaps in available resources.

## CASH/INVESTMENT MANAGEMENT

One of the City's highest fiscal management priorities is maintaining the value of its cash and investment assets. The City values its cash and investments in accordance with the provisions of Government and Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain

Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts for all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentations in the Statement of Cash Flows.

## DEBT MANAGEMENT

### **Debt Management Overview**

The California Constitution requires that long-term debt pledged by the full faith and credit of the City can only be approved by voter referendum. Per State of California statute, the City's debt limit is set at 15 percent of total adjusted assessed valuation of all the real and personal property within the City. Currently, the City's total General Obligation Debt is significantly below its debt limit. The City also carries bonded debt secured by specific revenue sources, and Certificates of Participation secured by interests in city assets.

### **City Debt Profile**

According to the City of Riverside's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015, net bonded debt equaled \$1.6 million. The calculated legal debt limit for the City for general obligation bond related debt was \$670,013. The following are some of the credit ratings maintained by the City as of July 2016:

	Standard and Poor's Financial Services, LLC	Fitch Ratings Inc.	Moody's Investors Service
General Obligation Bonds	AA-	AA	Not Rated
Electric Revenue Bonds	AA-	AA-	Not Rated
Sewer Revenue Bonds	A+	Not Rated	A1
Water Revenue Bonds	AAA	AA+	Not Rated

### **Debt Limit**

Of the \$1.85 billion in debt currently outstanding, only \$12.4 million is supported by tax revenues (the Measure G Fire Facility Projects Bonds) and is therefore subject to the legal debt limit. The City's assessed valuation for the current fiscal year is \$18.5 billion, resulting in a debt limit of \$694.0 million and a current ratio of debt to assessed value of 1.8 percent. The remaining outstanding debt detailed in the Expenditure Summary Section is supported by other specific revenue streams and is not subject to the legal debt limit.

## RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Internal Service Funds have been established to account for and finance the uninsured risks of loss. Various insurance policies are carried by the City to cover risks of loss beyond the self-insured amounts covered by the Internal Service Funds. Using an internally developed allocation model, the cost of the various insurance coverage, whether self-insured or externally insured, are allocated to city departments.