

City of San Angelo

Budget Policy

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I. PURPOSE

To establish policies related to the budget for the City of San Angelo.

II. SCOPE

These policies apply to both operating and capital budgets. Capital budgets include expenditures for items such as heavy equipment and machinery.

III. OBJECTIVES

The budget policies for the City of San Angelo will guide the development of the City's budget and help manage financial pressures to address growing demands upon City resources, while preserving long-term fiscal stability.

IV. BUDGET PROCESS

The purpose of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process. The following is a summary of policies that will guide the process.

- A. The City Manager and Council may set parameters, priorities, and/or goals at the beginning of each budget cycle.
- B. The Budget staff will host an annual training that will guide division managers with the development of their budgets. Training will include a budget preparation calendar.
- C. Upon submission of the division's proposals, the budget review members convene to evaluate all budget requests to determine whether they fulfill goals and objectives, improve management effectiveness, and service delivery. The budget review members may include the City Manager, Assistant City Managers, Finance Director, Assistant Finance Director, Budget Manager, other Budget staff, and others as appointed by the City Manager.
- D. The City Manager shall submit a proposed balanced budget to City Council for approval as required by City Charter. This proposal should include:
 - 1. A summary of the major changes in priorities or service levels from the current year and the factors leading to those changes;
 - 2. The priorities and key issues for the new budget period;
 - 3. Major financial factors and trends affecting the budget, such as economic factors, long-range outlook, significant changes in revenue collections, tax rates, or other changes, current and future debt obligations, and significant use of or increase in unreserved fund balance;

4. Financial summary data on revenues, other resources, and expenditures for at least a three-year period, including prior year actual, current year budget and/or estimated current year actual and the proposed budget.

V. BALANCED BUDGET

- A. The General Fund, which is the main operating fund of the City, is required to annually have a balanced budget. Expenditures shall be equal to resources in the proposed City Manager's budget submitted for review and approval.

Resources that may be used to fund City services include beginning fund balance, operating revenues, and transfers in. These resources may be used for transfers out, operating expenditures, and capital expenditures.

- B. Council will adopt a balanced budget by ordinance in accordance with State law.
- C. Unreserved fund balance in the general fund should only be appropriated for one-time expenditures at the request of the City Manager and with approval of Council.

While in any given year, all or a portion of the unreserved balance in a fund may be appropriated for expenditure. The long-term goal is that operating expenditures will not exceed operating revenues on an annualized basis to ensure structural balance is maintained within each fund.

Consistent with this long-term goal, the better practice is to appropriate portions of the beginning balance only to the extent they support non-recurring expenditures, replace temporary declines in revenue, or are reasonably anticipated to be offset by increased revenue not yet officially recognized in a revenue estimate.

- D. The budget for each fund shall be balanced in that the expenditures from each fund for the fiscal year not exceed the resources available to that fund for the year, including estimated revenues and any unreserved balance in the fund at the beginning of the year. This policy safeguards against the City spending beyond its means.

VI. LONG-TERM PLANNING

It is the policy of the City to maintain a multi-year financial projection of revenues, expenditures, and reserves. The multi-year revenue and expenditures projection shall be reviewed at least annually, prior to the budget process and after adoption of the budget. The multi-year financial projection will also be updated upon the approval of the capital improvement plan and should be updated based on any substantial changes in policy, legislation, or the economy. The projection will cover a minimum of three years. The Finance Director may present the multi-year projections to the City Manager as needed.

VII. REVENUE

- A. REVENUE DIVERSIFICATION

The City Manager will utilize revenue practices which prevent undue or unbalanced reliance on any one funding source. A diversified and stable revenue system will be maintained to shelter the government from short-run fluctuations in any one revenue source.

During each year of a budget process, budget staff will review the current tax exemptions and will submit recommendations to the City Manager identifying possible increases or decreases in the approved exemptions or any new exemptions being proposed. Budget staff will also identify both the short- and long-range effects on City resources available to fund existing and proposed programs. City Council will review tax exemptions only as needed during the budget process.

Based on economic conditions, budget staff will identify specific revenue sources that may be severely impacted by elasticity. Revenue sources are reviewed on a monthly basis to report any significant changes that may impact the budget and identify corrective action, if necessary, to the Finance Director. Potential new revenue sources are to be submitted when identified and evaluated.

B. RESTRICTED FUNDS

Revenue directly related to a restricted fund shall only be used for purposes legally permissible and in a fiscally responsible manner for that fund. Programs and services funded by restricted revenue will be clearly designated as such. Programs with available restricted funds shall expend restricted monies before utilizing general monies.

C. ONE-TIME REVENUES

One-time revenue sources shall be solely utilized for the purchase of one-time expenditures, such as capital items or short-term contractual obligations of duration of less than twelve months. The City will avoid using temporary revenues to fund mainstream services and ongoing programs.

D. UNPREDICTABLE REVENUE

The City shall identify major revenue sources it considers unpredictable and prescribe how these revenues may be used. It is important to consider how a significant variation in revenue receipts may affect the City's financial outlook and ability to operate programs in the current and future budget periods. The City should decide in advance on a set of proposed actions to be taken if one or more of these sources generate revenues substantially higher or lower than projected. The plans should be publicly discussed and used in budget decision making.

E. REVENUE ESTIMATES

City division managers who generate revenue are required to submit revenue estimates annually during the budget process for the next fiscal year with supporting documentation identifying the methodology utilized in preparing revenue estimates. Budget staff will review the estimates and include them in the budget proposal.

Revenues should be estimated using a realistic approach to avoid any budget shortfalls during the fiscal year. There should be a consensus by the division, Budget staff, and management on the estimate prior to inclusion in the proposed budget submitted to Council for adoption.

F. SETTING CHARGES AND FEES

1. Division managers together with Budget staff will review any fees associated with their division and make changes based on factors such as the impact of inflation, indirect cost adjustments, and any other related expenses that impact the cost of providing services to the public. Proposed changes must be submitted during the annual fee review process with full disclosure on proposed changes. All changes are to be included in the following fiscal year's budget going into effect on October 1st.
2. New fees and the elimination of any fees require City Council approval.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. A unified approach should be used in determining the cost recovery which will be based on the total cost of delivering the service including direct costs, departmental administration costs, and organization-wide support costs such as finance, human resources, information technology, fleet services, and insurance. Fees should be set to cover 100% of cost of service.

Revenues should not exceed the reasonable cost of providing the service; and likewise the fee should be relevant to the cost of service. Therefore, **if staff does not recommend** charging 100% cost of service, the fee amount must be approved by City Council.

Staff will review fees to accomplish the 100% cost recovery goal. In order to avoid drastic fee increases, some fees will be incrementally increased over a three year period. Once fees are at 100% cost of service, fees will be reviewed every other year to maintain the cost recovery goal. All fees will be submitted to the City Manager for review and approval prior to implementation through the annual budget process.

5. Enterprise Funds shall be self-supporting so that the relationship between costs and revenues is clearly identified.
 - a. The City sets fees and rates for Water, Water Reclamation, Solid Waste, and Stormwater at levels which fully cover the total direct and indirect costs including operations, capital outlay, and debt service.
 - b. In accordance with long-standing practices, the City will treat the Water, Water Reclamation, Solid Waste, and Stormwater funds in the same manner as if they were privately owned and operated. In addition to setting rates at levels necessary to fully cover the cost of providing Water, Water Reclamation, and Solid Waste services, this means assessing reasonable franchise fees.

The appropriateness of charging the Water, Water Reclamation, and Solid Waste funds a reasonable franchise fee for the use of City streets is further supported by the results of studies in Arizona, California, Ohio, and Vermont which concluded that the leading cause for street resurfacing and reconstruction is street cuts and trenching for utilities.

- c. The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.
6. Rate structures should be sensitive to the “market” for similar services as well as to smaller, infrequent users of the service. Where appropriate, a cost index may be attached to a fee so the City can recoup costs during extraordinary market highs and the customers can realize savings when prices shift downward.

G. COLLECTION

The Budget staff monitors revenue collection throughout the fiscal year. When revenue is less than estimated, management is notified of the expected impact on the current fiscal year budget and provides recommended corrective action. The City Manager initiates action consistent with prudent financial management and notifies Council of such action.

H. INDIRECT COSTS

Indirect costs should be recovered from other funds. This is done in accordance with the Office of Management and Budget 2 CFR Part 200 circular compliant indirect cost recovery plan.

VIII. EXPENDITURE

A. EXPENDITURE ESTIMATES

Expenditures shall be sufficient to provide quality services at a reasonable cost and within available financial resources. All new requests for program funding must be submitted during the budget process as a target increase request and include concise statements of the program’s mission, objectives, and intended measurable outcomes.

B. PERSONNEL

Salaries and benefits such as health insurance, workers’ compensation, and retirement will be calculated by Budget staff. Increases to the personnel budget must be submitted during the budget process and be fully justified to show that they will either meet new program purposes or maintain or enhance service delivery. The Compensation and Classification Committee will analyze requested positions for appropriateness and recommend approval or denial.

C. BUDGET REDUCTIONS

In developing recommendations that may require operational reductions, division managers should ensure that administrative and non-essential areas have been reduced to the maximum extent possible. In general, any service reduction should include reductions in administrative functions such as management/supervisory, payroll, or other support staff.

All reductions should include an overall review of management structure to ensure efficiency and economy of resources. Further reductions should focus on positions most recently added and/or programs most recently augmented or identified as non-core function.

The focus should be on programs which are discretionary or where the service level is discretionary and are not mandated by charter or other law or does not address one of Council's vision items.

D. CAPITAL IMPROVEMENT PLAN

The City Manager shall prepare and submit to the City Council a multi-year capital improvement plan. The capital improvement plan shall comply with policies and procedures as set forth in the city charter.

IX. CONTINGENCY PLANNING

A. The City Manager may establish a plan including definitions, policies, and procedures to address financial conditions which could result in a net shortfall of resources as compared to requirements. The plan is divided into three components – indicators, phases, and actions.

1. Indicators serve as warnings that potential budget impacts are increasing in probability. The City will monitor key revenue sources such as sales tax, property tax, and building activity as well as inflation factors and national and state trends. A set of standard indicators will be developed.
2. Phases serve to classify and communicate the severity of the situation as well as identify the actions to be taken. Listed from least severe to most severe, the phases are: alert, minor, moderate, major, and crisis.
3. Actions are the preplanned steps to be taken in order to prudently address and counteract the anticipated shortfall.

B. Below is a summary of the phase classifications and the corresponding actions which may be taken.

1. ALERT – an anticipated net reduction in available reserves or reduction in major revenue source(s) from 1% to 9%.
 - Delay expenditures where reasonably possible while maintaining the same level of service. Each division is responsible for monitoring its budget to ensure that only essential expenditures are made.
 - Transfer capital funds allocated for future projects to the affected fund.
2. MINOR – a reduction in reserves from 10% to 23%. The objective at this level is still to maintain the same level of service where possible. Implement the actions listed for ALERT plus:

- Intensify the review process for large expenditures such as contract services, consulting services, and capital expenditures including capital improvements;
 - Closely scrutinize hiring for vacant positions, delay the recruitment process, and use temporary help where possible.
3. MODERATE – a reduction in reserves from 24% to 50% which necessitates cuts of service levels by:
- Requiring greater justification for large expenditures;
 - Deferring capital expenditures;
 - Reducing capital improvement appropriations;
 - Filling vacant positions only with special justification and authorization;
 - Restricting use of overtime;
 - Closely monitoring and reducing travel and training.
4. MAJOR – a reduction in reserves of 51% to 99% which requires major service cuts:
- Institute a hiring freeze;
 - Reduce the temporary work force;
 - Defer salary increases;
 - Further reduce capital expenditures;
 - Prepare a strategy for reduction in force.
5. CRISIS – reserves have been 100% depleted and the potential for having a deficit is present. Implement all actions listed above plus:
- Execute reduction in force and/or other personnel cost-reduction strategies;
 - Eliminate programs;
 - Eliminate capital expenditures including capital improvements.
- C. The recession plan and classification of the severity of the economic downturn may be used in conjunction with the City’s fund balance policy which addresses the importance of maintaining reserves to address economic uncertainties. As any recessionary impact

reduces the City's fund balance, corrective action may be implemented to increase the fund balance proportionately.

X. FUND BALANCE

The objective of this policy is to establish target fund balance levels.

This policy sets the City's goal for fund balance amounts. It is not designed to limit Council's authority. The City Council shall retain the authority to commit any amount of fund balances for services or purchases as it deems appropriate.

- A. All operating funds shall have a goal of 75 days of the current year's original budget.
- B. Capital, capital projects, and grant funds shall have a goal of zero.
 - 1. Capital and capital project funds exist to track monies spent on capital items. They normally have no operating purpose and therefore have no regular need for fund balances. However, when planning projects long-term, variances in fund balance should be considered when establishing tax rates and usage fees to adequately fund projects over time.
 - 2. Grant funds exist to track revenues and expenditures of monies that are restricted for a particular use. Additionally, reimbursement type grant funds that do not have program income would be unable to accumulate a fund balance.
- C. Insurance funds shall have a fund balance goal at an adequate level to provide reasonable protection against exposure to claims. The goal will be established annually corresponding to the actuary report for a particular fund.

All fund balances for the purposes of this policy will be defined as liquid, unreserved fund balance. The method to calculate such fund balance will be determined by the Finance Director.

After completion of the annual audit, the Finance Director may present to the City Manager an analysis of fund balances if warranted. If a surplus or shortfall is identified in any fund, staff will prepare a plan for appropriate action to reduce or increase the relevant fund balance. After the plan is presented to the City Manager and direction is given by the City Manager, the Finance Director may execute the approved plan.

XI. BUDGET ADOPTION

As a home rule municipality, the budget shall be adopted by ordinance in accordance with state statute, city charter, and all other governing documents.

XII. BUDGET CONTROLS

The division manager is ultimately responsible for making sure his/her division does not exceed budgeted expenditures. The division manager should work with supervisors and Budget staff to address unplanned events.

XIII. AMENDMENTS TO THE BUDGET

Budget staff annually provides the Council, City Manager, department directors, and division managers with adequate background so that division managers may prepare a budget that maintains its current performance level.

- A. Division managers are allowed to request amendments to the budget to improve efficiency and productivity or due to unforeseen circumstances.
- B. A budget amendment must be approved prior to the occurrence of the expenditure except for emergency expenditures when approved by the City Manager or his/her designee.
- C. Budget amendment requests shall include an explanation from the division, approval by the Finance Director or his/her designee, and a recommendation from the Budget Manager. The explanation must be clear and provide sufficient detail. Certain approval authority is assigned in the annual budget ordinance. In general, the following amendments require Council approval:
 - 1. A decrease to the revenue budget without an equal decrease to the expense budget;
 - 2. A movement between funds;
 - 3. Changes to the budget that are necessary for purchases, grants, or interlocal agreements if the City Council agenda caption of the item clearly states the funding source and the amount of the item. The background memo must clearly show all funds impacted by the expenditure. If these requirements are met, the agenda item serves as final approval by City Council for the expenditure and the amendment to the budget.
- D. In general, the following amendments may be approved by the City Manager:
 - 1. changes to the budget under \$50,000 per year cumulative of all funds that are necessary for purchases and grants
 - 2. changes to the budget for grants, designated and restricted revenues, and their corresponding expenditures
- E. In general, the following amendments may be approved by the City Manager or his/her designee:
 - 1. Any change to the personnel budget;
 - 2. An increase or decrease to the utility (electricity, natural gas, water) budgets;
 - 3. A movement between departments;
 - 4. Decrease to revenues and expenditures in the same amount.
- F. In general, the following amendments may be approved by the Finance Director or his/her designee:
 - 1. An amendment among like divisions;
 - 2. An amendment within a division;

3. Administrative corrections.

XIV. PERFORMANCE MEASURES

Division managers will include performance measures for each major function within the division. Performance measures quantitatively tell us something important about our products, services, and the processes that produce them.

Performance measures are used to indicate whether and to what extent departments are accomplishing a mission and are tools for management to measure the effectiveness of services in order to make strategic decisions.

Performance measures are maintained for critical services over a period of time in order to establish a service standard, to show historical deviation, and for use as a benchmark of City services against those of other government entities. Performance measures must be updated annually at a minimum.

XV. DISTINGUISHED BUDGET PRESENTATION

The City will seek to comply with suggested criteria of the Government Finance Officer's Association in producing a budget document that meets the Distinguished Budget Presentation criteria as a policy document, an operating guide, a financial plan, and a communication device.