

CITY OF EXAMPLE, OK
BUDGET POLICY

To protect the interest and welfare of the citizens of Example, and to establish a formal process to maintain the fiscal health of the City, the following budget policies have been designed to guide the City management in the budget development, amendment and monitoring activities for the City and its public trust authorities. This policy shall be known as “The Municipal Fiscal Responsibility Policy”.

Types of Budgets

The City of Example’s policy is to develop two types of budgets:

- **Annual Fiscal Year Budget** – fiscal year budget of all funds organized into the following categories
 - Operating Funds
 - General Fund
 - Example Public Work Authority
 - Example Recreational Authority
 - Restricted Funds
 - Airport Fund
 - Street and Alley Fund
 - Cemetery Care Fund
 - Hotel/Motel Tax Fund
 - Capital Funds
 - City Capital Fund
 - PWA Capital Fund
 - REC Capital Fund

- **Long-Term Capital Budget** – a continuous five-year plan of capital asset and infrastructure needs including new capital assets and replacement of existing assets. This budget/plan is used as a tool in developing the Capital Fund Budgets within the annual fiscal year budget.

Budgetary Legal Requirements

The budget process for all City funds (excluding those of the public trust authorities) is governed by 11 O.S. Sections 17-101 through 17-216. As such, the City will comply with all legal deadlines, public hearing and budget content requirements of the law.

The budgets for the public trust authorities are governed by 60 O.S. Section 176.

Budget Responsibilities

The City Manager is responsible for preparing the annual fiscal year budget and presenting the budget to the City Commission at least 30 days prior to the start of the

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budget year. The budget shall be in a format that complies with applicable budget law and shall present estimated resources and proposed expenditures for each fund.

The City Commission is responsible for reviewing and considering the budget submitted by the City Manager and shall conduct a budget public hearing as required by law. The City Commission shall be responsible for adopting the annual fiscal year budget at least 7 days prior to the start of the fiscal year.

Budgetary Basis of Accounting

The basis of accounting used for budget monitoring depends on the type of fund budgeted.

Governmental funds (such as the General Fund) shall account for revenues on the budgetary basis when received in cash and charges to appropriations will be recorded when the encumbrance or commitment is created.

Proprietary funds (such as the PWA and REC) shall account for revenue when billed and charges to expenditure budgets will be recorded when the encumbrance or commitment is created.

Fiduciary funds are not budgeted because, by their nature, they do not represent City spendable resources.

In accordance with state law, encumbered appropriations may remain open to pay proper claims against said appropriations until September 30 of the following fiscal year. All unencumbered appropriations remaining at year end are considered lapsed and no new encumbrances or obligations may be created subsequent to year end against these lapsed appropriations.

Legal Level of Budgetary Control

The expenditure budget for City funds (excluding public trust authorities) shall constitute legal appropriations or spending limits in accordance with applicable state law. The legal level of control (level at which charges to appropriations may not legally exceed appropriations) is the department level within a fund.

The expenditure budget for public trust authorities shall constitute a financial plan and shall not be considered legal appropriations. Charges to these expenditure accounts will be monitored for financial planning purposes, not for legal compliance purposes.

Budget Amendment Responsibilities

Transfers of appropriations or expenditure budgets between object categories and accounts within a department of a fund may be made by the City Manager without City Commission approval. Any transfers of appropriations or expenditure budgets between departments within a fund will require City Commission approval.

All supplemental appropriations and fund decreases in appropriations shall require approval of both the City Manager and City Commission.

A formal record of budget amendments should be maintained in the records of the City Clerk and incorporated within the accounting records by City accounting staff.

Budgetary Fund Balance Reserves

In an effort to provide fiscal stability for the City and allow City management to apply fiscal prudence in managing the budgetary condition of the City and its public trusts, desired fund balance reserve levels are established. Fund balance reserves are defined as the amount of fund balance available for appropriation at any point in time.

The desired level of reserves for the operating funds group, considered in aggregate, shall be 50% of the annual fund revenue accruing to the fund group.

The desired level of reserves for capital funds will be based on an estimated average annual capital budget as evidenced by the long-term capital plan as discussed above.

In fiscal years when these desired reserves are not already in existence, City management and the City Commission will add to the reserves when possible to attain the desired levels.

On a monthly basis, the City Finance Director/Treasurer will report the budget status of the operating and capital funds to the City Commission and will make an express statement as to the status of the unappropriated fund balance on hand at month end. The City will also engage the external financial statement auditor to make an express statement as to the City's compliance with this budget policy, including the level of budgetary reserves.

Budget Balancing Policy

It is the City's policy to appropriate no more than the current year estimated revenues, including interfund transfers, for each fund, in the original budget for a given fiscal year. Compliance or departure from this policy shall be duly noted in the Budget Message submitted by the City Manager for the following fiscal year, including an explanation as

to the basis for any departure, making reference to the applicable criteria outlined in the following section. “Criteria for Use of Fund Balance Reserves”.

During the fiscal year, after adoption of the original approved budget, any supplemental appropriations of available fund balance must be approved by the City Commission who shall consider the basis for the proposed use of reserves as well as the adequacy of the remaining unappropriated fund balance. Actual approval of any supplemental appropriations of available fund balance shall be duly noted in the minutes, including a reference to the basis or justification for same, as outlined in the following section, entitled, “Criteria for Use of Fund Balance Reserves”.

In the process of balancing the budget, interfund transfers from the PWA to the General Fund will be limited to no more than 25% of the annual estimated gross revenue for the PWA for the budget year.

Criteria for Use of Fund Balance Reserves

A central goal of this budget policy is to bring about the development and preservation of adequate fund balance reserves to ensure fiscal solvency of the municipality over the long run, as a safeguard against economic downturns, natural disasters or other catastrophic circumstances, significant budgeting or accounting errors, or possibly even adverse liability claims or legal judgments.

Caution must be exercised whenever considering budgeting reserve funds, even when actual reserve fund levels exceed desired levels, since they represent one-time monies. For example, as a general rule, municipalities should avoid using reserve funds to finance new spending initiatives, lest they find themselves unable to satisfy the new, recurring expenses.

This said, there are circumstances when it is acceptable and/or necessary to budget the use of fund balance reserves even though reserve amounts on hand already fall shy of desired levels. Municipalities will benefit, however, from adopting -- in advance -- written, objective criteria outlining acceptable uses of fund balance reserves, to serve as a guide for administrators and managers in their budgeting practices.

Acceptable / Permitted Supplemental Appropriations of Fund Balance Reserves Might Include:

1. Emergency expenditures for life, health, or public safety issues for which no existing appropriation exists;
2. Situations where the expenditure will yield recurring savings which offset the expense within five years;

3. Situations where the expenditure will yield a recurring stream of additional or new revenues which offset the expense within five years;
4. The expenditure of restricted resources temporarily held within fund balance reserves, pending disbursement, in accordance with restrictions imposed by the donor or granting entity;
5. Correcting results of an erroneous posting or transaction;
6. Situations where fund balance reserves exceed desired levels and the proposed use is of a non-operational nature involving capital or equipment purchases having a useful life of greater than five years;
7. Situations where fund balance reserves exceed desired levels and the proposed use is of a non-recurring nature, such as a study, or for start-up costs of a program whose ongoing costs are otherwise funded;
8. Situations where an unexpected expense arises that could not have reasonably been foreseen, for which new revenue funded appropriations are not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels throughout the City;
9. Situations where an unexpected revenue decline arises that could not have reasonably been foreseen, for which new revenue funded appropriations are not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels throughout the City;
10. To create a new fund for a dedicated purpose;
11. To satisfy a judgment from a court of competent jurisdiction.
12. Under no circumstances should a supplemental appropriation of fund balance reserves be made for expenditure likely to recur on a multiple year or annual basis.

Annual Report on Status and Use of Fund Balances

Within sixty days of the close of a given fiscal year, the City's Chief Financial Officer shall produce a report for the City Council displaying the status of the budgetary fund balances of the City's operating funds, by fiscal year, for the fiscal year beginning July 1, 1996, through the end of the immediately preceding fiscal year. Said report will include a graphical display of reserve fund balances, in nominal dollars, and a separate graphical display expressing these balances as a percentage of the annual revenue collected by the operating fund group each respective year, as compared to the desired level indicated in the City's adopted budgetary policy. Said graphical displays shall be published in the

local newspaper, along with a summary explanation of any significant factors which resulted in negative variances from corresponding fund balance ratios for the preceding fiscal year.

Budget Message Content

In addition to the requirement stated above regarding budgeting of fund balance reserves,

The City Manager's annual Budget Message shall include, at a minimum:

1. An explanation of the underlying assumptions on which key revenue source estimates were based, as well as the presence of any significant one-time revenue sources;
2. An explicit statement explaining any changes in tax structure, rate, or fees proposed as a part of the proposed budget;
3. A listing of new operations spending initiatives financed in the proposed budget, including – where applicable – the size of any subsequent out-year cost increases expected;
4. A listing of any significant capital expenditures proposed, and;
5. Where applicable, an explanation as to why fund balance reserves were budgeted.

Annual Evaluation of Revenue Sufficiency/ Rate Structure

As an integral part of the annual fiscal year budget process, City management and the City Commission will evaluate the sufficiency of utility rates, taxes and other revenues in meeting the appropriation and expenditure needs, including inflationary factors, of the City and its public trusts. The City Manager's budget message will address this revenue evaluation and include any related recommendations for Commission consideration.

In particular, utility rates shall be evaluated and, if necessary, adjusted on an annual basis, after reviewing the cost of operations, capital needs, budgetary transfer requirements, competitor's pricing structures, and overall economic climate to ensure rates are set at levels which will, at a minimum, cover the cost of delivery of the related services, including depreciation. Since adoption of more modest, relatively more frequent rate adjustments are more manageable for households and businesses alike, modest, more frequent adjustments are to be emphasized. Keeping rates at a sufficient level each fiscal year will prevent the necessity of relatively larger, more sudden and dramatic adjustments in any one year.

Budget, Finance and Performance Committees

Budget and Finance Committee

All proposals for new services or significant changes in services, and capital projects shall be evaluated by a budget and finance committee appointed by the City Commission. This committee will be comprised of the following:

- Mayor (as a non-voting member)
- One City Commission member (appointed by majority vote of the City Commission)
- City Chief Financial Officer
- Two Citizens of Example (appointed annually by the Mayor)

This committee shall evaluate the short-term and long-term budgetary needs, one-time costs, recurring costs, and economic impact of the initiatives or proposals. In addition, the committee will be responsible for the development and annual update of the City's Long-Term Capital Plan and recommendations. All recommendations of this committee will be presented to the City Manager for review and consideration of submission to the City Commission.

Audit and Performance Committee

An Audit and Performance Review Committee, consisting of the Mayor, one appointed City Council member (appointed by majority vote of the City Commission), the Chief Financial Officer, and two citizen appointees (appointed annually by the Mayor) shall meet as necessary to review performance of selected City operations and to review audits and management analyses that might be conducted. Findings should be reported to the City Manager for consideration and possible action by the full City Commission, including where appropriate, drafting of proposed City Ordinances or Resolutions.

Budget Calendar

To ensure adequate time is provided near the end of a given fiscal year to permit thorough review by the City Commission of the following year's budget proposal, a formal budget calendar containing intermediate milestones or deadlines will be adopted as follows.

- 1) Meetings of the Budget and Finance Committee to Address Long-Term Capital Plan and Proposals for New or Changed Services – October-December
- 2) Issuance of Budget Request Instructions and Forms by Chief Financial Officer (CFO) – January 1st
- 3) Return of Completed Budget Request Forms by Department Heads to CFO – February 15th
- 4) Development of Initial Revenue Estimates by CFO – March 1st

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- 5) Completion of Utility Rate Structure Analysis - March 15th
- 6) Submission of First Draft of Budget Proposal by CFO to City Manager – April 1st
- 7) Working Sessions with City Commission/ Budget Committee – April - May
- 8) Presentation of City Manager’s Proposed Budget to City Commission – May 16th
(legal deadline June 1)
- 9) Public Hearing on Proposed Budget - June (legal deadline June15)
- 10) Final Adoption of Approved Budget – June (legal deadline June 24)