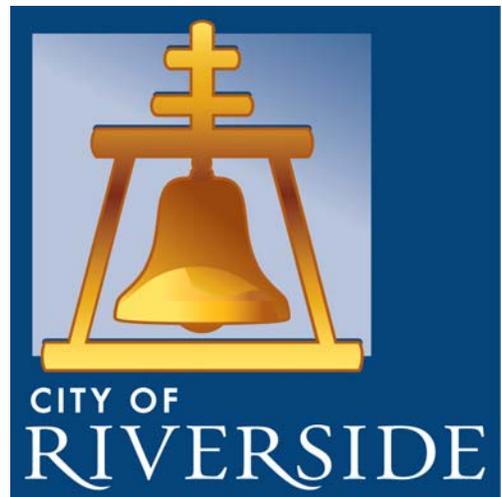


# GUIDE TO THE BUDGET



# Guide to the Budget

## What is the Budget?

The Annual Budget sets forth a strategic resource allocation plan that addresses the City Council's Strategic Goals. The Budget can be thought of as a policy document, financial plan, operations guide, and communication device all in one.

The Budget also

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

The budget process furnishes department heads 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 annual 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 Annual 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 Annual 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, employee benefits, telephone expense, and building maintenance. 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. Capital improvement projects typically carry considerable future impact, meaning, they have a life span of at least five years or more. 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 year of the CIP is integrally related to the Annual Budget document, and so a summary of the CIP is provided in Section J.

Most expenditures found in year one of the CIP are included in the Annual Budget's capital budget component. However, projects that are to be financed through the issuance of debt, loans, or other more long-term means will not be found in the Annual Budget. Such debt-financed projects manifest themselves in the Annual Budget as payments of principal and interest rather than individual capital expenditures on a project-specific basis. For example, the City's Measure G Bond Initiative funded construction of various projects for the Riverside Fire

## Guide to the Budget

Department. Because bonds were issued to fund these projects, payments of principal and interest are shown in the Annual Budget each year instead of direct expenditures to construct the various projects financed through Measure G.

### **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. The mode of community input especially important to the budget development process is through the City Council Strategic Plan. In addition, Departments obtain citizen input through Boards and Commission meetings, the City of Riverside's Resident Survey, Mayor's Night Out forums, public hearings, and other forms of written and oral communication.

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

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

Phase One represents the planning and assessment phase. Departments focus on the what, why, how, and how well they deliver individual services. This phase includes both strategic plan development and data gathering, such as performance information. This phase can begin as early as the start of the fiscal year. Phase Two consists of the City Manager's Budget Policy Directive and Departmental Budget Submittal, and runs from December through March. Phase Three covers the period when the Preliminary Budget is prepared and presented to the City Council through Budget Adoption.

### ***Strategic Planning and Program Assessment***

The City Council Strategic Plan is a process that brings into alignment the community's priorities and needs, City Council Strategic Goals, and City operations. The City Council's Strategic Goals then are used as a roadmap to

realize the community vision through building a budget that effectively utilizes City resources.

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.

Of particular significance in the program assessment phase is the evaluation of how well the City is performing its services. The budget incorporates performance measures into the development of the budget and into the document itself. Departments set targets that are tied to action plans for improvement. A select group of performance measures used in the budget development process are featured in the Budget Document.

**NOTE: Discussion of Departmental goals and their relationship with the City Council's Strategic Goals as well as performance measures have been omitted from the budget this year, as this is year two of the Biennial Budget. Performance measures will return in the 2007/08 Annual Budget document.**

### ***Budget Directive and Departmental Submittal***

The City Manager establishes a Budget Directive based on short and long-term financial and organizational goals. Budget kickoff begins in December at a meeting attended by the City's Departmental Budget Coordinators and key staff from the City Manager's Office Administration and Finance Divisions. 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, key staff from the City Manager's Office Administration and Finance Divisions, Department Heads, and Departmental Budget

# Guide to the Budget

Coordinators. Staff presents an overview of the department's proposed budget, including reductions or other significant budgetary changes, performance measures, and performance targets. The aim of the City Manager Review is to finalize decisions regarding departmental budget submittals and to discuss other outstanding issues.

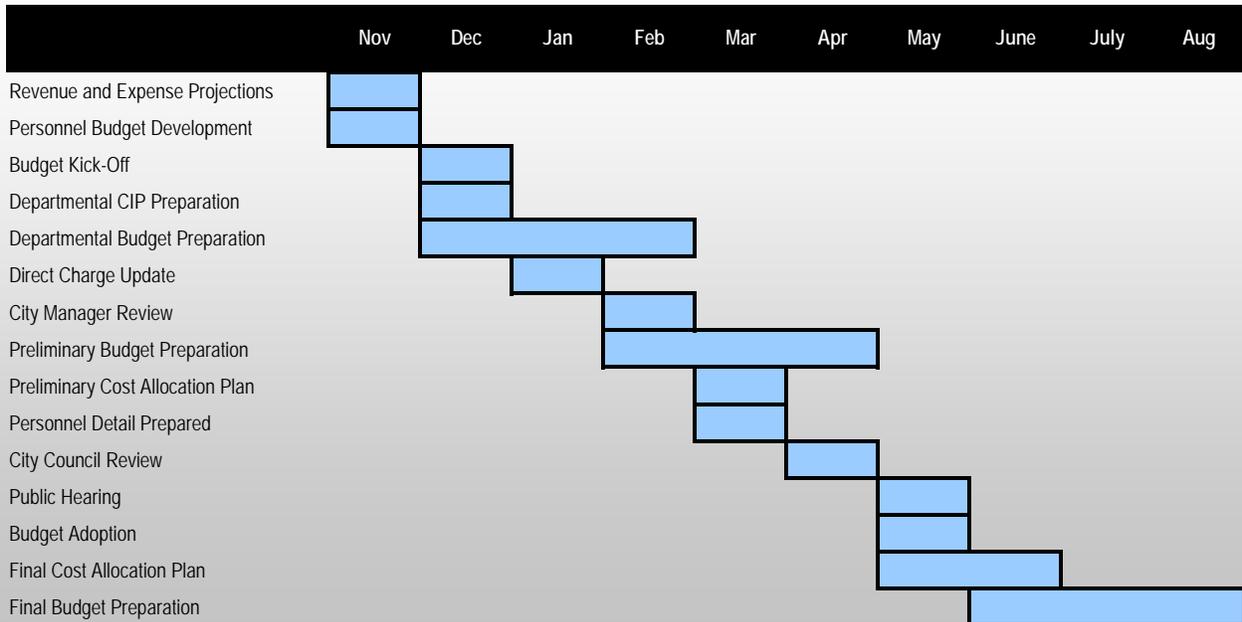
### ***Budget Preparation and Adoption***

This phase consists of the preparation of the Preliminary Budget through Budget Adoption, and includes the publication of a "Budget-in-Brief" for wider distribution to the general public. Once the City Manager Reviews have taken place and all departmental budget issues are resolved, the Finance Division prepares the Preliminary Budget. The Preliminary Budget takes into account any changes agreed upon at the City Manager Reviews and any other City Manager-directed changes.

The City Manager presents the Preliminary Budget to the City Council in one or more workshop sessions typically held in May. Although public comment is welcome throughout the workshop sessions, a specially designated Public Hearing is expressly held for public participation. Subsequent to the Public Hearing, the City Manager will ask the City Council to adopt the Annual Budget with any necessary revisions made between the time of the publication of the Preliminary Budget and the date of adoption. The Annual 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.

Although the City strives to avoid as much technical language as possible, budget documents can still be rather cumbersome and dense in nature. The Budget-in-Brief is a user-friendly, manageable document for the public and other interested persons to read.

## BUDGET DEVELOPMENT PROCESS TIMELINE



# Guide to the Budget

## How to Read the Budget

Budgets play a crucial role in communicating to elected officials, city employees, and the public the City's plans for the use of its resources. Yet budgets are complex documents that can be difficult to grasp at first hand. Although the City has made every effort to make the document as easy to navigate as possible, this section provides the reader with some basic understanding of the constituent components of the Annual Budget document. Additional sections to which the reader should refer are the Budget Summary Tab and the Glossary of Terms Tab. The Budget Document is comprised of the following 12 main sections:

- City Manager's Budget Message
- City Profile
- Strategic Budget Priorities
- Guide to the Budget
- Budget Summary
- Fund Balance Statements
- Revenue Summary
- Expenditure Summary
- Departmental Summaries
- Capital Improvement Program Summary
- Personnel Detail
- Glossary of Terms

### *City Manager's Budget Message*

The City Manager's Budget Message is a transmittal letter addressed to the Mayor and City Council that introduces the Annual Budget. The Budget Message outlines the organizing principles of the budget and the assumptions on which the budget was developed (e.g., economy, strategic plan requirements, revenues, and expenditure needs) to accomplish the City's objectives for the year.

The City Manager's Budget Message aims to provide the reader with highlights of the operating and capital budgets and a sufficient context to understand how and why budgetary changes occurred between fiscal years.

### *City Profile*

The City Profile provides a snapshot of the City for which the Annual Budget has been developed. The purpose of this section is to give the reader an at-a-glance look at the City's main assets, including information on tourism, transportation and City heritage, as well as demographic data and basic infrastructure statistics.

### *Strategic Budget Priorities*

The City's Annual Budget is expressly shaped by the City Council's Strategic Goals. In this way, City leadership can be assured that resources are allocated wisely and effectively toward meeting the Strategic Goals. This section describes the linkage between the City's Mission, Values, and Vision and the City Council's Strategic Goals.

### *Guide to the Budget*

The Guide to the Budget allows the reader to understand the purpose of the budget, how the budget is developed, how to read the budget, and the financial and operational policies that guide the budget development and planning processes as a whole.

### *Budget Summary*

The Budget Summary provides a concise and informative narrative summary of the Annual Budget including fund descriptions, planned expenditures, and estimated revenues. The following sections then expand upon this summary to provide additional summarized detail.

### *Fund Balance Statements*

The Fund Balance Statements provide a citywide summary of beginning and projected year-end balances for each of the City's funds. Individual fund balance statements for each City fund follow.

### *Revenue Summary*

The Revenue Summary provides a citywide summary of anticipated and historical revenues.

### *Expenditure Summary*

The Expenditure Summary provides a citywide summary of projected and historical expenditures by Department and fund.

### *Departmental Summaries*

The Departmental Summaries contain detailed budget information for the basic organizational units of the City, its Departments. The Departments are presented in alphabetical order. Each departmental summary presents the following information:

- **Mission Statement** – Each department has formulated a Mission Statement that presents “the what, for whom, and why” the department exists.
- **Organizational Chart** – The Organizational Chart diagrams the relationships of the Divisions

## Guide to the Budget

and Sections comprising a department. The total number of Full Time Equivalents (FTEs) in each Division or Section is also shown. The purpose of this chart is to highlight programmatic activities rather than to portray reporting relations among staff.

- **Services Provided by Department** – This section provides detailed information on the breadth and scope of the Department's work.
- **Budget Summary by Division** – This table provides comparative information on budgeted expenditures for four fiscal years for each of the Divisions presented in the Organizational Chart, as well as Divisions without personnel. Percentage change data between the prior and current fiscal years is also provided.
- **Personnel Summary** – This table provides comparative information on budgeted personnel for four fiscal years for each of the Divisions presented in the Organizational Chart. Percentage change data between the prior and current fiscal years is also provided.
- **Budget Summary by Major Object** – This table provides comparative information on budgeted expenditures for four fiscal years for each major object of the City's chart of accounts. Major objects combine expenditures within broad categories together to illustrate the cost of personnel, capital projects, debt service, and other key expenditure groupings in aggregate for the entire Department. Percentage change data between the prior and current fiscal years is also provided.
- **Summary of Significant Budget Adjustments** – This section provides a narrative description of significant changes within each Department that have resulted in increases or decreases in the Department's budget.
- **Departmental Budget Detail** – This section provides line item detail for each Division and Section with the Department.

**NOTE:** Discussion of Departmental goals and their relationship with the City Council's Strategic Goals as well as performance measures have been omitted from the budget this year, as this is year two of the Biennial Budget. Performance measures will return in the 2007/08 Annual Budget document.

### *Capital Improvement Program Summary*

This section looks at the City's five-year Capital Improvement Program including funding sources, project highlights, and the specific projects for which funds are allocated for the fiscal year detailed in the Annual Budget. A more in-depth Capital Improvement Program document is available from the Finance Division of the City Manager's Office and is featured on the City's web site.

### *Personnel Detail*

The Personnel Detail section includes the titles and job codes of the full-time and part-time positions authorized for each Department, as well as the salary costs for each authorized position (note: benefits are not included in this figure). A comparative table that provides four years of historical data and a citywide organizational chart are also presented in this section.

### *Glossary of Terms*

Budget documents may be difficult to read and may contain terms unfamiliar to the reader. This section attempts to cover the key terms used throughout the Annual Budget document and in the budgeting process, in general.

### Accounting and 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:

# Guide to the Budget

- 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.

Funds are appropriated 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 citizens with reviewing the City's budget. In the Departmental Budget Detail sections of the Annual Budget, expenditures are shown by General Ledger (GL) account. In certain other sections of the Annual 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 revenues, GL keys 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 (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 guiding principles of the City's budget development process are 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 Annual Budget.

### *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

## Guide to the Budget

Manager annually presents a mid-year fiscal review to the City Council, typically held between January and March. This review includes needed adjustments to personnel and non-personnel budgets that have been identified by staff since the adoption of the Annual 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 so as 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 Annual 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 subsequent changes individually approved by the City Council. The City Manager is legally authorized to transfer budgeted amounts between Divisions and accounts within the same Department 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 and funding sources 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 Annual Budget. These continuing appropriations are not included in the Annual Budget document.

### *Proposition 4 (Gann) Appropriation Limit*

Article 13-B of the California Constitution was added by the November 1979 passage of the Gann Initiative. This legislation mandated that California Cities must compute an appropriation limit, which places a ceiling on the total amount of tax revenues that the City can appropriate annually. The legislation also provides that the governing body 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. Budgeted appropriations are limited to actual revenues if they are lower than the limit. The Appropriations Limit may be amended at any time during the fiscal year to reflect new data.

### *General Fund Planning Scenario*

The City's General Fund Planning Scenario (GFPS) projects the fiscal health of the City's General Fund and allows management to understand the fiscal gaps that may exist between revenue projections and projected expenditure requirements. In this way, policymakers can issue directives that range from maintaining the status quo to closing the gap between revenues and expenditures. The City Manager's Budget Directive is largely based on the information drawn from the GFPS data, as is the Mid-Year Budget Review.

Revenue estimates 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.

### *General Fund Managed Savings Program*

Management is expected to be fiscally responsible with the City's allocated resources. Moreover, as part of its daily work, management is expected to continuously identify efficiencies and methods that would lead to significant improvements in services. In times of fiscal concern, management is called upon to identify savings that might be generated by reducing expenditures in areas that will have the least impact on significant service areas.

## Guide to the Budget

The resultant unencumbered balance is returned to the General Fund. Historically, two to three percent of the departmental budgets are saved each year as a result of these efforts.

### *Economic Contingency Reserve*

Since 2001, the City has annually attempted to earmark an amount equivalent to 15 percent of the General Fund expenditure budget for an Economic Contingency Reserve. This reserve is intended to provide a cushion against fluctuations in revenue and expenses.

### *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*

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 for purposes of City taxation 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. Specific details on the City's outstanding debt can be found in the Budget Summary Section.

### *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.

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