

Budgetary Guidelines

For the FY 2004 and FY 2005 Two Year Budget (2YB)

Development Process

Reviewed by City Council in February and March, 2003 Six Year Financial Plan discussions

Budget Process Mission Statement: The overall goal of the budget process is to assure the long-term financial health of the City through wise allocation of resources. The budget funds operations and capital facilities within the two-year budget cycle; anticipates longer-term needs, trends, and policy choices. The City budget process is a vehicle for implementing the City's strategies and program of services.

eBudget: The FY 2004 and FY 2005 two-year budget will be developed as an electronic budget. The budget is published electronically. The budget process utilizes "eBudget" documents on the intranet and the final public documents will be posted on the City's Internet web site. The budget development and management software provides for workflow and document sharing to facilitate the eBudget. At City Council request, printed workbooks will be furnished to the Mayor and City Council for this budget development cycle. Otherwise, as far as possible, no paper documents will be produced and published.

Strategic Planning: The budget process recognizes and integrates the financial impact of adopted long-term services and facility plans. The City's Strategic Plan and the budget focus on priority initiatives and action steps. Financial projections and quarterly reporting analyze effects of current plans and potential effects of choices.

Review and updating of the Strategic Plan is a fundamental aspect of development of the two-year budget. The Mid-Biennium year in the TYB is used for strategic planning. Departments report progress in achieving initiatives and tactics in the Strategic Plan. Departments and community representatives propose priorities for new initiatives and tactics for the next several years. The City Council adopts a "Strategic Plan Update" as a formal first step in the budget process.

Note: As part of the FY 2004 and FY 2005 budget process, Amy Stahl prepared a synopsis of the 2001 update of the Strategic Plan update that was approved by City Council in February, 2003.

Coordination with Adopted Master and Comprehensive Services and Facilities Plans. All departments will be asked to review their adopted master or comprehensive services and facilities plans (Park Master Plan, Airport Comprehensive Facilities Plan, Sewer Facilities Plan, etc., to identify implementing activities and costs that should be included in their 2Ybs.

Long Term Financial Plan: Six-year financial projections have been prepared to identify possible fiscal impacts upon the City and to provide context for budgeting. The Six-Year Projections are used to analyze the potential effects of budget decisions within the two-year budget. The Six-Year Financial Plan was updated as an initial first step in the two-year budget development process. It includes a comprehensive review of City financial policies, an

economic scan, a Revenue Manual including analysis of all major revenue sources, a six-year financial projection of budgeted revenues and effect on financial position, adoption of budget development guidelines, and a six-year historical report of “actual” results and a debt analysis.

Two Year Budget (2YB) Format: The two-year budget format offers significant savings in time required preparing budgets. It enhances the longer-term view of participants. It is a result of the process improvement strategy in the City’s quality program.

Decision Units for Significant Long Term Budget Choices by the City Council: To facilitate City Council direction for the 2YB development process, decision units will be identified for Council review and direction to guide departmental budget preparation and to provide context for the overall budget process. Decision units will include key issues and choices identified in the City Council’s February and March, 2003 Six Year Financial Planning sessions.

2004 and 2005 2YB Decision Units include:

- Revenue adjustments (property tax levy for judgments, increase of water franchise fees, user fees increases);
- Compensation (protection of medical insurance coverage or salary increases);
- Level of O & M cost inflation, if any;
- Replacement of lost federal operating grant for bus services;
- Inflationary increases for equipment costs, if any; cost increases for service workload increases;
- BBA’s (budget balancing alternatives to reduce costs);
- Amount to be set aside (toward the 5 % goal) during the 2YB period for the City’s cash flow flexibility and debt service assurance account on the General Fund balance sheet;
- Funding for risk and workers compensation reserves;
- Deferral of debt funded projects to balance the budget; and
- Funding of “unfunded services and capital facilities priorities.”

Possible 2005 Mid-Biennium Adjustments: The budget was developed with the best information possible. Because it is likely that changes will occur during the two-year period, a mid-biennium adjustment process will be provided. A modest contingent account will be used for expenditures not anticipated in the two-year plan.

Revenue Diversification: The departments and central staff are asked to prepare proposals for new or enhanced revenue sources to reduce the reliance on property taxes. Departments are asked to review all user fees and other charges to keep revenue-to-cost ratios at a consistent level.

Budget tightening - Declining Rate of Growth of General Fund Base Revenues: Revenue is projected in the FY 2004 and 2005 budget to increase at a slower rate than in previous years. Further tightening of the cost for current services is needed to balance the budget and to provide for needed service additions.

Budget Balancing Alternatives: To provide the Mayor and City Council with alternatives to reduce costs and increase revenues or to make other structural changes to the City’s costs in the

2YB and beyond, departments are asked to prepare Budget Balancing Alternatives (BBAs). BBAs will identify potential changes, including reductions, in services that can reduce costs. Departments will be asked to identify priorities for BBAs to inform City Council.

Structural Balance: The budget is developed to achieve structural balance between revenue and cost categories. Base costs are on-going service commitments and are funded with on-going base revenues. Cyclical or user fee supported costs are funded by cyclical or user fee sources or by base revenues. One time costs are funded by one –time revenues, cyclical revenues, user-fee revenues, or base revenues. Structural changes in revenue sources or in other resources were addressed with appropriate structural changes in costs.

City Wide Priorities for Services and Facilities: The Mayor’s Executive Management Team established citywide priorities for current and proposed services and for proposed capital improvement projects and special projects. The priorities were updated periodically during the budget development process. The City Council will modify as appropriate and adopt the priority lists.

Service Group Budgeting: Service groups are used to identify the cost of programs and to assist in developing priorities within the Strategic Plan and in the two-year budget. Service groups focus on outcomes approved by the City Council. Departments are asked to develop and track progress toward goals by identifying and reporting performance measures for each service group.

Modified Zero Based Budget Mechanism: Mayor Terteling-Payne, as the budget officer of the City, uses the modified zero based budget tool to assure all costs are periodically reviewed and justified. The tool shifts the budgetary focus from inputs and resources to priorities for programs, service units, equipment, and capital projects and to alternative funding levels. It is based on comprehensive priority setting and choices among alternatives. The modified zero based process establishes the base budget of current services and facilities.

Maintenance of Current Operations (MCO): State law constrains the City’s revenue sources. The 2YB will identify a base MCO budget. Careful consideration will be given before new services or service enhancements are funded. Because of revenue constraints, the City will consider changing the focus from lower priority services to higher priority services. Alternative service delivery approaches and management targets for saving were considered.

Workload Changes: The cost to respond to increased demand for City services will be identified in the two-year budget process through the BBA process.

Human Resource Cost Targets: The base human resource budget will be developed with budgeted costs of 98% of full costs to reflect the savings estimated with turnover.

A 2.5 % to 3 % compensation pool will be included in the budget to address increases in medical costs and/or employee compensation. Medical costs are expected to increase about 15%, which is equivalent to about a 3 % salary increase (loaded with benefits.) If the medical cost increase is less than expected the remaining pool could be allocated to employee compensation

Fire union contract increases are included in the budget because valid contracts will be in place through both years of the 2YB. The Police labor contract will expire March 31, 2004. Police

compensation costs will be budgeted in a similar manner to general employees.

Operating Costs Target: The Budget Office has prepared **budgetary targets** for operating costs for FY 2004 and FY 2005. The targets are based on an average of FY 2000, FY 2001, and FY 2002 actual costs adjusted by 1) a 2.25% inflationary factor for FY 2000 and FY 2001, 2) rebudgeted items, 3) one-time costs, 4) use of end-of-year allocations, and 5) Council approved changes. No inflationary factor is included in the budget targets for FY 2004 and FY 2005.

Equipment Targets: Budgetary targets in the 2YB were prepared primarily to replace needed equipment.

Equipment replacement and upgrade targets for FY 2004 and FY 2005 were based upon a weighted average of 1) the last 5 years' actual cost average adjusted for one-time expenditures, 2) the FY 2003 adopted budgeted cost, and 3) the corresponding FY 2004 or FY 2005 amount from the FY 2002/FY2003 six-year financial plan. No inflationary factor was included in the FY 2004 and FY 2005 equipment targets. The cost of replacing current equipment and technology was based on preliminary estimates provided by IT. If the actual costs are greater than expected the citywide technology equipment plan will need to be reviewed.

Multi-year Capital Improvement Program (CIP): A prioritized six-year comprehensive Citywide CIP was established. The operating costs of all proposed projects were identified. Approval of a project entails approval of the base operating costs.

Comprehensive citywide priorities were established for all proposed capital projects. The Executive Management Team (EMT) prepared proposed Citywide priorities that integrate department priorities for capital projects. The EMT will update the priorities periodically as needed during the 2YB. The City Council will modify and adopt the priority lists.

Major Repair and Maintenance Costs: Projected major repair and maintenance costs for existing capital facilities will be identified in the budget process for FY 2004 and FY 2005 and recommendations included within the base budget recommendation in the Mayor's Proposed Budget. Allocation to meet the full cost to repair and maintain existing facilities is the highest capital priority in the 2YB.

Priorities for Use of Available Funds for unfunded service or capital proposals: During the two-year budget period, funds may become available through non-base revenue gains (such as building permits) or cost savings. A priority list for such available funds will be developed to guide interim budgetary decisions. Wherever possible, priorities will be established comprehensively and competitively.

Partnerships and Other Innovations: Creative methods have been a tremendously productive source of capital and other projects for the City in the last several years. Departments are encouraged to continue to develop creative means to meet identified needs. The cost to the City to facilitate and support partnerships will be identified and specifically addressed in the budget process.

Quality – Continuous Process Improvement (CPI): A key strategy for achieving better efficiency and for improving customer service, CPI is a rigorous structured program focusing

upon value added activities and their impact on the City's customers.

Quarterly Reporting of Budget to Actual Results: The "QR" reporting process will be used to monitor the progress in implementing the budget plan and to make adjustments during the two-year process.

eBudget Documents: Budget documents will be published on the Intranet (Boise inside) to facilitate the communication of good budget decision-making by departments, agencies, the public, Mayor Terteling-Payne, and the City Council. Documents include:

1. Budget preparation and software guidelines
2. Six Year Financial Plan update
3. Strategic Plan Update
4. Department budget requests for services and capital facilities
5. Mayor's Recommended Two-Year Budget for services and capital facilities
6. Preliminary Approved Budget, approved by the City Council for public hearing
7. Public Hearing Document
8. Adopted Two-Year Budget for services and facilities
9. Adopted Six Year Capital Improvement Budget
10. Quarterly Reports of performance during the eight quarters within the two-year budget period

Budget Development Philosophy: The budget is the overall tool for financial planning within the City. The budget documents will be prepared to achieve the following objectives:

1. *Policy Tool* - The budget focuses on adopted policies and long-term goals. The Strategic Plan and other long-term plans guide budget development. Assessments of customers' needs are prepared. Policies are documented and reviewed.
2. *Financial Tool* - The budget discloses all funds – costs and resources – and the impact of all budgetary decisions upon the financial position of each fund within the City's financial structure. Financial implications of budget and "off-budget" decisions, including debt, partnerships, and actions by other governments will be disclosed. The budget includes historical records and projected impacts over the six-year period to assure that decisions enhance the City's financial health. Impacts upon the operating budget of capital projects, including the cost to maintain and repair facilities, are funded in the budget.
3. *Management Tool* - The budget describes results of services and capital projects that are planned during the two-year budget period. Performance measures and targets are a key feature of the budget.
4. *Communication Tool* - The budget provides a comprehensive overview of the City's program of services and capital facilities. It is a key device to communicate to the public how their resources are used and the associated outcomes.

Actions by City Council on Budgetary Guidelines: During the 2004 and 2005 2YB development process, the City Council chose to adopt budgetary guidelines on an item by item as needed basis during the budget planning and background sessions. Actions were specifically made on all issues reflected in the guidelines during the June 24th budget preliminary approval by

City Council and are recorded in the *City Council Actions* document under the *Policies and Policy Action* menu item.