

Financial Policy #07: Budget

Effective Date: July 14, 2022; Resolution No. 613

Replaces and Cancels: Budget Policies July 23, 2020; Resolution No. 581

References: RCW 35A.33; Financial Policy #01: Financial Management Policies

PURPOSE

To establish the framework for overall fiscal planning and management. The budget policies set forth guidelines for both current and long-range planning activities. The policies are reviewed annually for adherence and relevance and provide the standards against which current budgetary performance can be measured and proposals for future programs evaluated.

BACKGROUND

Chapter 35A.33 of the Revised Code of Washington (RCW) mandates the city's budget process. The annual budget begins January 1 and lapses December 31 of each fiscal year. The budget, as adopted annually by the City Council, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level and expenditures may not legally exceed appropriations at that level of detail.

Budgeted amounts are authorized to be transferred by the City Manager or designee between departments within any fund and among object classes within departments. However, any revisions that alter the total expenditures of a fund or that affect the number of authorized full-time equivalent positions, labor agreements, or contracts for employment must be approved by the City Council.

Once adopted, the budget becomes the formal expression of the City's objectives and priorities for the forthcoming year and how the resources will be used to meet those objectives.

OBJECTIVES

1. To establish general guidelines for the budget process.
2. To establish revenue guidelines for the budget process.
3. To establish expenditure guidelines for the budget process.
4. Define the overall process for establishing a budget.
5. Define the role of the budget advisory committee.

GENERAL GUIDELINES

The City of Ridgefield's accounting and budgeting systems are organized and operated on a fund level basis. A fund is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations. Each fund is balanced, meaning total revenues equal total expenditures. The budgeted funds are grouped into five categories: General, Special Revenue, Debt Service, Capital Projects and Enterprise.

The budget is proposed by the City Manager and adopted by the City Council with legal budgetary control at the fund level. Expenditures may not exceed appropriations. Unexpended appropriations lapse at the end of the budget year.

Any budget adjustments between funds that alter the total appropriations at the fund level shall be approved by the City Council. Budget adjustments between departments that do not alter the total appropriations at the fund level shall be approved by the City Manager or designee. Budget adjustments within a department that do not alter the total appropriations at the department level may be approved by the City Manager or Finance Director.

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The City will strive to ensure that City service priorities keep pace with the needs of the community by incorporating a service level needs review as part of the budget process.

The City budget will support City Council goals and priorities and the needs of the community.

Department Directors have primary responsibility for formulating budget proposals in line with City Council, Management Team, and City Manager direction and priorities. Department Directors are responsible for implementation and management of the adopted department budgets under their control.

The Finance Department is responsible for preparation and administration of the City's budget. This includes maintaining up to date information on revenues and expenditures, organizing data in an understandable fashion, and creating and providing tools for budget development.

The Finance Department will prepare a 6-year financial sustainability revenue and expense forecast, for ongoing operations and maintenance at current service levels. The 6-year forecast will assist City Council in laying the strategic foundation for the new budget year.

The Finance Department assists City Management in identifying budget problems, formulating solutions and alternatives, and implementing any necessary corrective actions as directed by City Council.

Revenues and expenditures shall be coded to the appropriate fund, department, and Budgeting, Accounting and Reporting System (BARS) account code as prescribed by the Washington State Auditor's Office, and not to accounts where an excess of funds may exist.

The City will routinely evaluate its service delivery system to maximize efficiency and effectiveness.

REVENUE GUIDELINES:

Revenue forecasts will be updated and prepared on an annual basis. Forecasts shall be conservatively estimated and subject to revision.

The City utilizes a historic trend analysis to establish baseline estimates of major revenues including incorporating proposed rate increases where applicable.

Utility rates and fees will be reviewed annually and updated and changed as deemed appropriate by City Council. Fees shall be established to recover all appropriate costs for providing the service.

Rate studies for revenues that support Enterprise Funds shall be conducted at least every five years to update assumptions and ensure that revenues are sufficient to recover operating costs, provide for capital improvements that maintain existing levels of service and provide for anticipated growth.

One-time revenues will be used only for one-time expenditures.

Fiduciary activities such as the receipt and remittance of school impact fees will not be included in the City's annual budget. Governmental Accounting Standards Board (GASB) accounting entries to satisfy accounting standards that do not affect cash entries will not be included in the

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City's annual budget. Examples include the recognition of lease activities over the full term of the lease.

EXPENDITURE GUIDELINES:

The Finance Department will provide to each Department Director a baseline operating budget, reflective of the current level of service adjusted for inflation, as calculated using the West Region consumer price index for all urban consumers (CPI-U), and exclusive of any one-time only expenditures.

Salaries and benefits will be updated by the Finance Department and included in the baseline budget. The updated amounts will be based upon collectively bargained labor contracts and input from the City Manager and Budget Advisory Committee.

Changes to the baseline operating budget must be requested and clearly identified, by program, as an Additional Funds Request. Additional Funds Requests will be evaluated by the City Manager and, if approved, incorporated into the City Manager's proposed budget presented to the Budget Advisory Committee and the City Council.

Priorities in evaluating Additional Funds Requests will be given to those proposals that:

1. Are, and will continue to be, self-funding from user fees, external sources or are funded through realignment of the existing department budget;
2. Directly serve to satisfy one or more Council goals;
3. Will reduce existing costs of staffing, maintenance, and operation through efficiencies or cost avoidance; and
4. Are necessary to maintain the City's existing investment in facilities and capital structures.

The authorized Full Time Equivalents (FTE) for staffing needs will be established by City Council. Temporary and seasonal positions do not require City Council approval as long as the funding to support the expenditure is in the adopted budget.

City Council approval is required for all capital expenditures included in the adopted budget. The City Manager or designee is authorized to approve additional capital expenditures, within the existing budget, as long as the expenditure does not alter the total appropriations at the fund level.

The City will allocate indirect and administrative costs to funds and departments based on a financial model prepared by the Finance Department. The financial model will use actual data from the most recent fiscal year-end, for the following budget cycle (i.e. 2021 actuals for 2023 budget), to determine the benefit received by each fund or department. The indirect cost allocation will be incorporated into the City Manager's proposed budget.

City staff will prepare a 6-year capital budget to identify and prioritize capital projects included on the approved Capital Facilities Plans. The 6-year capital budget will identify costs and funding sources and be adopted by City Council. The 6-year capital budget will be updated annually to adjust for completed projects, new project additions, and estimated costs and funding sources.

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Capital improvement projects will be prioritized and funded based upon the approved Capital Facilities Plan and available funding. Additionally, the Capital Projects funds will be budgeted to account for the construction of capital projects and/or the purchase of capital assets.

Grant funded projects will be funded and prioritized based upon the grant award and contract.

The City develops a budget for the Debt Service fund to account for the payment of principal and interest associated with the general government and does not include debt service associated with enterprise funds. Debt service for the enterprise funds (water operating and stormwater operating) are budgeted within the fund responsible for the debt issuance.

Fiduciary activities such as the receipt and remittance of school impact fees will not be included in the City's annual budget. Governmental Accounting Standards Board (GASB) accounting entries to satisfy accounting standards that do not affect cash entries will not be included in the City's annual budget. Examples include the recognition of lease activities over the full term of the lease.

Depreciation or amortization expense on capital assets will not be included as a budgeted expense in the annual budget.

OVERALL PROCESS:

The budget will be conducted in accordance to the procedures and timelines established in RCW 35A.33 pertaining to budgets in code cities and will follow the general process listed below.

1. Review financial and budget policies.
2. Prepare/update 6-year financial sustainability revenue and expense forecast for ongoing operations and maintenance.
3. Conduct a City Council retreat to discuss service levels, budget goals and priorities.
4. Conduct a Senior Management retreat to discuss service levels, Council goals and priorities and budget process.
5. Update financial models for indirect cost plan, utility rates, and fleet replacement.
6. Establish Budget Advisory Committee. This committee will meet on an on-going basis and will provide input and guidance throughout the budget process.
7. Prepare budget calendar for review and notice.
8. Prepare and update the baseline operating budget. The baseline operating budget will include preliminary estimates for revenues and expenditures and will be organized by fund and department.
9. Provide appropriate copies of the baseline operating budget to department directors for review and input.
10. Meet with budget advisory committee to review baseline operating budget and proposed user fee/rates for the new budget year. Obtain input and recommendation for submission to City Council.

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11. Conduct work session/meeting with City Council. The work session or meeting should include the Budget Advisory Committee, City Manager, Department Directors and other appropriate staff. The main purpose of the meeting is to provide a draft of the baseline operating budget, provide economic updates, and share information and make known any issues or concerns.
12. Conduct work session/meeting with City Council. The work session or meeting is focused on any additional funds requests for personnel, service level additions or changes, and capital or project requests.
13. The Finance Department works with the City Manager and Department Directors and compiles the proposed budget including the baseline operating budget and any additional funds requests for review by the Budget Advisory Committee.
14. The City Manager presents the draft Proposed Budget to the Budget Advisory Committee and City Council for review. The draft Proposed Budget is also made available to the public.
15. An ordinance is prepared to set the property tax levy. A public hearing is conducted on revenues and the property tax ordinance. City Council will also consider any proposed changes or updates to user fees such as utility rates.
16. The Final Budget is completed, and City Council holds two public hearings before considering it for adoption.
17. The Final Budget is adopted by Council and published accordingly.

BUDGET ADVISORY COMMITTEE:

The main role of the Budget Advisory Committee is to serve in an advisory capacity to assist in development of an annual budget that reflects the City's top priorities. The Budget Advisory Committee also provides open and transparent communication among the participants and the citizens of Ridgefield.

The Budget Advisory Committee is charged with giving feedback on budget requests and on the top priorities of the City. In addition to considering requests for funding new initiatives the Committee will advise the City Council on rate increases. The Committee is asked to provide feedback on maintaining a balance between keeping fees for services affordable and providing the resources needed to continue to maintain and improve the level of services for City programs and services.

The Budget Advisory Committee will consist of two City Council members, City Manager, Finance Director, Deputy City Manager, Public Works Director, Chief of Police, Community Development Director and one citizen at large appointed by Council.