

# The City of Boca Raton Budget Process

## THE BUDGET: THE PROCESS BEGINS

The budget process is key to the development and implementation of the City of Boca Raton's strategic planning. The planning process is designed to assist City's management in the development of long-term and short-term plans to ensure that Boca Raton remains a unique community providing a superior quality of life to its residents.

The budget process itself begins in the month of March prior to the coming fiscal year. During this time, OMB collects information on expected revenue as well as fixed costs and uncontrollable changes in expenditures. The Mayor and City Council hold goal setting (strategic planning) sessions in the month of April. During the sessions, the Mayor and City Council and City staff collaborate on establishing a mission and broad goals for the community and articulate their priorities for the future and the coming fiscal year.

The Mayor and City Council's feedback from the goal setting provides the groundwork and starting point for staff to begin framing the Operating and Capital Improvement Plan (CIP) budgets.

### Budget Definition

The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

4 key characteristics of budgeting:

- Incorporates a long-term perspective
- Establishes linkages to broad goals
- Focuses budget decisions on results and outcomes
- Promotes effective communication with stakeholders

The budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line-item expenditure control, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness.

The budget is a balanced budget, that is, revenues and other sources equal expenditures/expenses and other uses. This is mandated by Florida Statutes. Therefore, City Code requires the Council to adopt, by ordinance, the budget on or before the thirtieth day of September of each year for the coming fiscal year. The fiscal year for the City of Boca Raton begins on October 1 of each year and ends September 30 of the following year.

## Mission of the Budget Process

The mission 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. It also reports to stakeholders on services and resource utilization, and serve generally to enhance the stakeholders' view of government.

*The Mission of the City is to provide the highest quality of service to the community through responsible use of public resources to enhance our unique quality of life.*

*The Vision of the City is to ensure that Boca Raton will be known as the premier community in which to live, work and play. The City of Boca Raton will be recognized as a world-class local government by its commitment to performance and leadership.*

Our *Mission* and *Vision* directly link to the *Goals of the City of Boca Raton*:

- Financially Sound City Government*
- Top Quality Municipal Services*
- Strong Partnership with Community*
- Sustainable City*

The budget process supports the implementation of the above. The importance of this aspect of the budget process cannot be overstated. Regular and frequent reporting is necessary to provide accountability, educate and inform stakeholders, and improve their confidence in the government. Communication and involvement are essential components of every aspect of the budget process.

The budget process should accomplish the following:

- Involve stakeholders
- Identify and obtain stakeholder support for the overall budgeting process
- Achieve stakeholder acceptance of decisions related to goals, services, and resource utilization
- Implement goals and objectives supporting the mission and vision

## Principles and Elements of the Budget Process

The budget process implements four broad principles. Each of the principles of the budget process incorporates components or elements that represent achievable results. These elements help translate the guiding principles into action components.

Individual budgetary practices are derived from these elements and are a way to accomplish the elements. The principles and elements provide a structure to categorize budgetary practices.

- 1) Establish Broad Goals to Guide Government Decision-Making – A government should have broad goals that provide overall direction for the government and serve as a basis for decision-making.
  - a) Assess community needs, priorities, challenges and opportunities
  - b) Identify opportunities and challenges for government services, capital assets, and management
  - c) Develop and disseminate broad goals
- 2) Develop Approaches to Achieve Goals – A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.
  - a) Adopt financial policies
  - b) Develop programmatic, operating, and capital policies and plans
  - c) Develop programs and services that are consistent with policies and plans
  - d) Develop management strategies
- 3) Develop a Budget consistent with Approaches to Achieve Goals – A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted
  - a) Develop a process for preparing and adopting a budget
  - b) Develop and evaluate financial options
  - c) Make choices necessary to adopt a budget
    - i) When funding needs exceed the City’s funding limits, remedies may be one or more of the following: reduce base budget, identify new revenues, outsource functions, employ process management tools, and/or form partnerships with other City programs or non-profit organizations.
- 4) Evaluate Performance and Make Adjustments – Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.
  - a) Monitor, measure, and evaluate performance
  - b) Make adjustments as needed

### **Budget Roles and Responsibilities**

Every employee of the City of Boca Raton plays a part in the City’s budget – whether in its formulation, preparation, implementation, administration, or evaluation. Ultimately, it is the City Manager who is accountable to the City Council for the performance of personnel in meeting the City’s broad goals and policy agenda priorities (see *page 92* of the Strategic Initiatives section).

Below, we identify the specific responsibility(s) of the key personnel in the budget process:

The **Mayor and City Council** initially set the direction for the budget by establishing the City’s goals during its Goal Setting sessions. The Mayor and City Council are responsible for reviewing the City Manager’s proposed budget and final adoption of the budget.

The **City Manager** and the **Office of Management and Budget Director** are responsible for reviewing the total financial program and submitting a balanced Citywide proposed budget, which supports the Mayor and City Council’s broad goals and priorities established at its Goal Setting Session (strategic planning).

**The Office of Management and Budget Director & Staff** is responsible for preparing the short-range revenue and expenditure forecasts, calculating user and indirect cost rates, developing the process and related forms for preparing the budget, providing budget training sessions to the department personnel, coordinating the compilation of budget data, analyzing operating and capital budget requests, evaluating the budget requests from departments and preparing budget review materials for the City Manager, Deputy City Manager, Assistant City Manager, Mayor and City Council.

Each **Department** is responsible for assembling their program data into a cohesive budget information package. The Department is also responsible for preparing an estimate of remaining cost requirements for the current fiscal year, projecting the budget requests for the next fiscal year, and developing other requests that change or revise the program so that it will be more effective, efficient, productive and economical.

The City departments have **Budget Liaisons** and **CIP Liaisons** that coordinate the budget within their respective departments. The Budget Liaison serves as the vital communication link between their department and their **OMB Department Representative** on matters related to their specific operating budget. The OMB Department Representative is responsible for coordinating information, checking to see if forms are completed properly, making sure that all internal review processes meet timelines, and serving as troubleshooters for problems throughout the budget process. The CIP Liaison essentially serves the same role as the Budget Liaison; however, their focus is on the coordination of capital projects and multi-year capital planning with the OMB staff. In many cases the same individual serves as both the departmental Budget Liaison and CIP Liaison.

CIP Committee, comprised by the City Manager, Deputy City Manager, Assistant City Manager, OMB Director & staff and Department Heads, meets the last week of April. Department Heads present their CIP requests to the Committee, who in turn ask questions of the specific projects. This process results in a comprehensive CIP Program. It provides for compressed review time, citywide involvement, and comprehensive review in one setting. The desire is to ease the budget process while enhancing the departmental involvement.

### **Budget Calendar**

Prior to beginning the budget process, the Office of Management and Budget (OMB) updates the City's budget instruction manual for new-year changes to assist departments with their budgets. The budget process is fully computerized and accessed by each department via the City's computer network. The OMB enters all departmental fixed costs (including salaries and benefits) into the budget system to minimize the departmental time required to prepare budget requests. Departments are responsible for preparing budget requests for any new programs or new personnel. The budget instruction manual contains the procedures for calculating salaries, social security, pension, health insurance, telecommunications, workers' compensation, electricity and many other operating costs. The budget requests are submitted online in forms developed by the OMB to maintain consistency. Departments enter specific expenditure requests directly "on line" into the computer. To assist departments in budgeting and planning, the areas where departments enter budget requests contain the previous five year's actual expenditures, the present year's approved budget, revised budget, total expenditures at 6 months and year-to-date, along with the department estimate, which follows the computer breakdown of the line items. The approved budget is required by City Code to include an outlook column for the following year. Therefore, the **2009-10** approved budget contains a column for the **2010-11** outlook.

In addition to requesting dollars, the departments must list, by division, their achievements of the previous year, goals and objectives for the coming year, performance measures and service levels. The achievements are actually the responses to the previous year's objectives. The division goals and objectives are required to be directly linked to the department's mission and the City's overall strategic plan. An objective should be capable of being achieved with committed resources, be consistent with established goals, be measurable, and represent improvement. The departments must also provide organization charts, which identify changes from the previous year. The above-mentioned items are included in both the proposed and final documents.

For use only in the Operating Budget are other informative packages. Departments provide certain revenue estimates that are based on historical trend analysis, past collection experience or actual cost to provide services that are recovered through user fees. Each year the departments submit requests for necessary capital outlay and capital improvement projects. Items that qualify as capital outlay are those that cost \$1,000 and up and result in a fixed asset for the City. Each department submits requests in order of priority. These include cost and description, as well as justification for the need.

Items that qualify as capital improvement projects are those that cost at least \$35,000 and have a useful life span of ten years. Capital Improvements Program (CIP) projects are forecast in the Six-Year CIP document. This allows the need

to be known in advance. In addition, the Six-Year CIP contains a funding plan for the projects included. Each year the department must re-submit and re-justify the need for each project during the budget process. The projects are listed in order of priority and include cost and description. Approved capital outlay and capital improvements are incorporated into the budget. Another form contains any associated new personnel that the Department Head feels would be beneficial to the City. Justification and cost of salary, benefits and overhead are part of each personnel request. A summary of the City's CIP can be found beginning on *page 254* of this document.

### **Capital Improvement Program Development and Prioritization and Process Phase**

The Capital Improvements Program (CIP) development begins in conjunction with the City's operating budget. The CIP document is produced separate from the annual operating budget, adopted and approved by Resolution at the same public meeting for the adoption of the annual operating budget by City Ordinance. The CIP has the potential to significantly impact the annual operating budget; therefore the two must be created in unison. The CIP includes future operational and debt service impacts of the projects.

### **City Manager Review and Recommendation**

The Departments submit their proposed Operating Budget along with their Capital Improvements Program Budget requests to OMB. The OMB staff compiles the information and provides the initial review of the material, which focuses on: ascertaining if the departments complied with the OMB's instructions, reviewing the mathematical accuracy and logic of the departmental budget and capital project requests, validation of performance measures and linkage to the City's strategic plan. The departments make changes to their budget per OMB's instructions. The City Manager, Deputy City Manager, Assistant City Manager, the OMB Director and staff, and the individual department meet to discuss proposed requests and assess whether the departmental budget proposals incorporate the City's strategic goals/initiatives.

### **Mayor and City Council Review and Adoption**

The City Manager, Deputy City Manager, Assistant City Manager, and the OMB Director collaborate on the development of a recommended proposed Operating Budget and six-year Capital Improvements Program and submit to the City Council for review and adoption. The Mayor and City Council conduct a budget workshop to discuss the City Manager's Operating Budget and receive public input. Changes are made to the budget as per the Mayor and City Council's instructions. The proposed Operating Budget is then revised incorporating these changes. Two public hearings are held prior to September 30<sup>th</sup>. The final budget and property tax (millage) rate are adopted by ordinance at the second public hearing.

### The Adopted Budget: The Process Continues

The adopted budget document contains less information than the proposed budget. The proposed version consists of more text and the different options that are available. The proposed budget receives review by City residents and organizations (our stakeholders). It is very detailed but easily understandable. In comparison, the final version is mainly a working document for the City departments. It regulates dollars to be spent on items and the source of those funds. Less information is contained therein since all decisions have been made and incorporated into the final budget.

The "Historical Summary," located on *page 70* is the summary of all funds City-wide for a four-year period beginning with **FY 2005-06**. This chart includes expenditures and transfers related to departmental operating costs; it excludes reserves, depreciation and other interfund transfers.

A summary of the total "General Fund Operating" budget over a three-year period is found later in the budget summary section on *page 71*. Included in this table is the Actual Budget for 2007-08, the Approved and Revised budget for 2008-09, along with the Approved Budget for FY 2009-10.

The "Uses of Funds" chart includes all funds City-wide for the new fiscal year. It shows all transfers; therefore some double counting does occur. Depreciation is not included in this chart.

A complete discussion of the City's Debt Administration is contained on *page 240* of this document.

### Financial Structure - Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equities, revenue and expenditures or expenses. The various funds are grouped by type in the financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The City uses the following fund types and account groups:

**Governmental Fund Types** -- Governmental fund types are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

- **General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that require accounting for in another fund.

- **Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs other than bonds payable from the operations of the enterprise funds and non-expendable trust fund.
- **Capital Projects Funds** - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

**Proprietary Fund Types** -- Proprietary fund types are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

- **Enterprise Funds** - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs of providing goods or services to the general public are financed or recovered primarily through user charges.
- **Internal Service Funds** - Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis.
- **Fiduciary Fund Types** - Fiduciary fund types are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a non-expendable trust fund or an expendable trust fund is used. The terms "non-expendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.
- **Trust and Agency Funds** - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and funds.

### Major Funds

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those that require accounting for in another fund.

The **Capital Improvements Program Fund** is used to account for infrastructure and major equipment acquisitions of the City.

The **Greater Boca Raton Beach & Park District Fund** (BPD) is used to account for the BPD reimbursement expenses of Red Reef Park, Patch Reef Park, Sugar Sand Park, Verde, FAU facilities, Ocean Strand, Swim and Racquet Center, Special Interest, BPD CIP.

The **Water and Sewer Enterprise Funds** are used to account for the provision of services to the residents of the City and some residents of the County.

The **Internal Service Funds** are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis.

### Account Groups

**General Long-Term Debt Account Group** - This account group is used to account for the outstanding principal balances of long-term debt and other long-term liabilities other than debt payable from the operations of the proprietary funds and non-expendable trust funds.

**General Fixed Assets Account Group** - This account group is used to account for all fixed assets of the City other than those accounted for in the proprietary funds and non-expendable trust funds.

### Financial Reporting Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are reported for using the current financial resources measurement focus and the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. "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. The City considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Revenue and other governmental fund financial resource increments are recognized in the accounting period when they become susceptible to accrual - that when they become both "measurable" and "available" to finance expenditures of the fiscal period.

Those revenues susceptible to accrual are property taxes, special assessments, interest revenue, public service taxes and franchise taxes. Licenses and permits, fines and forfeitures, charges for services and miscellaneous revenue are recorded as revenue when cash is received because they generally are not measurable until actually received. Where grant revenue is

dependent upon expenditures by the City, revenue is recognized when the related expenditures are incurred.

All proprietary funds, non-expendable trust funds and pension trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

Proprietary fund types, pension trust funds and non-expendable trust funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The revenue of the Water and Sewer Enterprise Funds, which is based upon rates authorized by City Council, is determined by bimonthly cyclical billings to customers. Earned but unbilled revenue is accrued and reported in the financial statements. System Development Charges are considered non-operating revenue of the Water and Sewer Enterprise Funds.

The City's budgetary basis of accounting is the same basis of accounting used for financial reporting purposes.

The City has elected to not apply Financial Accounting Standards Board Statements and Interpretations issued after November 20, 1989, as permitted by GASB 34 Statement No. 20, Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting.

### Budgetary Control

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and county financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the City's internal and external auditors.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-128, Audits of State and Local Governments. As a part of the City's Single Audit, tests are made to determine the adequacy of the internal control structure, including that portion specifically

related to federal financial assistance programs. This report disclosed no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations. The information related to the Single Audit, including the schedule of federal and state financial assistance, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in a separate report.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the general fund, special revenue funds, debt service fund and capital projects funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department (by fund) level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances generally are reappropriated as part of the following year's budget. All expenditures for other than personal services are controlled by a procurement system, which encumbers purchase orders against budgets prior to issuance to the vendors. Purchase orders are not issued until appropriations are made available.

Administrative budget transfers may occur upon approval of the City Manager as long as the fund budget is not increased. Budget amendments are submitted quarterly to Council for their consideration.

### **Budgetary Basis of Accounting**

The system used by governments to determine when budget revenues have been realized and when budget expenditures have been incurred is known as the "*Budgetary Basis of Accounting*".

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements, which govern the City's operations. The Governmental Fund Type Budgets for the City of Boca Raton are prepared on the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary Fund Type Budgets are prepared using the economic resource

measurement focus and the accrual basis of accounting. This process varies from generally accepted accounting principles as a result of provisions made to treat encumbrances as budgeted expenditures in the year of the commitment to purchase. Budgets in governmental funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitments. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. While appropriations lapse at the end of the fiscal year, the succeeding year's budget ordinance specifically provides for the reappropriation of year-end encumbrances which have become part of the City's approved budget for the subsequent year.

Budgets have been legally adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund, Special Revenue Funds and Capital Projects Funds. The City has chosen not to integrate the appropriated budget for the Debt Service Fund into the accounting system as the funds for the repayment of debt are derived primarily from interfund operating transfers. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that increase the total expenditures of any department or fund must be approved by the City Council as part of a quarterly budget review process and are included in the reported budgetary data. The level of control for appropriations is exercised at the department (by fund) level.

### **Budget Amendment Process**

The budget may be amended in three ways. One-way transfers dollars between line items within a department. This is requested by the Department Head and approved by the City Manager on a budget transfer form. Secondly, budget amendments, which increase expenditures or the spending level of individual departments, are requested by the City Manager and approved by Council through quarterly budget ordinances after public hearings. The budget may also be amended by Automatic or Council reappropriations. Automatic reappropriations are made for encumbrances related to goods or services for which a contract or purchase order was issued but had not been paid prior to the end of the fiscal year. Council reappropriations amends the budget for funds which were budgeted and approved primarily for capital expenditures in the old year, but were not as yet encumbered at the end of the fiscal year. Both Automatic and Council reappropriations are approved by Council through budget ordinances after public hearings. All budget amendments are input and updated by the Office of Management & Budget personnel only.

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