

Budget Policy

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Director

Objective:

Governments allocate scarce resources to programs and services through the budget process. As a result, it is one of the most important activities undertaken by governments. The purpose of this policy is to establish parameters and provide guidance governing the budget for the City of Fort Collins (City).

Applicability:

This budget policy applies to all funds and Service Areas of the City.

Authorized by:

City Council Resolution 2014-058, 2017-101, 2021-010

1.1 Overview

The Fort Collins City Charter establishes time limits and the essential content of the City Manager's proposed budget, however the budget preparation process is not prescribed, but is developed by the City Manager with input from the City Council.

The fiscal year of the City is the calendar year. The City may adopt budgets for a budget term of one fiscal year or more. After the Charter amendment in 1997 allowing the City Council to set by ordinance a budget term to be more than one fiscal year, the Council has adopted two-year budgets that correspond with the election cycle, with the recent exception of having a one-year budget for fiscal years 2021 and 2022 due to the COVID pandemic.

The budget is a 2-year plan by which the City Council sets the financial and operational priorities for the City - through the budget, services are implemented. The budget along with the annual appropriation ordinance provides the basis for the control of expenditures. The State Constitution and the City Charter provide the basic legal requirements and timelines for the process. Council goals, ordinances and resolutions provide additional direction and respond to the needs of the community.

1.2 Principles for Budget Planning

The City provides a wide variety of services to the residents of the community. It is in the power of the City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community (Charter Article II, Section 5 (c)).

In 2005 the City Council, on recommendation from the City Manager, endorsed the Budgeting for Outcomes (BFO) budget process. At a high level, the budgeting for outcomes methodology can be summarized as:

1. *Determine how much money is available.* The budget should be built on expected revenues. This would include base revenues, any new revenue sources, and the potential use of fund balance.
2. *Prioritize results.* The results or outcomes that matter most to residents should be defined. Elected leaders should determine what programs are most important to their constituents.
3. *Allocate resources among high priority results.* The allocations should be made in a fair and objective manner.
4. *Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.*
5. *Budget available dollars to the most significant programs and activities.* The objective is to maximize the benefit of the available resources.
6. *Set measures of monthly progress, monitor, and close the feedback loop.* These measures should assign monthly budget, spell out the expected results and outcomes and how they will be measured.
7. *Check what actually happened.* This involves using performance measures to compare actual versus budgeted results, and financial measures for budget versus actual results on a monthly basis.
8. *Communicate performance results. Internal and external stakeholders should be informed of the results in an understandable format.*

At that time, the City Council also identified the key outcomes it believed should be used in the new budget process. In addition, the 2005-2007 Policy Agenda sets forth the implementation and continued improvement of the collaborative budget process, aligning spending with desired outcomes.

In 2012, the City Council passed resolution 2012-076 promoting improved results through performance measures and data-driven decision making. In reference to the budget, an outcome-based performance measurement system will help ensure that available resources are used to achieve excellent results at low cost to the taxpayers and will enhance the resident's understanding of the City and the services it provides.

1.3 Scope

A. Comprehensiveness

The proposed budget shall provide a complete financial plan for each fund of the City and shall include appropriate financial statements for each type of fund showing comparative figures for the last completed fiscal year, comparative figures for the current year, and the

City Manager's recommendations for the ensuing budget term (City Charter Article V, Part 1, Section 2). In addition, the City of Fort Collins Budget Document may include items such as:

- 1) Statement of organization-wide strategic goals.
- 2) A description of the budget process, including a timeline.
- 3) A Glossary of Budget Terms.
- 4) A City of Fort Collins organizational chart.
- 5) Letter from the City Manager.
- 6) Budget Overview which may include:
 - a) The economic outlook;
 - b) Revenue assumptions;
 - c) Summary of use of reserves;
 - d) Budget priorities and highlights.
- 7) Copy of signed appropriation ordinance and a schedule of 2nd year proposed appropriations.
- 8) Revenue, expense and changes in fund balance summaries.
- 9) Summary of employee full-time equivalent staffing by service area and department.
- 10) A section for each of the key strategic Outcomes, which may include:
 - a) Information indicating how the Offers in the Outcome are funded, by fund;
 - b) Major key purchases;
 - c) Major enhancements purchased;
 - d) Detailed listing of all offers funded and unfunded;
 - e) Strategic objectives of the Outcome.
- 11) Fund Statements.
- 12) Overview of debt position.
- 13) Current Capital Improvement Plan.
- 14) Summary of changes to user fees.
- 15) Summary of property tax mill levy and assessments.

The annual appropriation ordinance shall also include the levy in mills, as fixed by the Council, upon each dollar of the assessed valuation of all taxable property within the city, such levy representing the amount of taxes for City purposes necessary to provide, during the ensuing fiscal year, for all properly authorized expenditures to be incurred by the City, including interest and principal of general obligation bonds. If the Council fails in any year to make said tax levy as above provided, then the rate last fixed shall be the levy fixed for the ensuing fiscal year and the Financial Officer shall so certify (Charter Article V, Section 5).

B. Budget Form

The City of Fort Collins uses the Budgeting For Outcomes model to create the City budget. A new budget is designed from the ground up based on the results desired in each of the Outcomes defined by the City. The BFO budget-building process includes four steps:

- 1) Determine how much revenue will be available (the price people pay);

- 2) Determine the priorities of the City and its residents and the results to be achieved;
- 3) Allocate the revenue needed to achieve the desired results;
- 4) Determine which budget items will best produce the desired results at the price allocated.

C. Basis of Budgeting

All budgetary procedures conform to the City Charter and Code, state regulations and to generally accepted accounting principles. The basis or principle used for budgeting is the same as that used for accounting, with a few exceptions, and varies according to the fund type.

Governmental Funds use the modified-accrual basis of accounting. This means that revenues are recognized when they are earned, measurable and available. Expenditures are recognized in the period that liabilities are due and payable. The budgetary basis is the same and is used in the General Fund, Special Revenue and Debt Service Funds, and Capital Project Funds.

Proprietary and Fiduciary Funds use the full accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when liabilities are incurred. However, the budgetary basis in these funds is primarily based on the modified-accrual approach. Instead of authorizing budget for depreciation of capital assets, the budget measures and appropriates cash outflows for capital acquisition and construction, which is a modified-accrual approach. In full accrual based accounting debt proceeds are recorded as liabilities rather than a revenue (funding source). For these reasons, a reconciliation and adjustment is made on these fund statements to show the difference between the budgetary basis and the accounting basis.

D. Budget Calendar

The fiscal and accounting year shall be the same as the calendar year. "Budget term" shall mean the fiscal year(s) for which any budget is adopted and in which it is to be administered. Council shall set by ordinance the term for which it shall adopt budgets (Charter Article V, Section 1).

On or before the first Monday in September, commencing in 2010 and every other year thereafter, the City Manager shall file with the City Clerk a proposed budget for the City for the ensuing *two-year term* (Charter Article V, Section 2). The Council shall, within ten (10) days after the filing of said proposed budget with the City Clerk, set a time certain for public hearing and cause notice of such public hearing to be given by publication. At the hearing, all persons may appear and comment on any or all items and estimates in the proposed budget. Upon completion of the public hearing the Council may revise the budget estimates (Charter Article V, Section 3).

After said public hearing and before the last day of November preceding the budget term, the Council shall adopt the budget for the ensuing term. The adoption of the budget shall be by

ordinance. Before the last day of November of each fiscal year, the Council shall appropriate such sums of money as it deems necessary to defray all expenditures of the City during the ensuing fiscal year. The appropriation of funds shall be accomplished by passage of the annual appropriation ordinance. Such appropriation of funds shall be based upon the budget as approved by the Council but need not be itemized further than by fund with the exception of capital projects and federal or state grants which shall be summarized by individual project or grant (Charter Article V, Section 4).

Appropriations for each year of the two-year budget will be approved by the City Council annually. Appropriations for the 2nd year of the biannual budget are adopted during the budget revision process. That process allows for adjustments to the originally adopted biennial budget that address new Council priorities or support changing needs based on economic conditions. The City Manager may present any budget adjustment recommendations to the City Council in Work Sessions and then Council may amend the budget and, as required by the City Charter, appropriate or authorize expenditures for the coming fiscal year.

1.4 Roles and Responsibilities

All powers of the City and the determination of all matters of policy are vested in the Council except as otherwise provided by the Charter. Without limitation of the foregoing, the Council has the power to adopt the City's budget.

The City Manager is responsible to the Council for the proper administration of all affairs of the City and to that end has the power and is required to prepare the budget and submit it to the Council and be responsible for its administration after adoption.

The City Manager and Chief Financial Officer, along with the other executive directors, known as the Budget Lead Team (BLT), develop the guidelines, consistent with the policies, to be used for budget preparation. During the development of the budget, various department and division representatives may be called upon to provide their expertise.

From April through June, City staff from all departments and divisions prepares the Offers (budget requests) for inclusion in the budget.

1.5 Budgeting Control System

No appropriation may be made by the Council which exceeds the revenues, reserves or other funds anticipated or available at the time of the appropriation, except for emergency expenses incurred by reason of a casualty, accident or unforeseen contingency arising after the passage of the annual appropriation ordinance (Charter Article V, Section 8 (a)).

Control of expenditures is exercised at the fund level. Fund managers are responsible for all expenditures made against appropriations within their fund and can allocate available resources within the fund.

All appropriations unexpended or unencumbered at the end of the fiscal year *shall lapse* to the applicable general or special fund, except for:

- appropriations for capital projects do not lapse until the completion of the capital project; and
- federal or state grants do not lapse until the expiration of the federal or state grant (Charter Article V, Section 11).

A. Budget Transfers

Between Funds or Capital Projects

During the fiscal year, the Council may, by ordinance, upon the recommendation of the City Manager, transfer any unexpended and unencumbered appropriated amount or portion thereof from one fund or capital project account to another fund or capital project account provided that:

- 1) the purpose for which the transferred funds are to be expended remains unchanged;
- 2) the purpose for which the funds were initially appropriated no longer exists; or
- 3) the proposed transfer is from a fund or capital project account in which the amount appropriated exceeds the amount needed to accomplish the purpose specified in the appropriation ordinance (Charter Article V, Section 10 (b)).

Within a Fund

Budget control is maintained at the departmental level. The City Manager may, during the fiscal year, transfer any unexpended and unencumbered appropriated amount within the same fund (Charter Article V, Section 10(a)). The Chief Financial Officer also has the authority to approve departmental expenses greater than the budget for that department so long as the overall expenses in the fund serving that department are less than the budgeted amount for the fund. In no case may the total expenditures of a particular fund exceed that which is appropriated by the City Council (Charter Article V, Section 8(b)).

B. Applicable Amendments to the Budget

Budget Increases

There generally are four opportunities during the fiscal year for supplemental additions to the current year annual appropriation approved by Council:

- 1) The first is through the encumbrance carry-forward process whereby approved purchase orders that cannot be executed prior to the end of the fiscal year will have available budget carried forward into the new year.
- 2) The second is usually adopted in March/April to re-appropriate funds from the previous year's ending balance for projects or obligations that were approved but not completed during that year.
- 3) The third opportunity in the 2nd half of the year is used to fine-tune (clean-up) the current fiscal year for previously unforeseen events. In addition, if revenue is received during the fiscal year from a source that was not anticipated at the time of budget adoption or appropriation for the fiscal year, such as grants or implementation of a new fee, Council may appropriate that unanticipated revenue for expenditure when received anytime during the year.
- 4) Lastly, the Council, upon recommendation of the City Manager, may make supplemental appropriations by ordinance at any time during the fiscal year; provided, however, that the total amount of such supplemental appropriations, in combination with all previous appropriations for that fiscal year, shall not exceed the then current estimate of actual and anticipated revenues to be received by the city during the fiscal year. This provision shall not prevent the Council from appropriating by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated (Charter Article V, Section 9).

Budget Decreases/Frozen Appropriations

The budget may be decreased below adopted appropriations during the fiscal year due to changes in service demand, changes in economic conditions, and/or changes in Council goals. Each service area is responsible for developing a plan to reduce appropriations, which will be ready for implementation should the need arise. If the City Manager directs budget reductions, Council will be informed and the appropriations will be "set aside" through administrative action. While the appropriation amount is not changed, expenditures shall not exceed the reduced amount recommended by the City Manager.

C. Order of Funding when Multiple Funding Sources Available

Sometimes a given project or program has multiple sources of funding available. Examples of such projects include but are not limited to grant funded projects, jointly funded projects/programs between governmental and proprietary funds, or projects/programs where both dedicated tax and/or fee revenues and General Fund tax revenues are available.

Unless stated otherwise within the authorizing ordinance, budget offer, or a contractual agreement, funding sources will be applied in the order of most-constrained to least-constrained in the judgment of City staff. For example, a project jointly funded by the

General Fund and the Natural Areas Fund would first fund project spending using all available and appropriated Natural Areas revenues prior to spending appropriated General Fund revenues. This is in an effort to maximize the benefit of available sources in accordance with the principles described in section 1.2 above.

1.6 Balanced Budget Definition

All funds are required to balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from two sources: current revenue charges and unallocated reserves carried forward from prior years.

1.7 Contingency Planning for Unanticipated Revenue Shortfalls

During times when the City experiences significant unanticipated revenue shortfalls, a contingency plan will be developed that outlines the necessary steps to align expenditures to meet the actual revenue received. The contingency plan will target the funds being impacted by the revenue shortfall. In general, the priority order of the steps in our contingency methodology are:

- Align ongoing expenditures with anticipated ongoing revenue
- Sweep vacancy savings and non-service related savings such as fuel or utilities if under budget
- If a Contingency Reserve has been established, utilize a portion of that reserve
- Develop a stop doing list utilizing the drilling platform prioritization.
- At a Service Area level, reduce expenditures related to
 - discretionary expenditures
 - new hires/vacancies (postponement of posting positions)
 - travel and training
 - reduced levels of support to programs