

# BUDGET PROCESS

## BUDGET FRAMEWORK

The process of developing the budget is guided by charter, statutes, policies, as well as organizational priorities. The following are summarized.

- City Charter
- Nebraska Statutes
- Taking Charge Initiative
- Capital Improvement Plan Process
- Other Planning Processes
- Accounting Standards
- Lincoln Financial Policies

### City Charter

On November 2, 2010, the citizens of Lincoln approved an amendment to the City Charter that allows for a biennial budget process. This amendment allowed the City Council to pass an ordinance to establish the process for the biennial budget adoption. As part of the charter, the Mayor is required to submit to the Council for consideration a recommended biennial operating and capital budget no later than forty days prior to the beginning of the biennial period.

After the Mayor submits the budget to the City Council, the Council then has power to revise revenue estimates and to increase or decrease appropriations of departments or divisions or capital improvement projects. The City Council has to adopt the biennial budget, by a vote of four members, no later than five days prior to the beginning of a biennial period.

If the Council fails to adopt a budget before the prescribed adoption date, the biennial budget submitted by the Mayor is then deemed to have been adopted by the Council.

### Nebraska Statutes

In addition to the charter, statutes of the State of Nebraska govern the operating budget process.

These statutes are primarily included in the Nebraska Budget Act, which is outlined in statutes 13-501 to 13-513. Specifically, those statutes require that cities:

- Prepare a proposed budget on forms supplied by the auditor.
- The cash reserve shall not exceed 50% of the total adopted budget exclusive of capital outlay.
- The City Council shall conduct a public hearing before the budget is adopted and give at least five days notice of hearing.
- The City Council has to file with and certify to the levying board on or before September 20.

### *Restricted Funds Lid*

In addition to the statutes listed above, 13-518 to 13-522 restrict the amount of revenues that can be generated from certain funds. These funds include, property tax, payments in lieu of taxes, sales tax, motor vehicle taxes, state aid, transfers of surpluses and other miscellaneous revenues. These funds are limited to a 2.5% growth unless the City Council votes to allow an additional 1% by at least 75% of the body. Additional growth is also allowed by a special election or a special meeting of voters with at least 10% of the electorate.

There are also certain exemptions of expenditures not applicable to the restrictions that can be adjusted off. These include capital improvements, replacement of tangible personal property, bonded indebtedness, intergovernmental agreements, funds to pay for a natural disaster, judgements against the City, and expenditures for ground water management activities.

# BUDGET DEVELOPMENT

## *Property Tax Lid*

In addition to the restricted funds lid, there is a property tax lid that restricts cities municipal levy to forty-five cents per one hundred dollars of value. An additional five cents is also allowed for interlocal agreements for a maximum lid of fifty cents.

## BUDGET DEVELOPMENT PROCESS

The City of Lincoln budget development process follows city charter, Nebraska Statutes as well as Generally Accepted Accounting Principals and City of Lincoln financial policies. In addition to this regulatory framework, the budget process includes financial forecasting, citizen engagement, and organizational planning to complete an operating plan that reflects resident priorities in a manner that is financially sustainable.

### Base Budget Development

The base budget is developed based on current levels of service and anticipated economic conditions. One of the first steps in the budget development process is the projection of revenues by City staff, assuming all current policies and practices are continued. Revenue forecasts in the base budget are based on prior year experience as well as economic conditions and changes in state statute and local ordinances. Since future revenues cannot be known with certainty, the framework for the whole budget development process, in effect, is built upon assumptions about the City's economic and financial future.

Trends in the performance of each revenue source are studied, and economic conditions and events that could alter the projections are considered. Many factors affect revenues, including weather conditions (especially important for electric, gas and water utility

franchise taxes), motor vehicle and gas taxes, and local economic

conditions, which may influence the sales tax revenue stream as well as other sources.

Detailed wage and benefit projections are the result of current employee demographics, position vacancies and existing bargaining unit agreements. Setting internal service rates also occurs during base budget development. IT rates are updated based on service levels, IT staffing, and ongoing support agreements. Workers' compensation insurance rates vary by department and health and dental rates vary based upon union contracts. Building and contents insurance rates include the updated value of the portfolio and loss experience. Vehicle liability insurance rates are reviewed to ensure that revenue is adequate to cover that activities' exposure. Fleet rental rate are based on anticipated vehicle maintenance and partial replacement costs. Additionally, forecasted rates for commodities, such as natural gas and fuel, are included in the base budget.

During the Base Budget Development phase, departmental staff began the process of developing Strategic Operating Plans, including Program Options, for each service. The City organization is divided into City Departments, but each department is then divided into "services" - strategic units that provide outcomes in core areas.

### Prioritization Process & Citizen Engagement

Annually the City partners with the University of Nebraska Public Policy Center on the Taking Charge public engagement process. Lincoln residents are heard on a variety of budget topics, which help to shape the Mayor's budget. Citizens are engaged through a City survey process and then focus groups are formed to gain an understanding of top priorities.

# BUDGET DEVELOPMENT

The priorities for the budget development have shifted based upon the feedback from citizens. Once survey results are received, priorities are developed for 8 different goal areas:

1. Safety & Security
2. Livable Neighborhoods
3. Economic Opportunity
4. Efficient Transportation
5. Accountable Government
6. Healthy & Productive People
7. Environmental Quality
8. Identity Lincoln

City staff then divided City programs into over 200 programs and categorized them within the outcome area and goal area. Then each program is evaluated by City staff and private sector participants into three tiers. Tier 1 programs are the most important toward meeting the goal. Tier 0 programs are mandated by the state or federal governments and must be provided.

Program costs are then shown as net costs in order to identify programs that are supported primarily by sales and property taxes. Based upon the priorities set, funding levels are determined and included within the Mayor's budget.

## **Budget Adoption**

The City Council may make changes to the Mayor's budget by a 4 member vote. Once changes are made, a public hearing is held to attain citizens comments on the proposed budget. After the public hearing is held, the Council can consider the adoption of the budget. If they fail to adopt a budget by August 27<sup>th</sup>, then it reverts back to the Mayor's budget.

In addition, the Mayor can veto the budget approved by the Council. If they Mayor vetoes the budget, it takes a 5 member vote to override the veto. In the event that the Mayor vetoes the budget and the Council lacks the ability to override, the budget reverts back to the Mayor's original proposal.

## **LNKStat Performance Management**

Once a budget is in place, the City has developed a process to bring together key managers to evaluate the progress towards goals and make adjustments. That is accomplished by holding LNKStat meetings, which monitor goals developed within the budget process and measure the progress towards meeting those goals.

City staff have developed 132 performance measures to monitor the City's progress towards achieving the 39 goals and the 8 outcome areas.

## **Capital Improvement Plan**

The Capital Improvement Program (CIP) guides new construction and improvements to the City's infrastructure and facilities, ranging from road expansion to repairs on publicly owned buildings to acquisition of new water sources. The Capital Improvement Program process is governed by the City Charter under article IX-B, Section 7.

The CIP requires a fiscally sound operating budget and a solid financial base to allow for debt or cash financing of capital projects. A well prepared operating budget assists in raising or maintaining the bond rating of the City. A higher bond rating means the City pays a lower interest rate for the bonds sold to finance capital projects.

# BUDGET CALENDAR

**January 18** – Budget Forecast – (Resolution A-90340)

**January 22** – Safety & Security operations, outcomes, and trends

**January 29** – Livable Neighborhoods operations, outcomes, and trends

**February 5** – Economic Opportunity operations, outcomes, and trends

**February 12** – Healthy & Productive People operations, outcomes, and trends

**February 22** – Efficient Transportation & Environmental Quality operations, outcomes, and trends

**February 26** – Accountable Government & Identity Lincoln operations, outcomes and trends

**June 15** – Mayor releases electronic version of Mayor’s Recommended Budget to City Council (Ordinance #20467)

**June 18 – 29** - City Council meetings with administration and departments (Resolution A-90340)

**July 11** – All proposed tentative City Council changes to the budget must be submitted by 3pm to the entire City Council and for online publication

**July 12** – City Council discussion on tentative City Council changes to the Mayor’s Recommended Budget

**July 16** - City Council votes on tentative changes to the Mayor's Recommended Budget

**July 16** – Draft budget resolution to City Council

**July 24** - Publication of Budget Summary in media

**July 30** - Public hearing on the proposed Budget

**August 3** – All proposed final City Council changes to the budget must be submitted by 3 pm to the entire City Council and for online publication

**August 6** – City Council discussion on proposed final City Council changes to the Mayor’s Recommended Budget

**August 8** - City Council votes on final changes to the Mayor’s Recommended Budget

**August 13** – First reading of the resolution adopting the FY 2018-20 City Budget including fiscal year-end updates such as transfers and reappropriations submitted by the Finance Department

**August 20** - City Council adopts FY 2018-20 City Budget

**September 11** – City Council notice of special hearing to set the final tax request for FY 2018-19 published in newspaper

**September 17** – City Council holds special hearing to set the final tax request for FY 2018-19

# FINANCIAL POLICIES

The annual budget process takes into account requirements of funding infrastructure, maintenance, and related operating costs.

According to the charter, a capital improvement is the acquisition, construction, reconstruction, improvement, extension, equipping, or furnishing of physical improvements with a useful life of fifteen years or more. The City maintains a six year schedule.

Once projects are received, the Planning Director takes the projects to the City Planning Commission to ensure they are in conformance with the Comprehensive Plan. Seventy-five days prior to the budget adoption date, the Commission submits comments and recommendations to the Capital Improvements Advisory Committee. The Capital Improvement Advisory Committee is chaired by the Mayor, who then makes a recommendation to incorporate the Capital Improvement Plan into the annual budget.

## BUDGET ADJUSTMENTS & AMENDMENTS

If adjustments to the budget are necessary, there are two methods:

**Budget adjustments:** The process for a budget adjustment is set by the City Charter. If at any time during a fiscal year funding is less than projected, the Mayor can decrease appropriations. In addition, the Mayor can at any time transfer unencumbered appropriation balance within departments or agencies, but must inform the Council within seven

days. The Council must approve any transfers of appropriations between departments or agencies.

**Budget amendments:** Under Nebraska law, the City Council may amend an adopted budget during an operating year, if unforeseen circumstances create a need to increase the expenditure authority of a fund or budget. A notice of public hearing for the amendment has to be published at least five days prior to the hearing date. Upon conclusion of the public hearing, the Council can consider making changes accordingly.

## ACCOUNTING STANDARDS

The City of Lincoln uses the cash basis of accounting when preparing budgets. After the close of the fiscal year the City’s accounts are converted to the modified accrual basis of accounting to produce the Comprehensive Annual Financial Report. The table at the bottom of the page shows differences between these two standards.

## AUDITING

Under article IV, Section eight of the city charter, the City Council is required to contract with a certified

	Revenues	Expenditures
Cash	Recognizes only when cash changes hands	Recognized only when cash changes hands
Modified Accrual	Recognized when funds become measurable and available to pay for expenses	Recognized when the liability is incurred, measurable, and expected to be paid

# FINANCIAL POLICIES

public accountant to conduct an independent audit of all city funds and accounts in accordance with accepted auditing practices. All programs are audited in conformance with State and Federal regulations as well as Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB).

In addition, the finance director is required to report annually to the Council a full and detailed account of the city's financial condition as noted under Article IX, Section 30.

## FUND BALANCE POLICY

The General Fund minimum reserve balance policy is set by Resolution A-82134 as adopted by the Council on June 9, 2003. The minimum balance for the General Fund is 20% of expenditures for the ensuing years budget.

## INVESTMENT POLICY

Cash management practices are outlined in the City investment policy. The regulation specifies the objectives of the City's investment portfolio, which are safety of principal, maintenance of liquidity, and return on investment. The policy includes available investment options, diversification parameters, collateralization requirements, the process for selecting investment instruments, and standards for brokers and dealers.

## PURCHASING POLICIES

The purchasing policy for the City is outlined in two places. The first is in the City Charter under Article VII, which states any purchase of \$25,000 or more shall

advertise for formal sealed bids. Competitive bidding is not required in purchasing unique or noncompetitive articles or in contracting for professional services.

No contract involving the expenditure of money for more than one year can be made unless authorized by the City Council. The Mayor has authority to sign contracts in excess of \$25,000 and department directors have authority to sign contracts less than \$25,000.

In addition to the Charter, Municipal Code Chapter 2.18.020 states the Purchasing Division shall purchase all materials, parts, supplies, and equipment with an estimated costs of \$3,000 or more and repairs of equipment and facilities with an estimated cost of \$10,000.

In all cases where bids are required and received, the purchasing agent will award the contract and purchase order to the lowest responsible bidder.

## GRANT POLICY

The grant policy for the City is outlined in Administrative Regulation Number 31. Grant applications that incur financial obligations over \$25,000 or more annually, financial obligations that extend over a four year period, grants that are burdensome or require additional staffing, or Council approval are required to be submitted to the Mayor for review and approval.