

# BUDGET GUIDE

## GUIDE TO THE DOCUMENT

### City Overview

The City of Davis is a general law city and employs the Council-Manager form of government. The City Council is comprised of five council members. One of these serves as the Mayor and another as the Mayor Pro tem. Council members are elected to alternating four-year terms on a citywide basis (called “at-large”). The member elected with the greatest number of votes serves as Mayor Pro tem for the first two years of the term and Mayor for the last two years of the term. The City Council acts as the legislative and policy-making body. Council appoints the City Manager and awards the contract for City Attorney services. The City Manager is the chief administrator and is responsible for implementing the policies and priorities of the City Council. The City agency contains eight (8) departments:

1. City Council
2. City Attorney
3. City Manager's Office
4. Department of Community Development & Sustainability
5. Community Services
6. Fire
7. Police
8. Public Works

### Budget Document

The budget represents the City's work plan in support of City Council goals and policies. It is the City's fundamental policy document, annual financial plan and operations guide expressed in dollars and staff resources. In addition, it informs the public about the City's financial strategies and provides the documentation needed for other financial matters, such as audits, loans and grants.

A sustainable budget allocates limited available resources to the provision of programs, services or projects in support of community needs and expectations, without compromising the long-term financial health of the City. It balances city resources with community priorities and requirements. A budget serves the following purposes:

- Public communication device
- Establishes annual goals and objectives to meet community priorities
- Policy document
- Resource allocation tool
- Spending plan
- Accountability document
- Management tool
- Grants authority to city staff

#### City of Davis Final Budget 2011 - 2012



***The goal of the budget is to provide a plan that allocates city resources to meet the needs and desires of Davis residents.***

The annual operating budget is a financial plan for a specific period of time. For Davis, this time period is one fiscal year. The City's fiscal year is July 1<sup>st</sup> to June 30<sup>th</sup>.

### **Document Organization**

The following section briefly describes the components that comprise the budget document.

#### **Manager's Transmittal**

In the transmittal letter to the City Council and Davis citizens, the City Manager summarizes the budget for Fiscal Year (FY) 2011-12. It outlines strategies and objectives for the fiscal year and highlights the most critical issues facing the City.

#### **Budget Guide**

This is the current section and it contains a variety of information that is important to understanding the budget. Information contained in the other sections is described. Long-term financial strategies and budget policies that provide guidance to city staff are identified. In addition, this section describes the structure of city finances, including financial objectives reporting requirements, reserve descriptions, appropriation control, debt management, and management responsibilities. A brief summary of the annual budget process and a glossary of budget terminology are also included to aid the reader.

#### **City Profile**

The profile contains information about the City, its people and its businesses - population, housing, employment, transportation, city services and quality of life. The City and community are placed into context of the region and its history.

#### **Budget Summary**

This section of the budget presents summary schedules of revenues and expenditures for all funds. Local government budgets are organized or separated into various funds in order to account for revenues, which are restricted by law as to how they may be spent. Each fund functions like a separate bank account targeted to a specific purpose or purposes and the City's budget is financed by these different funds. The information is shown for the 2011-12 budget year, the adjusted budget for fiscal year 2010-11, and actual figures for fiscal years 2008-09 and 2009-10. Also contained here is the Summary of All Funds which identifies the various funds, describes their purpose and any restrictions on the use of those funds.

#### **Financial Forecast**

A financial overview of city finances is provided in this section. It presents the current five year forecast and identifies key economic issues that may affect city operations in the coming year. A generalized discussion of potential actions at the state level and their effects on Davis is also included.

#### **City Organization**

This piece provides summary information about the structure of the City agency. This section includes a citywide organizational chart, changes in staffing over time, a summary of the functions or services provided by each department; and FY 2011-12 listing of all positions.

***Each fund functions as a separate bank account targeted to a specific purpose or purposes.***



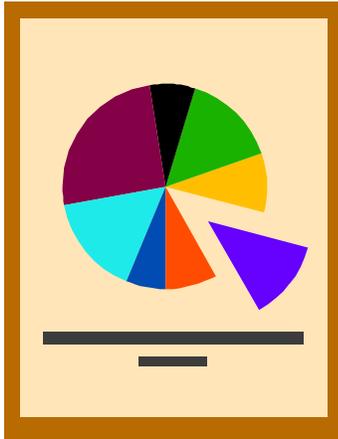
**Department Operating Budgets**

Here you will find detailed information about each department, including department and division descriptions, FY 2010-11 accomplishments, FY 2011-12 goals or objectives, and a financial summary showing sources of revenue and projected expenditures. In addition, to the eight departments, the operating budgets for the Redevelopment Agency of the City of Davis and the Capital Improvement Program are found here.

**Debt Service**

Governments often set aside monies to meet current and future debt service obligations on general government debt. Debt Service funds are used to account for the accumulation of these set aside monies and the subsequent payment of the City's general long-term debt principal and interest. This section identifies all forms of city long-term debt obligations.

## STRUCTURE OF THE CITY'S FINANCES



### Similarities to Personal Financial Planning

One way to view city finances is from the perspective of personal financial planning. It is good financial advice to take time each year to do some financial planning regardless of your personal circumstances (employed, retired, looking for work, student, etc.). A portion of existing resources is used to pay for necessities (utilities, mortgage). Some of your projected income is used for maintenance needs on assets (car repair, plumbing problems). Yet another part of your income is set-aside for future use or anticipated costs (investment for retirement, buying a new car, insurance premiums, roof replacement, etc.).

A city is required to essentially complete the same type of financial planning. Davis keeps track of its activities in self-balancing sets of accounts called funds which are the basic accounting and reporting components in governmental accounting. Funds are designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Some funds are established to track activities required by law (e.g. gas tax fund), some fulfill revenue requirements (CDBG, childcare grant funds), and still others demonstrate prudent administrative practices (such as self-insurance funds for dental, workers' compensation and liability).

Budget years run in fiscal year cycles beginning July 1 and ending June 30. The City budget is approved and balanced by fund. The vast majority of these fund balance dollars are held for future expenses for several reasons. Special taxes, such as the gas tax, are restricted to specific services and must be carried forward for that purpose (in this case, street improvements). Other balances may result from legal requirements, such as payment of long term debts for bonds.

The City maintains budgetary controls that ensure compliance with the budget approved by the City Council. All activities of the City are included in the annual appropriated budget. The legal level of budgetary control (that is, the level at which actual expenditures may not legally exceed the appropriated amount) is at the fund level, as authorized in the Annual Appropriations Ordinance.

## Basis of Accounting

### Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The budget is adopted consistent with generally accepted accounting principals. With the implementation of GASB 33, revenues are recognized on the accrual basis (i.e., when they are earned). Expenditures are recorded when the related fund liability is incurred.

Section 3, Budget Summary, describes the various city funds in greater detail.

### Baseline Budgeting

**Base Budget:** Each department is initially provided an annual appropriation sufficient to fund current service levels and any other costs the department is responsible for managing. This year's base budget involved taking the FY 2010-11 Final Budget, reducing it for any one-time expenditures, adjusting for contract obligations per labor Memoranda of Understanding and cost increases for other contractual obligations (such as postal rate increases, vendor service contract rate increases, etc.).

**Carry Over:** Under the expenditure control budgeting model, departments are able to request that all or a portion of their non-personnel savings (i.e. appropriations minus expenditures) be carried over into the next fiscal year. The savings may then be used for city services. This mechanism promotes long-term planning and prudent use of General Fund resources.

**Internal Rates or Charges:** All programs funded through charges back to user operations (i.e., internal service funds such as, self-insurance programs, the vehicle or computer equipment replacement funds, building maintenance programs, etc.) are required to establish rates which provide for adequate resources to pay for the operations and capital requirements for the next year.

### Long Range Financial Planning

The City has developed a five-year forecasting model for operating revenues and expenditures. The City also produces a five-year capital improvements plan, which includes debt service.

*The Finance Department prepares initial Baseline Budget forecast and allows City Council and departments to focus on policy, program and work plan issues.*

*The City maintains a contingency reserve to mitigate the effects of unanticipated situations.*

**Reserves**

The General Fund maintains a contingency or prudent reserve, with a target of 15% of annual revenue.

Contingency Reserve Policy

The City maintains a contingency reserve for operations to help mitigate the effects of such unanticipated situations as (1) economic downturns, (2) loss of revenues to or imposition of additional costs by other governmental agencies, (3) variances in financial forecasting, and (4) natural disasters. The contingency reserve also provides back-up liquidity to the Risk Management Self-Insurance Fund.

The contingency reserve is funded at a level established by Council each June. All uses of the contingency reserve are approved by the City Council.

**Long Term Capital Debt**

The City of Davis uses long term debt financing only for one-time capital improvement projects and unusual equipment purchases. Long term capital debt complies with applicable federal and State regulations and is repaid over the legal life of the related asset or twenty years whichever is less. Financing is generally conducted on a competitive basis and the City seeks to maintain its current bond rating. Additional detail on existing indebtedness can be found in Section 15 of this budget (Debt Service).

**Investments and Cash Management**

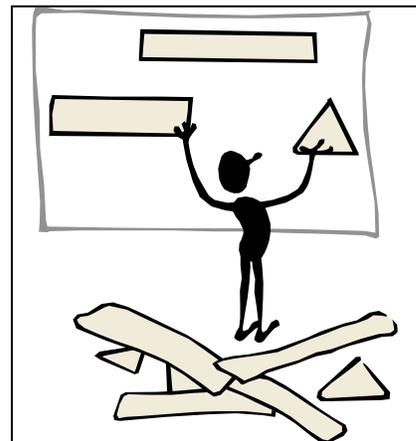
The City follows the practice of pooling and investing cash of all funds under its control to maximize the return in a safe and prudent manner while at the same time ensuring that the portfolio is sufficiently liquid to meet day-to-day cash needs. There is diversity in the types and maturity dates of investments, which are made in accordance with the California Government Code. The remaining final maturity on investments is limited to five years. Currently, the average life of our portfolio is generally about two years. A Treasurer's Report is submitted to the City Council quarterly, which shows investment activity and the performance of the investment portfolio. The investment policy is reviewed and readopted annually by the City Council, as required by State law. The City's investment policy is attached as an appendix to this budget. (See Section 17, Appendices.)



*Hunt Boyer Mansion located at 604 2<sup>nd</sup> street.*

## BUDGET PROCESS AND CALENDAR

The Davis City Council adopts the City of Davis' annual operating budget no later than June 30 of each fiscal year. Beginning July 1<sup>st</sup>, the budget process allows the City of Davis to make resource allocation decisions, including choices about staffing, technology, and equipment, as well as determining which program priorities will be addressed in the coming fiscal year. Although the City Council deliberates the proposed budget between May and June, the budget process occurs throughout the year. Staff begins in earnest each December based on projections of city revenues, costs associated with contractual obligations, assessment of city needs, and review of the City's overall financial position.



Beginning in FY2005-06, Quarterly Budget updates have been presented to the City Council, and separate budget workshops were held in December and March to review budget assumptions, projections as well as establish policies that informed staff's development of the Proposed Budget.

### **Budget Process**

The City Council adopted a Budget Calendar in the Fall of 2010. This calendar identifies critical due dates in the budget development process, including estimating expenditures for the ending fiscal year and funding requests for the preliminary budget, for human resources and other resources. It also includes a period of budget review with the City Manager and then the City Council, with final adoption as the last deadline.

In the fall, the Finance Department initializes the baseline budget for the upcoming fiscal year. This exercise includes updating projections for citywide revenues (including departmental fee revenues), establishing personnel salary and benefit costs consistent with applicable labor contracts, reviewing budget policies for non-personnel costs and updates to the City's debt service schedule. Following the development of the baseline budget, the five-year forecast is updated to reflect long-term sustainability of current staffing and service levels.

In December, the City Manager establishes budget development guidelines for departments, informed by the results of development of the baseline budget and updated five-year forecast. These guidelines set the parameters under which departments develop their budget requests. Such parameters may place restrictions or limitations on funding increases, or they may include budget reduction goals.

From December through February, departments review their functional responsibilities and services and their current year budget objectives in light of any modifications in Council priorities or other direction to staff. These are considered in conjunction with projections of revenues and expenditures as the departments prepare their preliminary budget requests. Departments develop budgets which reflect departmental goals and City Council priorities within budgetary constraints.

The City Manager reviews department budget requests in March-April. From these reviews, the budget parameters may be modified and changes made to the preliminary budget for presentation to Council. During the month of April, the Finance Department compiles all department requests and the City's financial data to produce a preliminary document.

The presentation of the City Manager's Proposed Budget in early May is intended to provide the City Council and the public additional time to review the budget. Included in the City Manager's presentation are an update of the City's financial position and long-range plan, review of the national, state and local economies, and discussion of financial policies and department activities.

Following presentation of the Proposed Budget a series of public hearings and special workshops are scheduled to highlight and discuss discreet elements of the proposed budget. After the Council reviews the proposed budget and receives public comment, they may revise the proposed budget. Then, on or before June 30, the City Council votes to adopt the budget, including any amendments to the proposed budget that may occur, by an affirmative vote of the majority of the five-member City Council. At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by a majority vote of the Council.

Upon final adoption by city ordinance, the budget becomes the legal authorization for the various departments to expend revenues, subject to any controls established by the City Manager, City Council and internal audit requirements. The City Council has adopted several financial and budgetary policies which address debt, reserves, and spending authorizations. These help guide long-term planning and are found under "Budget Polices" in the previous section of this Budget Guide.

### **Citizen Participation**

Davis residents are encouraged to participate in the budget planning process through a variety of avenues, such as participating in Council-appointed boards and commissions or by attending budget sessions or public hearings at City Council meetings. Citizens may also view and comment on the budget document through the City's Internet Web page.

Public hearings on the budget occur in May and June. Citizens have the opportunity to speak about budget issues at these hearings and at virtually any City Council meeting during the year. Council meetings are generally held on Tuesday evenings beginning at 6:30 p.m. in the Community Chambers at City Hall, located at 23 Russell Boulevard, Davis. The Council rarely meets on a fifth Tuesday. All council meetings are televised on the local cable access channel 16 and subsequently aired at a later date.

## GLOSSARY OF BUDGET TERMINOLOGY

A city budget contains specialized and technical terminology that is unique to public finance and budgeting. Therefore, a glossary is provided to help the reader understand terms and vocabulary that are used in this document. Useful terms relevant to the budget process and/or city government are included.

**APPROPRIATION**

An authorization made by the City Council which permits the City to incur obligations and to make expenditures of resources.

**BENEFITS: FULL TIME (FT) EDUCATIONAL INCENTIVE PAY**

Cost to the City for educational incentive pay to eligible public safety employees. For budget purposes, this payment is included as part of the total annual salary for eligible regular full time employees.

**BENEFITS: REGULAR FT INSURANCE**

Cost to the City for insurance benefits for all regular full time employees. This includes the city's cost for health, dental, disability, life, and workers' compensation insurance.

**BENEFITS: REGULAR FT LEAVE TIME**

Compensation for all leave time to employees who are appointed to regular full time positions. For budget purposes, the percentage factor could be applied to net work hours as calculated by the Finance Department.

**BENEFITS: REGULAR FT RETIREMENT**

Cost to the City for Public Employees' Retirement for all regular full time employees. The city participates in the California Public Employees' Retirement System (PERS).

**BENEFITS: REGULAR PART TIME (PT) INSURANCE**

Cost to the City for insurance benefits for all regular part time employees. This includes health, disability, and workers' compensation insurance.

**BENEFITS: REGULAR PT LEAVE TIME**

Compensation for all leave to employees who are appointed to regular part time positions. For budget purposes, the percentage factor could be applied to net work hours as calculated by the Finance Department.

**BENEFITS: REGULAR PT RETIREMENT**

Cost to the City for Public Employees' Retirement for all regular part time city employees.

**BUDGET**

A financial plan for a specific period of time (one fiscal year) that matches planned revenues and expenditures with various municipal services.

**BUDGET ADJUSTMENT**

A legal procedure to revise a budget appropriation. City staff has the prerogative to move expenditures within or between department programs. Increases to the budget must be approved by the City Council.

**BUDGET CALENDAR**

The schedule of key dates or milestones which the City follows in the preparation, adoption, and implementation of the budget.

**BUDGET DOCUMENT**

The instrument used by the City Manager and staff to present a comprehensive financial program to the City Council.

**BUDGET ORDINANCE**

The official enactment by the City Council to establish legal authority for city officials to obligate and expend city resources and funds.

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**BUDGETED FUNDS**

Funds that are planned for certain uses but have not been formally or legally appropriated by the City Council. The budget document submitted for City Council approval is composed of budgeted funds.

**BUDGETARY CONTROL**

The control or management of a governmental unit or enterprise in accordance with an approved budget for the purpose of keeping expenditures within the limitations of available appropriations and available revenues.

**CAPITAL IMPROVEMENT PROJECTS**

A plan for capital expenditures to provide long-lasting physical improvements to be incurred over a period of several future years.

**CAPITAL OUTLAY**

Purchase of equipment (including vehicles), tools, and furniture having a value of \$3,000 or more and a normal useful life of two years or more.

**CONTRACTUAL SERVICES**

Expenditures for services which are obtained by an expressed or implied contract, or services which are of such nature that they normally would be obtained by such a contract. Major types of contractual services are advertising, printing and binding services, maintenance and repair services, auto body work, professional services, public utility services, and travel and transportation services.

**DEPARTMENT**

A separate major administrative section of the City which indicates overall management responsibility for a group of related operations within a functional area. The City's structure has nine departments.

**DEPARTMENT SUMMARY**

The Department Summary provides a summary of source of funds and expenditures by major category. The source of funds section shows how the fiscal year 2008-09 and 2009-10 actuals, the 2010-11 budget and the 2011-12 budget are funded. The expenditure section details both human resources and other resources. The human resource category includes regular full-time, regular part-time, special funded, temporary part-time, and overtime. The other resources category includes: supplies/small equipment, internal services, services/other expenditures, and capital outlay

**DIVISION**

A major administrative section of a department indicating management responsibility for a group of related operations within a department.

**DIVISION SUMMARY**

Provides a summary of source of funds and expenditures by major category in the same manner as the Department Summary, described above, except that this summary is at the division level.

**DWELLING UNIT EQUIVALENT (DUE)**

A technique for converting land uses into a unit measure of equivalent number of people (1 DUE = 2.83 people).

**ENCUMBRANCE**

The commitment of appropriated funds to purchase an item or service. To encumber funds is to set aside or "commit" funds for a future expenditure.

**ENTERPRISE FUND**

A governmental accounting fund in which the services provided are financed and operated similarly to those of a private business. The rate schedules for these services are established to ensure that the revenues are adequate to meet all necessary expenditures.

**EXPENDITURE**

Refers to the outflow of funds paid or to be paid for an asset obtained or goods and services obtained, regardless of when the expense is actually paid. This term applies to all funds. Expenditures are recorded in the City's financial records when the goods, services, or assets are received.

Budget Guide	■	
<b>EXPENDITURE CATEGORY</b>	■	A basis for distinguishing types of expenditures. The major expenditure categories used by the City of Davis are human resources including salaries, benefits and overtime: operating expenditures (supplies and services) and capital expenditures.
<b>FISCAL YEAR (FY)</b>	■	The time period designated by the City representing the beginning and ending period for recording financial transactions. The City of Davis has specified July 1 to June 30 as its fiscal year.
<b>FULL TIME EQUIVALENT (FTE)</b>	■	Technique converting labor work hours into a unit measure of equivalent number of full time employees (1 FTE =2,080 annual hours).
<b>FUND</b>	■	An accounting entity that has a set of self-balancing accounts and that records all financial transactions for specific activities, revenue sources, or government functions. Eight commonly used types of funds in public accounting are: general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, trust and agency funds, internal service funds, and special assessment funds.
<b>FUND BALANCE</b>	■	Refers to the excess of assets over liabilities and encumbrances at the end of the recorded accounting period. Also known as available funds.
<b>GRANT</b>	■	A donation by a government or other organization to support a particular function. Grants may be classified as either categorical or block, depending upon the amount of discretion allowed the grantee.
<b>HUMAN RESOURCES / PERSONNEL</b>	■	Costs associated with employees, such as salaries and benefits.
<b>INTERNAL SERVICE FUND</b>	■	Funds used to account for the financing of goods or services provided by one city department to another on a cost reimbursement basis.
<b>LETTER OF TRANSMITTAL</b>	■	The opening section of the budget which provides the City Council and the public with a general summary of the most important aspects of the budget, changes from the current and previous fiscal year, and the views and recommendations of the City Manager.
<b>LINE-ITEM BUDGET</b>	■	A budget that lists each expenditure type (salary, supplies, contractual services, etc.) as a separate line item, along with the dollar amount budgeted for each specified category.
<b>OPERATING BUDGET</b>	■	The portion of the budget pertaining to daily operations that provides basic governmental services. The operating budget contains appropriations for such expenditures as personnel services, materials and supplies, and capital outlay. It does not include Capital Improvement Project expenditures.
<b>PERFORMANCE MEASUREMENT</b>	■	The process of regular and continuous data collection on important aspects of the City's services in order to evaluate the effectiveness and efficiency of those services
<b>PROGRAM BUDGET</b>	■	A budget that focuses on the goals and objectives of an agency or jurisdiction at the program level, rather than upon a line-item budget unit or object class of expenditures.
<b>REGULAR FULL TIME</b>	■	Describes the job status of a city employee as one who works a full weekly schedule (40 hours for non-public safety employees, 54 hours for public safety employees) on a non-temporary basis.

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**REGULAR PART TIME**

Describes the job status of a city employee as one who works a minimum of 20 hours per week on a non-temporary basis.

**REVENUE**

Funds the City receives as income. Revenues include such items as taxes, licenses, user fees, service charges, fines and penalties, and grants.

**RESERVE**

An account used to indicate that a portion of a fund's balance is legally restricted for a specific purpose and is, therefore, not available for general appropriation.

**SOURCE OF FUNDS**

Identifies which revenues the City will use to pay the expenditures of each department. Some department budgets include revenues from one or more sources, which legally, may only be used for specific purposes, while others rely more heavily on the City's General Fund which, may be used for any appropriate purpose.

**SUPPLIES / SMALL EQUIPMENT**

Items purchased that have a unit value of less than \$3,000 regardless of normal useful life, or have a unit value of more than \$3,000 and a useful life of less than 2 years.

**TEMPORARY PART TIME**

Describes the job status of an employee as one who works less than full time and in a transitory position.

**WORK PAY: REGULAR FULL TIME**

Compensation for actual time worked during regular working hours to employees who are appointed to regular full time positions on either a regular full time, probationary, or provisional basis.

**WORK PAY: REGULAR PART TIME**

Compensation for actual time worked to employees who are appointed to regular part time positions created with the intent of the employee working 1,040 or more hours, but less than 2,080 hours per year. This also includes employees who previously worked in a regular position at 1,040 hours during the previous fiscal year, who are now performing the same duties as they previously performed, but who are now scheduled to work less than 1,040 during this fiscal year.

**WORK PAY: SPECIAL FUNDED FULL TIME**

Compensation for actual time worked during regular hours to employees who are filling special funded full time positions. All employees filling these positions will be entitled to all City benefits on the same basis as full time positions. All positions will terminate at the end of the special funding.

**FY 2011– 2012**

