

# City of Ottawa, Kansas -- Budget Guide

The purpose of the budget guide is to assist the public and City Commission in understanding the way the City budget is prepared, adopted, implemented and amended. It provides information about the citizens' rights to get involved in the budget process, and shows how to exercise that right. Some of the constraints placed upon the City in regard to the budget and financial operations are highlighted. The budget guide also provides an overview of the types of information presented in the budget document and how that information is formatted.

## What Is A Budget?

The budget is one of the most important processes a City Commission engages in on a continuing basis. The budget is, first of all, a policy document and operations plan. It establishes the activities and projects that the City is going to pursue and provides a plan of organization for implementing those activities. Staffing and resource levels are set.

The budget is also a financial plan. It identifies financial resources and ties those resources to specific activities. A comparison of prior years' activities is included. Finally, the budget serves as a communication device to the public about the planned activities of the City. The budget consists of the operating budget that identifies the necessary resources to complete the activities planned for the year, and projects that effect those decisions.

## Budget Process

Preparation and implementation of the City's budget is a year-round process, although this process attracts the most attention during the summer just prior to setting the level of property taxes for the following year. Although the City of Ottawa uses a single-year approach, some cities use a multi-year approach to budgeting. This enables cities to identify future effects of current decisions in a more timely manner. City budgets often present actual figures for prior years, a budgeted figure for the current year and for the next year. In arriving at next year's budget, City staff works to determine anticipated needs and reviews prior expenditures.

In Ottawa, the City Manager and City Clerk/Finance Director meet with each Department Head who has already prepared an initial budget estimate based on the projected needs within their Department's scope of responsibility. Each line item is discussed and adjusted to fit next year's projections. The City Manager's approach in these meetings is to make certain the Department Head has adequate justification for increasing budget requests based on a detailed scope of work or specific need to purchase items. Similarly, there needs to be justification for maintaining an existing line item budget level if historically the funds have not been used. Finally, the City Manager reviews areas that may need more funding to fit into priorities for the community based upon his perceptions, management experience, and especially City Commission priorities. The final budget requests are submitted to the City Commission, which may further refine items based on input from the public and community leaders, as well as the formal budget hearings.

Throughout the budget year, interim financial reports are generated during the course of implementing and monitoring the program of work. Reports detailing budgetary performance by minor and major item are provided to all Department Heads and the City Manager. The City Commission may amend the budget at any time during the year by publishing a notice and holding a public hearing on the amendment. Amendments may be used to expend unanticipated revenues, however, taxes may not be increased through a budget amendment.

During the budget process, the City Manager makes it clear to each Department Head that should an unfunded and unforeseen emergency arise which requires an increase in budget expenditure, the City Commission will be approached and a recommendation made for increasing the budget authority or expending budgeted contingency funds. The city tries to maintain sufficient levels of reserves or cash carry over in specific funds to cover such emergencies. The city does not budget "padding" in line items, knowing that a truly realistic operational budget will help ensure that reserves can be available in an emergency.

### **Financial Operations and Structure**

The city's accounting system is established to conform to requirements of State Law and good financial management practices. The city has established the minimum number of funds necessary to ensure that all receipts are expended for legally permitted or required purposes. Expenditure categories are generally classified by department, category (personnel, contractual, commodity, etc.) and line item (salaries, utilities, office supplies, etc.) For the purpose of management control, and for showing the total cost of a particular activity, expenditures are shown by department or function. For the purpose of showing compliance with restrictions on the use of funds, expenditures are also shown by fund. The budget document breaks expenditures down to the line item level of detail. Major categories include:

Personnel: These are salary and wages, overtime, employee liability costs, etc.

Contractual: Services the City buys, such as electricity, telephone, insurance, rentals, etc.

Commodity: Tangible supplies the City buys (office supplies, street & sidewalk materials, etc.).

Major Capital Items: Major items such as equipment, buildings, and vehicles, that are a significant investment but that are still appropriate to fund out of current revenue.

Transfers: Money which is to be transferred out of one fund and into another.

Debt Service: This is the principal and interest payment on our outstanding debt.

The city receives revenues from a wide variety of sources. A general classification of revenues is provided below.

Property Taxes. Taxes levied on the value of property. The amount of the tax depends on the assessed value of the property and on the tax rate established by the city (and other taxing entities in the city, such as the school, county, etc.).

County, State and Federal Aid. Revenues received from other governments that are not specifically attributable to a particular service that the city has provided, although the City may be restricted as to how the money may be spent.

Sales and Use Taxes. Tax levied by the city on the value of a sale. These have been authorized by election and are collected by the state for the city.

Interest on Investment. Interest the city earns on money it temporarily invests.

Service Charges. This is revenue collected for service provided to another party, such as water service charges, special assessments, license fees, rental of facilities, etc.

Franchise Fees. These are fees that the city charges other entities for the use of city right-of-way. (i.e. Cable TV, telephone, gas companies, etc.).

Municipal Court Fines. These are fines levied by the judge of the municipal court for infractions of the law.

Cash Balances From Prior Year. This is money that has been left over from the prior year operations. This money is often used to maintain an adequate level of cash reserves for emergencies but portions are also budgeted for expenditure in future year to help reduce reliance on other funding sources.

Miscellaneous Revenues. This is a category for anything that is not included in any of the above categories.

### **Fund Accounting**

The use of Fund Accounting is one of the major differences between governmental and commercial accounting. It requires separate record keeping for each individual Fund. Each Fund operates as a self-contained entity with its own revenue sources, expenses, assets, liabilities, and fund balance. Even though the actual cash is kept in one bank account, a separate accounting is kept of all Funds by the use of a computerized accounting system. Expenditures and revenues by Fund are shown in the budget document.

### **Departments**

Operationally, the city is divided into a number of departments, activities, or programs. A department is generally responsible to one Department Head and performs a related group of services. One example would be a Parks and Recreation Department, which usually takes care of all public parks and recreational facilities in a city. A department's employees are the people who actually deliver the service to the citizen. A department may draw on the financial resources of one or more Funds.

### **Basis of Accounting**

All city funds, except for the Enterprise Funds, are reported on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Expenditures are recognized in the fiscal year in which the liability has been incurred, whether or not the money has actually been spent. In simple terms, a city can not spend money it does not have in hand, and expenditures are recognized as soon as a commitment to buy is made (i.e. an order is placed).

The Enterprise Funds are reported on the accrual basis of accounting, except for the recording of some fixed assets. This basis of accounting measures revenue when it is earned and becomes measurable. For example, water revenues are recognized at the time the bill is prepared, instead of when it is paid. Expenses are recognized when incurred, which means when the material or services are received and the amount due becomes known.

## **Financial Audit**

Each year the city's financial system and activity is audited by an independent public accountant. The audit is prepared according to Generally Accepted Auditing Standards and the Kansas Minimum Standard Audit Program. The final audit is presented to the City Commission, the Municipal Accounting section of the Kansas Department of Administration, and other regulatory or oversight bodies as required.

## **Legal Restrictions and Provisions Relating to Budgeting**

The city is subject to a number of requirements imposed by state law and by local policy that either restrict the activity of the city or provide the public with certain rights. Some of these extend beyond the budget process but are particularly important with regard to that process. These are discussed below.

Budget law. The City is required to establish a budget of planned expenditures for every fund, except for capital project funds for which debt has been issued. The budget law also prohibits the city from expending an amount that exceeds the amount budgeted for that Fund. The City may, without violation of the budget law, transfer budget authority within the General Fund from department to department or between items of expenditure. As mentioned earlier, the Fund budgets may be amended by following the procedure prescribed for original adoption of the budget, although no additional taxes may be levied through such amendment.

The budget law also prescribes a minimum procedure that the City must follow in order to adopt the budget. The law requires that the City hold a public hearing prior to adopting the budget. This hearing must have been publicized by public notice in the official city newspaper at least ten days prior to the date set for the hearing.

Cash Basis Law. The Kansas Cash Basis Law prohibits cities from creating a financial obligation unless there is money on hand in the proper fund with which to pay the indebtedness.

Limit on Indebtedness. Kansas law limits the long term debt (Bonds and Temporary Notes) outstanding to a maximum of 30% of assessed valuation. Assessed value for the purposes of establishing the debt limit includes the value assigned to motor vehicles. Motor vehicles are not included in the assessed value for the purposes of establishing the mill levy. Debt issued for the purposes of storm or sanitary sewers for City utilities are not subject to the limit. In addition, debt issued under some statutes may be specifically exempt by the authorizing legislation.

Open Meetings. Generally, any time a quorum of the City Commission meets for the purpose of conducting or discussing business, the meeting must be open to the public. State law provides for specific instances in which the City Commission may go into executive session (non-public meeting), but no binding decisions may be made in such closed sessions.

The City of Ottawa prepares an agenda for all meetings and tries to provide at least twenty-four hours notice of any meeting to all news media. The public is encouraged to attend and participate in all City Commission meetings pursuant to the rules of order. Special meetings, work sessions or changes in the place or time of regular meetings will be announced in advance through normal news media channels.

Kansas Open Records Act. The Kansas Open Records Act provides that, unless specifically exempt by law or court ruling, all public records are open to public inspection. The basic policy is that the public has a right to public records unless that right has been limited by state or federal law. Access may be charged if substantial amounts of staff time are required to provide access. Copies of records can be provided for a nominal fee. If a record is requested and access is denied, a specific reason for denial must be given.

## **GLOSSARY OF BUDGET TERMS**

Appropriation. An authorization granted by the City Commission to make expenditures and to incur obligations for purposes specified in the Appropriation Ordinance.

Assessed Value. A value set upon real estate or other property by the County Assessor and the State as a basis for levying ad valorem property taxes.

Beginning Balance. The beginning balance is the residual funds brought forward from the previous fiscal year (unencumbered cash balance).

Bonds. Bonds are debt instruments that require repayment of a specified principal amount on a certain date (maturity date), together with interest at a stated rate, or according to a formula for determining the interest rate.

Budget. A budget is a plan of financial operation embodying an estimate of proposed expenditures and the means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. In practice, the term “budget” is used in two ways. Sometimes it designates the financial plan presented for adoption and sometimes it designates the plan finally approved. It is usually necessary to specify whether the budget under consideration is preliminary and tentative or whether the Governing Body has approved it.

Capital Improvement Program (CIP). The Capital Improvement Program is a plan for capital expenditures needed to maintain and expand the public infrastructure. It projects the infrastructure needs for a set number of years (usually five) and is updated annually to reflect the latest priorities, cost estimates, or changing financial strategies. The first year of the adopted Capital Improvement Program becomes the Annual Capital Budget.

Major Capital Item. These are usually items that cost more than \$2,000, and have a useful life of more than two years.

Commodity Items. Consumable goods such as office supplies, small tools, fuel, etc. Commodities also include repair and replacement parts and non-capital materials.

Contractual Services. Services provided by firms, individuals, or other city departments.

Debt Service. Payment of interest and principal on an obligation resulting from the issuance of bonds or other such financing methods.

Encumbrance. A reservation of funds to cover purchase orders, contracts or other funding commitments which are yet to be fulfilled. The budget basis of accounting considers an encumbrance to be the equivalent of an expenditure.

Enterprise Funds. Funds which are accounted for in a manner similar to a private business enterprise. Usually the governmental entity intends for enterprise funds to fully recover their costs (including depreciation) through user fees. The City of Ottawa has three Enterprise Funds: Electric, Wastewater and Water.

Expenditures. Refers to current cash operating expenses and encumbrances.

Full-Time Equivalent. A part-time position converted to the decimal equivalent of a full-time position, usually based on 2,080 work hours/ year or 40 hours/week. For example, a part-time person working 20 hours/week is equal to .5 of a full-time position.

Fund. An independent governmental accounting entity with a self-balancing group of accounts, including assets, liabilities and fund balance.

General Purpose Funds. Funds supported by taxes and fees that have unrestricted use.

Grant. A contribution usually from one government unit or funding source to another. The contribution is usually made to aid in the support of a specified function, i.e., library materials, drug enforcement, but it is sometimes for general purposes.

In-Lieu of Property Taxes. An amount which may be charged to enterprise operations equal to the real and personal property taxes that would be due to the city on plant and equipment if the enterprise operation was a for-profit private company. Used as a justification for making a transfer of funds to the General Fund.

Operating Funds. Resources derived from reoccurring revenue sources used to finance ongoing operating expenditures and pay-as-you-go capital projects.

Resources. Total funds available for appropriation including estimated revenues, fund transfers, beginning balances.

Salary Savings. Savings realized while a position is vacant until a new employee is hired.

State-Shared Revenues. Money collected by the State but shared on a predetermined basis with local governments.

Transfers. Transfers are the authorized exchanges of cash or other resources between funds. The transfer of resources between funds is not recorded as revenues to the fund receiving or expenditures to the fund providing.

Tax Levy. The total amount to be raised by general property taxes for purposes specified in the Tax Levy Ordinance.

Zero Base Budgeting. A process for allocating financial resources that provides for the comparison and prioritization of existing programs and services relative to the need for new programs and services. The process includes organizing expenditures in discrete decision packages and absolute priority ranking of the decision packages.