

OMF 4.02.01 Budget Development Procedures

Purpose

These procedures guide development of the OMF budget submission.

Internal Service Fund Interagency Development

The OMF internal service fund financial planning process begins at the conclusion of a fiscal year. The following steps are taken in this process:

1. The prior fiscal year finances of the fund are analyzed in-depth to determine what improvements and changes need to be reflected in the budget and rate-setting process for the upcoming fiscal year. This analysis includes a review of replacement and major maintenance accounts and other fund balance components.
2. The rate budget and cost allocation methodologies are reviewed to see if any improvements or changes are necessary.
3. Website information is updated and interagency (IA) workshops are held with customers to provide education on services, rates, and IAs as well as to respond to customer questions and obtain feedback.
4. Rate budgets are prepared based on the prior year's actual expenses and revenues and the upcoming fiscal year's anticipated requirements and revenues, incorporating all the improvements and changes identified based on past history, discussions with internal service fund managers, customers, and trends.
5. Rates are calculated by dividing rate budgets by projected service levels, or in the case of corporate costs, by allocating rate budgets to customers based on metrics. Calculations also include refiguring the General Fund Overhead rate which is charged by bureaus to recover the cost of their General Fund Overhead expense.

These rates and rate budgets will be initiated at Current Service Level (CSL). The OMF Internal Service funds will calculate targets for budgets. These calculations will be at the rate budget line item level which allows specific inflation rates to be applied to specific line items. However, debt service will be at scheduled amounts. Then systemic cost changes will be factored in to reflect Council initiated and approved cost decisions and changes in units of service provided. The OMF Internal Service funds are required to develop rate budgets at or below the calculated targets. Individual rates are set at the cost of services and as such, within a fund, some rates may increase at greater than the inflationary rate, while other rates may decrease.

The General Fund Overhead rate will be determined by dividing the total General Fund Overhead fee to be paid by the fund into the fund's estimated annual billings. The resulting General Fund Overhead rate will then be applied to each billing.

OMF PROCEDURES: Finance

The administration component of each fund's budget, except the Risk funds, are allowed to increase only at the rate of inflation for Internal Materials and Services. The Risk funds must account for the funding of claims payments, legal defense, and reserve levels which are not limited to an inflationary target. The Risk funds also charge what is necessary to keep the fund's actuarial sound over the five-year forecast period at established confidence levels. Changes to confidence levels need to be approved with a decision package.

By keeping rate budgets for services at the level of inflation identified by the City's Economist, OMF's customers' buying power is not reduced. The customers can get the same level of service as the previous year, without having to reduce other areas of their budgets. However, if customers add units of service or pass-through costs, they will have to find the money to cover this from other areas of their budgets. As a result, the size of the OMF funds' budgets and growth rates are based on the level of service provided to customers.

Preliminary interagency agreements will be issued to customers in December. This schedule is set to provide time to review and understand the proposed agreement as well as to allow time to coordinate with providers if any changes are necessary. This initial draft will be considered preliminary in that it will reflect the provider's rates for the new fiscal year, and include estimates for variable services, and inventories of assigned units. The estimates for variable services will be based upon prior year's actual usage, historical growth, and known requests by the customer bureau. The inventories will be as of the most recent accounting period.

OMF General Fund Interagency Development

With a few exceptions noted below, OMF General Fund Bureaus receive General Fund Resources (Overhead and Discretionary) to fund their business operations. When the level of service requested by customers exceeds the scope or workload of the service level funded by General Fund resources, a bureau or division may create an interagency agreement with the customer. These interagency agreements need to be mutually agreed to by both parties, included in the budget submission or in a Budget Monitoring Process submission, and have an accompanying service level agreement that details the service level, time period, and cost of the service.

Exceptions:

- Debt and Treasury, part of the Bureau of Revenue and Financial Services, do not receive General Fund Resources. Debt is funded through interagency agreements with customers who have outstanding debt while Treasury is funded through interest earnings on the City's investment balance.
- The Revenue Division does not receive General Fund Overhead.

Allocation of OMF General Fund Current Appropriation Level Target

The City Budget Office (CBO) currently provides a General Fund Overhead and Discretionary Target to OMF each fiscal year. The CBO takes the prior year adopted budget overhead and discretionary, makes adjustments for items such as the prior year COLA and upcoming PERS rate changes, and then provides OMF Business Operations with the target. OMF Business Operations staff then allocates the target to the OMF General Fund bureaus and divisions.

Documentation regarding the allocation process is reviewed with bureau directors and is updated throughout the budget development process in order to track the movement of funds.

Decision Packages

In the Requested Budget decision package process, the OMF Leadership Team will consider decision packages prepared by the OMF funds and divisions in consultation with their assigned OMF Business Operations financial staff. The decision packages will be processed with OMF customers and OMF's Advisory Committee prior to their submission in the Requested Budget. Guidance on the decision package process is included in OMF Policy 4.04.

Budget Balancing by Internal Service Funds

When decision packages are approved for inclusion in the Mayor's Proposed Budget, budgets are adjusted in the City's budget software. The Council may also make target adjustments to customers' budgets at the same time.

In the Mayor's Proposed Budget, the Approved Budget and the Adopted Budget, OMF's budget is revised as the Mayor and Council makes decisions about the City's budgets. For the internal service funds, these decisions may have an impact on interagency agreements. If Council's decisions require bureaus to make additions or reductions, the funds make corresponding increases or decreases in their budgets similar to how a business either gears up for an increase in work or scales back when work decreases. These additions or reductions may affect any area of the budget.

If, as a result of reductions in levels of service by customers, revenue projections fall below what rates are based on, the internal service funds have to either make additional budget reductions or fund the shortfall out of reserves. At this point in the budget process, the internal service funds do not have the option to raise rates.

Likewise, if during the year the internal service funds incur expenses that are not part of the rate budget, their first priority is to fund these expenses by reducing other parts of the budget through adopting new efficiencies or service reductions. Their next option is to fund the expenses out of their reserves. The internal service funds do not increase rates during the year to customers, unless the fund incurs a level of expenses it cannot cover through budget reductions and the use of reserves or unless a new service requirement arises and customers sign off on the increased charges. Once rates are set at the beginning of the fiscal year they should be in effect for the entire fiscal year, unless customers agree to a change.

Capital Improvement Plan

The OMF Capital Improvement Plan (CIP) is an integral part of OMF's budget process and five-year financial plan.

OMF prepares a five-year capital plan for each major facility and technology infrastructure asset it has. This CIP is developed with input from internal and external customers, as well as staff who maintain the facilities and infrastructure, and it is influenced by City Council-established goals, objectives, and policies. The CIP is only for capital improvements or additions to the

City's capital inventory. Operating projects for building and infrastructure assets are included in the five-year plan.

The decision package process is used for proposing projects that require debt financing, changing Interagency Agreement (IA) rates, or requesting money from the General Fund.

Five Year Plans

The CBO budget instructions include additional requirements for five-year plans that may change from one year to the next. OMF Business Operations staff will review the budget instructions and work with customers to create five-year plans.

OMF Fee Study

Comprehensive Financial Management Policy FIN 2.06 states that all bureaus charging fees are required to complete periodic fee studies based upon cost-of-service principles.

Multiple business units within the Office of Management and Finance (OMF) charge rates and fees to both internal and external customers. OMF's fee study focuses on services that benefit specific public users (i.e., an external customer) for providing a service or for a regulatory purpose. Fees charged exclusively to internal (City) or intergovernmental customers are out of the scope of the study. The following are additional scoping considerations in this study:

1. Regularly the internal service funds will compare selected cost of service rates with outside organizations.
2. If a fee charged to the public simply passes costs through, provides a public service through partial cost recovery, or is contracted on a case-by-case basis, no further analysis is included in the study.
3. If a fee or group of fees is currently under analysis by a bureau, OMF will support the work and reference, summarize, and/or wholly include bureau results rather than duplicate the effort.