

USER GUIDE





User Guide

Budget Process

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The “operating budget” is the City’s annual operating plan as required by City Charter. The City Charter establishes the fiscal year that begins on October 1st and ends on September 30th. The budget process begins in February each year and ends on or before September 15th when the budget is legally adopted by the City Council.

The operating budget will be balanced with current revenues and other financing sources inclusive of beginning unreserved, undesignated fund balance. Unencumbered budget appropriations lapse at year end and do not carry forward to future years.

The budget process will be coordinated in order to identify major policy issues for City Council consideration several months prior to the budget approval date so that proper decisions can be made.

Quarterly financial reports, along with monthly general ledger reports, will be prepared to enable the Department Managers to manage their budgets and to enable the Director of Finance to monitor and control the budget as authorized by the City Council. Summary financial reports will be presented to the City Council quarterly. Such reports will be in a format that will enable the City Council and other intended users to readily evaluate the financial position and results of operations of the City.

The City should establish an adequate contingent appropriation in the General Fund and Water and Sewer Fund. Expenditures from this appropriation shall be made only in cases of emergency. The contingency appropriations shall be distributed only by transfer to departmental appropriations. All transfers from the contingent appropriation will be evaluated using the following criteria:

1. Is the request of an emergency requiring immediate action?
2. Why was the item not budgeted in the normal budget process?
3. Why the transfer cannot be made within the division or department?

Annual budgets are legally adopted for the General Fund, Special Revenue Funds, Debt Service Fund and the Proprietary Fund. Capital Project Funds do not have formally adopted budgets, rather they are long range projections for planning purposes.

Budget amendment forms must be submitted to Finance for review. The City Manager is authorized, without further City Council action, to transfer appropriations within individual department budgets for each fund from line item to line item greater than \$5,000 provided that the total funds appropriated by the City Council for each individual department budget are neither increased nor decreased. The Director of Finance is authorized, without further City Council action, to transfer appropriations within individual department budgets for each fund from line item to line item less than \$5,000 provided that the total funds appropriated by the City Council for each individual department budget are neither increased nor decreased. If an amendment is seeking funding between departments, from contingency accounts or other financing sources, then the amendment must also be approved by the City Council. Amendments are submitted to City Council at each council meeting. Budget amendments for Council approved projects require only the Director of Finance and City Manager signatures.

The budget should be prepared according to the following schedule:

1. In February, budget packets will be prepared for departments.
2. A meeting will be scheduled for the first part of March to distribute packets and instructions for preparing the budget.
3. On or about April 15th, a work session will be scheduled with City Council to identify issues and receive policy guidance for the budget.
4. Within the next three to four weeks, after Departments have submitted their budget proposals, a review session will be scheduled with each department to review their budget proposals. After about two weeks, a second review session will be scheduled with departments.
5. At the first City Council meeting in June, a follow-up policy guidance session with City Council will be scheduled. An interim report on revenues and expenditures will be provided to the City Council.

6. During July, work sessions will be scheduled with the City Council to review the budget.
7. On or before August 1st, the City Manager will file the budget with the Director of Finance. At the next regular meeting of the City Council, the Council shall set the time and place of a public hearing. A notice will be published at least fifteen days prior to the date of the public hearing.
8. On or before September 15th, a final public hearing will be scheduled. The budget will be adopted along with the adoption of the tax rate and tax roll.

This year's budget calendar is included at the end of this section.

Form of Government

The City of Temple utilizes a Council – Manager form of government and is organized under the Constitution and Laws of the State of Texas. Temple is a home-rule corporation. The City Council is composed of four members with a Mayor elected at-large. The City Council appoints the City Manager, City Attorney, Director of Finance, City Secretary, and the Municipal Judge. These staff members work with the direction of the City Council. All other staff members work with the direction of the City Manager.

The City Manager is the Chief Executive Officer and the head of the administrative branch of the City Government. He is responsible for the proper administration of all affairs of the City.

Basis of Presentation

The accounts of the City are organized and operated on the basis of funds or account groups, each of which is considered to be 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 balances or retained earnings, revenues and expenditures or expenses. The various funds are grouped by category and type in the financial statements. The City maintains the following fund types within three broad fund categories and the account groups:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed.

The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those, if any, which should be accounted for in proprietary or fiduciary funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The following governmental fund types are maintained by the City:

- I. **General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.
- II. **Special Revenue Funds** – Special revenue funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes. The individual special revenue funds are:
 - A. **Hotel/Motel Tax Fund** – Levy and utilization of Hotel-Motel occupancy tax, Civic Center revenues, and Railroad Museum revenues.
 - B. **Reinvestment Zone No. 1 Fund** – Ad Valorem taxes levied on and used in a designated zone.
 - C. **Federal/State Grant Fund** – Operations of projects utilizing federal and state grant funds.
 - D. **Drainage Fund** – Levy and utilization of a municipal drainage fee.
- III. **Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of, resources for, and payment of general long-term debt principal, interest and related cost.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following proprietary fund type is maintained by the City:

I. **Enterprise Fund** – Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City has one enterprise fund, as follows:

- A. **Water and Sewer Enterprise Fund**
– Water and sewer services provided to residents of the City.

Basis of Accounting

Revenues and Expenditures

Basis of accounting refers to the time at which revenues and expenditures or expenses, and the related assets and liabilities, are recognized in the accounts and reported in the financial statements.

Governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible-to-accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, if measurable, are generally recognized when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due and accrued vacation and sick leave, which is included in the General Long-Term Debt Account Group. These exceptions are in conformity with generally accepted accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected

to be received subsequent to the 60-day availability period are reported as deferred revenue.

Sales taxes are recorded when susceptible-to-accrual (i.e., both measurable and available). Sales taxes are considered measurable when in the custody of the State Comptroller and are recognized as revenue at that time. Other major revenues that are considered susceptible to accrual include utility franchise taxes, grants-in-aid earned and other intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual grant programs are used for guidance. There are essentially two types of intergovernmental revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt, or earlier, if the susceptible-to-accrual criteria are met.

The accrual basis of accounting is utilized by the proprietary fund. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable (i.e., water billings and accrued interest). Expenses are recorded in the accounting period incurred, if measurable.

Revenues in the Water and Sewer Fund are recognized as billed on a cycle basis. Unbilled utility account receivables are not material and are not recorded in the financial statements.

Encumbrances

Encumbrances represent commitments related to unperformed (executory) contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund, enterprise fund and special revenue funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities since the

commitments will be honored during the subsequent year.

For the budgetary purposes, appropriations lapse at fiscal year end except for that portion related to encumbered amounts. Encumbrances outstanding at year end and the related appropriation are carried forward to the new fiscal year through a supplemental budgetary allocation.

Basis of Budgeting

The budget of a general government fund type (for example, the General Fund and Special Revenue Funds such as the Hotel/Motel Tax Fund, Federal/State Grant Fund, Reinvestment Zone No. 1 Fund, and Drainage Fund) is prepared on a modified accrual basis. Briefly, this means that obligations of the City (for example, outstanding purchase orders) are budgeted as expenses, but revenues are recognized only when they are actually received.

The Enterprise Fund (i.e., Water and Sewer), on the other hand, is budgeted on a full accrual basis. Not only are expenditures recognized when a commitment is made (e.g. through a purchase order), but revenues are also recognized when they are obligated to the City (for example, water user fees are recognized as revenue when bills are produced).

The Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances on the basis of "generally accepted accounting principles" (GAAP). In most cases this conforms to the way the City prepares its budget. Two exceptions, (1) the treatment of depreciation expense (this is not shown in the budget, although the full purchase price of equipment and capital improvements is, while purchases of capital improvements are depreciated in the CAFR for enterprise funds) and (2) compensated absences (accrued but unused sick leave) are treated slightly different in the budget and CAFR.

The Comprehensive Annual Financial Report shows both fund expenditures and revenues on a GAAP basis for comparison purposes.

Fund Balance/Working Capital

The number one goal of the City Council is to improve or maintain the financial health of the City. Annual revenue projections are conservative. Expenditures are closely monitored. In stable economic times, the combination of these two

strategies results in excess revenues over expenditures. Unencumbered budget appropriations lapse at year end and do not carry forward to future years. The excess revenues are then available to increase the fund balance. The General Fund Balance is increased from excess revenues each year as part of the budget process to attain the appropriate level.

It shall be the goal of the City to maintain an undesignated fund balance in the General Fund equal to at least four months of the fund's operating budget.

Debt Reserves

Debt reserves are established to protect bond holders from payment defaults. Adequate debt reserves are essential in maintaining good bond ratings and the marketability of bonds.

The amount of debt reserves are established by bond covenants adopted in association with each bond issuance.

The City Council may establish, upon recommendation of the Director of Finance, supplemental Debt Service reserves. Such reserves shall not be deemed to confer any rights upon bondholders over and above those set forth in the Bond Covenant for each bond issue.



FY 2012 Budget & CIP Process Calendar

Department Head Leadership Retreat – highlight issues, feedback on budget process, and discuss FY 2012 budget & CIP process and calendar	January 12, 2011
'Pre-Budget' Departmental Meetings	January 24 – 31
Council Budget Retreat – discuss Strategic Planning & FY 2012 Budget Planning	February 10
Executive Leadership Meeting – discuss budget guidelines & training	February 28
Department Budget Training	March 1 – 4
Council Work Session* – discuss Strategic Planning & FY 2012 Budget Planning	March 3
Mail Letters to Public Service Agencies	March 4
Public Service Agencies' Briefings	March 14
Department's deadlines:	
Departmental Budget submissions	March 28
Performance & Introduction (A Pages)	April 8
Capital Improvement Plan (CIP)	April 15
Public Service Agencies' (PSA) deadline to submit request	April 8
Budget Review Sessions	April 28 – May 13
Employee Briefings on FY 2012 Budget – Pre-filing	May 16 - 21
Council Election	May 14
Chief Appraiser sends notices of appraised value; City receives preliminary tax roll	May 16
Budget Review Sessions Follow Up*	May 16 – 20
Council Work Session – discuss budget/CIP process and Strategic Plan	May 19
Council Work Session – PSA Presentations	May 23 (SM)
Council Work Session – PSA Presentations	May 24 (SM)
CDBG Public Hearing – funding recommendations for PSA's	June 2
[begins CDBG Environmental Review Process and 30-day comment period for Annual Consolidated Action Plan]	



FY 2012 Budget & CIP Process
Calendar

File City Budget & CIP documents with City Secretary	June 24
Employee Briefings on FY 2012 Budget – Post-Budget Filing	June 27 – July 1
Council Work Session	July 7
Council sets time, date & place for Budget/CIP Public Hearing	July 7
Council Work Session	July 14
Publish Ad – “Notice of Public Hearing on Budget”	July 17
Council Work Session	July 21
Adoption of Annual Consolidated Action Plan (CDBG Budget)	July 21
Chief Appraiser certifies the approved appraisal roll for each taxing entity	July 25
Council Work Session	July 28
Chief Appraiser delivers final Effective Tax Rate (ETR) calculation to taxing entities	July 29
Publish Ad – “Notice of Public Hearing on Budget”	July 31
Council Work Session – discuss budget & CIP	August 4
Initial Public Hearing on City Budget/CIP	August 4
Council – discuss tax rate, take record vote and schedule public hearings	August 4
Chief Appraiser publishes notice of effective and rollback tax rates	August 5
Publish Ad – “Notice of Public Hearing on Tax Increase”	August 5
Council Work Session – discuss budget & CIP	August 12 (SM)
1st Public Hearing on Tax Increase – schedule and announce meeting to adopt tax rate	August 12 (SM)
Publish Ad – “Notice of Tax Revenue Increase” [1 st publication]	August 13
2nd Public Hearing on Tax Increase – schedule and announce meeting to adopt tax rate	August 18
Publish Ad – “Notice of Tax Revenue Increase” [2 nd publication]	August 19
Final Budget/CIP Public Hearing and Adoption; Public Hearings and Adoption of tax rate and tax roll	September 1, 2011