FY 2012/2013 Resource Allocation Guidelines and Instructions

Overview

The purpose of these instructions is to set forth some of the budget-building tasks ahead of us. The overall goal of the biennial budget is to allocate resources to meet the service needs of the citizens of the City of Boise. Goals and objectives should align with the strategic plan, in accordance with approved budget policies and principles. Departments will prepare business plans that describe how the goals, objectives and services are to be carried out over the next six years. As part of that process, key progress measures will be determined to evaluate the effectiveness of the individual objectives with the resources allocated to them.

The following are key financial objectives to be used in preparing the City's financial plan:

- Maintain a structurally balanced biennial budget that is fiscally sound and conservative.
- Develop financial projections for the six years facilitating business planning.
- Identify and address citywide issues.
- Evaluate any impact on growth for current services and potential new services.
- Evaluate programs or services that can be privatized, outsourced, or eliminated to link to the strategic plan and to gain efficiencies.
- Price services and programs to cover the full cost, unless a City interest is identified and approval has been granted by the City Council for subsidization.
- Remain competitive in both services and taxes.
- Maintain the cash flow reserve.
- Link what the community wants to accomplish over the next two to six years with the resources available to do so.
- Fund capital projects that meet the City's contractual commitments, maintains existing infrastructure and facilities and increases operational efficiencies.

Specific Budget Development Policies

The City's budget is based on specific financial policies that form the fundamental basis and foundation for financial decision-making. Throughout the resource allocation process, implementation and maintenance, Financial Services will be reviewing all financial policies and may find opportunities for changes that better meet the needs of the City.

Structural Balance Policy – matching of revenue source against expenditure type. This means that base revenue will be used to support base costs and one-time revenue will be used for one-time costs.

Balanced Budget Policy – budget must be balanced for the proposed 2-years and the impact of decisions made today will be evaluated to determine the financial impact on future years.

Long Term Financial Plan – estimate costs and revenues for a future 6-year period to better assess the impact of financial and operational decisions.

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Use of Reserves – unrestricted reserves should be used for only one-time costs that first support existing programs before expanding programs or creating other programs unless doing so provides a greater benefit to the City.

Capital Improvement Plan (CIP) – projects shall be included in the citywide CIP for consideration of funding in the biennium budget. The operating impact must be identified and included in the biennium budget.

Debt Policy – debt may be used for capital assets, including major renovations.

Cash Flow Reserve – achieve an 8% cash flow reserve for the General Fund to meet cash flow needs by the end of fiscal year 2011.

Department Narratives – January 31st

Department Mission Statement and Description
Department overviews provide a summarized story about the department. Since this high level information rarely changes, the department simply needs to review the existing information to ensure it is accurate. Each department overview section includes the department mission statement and a general description of the services provided. This information can be updated in PeopleSoft or in a Word document that is attached to the Resource Allocation Sharepoint site.

Organization Charts
Departments should submit updated organization charts electronically to Financial Services or attach to Resource Allocation Sharepoint site.

Service Group Descriptions
Service groups are defined as individual service units of similar services provided within a single department that are systematically bundled together for presentation and reporting purposes only. They do not represent management or accounting structures, although they may be similar. For example, a department may bundle individual building inspection service units like plumbing inspections, electrical inspections and structural inspections into a single "building inspections" service group. *This only changes the reporting structure for business planning and budgeting purposes and in no way changes the detailed accounting or line-item structure.*

Baseline narrative data is provided on the Resource Allocation Sharepoint site for each department. Like a department overview, these service descriptions rarely change and are intended to communicate the primary services provided. However, if they have changed, departments should update the necessary information accordingly.

Line-Item Revenue and Cost Guidelines – March 15th
Resource allocation guidelines are primarily used to implement financial and human resource policies to achieve certain outcomes and for targeted budget development activities. Specifically, resource allocation guidelines for the FY 2012/2013 Biennial Budget are intended to assist departments in assuring that objectives can be carried out according to their business plans. The guidelines cover several major components of the budget such as service description, goals and objectives, performance and outcome evaluation and targets, staffing requirements, operating needs, repair and maintenance of assets, revenue projections, and capital requirements.

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Philosophy

The overall focus is to provide core services effectively and efficiently according to the City's Strategic Plan. The fundamental purpose of the resource allocation process is:

- Identifying the most important things to accomplish for our community through the Strategic Plan and citizen surveys.
- Establishing organizational responsibility and reasonable timeframes for achieving the City's objectives.
- Allocating the limited resources necessary for programs and projects to realize the results intended based on department business plans.

<u>The City must adopt a balanced budget – current revenues and retained earnings used to offset operating costs and new capital projects</u>. The General Fund budget must be balanced to a net zero and does not use retained earnings or "carry forward" funds to balance. Therefore, all current revenues are fully allocated to support tax-supported programs and citywide objectives. This may require departments to change the method of service delivery, change the current service level, or discontinue service in order to live within resource limitations.

- Departments are responsible to provide their best, reasonable revenue and expenditure estimates based on the provided economic assumptions and financial trends specific to their programs.
- The starting point for all line-item revenue and costs, except personnel costs, is the FY 2011 Adopted Budget.
- One-time funding, such as for special studies, should not be considered and departments should delete the budgets for these items in order to achieve a net zero budget or reallocate to higher priorities.
- The starting point for capital projects and equipment replacement is the 3rd and 4th years of the six-year plans proposed in the FY 2010/2011 budget development process. Departments will begin their resource allocation planning on this assumption.
- Program revenues should be adjusted to maintain cost-recovery guidelines, economic factors and specific program trends, but must use currently approved rates.
- Only citywide contingencies in which the funding allocation cannot reasonably be determined at this time will be budgeted in the Intergovernmental service unit for the General Fund. Therefore, the performance and wage increase contingency and health insurance increase contingency will instead be budgeted separately in the administrative service units of each department. All budget changes from these accounts will be processed in the same centrally controlled manner as they are currently processed and all unused funding will be deemed as an Intergovernmental resource and not a department resource. The reason for this process change is to better evaluate the impact of these increases on department programs and their fees/charges. Financial Services will also establish contingencies in each of the other funds for citywide initiatives or policies that impact those funds.

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Revenues

Financial Services will develop the budget for the citywide, tax-supported revenues or Intergovernmental Revenues (IGR). Departments will be allocated a proportionate share of the IGR based on FY 2011, with some adjustments. The IGR for each department will be set at the department level and entered in the administrative service unit in order to provide the greatest department flexibility.

Departments will base their revenue projections on key economic factors as well as specific program trends and determinants. *Departments may be required to document their key assumptions if their revenue projections appear to be inconsistent with economic factors and historical actuals.*

All program revenues will be treated as the first funding source for the program to the extent possible. This will allow IGR to more fully support other core, non-revenue generating services such as Public Safety or Library, which may or may not be in department generating the program revenue. Departments will be allowed to utilize increased program revenues beyond baseline amounts to accommodate increased expenditures for that particular service group and other department costs.

- **Rates** - All base programs revenues are to be based on the currently approved rates. If rate increases are required to maintain the current service level then the department must submit a supplemental budget request to disclose this information and determine if a public hearing is required.
- **Reimbursment Revenues** - To the extent possible, grants or service reimbursement revenues should cover the full cost of the associated service including all direct costs, administrative costs, and indirect costs. Departments with these revenues should contact Financial Services to obtain an estimate of the indirect cost for their service.

Increases in user fees, charges, and other revenues should be guided by:

- *Established cost recovery standards for that relative program;*
- *If rate increases have historically lagged expenses; and,*
- *Sensitivity to the customer impact and market elasticity.*

Personnel Costs

Personnel costs are the City's largest operating cost category, representing more than 68% of the total FY 2011 Adopted General Fund Budget. Contingencies for proposed wage and merit increases for permanent positions will be budgeted in the Intergovernmental service unit directly in the department's program budgets.

Position costs will be budgeted at 98% of the full budgeted cost to account for a 2% citywide turnover rate, with a few departmental exceptions based on analysis of vacancy impact relative to the department's total personnel budget. During FY 2010, the City's actual turn over rate for permanent positions was **3.6%.**

Lump sum costs, such as temporary wages or overtime, will be budgeted at 100% of the department estimated cost.

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General Employees

Each department is required to stay within its permanent, approved general employee full-time equivalents (FTE's), as well as, their overall department budget limit.

Actual incumbent information, based on the December 2010 payroll data, will be used to verify that departments have not exceeded their authorized FTE count and provide departments the opportunity to allocate position costs to the appropriate services or programs. Salary for vacant general positions will be calculated at 89% of the market salary of the pay range for the position.

Contingency amounts for Performance Pay increases will be budgeted in the administrative service unit of each department. One contingency will be for base increases and equal no more than 2.5% of position base salaries and a second contingency will be for non-base compensation and equal 1.25% of position base salaries.

Union Positions

Union positions will be budgeted based on existing incumbent information extracted from the payroll system as of the December 2010 payroll. Vacant union positions will be budgeted as an entry level union position. Departments are responsible for documenting contractual promotion dates and submitting the information to Financial Services for inclusion in their position cost data by **February 11th**. This will allow sufficient time for Fire and Police to verify the changes and determine their overall financial position prior to the final budget submission deadline of March 15th.

Health Care Benefit Costs

Monthly health costs will be based on the anticipated medical costs of each health care plan offered by the City and the relative "credits" offered to each employee. Monthly employee "credits" assume annual increases effective January 1 in both fiscal years. The same percentage increase will be assumed for all tiers offered.

The City's cost share will be based on the following:

- For filled positions – actual incumbent health care election for 2011.
- For vacant positions – a monthly weighted average "credit" amount .
- A contingency for possible increases in the City's cost share for health care premiums will assume **7.9%** increase for FY 2012 and a **6.5%** increase for FY 2013. The contingency will be discounted by 2% of the "budgeted annualized health cost - base" to account for the 60-day delay in eligibility for vacant positions.
- The proposed increased cost will be reflected in the department's budget in a centrally controlled contingency account – **NOT** in Intergovernmental.

Other Benefit Costs

Other position costs will be based on formula rates and known, published increases. The proposed increased cost will be reflected in the department's budget – **NOT** in Intergovernmental.

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Lump Sum Costs

Lump sums, (examples are temporary help and overtime), will be at the discretion of the department to calculate and allocate to the appropriate program. Departments will need to manage their lump sum costs as any other cost in order to achieve a net zero department budget.

Some lump sum costs associated with union staff will be based on actual historical data and the current contract.

Departments are responsible for reviewing all positions, lump sum amounts, and allocations.

Staffing Increases

New regular positions will be considered on an extremely limited basis within available resources. Positions that would be grant funded will be carefully reviewed to ensure there would be no future base impact. Considerations will be guided by the following:

- Does it respond to approved objectives for FY 2012/2013?
- Is contracting-out a viable option?
- Is this a peak workload issue best addressed through contract staffing or overtime?
- Can regular staffing needs be met by re-prioritizing existing services?
- Are there expenditure offsets to reduce the cost of the new position such as temp wages or contract services?
- Is the cost of the new position more than offset by any new revenues that it will produce?

Maintenance of Current Operations (M&O)

Departments will prepare their M&O expenditure budget as accurately as possible using the cost guides provided for specific items, as well as, researching contract costs and program specific costs.

Departments are responsible for reviewing and modifying the amounts for each service according to their business plan needs, provided guidelines and specific program trends in order to reflect conservative, reasonable net operating impact of net zero for both FY 2012 and FY 2013. These years will be the first two years of the City's Long Term Financial Projection. The later four years will be used to facilitate planning to ensure long term capacity and financial stability for core services and programs.

Financial Services will prepare a "Pricing Guide" for departmental use which will be available on the Resource Allocation Sharepoint Site. It will be updated periodically as known items become available.

General Cost Increase Factors

A default inflationary cost factor of 1% will be applied to costs that do not have a specific inflationary factor applied. These inflationary factors will be in the system and applied for all six years. A department may override any factor in any year, but must provide an explanation in the comment field.

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Supplies and Materials

These costs include such things as office supplies, special program supplies like chemicals and food for zoo animals, equipment parts, motor fuels, minor software, postage, books, and uniforms. Departments are charged with managing these costs within their allocated resources. A 1% inflationary factor will be assumed through all six years. Departments should review these costs and may consider budgeting on a per FTE basis.

Several supply and material accounts have remained fairly constant from year to year such as medical supplies, household supplies, bedding, processing supplies, small tools, graphic and art supplies, and several others. To the extent possible, it is recommended that departments maintain flat or moderate increases in these accounts (within the 1% general inflationary factor).

Contractual Services and Materials

These costs include contract labor, professional services, special studies and/or service agreements, advertising and printing services, training, memberships and dues, utilities, rental agreements, minor repair and maintenance, and an array of other miscellaneous services.

Contract labor, professional services or other service agreements should be viewed in the context of how these services will support the service group under review. A general inflationary factor based on personnel and wage increases of 3.5% will be applied in the projection mode.

Special agreements, memberships, and dues such as Valley Ride, software agreements, custodial services should be based on the contract costs. A general inflationary factor based on personnel and wage increases of 3.5% will be applied in the projection mode.

Training costs (including travel) should be based on staff training needs identified in each departments' business plans. The inflationary factor will be based on the Consumer Price Index of 1.2%, as of October 2010.

Utility costs should be estimated based on consumption use and the current rates. Departments are encouraged to review historical invoices to determine average usage (if unknown) and apply that towards current or projected rates. Contingencies will be established in Intergovernmental, to the extent of funding available, to cover the impact of large fluctuations in prices that departments are unable to cover within their own budgets.

Minor Repair and Maintenance

Repair and maintenance (R&M) costs should be based on an average cost per unit basis. For example, automobile R&M could be based on an average cost per vehicle and facility R&M might be based on average cost per square foot. Most R&M costs are a combination of parts and labor, similar to construction.

Major Repair and Maintenance

This is defined as repair and rehabilitation to existing capital infrastructure of a highly significant nature. Typically, these will extend the useful life of the asset and meet the City's capitalization

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threshold of $50,000 or over. Budget Liaisons should be consulted for additional information or questions as necessary.

Equipment – February 18th

Departments will budget all equipment under "Equipment". Equipment will automatically be categorized into the following two groups based on capitalization thresholds:

Minor equipment – all equipment less than $5,000 on a per unit basis, such as cell phones, chairs, and computer monitors.

Major equipment – all equipment equal to or greater than $5,000 on a per unit basis such as vehicles, backhoes, and large copiers.

This allows departments to better track their equipment and, thus, plan for the replacement. Financial Services will roll forward the six-year equipment plan for all departments. Departments are responsible for modifications to the six-year plan and completion of the 5th and 6th years.

Departments will be provided a list of all currently tracked equipment. The list will provide the item description, date of purchase, location and current value. The intention of the list is to better assist departments with a replacement schedule for equipment at or near the end of its useful life.

Departments should enter any trade-in value or asset sale revenue that they reasonably expect to get in a revenue account to help cover the cost of replacing the equipment.

Departments should plan and discuss their fleet acquisition needs with the Fleet Services Manager pursuant to Administrative Regulation C1.01a. Additionally, all technology equipment needs should be coordinated with IT.

FUNDED CONTINGENCY ACCOUNTS

To meet the funding need for certain citywide and unanticipated expenditures, funded citywide contingency accounts for tax-supported programs will be established. The establishment of these contingencies, which benefit all General Fund services, is the reason for the revenue sharing formula. A revenue sharing formula is necessary due to the difficulty in determining to what extent individual programs will benefit.

The following citywide contingency accounts and funding levels include:

> Citywide (or Mayor's) Contingency - The Citywide Contingency will be funded at .35% of the proposed budgeted revenues. The City has historically budgeted this contingency to cover the cost of unforeseen one-time tax-supported expenditures, such as litigation costs.
>
> Cash Flow Reserve - The Cash Flow Reserve will be budgeted to maintain the existing percentage of base revenues, equal to 7%, as of September 30, 2010.

All other contingencies will be established and amounts determined later in the process based on citywide needs.

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Capital Improvement Plan (CIP) Projects

The capital budgeting process can be described in four key steps:

1. Policy and process review.
2. Resource projections and alternatives.
3. Project review, prioritization, and planning.
4. Financial strategy development and implementation.

Departments are required to inventory all capital property and facilities, verify which capital assets need replacing and/or major repair (more than $50,000), and schedule future replacements and repairs over the six-year planning period.

Project Review and Prioritization – EMT Capital Committee, a subcommittee of EMT, will review all project requests for costing accuracy, alternatives, and scheduling plans. As in the past, this committee will prioritize the final list of proposed projects for possible funding within the six-year funding window based on projected funding resources. The first two years of the six-year capital plan will be incorporated into the Mayor's proposed biennial budget.

Funding Strategy - Funding priorities will be based on the following:

- Contractual or legal commitments.
- Maintaining the City's existing infrastructure and facilities with a stronger preference for those projects required to prevent health or safety risks or mitigate future repair and maintenance costs over those projects deemed to be more for aesthetic reasons, such as painting.
- Increase operational efficiencies.
- Meeting current service deficiencies within the city limit based on the Comprehensive Plan.

Individual Capital Projects - Departments should assume that the details of each capital project are the only details to be communicated to the Capital Committee, Mayor, and City Council for the purpose of prioritizing, approving, and allocating funding. In order to make good decisions, good information must be provided.

For each capital project, the following information is required:

Project Description - Provide a general explanation of the project (who, what, how, when, and why) including the following:

- How does the completion of this project impact the service provided?
- Which citizens will be served by this project?
- How will the project be accomplished?
- Describe the work that will be completed in each year during which the project will be underway.
- Identify the target start and end dates for the project phases and the first date of projected operation if it is a new project.

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Project Justification - Describe the need that the project will meet and any plans or programs (which have been approved by the City Council) that the project will facilitate. Describe how the project fits within the department's long-term capital plan, business plan, and the City's overall strategic plan.

Fiscal & Operating Impact - Briefly describe the fiscal and operating impact of this project. Explain the funding source for the capital project including timeliness, likelihood, required match, source, and partners.

- Does the project create operating cost savings or efficiencies?
- How will the operating costs be funded?
- What is the long-term repair and maintenance cost projection and timing?

Feasibility/Uncertainty - Describe the departments best estimate of the project's feasibility.

- Are there any factors that may impede the project?
- Are there factors that may affect the cost of construction?
- Does this project hinge on other events happening?

Implications if Project Delayed - Explain what the implications are to the department operations and to the citizens if this project is deferred or delayed.

Opportunity for Coordination - Explain if there are opportunities for coordinating this project with a project from another department or if there are coordination opportunities with other outside agencies.

Strategic Use of One-Time Revenues

Each fiscal year is likely to end with some amount of one-time funding due to cost savings, primarily from vacancies that occurred during the fiscal year, and unanticipated revenues. In accordance with the City's financial policies and the strategic plan, this will be available to fund one-time uses such as meeting minimum reserve requirements, prioritized CIP projects, and other non-recurring expenditures.

Business Plans & Additional Resource Requests

Projections, based upon historical trends and known events, reflect the strong probability of General Fund resources not being sufficient to cover planned uses. In order to balance the General Fund for FY 2012 and FY 2013, business plans steps and timing of those steps may need to be modified.

Business Plans
Departments have developed preliminary action plans that actualize strategic objectives. Departments have identified the potential cost of major action items that, in their preliminary opinion, cannot be absorbed into existing service and funding levels. This preliminary estimate serves to provide a degree of information for policy makers, as potential costs of an action may inform the prioritization of an objective.

The plans are preliminary; potential cost data is not budget data, and does not in any way obligate the City to approve the budget for these items.

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The EMT will review the business plans in mid-March and provide feedback. Plans will be revised as necessary. Meanwhile, the budget system will open February 2nd, and departments will begin work on their core services. Business plans will be entered into the system to get a better understanding of the fiscal impact of the action steps on their core services.

At the business plan briefings in March, the EMT will be asked to give policy direction, as well as prioritization of objectives/actions. This essentially communicates to the departments "the plan has not been adopted, but we are happy with the direction. We support the components of your plan in this priority order. Work through the budget process to see how much of this plan can be funded within the fiscal constraints determined by the budget office, and the budget analysis conducted by your department."

Additional Funding Requests for Core Services (Service Alternates) - Departments will submit budgetary change requests to document significant operational changes. Significant operating program changes are defined as:

- Major service curtailments or expansions.
- Any increase or decrease in regular staffing levels.
- Significant one-time costs.
- Significant ongoing cost increases to maintain existing service levels or changes in the method of delivering services.
- Changes in operation that will significantly affect customer service—either external or internal to the organization.
- Proposed fee increases or new revenue sources.
- Changes that affect current policies.

All completed requests are to be submitted to Financial Services by March 15th. Forms will be provided on the Sharepoint site.

REVIEW PROCESS

Department budgets will be organized by fund and by service groups. By organizing budgets for City programs into similar types of services rather than by the department, the City can better present the services it provides to elected decision-makers and the public.

Department presentations to EMT and/or City Council may be scheduled to accommodate major operational changes to core services and programs. These presentations will be coordinated by the Mayor's Office and/or Financial Services.

Boards and Commissions. Some budget requests may require the review of a board or commission; this is the department's responsibility to coordinate within the context of the due dates set forth in these instructions, so be sure to plan for this accordingly.

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ROLES AND RESPONSIBILITIES

The following summarizes roles and responsibilities for preparing, adopting and administering the Financial Plan:

City Council. Sets goals; approves the Financial Plan and budgets accordingly; makes changes to goals and resource allocations as necessary throughout the year. No expenditures are possible without an appropriation approved by the City Council.

Mayor. Executes the business plans and forwards his recommendations to the City Council for funding allocations.

Department Heads. Have the primary responsibility for assuring that:

- Funding requests are fiscally conservative.
- Budgets are prudently managed and executed after adoption by the Council.
- Approved service levels are delivered at the lowest possible cost.
- Budgets are well-researched, accurate, fully documented, and supported by facts.
- Advisory bodies review budget proposals as appropriate.

Department Staff. Participate with their department heads in carrying out budget responsibilities as outlined above.

Department Budget Coordinators. Coordinate departmental preparation of budgets as accountable agents of both their departments and Financial Services. In the FY 2010/2011 budget-build process, the role of the Budget Coordinator is expanded to be each department's "point-person" from the beginning to the end of the project.

Budget Review Team. Reviews all budget submissions for completeness and adherence to established financial and budget policy and these guidelines. Members include:

Jade Riley, Assistant to the Mayor
Debbie Broughton, Director of Finance and Administration
Tonya Wallace, Financial Services Manager
Ozzie Gripentrog, Senior Budget Advisor

Financial Services. Coordinates overall preparation of the Resource Allocation Plan and prepares projections for citywide revenues.