

**City of Walnut Creek**  
**City Council Budget Primer**  
**March 7, 2014**

**Part 1: Budget Basics**

**Introduction**

The consideration and adoption of the City Budget is one of the most important actions that the City Council takes. The budget determines the services the City provides to the community, the staffing of the organization and the amount of funds that can be spent in any given fiscal year.

The Budget Primer is organized into six sections:

1. Budget Basics
2. A Look at the Walnut Creek Budget
3. Financial, Infrastructure & Technology Planning
4. Governance & Policies
5. Budget Development, Review & Adoption
6. Other Resources & Information

Highlights include background on the budget process and documents that set out definitions of fund accounting and city funds, adopted policies on the use of one-time funds and budget reserves, the fiscal sustainability strategic priorities and staffing levels, among others.

This information should prove helpful to Council Members as they prepare to begin their review of and take action on the 2014-16 City Budget.

**California City Finance**

Cities in California provide a number of municipal services to their residents and businesses. These services include public safety (police, fire and emergency services), parks and recreation, roads, flood protection, sewers, water, refuse disposal, recycling and other utilities. Cities collect revenues and then use these funds to provide such services.

Michael Coleman, the Fiscal Advisory for the League of California Cities has developed a web site that provides a wide variety of information on City & County Finances and Revenues. This includes “A Primer on California City Finance” that also appeared in Western City Magazine. Visit the web site <http://www.californiacityfinance.com> to view the Budget Primer and a host of other documents, reports and analysis on city finances in California.

**The Basics of City & County Revenues (Tab 1)**

The legal requirements for collecting and using the variety of revenues available to cities and counties differ. Therefore, it is important to understand the opportunities and constraints that attach to each source of revenue. The Institute for Local Government has prepared a guide that provides an overview of the sources of county and city revenues.

## **California Municipal Revenue Sources Handbook (Tab 2)**

The League of California Cities publishes a 190 page handbook that details revenue sources used by and available to California cities. It is an excellent detailed look at this area. We have included some material from the handbook that illustrates the workings of taxes, benefit assessments, fees, charges and rates and financing capital assets.

## **Part 2: A Look at the Walnut Creek Budget**

### **Operating Budget (Tab 3)**

The City Council adopts an Operating Budget every two years that is effective on July 1<sup>st</sup> and runs through the balance of the next two fiscal years (July 1 to June 30). The Operating Budget is an itemized listing of estimated revenues and expenditures that each City Department and Division proposes to receive or incur in each fiscal year of this two-year budget cycle to deliver day to day services to the community. A summary of these revenues and expenses for the 2013-14 fiscal year as adopted and amended is shown in Tab 3.

### **Staffing Summary (Tab 4)**

The City Operating Budget includes information on the staffing of each City Department and the overall staffing level of the City. Copies of the Staffing Summary and an explanation of the multi-year changes in staffing in the City is included in the Budget Primer.

### **Capital Projects Budget (Tab 5)**

The City Council also adopts a Capital Projects Budget that appropriates funds for a two fiscal year period based upon a 10 year project planning cycle (See Capital Improvement Plan, Tab 12).

While the Operating Budget focuses on the day-to-day delivery of City services, the Capital Projects Budget is focused on larger scale maintenance and capital projects. The CIP budget follows the same timeline as the Operating Budget.

### **The Budget Story (Tab 6)**

The City's Operating Budget is a very complex and detailed document with a large amount of figures, facts and information. To bring the budget to life in a more concise and digestible form, the City prepared a 20 page overview of the 2012-14 Budget called "WC: A Community Connected, the Budget Story". It is included in the Budget Primer for your reference.

### **CAFR Statistical Summary (Tab 7)**

The Comprehensive Annual Financial Report (CAFR) presents detailed information about the City's finances. It provides a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City. The statistical summary in the CAFR provides multi-year tables on city finances and related information.

### **Cost Allocation Plan (Tab 8)**

The Cost Allocation Plan is a comprehensive analysis to determine the appropriate allocation of indirect costs from the City's central service departments to the operating departments. City departments are categorized in the plan as follows:

- **Central Service Departments**  
Central Service Departments include all divisions within the City Manager, City Attorney and the Administrative Services departments. Central service departments incur certain costs relating to activities that provide indirect benefit to the Operating Departments.
- **Operating Departments**  
The Operating Departments include all divisions of the Arts, Recreation and Community Services Department, Community Development Department, Police Department and Public Services Department.

The primary objective of the cost allocation plan is to allocate costs from departments generally known as central service departments because they provide services and support to operating departments and cost centers that conduct the operations necessary to serve the community.

To ensure that costs of central service departments are appropriately allocated to the operating departments, the plan analyzed and identified central service departments' expenditures to determine which costs are allocable as indirect costs.

### **Master Fee Schedule (Tab 9)**

The Master Fee Schedule is developed using the Cost Allocation Plan described above. It sets fees for services the City provides based on costs and enables the City to recover these costs from the individuals who use these services. Fees and rates are used to project department revenues in the operating budget.

### **Cost Allocation Plan & Fee Study – ARCS (Tab 10)**

The development of a Cost Allocation Plan and Fee Study for the ACRS was done separately from the balance of the City. A report on this plan was reviewed at a joint meeting of the Arts Commission and the PROS Commission on February 25, 2014. It will be brought before the City Council for review at an upcoming Council Meeting.

## **Part 3: Financial, Infrastructure & Technology Planning**

### **Long Term Financial Forecast (Tab 11)**

The Long Term Financial Forecast (LTFF) presents a forecast of City for revenue and expenditures over a 10 year period. The first two years of the LTFF are used in developing the next 2 year operating budget (2014-16 fiscal years). On November 19, 2013, the City Council adopted an updated LTFF using the moderate financial forecast factors. A copy of the Council Report and Attachments related to the Moderate Scenario are attached to the budget primer.

### **10 Year Capital Investment Program 2012-2022 (Tab 12)**

The Capital Investment Program (CIP) is a planning tool that is used to prioritize capital project needs. It does not allocate funds to a budget.

Projects in the CIP can include maintenance of existing infrastructure and construction of future infrastructure. Examples of existing infrastructure include Roadways, Storm Drains, Buildings, Facilities, Parking Lots, Parks, Open Space, Sidewalks, Traffic Signals and Street Lights.

### **Information Technology Strategic and Operational Plan (Tab 13)**

The Information Technology Strategic and Operational Plan (ITSOP) is a comprehensive, City-wide planning review of the City's technology systems and needs. It gave members of the City's management team and staff members an opportunity to review, discuss and integrate technology needs of the City. The plan lists the City's technology priorities and provides an overall picture of what needs to be accomplished in this area and why.

### **Blue Ribbon Task Force on Fiscal Health (Tab 14)**

In December 2010, the Walnut Creek City Council created a 15 member community task force to study fiscal issues. The task force issued a 48 page report detailing their findings and recommendations to the City Council in November 2011.

## **Part 4: Policies & Governance**

### **Finance Subcommittee (Tabs 15A, 15B)**

The Finance Subcommittee consists of 2 members of the City Council. The subcommittee is responsible for reviewing and making recommendations to the City Council.

The Role of the subcommittee was defined in Resolution 13-34 adopted by the City Council on October 25, 2013 (Tab 15A). Details of the subcommittee process in the areas of audit, budget and reserves and fund policies are spelled out in the definitions document that was reviewed and approved by the City Council at its meeting on January 21, 2014 (Tab 15B).

### **Fiscal Sustainability Strategic Priority Report (Tab 16)**

The City Council's 2012-14 Work Program included Fiscal Sustainability as one of the City's 4 strategic priorities and objectives. On July 26, 2013 the City Council voted to receive the Fiscal Sustainability Service Review Summary and Action Plan from the City Manager. The report presents a summary of the City Council's direction, including a series of action items and strategic fiscal sustainability outcomes.

### **Fund Policies (Tabs 17A, 17B, 17C)**

The City Council has adopted policies that govern City Funds. They are part of the budget development process. The policies are implemented by the Finance Division of the Administrative Services Department. They cover One-Time Revenues, One-Time Expenses, General Fund Surpluses and Fund Balance Reserve Categories.

These policies are defined and governed by:

1. Use of One Time Revenues and General Fund Surpluses, City Policy 302 adopted by the City Council on June 19, 2012 (Tab 17A)
2. Amending the Fund Balance Policy in Accordance with Government Accounting Standards Board Statement No. 54, Resolution 12-36 adopted by the City Council on June 19, 2012 (Tab 17B)
3. Establishing the Classifications of Fund Balance in Accordance with Governmental Accounting Standards Board Statement No. 54, Resolution 11-30 adopted by the City Council on June 7, 2011. (Tab 17C)

As noted earlier, these policies are subject to review by the City Council and its Finance Subcommittee.

## **Part 5: Budget Development, Review & Adoption**

### **Budget Calendar, Review and Adoption Process (Tab 18)**

Preparation of the City Budget takes place between January and May. The process is coordinated by the City Manager and Finance Division of the Administrative Services Department with support from all of the operating divisions and departments of the City. Once a proposed budget has been drafted, reviewed and recommended by the City Manager, it is then transmitted to the City Council for review, consideration and approval.

During the budget development process, the Finance Subcommittee is responsible for review and recommendations to the City Council on the Operating Budget, Capital Projects Budget and Reserves and One-Time Funds. These meetings are held prior to the City Council consideration of these aspects of the budget.

Public hearings on the proposed Operating and Capital Budgets are conducted by the City Council. Budgeted Revenues and Expenses are adopted at the conclusion of this hearing and review process through a resolution. The budget represents the maximum authorized level of expenditures for the two year budget period. Expenditures cannot be exceeded unless the budget is amended by the City Council.

The City Budget is reviewed at 6 month intervals (6 month, 12 month, 18 month reports) by the City Staff, amendments are recommended by the City Manager. As with the initial two year budget, the proposed amendments are reviewed through a Public Hearing process and then adopted by the City Council.

## **Part 6: Other Resources & Information**

### **City Funds & Fund Accounting (Tab 19)**

The Walnut Creek City Budget and Accounting systems use fund accounting. Fund accounting segregates funds according to their purpose and is used to comply with finance-related legal and contractual requirements and provisions.

The General Fund covers the cost of most City ongoing services and facilities. Unlike other funds, money in the General Fund is unrestricted and can be used for essentially any City service or facility. The exceptions are funds that the City Council has designated as General Fund reserves.

In addition to the General Fund, the City has a number of additional funds that are organized into 5 categories:

**1. Special Revenue Funds**

Proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

**2. Capital Project Funds**

Financial resources used in the acquisition, construction or maintenance of major capital facilities.

**3. Enterprise Funds**

Operations that function in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing goods and services be fully recovered through user charges.

**4. Internal Service Funds**

Finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis

**5. Trusts & Agency Funds**

Account for special assessments collected by the City and the redemption of special assessment bonds issued by the City in prior years. These accounts also list funds available to make payments on bonds issued by the Former Walnut Creek Redevelopment Agency.

The Fund Descriptions document included in the Budget Primer describe the purpose of each of the City funds in detail.

## **Accounting**

City Budgets and City Accounting Policies conform to generally accepted accounting principles (GAAP).

All Government Funds (General, Special Revenue, Capital Projects, Other Funds and Redevelopment Agency Funds) are accounted for on the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due. Expenditures are recorded in the accounting period when the liability is incurred.

Proprietary Funds (Enterprise and Internal Service Funds) are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized when the liability is incurred.

## **Encumbrance Accounting**

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. Encumbrances that are outstanding at year-end are reported as reservations of fund balances and do not constitute GAAP basis expenditures or liabilities because the commitments will be honored during the subsequent year. The commitments will be reappropriated and honored in the subsequent year.

## **Budget Amendments**

Any amendments or transfers of budgeted funds between accounts within the same department must be authorized by the City Manager. Any changes to the total level of appropriations for a fund or transfers between funds must be approved by the City Council.

## **Expenditure Control**

Expenditures are controlled at the fund level for all departments within the City. This is the level at which expenditures may not legally exceed appropriations.

## **Debt, Bonds & Leases**

The City of Walnut Creek does not have any General Fund debt. The City does have some limited indebtedness for the Golf Course and bonds that are being paid by the Successor Agency to the Walnut Creek Redevelopment Agency.

## **Authority to Contract**

The City Attorney has issued a memo dated January 22, 2014 that discusses the City's Authority to contract with private non-profit entities. This is a confidential memo and is on file as a confidential document.

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