ESSENTIAL ELEMENTS OF THE BUDGET PROCESS

There are five elements of the budget process that are considered essential to the successful adoption and implementation of the City budget.

1. Establish budget priorities (Goal/Vision statement) - underlying budget policies, goals and community vision to provide direction

2. Determine short and long term capital needs. – updates to capital facilities plan provides strategies that are essential to the annual budget adoption process.

3. Sound Revenue/Resource forecasting – Revenue forecasting based upon both qualitative and quantitative forecasting methods that use common sense, local history and documentation as a basis for conservative and realistic estimates.

4. Budget Proposals with Level of Service Objectives – department requests and proposals that clearly reflect the priorities, goals and visions of the City are instrumental in demonstrating to both Council and the public that their needs and concerns are being met.

5. Timely Presentation of Plans and Financial Data – careful adherence to the budget calendar and transmittal of financial data throughout the year to Council to allow decision makers to see how resources are being used to meet the goals and objectives of the community and that those objectives are balanced with the resources available to provide the required level of service.
The Development of the City of Langley’s Budget

Each year the City adopts a new budget. It begins with the City departments developing a draft plan based on existing resources and established priorities. The plan first identifies core services and the costs of providing those services. City services can be classified into the following categories to assist in the prioritization process:

Mandatory: programs or services the City is required by law to maintain (examples: debt service, prosecution services, legislative, legal…)

Essential: programs or services that are necessary to operate a city or that are essential to health and safety (police, finance, records…)

Discretionary: programs that benefit the public, but are not required to operate a city (parks, library, support for community organizations…)

Support: programs that support all other city services such as payroll and technology services.

The Director of Finance estimates resources and revenues and each department submits its requested budget to the Director of Finance. Based on the priorities developed by the City Council and the draft department programs, a preliminary budget is submitted to the City Council by the Mayor. The City Council studies the budget and holds public hearings for community input and approves a final budget before year end.

Langley’s budget consists of several separate funds. These funds are for utilities, streets, tourism, the city cemetery, reserves, debt service and general government services. Each fund is a separate accounting entity by Washington State law. The law also requires the total budget to be balanced. Every fund is balanced so that revenues equal expenditures. The City’s budget includes both operating costs and the current year’s costs of capital projects, debt service and payments to the City’s reserves.

Legal budgetary control is established at the fund level – meaning that legally, expenditures for each operating fund must not exceed the total appropriation amount budgeted for that fund. Any unexpended appropriations lapse at year end. Appropriations that are adopted for special purposes (usually capital projects such as road construction, building a sewer treatment plant, etc.) are adopted on a project-length basis and are carried forward each year until the authorized amounts are fully expended or the designated purpose is accomplished.

The City’s funds are made up of the following categories:
**General Fund** – This fund is the primary operating fund of the city. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**Special Revenue Funds** – These funds account for revenues that are legally restricted or designated to finance particular activities of the city. (Street Fund, Cemetery Fund, Tourism Fund)

**Debt Service Funds** - These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

**Capital Funds** – These funds account for financial resources which are designated for the acquisition or construction of general government capital projects.

**Enterprise Funds** – These funds account for operations that provide goods or services to the general public and are supported primarily through user charges similar to a private business enterprise. (Water, Sewer, Stormwater Funds)

**Private Purpose Trust Funds** - These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments. (Scott Memorial Fund, Langley Community Garden)

The largest operating fund is the General Fund, which includes police, finance and administration, planning, library services, parks, legal, emergency services and other general services. Most tax revenue collected by the City goes into the General Fund. The General Fund is therefore the primary focus of the City Council during the budget process.

The municipal budget process serves a variety of functions. The annual budget is the city’s statement of policy, objectives and operations, and the fiscal plan to carry them out. It should outline the efficient use of available community resources by the city to accomplish its goals and realize its visions. The **city budget is the single most important communication tool available to describe the policies, operations and fiscal planning to the community it serves.**

As with most Washington cities, Langley uses the State Auditor’s BARS (Budget, Accounting, & Reporting System) structure for our budgeting and accounting. The BARS system provides for a consistent chart of accounts between all Washington cities, so that the accounting records of one city are comparable to those of another. In this structure, a series of funds, departments, activities classified by their type (police, legal, engineering, etc.), basic accounts (supplies, capital projects, salaries, etc.), and sub accounts (postage, office supplies, training, etc.) are used to organize a chart of accounts. The BARS chart of accounts is used by the departments to prepare their budget requests by identifying the line items from which they expect to expend moneys, the departments those line items relate to, and the function that will be supported by those expenditures.
In preparing the budget, many things must be taken into consideration. The budget is comprised of estimates and predictions about the future that are based on the past. To make those forecasts and the distributions of those expected resources reliable, it is important to have good historical information. Past levels of revenue and expenditures by type and source must be known, and the causes of any variations in the data. Variations or changes not clearly identified can result in unreliable trends.

These irregularities can be due to a number of reasons, such as changes in tax rates or fees, large one-time construction projects, annexation, or other significant events. Trends in revenue sources are based on business and economic data, construction activity, retail sales, tourism activity, employment rates and several other factors. Expenditure estimates are based upon fixed costs (rents, leases, set assessments and contractual commitments), and estimated costs based on past trends and other economic information.

Once all the estimates and projections are made, the difficult job of balancing the budget begins. Utility funds and other like funds are easier to balance because they have dedicated revenue sources and are usually self-supporting (i.e. water dept. expenses are funded through user fees and permits). The general fund and other closely related funds such as the street fund, are another matter. This is where scarce resources must be allocated to meet many different needs of the community. Balancing the budget often means reducing appropriation requests which must be accomplished while still delivering the projected level of service, coming up with innovative plans for delivery of services, searching for new revenue sources or attempting to maximize those sources available. In some instances taxes or fees must be raised to meet the service demands.

The city is confronted each year with new and/or changing regulations of the state and federal governments. These state and federal mandates do not usually provide a source of revenue for municipal governments to finance the mandated regulations. Water testing and treatment regulations enacted under the Safe Water Drinking Act require very expensive technologies. Stringent standards for wastewater treatment and its byproducts have raised utility department expenses dramatically. The city has adopted new planning policies and goals to meet the requirements of the State Growth Management Act. While some moneys are available to help with these costs, the majority of GMA costs are a direct hit on the general fund budget. The Americans with Disabilities Act requires the City to make revisions to public buildings, street curbs, purchase additional equipment and implement plans and policies to accommodate all citizens, regardless of handicaps. While these are goals that the City government would like to achieve, funding sources to meet these dated mandates are often non-existent.

Formal budget planning in the City of Langley begins in July each year. At this time the Director of Finance reviews the current year revenues and expenditures to date and prepares reports of such for the department heads. Requests are made to the City Council to begin forming their goals and objectives for the coming year. Department heads are requested to begin formulating their proposed expenditures and requests for new equipment, personnel, capital outlays or any major repairs that are foreseen.
The Director of Finance prepares preliminary revenue estimates which are updated as needed during the coming months. She gathers information and budget requests from outside agencies, the county and state. The Council reviews any revenue issues over which they have control such as setting fees, city taxes, permits, etc. A preliminary budget message is prepared and from all this information, the Director of Finance prepares a draft preliminary budget and presents it to the Mayor no later than October 1st. The department heads, Mayor and Council set up budget work sessions as needed during the fall, and any changes necessary as a result of those work sessions are made in the draft. The preliminary budget is officially filed in the office of the Director of Finance by November 1st and notice of the filing and a public hearing for community input on the preliminary budget is advertised in the local newspaper and posted throughout the city.

The public hearings are scheduled for the meetings in November or the first meeting in December and are continued if necessary. Following the public hearing, any needed changes or adjustments in the budget are made and a final draft prepared by the Director of Finance. The budget ordinance is prepared and the budget adopted no later than December 31st. Once the final budget has been adopted by the City Council, the budget ordinance is published and copies of the budget are filed with the State Auditor's Office and the Association of Washington Cities. Copies are made available to all interested residents.

**Review And Modification Of The Budget After Adoption**

The budget is an on-going process, not a static document. Implementation of the budget is very important. It is virtually impossible to end the budget year with revenues exactly matching the projections and expenditures right on budget. It is an estimate and in some cases, just an educated guess. The budget must be monitored throughout the year. Are revenues coming in as expected? Are the projects that were planned being done or was its impact different than expected? Were new plans made or did unforeseen or emergent situations come up? Staff changes can also affect the budget. State law requires that expenditures not exceed appropriations at the fund level. Line items within each fund may be raised or lowered so long as the total fund is not over budget. The Department heads have discretion over the line items of their department's budget, but must be accountable to the policy makers (City Council) for service delivery consistent with city policies and goals.

The budget can and in many cases, should be modified during the year. These changes are referred to as budget amendments. This must be done in much the same process as the original budget adoption and requires an amending ordinance which states the reasons for the change, the amounts and the total of the amended budget. The Finance department monitors revenues and expenditures throughout the year and prepares monthly reports and quarterly reviews of finances for the City Council. The Council is made aware of any irregularities or over/under budget items, so that amendments can be made if needed.
The challenge of providing for the ever changing needs of our unique community is ongoing, and therefore so is the budget process. No sooner do we develop a budget, adopt it and begin monitoring and implementing it, or modifying the budget if necessary, than it is time to start the process all over again. The budget cycle is continuous. One year’s budget is the starting point for the next year’s budget. It is therefore essential that our citizens not only listen, but actively participate in the budget process, making their needs and desires known to the policy makers of our city.
SECTION 1. BUDGET POLICIES

1.1 Adoption

There is hereby established a consolidated set of Budget Policies, in accordance with this Resolution. Such Budget Policies shall be documented in a consolidated manner for ease of reference by City Council, City Administration and the public. Once adopted, the Budget Policies replace and supersede all budget, finance and debt policies previously adopted by the Council.

1.2 Review and Amendment

The Mayor and the City Finance Director shall review the Budget Policies not less frequently than annually, and shall recommend any necessary or appropriate amendments to the Council, for approval by simple majority. In 2013 and later years, the City Finance Director shall, by July 1, recommend any proposed amendments to the Mayor and the Council. The Council shall act on any such proposals by their first regular meeting in September. Promptly after Council approval of any amendment of the Budget Policies, the Mayor shall publish restated pages of the Budget Policies incorporating any such amendments.

SECTION 2. APPLICABLE LAW, CITY CODE AND COMPREHENSIVE PLAN

2.1 RCW Chapter 35A.33

Chapter 35A.33 of the Revised Code of Washington ("RCW"), pertaining to budgets for Code Cities, is hereby incorporated by reference, as it may be amended from time to time.

2.2. City Code – Title 3 – Revenue and Finance

Title 3 of the Langley Municipal Code – Revenue and Finance, as amended from time to time is hereby included in full in the Budget Policies.

2.3. Comprehensive Plan – Capital Facilities Goals and Policies and General Financial Goals

a. Capital Facilities Goals and Policies

i. The Capital Facilities Goals and Policies that are stated in the City’s Comprehensive Plan, as amended from time to time, are hereby included in full in the Budget Policies. This plan sets the basic vision for the development of the City and establishes policies and programs intended to achieve that vision. The plan is further articulated by a series of planning elements, which include capital improvement elements (such as utility plans), policy elements (such as housing plans, economic development programs, etc.) and regulatory measures.

b. General Financial Goals

i. Provide a financial base sufficient to sustain municipal services to maintain the social well being and physical conditions of the City.

City of Langley
ii. Be able to withstand local and regional economic downturns, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.

iii. Maintain an excellent credit and bond rating in the financial community and assure taxpayers that Langley city government is maintained in sound fiscal conditions.

SECTION 3. CITY BUDGET POLICIES

3.1. Policy Context of the Budget

a. The City budget process is part of an overall policy framework that guides the services and functions of the City.

b. The budget serves a key role in that policy framework by allocating financial resources to the programs, which implement the City's overall policies. The budget also establishes financial policies to influence the availability of future resources to carry out the City's policies.

c. The budget shall be a balanced budget with legal budgetary control at the fund level; i.e., expenditures and other financing uses may not exceed budgeted appropriations at the fund level.

3.2. Operating Policies

a. The City defines a balanced budget as current revenues (including fund balances) equal to or greater than current annual budgeted expenditures.

b. The City will attempt to utilize one-time revenues only for onetime/non-recurring expenditures.

c. Operating budgets should provide for design, construction, maintenance and replacement of the City's capital plant and equipment consistent with the 6-year Capital Improvement Plan including the related cost for operating such new facilities.

d. The City will maintain all its assets at a level such that it protects the City's capital investment and minimizes future maintenance and replacement costs.

e. Indirect administrative costs associated with the operation of funds should be identified and charged against the operation of those funds.

f. The City will project its equipment and vehicle replacement needs for the next six years and will update this projection each year. From this projection, a replacement schedule will be developed and followed subject to fund availability.

g. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a
result of the availability of new revenues (such as unanticipated grants).

3.3. Revenue Policies

a. The City will strive to maintain as diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.

b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative.

c. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.

d. In each odd numbered year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by Council.

e. The City will set fees and user charges for each enterprise fund, such as Water/Wastewater and Stormwater, at a level that fully supports the total direct and indirect cost of the activity. Additionally, for analysis and rate modeling purposes, the proposed rates shall also take into account debt service coverage commitments made by the City.

3.4. Expenditure Policies

a. The City budget will provide for a sustainable level of service.

b. The City will structure service levels in the context of financial sustainability.

c. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government costs to other funds or capital projects (also known as indirect costs).

d. The City defines a balanced budget as current revenues (including fund balances) equal to or greater than current annual budgeted expenditures.

e. The City will attempt to utilize one-time revenues only for onetime/non-recurring expenditures.

f. The City will adopt salaries in order to provide essential services and other services as budgeted.
3.5. Reserve Policies

a. The City will maintain a cash balance to provide counter-cyclical balance, to protect the City from unforeseen contingencies and to allow an accumulation of resources to finance foreseeable general governmental capital projects.

b. The City will work to accumulate a reserved cash balance of 10% of each operating fund to provide for adequate cash flow throughout the year and cover any unbudgeted contingencies.

c. Each enterprise fund, e.g. water, sewer, and storm water utilities, and the General Fund should maintain adequate fund balances or working capital to meet unexpected contingencies. Each utility will maintain a minimum balance equal to 10 – 15% of system fixed assets for fund emergency repairs and unanticipated capital expenditures. The General Fund balance is to be maintained at a level sufficient to meet the cash flow needs of the fund without borrowing. A 10 – 15% minimum working capital balance will be maintained in each utility fund.

d. Each utility fund shall strive to ensure ongoing system integrity through reinvestment in the system.

3.6. Capital Budget Policies

a. The burden for financing capital facilities should be borne by the primary beneficiaries of the facility.

b. Long-term borrowing for capital facilities should be considered an appropriate method of financing large facilities that benefit more than one generation of users.

c. The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset’s useful life.

d. The City will develop a 6-year plan for capital improvements as required by the Growth Management Act of Washington State. The Capital Improvement Plan will be updated annually and be financially constrained for the appropriated budget period.

e. Capital projects and purchases that are listed in the current budget are presumed approved and can be carried over and expended in the new year as long as there are sufficient funds and the project is reflected in the adopted capital facilities program.

f. The City will maintain its physical assets at a level adequate to protect the City’s capital investment and minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and orderly replacement of capital and equipment from current revenues where possible.
g. Enterprise fund working capital in excess of that needed for operations may be used for capital needs in order to conserve the debt capacity of those funds for major facility expansions to meet future needs.

3.7. Capital Investment Budget Policies

a. The City will develop a six-year plan for capital improvements including operations and maintenance costs and update it every year. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the City and the region.

b. The City will make capital improvements in accordance with an adopted 6-year capital improvement program.

c. The Capital Improvement Program and the base operating budget will be reviewed at the same time to ensure that the City’s capital and operating needs are balanced with each other and that the Capital Improvement Program is aligned with the City’s other long-range plans.

d. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.

e. The City will determine the least costly financing method for all new projects.

3.8. Short-Term Debt Policies

a. Short-term debt is defined as a period of three years or less.

b. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.

c. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund’s current operations. All interfund short-term borrowing will be subject to Council approval by ordinance or resolution and will bear interest based upon prevailing rates.

3.9. Long-Term Debt Policies

a. Long Term debt is that debt which exceeds three years.

b. The City will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.
c. The City will determine whether self-supporting bonds (such as special assessment improvement district bonds) are in the City's best interest when planning to incur debt to finance capital improvements.

d. The City will not use long-term debt for current operations.

e. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.

f. General Obligation Bond Policy

   a. Every project proposed for financing through general obligation debt shall be accompanied by an analysis of the future operating and maintenance costs associated with the project.

   b. Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

g. Limited Tax General Obligation Bond Policies

   a. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.

   b. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.

   c. Limited tax general obligation bonds should only be issued under certain conditions:

      i. A project requires monies not available from alternative sources;

      ii. Matching fund monies are available which may be lost if not applied for in a timely manner; or

      iii. Catastrophic conditions.

h. Financing of Lease Purchases

   a. Under Washington State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Langley City Council may approve bond issues and/or lease purchases up to 1.5% of the City's total assessed value. In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the public.
b. Lease purchase financing may be used when the cost of borrowing or other factors make it in the City's best interest.

3.10. Accounting, Auditing, and Financial Reporting Policies

a. The City will establish and maintain a high standard of internal controls and accounting practices. The City accounts for revenues and expenditures on a single entry cash basis.

b. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.

c. Regular monthly and annual financial reports will present a summary of financial activity by major types of funds. Such reports will be available via the City's website.

d. A fixed asset system will be maintained to identify all City assets, their location, and their condition.

e. The City will ensure that City records are audited biannually and which will result in the issuance of a financial opinion. The results of such audit are to be available to the public via the City's website.

3.11. Budget Calendar - In order to facilitate and implement the budget process, the Mayor will propose a budget calendar at the first regular Council meeting in August.