

# 2013-2014 Biennial Budget



## **SECTION A**

### Reader's Guide

*Final Budget*

## **Section Overview**

The budget document serves two distinct purposes: 1) to present the City Council and public with a clear picture of the services which the City provides, the cost of those services, and the policy decisions underlying the financial decisions; and 2) to provide City management with a financial and operating plan that conforms to the City's financial system. The sections below describe the various budget segments, therefore providing a map for readers to locate information they are most interested in seeing. The sections are listed in the order in which they are found in the budget. Following the Section Overview is a brief description of fund accounting, the types of funds included in the budget, the basis of accounting used, and the budget process.

### **B. Budget Message**

The Budget Message provides an overview of the key policy issues facing the City as well as the City Manager's recommended operating and capital plan for the coming two years.

### **C. Budget Policies**

The Budget Policies were developed to provide a clear foundation for a variety of funding and management decisions. During the development of the biennial budget, the policies are formally reviewed with Council to obtain approval, to ensure their relevance, and to determine what new policies might need to be written. Some of the strictly financial policies change very little from year to year, while some of the program-related policies are revised every two years to provide the most current information.

### **D. Budget Summary**

This section explains how the City is organized and staffed; includes citywide, summary level revenue and expenditure information; provides an annual and biennial financial summary by fund; identifies the types of property tax collected and where the monies go (i.e. by government jurisdiction); provides an overview of utility (i.e. water, sewer, and storm water) rates; highlights the purpose and status of debt issued by the City; identifies the change in and composition of the ending balance for each fund; and identifies the City's key performance measures (called "dashboard" indicators), which are organized around the City's six Priorities of Government.

### **E. General Fund Summary**

The General Fund is the general operating fund of the City and encompasses the major services provided by the City, excluding utilities: police; fire; parks and recreation; street and right of way maintenance; development services; legal, judicial, and financial services; and general administration. This section is divided into two sub-sections. The revenue sub-section includes a description and an historical comparison of each major revenue source in the General Fund. The expenditure sub-section includes a budget analysis comparing the 2012 Approved Budget to the 2013-2014 Budget (broken down by year) as well as a description and an historical comparison of each major expenditure category in the General Fund.

### **F. Utility Funds Summary**

This section provides background information on the City's three utility funds (i.e. Water Utility, Sewer Utility, and Storm Water Utility), which are operated separately as "enterprises" in which the charges

## Reader's Guide

for service (i.e. utility rates) are set to cover the full cost (both operating and capital) of conducting business. In addition, the proposed rate increases for each utility are described and income statements for each utility are provided for a four year time period (2011-2014).

### G. Operating Budget by Department

This section breaks down all of the City's operations by department: City Attorney's Office, City Council, City Manager's Office, Development Services Group, Finance, Fire, Human Resources, Information and Geographic Services, Maintenance, Municipal Court, Non-Departmental, Parks & Recreation, Police and Youth & Family Services. Each department sub-section is organized as follows:

- **Department Summary:** Includes description, organization chart by function, staffing summary, resources and uses summary, expenditure summary by function, budget analysis by fund or fund groups and a summary of sustainability efforts where applicable.
- **Department Functions:** Each department is further broken down into "functions," which represent major services provided by the department. For each department function, the following is identified: description, priority of government, services & products, 2013-2014 key initiatives, and expenditure summary by category. It should be noted that the City's Capital Improvement Program (CIP) is not included in this section, but rather is presented separately in Section H.

### H. Capital Improvement Program

This section identifies all of the capital improvement projects planned for the following six years (2012-2018), tying together the capital projects developed from the City's state mandated six-year plans, such as the Transportation Improvement Plan (TIP). More specifically, information on the development and financing of the six-year CIP is provided; the real estate excise tax (REET) forecast is included; significant projects are highlighted and unfunded capital needs are identified; a project summary, broken down by project category, and individual project sheets are included; and six-year fund statements are provided for the Street, Capital Improvement, Technology & Equipment, Water Utility, Sewer Utility, and Storm Water Utility Funds.

### I. Recap by Fund

The City accounts for all of its operating and capital activities within a number of "funds," each of which is considered a separate accounting entity with a distinct set of self-balancing accounts. This section includes all of the City's funds, providing a brief description of and identifying the resources and uses associated with each fund. Also, summary level information is provided for all City funds at the end of this section.

### J. Appendix

This section includes three sub-sections: 1) City Highlights, 2) Glossary of Terms, and 3) Staffing Classifications. The City Highlights sub-section includes a description of the community; demographic information about Mercer Island's residents; statistical information about City services and assets; listings of major employers and major taxpayers; historical development activity levels (in terms of building permits issued and total valuations); and historical assessed valuation, levy rates, and property tax levy amounts. The Glossary sub-section includes a listing of budgeting and accounting terms used in the budget document. Finally, the Staffing Classifications sub-section identifies all job classifications within each bargaining unit as well as the 2012 salary ranges for each position.

### **K. Service Requests & Reductions**

A “service request” represents a new (or renewed) request for a temporary or ongoing position, contracted services, and/or equipment costing at least \$10,000. A “service reduction” represents a temporary or ongoing proposal to reduce or eliminate one of the following: 1) a service, program, or event provided/organized by City staff; 2) a contracted service; or 3) subsidized funding of a service, program, or event by the General Fund. A Summary Listing by Department is provided along with a Funding Summary. Individual service requests and reductions are also included and are organized by department.

# Explanation of Accounting Basis and Budgeting

## Basis of Presentation - Fund Accounting

All City activities are organized on the basis of funds, each of which is considered 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 equity, revenues, and expenditures (or expenses, as appropriate). The City has 20 separate funds, each of which is described in detail in Section I – Recap by Fund.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. Each fund serves as an expenditure control mechanism. The various funds are grouped into eight categories as follows:

- **General Purpose Funds**

Revenue in this fund category is considered unrestricted and can be used for any City purpose, including operations and capital. This category consists of three funds: the **General Fund**, the **Self-Insurance Fund**, and the **Youth Services Endowment Fund**. The General Fund is the general operating fund of the City and is used to account for all activities not otherwise required to be accounted for in other funds. The major services accounted for in the General Fund encompass **police; fire; parks and recreation; street and right of way maintenance; development services; legal, judicial, and financial services; and general administration**. The Self-Insurance Fund is a “reserve” fund that pays for insurance losses not covered by the City’s \$5,000 deductible or other insurance. The Youth Services Endowment Fund is a “permanent” fund in which the donated monies remain invested as principal and from which the earnings on the principal can be spent to support ongoing Youth & Family Services’ programs, which are accounted for in the Youth & Family Services Fund.

- **Special Revenue Funds**

Special revenue funds group together any activities that are financed by restricted or committed revenue sources (as opposed to general purpose revenues) but which are not required to be designated as enterprise activities. Funds included in this category are the **Street Fund**, **Criminal Justice Fund**, **Beautification Fund**, **Youth & Family Services Fund**, **Municipal Arts Fund**, and the **Contingency Fund**. The Contingency Fund is a reserve fund that is available to temporarily stabilize significant revenue shortages or to address unanticipated needs. Council policy has set the Contingency Fund at 10% of budgeted General Fund expenditures.

- **Enterprise Funds**

Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. In enterprise funds, the intent of the governing body is to recover costs (i.e. expenses, including depreciation) of providing goods or services to the general public on a continuing basis primarily through user charges. Funds included in this category are the **Water Fund**, **Sewer Fund** and **Storm Water Fund**.

- **Internal Service Funds**

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis. This fund category includes the **Equipment Rental Fund** and the **Computer Equipment Fund**. The

Equipment Rental Fund accounts for the cost of maintaining and replacing all City vehicles, heavy equipment, and 800MHz radios. Each department is charged operating and maintenance rates as well as replacement rates for the use of these assets. The Computer Equipment Fund was created to protect the City's current and future investment in computer equipment. Each department is charged a rate that covers the cost of repair and maintenance, replacement, and operation of the City's wide area network. The rate is based on the number of computers actually owned by each department.

- **Trust and Agency Funds**

These funds account for activities where the City acts as the fiscal agent. There is only one fund in this category—the **Firemen's Pension Fund**.

- **Debt Service Funds**

Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest. The City of Mercer Island has two debt service funds: the **Bond Redemption Fund–Voted Debt** and the **Bond Redemption Fund–Non-Voted Debt**.

- **Capital Projects Funds**

Capital projects funds are used to account for financial resources earmarked for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds). These funds are not part of the operating budget, but are included in the City's six-year Capital Improvement Program. Current capital projects funds include the **Capital Improvement Fund**, the **Technology and Equipment Fund**, the **Fire Station 92 Replacement Fund** and the **Capital Reserve Fund**.

## Basis of Accounting

The City's basic accounting structure, including its chart of accounts and account coding format, is mandated by the Washington State Auditor's Budgeting, Accounting and Reporting System (BARS), and is enforced by the Office of the State Auditor through annual audits. The basis of accounting refers to when revenues and expenditures (or expenses) are recognized in the accounts and reported in the financial statements.

- **Accrual Basis of Accounting**

The accrual basis of accounting is followed in all of the City's enterprise, internal service, and trust funds. Under this basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. As a result, revenues can be recognized even though no cash has been received yet, assuming that a good or service has been provided. Also, expenses can be recognized once a good or service has been received even though no payment has been made yet. This is the same basis of accounting that is used in the private sector. All assets and liabilities are recorded in the fund that owns them.

- **Modified Accrual Basis of Accounting**

All of the remaining fund categories are reported under the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. The major revenue sources that are accrued by the City are listed below.

## Reader's Guide

**Property Taxes** – King County acts as the City's intermediary collection agency. The County remits to the City on a daily basis property taxes paid by Mercer Island property owners. Property taxes should be accrued only when due and expected to be collected within 60 days of the end of the fiscal period. The City accrues all property tax revenue received within 31 days of the end of the fiscal period.

**Utility Taxes** – Utility taxes are considered both measurable and available if collected within 31 days of the close of the fiscal period.

**Business & Occupation Taxes** – Primarily collected on an annual basis, revenue is considered measurable and available if received within 45 days of the close of the fiscal period.

**State Shared Revenues** – Mainly State collected sales and excise taxes, these revenues are considered measurable and available if received within 31 days of the close of the fiscal period.

**Grant Revenues** – When expenditures are the primary factor for determining eligibility, the grant revenue is considered measurable and available when the expenditure is made.

**Interfund and Intergovernmental Services** – When goods and services have been provided, these are considered both measurable and available.

**Interest and Rental** – When investment interest and rental income have been earned and are due they are considered measurable and available.

Revenue sources that are not considered to meet the measurable and available criteria include licenses and permits, fines and forfeitures, and other miscellaneous revenues since their values are not known until received.

Under the modified accrual basis, expenditures are recorded when the liability is incurred. An exception to this rule is the principal and interest on general long-term debt that is recognized as an expenditure when it is paid. Long-term liabilities are accounted for in the general long-term debt account group. Purchases of fixed assets are expensed during the year incurred, and are accounted for in a separate fixed asset system over their useful life.

- **Budgetary Basis**

The budgets of general governmental type funds (for example, the General Fund and the Street Fund) are prepared on a modified accrual basis. The enterprise funds (i.e. Water, Sewer and Storm Water Utilities), on the other hand, are budgeted on a full accrual basis.

## Budget Process

The City follows the below outlined procedures in establishing its budget every other year. These procedures are in accordance with State law time limitations and are designed to allow the Council and public ample opportunity to understand and have input on the budget direction of the City for the next two years.

Budget Process Steps	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. 6 year Capital Improvement Program (CIP) kick-off meetings with Council and staff											
2. Budget policies related to the CIP are reviewed by Council at three points during the budget process											
3. Operating Budget kick-off meetings with Council and staff											
4. Budget policies related to the Operating Budget are reviewed by Council at two points during the budget process											
5. Operating Budget revenue and expenditure estimates prepared by departments											
6. CIP Preview meeting with Council											
7. Departments prepare Operating Budget requests, key initiatives, and other information related to the coming biennium											
8. Finance department prepares tax and other major revenue estimates											
9. Finance Department and City Manager review departmental Operating Budget requests and make changes as necessary											
10. Finance Department prepares Preliminary Budget and files it with the City Clerk											
11. City Clerk publishes notice of Preliminary Budget and public hearings											
12. City Manager and Finance Director present Preliminary Budget to Council											
13. Copies of Preliminary Budget made available to the public											
14. Public hearings on Preliminary Budget held											
15. City Clerk publishes notice of public hearing on Final Budget											
16. Final hearing begins no later than the first Monday in December											
17. Council adopts balanced Final Budget for coming biennium											

The budget, as adopted, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level so that expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are allowed; however, any revisions that alter the total expenditures must be approved by the City Council. When the City Council determines that it is in the best interest of the City to amend the budget appropriations, it may do so by ordinance approved by one more than the majority at any regularly scheduled Council meeting.

## Reader's Guide

The budget is formally monitored on a quarterly basis by the Finance Department, generating a quarterly financial status report to the Council. Because the City prepares a two-year budget, a mid-biennial budget review meeting is also held in November of the first year of the biennium. Amendments to the adopted budget are typically approved by the Council at this meeting or when a quarterly financial status report is presented to the Council.