

BUDGET PROCESS

Budget formulation is a comprehensive process that attempts to incorporate the long term strategic planning process of the City, the shorter term strategic planning process (of developing Strategic Operating Plans for each City service), the development of the Capital Improvement Program (by considering its implications on the operating budget) and the longer range financial planning (by adjusting budgeted amounts and performance targets) based on the long term financial conditions of funds. In addition, the budget process is impacted by Kansas Statutes, organizational policies, accounting standards and budgeting practices.

Departmental staff began the process of developing Strategic Operating Plans, including Program Options, for each service. The City organization is divided into City Departments, but each department is then divided into “services” - strategic units that provide outcomes in core areas. An Ad Hoc Budget Committee, comprising two representatives from each department, evaluated and recommended a variety of suggested strategies.

Staff also consider the implications of the Capital Improvement Program (CIP) in relation to the shorter term annual operating budget. Maintaining infrastructure is in the long term strategic interest of the City. Service budgets note changes in maintenance costs stemming from completion of capital projects. Adjustments to resource needs are noted, relative to the impact of the CIP project on the base-line level of outcomes provided.

RESOURCE ALLOCATION

After the City Manager reviews Strategic Operating Plans with departmental leadership and the Budget Office staff, the long term financial planning process is integrated into the annual budget process. Particular attention is paid to funds facing structural or cyclical financial challenges.

In 2010, new performance data were gathered and a citizen survey was conducted. The new information provided through both initiatives was incorporated into the resource allocation process, which is reliant on data-driven decisions about how to invest the City’s revenue.

Additionally, WSU facilitated a discussion about prioritization at City Council workshops in June 2009. The outcome of those discussions was the identification of four core strategic priorities:

- ◆ Ensure the physical safety of people in the community.
- ◆ Protect the private property of people in the community.
- ◆ Provide and protect public investment for quality infrastructure.
- ◆ Promote economic development that maximizes return on investments to create a healthy community.

In addition, services are considered either Core (highest priority), Essential (important but not the highest priority), or Support

(supplementing core and essential services). The identification of Core, Essential, and Support services guided decision making. A community meeting on June 29th for the District Advisory Boards and the public gave citizens the opportunity to provide feedback about the City Council prioritization process and efforts on the part of City staff to translate those priorities into a balanced budget.

On July 12th, the Proposed Budget was presented to the City Council, beginning the formal budget adoption process. In compliance with State statute, the governing body set the maximum amount of taxes to be levied on July 19th. This first deadline is set a minimum of ten days prior to the date of budget adoption. The second formal, statutorily required hearing is held in August, at least ten days prior to August 25th. The City Council’s formal adoption of the budget generally occurs on the second Tuesday in August, which falls on August 9th this year.

BUDGET ENVIRONMENT

In addition to City Council priorities other considerations shape budget formulation. Some of these include:

- ◆ Kansas Statutes.
- ◆ Accounting Standards.
- ◆ Wichita Budgeting Practices.
- ◆ Wichita Financial Policies.

KANSAS STATUTES

Statutes of the State of Kansas govern the operating budget process. Three of the most relevant statutes include the Budget Law, the Cash Basis Law and the Debt Limit Law.

Generally, the municipal budgeting process is outlined in the Budget Law—KSA 79-2925, et seq. Specifically, those statutes require that cities:

- ◆ Prepare annual, itemized budgets.
- ◆ Present the budget no later than August 1st.
- ◆ Do not budget contingency amounts greater than 10 percent of budgeted expenditures.
- ◆ Do not budget fund balances (for applicable funds) of more than 5 percent of fund expenditures.
- ◆ Adopt the annual budget no later than 10 days prior to August 25th.
- ◆ Provide public notice of budget hearings.
- ◆ Provide the adopted budget to the County Clerk by August 25th.

The State’s Cash Basis Law is outlined in KSA 10-1101 et seq. This statute includes the following provisions:

- ◆ No city can create an indebtedness greater than the funds in the city’s treasury.
- ◆ A city can issue “no fund warrants” by a resolution of the governing body declaring an extraordinary emergency.

The Debt Limit Law is contained in KSA 10-308 et seq. These statutes limit the total debt of a city to no more than 30 percent of the assessed valuation of the city.

OTHER PLANNING PROCESSES

In addition and support of the Budget Process, other planning processes are completed by the City, such as the:

- ◆ Capital Improvement Program
- ◆ Comprehensive Plan
- ◆ Long-Term Operations Plans
- ◆ Neighborhood Plans
- ◆ Strategic Management Plan
- ◆ Technology Plan
- ◆ Ad-Hoc and Other Plans

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) budget process is a comprehensive effort that attempts to incorporate the long term strategic planning process with the short term City strategic goals. Many longer term planning processes are integrated with the CIP budget, including the Park and Recreation Open Space (PROS) plan, the Library Master Plan, the Police Department's Safe and Secure Initiative Plan, and the Water Supply Plan. The CIP guides new construction and improvements, ranging from repairs to major expansions. Coordination of the CIP with the annual operating budget is critical as projects can impact ongoing operating expenditures. The CIP budget will be further discussed, but a basic understanding of the CIP and its relationship with other processes is critical to understanding their collective impact on the operating budget.

COMPREHENSIVE PLAN

A Comprehensive Plan is periodically completed or amended covering all aspects of community development, such as population growth, environmental constraints, emergency services, transportation, land use, parkland, wastewater and water treatment, community appearance. Existing conditions and trends, projected future growth demands, and capital capacity assessments are completed developing a preferred land use guide for a designated period of time. This plan influences department operating budgets.

LONG-TERM OPERATIONS PLANS

As previously referenced, long-term operations plans are completed by departments sometimes in conjunction with their respective boards. The Police Department's Safe and Secure Initiative Plan is an example of such a plan, as would be the Library Master Plan. These plans provide a longer perspective than the Strategic Operating Plans that are completed as a part of the annual budgeting process. These plans include projections of costs to fulfill long-term goals and objectives of departments and services, and often these plans form the basis for operating budget discussion.

NEIGHBORHOOD PLANS

Neighborhood and area plans are developed by community stakeholders with the assistance of the Wichita/Sedgwick County Metropolitan Area Planning Department. Through these plans citizens are able to define issues affecting their community and ways to address those concerns and improve their neighborhoods. These plans can be viewed as supplements to and extensions of the Comprehensive Plan. As such, these plans can have real and substantial impacts on the CIP and the operating budget.

STRATEGIC MANAGEMENT PLAN

The City's Strategic Management Plan was created and is periodically updated through retreats and workshops. The City Council provides staff with direction as to the desired strategic priorities. The most recent update to the Strategic Management Plan established the current priorities including "Ensure Physical Safety; Protect Property; Protect Public Infrastructure Assets; and Create a Growing Community." These priorities then drive the operating budget discussion.

TECHNOLOGY PLAN

The Information Technology/Information Services Department develops the City's technology plan. This plan forecasts future technology that align with departmental strategic goals. The plan relates to finance in regards to project development and associated operating budgets. The financial impacts of the projects are identified and associated into the annual operating budgets.

ACCOUNTING STANDARDS

The City of Wichita uses the **cash basis of accounting** when preparing budgets. After the close of the fiscal year the City's accounts are converted to the **modified accrual basis of accounting** to produce the Comprehensive Annual Financial Report. The table below shows the differences between these standards:

	Revenues	Expenditures
Cash	Recognizes only when cash changes hands	Recognized only when cash changes hands
Modified Accrual	Recognized when they become measurable and available to pay for expenses	Recognized when the liability is incurred, measurable, and expected to be paid

WICHITA BUDGETING PRACTICES

Bi-annual Budget: To ensure continuity in government services, the City of Wichita employs a two-year rolling budget cycle. The City Council adopts the Budget for the next fiscal year (2012). The Council also reviews the Approved Budget for the ensuing fiscal year (2013) to better plan in advance, and a revised budget for the current fiscal year (2011).

Capital Improvement Program: While the City is developing the annual operating budget, a parallel process occurs to fund capital improvements, such as large public works projects. After the operating budget is adopted, the Capital Improvement Program (CIP) is presented, outlining the City's 10-year program for planned capital investments and the means for funding these projects.

Revenue Projections: The amount of funding the governing body chooses to spend on outcomes drives the budget process. The first step in the budget development process is the projection of revenues by City staff, assuming all current policies and practices are continued. Since future revenues cannot be known for certain, the framework for the whole budget development process, in effect, is built upon assumptions about the City's economic and financial future.

Trends in the performance of each revenue source are studied, and economic conditions and events that could alter the projections are considered. Many factors affect revenues, including weather conditions (especially important for electric, gas and water utility franchise taxes); motor vehicle and gas taxes, and local economic conditions (influencing the sales tax revenue stream as well as other sources). Economic indicators used in preparing the financial projections and budget are included in the "Summaries of Revenues and Expenditures" section of this document.

Forecasting revenues is one of the most difficult tasks the City encounters when preparing a budget. If assumptions are too optimistic, policy makers may adopt programs that will not be supported by actual revenues in the coming year. If assumptions are too pessimistic, the budget process becomes constrained by the need to reduce programs and expenditures, or to find new revenue sources, including tax increases.

Assumptions are stated at the beginning of the General Fund presentation because of their importance in the benchmark for adjustments in the actual year of operation. Doing this also allows interested citizens to challenge and improve on the assumptions as the budget is being reviewed.

Mid-year Budget Changes: If adjustments to the budget are necessary, there are two methods to accomplish this task.

Budget Adjustments: During the year, budget adjustments in amounts less than \$25,000 are made within funds administratively, based on City policy. Budget adjustments greater than \$25,000, or adjustments that change the intent of program expenditures are brought to the City Council for action.

Budget Amendments: Under Kansas law, the City Council may amend an adopted budget during an operating year, if unforeseen circumstances create a need to increase the expenditure authority of a fund or budget. This process, known as recertification, requires a published, ten day official notice and a public hearing held before the City Council.

WICHITA FINANCIAL POLICIES

OPERATING BUDGET POLICIES

Service Level: The City attempts to maintain its present service level for all priority and essential services within existing tax rates, as adjusted for normal growth in the tax base. No new services are added without offsetting expenditure reductions or increases in tax revenues.

Financial Control: The City maintains a financial control system to ensure adherence to the budget and an awareness of the financial environment, preparing quarterly reports to compare actual revenues and expenditures to budgeted amounts, analyzing operating surplus or deficit conditions, and balance sheets on all City funds.

Performance Management: The City integrates performance measurement and productivity indicators within the budget.

Personnel: The City attempts to avoid layoffs in all actions to balance the budget. However, there are cases in which reductions in force are necessary during periods of economic downturn.

Cost Control: The City emphasizes efforts to control the budget at departmental and character levels.

Balanced Budget: The City attempts to maintain a balanced budget, with current year revenues equal to or exceeding current year expenditures.

Self Supporting: Airport, Golf, Sewer, Water, and Storm Water enterprise funds are self-supporting.

Market Methodology: Privatization, volunteerism, incentive programs, public/private partnerships and other alternatives are used whenever possible to provide services.

Competitiveness: Charges for internal services are set at the lowest possible level to maintain essential programs.

REVENUE POLICIES

The City considers market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees, and charges.

Diversification: The City directs efforts to maintain a diversified and stable revenue system to mitigate fluctuations in any one revenue source.

Collection: The City follows an aggressive revenue collection policy.

User Fees: Where possible, the City establishes user charges and fees at a level related to the full cost (operating, direct, indirect, and capital) of providing the service.

Cost Recovery: The City reviews fees/charges regularly, and designs and modifies revenue systems to include provisions that automatically allow charges to grow at a rate that keeps pace with the cost of providing services.

INVESTMENT POLICIES

Stewardship: Disbursement, collection, and deposit of all funds are managed to insure maximum cash availability.

Investing: The City strives to maximize the return on investments consistent with the primary goal of preserving capital in accordance with the City's ordinance and prudent investment practices.

DEBT POLICIES

Long-term Debt: The City confines long-term borrowing to capital improvements.

Short-term Debt: In anticipation of bonding, the City uses short-term debt.

Disclosure: The City follows a policy of full disclosure on every financial report and bond prospectus.

Debt Type: Revenue bonds are issued when practical for City enterprises to reduce the amount of the City's general obligation debt. The City uses general obligation (GO) debt to fund general purpose public improvements which cannot be financed from current revenues.

The City uses special assessment general obligation debt to fund special benefit district improvements consistent with existing policies.

Debt Retirement: The City maintains an aggressive retirement of existing debt over 10 years for city-at-large debt and 15 years for special assessment debt.

RESERVE POLICIES

Reserve Amount: The City maintains a revenue reserve to pay for expenses caused by unforeseen emergencies or for shortfalls caused by revenue declines. Specific discussion of reserve policies is included in the *Budget Implementation* section.

Contingency: The City maintains a contingency expenditure account to provide for unanticipated expenditures of a non-recurring nature, or to meet unexpected small increases in service delivery costs.

Proposed Program Enhancements: Reserves in excess of targeted amounts are used for one-time only expenditures. In addition, where appropriate, reserves are maintained for specific long term commitments.

Debt Service: The City maintains a debt service fund reserve at year end equivalent to 3 percent of annual revenues of the debt service fund. Any amount in excess of this reserve will be used to reduce capital project fund general purpose expenditures.

Working Capital: Adequate levels of working capital shall be maintained in all proprietary funds.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

Audit: An independent audit is performed annually and completed not later than June 1 of each year.

Financial Reports: The City produces annual and quarterly financial reports in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB).

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) guides new construction and improvements to the City's infrastructure and facilities, ranging from road expansion to repairs on publicly owned buildings, to acquisition of new water sources.

The CIP requires a sound operating budget and a solid financial base to allow for debt or cash financing of capital projects. A well prepared operating budget assists in raising or maintaining the bond rating of the City. A higher bond rating means that the City pays a lower interest rate for the bonds sold to finance capital projects.

The annual budget process takes into account requirements of funding infrastructure, maintenance, and related operational costs. Since the CIP is primarily funded from property taxes, mill levy changes in the annual operating budget can mean changes in resources available for capital projects.

REVENUE SOURCES AND PROJECTIONS

Development of the CIP has two phases. The first phase is revenue projections. Like revenue projections for the operating budget, trends are studied, and performance assumptions are generated. From these assumptions, expenditure estimates are developed. Since the CIP is a ten-year plan, revenue projections must be made further into the future than those required for the operating budget.

Existing debt service obligations are considered when estimating the additional amount of debt that can be assumed under the City's policy. After the new debt for proposed projects is calculated and all revenue sources are identified, projects are prioritized and funds are allocated for the ten year planning period. The revenues and debt service expenditures for that part of the CIP financed from property and sales taxes are managed through the Debt Service Fund. Components of revenue funding for the CIP are:

1. The mill levy is projected at 8.5 mills from 2010 to 2018 (based on the 2012 Adopted Budget, the CIP mill levy would be reduced to 7.5 mills in 2011 and 2012 and 8.0 mills in 2013).
2. Sales tax revenue for freeway and road construction is managed through the Sales Tax Trust Fund until the funds are transferred to projects or to the Debt Service Fund to pay debt service on sales tax general obligation bonds.
3. Special assessments are made against properties to fund portions of the CIP.
4. Motor vehicle taxes collected by Sedgwick County on all motor vehicles not subject to property or ad valorem taxes are a CIP revenue source.
5. Interest earnings on the fund balance and current revenues contribute to CIP revenue.
6. Transfers from other funds, such as the Tourism and Convention Fund for Century II, Lawrence-Dumont Stadium and parking facilities, and from Tax Increment Financing Funds for economic development projects are considered in revenue estimating.

Other parts of CIP financing are budgeted as debt service in proprietary funds.

PROJECT REVIEW

The second phase of developing the CIP involves the project requests. Each project request is sent to major corporations, community organizations, District Advisory Boards, and other groups that would be impacted. Any interested party may submit a project for consideration by City engineers and the CIP Committee.

The CIP Administrative Committee, through a series of meetings, develops the project plan for the term of the program. Projects are studied and ranked according to criteria set forth by the Committee.

Projects proposed for the CIP are reviewed, evaluated, and recommended under the following guidelines:

1. General revenue-supported debt: Maintain a Capital Improvement Program within the debt limitations established by state law, and within a maximum local mill levy debt service established by the City Council.
2. Capital improvement projects must meet the established useful life criteria to be financed: (a) public buildings, 40 year general life, 10 year financing; (b) new road construction, 40

year general life, 10 year financing; (c) major road and bridge rehabilitation, 15 year general life, 10 year financing; (d) water, sanitary sewers, and drainage, 40 year general life, 20 year financing; (e) miscellaneous items, based on asset life, 10 year financing; and (f) local sales tax projects, 10 and 15 year financing with double barreled bonds.

3. Utility Revenue Bonds are utilized to finance Public Improvements using a 20-year amortization to minimize the impact of annual revenue requirements.
4. Maintenance of the highway and street system to provide safe and effective vehicular access and efficient urban traffic flow emphasizing the following: (a) Expedite the plans (in cooperation with Sedgwick County) for constructing and financing US-54, maximizing state and federal funds supplemented by local sales tax; (b) Concentrate efforts on selected cross-town arterials and intersections to improve traffic movement, safety and reduce congestion; (c) Include features in new projects which will reduce future maintenance requirements (i.e., delineation of crosswalks, low-maintenance median treatment, etc.); (d) Complete railroad crossing improvements on arterials; and (e) Provide good streets and roadways to serve City facilities (i.e., Art Museum, Cowtown, Expo Hall, Airport, etc.).
5. Provide improvements in the downtown area.
6. Continuation of Neighborhood Improvement Program in conjunction with code enforcement.
7. Emphasize projects without regard to the percentage of the total CIP funds available. Under no circumstances will all projects be selected from one area of the City.
8. Develop a balanced capital maintenance program for all types of City assets.
9. Include beautification and landscape improvements in projects, especially on arterials and highways, facilities, etc.
10. Insure an adequate water supply for existing neighborhoods and for the planned growth and development of the City.

HEARINGS AND ADOPTION OF THE CIP

The committee's recommendations are forwarded to the City Manager and then to the City Council. Hearings are held before the Metropolitan Area Planning Commission and the District Advisory Boards. Like the operating budget, the City Council hears public comments on the CIP prior to adoption. The City Council may shift, add, or delete projects in the proposed CIP.

IMPLEMENTATION

After the CIP is adopted by the City Council, departments use the CIP as a guide for implementing capital improvements. Initiation of each project must be authorized individually by the City Council through the adoption of an ordinance or resolution.

BUDGETING FOR ONGOING OPERATING COSTS OF CIP PROJECTS

As a general practice, the 10-year CIP is developed and revised in a process that parallels development of the City's two-year budget. Departments provide estimated ongoing costs associated with CIP projects so all costs can be considered in the evaluation process. When a project is completed, the operating costs are included in the department's operating budget.

2012 BUDGET CALENDAR

The ongoing budget process from initial planning to the first day of an adopted budget is approximately 23-26 months. For example, the City started planning for 2012 in late 2010 and early 2011. The key dates for the 2012 Budget are shown below.

January - February	Staff budget committee develops and reviews operational suggestions by City employees.
March - April	Budget staff review Strategic Operating Plans submitted by departments.
May	City Manager meets with Departments and Budget Office staff to develop recommendations.
June 6	Initial presentations to District Advisory Boards of revenue projections and expenditure details.
June 29*,30	City Manager presents budget information to members of District Advisory Boards and the public in an evening meeting an afternoon session with Wichita Independent Neighborhood association.
July 12 *	City Council receives the Proposed Budget at the City Council meeting.
July 19 *	City Manager formally presents budget document to City Council. City Council hold a first public hearing and authorizes publication (sets maximum taxes levied).
July 26 *	Budget workshop with the City Council (tentative).
August 2 *	Public hearing at the City Council meeting.
August 9 *	Final public hearing and adoption of the 2012-2013 operating budget at the City Council meeting.
August 25	Certification forms for the 2012 budget are filed with the Sedgwick County Clerk.
November	Final assessed valuation is recorded and mill levies are calculated by the Sedgwick County Clerk.
January 1, 2012	Fiscal Year 2012 begins.

* Shown live on City Channel 7 or via streaming video on wichita.gov