

April 2006

City of El Paso

The seal of the City of El Paso, Texas, is a circular emblem. It features a central five-pointed star surrounded by a wreath. The words "THE CITY OF EL PASO" are inscribed around the top inner edge of the seal, and "TEXAS" is at the bottom. The seal is rendered in a light gray, semi-transparent style.

**BUDGET
POLICIES**

Office of Management and Budget

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I. PURPOSE

To establish polices related to the budget for the City of El Paso.

II. SCOPE

These policies apply to both operating and capital budgets. Capital budgets include appropriations for items such as heavy equipment, machinery, and rolling stock.

III. OBJECTIVES

The budget policies for the City of El Paso will guide the development of the City's budget and help manage financial pressures to address growing demands upon City resources, while preserving long-term fiscal stability.

IV. BUDGET PROCESS

The purpose of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process. The following is a summary of policies that will guide the process.

1. The City Manager and Council will set parameters/priorities at the beginning of each budget cycle.
2. The Office of Management and Budget will publish annually a Budget Preparation Manual that will guide departments with the development of their budgets. The manual will include an operating budget preparation calendar.
3. The budget process should include a three-year financial forecast to assess long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve Council's goals.
4. Upon submission of the departmental requests, the City Manager reviews and evaluates all baseline budget requests to determine whether they fulfill City Council goals and objectives, improve management effectiveness, and service delivery.
5. The City Manager submits a proposed budget to City Council for approval. The City Manager's Budget Message, a concise summary of the budget, shall include:
 - a) Summary of the major changes in priorities or service levels from the current year and the factors leading to those changes.
 - b) The priorities and key issues for the new budget period.

- c) Identify and summarize major financial factors and trends affecting the budget, such as economic factors; long-range outlook; significant changes in revenue collections, tax rates, or other changes; current and future debt obligations; and significant use of or increase in unreserved fund balance.
- d) Provide financial summary data on revenues, other resources, and expenditures for at least a three-year period, including prior year actual, current year budget and/or estimated current year actual and the proposed budget.
- e) Identify the City Charter requirement to have a balanced budget.

V. BALANCED BUDGET

The general fund, which is the main operating fund of the City, is required to annually have a balanced budget. Appropriations will equal revenues in the proposed City Manager's budget submitted to Council for review and approval. Council will adopt a balanced budget by resolution. Unreserved fund balance in the general fund will only be appropriated for one-time type expenditures at the request of the City Manager and approval of Council. The City Manager will provide Council with a report of financial impact to the City utilizing the unreserved fund. Use of unreserved fund balance can only be utilized if use of such funds does not fall outside the parameters of the policy established for such use.

While in any given year all or a portion of the unreserved balance in a fund may be appropriated for expenditure, the long-term goal is that operating expenditures not exceed operating revenues on an annualized basis such that structural balance is maintained within each fund. Consistent with this long-term goal, the better practice is to appropriate portions of the beginning balance only to the extent they support non-recurring expenditures, replace temporary declines in revenue, or are reasonably anticipated to be offset by increased revenue not yet officially recognized in a revenue estimate.

It is the policy of the City that the budget for each of its funds always be balanced in that the appropriations from each fund for the fiscal year not exceed the resources available to that fund for the year, including estimated revenues and any unreserved balance in the fund at the beginning of the year. This policy assures that the city does not spend beyond its means.

VI. LONG-TERM PLANNING

It is the policy of the City to maintain a multi-year budget projection of revenues, expenditures, and reserves. The multi-year revenue and expenditure projection shall be reviewed at least semi-annually, once prior to the budget process and after adoption of the budget. The multi-year budget projection will also be updated upon the approval of any capital improvement plan submitted to Council

and should be updated based on any dramatic changes in policy, legislation and the economy. The projection will cover a minimum of three years.

The Office of Management and Budget is responsible for presenting the multi-year projections to the City Manager and Council as part of the Proposed Operating Budget cycle.

VII. REVENUE POLICIES

A. REVENUE DIVERSIFICATION

The City shall maintain a broad revenue base to distribute the revenue burden equitably to minimize the risk exposure of unforeseen down turns in any one-revenue stream supporting the City budget.

During each year of a budget process OMB will review the current tax exemptions approved by Council and will submit recommendations to City Administration identifying possible increases or decreases in the approved exemptions or any new exemptions being proposed. OMB will also identify both the short and long-range effects on City resources available to fund existing and proposed programs. City Council will review tax exemptions only during the budget process.

Based on economic conditions, OMB will identify specific revenue sources that may be severely impacted by elasticity. Revenue sources are reviewed on a monthly basis to report any significant changes that may impact the budget and identify corrective action if necessary to City administration. Potential new revenue sources when identified and evaluated are to be submitted during the budget process.

Revenue directly related to a restricted fund shall only be used for purposes legally permissible and in a fiscally responsible manner for that fund. Programs and services funded by restricted revenue will be clearly designated as such.

B. ONE-TIME REVENUES

The City shall limit the use of one-time revenues for purposes other than to maintain sustained operating expenses due to the disruptive effects on services due to the non-recurrence of these sources. Such one-time revenue sources shall be solely utilized for the purchase of one-time expenditures, such as capital items or short-term contractual obligations of duration of less than twelve months.

C. UNPREDICTABLE REVENUE

The City shall identify major revenue sources it considers unpredictable and define how these revenues may be used. It is important to consider how significant a variation in revenue receipts will affect the City's financial outlook and ability to operate programs in the current and future budget periods. A City should decide, in advance, on a set of tentative actions to be taken if one or more of these sources generate revenues substantially higher or lower than projected. The plans should be publicly discussed and used in budget decision-making.

D. REVENUE ESTIMATES

City departments that generate revenue are required to submit revenue estimates annually for the preceding fiscal year to OMB with supporting documentation identifying the methodology utilized in preparing revenue estimates. OMB will review the estimates and include them in the budget process.

Revenues should be estimated using a conservative approach to avoid any budget shortfalls during the fiscal year. Departments should provide estimates annually during the budget process of the revenue generated by their department. There should be a consensus by the Department, the Office of Management and Budget, and the Financial Services Deputy City Manager on the estimate prior to inclusion in the proposed budget submitted to Council for adoption.

E. SETTING CHARGES/FEES

1. Departments will review at least biannually any fees associated with their department and make changes based on factors such as the impact of inflation, indirect cost adjustments, and any other related expenses that impact the cost of providing services to the public. Proposed changes must be submitted to OMB during the budget process with full disclosure on proposed changes.
2. New fees are to be included as part of the budget process and if approved by administration, included in the proposed budget submitted to Council for adoption.
3. Fees are to be established at a level that ensures the recovery of the full cost of the services provided. In the event that a fee or license amount is limited by state statute, said fee or license will be established accordingly.
4. Enterprise Funds shall be self-supporting so that the relationship between costs and revenues is clearly identified.

F. COLLECTION

The City monitors revenue collection throughout the fiscal year. When revenue is less than estimated, OMB notifies administration with expected impact on the current fiscal year budget and provides recommended corrective action. The City Manager initiates action consistent with prudent financial management and notifies Council of such action.

G. INDIRECT COSTS

Indirect costs should be recovered from other funds. This is done in accordance with the A-87 Indirect Cost Recovery Plan developed each year by outside consultants.

VIII. APPROPRIATION POLICIES

A. APPROPRIATION ESTIMATES

Appropriations shall be sufficient to provide quality services at a reasonable cost and within available financial resources. All new requests for program funding should be accompanied with concise statements of program's mission, objectives, and intended measurable outcomes.

B. PERSONAL SERVICES

1. The budget resolution shall specify the authority Department Directors will have in respect to changing their personal services budgets.
2. Benefits such as health insurance, life insurance, worker's compensation, and pension will be budgeted in the department.
3. During budget process, all personnel requests must be fully justified to show that they will either meet new program purposes or maintain or enhance service delivery. The City Manager shall approve all position additions.

C. BUDGET REDUCTIONS

In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible. In general, any service reduction, which may be necessary, should include reductions in administrative functions, such as management/supervisory, payroll, or other support staff.

All reductions should include an overall review of management structure to ensure efficiency and economy of resources. Further, reductions should focus on positions most recently added and/or programs most recently augmented, or identified as a non-core function.

Focus reductions in programs which are discretionary or where the service level is discretionary, and are not mandated by charter or addressed in City's strategic plan.

D. REPLACEMENT OF ROLLING STOCK

A fleet management vehicle replacement plan should be followed citywide to ensure systematic replacement of vehicles based on the particular life cycle. A fund replacement policy needs to be adopted and a reserve established to ensure departments systematically replace vehicles, within the guidelines of the policy.

E. CAPITAL IMPROVEMENT PLAN

A two-year Capital Improvement Program (CIP) with three-year implementation schedules will be developed and submitted to Council for approval. The CIP must include:

1. A list of proposed capital improvements with cost estimates, methods of financing, recommended time schedules for each improvement and the estimated income or cost of maintaining the facilities to be constructed. CIP projects will be for infrastructure or facilities over \$50,000.
2. Capital projects presented in the CIP will show related operating and maintenance costs, and will be considered during the operating budget evaluation. Departments shall have a plan developed with adequate funding for further repairs and replacement.
3. A balance of pay-as-you-go capital improvements versus financing will be evaluated taking various economic factors into consideration. It is financed through a combination of:

Tax-supported debt
Revenue-supported debt
Internally generated revenues

IX. OPERATING CONTINGENCY

The City appropriates a minimum of \$1,500,000 in an operating contingency account, to address any unforeseen expenditures throughout the fiscal year. Withdrawing from the contingency account must have approval from the City Manager.

X. RESERVES

The City maintains a reserve cash fund of \$16 million to provide coverage for unexpected expenses. Borrowing from the Cash Reserve Fund for unanticipated expenditures requires that the funds be paid in full within a year, according to the City Charter.

An unreserved general fund balance will be maintained to respond to emergencies equal to thirty to forty-five days of general fund expenditures. The City shall have a plan in place to attain this level of reserves.

Flexibility will be allowed in the use of fund balance but its use should be prioritized in the following order:

1. Unforeseen events or emergencies
2. Capital Expenditures
3. Future year budgets

Funding of this reserve will come from one-time revenues, excess fund balance and revenues in excess of expenditures.

XI. BUDGET ADOPTION

The budget shall be adopted by resolution, subject to the Mayor's veto, not later than August 31 of each year; but, in the event the budget is not adopted, the appropriation for personnel and essential operating supplies made in the previous year shall be extended until the new budget is adopted.

XII. BUDGET CONTROLS

Budgetary controls and authority will be set at the object level. The department head is ultimately responsible for making sure his/her department does not go over budget.

XIII. AMENDMENTS TO THE BUDGET

1. Department Heads are authorized to make budget transfers not exceeding an established dollar limit. Those exceeding this limit will require Council or City Manager approval.
2. A budget transfer of personal services appropriations or impacting revenue accounts requires the approval of the City Manager or his/her designee.

3. A budget transfer must be approved prior to the occurrence of the expenditure except for emergency expenditures when approved by the City Manager or his/her designee and ratified by the Council.
4. The City Manager shall have the authority to establish the budget for any capital projects that are approved by the Council.
5. Budget transfers submitted to Council shall be accompanied by an explanation from the department, approval by OMB, and a recommendation from the City Manager or his/her designee. The department's explanation must be sufficiently clear and provide sufficient detail for the members of Council to determine the need for the transfer.
6. The City Manager or his/her designee is authorized to establish budgets and staffing table changes for grants and similar awards when the applications for such grants and awards have been previously approved by the City Council or the City Manager. All grant applications requiring City Council approval shall be prepared in accordance with established procedures. The agenda item shall state clearly the type and amount of the required City match and the funding source of the grant match.

XIV. PERFORMANCE MEASURES

In addition to staffing and line item requests, department budgets should also include performance measures for each major function within the department. Performance measures are predicated on the expected outcomes of department services and programs and should focus on the most meaningful results.

They are used to indicate whether and to what extent departments are accomplishing a mandated mission and are tools for City administration to measure the effectiveness of services in order to make strategic decisions.

Performance measures are maintained for critical services over a period of time in order to show historical deviation, to establish a service standard, and for use as a benchmark of City services against those of other government entities. Performance measures must be updated annually at a minimum.

XV. COSTING GOVERNMENT SERVICES

The Office of Management and Budget will maintain a program to calculate the full cost of the different services the City provides. The full cost of a service encompasses all direct and indirect costs related to that service.

XVI. REPORTING

Departments will submit to the Office of Management and Budget an expenditure analysis no later than 10 days after the accounting period has been closed. The

Office of Management and Budget will monitor expenditures monthly and report to Council on a quarterly basis.

XVII. DISTINGUISHED BUDGET PRESENTATION

The City will seek to comply with suggested criteria of the Government Finance Officer's Association in producing a budget document that meets the Distinguished Budget Presentation criteria as policy document, as an operating guide, as a financial plan, and a communication device.