

BUDGET PROCESS

Budget Preparation Overview

Budget preparation affords departments the opportunity to reassess their goals and objectives and the strategies for accomplishing them. Even though the budget may be heard by City Council in May and adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, and financial capacity. It is against this backdrop that departmental expenditure requests are formulated and reviewed. The FY 2015-16 Budget Calendar is displayed on page 4.

Financial Forecasting

The annual budget process begins with the Budget Office preparing revenue and expenditure projections. These projections serve as the framework for financial decision-making during the City's annual strategic planning and budgeting process. The Budget Office updates the City's general fund forecast annually to adjust for changes in local, state, and national economic conditions and trends; changes in City Council priorities and policies; and other variables that might affect the City's ability to provide needed services and maintain its financial health in future years.

City Council Strategic Planning

Linking important objectives with necessary resources requires a process that identifies key goals at the very beginning of budget preparation. The annual strategic planning process begins with the City Council Retreat in late January, at which time Council identifies its goals and priorities for the upcoming fiscal year. Council's directives set the tone for the development of the annual budget.

Departmental Budget Development

Departments begin developing their budget requests in January. During this phase, departments are encouraged to thoroughly review all programs and services assessing their value and priority to the citizens of Asheville. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested.

Any new programs or services that departments would like funded are submitted to the Budget Office as expansion requests. Expansion requests identify the program's purpose, costs, objectives, and Adopted funding sources. The expansion request also describes how the new or enhanced program is linked with overall Council priorities. Departments are encouraged to prioritize their expansion requests and only submit a limited number of requests each year.

In addition to the budget worksheets and expansion request forms, departments are required to submit the following information to the Budget & Research Office:

- *Low Priority Services.* Each department is required to submit a list of existing programs and services that could be eliminated or reduced. These services can be used as possible "program trade-offs," allowing departments to shift resources from low priority services to new or enhanced services in order to maximize budget target allowances.
- *New or Increased Fees.* Proposals for new or increased user fees are also submitted with the departmental budget request packages. Some or all additional revenue generated from new or enhanced fees may also be used as a way to maximize departmental target allowances.
- *Performance Objectives & Measures.* Performance measures are used to report on the achievements, impacts and outcomes of key City programs. Departments submit an update of their performance objectives and measures during the budget process. Departments report on prior year performance, update current year estimates, and set targets for the upcoming fiscal year. Departments are also encouraged to continually evaluate and refine their performance indicators to ensure that they accurately reflect the organization's mission and priorities.

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City Manager Review

Once the Budget Office has completed its technical review of the budget, department directors meet with the City Manager in team sessions to discuss the operating and capital budget requests. Expansion requests are evaluated based on the City's financial capacity and on how they relate to City Council priorities. In most years, monies exist to fund only a small number of expansion requests. Following these senior management sessions, a citywide proposed operating budget is developed.

Budget Adoption

The City of Asheville adopts its annual operating budget in accordance with North Carolina General Statutes (N.C.G.S. 159 - Local Government Budget and Fiscal Control Act). These statutes require that City Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The City Manager must submit a balanced budget proposal to the City Council by June 1 of each year, and City Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain taxpayer comment before City Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

Budget Amendments & Revisions

After the Budget Ordinance is enacted, state law permits City Council to amend it at any time during the fiscal year. Each amendment must continue to adhere to the balanced budget statutory requirements. Amendments may in no way change the property tax levy or alter a taxpayer's liability.

Budget revisions are transfers within a fund which do not change the total fund appropriation. Budget revisions do not require City Council approval.

Basis of Budgeting

As required by the North Carolina Local Government Budget & Fiscal Control Act, the budget is prepared and adopted using the modified accrual basis of accounting. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Those revenues susceptible to accrual include among others: investment earnings, sales tax, and grants-in-aid earned.

During the year, the City's accounting system is maintained on the same basis as the Adopted budget. This enables departmental budgets to be easily monitored via monthly accounting system reports. At year-end, the City's Comprehensive Annual Financial Report (CAFR) is prepared on a basis consistent with "generally accepted accounting principles" (GAAP). This basis of accounting conforms to the way the City prepares its budget, with a couple of notable exceptions. One, certain items that are referred to as revenues and expenditures in the budget are included as other financing sources and uses in the CAFR. In addition, for financial statement presentation, proprietary funds are adjusted to the full accrual basis. The most significant differences between budget and CAFR for proprietary funds are: a) capital outlay & debt service principal payments are recorded as expenditures for budgetary purposes as opposed to adjustments of balance sheet accounts in the CAFR (GAAP); and b) depreciation is recorded as an expense in the CAFR (GAAP) and not recognized for budgetary purposes.

All outstanding encumbrances on the accounting system on June 30 are carried over into the next year's budget. Outstanding encumbrances at year end do not constitute expenditures or liabilities.