



2017-2018

*Understanding
the Annual
Operating Budget*





Introduction

The annual operating budget document is one of the most important documents produced by the City. The following information is provided to those who are interested in understanding the City of Escondido's annual operating budget process. It describes the major components of the City's annual operating budget, an overview of how the City raises revenues and how revenues are spent, timelines and processes for adopting it, and the adoption process.

What is a budget?

- A financial plan and guide that consists of many different funds that operate like a personal checkbook
- A numerical representation of Council priorities
- Funding levels for City Services

What is the difference between the Operating Budget and the Capital Improvement Program (CIP) budget? The Operating Budget projects short-term revenue and expenditures (employee services, maintenance operations, internal service charges and debt service payments) related to providing day-to-day services such as recreation programs, library, older adult services, streets, parks, police, fire, water, and wastewater. The CIP budget projects long-term (five years) revenue and expenditures for major infrastructure and other capital construction, improvements, and maintenance projects.

During the budget process, discussion on the City's operating budget centers on the General Fund.

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Major Components of the Operating Budget

The voices of the community and elected officials through the City Council Action Plan set the strategic goals for the key outcomes of City services through the budget process.

The City Council's Action Plan has four major priority areas: Economic Development, Fiscal Management, Neighborhood Improvement and Public Safety. The budget incorporates these with the goal of achieving a city that is safe, clean and efficiently run.

Each major priority area has a single overarching goal:

1. **ECONOMIC DEVELOPMENT**
Goal: Ensure the long-term vitality of Escondido's local economy
2. **FISCAL MANAGEMENT**
Goal: Approve a balanced budget each year, as required by State law, that ensures the City's fiscal stability
3. **NEIGHBORHOOD IMPROVEMENT**
Goal: Improve aesthetics, design, land uses, services and accessibility to support community needs
4. **PUBLIC SAFETY**
Goal: Maintain a safe environment for Escondido with high quality emergency services

Budgetary and financial policies help guide staff during the budget process. The following policies were adopted by City Council:

1. The Budget Will be Structurally Balanced
2. Multi-year Financial Projections Will Be Incorporated in to the Budget Process
3. The Budget Process is Based on an Annual Cycle with Minimal Mid-Cycle Adjustments

4. User Fees and Charges Will Be Set at the Cost of the Service
5. One-time Resources Will Be Used Only for One-time Purposes
6. Capital Projects Will Be Budgeted and Funded for Both Capital and Operating Costs
7. Adequate General Fund Reserves Will Be Maintained
8. Revenues Will Be Projected Using a Methodology That is Reasonably Conservative
9. Fiscal Analysis Will be Included with All City Council Staff Reports Which Involve Decisions for Spending Revenues, Debt, Investments or Other Potential Economic Impact
10. The Budget Will Fund Costs Incurred in the Current Year or Will Identify the Costs That Have Not Been Fully Funded
11. Financial Status and Financial Issues Will Be Reported
12. Grants Will Be Actively Sought, But Only as Appropriate and with Suitable Oversight to Ensure Compliance
13. Debt and Capital Leases Will Be Maintained at Appropriate Levels
14. Cash and Investments Will Be Effectively Managed
15. Capital Assets Will Be Inventoried and Their Conditions Assessed Periodically
16. Delinquent Accounts Will Be Written Off When Deemed Uncollectible
17. A Long-term General Financial Plan Will Be Maintained
18. Financial Policies Will Be Periodically Reviewed
19. Procedures and Practices Are to Be Consistent with Financial Policy

The Operating Budget is structured with various funds. The resources of the City are accounted for through these funds. Each fund is a separate fiscal and budgetary entity. The number and type of funds established in the Operating Budget is guided by sound financial judgment and the requirements of the City's operations. The following funds are included within the Operating Budget:

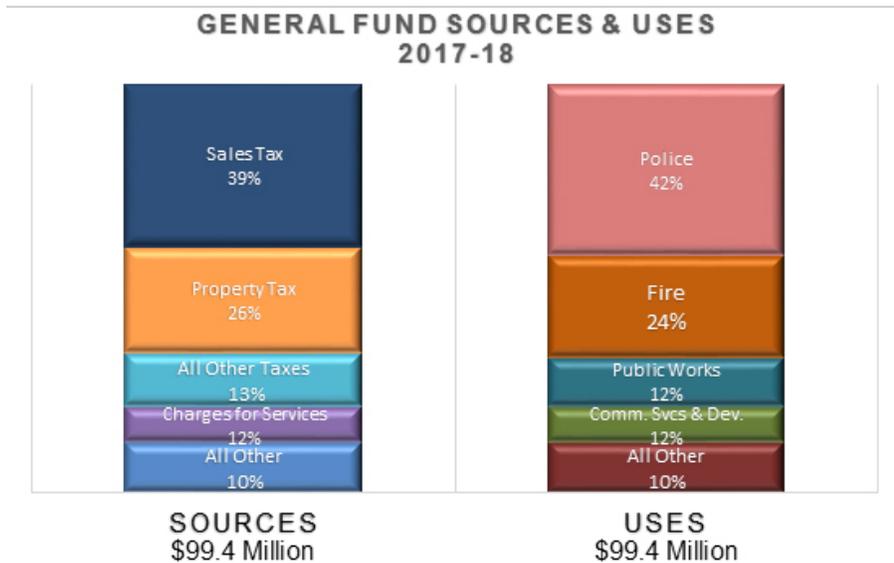
- The General Fund is the chief operating fund of the City and accounts for all financial resources except those required to be accounted for in another fund.
- Special Revenue Funds account for revenues that are received for specifically identified purposes.
- Successor Agency Redevelopment Funds account for retiring enforceable obligations during the dissolution of the former Redevelopment Agency.
- Debt Service Funds are used for the payment of principal and interest on bonds.
- Enterprise Funds account for specific services that are funded directly through user fees.
- Internal Service Funds account for services provided by one City department to another City department.





Sources and Uses Overview

The largest receiver of City revenue is the General Fund. The following shows how activities are funded and where the money goes:



The reserve/fund balance accounts function like a savings account and are analyzed regularly to determine if the balance is at the optimum level. They are defined as follows:

- Fund balance - Cumulative years' excess of all revenues over expenses for each fund
- Reserves - Fund balance that is set aside for a particular use
- General Fund Reserve – General Fund fund balance that is set aside to fund one-time unanticipated expenditure requirements, local disasters, or when actual revenue received is less than the amount budgeted resulting in an operating deficit in the General Fund.
- PERS Rate Smoothing Reserve - General Fund fund balance that is set aside to provide economic relief during recessionary cycles and/or rate increases that are significantly above anticipated projected employee rate increases.

It is the City's goal to maintain ongoing financial structural stability. The multi-year financial plan is one tool used to help reach this goal and is included within the annual operating budget document. It facilitates a process of projecting future revenues and expenditures using various assumptions and highlights the long-term effects of financial decisions. It reveals whether adjustments may be necessary to bring the budget back in to balance in order to avoid using reserves and/or cuts to services. The financial plan is not a legally binding commitment to appropriations in future years.

Budget Development Process and Timeline

The budget cycle begins in around December of each year. Once departments finish creating their projections and the Budget Division agrees that they are consistent with budget direction and

policy, they are summarized and presented to the City Manager and then to the City Council for approval. Upon adoption, the annual operating budget is applied and departments begin monitoring and evaluating their budgets and adjust as necessary throughout the year until the fiscal year is closed. The budget cycle is an ongoing process.

Budget preparation can be a time-consuming process and generally takes about six months to complete. Important key events and due dates are listed below:



Budget Calendar

Each budget season, the City is faced with the challenge of having more needs than there is funding to meet those needs

creating a budgetary gap. As a result, it is faced with difficult decisions that have to be made about allocating resources among competing budget priorities. The City seeks to have a structurally balanced annual operating budget. A

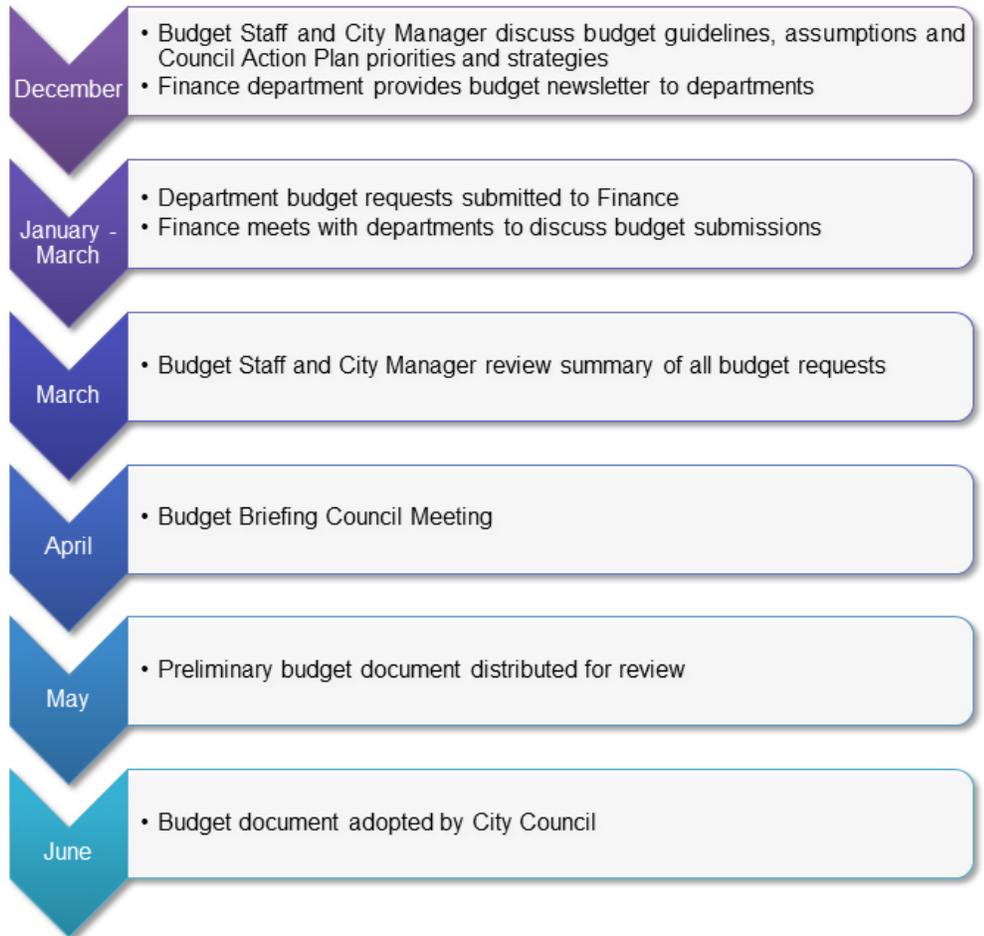
budget is structurally balanced if it does not spend more on ongoing costs than it receives in ongoing revenues. A structurally balanced budget is a necessary component of good financial management and financial discipline and will help sustain the consistent delivery of services to residents. An unbalanced budget (spending more than is received) undermines the City's ability to deal with financial problems. It may lead to reduced services in the future and inhibit the City's ability to take advantage of opportunities that will periodically occur.

The annual operating budget is not a static document. Revenue and expenditure projections are

continuously monitored. The Finance department updates City Council on the second (Mid-year), third and final (year-end) quarter status of the City's overall financial position including projected revenue shortfalls and expenditure overages. This may result in budget adjustments that need to be made throughout the year in response to ever-changing circumstances. Changes to the budget and to service levels during the fiscal year are minimized and are generally limited to technical adjustments, emergency funding, time sensitive opportunities or issues, or new grants or awards that are intended to be spent during the year.

Preliminary budget information is brought to the budget briefing City Council meeting for discussion in April/May. Then, final budget information is presented to City Council in June for adoption. The adopted budget covers one fiscal year, from July 1st through June 30th.

The Community can be involved in the budget process by providing input via e-mail or during oral communications at the public hearing. A copy of the annual operating budget document is available on the City's website, at the City Clerk's office and the public library.



Budget Adoption Process