

ANNUAL BUDGET DEVELOPMENT PROCESS

I. OVERVIEW

The budget is a plan by which the City Council sets financial policy. Through the budget, services are implemented. The budget along with the annual and quarterly appropriation resolutions provide the basis for the control of expenditures.

For the City of Santa Fe, direction for the budget emanates from several distinct sources. The New Mexico State Statutes and the New Mexico Department of Finance and Administration (DFA) policies provide the basic legal requirements and time lines for the process. Council goals, ordinances and resolutions provide additional direction and respond to the needs of the community. The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) using estimates of anticipated revenues and expenditures. In New Mexico, the governmental units typically: (1) maintain the accounts and prepare budgetary reports on the legally prescribed budgetary basis to determine and demonstrate legal compliance; and (2) maintain sufficient supplemental records to permit presentation of financial statements in conformity with generally accepted accounting principles.

The Operating Budget is also structured by programs which delineate the city departments' broad based goals and objectives. Major programs include Government/Management, Public Safety, Public Works, and Community Welfare.

The city prepares its budget at a level of detail similar to the individual fund Statement of Revenues, Expenditures, Transfers and Changes in Fund Balances/Retained Earnings. If adequate fund balance is available from the prior year, and if deemed necessary, the city may budget expenditures in excess of revenues.

Based upon the prior year budget and current needs, the departments prepare their requests for the coming fiscal year. With funds as the basic budgetary unit, the Operating Budget is organized into sets of interrelated accounts to record revenues and expenditures. Fund types include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Improvement Project Funds, Enterprise Funds, Trust and Agency Funds and Internal Service Funds.

II. PROCESS REQUIREMENTS

A. Budget Term

The fiscal year of the City is the period between July 1 of a given year and June 30 of the next calendar year.

B. Budget Recommendation

To initiate the annual budget process, the Budget Office distributes general guidelines, budget request forms, computer printouts and supporting schedules to the departments for preparation of the Operating Budget in early February. Each department completes the budget request forms and returns them to the Budget Office according to the established schedule. Departments are generally responsible for initial key entry into the budget database with entries reviewed within the Budget Office.

The Finance Department reviews, analyzes and consolidates the department's requests for the City Manager's budget review. A major component of this process are meetings of the City Manager, Finance Director and Budget Officer with each department in which the city's revenue outlook is discussed and the departmental expenditure requests are evaluated in detail at the end of February and early March.

After the meetings with departments are completed, the City Manager, the Finance Director and the Budget Officer jointly evaluate the city's revenue resources and again review the department expenditure requests and develop a City Manager's Recommended Budget for presentation to the Finance Committee.

In April preceding each budget term, the City Manager submits the recommended budget for the following fiscal year along with an explanatory message to the Finance Committee of the City Council. The proposed budget provides a complete financial plan for each fund of the City and includes appropriate financial information showing comparative figures for the last completed fiscal year, the current year budget, and the City Manager's recommendations for the next fiscal year's beginning budget.

C. Public Record Hearing

The City Manager's proposed budget is presented to the Finance Committee in open session(s). Provision for public comments is scheduled during related deliberations of the Finance Committee. The City Council considers the Finance Committee's modifications to the City Manager's proposed budget in May and may also set a time for a public hearing.

D. Adoption of Budget and Appropriation of Funds

The Council adopts the budget, by resolution, for the following fiscal year in sufficient time to permit submission of the budget to DFA no later than June 1 of the current year. The Local Government Division of DFA provides written interim approval of the operating budget resolution prior to July 1 of the calendar year. DFA provides written approval once it has completed its review and analysis at a later date. The appropriation of funds is based upon the budget as approved by the Council. The capital improvements project budget is approved separately as funding such as bond financing or grants become available. Carryover funds are incorporated into the first quarterly budget resolution. Provision for maintenance and repair of facilities must be incorporated into this process.

III. CHANGES TO ADOPTED BUDGET

After the beginning of the fiscal year, the amounts appropriated for the proposed expenditures in the adopted budget are considered appropriated for the purposes specified. The expenditures of City operating funds cannot exceed the budgeted appropriations for their respective fund. In certain cases, however, adopted budgets may be increased, decreased, or amounts transferred between funds.

A. Budget Increases

1. Supplemental Appropriations—The Council, upon recommendation by the Finance Committee, may make supplemental appropriations from actual revenues received, anticipated revenues, and prior year reserves provided that the total amount of the supplemental appropriation plus previous appropriations for the fiscal year does not exceed the actual or anticipated revenue total or the available reserve balance. No appropriation can be made which exceeds the revenues, reserves, or other funds anticipated or available.
2. Unanticipated Revenue—If a fund receives revenue during the fiscal year from a source that was not anticipated at the time of budget adoption such as grants, bond issue or implementation of a new fee, the Council may appropriate such revenue for expenditure.
3. Encumbrance Carryover—If a fund has open and valid purchase orders at the end of a fiscal year, those related appropriations may be encumbered and carried over to the ensuing fiscal year and added to the budgeted appropriations to cover the actual expense when it occurs. Such adjustments will be included in the first quarter budget resolution.
4. Such increases must be made by a resolution of the City Council with DFA having final approval of the resolution.

B. Budget Decreases

The budget may also be decreased below adopted appropriations during the fiscal year. Changes in service demand, economic conditions, and City Council goals and direction may cause such budget reductions.

C. Level of Control and Budget Transfers

1. Control of expenditures is exercised at the fund level. Department directors are responsible for all expenditures made against appropriations within their fund and may allocate available resources within the fund through budget adjustments.
2. Budget adjustments between line items with a particular fund may be done upon submission of a budget adjustment request to the budget office. Upon approval of the Finance Director and the City Manager, adjustments totaling less than \$20,000 may be made. Adjustments totaling more than \$20,000 require the recommendation of the Finance Committee and approval of the City Council.
3. During the fiscal year, the Council may by resolution transfer any unexpended and unencumbered appropriated amount from one fund or capital project account to another fund or capital project account, provided that:
 - a) the purpose for which the transferred funds are to be spent are allowable;
 - b) the purpose or priority for which the funds were initially appropriated no longer exists; or
 - c) the transfer is from a fund or capital project account in which the amount appropriated exceeds the amount needed to accomplish the purpose specified by the appropriation.

IV. LAPSED APPROPRIATIONS

All appropriations not spent or unencumbered at the end of the fiscal year lapse into the fund balance applicable to the specific fund.

V. BUDGET PHILOSOPHY

The City of Santa Fe is committed to presenting a sound financial plan for operations and capital improvements. To achieve this end, the City utilizes conservative growth and revenue forecasts and:

- Allows staff to manage the operating budget with City Council deciding allocations;
- Establishes budgets for all funds based on adopted policies;
- Appropriates the budget in accordance with City policies and DFA guidance;
- Adjusts the budget to reflect changes in the local economy, changes in priorities, and receipt of unbudgeted revenues;
- Organizes the budget so that revenues are related to expenditures as much as possible;
- Provides department staff with immediate on-line access to revenue and expenditure information for controlling their annual expenditures against appropriations;
- Evaluates recommendations that have a budget impact in light of annual appropriations.

VI. PRINCIPLES FOR BUDGET PLANNING

The City provides a variety of services to the residents of the community. The City Council manages the available resources to best meet the service needs for the overall benefit of the community.

A. The City must maintain adequate reserve levels to ensure minimal loss of service to the community should there be unforeseen reductions in revenues or a catastrophic occurrence.

B. Employees of the City are a valuable resource in providing services to the community, and a compensation policy should be maintained for City employees that reflects the value of attracting and retaining quality employees within financial resources available.

VII. REVENUE

The City reviews estimated revenue and fee schedules as part of the budget process. Major revenue sources in the general fund are gross receipts tax, property tax, lodging tax, intergovernmental revenues, fines and forfeitures, user fees and charges, and transfers from other funds. Conservative revenue projections are made for the budget term. The projections are monitored and updated at midyear or as otherwise necessary.

VIII. FEES

As a home rule municipality, the City of Santa Fe may determine the extent to which fees should be used to fund City facilities, infrastructure and services. There are two kinds of fees that the City may establish: impact fees and special service fees. Impact fees are typically one-time charges levied by the City to new development to generate revenue for the construction of infrastructure and capital facilities needed to offset the impacts of the new development. Special service fees are charges imposed on persons or property that are designed to defray the overall cost of the particular municipal service for which the fee is imposed. This policy sets principles, in general, for identifying: the kinds of services for which fees could appropriately be imposed by the City; methods for calculating the percentage of costs to be recovered by such fees; and the manner in which the fees should be allocated among individual fee payers.

A. Fees Should Be Cost Related

The amount of a fee should not exceed the overall cost of providing the facility, infrastructure or service for which the fee is imposed. In calculating that cost, direct and indirect costs may be included. That is:

1. Costs which are directly related to the provision of the current service.
2. Support costs which are more general in nature but provide support for the provision of the service.
3. Reserves as applicable to that particular service.
4. Funds needed for future replacements, expansion or new projects.

B. Percentage of Cost Recovery

The extent to which the total cost of service should be recovered through fees depends upon the following factors:

1. The nature of the facilities, infrastructure or services. In the case of fees for facilities, infrastructure and public services, total cost recovery may be warranted. In the case of governmental services, it may be appropriate for a substantial portion of the cost of such services to be provided by taxpayers, rather than the individual users. The City's parks and recreation services provided for the benefit and enjoyment of the residents, police and fire protection provided for public safety, regulation of land use and maintenance of public streets are examples of such services.
2. The nature and extent of the benefit to the fee payers. When a particular facility or service results in substantial, immediate and direct benefit to fee payers, a higher percentage of the cost of providing the facility or service should be recovered by the fee. When a particular facility or service benefits not only the fee payer but also a substantial segment of the community, lower cost recovery is warranted.
3. The level of demand for a particular service. Because the pricing of services can significantly affect demand, full cost recovery for services is more appropriate when the market for the services is strong and will support a high level of cost recovery.
4. Ease of collection. In the case of impact fees, which can be collected at the time of issuance of a building permit, ease of collection is generally not a factor. In the case of fees for services, however, such fees may prove to be impractical for the City to utilize if they are too costly to administer.

C. Establishment and Modification of Fees and Charges

Many fees imposed by the City were established by City Council ordinance. The amounts of these kinds of fees may be modified only by ordinance of the City Council. Other fees are a component of a published rate schedule approved by the City Council. Some minor fees are set administratively by the City Manager.