

Comprehensive Budget Policy

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Introduction

The City of Hollywood has established, by resolution, the following policies and practices to help guide the City's budgeting practices and efforts towards achieving its mission and strategic goals. The City's budgeting practices are governed by applicable federal, state, and local laws, the City Charter, and regulations, Generally Accepted Accounting Principles, and has been developed based upon recommendations from the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association.

This document has been prepared by the Office of Budget & Performance Management (the "Budget Office") with input from the Department of Financial Services. These policies and practices will be used to help ensure that the financial resources of the City are managed in a manner consistent with the City's mission, vision, and goals.

This Comprehensive Budget Policy will be reviewed periodically to address potential policy gaps and/or revise it as appropriate if changes are made to the City's budget practices, industry best practice approaches, and applicable laws. Recommended changes shall be presented to the City Commission for consideration and approval as part of the annual budget process.

Purpose

The City of Hollywood (hereinafter "City") strives to attain and maintain a structurally sound, thoughtful, and balanced budget within statutory and local government requirements. The following Policy is established to provide a comprehensive plan to deliver efficient and effective services to residents and stakeholders of the City in a fiscally responsible manner. Furthermore, this Policy will act as a guide in the formulation and consideration of financial discussions and decisions.

Scope

The Budget Policy shall apply to all funds of the City which are accounted for in the City's Comprehensive Annual Financial Report ("CAFR").

Policy

Basis of Budgeting

Governmental Funds (such as the General Fund and Special Revenue Fund) shall be prepared on a modified accrual basis utilizing encumbrance accounting. Under this approach, encumbrances are used to indicate the City's intent to purchase goods or services and revenues are recognized when measurable and available.

Proprietary Funds (such as Enterprise Funds and Internal Service Funds) shall be budgeted on a full accrual basis. As such, expenses are recognized when incurred and revenues are recognized when they are obligated to the City.

Budgetary Control

Budgetary control is maintained at the fund and department level. The department level of control is the highest level in which management may reassign resources without City Commission approval (within the threshold as established in the City's budget transfer policy). Additionally, expenditures shall not exceed budget appropriations at the department level. Budget accountability rests primarily with the operating departments of the City, with oversight by the Budget Office.

All appropriations that have not been expended, encumbered, or appropriated to ongoing capital improvement projects shall lapse at the end of the fiscal year.

Balanced Budget

In accordance with Florida Statutes 166.241(2), the City must adopt a balanced budget each year. A structurally sound balanced budget means that recurring resources must equal recurring expenditures. More specifically:

- It is appropriate to use excess unrestricted fund balance for one-time expenditures. However, as part of the City's pursuit for a structurally balanced budget, fund balance shall not be used as a long-term approach to balancing the budget. Any use of fund balance which would result in a remaining fund balance less than the City's established minimum seventeen percent reserve must comply with the requirements of the City's Fund Balance Policy.
- New programs shall not be budgeted or implemented until the full annual cost and the financial impact can be reasonably projected. New or expanded services appropriations should be implemented simultaneously with an associated off-setting new revenue source, an existing revenue source increase and/or other expenditure reduction.
- The tax rate shall be adequate to produce sufficient revenues to cover City services approved by the City Commission.

Budget Adoption

The City's annual budget is prepared for the fiscal year beginning October 1st and ending September 30th of the following year. The operating budget represents the financial plan for the City and serves as a policy document for the distribution of City resources in alignment with the long-term vision, mission, and goals of the City. The four uses of a budget document are: Policy Document, Financial Plan, Operations Guide, and Communications Device. More specifically:

- As a Policy Document, the budget document must, at minimum, provide a coherent statement of the organization-wide strategic goals and strategies to address short and long-term concerns.
- As a Financial Plan, the budget document must, at minimum, include a summary of major revenues and expenditures; financing sources and uses; and explain the long-range financial plans and its affect upon the budget.
- As an Operations Guide, the budget document must, at minimum, include an organization-wide chart; schedule or table summary of personnel or position counts (prior, current, and budgeted year); describe activities, services, or functions carried out by organizational units; and include goals and objectives of the organizational units.
- As a Communications Device, the budget document must, at minimum, include a comprehensive table of contents and provide an overview of significant budgetary issues.

Annually, the City Manager shall submit to the City Commission a proposed budget for the upcoming fiscal year based upon Commission established priorities which align with the Strategic Plan. Upon receipt of the proposed budget, workshops and one-on-one briefings may be held with the City Commission. The City Commission may make modifications by consensus of its members; however, no votes are taken at a Commission workshop. Prior to the final adoption of the budget, and in accordance with State Statutes, the Commission shall hold two public hearings where the public is allowed to make comments. During the hearings, the Commission may again make revisions to the budget by majority vote. Upon final adoption, the budget is in effect for the ensuing fiscal year and becomes the authority for the various departments and offices to expend funds subject to controls established by this policy document and Florida Statutes.

Budget Amendments

From time to time, it may become necessary to modify the adopted budget for various reasons. Generally, the budget may be amended in one of two ways: administratively via a budget transfer or through a budget amendment requiring Commission approval.

Administrative Budget Transfers:

Administrative budget transfers include transfers from one line item to another within a department's operating budget, within a capital project, or changes between divisions within a department. More specifically:

- Budget transfer requests of \$5,000 or less require approval by the department head and authorization by the Director of Budget Office and the Director of Financial Services; and
- Budget transfers between \$5,001 and \$50,000 require the City Manager's approval. The transfers, however, must be made within the same office or department within a distinct fund. Where the budget transfer is the result of the creation of accounts and transfer of funds necessitated by the creation or amendment of a division within a department or the creation or amendment of a special office within the Office of the City Manager, the City Manager may approve the budget transfer without Commission action. All administrative budget transfers are documented and tracked in the City's financial management system.

Commission Approved Budget Amendments:

Budget amendments requiring City Commission approval are those amendments which result in a change to the total appropriations of a department or fund and/or exceed the City Manager's approval threshold. The following amendments require Commission approval

- All budget transfers over \$50,000;
- The acceptance and appropriation of a grant award;
- The appropriation of additional funding if expenditures are projected to exceed budgeted amounts;
- Any budget transfers and adjustments within a sixty (60) day period following the close of the fiscal year, per Florida Statute 166.241;
- Adjustments to reflect unanticipated revenues or receipts; and
- Transfers of appropriation from one department or fund to another.

Capital Improvement Plan

The City has a robust Capital Improvement Plan with substantial investments (both current and prospective) made to protect the City's assets. The Capital Improvement Plan shall:

- Ensure proper stewardship of these investments;
- Maximize benefits to Hollywood residents and minimize asset life cycle costs; and
- Ensure the allocation of financial resources aligns with the long-term strategic goals of the City.

Each year, as part of the annual budget development process, the City shall adopt a Five-Year Capital Improvement Plan (CIP). Only the projects and purchases included in the first year of the CIP shall be appropriated in the budget as adopted by the City Commission, and the projects and purchases presented in subsequent years are shown for planning purposes only and do not have approved appropriations. The CIP is necessary to provide adequate consideration of the City's short-term and long-term needs and strategic goals and evaluate the options and timing availability of funds to address those needs. The CIP includes major construction, expansion, purchase, or major repair of buildings, utility systems, City roadways, and other physical structures of \$10,000 or higher. The CIP also includes funding consideration for major fleet and equipment replacement needs.

Capital Improvement Plan Development:

Annually, Department/Office Directors shall review a list of existing capital projects to re-estimate the costs of active projects and capital purchases, determine if reallocation or additional funds are necessary, and identify new projects and capital purchases needed to achieve the City's strategic goals. The City has established a CIP Team. The CIP Team consists of representatives from most City departments. The CIP Team shall be responsible for assessing all capital project requests, ranking new projects, and providing the City Manager with recommendations based on the following set of criteria:

- The Project/purchase is mandated to meet federal or state laws, consent decree, regulatory requirements, and/or court ruling;
- The impact on health, security, and safety of the public and/or employees;
- The risk of infrastructure failure and/or degradation of service;
- The extent to which the project aligns with the City's strategic goals;
- The cost of the project, asset life cycle, ongoing operating costs associated with the project, and potential revenue impact (such as increases to charges, fees, and taxes);
- The resources available to fund the project;
- The sustainability of project including the impact of long-term environmental threats; and
- The extent to which the project will improve the quality of life for residents.

Once approved by the City Manager, the Five-Year Capital Improvement Plan will be presented to the City Commission for approval and adoption as part of the annual budget adoption process. Additionally, the projects included in the CIP shall be included in the Comprehensive Improvement Element (CIE) of the City's Comprehensive Plan.

Capital Improvement Plan Carry-Forward:

Capital project appropriations, unlike operating budget appropriations, are typically one-time in nature and the projects may take multiple fiscal years to complete and use the appropriations. The timing of the carry-forward (also known as rollovers) is critical as it may impede the departments' ability to complete the project and/or pay vendors in a timely manner. To avoid negatively affecting the progress of capital projects, the City Manager shall have the authority (per the annual budget adoption resolution) to administratively rollover the available balances of Commission approved capital project funds from one fiscal year to the next fiscal year. Taking into consideration the timing of the prior fiscal year close-out transactions and the new fiscal year, the City Manager may carry forward up to 100% of the available balance from the prior fiscal year to the new fiscal year. Exceptions may apply to projects expected to be completed or closed by the prior fiscal year-end and projects that have no known pending payments to be made in the prior fiscal year.

At the end of the fiscal year, prior to the execution of the rollover, City Departments shall review a list of their respective capital projects. The departments shall provide the Budget Office with project status and amount requested to rollover (which cannot exceed the available funds of the project). The Budget Office shall review citywide rollover requests and provide the City Manager with a report for review and approval. In lieu of submitting an agenda item with budget amendments for rollovers, the City Manager shall provide the City Commission with a report of all project rollovers. Additionally, the departments may no longer rollover capital project funds which have had no activity for a period in excess five years (General Obligation Bond, grant, Transportation Surtax, and other projects funded with external sources are excluded from this prohibition as these sources will have their own spending guidelines).

Capital Improvement Plan Amendments and Maintenance:

The budgetary control for all capital projects is at the fund and project level. Re-appropriation of funds between capital projects is not permitted without Commission approval and must comply with the budget amendment policy described in the previous section. However, re-appropriation of funds between object codes within a capital project is permitted and must comply with the budget amendment policy described in the previous section.

The City shall maintain all of its assets at an adequate level, protect its capital investment, and minimize future maintenance and replacement costs. Maintenance costs for assets shall be budgeted within the operating budget (except for major one-time projects that would otherwise be included in the CIP). Once an asset has reached its useful life, the appropriate procedures to surplus or dispose of the asset shall apply.

All capital assessments, studies, and master plans shall be taken into consideration as part of the annual development of the Capital Improvement Plan. Additionally, the City shall conduct an inventory and condition assessment of all major capital assets on an annual basis.

Long-Range Financial Planning

The purpose of the long-range financial planning policy is to establish strategic fiscal sustainability and resiliency principles for the City which shall be used in the annual budget development process and to assist with making critical financial, economic development, and community development decisions.

The long-range financial planning process involves the evaluation of internal and external issues that may fiscally impact the City. Long-range financial planning enables the City to take proactive steps to mitigate known issues within its control. This is a mechanism to safeguard the City's

finances for current and future City of Hollywood residents. To accomplish this, the City shall prepare a financial forecast as part of the annual budget process. The financial forecast shall be for a period of 5 years. The forecast shall include revenues, expenditures, and the financial position of the City.

The Five-Year Forecast shall be conducted during the annual budget process to guide budget discussions and decisions. The revenue forecast shall be prepared in partnership with the Revenue Estimating Committee (which consists of representatives from the Department of Financial Services, Budget Office, and consultation with every department).

Budget Office staff will conduct a comprehensive analysis to include the following in the five year forecast:

- Historical analysis of revenue and expenditure trends;
- An analysis of affordability of existing programs, services, and projects;
- Research and analysis of known external factors (policy, economic, environmental, legislative, regulatory, social) that may impact the City's budget. This shall not include major changes that are speculative;
- An analysis of anticipated new programs, services, and projects (such as the acquisition of land, expansion of facilities, and affordability of recurring operating expenses associated with the new program, services, and projects);
- A review current fees and rates for services;
- A projection of the required minimum fund balance reserves ;
- An assessment of timing and funding requirements for equipment and fleet replacement;
- An analysis and projections of estimated debt service payments;
- A review of the actuarial reports on the City's non-current liabilities (such as Other-Post Employment Benefits, Pension, Risk, and Health) to determine the size of the liability, the City's capacity to pay it, and planned approach to address it which will be factored into the forecast; and
- An analysis of Current year revenues, expenditures, and net position for all funds.

Another important aspect of the long-range financial planning process is the alignment of the budget to the strategic plan. This involves incorporating the strategic goals and objectives in the annual budget discussions on the prioritization of resources for the next five years. Furthermore, the City has adopted a culture of continuous process improvement to enhance service delivery cost-effectively. Efforts made towards continuous process improvement shall be captured as performance measures. Many of the metrics reported by City Departments shall be factored into the five-year forecast.

User Fees and Charges

The purpose of a User Fees and Charges policy is to provide guidance and incorporate best practices in establishing fees and charges that adequately recover costs incurred for services rendered to individuals directly benefiting from the services. As a general policy, the City may collect up to 100% of the full cost of providing the services or subsidize the cost using the City's funds. User fees and charges shall not exceed the full cost of providing the service. Unless otherwise stated in a City ordinance or resolution, user fees and charges shall be assessed periodically as part of the

budget development process. Revisions to user fees and charges shall be captured in the City's Comprehensive Schedule of Fees.

This policy does not apply to taxes and assessments levied by the City, County, or other taxing authorities. Some City fees and charges are assessed on an annual or biannual basis by an external consultant. The policy described below shall not apply to the Departments with fees and charges reviewed by an external consultant.

Consideration Factors

The following factors shall be taken into consideration when establishing user fees and charges:

- Does the service benefit the community as a whole, individuals, or groups receiving the service?
- What is the full cost of providing the service? This shall include: direct labor, fringe, equipment, materials, contractual services, utilities, cost allocation costs, internal service charges, and other City-wide indirect cost rates?
- Will the fee or charge pose a hardship on specific users?
- Do any other municipalities in the region charge the same or similar fees or charges? If so, how do the proposed fees or charges compare in rates?
- Will the establishment of the fee or charge for service create undue demands on City resources?
- What was the last increase or decrease to the fee or charge?
- Is this fee or charge currently charged by another City Department or Office?
- Are there laws that regulate the proposed fee or charge?

Process of Establishing New Fees and Charges

1. Departments and Offices wishing to create a new fee or charge for service shall assess the feasibility of the fee or charge based on the Consideration Factors listed above. During the annual budget process, the Department or Office may submit a formal request in the Budget Planning System for review by the Budget Office.
2. The Budget Office shall review the information provided by the Department or Office and provide a recommendation to the City Manager's Office.
3. If approved by the City Manager, the Budget Office shall work in coordination with City Departments and the City Attorney's Office to update the Comprehensive Schedule of Fees resolution to include the new fees and/or charges. The General Accounting Division shall create new accounts for the approved fees and/or charges adopted by the City Commission.

There may be occasions when the Budget Office may decide not to include a budgeted revenue estimate for the new fees and charges until a full year of revenues has been collected. A full year of revenue collections will provide the Budget staff with a baseline of actuals that may be used to determine the subsequent fiscal year's budget.

GLOSSARY OF KEY TERMS

Accrual: An accrual is an accounting entry recognizing revenues or expenses that have been incurred but not yet received or spent. Please see Modified Accrual Basis of Accounting.

Annual Budget: A budget applicable to a single fiscal year.

Appropriation: A legal authorization granted by a legislative body (e.g. the City Commission) to incur obligations and make expenditures for specific purposes.

Balanced Budget: A balanced budget (particularly that of a government) is a budget with revenues equal to expenditures, and neither a budget deficit nor a budget surplus.

Bond Issue: A borrowing based upon certificates of debt containing a promise to pay a specified sum of money (face value or principal) at a specified date or dates in the future (maturity date) together with periodic interest at a specific rate.

Budget: A fiscal plan of operation. The budget is comprised of proposed expenditures and proposed revenues together with specific authorizations and restrictions as appropriate. It also includes the current and prior fiscal period history. The budget quantifies executive and legislative objectives and provides a means to measure performance. As a guide for operations, the budget changes over time in response to changes in conditions. The budget embodies public policy and provides insight into how that policy will be implemented. It serves as a policy document, a financial plan, an operations guide, and a communications device to the City's various stakeholders.

Budget Amendment: Changes to the Adopted Budget.

Capital Budget: The first year of the capital improvement plan which includes capital project appropriations and the revenues required to support the projects.

Capital Improvement Plan: All capital expenditures are planned for the next five years. The program specifies both proposed projects and the resources estimated to be available to fund projected expenditures.

Charges: These refer to a revenue source for a program that is attributable to a particular service provided. An example would be revenue for the water and sewer fund based upon the usage of water by a customer.

Cost Allocation: A study and analysis designed to recover indirect costs from activities for the administration of specific services provided to those activities.

Cost Recovery: Recouping a portion of or all costs associated with a particular service provided by a government agency to the public. The user fees determine the percentage of a service that is recovered.

Debt: An obligation resulting from the borrowing of money or the purchase of goods and services. Debt instruments used by the City of Hollywood may include general obligation bonds (G.O.), special obligation bonds, bond anticipation notes, tax anticipation notes and bank loans. All debt instruments must be approved by the City Commission. All G. O. bonds must be approved by the voters.

Debt Service: Payment of principal and interest related to long-term borrowing.

Department: An organizational unit responsible for carrying out a major governmental function, such as Police or Financial Services.

Direct Costs: The costs incurred directly by providing a specified service. These costs are associated with staff time spent performing service-related duties and include employee salary and benefits. In general, direct costs are any costs that can be traced directly to the production of a given service or product.

Enterprise Fund: A fund used to account for continuing operations which provide services to the general public that are similar to private business enterprises in nature, and where the intent is that the costs recovered will primarily be used to account for activities where the periodic determination of revenues and expenses is appropriate for capital maintenance, management control, or other public policy. An example would be the Water and Sewer Fund.

Expenditure/Expense: A decrease in net total assets. Expenses encompass all costs associated with the delivery of goods and rendering of services, including costs related to borrowing, renting, leasing or purchasing assets (such as vehicles or machinery) and costs representing the use or time-related declining value (depreciation) of assets. Categories of expenses included in the operating budget are: personal services, operating expenditures, and capital outlay.

Fee: Typically a flat rate charged for the use of certain municipal services.

Financial Sustainability: Ability to maintain financial capabilities over time.

Fiscal Year: The annual period applicable to the annual operating budget. The City's standard fiscal year runs from October 1 through September 30. Certain activities of the City, primarily state and federal grant programs which are separate from the annual budget, are required to be accounted for on different fiscal years.

Fund: A fiscal and accounting entity that is comprised of a self-balancing set of accounts which reflect all assets, liabilities, equity, revenue, and expenses necessary to disclose financial position and the results of operations. Generally, the number of individual funds should be kept at the lowest number that allows effective and efficient management, with activities that are similar in nature and purpose accounted for in the same fund.

General Fund: The fund used to account for both general government activities and those activities not required to be accounted for in another fund.

General Obligation Bond: A method of financing used by municipalities for capital improvement projects that are specifically authorized and repaid using the City's taxing power. Voters must approve the projects and purchases in a general obligation bond and by voting for it, also agree to tax to pay for the projects and purchases.

Goal: The result or achievement toward which effort is directed.

Governmental Fund: Those individual funds through which most governmental functions are typically financed. This category includes the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Indirect Costs: The costs not directly accountable or associated with the production of a service, such as a fixed cost. Indirect costs include departmental overhead (operating expenses and internal administrative costs), as well as citywide overhead, including all those costs that support City programs and services.

Long-Range Financial Planning: The process of aligning financial capacity with long-term strategic objectives.

Modified Accrual Basis of Accounting: Revenues are recognized when they are both measurable and available. Revenues are considered measurable if the amount of the transaction can be reasonably determined. Expenditures are normally recognized when the related liability is incurred. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

Performance Measures: Specific quantitative and qualitative measures of work performed.

Program: A set of activities, operations, or organizational units designed and directed to accomplish specific service outcomes or objectives for a defined customer.

Proprietary Fund: A proprietary fund is a fund in which certain transactions by the government and many nonprofit organizations are handled. These funds call for the services rendered under these accounts to be paid for by the patrons who use them. There are two main types of proprietary funds: an enterprise fund, which sells goods or services to the public (like the City's Water and Sewer Fund), and an internal service fund, which provides services to other parts of the government (the City has an Internal Service Fund which tracks the expenses of Information Technology, for example, which provides computer and related services to the other City departments and funds).

Revenue: Funds that the government receives as income. This includes tax payments, service or user fees, receipts from other governments, fines, forfeitures, grants, shared revenues, and interest income.

Service: A system supplying a public need such as transportation, utilities, or communications.

Objective: A clear statement of what a program is intended to achieve in the short-term, given set resources

Structurally Sound Budget: A budget that not only achieves and maintains structural balance where recurring revenues are equal to recurring expenditures in the adopted budget but also supports financial stability for multiple years into the future.