

READER'S GUIDE

The annual operating budget for the City of Cedar Falls (the City) is the result of many hours of deliberation by the City staff, Mayor and the City Council. Organization of the budget document is designed to help the reader locate information, both financial and non-financial, in a timely manner.

This guide is included to provide the reader with an overview of the budget document, the budget process, budget implementation, and reporting on budget results.

INTRODUCTION

The City of Cedar Falls, with a population of 39,260, is located in Black Hawk County in the northeastern section of Iowa. The area of the City is 28.9 square miles of incorporated land. The University of Northern Iowa with a student population of approximately 12,000 is located in Cedar Falls and has provided growth and stability to the city.



The City operates under the Mayor-Council form of government with appointed City Administrator. Policymaking and legislative authority are vested in the governing council, which consists of seven members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, setting goals, and approval of boards and commissions. The Council is elected on a non-partisan basis. Council members consist of two Council members elected at large and one Council member from each of five wards as established by ordinance, elected for terms of four years. The Mayor is responsible for supervising the City Administrator. The City Administrator is appointed by the City Council and serves as the chief administrative officer.

BUDGET PROCESS

Preparation and Adoption

In October 2015, the budget process for fiscal year 2016-2017 (FY2017) began. The Mayor, Council and the City Administrator discuss policies relating to the FY2017 budget in light of the City financial plan. The Department of Finance & Business Operations then prepares the instructions and budget estimate sheets and forwards them to the city departments. The Department Directors then fill in their budget estimate sheets with their requests.

The budgets are forwarded to the Dept. of Finance & Business Operations for the processing of the numerical data. During the processing of expenditure request data by the Dept. of Finance & Business Operations, the Director of Finance & Business Operations also prepared revenue estimates using available historical data, combined with current year projections and trends. After the Dept. of Finance & Business

Operations processed expenditure requests, the Director of Finance & Business Operations then reviews departmental requests. Over a period of three to four weeks, the City Administrator and Director of Finance & Business Operations made revisions and modifications to the original departmental requests in order to arrive at a final proposed budget.

On or before January 15th, the Mayor and City Administrator reviewed the budget estimates and the Department of Finance & Business Operations prepares a summary statement for the coming fiscal year.

By mid-February, the Council receives a preliminary budget prepared by the Dept. of Finance & Business Operations and sets a date for a budget hearing. A sufficient number of copies of the detailed budget are available to meet the requests of taxpayers and organizations at the offices of the Mayor, Director of Finance & Business Operations, and the City Library.

The Council then adopts a proposed budget and sets the date for public hearing as required by law. The Director of Finance & Business Operations publishes the budget estimate and notice of hearing 10 to 20 days prior to the date set for the hearing in a newspaper published at least once weekly and having general circulation in the city. (See Section 362.3, Iowa Code.) A public hearing is then held by late February.

If the city is going to levy taxes at the limited amount, Form 631.1 must be published once, a hearing held, and the adopted budget filed with the County Auditor by March 15.

Budget Amendment

Sec. 384.18 of the Code provides that a city budget for the current fiscal year may be amended for any of the following purposes:

1. To permit the appropriation and expenditure of unexpended, unencumbered cash balances on hand at the end of the preceding fiscal year, which had not been anticipated in the budget.
2. To permit the appropriation and expenditure of amounts anticipated being available from sources other than property taxation and which had not been anticipated in the budget.
3. To permit transfers from the debt service fund, the capital improvements reserve fund, the emergency fund, or other funds established by state law, to any other city fund unless specifically prohibited by state law.
4. To permit transfers between programs within the general fund.

A city budget becomes effective July 1 unless amended under the conditions listed above. A budget amendment must be prepared and adopted in the same manner as the original budget as provided in Sec. 384.16 and is subject to protest as provided in Sec. 384.19. A city budget shall be amended by May 31 of the current fiscal year to allow time for a protest hearing to be held and a decision rendered before June 30.

Budget Calendar

Budget Calendar 2015

- By October 14 The Mayor, Council and the City Administrator discuss policies relating to next year's budget in light of the City financial plan. At the same time, the Department of Finance & Business Operations prepares the instructions and budget estimate sheets and forwards them to the city departments.

- Oct. 12 to Nov. 13 The Departmental Directors fill in their budget estimate sheets with their requests. Supporting data such as department work programs for the ensuing year should be included. The Director of Finance & Business Operations prepares a statement of debt service requirements for payment of principal and interest and fixed charges, which the city must pay.

- Nov. 16 to Jan. 31 An estimate is made of all revenues, which the city will receive. The budget process is completed by Finance staff.

Budget Calendar 2016

- By January 31 The Mayor and City Administrator review the budget estimates and prepare a summary statement for the coming fiscal year.

- By February 1 The Council holds a budget work session.

- By February 1 The Council receives the preliminary budget and set dates for budget hearings.

- By February 15 Hold the public hearing.

- By March 15 Deadline for filing adopted budget with County Auditor.

- By May 30 A City budget shall be amended for the current year.

October 2015				
M	T	W	T	F
			1	2
5	6	7	8	9
12	13	14	15	16
19	20	21	22	23
26	27	28	29	30

November 2015				
M	T	W	T	F
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16	17	18	19	20
23	24	25	26	27
30				

December 2015				
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28	29	30	31	

January 2016				
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February 2016				
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March 2016				
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April 2016				
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May 2016				
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BUDGET OBJECTIVES

The FY2017 budget has been prepared in an effort to communicate to the citizens and staff of the City the overall policies and goals of the City Council. The budget document includes descriptions of the various activities and programs (departments) of the City, and the goals and objectives for the current and future years. This format is designed to communicate clearly to the public the goals and objectives of the City Council, thereby enabling the reader to gain more useful information about the City, without requiring detailed accounting or budgetary knowledge.

For each operational fund, the budget is prepared on a line-item basis by individual department and division/activity. The City Administrator then presents budget programs and goals and objectives to the City Council. Line item expenditure justifications are omitted from the budget document, in order to focus more on the programs and objectives of the coming fiscal year. The Finance & Business Operations Department will provide a line item and capital outlay detail budget upon request.

BUDGET PHILOSOPHY

Budget philosophy for the City depends upon the local needs and concerns of the citizens. Other factors also affect budget philosophy, such as the state of the local economy, the demands of the public for increased services, and unfunded mandates and requirements of federal and state regulatory agencies. Even with all of these considerations, the budget prepared by the City was prepared from a conservative perspective with regard to estimating both the revenues and expenditures. Although historical comparisons and trends are very useful, often-current year data and trends will take precedence over prior year trends. Budgeting from such a "conservative" perspective, revenues are often anticipated either at or only slightly above prior year levels, unless there are other known factors that may significantly affect anticipated revenues. By estimating revenues conservatively, decreases in any one revenue source due to fluctuations in the economy and variations in weather should not adversely affect the City's "bottom line."

Likewise, expenditures are also estimated conservatively, i.e., allowances are made for unanticipated expenditures, and personal services for vacant positions are funded for the entire fiscal year, except where noted. As a result, over the years this method of budgeting has resulted in increases in the actual fund balance, when compared to the original fund balance budget. The City continues to use this method of budgeting rather than using unreasonable or unsubstantial projections, since such budget methods could have an adverse impact on the City's reserves.

Each year, the City's goal is to provide a balanced budget in which current revenues equal current expenditures for the General Fund. The budgets for all other funds will have revenues equal or exceeding expenditures depending on the nature of the fund. In cases where expenditures exceed revenues for a particular fund in the current year is due to an intentional use of fund reserves.

PRESENTATION OF FINANCIAL INFORMATION AND BASIS OF ACCOUNTING

Fund Accounting

The City utilizes fund accounting procedures to prepare the annual budget, however, the state required budget forms are prepared by fund type and by program. Also, because the City is organized into 4 separate departments, the budget document is sequenced by departments, since the department directors use this document as an operational guide.

Fund accounting is the specialized type of accounting used by local governments. It arose in response to the special limitations placed on significant amounts of the resources provided to governmental jurisdictions by legal ordinances, grantors, and other resource providers. By definition, a "fund" is a distinct fiscal entity, accounting for receipts and disbursements that are for specific activities. A fund is a self-balancing set of accounts, where assets equal liability plus fund balance.

The funds of the City of Cedar Falls are summarized by fund type in the following manner:

1. General - General activities of the City are considered part of the General Fund.
2. Special Revenue Funds - The Street Construction Fund, the Section 8 Housing Assistance Fund, the Block Grant Fund, and the Police & Fire Retirement Funds are required by state and/or federal laws to be classified as separate funds in the Special Revenue Fund type.
3. Debt Service - Bond covenants require a sinking fund to make debt service payments. The City of Cedar Falls has one debt service fund.
4. Capital Projects - All large capital projects, improvements, and equipment purchases are budgeted in the Capital Projects Fund type.
5. Proprietary - The three enterprise funds, Sewer Rental, Refuse, and Storm Water, and two internal service funds, Data Processing and Vehicle Maintenance, are presented, however, only the enterprise funds are budgeted in the Proprietary Fund type since Internal Service Funds are not required to be budgeted on the state form.

Columnar Format

In order to facilitate enhancing year-by-year changes, comparative financial information for the following years in the General Fund and Other Funds sections of this document, is presented in the following columns:

<u>Actual</u> <u>2013/2014</u>	<u>Actual</u> <u>2014/2015</u>	<u>Budgeted</u> <u>2015/2016</u>	<u>Projected</u> <u>2015/2016</u>	<u>Budget</u> <u>2016/2017</u>	<u>Proposed</u> <u>2017/2018</u>	<u>Proposed</u> <u>2018/2019</u>
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Accounting and Budgeting Basis

The operating budget of the City of Cedar Falls shall be drawn so that available resources and anticipated expenditures are equal. The City's accounting and budget records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the Enterprise and Internal Service Funds are maintained on the accrual basis, while the budget records are maintained on the modified accrual basis.

Differences between budgetary policies and Generally Accepted Accounting Principles (GAAP) in the Enterprise and Internal Service Funds exist for several reasons. One reason is that existing procedures have worked well and continue to work well for administrative and control purposes. Some other reasons for differences between budget and GAAP are the treatment of interfund transfers, departmental capital outlay, debt service principal payments, and depreciation. The City's budgeting practices include interfund transfers as revenue and expenditures, while GAAP classifies interfund transactions as other financing sources or uses. Also City management desires an operating statement budget line item for each anticipated cash outflow, including debt service and capital outlay. If the City budgeted the enterprise funds on a full accrual basis, capital outlay and debt service payments would not be reported in the operating statement.

Depreciation expense, which is recognized in the audit records, is not budgeted. Not providing for depreciation in the budget is a policy decision that has not adversely affected the funds.

BUDGET DOCUMENT FORMAT

The City's operating expenditures are organized into the following hierarchical categories: Programs, Departments, and Divisions.

1. Programs: As of January 1, 2003, state law prescribes that City budgeted expenditures must be categorized into nine basic programs. The nine programs are:
 - a. Public Safety – expenditures for Police and Fire protection
 - b. Public Works – expenditures for roads, parking, and engineering services
 - c. Health and Social Services – health care expenditures
 - d. Culture and Recreation – expenditures for library, parks, cemetery, recreation, and culture services
 - e. Community and Economic Development – expenditures for economic development and housing and urban renewal

- f. General Government – areas such as Mayor's office, City Clerk, financial services, and liability
 - g. Debt Service – expenditures for debt service
 - h. Capital Projects – expenditures for capital projects
 - i. Business Type Activities – expenditures for Sewer, Refuse, and Storm Water
2. Departments: For administration purposes the City hierarchy is divided into departments. The departments represent groupings of related operations aimed at accomplishing a broad goal or accomplishing a major service. The departments of the City are:
- a. Finance & Business Operations (FBO)
 - b. Community Development (CD)
 - c. Municipal Operations & Programs (MOP)
 - d. Public Safety Services (PSS)
3. Divisions: Departments are further subdivided into divisions, which are usually associated with functioning work groups having more limited sets of work responsibilities. An example is the Financial Services Division of the Department of Finance & Business Operations.

The following is an example of the relationship between programs, departments and divisions.

Program:	General Government
Department:	Finance & Business Operations
Division:	Financial Services

State of Iowa law determines the lowest level of budgetary control, which is at the program level. Cities are not allowed to expend over the amounts budgeted at the program level without filing a budget amendment with the State.

The budget document contains a detailed explanation of the FY17 financial impact and policy summary, budget highlights that describe the reasons for increases in each divisional budget, and a five year financial strategy that describes in depth the financial challenges faced by the City in the next five years.

The text of the budget document contains a summary of each division's revenues and expenditures and a narrative of the division's purpose, continuing and new objectives, and performance measures. The financial information for each division is then summarized by fund type and the expenditures are summarized by program.

The City uses the following fund types:

- Governmental funds, including General, Special Revenue, Debt Service, and Capital Projects; and
- Proprietary funds

General Fund – the general operating fund of the City, used to account for all revenues and expenditures except those accounted for in other funds. Typical governmental functions, such as police, fire, library, parks, and administration are funded in the General Fund.

Other Funds – these funds are used to account for proceeds of specific revenue sources, capital projects, debt service, and proprietary funds.

Finance & Business Operations Department: Cable TV, Information Systems, Parking, Community Center & Senior Services, Vehicle Replacement, Debt Service, Hospital, Trust & Agency, General Obligation Bond Funds, Street Repairs, and Capital Projects Fund.

Community Development Department: Block Grant, Storm Water and Water Reclamation.

Municipal Operations & Programs: Visitors & Tourism, Capital Reserves, Refuse, Sewer, Street Construction, and Vehicle Maintenance

Public Safety Services: Section 8 Housing Assistance.

The financial information includes revenue and expenditure information for the last two completed fiscal years, the projected amounts for the current year, the budgeted amounts for the current year, the budgeted amounts covered by this budget and projected amounts for the two subsequent fiscal years. Costs are segregated by personnel services, commodities, services and charges, capital outlay, debt service and transfers. These categories represent the level of control exercised by the City departments.

The final sections of the budget document contain a detailed five-year capital improvements program and other miscellaneous background information.

FINANCIAL POLICIES

Cash Reserves

The City will maintain an unreserved balance at year-end at a level determined by Council to meet cash flow requirements, emergency needs, and bond rating criteria.

The minimum criteria shall be:

1. The City's General Fund Reserve is limited to 25% of expenditures by State Appeal Board action. The City Council has established that the General Fund balance be maintained between 15 and 25% and preferably at the 20-25% level.
2. The Refuse Fund at 20-30%, but no less than \$500,000.
- 3.* The Sewer Fund at 65-75%, but no less than \$1,500,000.
4. The Street Fund at 20-30%, but no less than \$1,000,000.
5. The Storm Water Fund at 10-20%, but no less than \$200,000.

* Excludes bond fund expenditures.

Revenues

The revenue projection process starts with estimates submitted by the departments for their specific areas. The Director of Finance & Business Operations reviews those estimates and makes informed judgments on all revenues City-wide. Prior year's actual and current year-to-date amounts are used to project both the current year and next year's revenues. Information received from the State, County, and Iowa League of Cities is utilized to project revenue trends and anticipated amounts. The Director of Finance & Business Operations, using conservative interest rate projections, current balances and interest accrual information, projects interest earnings. The Mayor and City Administrator then review revenues, expenditures and ending fund balances to determine if any revenue adjustments need to be made.

1. Property Taxes
 - A. The budget of the City of Cedar Falls shall be drawn so that the general tax levy does not exceed limits established by State law.
 - B. Debt Service Levy

Taxes shall be levied each year under the Debt Service Levy in the amount equal to the general obligation principal and interest due in that same year, minus the portion paid by the enterprise funds and Sartori Hospital and Cedar Falls Utilities.

C. Tort Liability Levy

The City may levy for the expected costs of property and liability insurance policies and estimated claims losses held by the City.

D. Employee Benefits Levy

The City shall use the Employee Benefits Levy for:

1. The City's share of contributions to police and fire pension and retirement systems, at rates determined by the State of Iowa, for currently employed sworn officers.
2. The City's share of contributions for employee benefits budgeted under the General Fund only if the general tax levy is at the \$8.10 maximum. Tax revenues under the employee benefits levy will be receipted into the Trust and Agency Fund and then transferred into the General Fund.

E. Transit Levy

Taxes levied under the transit levy shall not exceed the 95-cent limit established by State law. Tax revenues from the transit levy will be receipted into the General Fund.

F. Band Levy

Taxes levied under the Band Levy shall not exceed the 13.5-cent limit established by State law. Tax revenues from the band levy will be receipted into the General Fund.

G. Library Levy

Taxes levied under the library levy shall not exceed the 27-cent limit established by state law. Tax revenues from the library levy will be used to support the library. Approximately 50% of the levy will be used for new materials and services and approximately 50% will be used to lower general fund support to the library.

H. Emergency Management Levy

Taxes levied under the emergency management levy will be receipted into the General Fund and used for expenses related to the County wide Emergency Management Commission.

2. Other City Taxes

A. Sales Tax

The City of Cedar Falls collects an additional 1% in local option sales tax. The revenues and expenditures under this program are recorded in a separate fund.

B. Hotel/Motel Tax

The City currently has a 7% hotel/motel tax with 50% of the income generated by the imposition of the tax being devoted to the Visitors and Tourism Division. The other 50% is devoted to programs related to lakes, trails, and recreational/cultural facilities.

3. Fees and Charges

The City will establish fees and charges, in accordance with revenue bond requirements or for covering all or part of the related costs of providing the services. The City will review fees and charges, at a minimum, on a biannual basis.

4. Investments

The City will invest 100% of idle funds and will obtain the best possible return on all cash investments within the limits of the State law.

5. Intergovernmental Revenue

Revenues from local, State and Federal governments will be used according to the restrictions or intent placed on each.

6. Additional Revenue Sources

The City will continue to search for additional revenues as a method of balancing its budget.

Expenditures**1. Current Service Level:**

Maintaining the current level of services will receive first priority for funding.

2. Cost Effective Programs:

The City will encourage technology and capital investment programs, which are cost effective and reduce operating expenses.

3. Infrastructures and Equipment:

The City will continue the scheduled level of maintenance and replacement for its infrastructure and equipment.

4. Local Option Sales Tax

The City will continue to spend 100% of the local option sales tax proceeds on street repair in accordance with the stipulations set by the voters.

5. Reductions:

To balance the budget, the City will attempt to avoid service reductions. If the situation arises, consideration will be given first to alternatives, which avoid employee layoffs, resist cuts in service and establish user fees. If reductions are necessary, parameters for downsizing shall ensure that (1) no essential service be eliminated; (2) service with high public visibility and exposure remain intact, and (3) reductions be made in internal functions as a first priority.

Economic Development

The City will take active measures to encourage economic development of the community with the intent of increasing jobs and the tax base.

Long-Term Debt

1. Purpose of Debt:

Debt will fund the design, inspection and construction of capital improvement projects; it will not be used for annual operating expenses.

2. Debt Limit:

The total general obligation debt will not exceed 5% of the total assessed value of real property.

3. Debt Issuance:

The issuance of new debt shall not exceed a replacement debt level. Whenever possible, existing debt should be refinanced to secure the lowest possible interest costs.

Escrow Funds

1. Accrued Liabilities

A commitment is made to escrow funds annually to pay accrued liabilities. The City will address annually these commitments by budgeting and depositing in a restricted account funds to pay these liabilities when they occur. By policy the City will not unfund these liabilities. Escrow accounts include severance, payroll, liability insurance, vehicle replacement, data processing, workmen's compensation, long-term disability and all pensions.

2. Capital Accounts

For many of our recreational operations (golf, recreation, softball, and cultural programs) the City sets aside a percentage of those revenues into a capital account. Those funds can then be used in the future for capital

projects, including major maintenance projects, related to these activities. This allows for the accumulation of funds without having to spend the cost of issuing long term debt for these type of projects. During FY16, the Beach House was completed and a reserve capital account will be established consistent with the other recreational activities.

Capital Improvement Budget Policies

The Capital Improvements Program (CIP) is a planning document and does not authorize or fund projects. The projects listed in the CIP are summarized in the capital projects program. The CIP is prepared by the Finance & Business Operations Department, is reviewed by the Mayor, City Administrator, and Department Directors, approved by the Planning and Zoning Commission with final approval by the City Council. Detailed descriptions and a summary of the CIP are located in the Capital Improvement Program section of this document.

The total amount programmed for FY17 in the CIP is \$60,374,370, which is included in the operating budget in the following areas:

Capital Projects Funds	\$ 43,493,111
Enterprise Funds	7,132,372
General Fund	478,250
Special Revenue Funds	8,835,637
Internal Service Funds	435,000
	\$ 60,374,370

Following is a list of policies pertaining to the Capital Improvements Program:

1. The City will make all capital improvements in accordance with an adopted capital improvements program.
2. The City will develop a multi-year plan for capital improvements and update it annually.
3. The City will enact an annual capital budget based on the multi-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be calculated and included in capital budget projections.
4. The City will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts.
5. The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

6. The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
7. The City will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.
8. The City will determine the least costly financing method for all new projects.

CONCLUSION AND ACKNOWLEDGEMENTS

This financial plan includes the ideas, recommendations and suggestions of citizens, Mayor, City Council and the City staff during Council hearings and informal contacts. The major impact of the City Council upon the financial plan is in the setting of goals, policies, priorities and programs.

While all departments were intensely involved in the preparation of the financial plan, most of the credit for the document goes to the Budget and CIP project team. Particular gratitude is expressed to: Ron Gaines, City Administrator (interim); Jennifer Rodenbeck, Director of Finance & Business Operations; Lisa Roeding, Controller/City Treasurer; and Cathy Niebergall, Financial Technician.

While we appreciate all contributions to this budget, it must be remembered that the real thanks must go to the City employees, who, on a daily basis, transform this document into the City's program of services.