



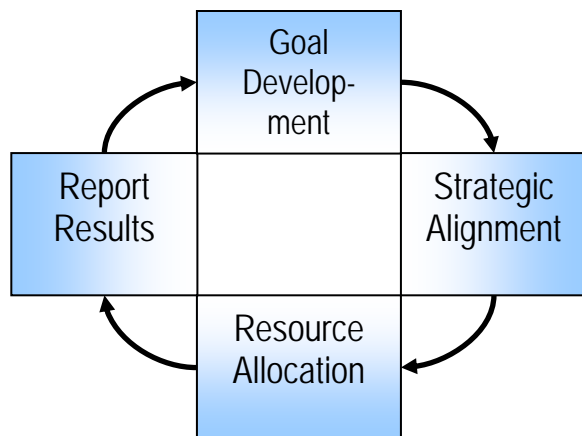
BUDGET PROCESS

The budget process is a comprehensive process that attempts to incorporate the long term strategic planning process of the City (which involves setting goals and indicators for the organization), the shorter term strategic planning process (of developing Strategic Operating Plans for each City service), the development of the Capital Improvement Plan (by considering its implications on the operating budget) and the longer range financial planning (by adjusting budgeted amounts and performance targets) based on the long term financial conditions of funds. In addition, the budget process is impacted by Kansas Statutes, organizational policies, accounting standards and budgeting practices.

The budget process in Wichita is referred to as “Managing for Results.” Employees attempt to develop an operating budget that is influenced, aligned, and driven by the organization’s overall long term strategic plan and financial plan.

MANAGING FOR RESULTS

MANAGING FOR RESULTS (MFR) is a comprehensive approach to budgeting that focuses on both the City-wide mission of “providing an environment to protect the health, safety, and well-being of all who live and work in the community” and the individual service missions and performance targets. Rather than focusing on inputs and outputs, MFR establishes the outcome, or accomplishment, of those goals and objectives as the primary endeavor for the organization and promotes a strategic methodology to reach them. MFR requires the 1) establishment, 2) usage, and 3) reporting of performance measures so that management, elected officials and the public can assess the degree of success the organization has in accomplishing its mission, goals, and objectives. The process generally involves four phases, as shown in the graphic below:



GOAL DEVELOPMENT

The first phase of the budget process is “Goal Development.” During this phase, the City Council develops and re-affirms the broad vision for the City. The development of goals is essentially the foundation of a long term strategic planning process. The City Council has adopted five goals for the organization:

The **SAFE AND SECURE COMMUNITY** goal area is focused on increasing safety from crime, increasing medical emergency safety, reducing the effects of fire, and ensuring citizens feel safe and secure.

The **ECONOMIC VITALITY AND AFFORDABLE LIVING** goal area seeks to address the economic condition of the City, which entails successful businesses, a large inventory of jobs, comparable wages, and access to affordable living for all citizens.

The **EFFICIENT INFRASTRUCTURE** goal focuses on the tangible assets of the City, including but not limited to: air, water, buildings, streets, bridges, highways, railroads, runways, parking lots, pedestrian systems, bikeways, open-spaces, transit systems, and utilities.

The **QUALITY OF LIFE** goal focuses on a community that has a vibrant recreation and arts focus that enhances the quality of life for area residents.

The **CORE AREA AND NEIGHBORHOODS** goal focuses on supporting clean, safe, connected and growing neighborhoods and supporting downtown as a place of commerce, recreation, and living.

In addition, using the balanced scorecard, the organization also uses the **INTERNAL PERSPECTIVE** to reflect areas of strategic emphasis that do not provide direct service to our external customers. Each Goal Area and the Internal Perspective are re-affirmed with the annual adoption of the budget.

Indicators are also reviewed and changed as necessary in this stage. An indicator ties performance measures to goals. The indicators are used to provide an “indication” of whether the organization is achieving success in the goal area. Indicators can be considered as areas that the organization wants to influence with outcomes produced by the operating budget in order to achieve success with reaching the longer term strategic goals.

The Managing for Results framework, with its use of goals and indicators, is enhanced by using the **BALANCED SCORECARD**. The Balanced Scorecard (BSC) illustrates the goals and indicators of the City. The next phase of Managing for Results, strategic alignment, uses the City’s Strategy Map to align service outcomes to the goals and indicators that the City Council is steering the organization toward. The Volume I Appendix provides the Strategy Map used to develop the 2008 budget.



STRATEGIC ALIGNMENT

Once the goals and indicators are clear, staff begin the process of developing service plans (strategic operating plans) for each service. The City organization is divided into City Departments, but each department is then divided into "services" - strategic units that provide outcomes in goal areas.

During this alignment, staff review existing strategies and develop new strategies that provide outcomes that align to the City's goals. This phase marks the beginning of the budget preparation, as dollars are attached to strategies. In addition, each service must produce outcomes, and the outcomes should be measurable. When completed, each service will have a plan, including the amount of resources required, the strategies that will be used, the outcomes produced, and the alignment of those outcomes toward influencing indicators, which measure progress toward City goals.

During this phase, the implications from the Capital Improvement Program (CIP) are considered in relation to the shorter term annual operating budget. Assuming the maintenance of CIP projects is in the long term strategic interest of the City and influences a City indicator, the impacted service would note the impact of the project on the outcomes provided. Any adjustment to resource needs would also be noted, relative to the impact of the CIP project on the base-line level of outcomes provided.

Once each service has completed a Service Plan, these plans are reviewed by "Strategy Teams." Each goal area has a team assigned. The Strategy Team is responsible for reviewing the Service Plans and providing feedback to Departments. Once the Strategy Team review is completed, the team meets with and makes recommendations to the City Manager. This recommendation centers around which strategies and additional funding requests would provide the most relevant outcomes in the specific goal area.

RESOURCE ALLOCATION

After this feedback from Strategy Teams, the Manager meets with Department Directors. Later, Finance Department staff provide an overview of budget issues and the City Manager's Proposed Budget is finalized and produced. Concurrent with this process, staff often hold budget workshops to explain potential budget issues to the governing body.

At this point, the long term financial planning process is integrated into the annual budget process. Funds that have potential policy issues, and a fund's ability to finance strategies to achieve desired outcomes is presented.

During the month of July, the Proposed Budget is presented to the City Council and the process of formally adopting the budget begins. In compliance with State statute, the governing body

must first set the maximum amount of taxes to be levied. This first deadline is set a minimum of ten days prior to the date of budget adoption. The second formal, statutorily required hearing is held in August, at least ten days prior to August 25. At that date, the City Council formally adopts the 2008 Budget.

REPORT RESULTS

At the close of each year, the targeted results for the year contained in the Service Plans are compared to the actual results. Staff then publishes *Results*, the annual performance report card. This report attempts to summarize short-term outcome based performance measures into a model that will assess and communicate the progress being made toward longer term strategic plans of the City, as reflected by the City's goals. *Results* uses "stop light" approach to identify areas in which desired outcomes were achieved and areas in which performance challenges remain.

BUDGET ISSUES

The Managing for Results process described is how the budget is created, reviewed, and adopted. However, many other considerations influence the budget. Some of these include:

- Kansas Statutes
- Accounting Standards
- Wichita Budgeting Practices
- Wichita Financial Policies

KANSAS STATUTES

Statutes of the State of Kansas govern the operating budget process. Three of the most relevant statutes include the Budget Law, the Cash Basis Law and the Debt Limit Law.

Generally, the municipal budgeting process is outlined in the Budget Law—KSA 79-1973 et seq. Specifically, those statutes require that cities:

- Prepare annual, itemized budgets
- Prepare the budget not later than August 1
- Do not budget contingency amounts of more than 10 percent of budgeted expenditures
- Do not budget fund balances (for applicable funds) of not more than 5 percent of fund expenditures
- Adopt the annual budget no later than 10 days prior to August 25th
- Provide public notice of budget hearings
- Provide the adopted budget to the County Clerk by August 25th



The State's Cash Basis Law is outlined in KSA 10-1101 et seq. This statute includes the following provisions:

- No city can create an indebtedness greater than the funds in the city's treasury.
- A city can issue "no fund warrants" by a resolution of the governing body declaring an extraordinary emergency.

The Debt Limit Law is contained in KSA 10-308 et seq. These statutes limit the total debt of a city to no more than 30 percent of the assessed valuation of the city.

ACCOUNTING STANDARDS

The City of Wichita uses the *cash basis of accounting* when preparing budgets. After the close of the fiscal year the City's accounts are converted to the *modified accrual basis of accounting* to produce the Comprehensive Annual Financial Report. The table below shows the differences between these standards:

	Revenues	Expenditures
Cash	recognized only when cash changes hands	recognized only when cash changes hands
Modified Accrual	recognized when they become measurable and available to finance expenditures	recognized when the fund liability is incurred, measurable and expected to be paid

WICHITA BUDGETING PRACTICES

Bi-annual Budget: To ensure continuity in government services, the City of Wichita employs a two-year rolling budget cycle. The City Manager submits the Proposed Budget for the next fiscal year (2008) to the City Council in July. That document also includes a projected budget for the ensuing fiscal year (2009) to better plan in advance, and a revised budget for the current fiscal year (2007).

Capital Improvement Program: While the City is developing the annual operating budget, a parallel process occurs to fund capital improvements, such as public works projects. After the operating budget is adopted, the Capital Improvement Program (CIP) is presented, outlining the City's 10-year program for planned capital investments and the means for funding these projects.

Revenue Projections: The amount of funding the governing body chooses to spend on outcomes drives the budget process. The first step in the budget development process is the projection of revenues by City staff, assuming all current policies and practices are continued. Since future revenues cannot be known for certain, the framework for the whole budget development process, in effect, is built upon assumptions about the City's economic and financial future.

Trends in the performance of each revenue source are studied, and economic conditions and events that could alter the projections are considered. Many factors affect revenues, including weather conditions (especially important for electric, gas and water utility franchise taxes); motor vehicle and gas taxes, and local economic conditions (influencing the sales tax revenue stream as well as other sources). Economic indicators used in preparing the financial projections and budget are included in the "Summaries of Revenues and Expenditures" section of this document.

Forecasting revenues is one of the most difficult tasks the City encounters when preparing a budget. If assumptions are too optimistic, policy makers may adopt programs that will not be supported by actual revenues in the coming year. If assumptions are too pessimistic, the budget process becomes constrained by the need to reduce programs and expenditures, or to find new revenue sources, including tax increases.

Assumptions are stated at the beginning of the General Fund presentation because of their importance in the benchmark for adjustments in the actual year of operation. Doing this also allows interested citizens to challenge and improve on the assumptions as the budget is being reviewed.

Multi-Volume Budget: The operating budget is presented to the governing body as summary information at the goal level; however, a very granular level—budget detail by service at the object level 2 is also provided. Based on State statutes, the City Council appropriates the City budget by fund. However, control levels for budget administration purposes are set at the service level.

Mid-year Budget Changes: If adjustments to the budget are necessary, there are two methods to accomplish this task.

Budget Adjustments - During the year, budget adjustments in amounts less than \$25,000 are made within funds administratively, based on City policy. Budget adjustments greater than \$25,000, or adjustments that change the intent of program expenditures are brought to the City Council for action.

Budget Amendments - Under Kansas law, the City Council may amend an adopted budget during an operating year, if unforeseen circumstances create a need to increase the expenditure authority of a fund or budget. This process, known as recertification, requires a published, ten day official notice and a public hearing held before the City Council.



WICHITA FINANCIAL POLICIES

OPERATING BUDGET POLICIES

Service Level: The City attempts to maintain its present service level for all priority and essential services within existing tax rates, as adjusted for normal growth in the tax base. No new services are added without offsetting expenditure reductions or increases in tax revenues. A phase-in increase to the mill levy to restore the debt service levy to the 1992 level was completed in 1995. Loss of assessed value through the November 1992 classification amendment to the State Constitution required a one-time only mill levy increase (1993 taxes for the 1994 budget).

Financial Control: The City maintains a financial and budgetary control system to ensure adherence to the budget and an awareness of the financial environment, preparing quarterly reports to compare actual revenues and expenditures to budgeted amounts, analyzing operating surplus or deficit conditions, and balance sheets on all City funds.

Performance Management: The City integrates performance measurement and productivity indicators with the budget.

Personnel: The City attempts to avoid layoffs in all actions to balance the budget. Any personnel reductions are scheduled to come primarily from attrition.

Cost Control: The City emphasizes efforts to control the budget at major cost centers.

Balanced Budget: The City attempts to maintain a balanced budget, with revenues equal to or exceeding expenditures.

Self Supporting: Airport, Golf, Sewer, Water, and Storm Water enterprise funds are self-supporting.

Market Methodology: Privatization, volunteerism, incentive programs, public/private partnerships and other alternatives are used whenever possible to provide services.

Cost Recovery: The City endeavors to mitigate subsidies for the Transit system.

Competitiveness: Charges for internal services are set at the lowest possible level to maintain essential programs.

REVENUE POLICIES

The City considers market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees, and charges.

Diversification: The City directs efforts to maintain a diversified and stable revenue system to mitigate fluctuations in any one revenue source.

Collection: The City follows an aggressive revenue collection policy.

User Fees: Where possible, the City establishes user charges and fees at a level related to the full cost (operating, direct, indirect, and capital) of providing the service.

Cost Recovery: The City reviews fees/charges annually and designs and modifies revenue systems to include provisions that automatically allow charges to grow at a rate that keeps pace with the cost of providing services.

INVESTMENT POLICIES

Stewardship: Disbursement, collection, and deposit of all funds are managed to insure maximum cash availability.

Investing: The City strives to maximize the return on investments consistent with the primary goal of preserving capital in accordance with the City's ordinance and prudent investment practices.

DEBT POLICIES

Long-term Debt: The City confines long-term borrowing to capital improvements.

Short-term Debt: In anticipation of bonding, the City uses short-term debt.

Disclosure: The City follows a policy of full disclosure on every financial report and bond prospectus.

Debt Type: Revenue bonds are issued when practical for City enterprises to reduce the amount of the City's general obligation debt.

The City uses general obligation (GO) debt to fund general purpose public improvements which cannot be financed from current revenues.

The City uses special assessment general obligation debt to fund special benefit district improvements consistent with existing policies.

Debt Retirement: The City maintains an aggressive retirement of existing debt over 10 years for city-at-large debt and 15 years for special assessment debt.

RESERVE POLICIES

Reserve Amount: The City maintains a revenue reserve to pay for expenses caused by unforeseen emergencies or for shortfalls caused by revenue declines. This reserve is established at no less than 10 percent and no greater than 15 percent of annual revenues.



Contingency: The City maintains a contingency expenditure account to provide for unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery costs.

Excess Reserves: General Fund reserves in excess of targeted amounts are used for one-time only expenditures.

Debt Service: The City maintains a debt service fund reserve at year-end equivalent to 5 percent of annual revenues of the debt service fund. Any amount in excess of this reserve will be used to reduce capital project fund general purpose expenditures.

Working Capital: Adequate levels of working capital shall be maintained in all proprietary funds.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

Audit: An independent audit is performed annually and completed not later than June 1 of each year.

Financial Reports: The City produces annual and quarterly financial reports in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB).

CAPITAL IMPROVEMENT PROGRAM

CAPITAL IMPROVEMENT PROGRAM GUIDELINES

The Capital Improvement Program (CIP) guides new construction and improvements to the City's infrastructure and facilities, ranging from road expansion to repairs on publicly owned buildings to acquisition of new water sources.

The CIP requires a sound operating budget and a solid financial base to allow for debt or cash financing of capital projects. A well prepared operating budget can also assist in raising or maintaining the bond rating of the City. A higher bond rating means that the City pays a lower interest rate for the bonds sold to finance capital projects.

The annual budget process takes into account requirements of funding infrastructure, maintenance, and related operational costs. Since the CIP is primarily funded from property taxes, mill levy changes in the annual operating budget can mean changes in resources available for capital projects.

REVENUE SOURCES AND PROJECTIONS

Development of the CIP has two phases. The first phase is revenue projections. Like revenue projections for the operating budget, trends are studied, and performance assumptions are

generated. From these assumptions, expenditure estimates are developed. Since the CIP is a ten-year plan, revenue projections must be made further into the future than those required for the operating budget.

Existing debt service obligations are considered when estimating the additional amount of debt that can be assumed under the City's policy. After the new debt for proposed projects is calculated and all revenue sources are identified, projects are prioritized and funds are allocated for the ten year planning period. The revenues and debt service expenditures for that part of the CIP financed from property and sales taxes are managed through the Debt Service Fund. Components of revenue funding for the CIP are:

1. The mill levy is projected at 10 mills for the ten year CIP period.
2. Sales tax revenue for freeway and road construction is managed through the Sales Tax Trust Fund until the funds are transferred to projects or to the Debt Service Fund to pay debt service on sales tax general obligation bonds.
3. Special assessments are made against properties to fund portions of the CIP.
4. Motor vehicle taxes collected by Sedgwick County on all motor vehicles not subject to property or ad valorem taxes are a CIP revenue source.
5. Interest earnings on the fund balance and current revenues contribute to CIP revenue.
6. Transfers from other funds, such as the Tourism and Convention Fund for Expo Hall, Lawrence-Dumont Stadium and parking facilities, and from Tax Increment Financing Funds for economic development projects are considered in revenue estimating.
7. Other proceeds considered when developing the CIP are from the sale of City owned property.

Other parts of CIP financing are budgeted as debt service in proprietary funds.

PROJECT REVIEW

The second phase of developing the CIP involves the project request. Each project request is sent to major corporations, community organizations, District Advisory Boards, and other groups that would be impacted. Any interested party may submit a project for consideration by City engineers and the CIP Administrative Committee.

The CIP Administrative Committee, through a series of meetings, develops the project plan for the term of the program. Projects are studied and ranked according to criteria set forth by the Committee.



Projects proposed for the CIP are reviewed, evaluated, and recommended under the following guidelines:

1. General revenue-supported debt: Maintain a Capital Improvement Program within the debt limitations established by state law, and within a maximum local mill levy debt service established by the City Council.
2. Capital improvement projects must meet the established useful life criteria to be financed: (a) public buildings, 40 year general life, 10 year financing; (b) new road construction, 40 year general life, 10 year financing; (c) major road and bridge rehabilitation, 15 year general life, 10 year financing; (d) water, sanitary sewers, and drainage, 40 year general life, 20 year financing; (e) miscellaneous items, based on asset life, 10 year financing; and (f) local sales tax projects, 10 and 15 year financing with double barreled bonds.
3. Utility Revenue Bonds are utilized when necessary and feasible to finance Public Improvements using a 20-year amortization to minimize the impact of annual revenue requirements.
4. Maintenance of the highway and street system to provide safe and effective vehicular access and efficient urban traffic flow emphasizing the following: (a) Expedite the plans (in cooperation with Sedgwick County) for constructing and financing US-54, maximizing state and federal funds supplemented by local sales tax; (b) Concentrate efforts on selected cross-town arterials and intersections to improve traffic movement, safety and reduce congestion; (c) Include features in new projects which will reduce future maintenance requirements (i.e., delineation of crosswalks, low-maintenance medial treatment, etc.); (d) Complete railroad crossing improvements on arterials; and (e) Provide good streets and roadways to serve City facilities (i.e., Art Museum, Cowtown, Expo Hall, Airport, etc.).
5. Provide improvements in the downtown area.
6. Continuation of Neighborhood Improvement Program in conjunction with code enforcement.
7. Emphasize projects in problem areas without regard to the percentage of the total CIP funds available. Under no circumstances will all projects be selected from one area of the City.
8. Develop a balanced capital maintenance program for all types of City assets.
9. Include beautification and landscape improvements in projects, especially on arterials and highways, public facilities, etc.
10. Insure an adequate water supply for existing neighborhoods and for the planned growth and development of the City.

HEARINGS AND ADOPTION OF THE CIP

Upon completion of the Administrative Committee's plan, the committee's recommendations are forwarded to the City Manager and then to the City Council. Hearings are held before the Metropolitan Area Planning Commission and the District Advisory Boards. Like the operating budget, the City Council hears public comments on the CIP prior to adoption. The City Council may shift, add, or delete projects in the proposed CIP.

IMPLEMENTATION

After the CIP is adopted by the City Council, departments use the CIP as a guide for implementing capital improvements. Initiation of each project must be authorized individually by the City Council through the adoption of an ordinance or resolution.

BUDGETING FOR ONGOING

OPERATING COSTS OF CIP PROJECTS

As a general practice, the proposed 10-year CIP is developed and revised in a process that parallels development of the City's two-year budget. Departments provide estimated ongoing costs associated with CIP projects so all costs can be considered in the evaluation process. When a project is completed, the operating costs are included in the department's operating budget.



BUDGET CALENDAR

Budget development is an ongoing process. The process from initial planning to the first day of an adopted budget is approximately 23-26 months. During the Fall and Winter months, strategy teams for each of the goals will review City services to determine which services need revision. For example, the City started planning for 2008 in late 2006 and early 2007, which can be difficult as economic climate and community needs are not static. The table below shows **SIGNIFICANT** budget dates.

Jan—April 2007	Strategy Teams review Service Plans regarding the relevancy of performance measures, the performance targets, and the alignment of service strategies to the Balanced Scorecard.
March	Budget Office develops Base Budgets that reflect a continuation of current outcomes, adjusted for changes in forecasted costs.
April	Budget Office reviews the revenue portfolio and revises the estimated revenues available to finance outcomes in the forthcoming budget.
May/June	City Manager meets with Strategy Teams for feedback on services and strategic alignment issues. Department Heads later meet with the City Manager regarding service outcomes and corresponding resource needs.
June	Budget Office staff meet with and assist the City Manager in preparing the Proposed Budget.
July 10	City Manager presents the 2008/2009 Proposed Budget to the City Council.
July 24	City Council authorizes publication notice on the 2008/2009 operating budget.
August 14	City Council formal hearing and adoption of the 2008/2009 operating budget.
August 25	Adopted levies for the 2008 budget are filed with the Sedgwick County Clerk (K.S.A. 79-1801 and 79-2930).
September	Staff update Strategic Operating Plans for each service, based on the outcomes included in the Adopted budget.
October—February	Staff teams review outcomes, targets and strategies of selected services.
January 1, 2008	Fiscal Year 2008 begins.
February 2008	Staff reports results achieved in 2007 relative to the outcome targets.