

Appendix

BUDGET PROCESS

Under the County Council/Executive form of government, the County must adhere to the following procedures in establishing the budget:

- At least 135 days prior to the end of the fiscal year, all agencies of the County government must submit to the Executive information that is necessary to prepare the annual budget.

By Executive request, all departments submit preliminary budget information to the Budget and Finance office for initial departmental review. The Director and staff then evaluate the proposed budgets and present the information to the Executive's office for budget decisions.

- At least 75 days prior to the end of the fiscal year, the Executive must present to the Council a recommended budget which must include all appropriation ordinances and proposed tax and revenue ordinances that are necessary to raise sufficient revenues to balance the budget.

- The budget includes all fund balances, revenues and expenditures. It also is divided into categories, programs, projects or objects of expense; and shows the actual expenditures of the preceding fiscal year, the estimated expenditures of the current fiscal year and the requested appropriations for the next fiscal year. The expenditures included in the proposed budget shall not exceed the estimated revenues, including carry-over fund balances.

- Prior to the adoption of the budget, the Council must hold at least one public hearing to consider the budget presented by the Executive.

- At least 30 days prior to the end of the fiscal year, the Council must adopt the appropriation and property tax ordinances for the next fiscal year. The appropriation ordinances that are adopted by the Council shall not exceed the estimated revenues of the County for the next fiscal year for each fund, including available fund balances.

- **Budget Preparation Instructions:** Prior to actual budget preparation, every department receives an instruction manual which incorporates the budget process calendar, special instructions, sample forms, time lines, and summaries of certain costs and/or rates which will impact each departmental budget. A letter from the County Executive accompanies the manual and discusses the general fiscal outlook for the upcoming year as well as the Executive's priorities, expectations, and approach to the preliminary budget.

In addition to the instruction manual, meetings are held with department directors and key personnel to discuss the budget preparation process.

2006 Budget Calendar

Tuesday, May 17, 2005

Budget materials available on the Intranet and ERS.

Tuesday, June 14

Departments submit Budget Request materials to Budget/Finance.¹

July 8 - September 2

Budget review sessions are held with Departments and Budget & Finance.

Week of September 6

Preliminary Budget is balanced and Departments are notified.

September 12 - September 15

Department Managers meet with Executive to appeal Preliminary Budget, if necessary.

Friday, September 16

Executive's Budget is finalized.

September 19 - October 14

Executive's Budget is prepared and printed.

Tuesday, October 18

Executive's Budget is submitted to Council.

Late October

Council begins hearings on the Budget.

Late November

Council votes to adopt the Budget.

¹ budget submittal due dates are staggered with the majority being submitted over a 3 week period in July.

BUDGETARY CONTROL

Budget Appropriation Control & Amendment Procedures

The County adopts annual budgets for its governmental funds. All appropriations lapse at year end, with the exception of Capital Project funds, where appropriations continue until project completion. Legal budgetary control is maintained at the department level in the General Fund, and at the fund level in all other funds. A budget increase or decrease to a fund (or to a department in the General Fund) must be approved by the County Council. However, budget transfers within a fund (or within a department in the General Fund) may be authorized by the County Executive.

The Pierce County Charter requires the Executive to submit to the Council a quarterly report showing the relationship between the budgeted income and expense and the actual income and expense to date. If it appears that the actual income is less than anticipated, the Council may reduce appropriations as necessary to keep expenditures within income. The Council may also modify the budget by appropriating contingency funds, revenues received in excess of budgeted revenues, or funds from any other legally available source in an emergency.

During the calendar year department directors monitor and evaluate their budget for proper control of expenses. The budget monitoring system enables departments to continually update revenue and expenditure projections and thereby better manage the variance and related impact. In addition, the Budget and Finance Department reviews budgeted and actual expenditures. Budget transfers and/or adjustments are then made when appropriate.

Encumbrances

Encumbrances are recorded when a commitment is made for the acquisition of goods and services in order to facilitate effective budgetary control. Encumbrances lapse at year end, and any subsequent expenditure must be absorbed in the next year's operating budget.

Budget Position Control

The Budget Position Control system interfaces with the Personnel/Payroll systems. It provides the ability to identify the occupancy status of any budget position and maintains control over the authority to employ.

BASIS FOR BUDGETING

Governmental and Expendable Trust Funds

The annual budgets for the Governmental Fund types (General Fund, Special Revenue, Debt Service, Capital Projects) and Expendable Trust funds are prepared on the modified accrual basis. Revenues are recognized in the accounting period in which they become measurable and available. Revenues that are susceptible to accrual (such as interest earnings on investments, rents, interfund payments for services and payments from other governmental units) are recorded when earned. However, revenues that are derived from taxes, licenses and permits, fines, and forfeits are not susceptible to accrual and, therefore, are recognized as revenue only when cash is received. Expenditures are budgeted for the year in which the obligation is anticipated to be incurred, except that interest on general long-term debt is recorded only when due.

In the General Fund, a “bottom-line” appropriation total is approved for each department. For all other funds, a “bottom-line” appropriation total is approved for each fund.

Proprietary and Non-Expendable Trust Funds

The annual budgets for the Proprietary Funds (all enterprise and internal service funds) are prepared using the working capital format. All revenues are budgeted and recognized in the year in which they are earned, and all expenses (excluding depreciation, but including capital outlays) are budgeted and recognized in the year in which the obligation is incurred.

The only exceptions are the Sewer Utilities, Solid Waste and the Pierce County Ferry Services funds, whose budgets also reflect depreciation expenses.

Integration of Budget into Accounting System

The budget is formally integrated into the financial accounting system through budgetary general ledger control accounts is supported by a budgetary subsidiary ledger.

Basis of Accounting

The Comprehensive Annual Financial Report (CAFR) shows the status of the County’s finances on the basis of “generally accepted accounting principles” (GAAP). In most cases this conforms to the way the County prepares its budget. The only exceptions are as follows:

- Compensated absences liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees (GAAP) as opposed to being expended when paid (Budget).
- Principle payments on long-term debt within the Enterprise Funds are applied to the outstanding liability in accordance with GAAP. These payments are included in the budget.
- Capital outlay within the Enterprise Funds are recorded as assets on a GAAP basis and expended on a Budget basis.
- Depreciation expense is recorded on a GAAP basis. It is included in the budget for the Sewer Utilities, Solid Waste, and Pierce County Ferry Services funds.

FORMAT OF BUDGET PAGES

The **Mission Statement** is a broad statement of the purpose for which the department or fund has been established.

The **Departmental Summary** provides a narrative description of major functions and responsibilities of the department or fund.

Budget Highlights outline significant changes in the departmental or fund budget from the prior year. The narrative identifies anticipated reallocation of resources, staffing changes and/or changes in revenue.

Performance Measures identify those specific objectives which the department will attempt to accomplish during the upcoming fiscal year. The Measures are stated in specific terms so that achievement or non-achievement of the Measure is easily discernible. Performance Measures reflect a new emphasis on the relationship between these objectives and the corresponding budget.

Funding Sources sections display summary revenue information for a department or fund. For General Fund departments, this section's purpose is to indicate the extent to which specific revenue sources related to the department's activity fully support that department's programs, or whether "general revenues" are needed to finance those expenditures. "Funding Sources" tables for funds other than the General Fund simply indicate the various revenue sources which finance that budget. The following picture narrates the information included in the table.

Revenue Description	Actual Revenue Earned in Prior Years		Authorized Revenue Budget for Each Year		Change in Revenue Budget Absolute Change	Percent Change in Budget from 2005 to 2006 Percent Change
	2003	2004	2005	2006		
	Actual	Actual	Budget	Budget		
Estimated Use of Fund Balance	\$2,726,348	\$2,726,349	\$2,726,350	\$1,762,545	(\$963,805)	(35.4)%
Intergovernmental Revenues	661,270	661,270	661,270	425,980	(235,290)	(35.6)
Licenses & Permits	86,410	86,410	86,410	68,567	(17,843)	(20.6)
Non-Business License & Permits	620,130	620,130	620,130	416,608	(203,522)	(32.8)
Taxes	30,150	30,150	30,150	13,471	(16,679)	(55.3)
TOTAL	\$4,124,308	\$4,124,309	\$4,124,310	\$2,687,171	(\$1,437,139)	(34.8)%

Expenditure Summary is displayed at either a Program Level or Object Level as defined in the following.

Program Level - displays budget information at a project, activity, or function level for each department or fund. The following picture narrates the information included in the table.

Expenditure Program Description	Full Time Employee Count for Each Year		Authorized Expenditure Budget for Each Year		Change in Expenditure Budget Absolute Change	Percent Change in Budget from 2005 to 2006 Percent Change
	2005	2006	2005	2006		
	FTE	FTE	Budget	Budget		
Administration	2.50	2.50	\$2,726,350	\$1,762,545	(\$963,805)	(35.4)%
Treasury Services	10.50	10.50	661,270	425,980	(\$235,290)	(35.6)
Payables, Payroll & General Acctg	15.00	15.00	86,410	68,567	(\$17,843)	(20.6)
Budget, Grant & Contract Coord.	3.50	3.50	620,130	416,608	(\$203,522)	(32.8)
Purchasing Services	4.00	4.00	30,150	13,471	(\$16,679)	(55.3)
TOTAL	35.50	35.50	\$4,124,310	\$2,687,171	(\$1,437,139)	(34.8)%

Object Level - displays budget information at an object of expenditure level for each department or fund. See following table.

Expenditure Description	Actual Expenditures in Prior Years		Authorized Expenditure Budget for Each Year		Change in Expenditure Budget	Percent Change in Budget from 2005 to 2006
	2003	2004	2005	2006	Absolute Change	Percent Change
	Actual	Actual	Budget	Budget		
Salaries & Wages	\$444,332	\$366,400	\$395,560	\$410,550	\$14,990	0.4%
Personnel Benefits	103,875	81,036	86,770	85,450	(1,320)	(1.5)
Supplies	21,178	11,355	7,610	17,440	9,830	12.9
Other Services & Charges	143,861	141,454	148,840	138,890	(9,950)	(6.7)
TOTAL	\$713,246	\$600,245	\$638,780	\$652,330	\$13,550	0.2%

Special Analysis is prepared in certain instances to clarify or provide additional detail relating to revenues and/or expenditures of funds or departments. Typically, the analysis will summarize construction projects (i.e., Roads, Utilities), services or programs (i.e., Human Services), or type of activities (i.e., Sheriff), and working capital changes (Proprietary Funds).

Staffing Summary presents comparative personnel data for six-year period 2001-2006. The summary identifies the number of full-time equivalent (FTE) employees for each position classification within the department.

Workload Service Data reflects various workload figures and performance indices which quantify, to the extent possible, the demands placed upon the department or fund and the services which must be, or should be, provided. Where possible, unit cost figures are included in the data.

Budget Ratios

The 2006 Budget incorporates a series of Budget Ratios for most of our departments. These measures attempt to display, in quantitative terms, budget related trends such as the extent to which growth in the real (inflation adjusted) resources in each department has kept pace with service demands since 1995. We are not rendering a value judgement regarding the numbers or trends. Whether a particular trend change is viewed as favorable or appropriate is, in most cases, strictly a judgement to be rendered by the Executive and Council. A negative percentage change simply indicates mathematical direction since 1995, and not an unfavorable pattern. **However, the measures do indicate trends, and can be the focus for policy level discussion regarding their implication.**

It is our belief that these measures represent a valuable tool to aid in decision making. However, it is appropriate to note the following deficiencies:

- there is no qualitative component in the analysis.
- there is no objective standard of performance. We are simply recording trends over an eleven year period.
- these are only selective measures of workload, and may cover only a portion of a department's full responsibilities.
- there is no "weighing component" to indicate which functions are most important, complex, or resource intensive.
- ratios may not be appropriate if major functions have been added to (or deleted from) a department's responsibilities over the last several years.

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1995 was chosen as the “base” year simply because it was far enough in the past to provide a good time perspective. The year 1995 should not be viewed as either a “good, bad, or average” year.

To the best of our ability and knowledge, the “raw” numbers have been adjusted to reflect:

- a) inflation
- b) shifts to a 7½ or 8 hour workday
- c) transfers of functional responsibilities

GLOSSARY OF TERMS

The glossary provides the definitions of terms which are commonly used throughout the annual budget document.

Account Number: budgeted expenditures are divided into an account hierarchy using twenty-one digits/characters in accordance with the Washington State Auditor's budgeting accounting and reporting system (BARS). This accounting structure identifies the following:

- A **fund** is an independent fiscal and accounting entity with a self-balancing set of accounts in which financial

Fund	Department	Program	Basub	Object
XXX	XXX	XXXX	XXXXX	XXXXXX

- transactions relating to revenues, expenditures, assets, liabilities, or fund balances are recorded. Funds are established to account for the use of restricted revenue sources and to carry on specific activities or pursue specific objectives. Funds may be established by the state statute, county charter, or county ordinances.
- Operating funds have annual appropriations for ongoing, normal operations of the county. Non-operating/special purpose funds are generally for major capital purposes and appropriations may extend over several budget periods.
- A **department** serves a specific function as a distinct organizational unit within a given fund. The primary purpose of a department is management and budget accountability.
- A **program** is a specific or distinguishable unit of work or service performed. Programs are usually established within a fund or department to track revenues and expenditures of grants, contributions, or construction projects. Programs are also used to further define activities or functions within a basub.
- A **basub**, or basic account/subaccount code, is a numerical indicator assigned to revenues and expenditures. A revenue basub identifies the source and type of revenue. An expenditure basub identifies the activities and function of a group of services having a related purpose.
- An **object** is a specific, detailed expenditure classification used to identify a type of item purchased or service obtained.

Full Accrual Basis: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Annual Budget: A plan of financial operation for a given period which outlines the estimated expenditures to provide services or accomplish a purpose together with the estimated revenues which will finance those expenditures. The annual budget includes the estimated cost of operations, debt service, and capital outlay for all operating funds. Budgets must be balanced so that estimated total expenditures equal estimated total revenues. Once adopted by the pierce county council, the fund totals appropriated become maximum spending limits. Legal authority and requirements for Pierce County's operating budget are found in the revised code of Washington (RCW 35A.33).

Appropriation: A legal authorization granted by the legislative body (Pierce County Council) to make expenditures and to incur obligations for specific purposes. For budgetary/operating funds these appropriations lapse at the end of each calendar year. For capital project funds the appropriations do not lapse but continue in force until fully expended or the purpose for which they were issued or established has been accomplished or abandoned.

Assessed Valuation: The fair market value of both real (land and buildings) and personal property as determined by the Pierce County Assessor/Treasurer's office for the purpose of establishing property taxes.

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Assets: Tangible and intangible resources owned or held by the government which have probably future economic benefit, including cash, investments, receivables, inventories, equipment, fixtures, and buildings.

Bond: A written promise to pay (debt) a specified sum of money (called principal or face value) at a specified future date (called the maturity date(s)) along with periodic interest paid at a specified percentage of the bond issue to which it is related. The debt instrument may be a revenue bond, special assessment bond, or general obligation bond.

Budget Ratios: Quantitative measures, such as to the extent to which growth in real (inflation adjusted) resources has kept pace with service demands since 1994, used to show budget related trends.

Budgetary Control: The control or management of a government or enterprise in accordance with an approved budget for the purpose of keeping expenditures within the limitations of available appropriations and available resources.

Capital Facilities Element: An element of the comprehensive land use plan which provides a framework for decision-making relative to capital facilities. It is a plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from the long-term work programs or other capital needs. The plan identifies the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures. Actual appropriations for expenditures for capital projects are established in separate ordinances or in the annual budget ordinance.

Capital Projects: Expenditures which result in the acquisition of or addition to fixed assets or infrastructure. Typically a capital project encompasses the purchase of land and/or the construction of a building or facility, with a life expectancy of more than 10 years.

Cash Basis: The method of accounting under which transactions are recognized only when cash changes hands.

Cost Accounting: Method of accounting which identifies and records all costs incurred to carry out a particular activity or to deliver a particular service.

Deficit: (1) The excess of liabilities of a fund over its assets (see fund balance). (2) the excess of expenditures over revenues during a single accounting period; or, in the case of enterprise and internal service funds, the excess of expenses over revenues and non-operating revenues (expenses) during an accounting period.

Depreciation: (1) The portion of the cost of a fixed asset which is charged as an expense during a particular period or (2) the expiration in the service life of fixed assets attributable to wear and tear, deterioration, or obsolescence.

Encumbrances: Obligations in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. The encumbrance ceases when the obligation is paid or accrued.

Entity: The basic financial reporting unit, such as a fund.

Expenditure: An expenditure is the payment for goods and services. Expenditures are recorded when the cost of goods or a service is rendered or a liability is incurred.

Expenses: Expenses represent the total cost of operations during a period, including depreciation and amortization.

Fiscal Year: A twelve-month period designated as the operating year by an entity. For Pierce County the fiscal year is the same as the calendar year.

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Fund Balance: In general, the fund balance is the excess of an entity's assets over liabilities and includes those budgeted revenues not required for expenditure in the current budget year. Restricted fund balances are those revenues reserved for a specific future purpose. In enterprise and internal service funds the term "retained earnings" is used to refer to the fund balance.

Fund Structure: The operating budget consists of six basic fund types, which are distinguished by the specific group of services associated with them, and which in total represent the primary operations of Pierce County, as follows:

- The **General Fund** accounts for all revenues and expenditures which are not accounted for in other funds and consists of those services commonly provided by county governments. The functions include public safety, the judicial system, offices of elected officials, general government services, health services, and parks and recreation.
- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or for major capital projects) that are legally restricted for a specific purpose. Examples of this fund type are roads, human services, and the county fair.
- **Debt Service Funds** account for the accumulation of resources for and the payment of general long-term and special assessment debt principal and interest. The appropriations authorized for these funds are determined by the payment schedules contained in the bond issues and cannot legally be altered by legislative action.
- **Capital Project Funds** account for financial resources to be used for the acquisition and/or construction of major capital facilities.
- **Enterprise Funds**, such as sewer utility, solid waste management, golf course and airport, are established for government operations that are financed and operated in a manner similar to business enterprises. The cost of providing the service to the general public is intended to be financed or recovered through user charges.
- **Internal Service Funds** are established for those operations which provide services to the operating funds of Pierce County on a cost reimbursement basis. This fund group consists of equipment rental and revolving, fleet rental, information services, general services, self-insurance, worker's compensation, facilities maintenance, and radio communications.

Grant: A contribution of assets (usually cash) by a governmental unit or other organization to another governmental unit. Typically, grants are made to local governments from the state or federal government for specified purposes.

Interfund Services/Revenue: Interfund services are transactions between individual funds of Pierce County, as opposed to transactions between the County and private vendors or other governments. Internal service funds are the primary providers of interfund services and receive revenues from other County funds for these services.

Liability: Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed or refunded at some future date.

Maturities: A specific time when an investment or a debt instrument becomes due.

Modified Accrual Basis: The basis of accounting under which expenditures, other than accrued interest on general long-term debt, are recorded when incurred. Revenues are recorded in the accounting period when measurable and available. Revenues such as interest earnings on investments, rents, interfund payments for services, and payments from other governmental units are measurable and are recorded when earned. However, revenues derived from taxes, licenses and permits, fines and forfeits are not always measurable and available, and are thus recognized only when the cash is received.

Operating Revenue: Sources of revenue received during a fiscal year such as taxes, intergovernmental revenues, license and permit fees, fines and forfeits, charges for services, grants and contributions.

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Operating Transfer In/Out: Authorized transfers from one fund to another fund, usually intended to subsidize operations of the receiving fund.

Other Funding Sources: Revenue sources other than operating revenues such as operating transfers from other departments, sale of fixed assets, interfund loans, bond proceeds, contributed capital, and estimated use of beginning fund balance.

Property Tax Levy: The amount of property tax allowable under state law which a county government may levy annually without approval by a vote of the county's registered voters. State law fixes the maximum levy in dollars per \$1,000 of assessed valuation and the annual rate at which total regular levy property taxes may increase.

Reserve: An account used to indicate that a portion of fund equity is legally restricted for a specific purpose or not available for appropriation and subsequent spending.

Resources: Total dollars available for appropriation, including estimated operating revenues, interfund transfers, and other financing sources such as the sale of fixed assets, contributed capital, and estimated use of beginning fund balance.

Workload Service Data: Specific quantitative measures of work performed or results achieved through an activity or program.