

BOISE CITY – FINANCIAL SYSTEM OVERVIEW

Boise City operates under the Mayor-Council system. The Mayor (full-time) and six Council members (part-time) are elected to four-year terms. Three Council members are elected every two years to overlap the terms for continuity. The City Council seats are numbered and candidates must declare to run for a particular numbered seat. All seats are citywide, rather than related to smaller geographical districts.

The Mayor is the Chief Executive Officer and is responsible for carrying out policies set by Council as well as enforcing the ordinances existing in the City Code. The City's Division of Financial Management reports directly to the Mayor. The Mayor has established a Budget Team to provide for budget development and budgetary control.

The Mayor chairs the Mayor's Budget Team. The Team includes the Mayor's Administrative Assistant, Special Projects Manager, Budget Director, Human Resources Director, Purchasing Agent and three department heads whose terms are generally for two years.

Reporting Entity

The City is in conformance with the National Council on Governmental Accounting Statement No. 3 - Defining the Governmental Reporting Entity. Boise City includes all funds and account groups in budgeting and financial reporting. The City also includes agencies, boards, commissions and authorities that are controlled by or dependent upon the City's Executive or Legislative branches (the Mayor or the Council, respectively). Determining factors for control by or dependence on the City include: appointment authority, budget adoption, taxing authority and outstanding debt secured by revenues or general obligations of the City. The responsibility to finance any deficits that may occur and receipt of significant subsidies from the City are additional determining factors.

BUDGETS AND BUDGETARY ACCOUNTING

The basis of budgeting refers to the conventions for recognition of costs and revenues in budget development and in establishing and reporting appropriations, which are the legal authority to spend or to collect revenues.

Boise City uses a modified accrual basis for budgeting in governmental funds. Under Idaho State law, unspent appropriations from prior years must be specifically "re-budgeted," via resolution of the City Council, or "encumbered," in order to be carried forward into the next fiscal year. A valid, legal commitment such as a contract or purchase order is required for encumbrances.

Proprietary funds are budgeted using accrual concepts. However, all operating and capital expenses that will be incurred during the year and income to be received and credited to the year are identified in the budgeting process because of the need for appropriation authority.

The budget is fully reconciled to the accounting system at the beginning of the year, and in preparing the Comprehensive Annual Financial Report at year-end. A number of adjustments are made to reflect balance sheet needs and their effect on the budget. These include changes in designations and reserves and recognition, via studies and analysis of various sorts, of accrued liabilities. Amounts needed for such long-term liabilities as future payoffs of accumulated employee vacation and sick leave, are budgeted as they are recognized via actuarial projections and subsequently adjusted to actual amounts. The budget does not recognize capital construction expense in enterprise funds in the same manner as in the Comprehensive Annual Financial Report (CAFR). The budget recognizes all planned and actual capital project expenditures while in the CAFR, capital expenditures are posted to balance sheet accounts include contributed capital. Reconciliation is completed in quarterly and "year end" budget to actual reports.

The City uses a two-year budget format to reduce the time spent in budget preparation. The FY 01 budget year was the second year of the FY 00 and 01 biennium budget.

Idaho State Code does not recognize the concept of a two-year budget and requires the City to adopt an annual budget each year through formal publishing and hearing requirements and by adopting an annual appropriation ordinance. Therefore,

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each year of the two-year budget is separately adopted consistent with State Code requirements. However, administratively, the two-year budget incorporates both annual budgets and the second year adoption entails a streamlined mid-biennium review and revision process to address changes that occurred since the two-year budget was developed.

The Mayor and City Council also review the results of operation and financial position of funds quarterly for each of the fiscal years within the two-year budget period.

The following procedures are used to establish budgetary control and to allow approved change to the adopted budget:

- Prior to October 1, the budget is legally enacted through passage of an ordinance and based upon extensive public budget workshops and public hearings. All funds are recognized in the budget including the General, Special Revenue, Debt Service, Capital Projects, Enterprise, Internal Service and certain Trust Funds.
- Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP), except as noted above. Total appropriations represent budget amounts as originally adopted plus current year adjustments for council approved prior year encumbrances, uncompleted items (primarily capital and equipment) carried forward to the following year and new projects or expenditures approved by council from prior year turn back dollars and appropriation changes approved during the year.
- Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects, Enterprise, Internal Service and certain Trust Funds. To provide oversight and control, the Mayor's Budget Team reviews all proposed changes to the budget that are exceptions to department head authority.
- During the fiscal year, all expenditures are authorized by Payment Voucher, Purchase Order, or Journal Entry which are reviewed, according to procedures in the City Code, for budget authority, available funds and adherence to the City's purchasing procedures and good business practices.
- Department heads have defined discretionary authority to transfer budget appropriation amounts within approved budget totals, between line items within funds and consistent with the adopted "Budget Transfers" policy.
- Transfer of budget appropriations not allowed under department head discretion, may be recommended by the Mayor's Budget Team and approved by the Mayor and City Council. Revisions that alter the total expenditure appropriation of any fund or that add permanent employee positions must be approved by the City Council. Any transfers of contingent funds require Mayor and City Council approval. State law does not allow fund expenditures to exceed fund appropriation. Appropriations lapse at year-end.
- Idaho State Code allows the City to reopen the annual budget if a need for increased appropriations beyond the budgeted total is experienced. The reopened budget must be adopted by following a process similar to that, which was used to adopt the original budget, including public hearings and adoption of a revised annual appropriations ordinance. No supplemental appropriations were necessary during fiscal year 2003.

Basis of Accounting

Basis of accounting refers to when revenues, expenditures, expenses and transfers are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is used for Governmental Funds (General, Special Revenue, Debt Service and Capital Projects). The modified accrual basis of accounting as used by Boise City recognizes revenues when they are measurable and available. Likewise, expenditures are generally recorded as the liabilities are incurred. An exception to this general rule is that interest revenue and expenditures on special assessment levies and indebtedness is recorded when due. All material revenue sources including property taxes and intergovernmental revenues are susceptible to accrual.

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The accrual basis of accounting is utilized for Proprietary Fund Types (Enterprise and Internal Service) and Nonexpendable Trust Funds. The Accrual Basis of Accounting recognizes revenues when they are earned and expenses when the related liability is incurred. Unbilled service receivables are recorded at year-end.

ACCOUNTING SYSTEM

City accounts are organized on the basis of funds. Each of which is considered to be a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Funds are classified into three broad fund categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

DESCRIPTION OF FUNDS

Governmental Funds: These funds support the City's traditional programs, services and projects including Fire, Parks and Recreation, Library, Public Works, Police and Planning and Development Services. Governmental funds use a spending measurement focus. Only current assets and current liabilities are generally included on General Fund balance sheets. Fund balance is considered a measure of 'available spendable resources' which are either reserved (not appropriable for expenditure or legally segregated for a specific use) or unreserved. The unreserved portions may be designated to indicate tentative plans for their use in future periods.

The following types of governmental funds are utilized by the City:

- **General Fund:** This fund is used to budget and account for those resources traditionally associated with governments. This fund accounts for all revenues and expenditures that are not accounted for in specific purpose funds. The General Fund is the mechanism for typical discretionary tax resources. It is also a mechanism for those services that are of general benefit to the public but for which full recovery of costs is often deemed not to be feasible. The General Fund includes a variety of beneficial revenue sources such as user fees, fines, permits and licenses.
- **Special Revenue Fund:** The Special Revenue Fund is used to budget and account for the Community Development Block Grant. This insures that its uses are consistent with the specific use and management requirements imposed by the grant program.
- **Debt Service Fund:** This fund is used to budget and account for the accumulation of resources for and the payment of general long-term debt principal and interest.
- **Capital Projects Fund:** The Capital Projects Fund is used to budget and account for the acquisition and construction of capital facilities other than those projects which are financed by proprietary and trust funds. The majority of the projects have some property tax or other discretionary funding or are for the benefit of the property tax supported departments. Funding sources may also include donations and federal and state grants as well as discretionary tax sources.

Proprietary Funds. These funds are used to budget and account for government's business type activities (e.g. activities that receive a significant portion of their funding through user charges). The following Proprietary Funds are utilized by the City of Boise:

Enterprise Funds are those funds that are financed primarily through user charges. Enterprise fund accounting is designed to accumulate the total cost (including depreciation) of providing a particular service and to indicate the extent to which user charges imposed upon service consumers are sufficient to cover those costs.

The following are examples of the City's Enterprise Funds:

- **Airport Fund** is used to budget and account for the operation of the airport. All operations, debt service and capital additions are accounted for in this fund.

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- **Sewer Fund** is used to budget and account for the operations of the portion of the sewer system that is owned by the City. Three sewer districts collect sewage within the City of Boise and contract with the City to process the sewage in one of the three City operated plants. Debt service and capital improvements are also budgeted and accounted for in this fund.
- **Geothermal Fund** is used to budget and account for the operations of a system to deliver hot water to be used for heating. All operations and capital expenditures are budgeted and accounted for in this fund.
- **Parking System Fund** is used to budget and account for the Grove Street Parking Garage, which provides short and long-term off street parking to the citizens in the downtown area as part of the parking system operated by CCDC.
- **Solid Waste Fund** is used to budget and account for the billings and receipts for the City solid waste service. The collection is contracted out to an independent firm. The solid waste hauler and County landfill are paid directly by the City of Boise.

Internal Service Funds are used for the financing of goods or services provided by one department of a government to other departments or agencies on a cost-reimbursement basis.

The City utilizes the following Internal Service Funds:

- **Shop Fund** is used to budget and account for the cost of operating a maintenance facility for automotive equipment used by other City departments. Service charges are based upon flat monthly rates plus mileage. The various user departments acquire the automotive equipment.
- **L.M. Cunningham Fund** is used to budget and account for the operation of the City arboretum. City departments purchase plant material and trees from this fund at a predetermined rate based on size and condition.
- **Risk Management Fund** is used to budget and account for the operation of the City's comprehensive liability program and various insurance coverages. The City purchases liability, property, fiduciary bonds and other various insurance coverages through this fund. Additionally, self-insured losses are paid through the Risk Management Fund. Costs are then billed back to the departments on the basis of exposure and actual loss.

Fiduciary Funds. These funds are established to budget and account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. Fiduciary Funds are categorized as Nonexpendable Trust Funds or Agency Trust Funds.

Nonexpendable Trust Funds

- **Dedicated Trust Funds** are used to budget and account for monies that are dedicated for a specific purpose. The principal must remain intact; only the interest income is used for current operations.
- **Housing Rehabilitation Fund** is used to budget and account for several revolving loan funds that provide low interest loans for housing. Various federal grants were used to establish the existing fund balance. Collections from the loans are used for the program expenses and to make new loans to qualified citizens.
- **Sewer Aid Fund** is used to budget and account for loans to individuals for sewer rehabilitation project costs.

Agency Funds

- **The Boise City Trust Fund** is used to budget and account for items that must be held in trust for any reason. The major items accounted for in this fund are the City's deferred compensation plan and Boise Improvement District payments.

DESCRIPTION OF ACCOUNTS

General Account Groups are not funds and the City does not prepare budgets for them. The City does provide lists such as fixed assets and liabilities that do not require use of currently available resources. However they are an important

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consideration in understanding the financial position of the City. Account Groups are categorized as General Fixed Asset Account Groups or General Long-term Obligations Account Group.

General Fixed Assets Account Groups are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of Enterprise, Internal Service and Non-Expendable Trust Funds. The group accounts for cost, estimated costs or fair market value of donations and is considerably less than their present value. Depreciation on general fixed assets is not recognized in the City's accounting system. Fire hydrants and streetlights are the only public domain (infrastructure) assets included in the general fixed asset account group. These account groups are not directly budgeted but are derived from assets created in other funds.

General Long-term Obligations Account Group lists debt, generally at face value without discounts or premiums.

PROPERTY TAX PROCEDURES – STATE LEGISLATION ACTION

Boise City's major source of revenue for general fund operations is property tax. The County collects the property taxes in December and June for the tax year that concluded in December and transmits the proceeds to the City.

Property tax law is set by the Idaho State Legislature and has changed significantly since 1978. The voters of the state of Idaho approved the 'One Percent Initiative' that year. Initially, property tax proceeds were frozen until levies equaled approximately one percent of total market valuation of property.

In the mid 1980s, a five percent cap on annual increases in property tax proceeds was imposed. In FY 92, the five percent cap on property tax rate increases was eliminated and replaced with 'Truth in Taxation' requirements. The State of Idaho's 'Truth in Taxation' law also requires the City to publish notice and to seek comment at a Public Hearing regarding increases in the proposed tax rate.

In 1995, the Legislature, under the leadership of the Governor, adopted a new cap on property taxes. The new cap was an increase of no more than three percent over the prior year plus an increased amount related to new construction and growth. The "growth formula" applies the prior year tax rate to the amount of taxable market value of new construction and annexation. The "growth formula" taxable value was to be estimated through building permit information or the Occupancy Roll. The law was effective for all taxing entities retroactive to January 1, 1995.

In 1996, the Legislature modified the property tax law again to require that new construction be calculated by County Assessors through a new construction roll.

The "Three Percent Cap" and formula have significantly moderated the increases in property taxes for taxpayers. The Legislature has generally resisted changes during the decade since its adoption.

REGISTERED WARRANTS PAYABLE

The City has statutory authority to issue interest-bearing warrants. No registered warrants are currently outstanding. The City has administratively chosen to use other tools than warrants because of a commitment made during the refinancing of the City's revenue anticipation note debt in 1995.

REVENUE ANTICIPATION NOTES

The city has statutory authority to issue interest-bearing revenue anticipation notes. No revenue anticipation notes are currently outstanding. The City refinanced all outstanding RAN debt in 1995 and, as a result, was able to move to a current year property tax levy. Subsequent, the City has committed to avoid RAN debt in the tax supported funds.

BONDED INDEBTEDNESS

The Idaho State Code provides the city of Boise with the authority to issue long-term debt under limited circumstances. General obligation debt requires an approving vote of two-thirds of the electors in an election. The exception to this requirement is if the debt will be used for 'ordinary and necessary' municipal purposes or if it has maturity of one year or less.

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State law allows these debt issues to be sold and repaid without a vote of the electorate if facilities funded are ‘ordinary and necessary’ local government functions or if the commitment in the debt instruments is subject to an ‘annual appropriation’ clause or otherwise has a payment commitment of no longer than one year.

All debt under the ‘ordinary and necessary’ provisions and most under the “annual appropriation” are typically reviewed with a State judge to obtain judicial validation of the compliance of the issuance with the intent of the constitutional provision. Some revenue bonds require only a simple majority and can be used for facilities related to the source of revenue only.

On August 26, 2002, the City experienced an adverse ruling on a proposed debt issue for a new police headquarters and patrol precinct facility. The issue of debt issuance for tax supported facilities is an issue for which the Mayor and City Council have not developed a strategy in FY 2004 (as of September, 2003.)

GRANTS & OTHER INTERGOVERNMENTAL REVENUES

Federal reimbursement-type grants for the acquisition of fixed assets of proprietary fund types are recorded as intergovernmental receivables and contributed capital when the related expenditure/expenses are incurred.

The City projects federal grants in FY 2004 and 2005 from the Homeland Security program and from the Department of Housing and Urban Development (HUD) for the Community Development Block Grant (CDBG) and Housing programs. The City also projects grants from the Department of Transportation for transit programs and greenbelt projects. Additional grants are projected from the Federal Airport Administration (FAA) for airport facilities and from the Department of Education for Library Programs.