

# EXHIBIT A

## Budgeting and Financial Planning Policies

Presented to the City Council on August 27, 2024

1. **Balanced Budget.** Under Title 11, Oklahoma Statutes, Section 17-206, the budget of expenditures for a fund may not exceed the estimated revenues, including budgeted fund balance, for the fund.
2. **Municipal Budget Act.** The City of Oklahoma City originally chose to begin using and complying with the Municipal Budget Act (Title 11, Sections 17-201 through 17-218) on December 18, 1979 (Item VIII. B.) for its budget process. The City will continue to follow the provisions and requirements of the Municipal Budget Act in its annual budgeting process.
3. **Borrowing for Operations.** The City is prohibited, per the Oklahoma Constitution, from borrowing money for any City operations, capital expenditures or otherwise, in the absence of voter approval. ~~will not borrow from any external source to fund ongoing operations.~~
4. **Fund Balance<sup>1</sup>.** Fund Balance should not be budgeted as revenue to support ongoing operations in the annual budget. Fund Balance may be budgeted to fund one-time expenditures. Fund balance may be drawn upon for cash flow needs and may be used as revenue without amending the budget if other revenue sources in total fall short of the estimate used in the adopted budget.
5. **Reserves<sup>2</sup>.** To provide cash flow, meet unexpected needs, and minimize the disruption caused by decreases in revenues over the course of a fiscal year, City operating funds should maintain two types of reserves: contingency and operating reserve.
  - a. **Contingency.** Each City fund should include an appropriation adequate to fund a contingency account of a targeted amount of 2% of the fund's budgeted expenditures. As needs arise, appropriations may be transferred from the contingency account within legal and procedural limitations on transfers. The Municipal Budget Act specifies that no more than 10% of the total budget may be budgeted for miscellaneous purposes. This account would count as a miscellaneous purpose under the Municipal Budget Act because what it will be used for cannot be known.
  - b. **Operating Reserve.** Operating reserve is the fund balance carried forward into the next fiscal year that is not budgeted. Each City fund will maintain an operating reserve, although the requirements for operating reserve differ depending on the type of fund.

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<sup>1</sup> GFOA Best Practice: Fund Balance Guidelines for the General Fund.

<sup>2</sup> Ibid.

- i. **General Fund.** The General Fund shall maintain operating reserves at the beginning of each fiscal year in the amount of no less than 17% and no more than 22% of the total General Fund budget for that fiscal year. This equates to maintaining approximately 2-3 months of expenditures in operating reserves. The Government Finance Officers Association (GFOA) recommends a minimum of two months' worth of operating revenues or expenditures be maintained in operating reserve. General Fund operating reserves should be counter-cyclical; reserve requirements are higher when the financial condition of the City is better so that operating reserves may be drawn down should the financial condition worsen. If the operating reserve falls outside of the 17%-22% range, the City Manager will recommend appropriate action to address the situation. Should operating reserves fall below the minimum level, it will be the goal of the City to restore the operating reserve to the minimum level within two years. Should the operating reserve exceed the recommended maximum level, the City Manager may recommend that the excess be transferred to a capital maintenance reserve (see Section 5(c) "Capital Maintenance Reserve" below).
- ii. **Other Funds.** Any fund that supports personnel or other ongoing operating expenditures shall maintain operating reserves at a target level of at least 10% of the total budgeted expenditures of the fund for the ensuing fiscal year. For the purposes of this section, "budgeted expenditures" means total budgeted expenditures and budgeted transfers to other funds for the ensuing fiscal year for a fund. City enterprise funds that are fully supported by a trust of the City, such as the Oklahoma City Water Utilities Trust or the Oklahoma City Airports Trust, are excepted from this operating reserve requirement. Funds fully supported by a trust will follow the trust policy for operating reserve requirements.
- c. **Capital Maintenance Reserve<sup>3</sup>.** City facilities require regular capital maintenance to extend the life of the facility and to keep them functioning effectively. To ensure that City facilities are well maintained, a new Capital Maintenance Reserve Fund will be established. The fund shall be dedicated to the maintenance of City facilities, and the primary source of revenue in the fund shall be contributions from the General Fund when the operating reserve level in the General Fund exceeds the high end of the range, and the City Manager recommends a contribution be made to the Capital Maintenance Reserve Fund. Should the General Fund's operating reserve fall below 17%, the City Manager may recommend funds be transferred from the Capital Maintenance Reserve to the General Fund for liquidity purposes and bring the operating reserve back to the minimum levels recommended in this policy.

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<sup>3</sup> GFOA Best Practice: Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies.

- d. Reporting requirements.** The City Manager shall notify the Mayor and City Council of reserve and contingency levels for all funds in the proposed budget.
- 6. Performance-based Budget<sup>4</sup>.** The City Manager shall develop and present a budget that includes meaningful measures of the performance of City government in meeting its various service demands. Such measures should be tied to individual programs, address specific services or functions, and should measure the effectiveness and efficiency of services delivered rather than only the workload generated. Historical performance measures data and performance targets for the coming fiscal year shall be transmitted to the Mayor and City Council along with the proposed budget. The same information should be published in the Annual Budget Book. The City Manager shall consider the validity of the measures and the ability of departments to meet the expected level of performance in allocating funds in the proposed budget.
- 7. Scope of Budget.** The annual budget shall estimate revenues and make appropriations for spending on all City, State, and federal funds estimated to be available to the City during the fiscal year.
- a.** Several funds within the budget have differing controls over them than the adopted budget. These are Grant Funds, the Debt Service Fund, and the Bond Fund. While appropriations for these funds are contained in the annual budget, they are controlled by different sources than the annual budget.
    - i.** The annual budget will contain an estimate of revenues and expenditures in the federal, state, and private grant funds; however, the control of those funds is at the individual grant level, not at the broader fund level.
    - ii.** The Debt Service Fund, also referred to as the Sinking Fund, will be included in the annual budget; however, the County Excise Board approves the final Debt Service budget. The Finance Department will amend the annual budget to bring it in line with the final budget approved by the County Excise Boards for the counties in which Oklahoma City is located; however, it is the annual budget and State law, under Title 11, Section 17-207, which governs the Debt Service Fund budget.
  - b. Trust Budgets.** All trusts for which the City is the beneficiary must submit their annual budget to the City Council to be received by Council, so they are aware of the financial activity in those trusts.
- 8. Annual Budget Book.** In addition to the annual budget adopted by the City Council, the City shall make available an Annual Budget Book on the City's website. This book shall include

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<sup>4</sup> GFOA Best Practice: Performance Measures.

information that may be useful to residents, including information on programs, performance, and staffing levels.

## **9. Appropriations for Fiscal Year.**

- a. Level of Control.** The annual budget shall be filed with the State Auditor and Inspector as required by Title 11 Oklahoma Statutes, Section 17-209, to the level of specificity required by Title 11 Oklahoma Statutes, Section 17-213. The annual budget shall make appropriations specific to the fund, department, and general character of expenditure. Funds may be encumbered in accordance with Title 62 Oklahoma Statutes, Section 310.2 and the City Charter and Code, provided that the unencumbered, unexpended balance of the appropriation as a whole is not exceeded.
- b. Transfers.** The Oklahoma Municipal Budget Act (Oklahoma Statutes Title 11, section 17-201 et. seq) provides for certain transfers of unexpended and unencumbered appropriations by the chief executive officer or designee as authorized by the governing body. To streamline the process and decrease delays in processing, the following procedure is put in place:
  - i.** The City Manager may authorize transfers of any unexpended and unencumbered appropriation or any portion thereof from one account class (categories of budget as described in the Municipal Budget Act) to another within the same department or from one department to another within the same fund (except that no appropriation for debt service or other appropriation required by law or ordinance may be reduced below the minimum required).
  - ii.** The City Manager may designate the Assistant City Managers to authorize transfers.
  - iii.** Assistant City Managers shall authorize transfers between departments within the same fund.
  - iv.** The Budget Analyst shall authorize transfers between account classes within any department within the same fund except those involving Personnel Accounts (51). The Budget Director shall authorize transfers involving Personnel accounts.
  - v.** The City Manager shall authorize all transfers involving Non-Departmental contingency. The Budget Director shall authorize transfers involving Non-Departmental accounts that are not contingency.

- vi. The City Manager will inform the Council of all transfers through regular City Manager reports on adjustments to the budget by transfers.

**c. Fund Transfers / Payments.**

i. The City Manager, or their designee, may administratively transfer/pay City funds to: (1) public trusts whose sole beneficiary is the City of Oklahoma City and/or (2) irrevocable trusts intended for the exclusive use and benefit of eligible and voluntarily participating retired employees/beneficiaries of the City. Such payments/transfers shall be included on the regular Claims Report presented to the City Council.

ii. In accordance with the Oklahoma Municipal Budget Act, the City Manager, or their designee, may administratively transfer unexpended and unencumbered appropriation or any portion thereof from one department to another within the same fund; except that no appropriation for debt service or other appropriation required by law or ordinance shall be reduced below the minimums required.

**d. Lapsed appropriations.** The fiscal year ends on June 30th. State law, under Title 62 of Oklahoma Statutes Section 310.4, provides a 90-day period from June 30th to September 30th where claims for payment for goods or services ordered in the previous fiscal year can be made against appropriations from the prior fiscal year. After that time, no further claims can be made against prior year appropriations.

**e. Purchase Order (PO) Rollover Process.** PO's rolled over from the immediate prior fiscal year to the current year will be administratively reappropriated without the need of a budget amendment. This process is in compliance with the Section 17-206, item D of the Municipal Budget Act, which reads as follows:

Encumbrances for funds whose sole purpose is to account for grants and capital projects and/or any unexpended appropriation balances may be considered nonfiscal and excluded from the budget by the governing body, but shall be reappropriated to the same funds, accounts and for the same purposes for the successive fiscal year, unless the grant, project or purpose is designated or declared closed or completed by the governing body.

**10. Budget Amendments.** The annual budget shall be amended in accordance with Title 11 Oklahoma Statutes, Section 17-216.

- a. The governing body may amend the budget to make supplemental appropriations to any fund up to the amount of additional revenues which are available for current expenditures for the fund due to:
  - i. Revenues received or to be received from sources not anticipated in the budget for that year;
  - ii. Revenues received or to be received from anticipated sources but in excess of the budget estimates therefor; or
  - iii. Unexpended and unencumbered fund balances on hand at the end of the preceding fiscal year, which had not been anticipated or appropriated in the budget. Any appropriation authorizing the creation and indebtedness shall be governed by the applicable provisions of Article 10 of the Oklahoma Constitution.
- b. If at any time during the budget year it appears probable that revenues available will be insufficient to meet the amount appropriated or that, due to unforeseen emergencies, there is temporarily insufficient money in a particular fund to meet the requirements of appropriation for the fund, the governing body shall take action as it deems necessary. For that purpose, it may amend the budget to reduce one or more appropriations, or it may amend the budget to transfer money from one fund to another fund. Still, no appropriation for debt service may be reduced, and no appropriation may be reduced by more than the amount of the unencumbered and unexpended balance thereof. No transfer shall be made from the debt service fund to any other fund except as permitted by the terms of the bond issue or applicable law.
- c. A budget amendment as provided in this section authorizing supplemental appropriations or a decrease in the total appropriation of funds shall be adopted at a meeting of the governing body and filed with the municipal clerk and the State Auditor and Inspector. Any resolution amending the budget of any fund to recognize and appropriate fund balance shall state the reason for the amendment and the estimated impact upon reserve levels.

**11. Long-Term Planning<sup>5</sup>.** The City Manager shall, at least every other year, prepare and transmit to the Mayor and City Council a forecast of City revenues and expenditures for the ensuing five years and the major financial policy issues likely to be addressed in that five-year period.

**12. Decentralization.** The City Manager shall make every effort to involve departments in the preparation of the proposed budget and give managers maximum legal flexibility in encumbering

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<sup>5</sup> GFOA Best Practice: Long-Term Financial Planning.

and expending funds once the budget is adopted. See, e.g., Title 62 Oklahoma Statutes, Section 310.2.

- 13. Capital Expenditure.** Capital expenditure is the cost of new construction, renovation, acquisition, or capital maintenance of City infrastructure, facilities, or other capital investments, to ensure the continuation of service, enhance operations and promote economic development. The City will make efforts to fund capital expenditures through an increase in General Fund spending and commitment of “non-recurring” revenue sources. As a target, the City will work to budget 1-3% of the General Fund for capital expenditures and/or transfer to the Capital Improvement Projects Fund each year.
- 14. Capital Planning<sup>6</sup>.** Every other year, the City Manager shall submit a five-year capital improvement plan to the Mayor and City Council. This plan shall seek to ensure the adequate condition and sustainability of the City’s infrastructure, facilities, and capital investments. The Plan should also address the City Council’s priorities, federal and state mandates, and comply with the City’s current comprehensive plan.
- 15. Arbitrage Compliance.** To comply with federal regulations under the Internal Revenue Code (IRC), Section 148 on interest earnings on tax-exempt bonds, the City shall annually project payments to the federal government for arbitrage penalties, rebates, and other payments for the next five years. Funds that owe arbitrage penalties will pay their own costs each year.
- 16. Cost Allocation Plan<sup>7</sup>.** The City Manager shall annually prepare and distribute a cost allocation plan. This plan should allocate the costs of the various administrative departments, such as the Finance Department or Municipal Counselor Department, among all departments offering direct service to the public. The plan should conform to all requirements of federal funding agencies regarding such plans. The plan should be as simple as possible while maintaining equity. In preparing the cost allocation plan, the City Manager shall solicit input from both the administrative departments whose costs are allocated and the direct service departments to which costs are allocated. The City Manager may determine which allocated costs are paid from one department or fund to another based on the ability to pay but shall maintain equitable treatment of all departments or funds.
- 17. Internal Service Funds<sup>8</sup>.** The City shall establish separate funds for the provision of certain services that support the operations of all City Departments. Currently, Information Technology, Risk Management, Fleet Services, and the Print Shop are set up as internal service funds. The internal service funds shall establish methodologies for charging for their services to departments

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<sup>6</sup> GFOA Best Practice: Multi-Year Capital Planning.

<sup>7</sup> GFOA Best Practice: Pricing Internal Services.

<sup>8</sup> Ibid.

that fairly represent the level of service provided to each department. The internal service funds shall be self-sustaining and not subsidized so that the costs of their services may be accurately reflected in department budgets.

**18. Interest and Investment Income.** Interest and investment income earned by each fund shall be deposited in the same fund. All interest and investment income shall have the same purpose as that of the fund.

**19. Revenues.** The City must be sensitive to the balance between the need for services and the City's ability to support those services.

**a. Mix of Revenues.** The City should strive to maintain a diversified mix of revenues to balance the sources of revenue amongst taxpayers and to provide ongoing stability and predictability. The City will strive to keep a total revenue mix that encourages growth and keeps Oklahoma City economically competitive and a city of choice for people to live and do business.

**b. Charges for Services<sup>9</sup>.** As much as is reasonably possible, City services that provide direct benefit should be supported by fees and charges to provide maximum flexibility in the use of general City taxes to meet the cost of services of broader public benefit. Fees should recover full costs, including all direct costs, capital costs, department overhead, and Citywide overhead. Departments that impose fees or service charges should prepare and periodically update cost-of-service studies for such services.

**20. Retirement Contributions.** The City shall provide its share of contributions to the City's Police and Fire retirement systems in accordance with the state statutes establishing each system. Consistent with §40-62(b) of the Municipal Code, the City shall provide the actuarially determined contribution for all employees covered by the Oklahoma City Employee Retirement System (OCERS) to maintain a fully funded position, as determined in the annual report from the OCERS actuary, up to a maximum of 10%.

## **Glossary**

Definitions in quotes are taken directly from the Municipal Budget Act. Definitions without quotes are terms used by the City.

1. Account - An entity for recording specific revenues or expenditures, or for grouping related or similar classes of revenues and expenditures and recording them within a fund or department.

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<sup>9</sup> GFOA Best Practice: Establishing Government Charges and Fees



2. Account class – A category of expenditures used in the budget and based on the Municipal Budget Act. Specifically, Personal Services, Other Services and Charges, Materials and Supplies, Capital Outlay, Debt Service and Transfers.
3. Appropriated fund balance - Any fund balance appropriated for a fund for the budget year.
4. Appropriation - An authorization to expend or encumber revenues and fund balance of a fund.
5. Budget - A plan of financial operations for a fiscal year, including an estimate of proposed expenditures for given purposes and the proposed means for financing them.
6. Budget summary - A tabular listing of revenues by source and expenditures by fund and department within each fund for the budget year.
7. Budget year - The fiscal year for which a budget is prepared or being prepared.
8. Capital project - A project to acquire, develop, improve, or maintain City infrastructure, facilities, and/or capital assets (long-term investments held for a period of more than one year).
9. Chief executive officer - The mayor of an aldermanic city or a strong-mayor-council city, the mayor of a town, or the city manager or chief administrative officer as it may be defined by applicable law, charter, or ordinance.
10. Current year - The year in which the budget is prepared and adopted, or the fiscal year immediately preceding the budget year.
11. Contingency – A specific account that is budgeted that is for unanticipated expenditures.
12. Deficit - The excess of a fund's current liabilities and encumbrances over its current financial assets as reflected by its books of account.
13. Department - A functional unit within a fund which carries on a specific activity, such as a fire department or a police department within a general fund.
14. Estimated revenue - The amount of revenues estimated to be received during the budget year in each fund for which a budget is prepared.
15. Fiscal year - The annual period for reporting fiscal operations which begins and ends on dates as the Legislature provides or as provided by law (July 1 – June 30).

16. Fund - An independent fiscal and accounting entity with a self-balancing set of accounts to record cash and other financial resources, together with all liabilities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives.
17. Fund balance - The excess of a fund's current financial assets over its current liabilities and encumbrances, as reflected by its books of account.
18. Governing body - The city council of a city, the board of trustees of a town, or the legislative body of a municipality as it may be defined by applicable law or charter provision.
19. Immediate prior fiscal year - The year preceding the current year.
20. Levy - To impose ad valorem taxes or the total amount of ad valorem taxes for a purpose or entity.
21. Operating reserve - That portion of the fund balance that has not been appropriated in a budget year.
22. Purchase order – document approving the order of goods or services from a contracted vendor, and encumbering city funds in the amount of the order.
23. Municipality - Any incorporated city or town.