LOUISVILLE METRO
BUDGET BACKGROUND, PROCESS, AND FINANCIAL POLICIES
FISCAL YEAR 2013-2014

1. Organization

In the 2000 General Election, local voters approved consolidation of the governmental and corporate functions of the City of Louisville, Kentucky (the City) and the County of Jefferson, Kentucky (the County) into a single political entity, and pursuant to legislation enacted by the Kentucky General Assembly, the Louisville/Jefferson County Metro Government (the Metro Government or Metro Louisville) commenced operations effective January 6, 2003, replacing and superseding the governments of the City and the County. Neither the City nor the County continues to exist as an independent governmental entity and the boundaries of the City of Louisville and Jefferson County are now co-extensive.

All executive and administrative power of the consolidated local government is vested in the office of the Mayor. The Mayor of the consolidated local government possesses substantially all the power and authority possessed by the Mayor of the City of Louisville and the former Jefferson County Judge/Executive prior to the effective date. The legislative authority of the consolidated local government is vested in the Metro Council, composed of one member elected from each of twenty-six (26) council districts for staggered four-year terms.

2. Budgeting and Amending Procedures

An annual appropriated budget is adopted for the General Fund on a cash basis separate from accounting principles generally accepted in the United States of America (non-GAAP). The Governmental Fund Statements presented in the Comprehensive Annual Financial Report (CAFR) are prepared using a modified accrual basis in accordance with GAAP. An example of a difference between the budget and CAFR includes the elimination of non-economic transactions such as a charge for service by the Fleet Division of Public Works & Assets to maintain a vehicle for a specific department (budgetarily recorded as a revenue to the Fleet Division and an expense to the department, but eliminated in the CAFR presentation). Other examples include not budgeting for the mark-to-market accounting entry made at fiscal year-end to record any market rate change to Metro's investment portfolio or budgeting for specific levels of inventories throughout Metro Government.

All annual appropriations from the General Fund lapse at year-end, unless otherwise noted. The Revised Budget totals for Fiscal Year 2012-2013 presented herein may be minimally out of balance due to aggregate rounding of budget revisions that occur throughout the year; all budgets are balanced throughout the year at the smallest reporting level within Metro's financial system (the unit activity level).

On or before June 1 of each year, pursuant to state statute, the Mayor proposes an Executive Budget to the Metro Council, incorporating an estimate of revenues and recommended appropriations from the General Fund as well as a Capital Budget incorporating available sources of funding. The Metro Council may hold hearings and amend the Executive Budget. On or before June 30 of each year, as required by state statute, the Metro Council adopts the Executive Budget, as it may have been amended, as the approved budget for the fiscal year beginning July 1. An affirmative vote of a majority of the Metro Council is required to change the proposed appropriations or to revise revenue estimates contained in the Executive Budget. An affirmative vote of a majority of the Metro Council is also required to amend

the budget once it has been approved or to approve any supplemental appropriations, unless delegation is provisionally included in the annual budget ordinance(s).

All budget adjustments at the department level must be approved by the Chief Financial Officer consistent with the approved budget.

3. Definition of Fiscal Year, Capital Expenditures, and a Balanced Budget

Louisville Metro Government operates on a fiscal year which commences July 1 and ends June 30.

Metro Government defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Louisville Metro anticipates completing the Southwest Regional Library that was authorized in the FY13 capital budget. With the completion of the library in the spring of 2014, Metro Government will be adding an additional 4 full-time and 4 part-time positions to staff the 40,000 square foot library. This will be a partial cost in FY14 and a full annual cost in FY15; however, the increased personnel expense will be somewhat offset by the termination of the lease at the current southwest branch library. Metro Government is also in the process of negotiating an energy conservation contract that is anticipated to provide energy-saving measures through capital investment by the vendor. The energy savings will then be used to fund payments to the vendor for the capital improvements implemented.

The accompanying Summary of Annual Fund Balances table identifies resources and appropriations for the fund sources that are predominantly locally driven in terms of appropriation authority (as opposed to a specific grant fund for a specific purpose). The funds identified include the General Fund, Capital Fund, Municipal Aid/County Road Aid, and Community Development Fund. Metro Government's definition of a balanced budget is one in which each of those identified funds is balanced based on adopted current year revenue and entitlement projections. Such a budget would, at a minimum, maintain the Unassigned General Fund balance at the conclusion of the fiscal year.

Items identified as a non-recurring funding source are generally directed into capital project appropriations. Beyond maintaining an annually balanced budget, Metro Government has made strides to progress to a structurally balanced budget where appropriation needs and growth are consistent with revenue growth. The Mayor has made that objective a key part of Metro Government's Strategic Plan (Solve Systemic Budget Issues). This budget continues to build on the progress of the first two years of the Fischer Administration by:

- Limiting unscheduled overtime,
- Matching growth in compensation to projected growth in revenues,
- Refinancing bonds at a lower interest rate,
- Implementing an innovative wellness center to reduce health care costs, and
- Increasing Metro Government's efforts to collect property-fine related civil penalties.

LOUISVILLE METRO
BUDGET BACKGROUND, PROCESS, AND FINANCIAL POLICIES
FISCAL YEAR 2013-2014

4. Strategic Planning and Budget Process Timeline

In 2012, the Mayor's Office of Performance Improvement launched a comprehensive strategic planning process designed to translate the Mayor's multi-year vision and goals into a comprehensive strategic plan that cascades throughout Metro Government and aligns the strategic goals and initiatives of all Metro Departments and Agencies with the Administration's goals. The new planning cycle:

- Establishes a single, coordinated, strategic planning cycle for all of Metro Government aligned to the fiscal year.
- Enables the Mayor's vision and goals to inform department-level strategic, budgetary, and operational plans on an annual cycle.
- Ensures required decisions are made at the right time, by the right people, with the right information.

The planning cycle begins each year in August when the Mayor, Chiefs, and Directors review the local (city and state) and national trends affecting cities, the initiatives positively impacting other municipalities, the findings of recent reviews or audits (e.g., Merger 2.0 Report), the results from various citizen surveys, and the feedback received at monthly "Talk to Greg" sessions and other community venues. They then meet to discuss the internal strengths and weaknesses of Louisville Metro Government as well as the external opportunities and threats facing Louisville at present and in the future. Together, the Mayor and his leadership team distill the priorities for the city and develop the plan to capitalize on Louisville's strengths, take advantage of the opportunities before the city, address weaknesses, and mitigate the potential barriers of success in creating a city of life-long learning and great jobs, wellness and compassion.

Once drafted, the Louisville Metro Government Strategic Plan is shared with each department and agency for an assessment of feasibility and completeness. Upon finalization, departments and agencies use the plan to inform the development (or refinement) of their own strategic, budgetary, and operational plans.

Progress against the strategic plan is assessed through LouieStat (http://www.louiestat.louisvilleky.gov/) sessions (for those departments currently participating) and bi-monthly reviews submitted by each department to the Mayor's Office.

The annual budget process begins in January upon completion of each department's strategic plan. Questionnaires related to each department's strategic plan, service delivery plans, revenues, contracts, organizational structure, grants, and capital plans are distributed. Follow-up meetings between the Office of Management & Budget and each department take place in February and March. Detailed budget reviews are presented to the Mayor and his leadership team in April and early May along with legislative briefings to Metro Council. The Mayor's Recommended Budget is presented to Metro Council in late May and Metro Council conducts budget hearings during the month of June to review and adopt Louisville Metro's operating and capital budgets prior to July 1st.

LOUISVILLE METRO
BUDGET BACKGROUND, PROCESS, AND FINANCIAL POLICIES
FISCAL YEAR 2013-2014

Timeline:

August/September:	Mayor's Strategic Plan developed
October-December:	Department Strategic Plans developed
January:	Budget development questionnaires distributed
February-March:	Budget development meetings
April-May:	Budget reviews with Mayor and legislative briefings
May:	Mayor's Recommended Budget presented
June:	Metro Council budget hearings and adoption

5. Department Goals, Objectives, and Performance Measurements

Department goals and objectives are directly related to the Mayor's Strategic Plan. Each specific department's strategic plan and related goals and objectives may be found on the departmental website listed on each department's narrative page in the budget document. Each goal supports one of the Mayor's objectives in the overall Strategic Plan. The goals are divided into short-term (up to two years and under) and long-term (two to six years). Specific initiatives are listed to attain each goal. The Mayor's Strategic Plan may be found at: http://mayor.louisvilleky.gov/strategicplan

The Office of Performance Improvement (OPI) has initiated the LouieStat program to measure each department's success in reaching its goals. LouieStat, short for Louisville Statistics, is based on the successful CompStat (Computer Statistics) model started by the New York Police Department and used by the Louisville Metro Police Department. Under the vision and direction of Mayor Fischer, LouieStat builds off of successful adaptations of CompStat for cities such as Baltimore and the Mayor's own experience in driving continual improvement in the private sector.

Through LouieStat, OPI helps departments and agencies evaluate how well they are doing on meeting their mission and goals and supports managers in making more informed, data-driven decisions. This is accomplished through the identification, tracking, and analysis of key performance indicators (KPIs) of success specific to the department or agency. In LouieStat, information is gathered on an array of performance indicators. For example, Codes & Regulations includes a KPI on addressing vacant lot maintenance. This information is analyzed to identify root causes driving performance. Managers from each department meet with the Mayor and his Senior Leadership Team to discuss results and work together to identify solutions to challenges and opportunities to continually improve. The LouieStat reports may be found at: http://louiestat.louisvilleky.gov/

6. Short-Term Factors in Budget Development

Short-term factors that influenced the FY13 base budget include several non-recurring revenue items due to the collection of multiple years' worth of Public Service Corporations tax bills related to assessment dispute resolution (declining $4.2M in FY14), an additional payroll cycle for many of the city's residents due to the fiscal year calendar (estimated at an approximate amount of $2.3M), and an estimated $2.9M benefit of prior year tax collections due to a state tax amnesty program that ended in FY13. These items were removed for FY14 revenue projection purposes and the increased revenue that they brought in FY13 has been used to fund pay-go capital in FY14 and to fund the potential payment of a judgment related to interest on back pension payments from the Michael Hasken et al. vs. City of Louisville, et al. claim.

7. Long-Range Factors in Budget Development

As part of the Mayor's Strategic Plan, Louisville Metro continues to focus on structurally balancing the budget by matching the current year revenues with the ongoing operating, capital, and debt service expenditure base. To achieve this long-range goal, the Mayor has focused on gaining legislative authority for the residents of Jefferson County to be allowed to vote for a local option sales tax to fund infrastructure improvements. This legislative initiative has been termed Local Investments for Transformation, or LIFT.

Louisville Metro Government has also urged pension reform at the state level to make pension plans more affordable and properly funded. The 2013A GO Bond for the Southwest Regional Library marks the first new money GO Bond issuance under the Fischer Administration—amortization of existing debt has also been a priority in providing structural balance. As indicated in the debt service summary section, the decrease in annual debt service will begin in FY16. Lastly, Louisville Metro is in the process of developing a 25-year vision plan. Once this plan is complete, prioritized needs will inform future budget funding decisions.

LOUISVILLE METRO
BUDGET BACKGROUND, PROCESS, AND FINANCIAL POLICIES
FISCAL YEAR 2013-2014

8. Service Level Changes & Reorganizations

The FY14 budget includes the following service level changes and reorganizations:

- Eight (four full-time and four part-time) additional positions have been funded within the Library's budget to staff the 40,000 square foot Southwest Regional Library that is expected to open in the spring of 2014
- Five additional full-time positions have been funded within Metro Animal Services to improve animal care and facilitate more adoptions
- Two additional full-time positions have been funded within the Jefferson County Attorney's Office to increase civil lien collection activities
- One additional victim's advocate position has been funded within the Commonwealth Attorney's Office
- Two additional full-time positions have been funded within Public Works & Assets for project management along with one part-time property leasing manager
- One additional full-time position has been funded in Metro Technology Services to support Louisville Metro Police technology initiatives
- One additional full-time position has been funded in the Office of Management & Budget to provide financial system training internally and externally
- An additional electrical inspector position has been funded within Codes & Regulations to improve permitting response times
- A real estate development position has been added to Economic Growth & Innovation to improve job creation prospects through land development
- A Vacant and Abandoned Properties (VAP) unit has been added to Community Services & Revitalization to focus on reducing the backlog of properties in disrepair
- An urban forester position has been added to Parks & Recreation to improve the maintenance of Metro's tree inventory
- A new ombudsman position within the Human Relations Commission is funded in the FY14 budget
- The Office of Performance Improvement is being presented as its own department for the first time in FY14—this does not entail the hiring of additional people
- An Accounts Receivable unit within the Office of Management & Budget that was formed during FY13 will be ongoing for a full year in FY14 to pursue property-fine related collections

- The Director of Safe Neighborhoods within Public Health & Wellness that was created as a result of the recommendation of the Violence Prevention Work Group during FY13 is fully funded in the FY14 budget

- It is anticipated that during FY14, the KentuckianaWorks division of Economic Growth & Innovation will become a component unit of Louisville Metro

9. Financial Policies

Metro Government maintains numerous financial policies related to revenue collection, risk management, procurement, investments, accounting procedures, payroll, budgeting procedures, and accounts payable to name a few. Three policies (briefly quoted here) of note are:

Unrestricted Fund Balance Policy:

In managing its Unrestricted General Fund Balance (Financial Stabilization Fund), it is Louisville's policy to:

- Maintain a Financial Stabilization Fund balance between one and two months of monthly average current year general fund budgeted expenditures
- Generate additional revenues or reduce expenditures to maintain or replenish the Financial Stabilization Fund balance to meet the policy amount

Debt Policy:

In managing its debt, it is Louisville's policy to:

- Achieve the lowest cost of capital
- Ensure the highest credit ratings possible consistent with the current economic and demographic conditions of the community
- Assure access to the capital credit markets at all times
- Preserve financial flexibility as it relates to the timing and structure of debt
- Manage interest rate risk exposure

Statement of Investment Policy:

These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

It shall be the policy of the Metro Government that all investments and investment practices meet or exceed all statutes governing the investment of public funds in Kentucky and investment restrictions imposed by bond covenants. Further, accounting for the investments of the Metro

Government shall be consistent with guidelines of the Governmental Accounting Standards Board (GASB).

10. Fund Balance Information

Fund balance is defined as the difference between assets and liabilities. Louisville Metro presents four primary governmental funds in its CAFR each year: General Fund, Special Revenue Fund, Capital Projects Fund, and Non-major Governmental Funds. The fund balance totals are then identified into the following categories: Non-spendable, Restricted, Committed, Assigned, and Unassigned. A full definition of each category may be found in Note 1. (Summary of Significant Accounting Policies) Part O (Fund Balances) of the FY12 CAFR (http://www.louisvilleky.gov/NR/rdonlyres/AD7636CD-4CAA-4F41-B4F5-127AB02ACB5E/0/FY12CAFRFinal.pdf). The only fund to have an Unassigned Fund Balance is the General Fund. A summary of the FY12 CAFR along with projected changes to the Unassigned Fund Balance is provided here:

FUND BALANCE SUMMARY (In millions)

	General Fund	Special Revenue Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
6/30/12 Fund Balance	$74.9	$45.5	$44.4	$25.1	$189.9

UNASSIGNED GENERAL FUND BALANCE PROJECTED ACTIVITY (In millions)

	Amount	**Note**
6/30/11 Fund Balance	$61.5	
6/30/12 Fund Balance	62.4	
Ordinance No. 68, Series 2012	(7.0)	Payment to the Kentucky Retirement System (KRS) related to firefighter overtime pay
Ordinance No. 120, Series 2012	3.5	FY13 Budget authorization to replenish Fund Balance
Estimated 6/30/13 Fund Balance	$58.9	
Budgeted FY14 Change	0.5	FY14 Budget authorization to replenish Fund Balance
Budgeted FY14 Fund Balance	$59.4	

The Metro Government reports the following major governmental funds:

The **General Fund** is the Government's primary operating fund which accounts for all of the activities of the general operations of the Government, except those required to be accounted for in another fund.

The **Special Revenue Fund** is used to account for the collection and disbursement of earmarked money, primarily federal and state grant money.

The **Capital Projects Fund** is used to account for the acquisition or construction of general capital assets.

The Metro Government reports the following Non-major Governmental Funds:

The **Debt Service Fund** is used to account for resources set aside to meet current and future debt service requirements on general long term debt.

The **Capital Projects Fund** of certain blended component units accounts for the acquisition or construction of general capital assets.

The **Special Purpose Capital Fund** is used to account for the acquisition of assets such as vehicles and data processing equipment.

Proprietary funds distinguish operating revenues and expenses from non-operating items.

The **Internal Service Fund**, a proprietary fund, accounts for the cost of purchased insurance, the operation and administration of the Metro Government's self-insurance programs, and the cost of administering and collecting the Metro Government's occupational tax.

All other Metro Government proprietary activities qualify and are reported as discretely presented component units.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments. Metro Government reports the following fiduciary funds:

Agency Funds, which are custodial in nature, are used to account for assets held by elected officials and other departments as agents for individuals, governmental entities and others.

The **Private Purpose Trust** is used to account for a discount loan program.

Pension Benefit and Trust Funds are used to account for the Firefighters' Pension Fund and the Policemen's Retirement Fund.