Budget Management Process

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Introduction

Like most local jurisdictions, Cuyahoga County continues to see an increase in federal and state mandates without a corresponding increase in financial support. As a result, it has been necessary for the County to assume greater financial responsibility for traditional services. This has led to greater scrutiny of the allocation of resources through the budget development process. The procedures used to set final appropriations have been further refined so that the overall process:

- Facilitates the formulation of policies by the Board of Commissioners and result in a budget plan based on the Commissioners’ articulated public policies.
- Communicates to officials and the public the policies of their government and its performance against those standards.
- Tracks expenditures against available revenues for the budget period and the foreseeable future, while promoting the prudent use of public resources and the effective delivery of public services.
- Culminates in a formal budget document that is timely, accurate and balanced, and does not overwhelm elected officials and the public with detail.
Cuyahoga County’s fiscal year coincides with the January – December calendar year. The development of the following year’s operating budgets (effective January 1) begins the previous June when the required Tax Budget is prepared. The Tax Budget must be in the hands of the County Budget Commission by July 20. The Tax Budget has the following significant attributes:

- **It establishes the Real Estate and Tangible Personal Property Tax rates.** Over one third of the General Fund operating revenue comes from property taxes, and the importance of establishing the need for this resource cannot be overstated.
- **It provides the basis for the County’s official Certificate of Estimated Resources.** By law the County cannot adopt an appropriations budget which exceeds the Certificate. This document establishes the outside limits on spending.
- **It establishes the share of the State Local Government Fund received by the County in the budget year.**

The passage of the Tax Budget coincides with the annual Midyear Review conducted by the Office of Budget and Management (OBM). The OBM examines spending patterns and calculates variances (for both revenue and expenses) in the current year operating budget on a quarterly basis. The July review is particularly important since recommended changes to the appropriations, together with the resources estimated in the Tax Budget, are the basis for calculating the base level appropriations for the succeeding budget cycle.
There are two major components of the development of the Operating Budget: Budget Allocations and the Performance Plan.

A Budget Allocation is the estimate of revenues and resources required to sustain the current level of operations for the budget year. The Base Budget Allocation is the current year’s appropriation (at the time of the midyear review) adjusted for known and agreed upon changes anticipated in the budget year. New or expanded programs and increases in staffing levels are submitted separately as Decision Items. Decision Items are evaluated by the Office of Budget and Management and approved by the County Administrator and the Board of County Commissioners.

Each agency and department is required to complete a Performance Measurement Plan on an annual basis as part of their budget submission. The Performance Measurement Plan submitted by the agencies consists of the following:

- **The agency/department’s mission statement**
- **The goals and objectives for the year**
- **The identification of outcomes the agency expects to achieve in the following year**
- **The determination of how organizations will measure their success in realizing these outcomes**
- **Linkage of organizational performance with the County priorities of:**
  - **Health and Safety of its citizens**
  - **Fiscal Integrity**
  - **Economic Independence and Self-sufficiency**
Budget Cycle & Process

• In order to develop the base budget allocations, the OBM analyzes current and anticipated policies and completes a thorough analysis of the Midyear review, which includes a comparison of current year appropriations and expenditure levels, a review of supporting revenue, staffing trends, analysis of service/program outcomes, as well as any related legislative or policy changes. Following this analysis, budget parameters are established that must be approved by the County Administrator and the Board of County Commissioners.

• For 2010, the budget was based on 2nd quarter expenditure forecast from the 2009 midyear analysis. All personnel allocations were adjusted to reflect savings attributed to the Early Retirement Incentive Program and from five furlough days in 2010. For county agencies with self-supporting revenues, their budgets were limited to current available resources. Additional funding requests were limited unless county agencies reallocated existing allocations to meet the proposed need.

Once the parameters are established, the 2010 budget packets are then distributed to the agencies and departments, which include:

- the base budget allocations detailing the methodology, specific computations, and assumptions used to arrive at the base budget,
- the procedure for requesting base budget adjustments, and
- the procedure to submit up to three decision items for consideration. Given the current financial constraints in the County, coupled with future expense and revenue projections, Decision Items were not approved for the 2009 or the 2010 budgets.
- the procedure for submitted budget reductions
• The OBM provides hands-on instruction to those agencies/departments completing their budget requests using OBM’s budget and reporting program (BRASS). For those agencies lacking BRASS access, analysts enter the information submitted.

• Requests are organized into functional groupings and prioritized by the Funding of Services ranking chart. The OBM researches all requests for base adjustments analyzing the requirement, rationale, and financial impact of each request. During October, revenue projections are finalized and a perspective on overall expenditure demands is developed. The results are conveyed to the County Administrator who conducts staff level hearings through October and November. Negotiations on Base Budget Adjustments are generally between the agencies and the OBM.

• Public Hearings are held in late November and early December. Department heads, elected officials, or the general public publicly present requests and concerns regarding budget allocations and/or funding priorities. An attempt is made to correlate competing demands with available resources as a consensus develops among Board members.

• Executive Sessions are held with the Board to discuss remaining details and finalize appropriations. It has been the policy of the Commissioners to adopt the final budget prior to the beginning of the fiscal year, even though Ohio law allows deferral of the annual resolution until April 1. The 2010 Budget was adopted on December 10, 2009.
Appropriations are legal limits established by the County Commissioners on the spending authority of agencies and departments. Expenditure limits are maintained by the computerized Financial Account Management Information System (FAMIS) which rejects any transaction exceeding appropriation levels. In this accounting system, expenditures are added to encumbrances, and the sum is never permitted to exceed the appropriation level approved by the County Commissioners.

Revenue and expenditure projections are updated quarterly and a review of accounts is completed and prepared on a monthly and quarterly basis by the OBM for the County Administrator and the Commissioners. The review compares current expenditure levels and revenue performance to appropriation and projects annual activity. The need for appropriation adjustments is assessed and made as needed to accommodate changing circumstances within resource limits. Generally, agencies and departments are expected to operate within their total appropriations for the year, and variances must be justified before budget amendments are approved.
A budget is a spending plan predicated on estimates and assumptions. From time to time basic assumptions change, for example when a new grant is awarded. The plan, then, must be amended to properly record the new revenue source and its related expenditures.

Estimated revenue or expenditure appropriations can be increased, decreased, or transferred from one budget entity to another. A budget entity is usually a division of a department and is designated in FAMIS by an eight-character, alphanumeric code called an index code. Each index code is divided into revenue or expenditure characters, or groupings of similar fund sources or costs. These three expenditure characters are Personal Services, Other Expenses, and Capital Outlay. It is at this level that formal appropriation transfers take place and these transactions require the approval of the Board of Commissioners. There are numerous budget lines within each character called objects, between which appropriation may be adjusted at the request of an agency. For example, the Personal Services character includes the following objects: non-bargaining salaries, bargaining salaries, PERS, flex benefits, and Medicare. Requested budget adjustments between objects, but within the same character, are made following the review and approval of the OBM.
**Revenues**

In order to increase estimated revenues, clear evidence of a new or increased revenue source or the need to revise a projection must exist. This usually consists of an allocation letter or other written documentation, or a trend analysis that justifies a change. Requests for increases originate in the OBM for the General Fund and in various agencies or departments for most other funds. The Auditor controls the estimates for property taxes and the State Local Government Fund. The OBM prepares the necessary forms for any changes in the Certificate of Resources, the document that establishes appropriation limits, and notifies the County Auditor of its recommendations. The Auditor issues the amended Certificate of Resources and the Commissioners have the authority to make related expenditure appropriations.

Estimated revenues are reduced when a funding source notifies the County of reduced support. The agency or department informs the OBM, which requests that the County Auditor reduce the Certificate of Resources. This is a typical occurrence with a grant or Special Revenue fund.

The Commissioners become involved in cases where the related expenditure appropriations are no longer supported by revenue projections. If the Board elects to subsidize a grant or special revenue fund, it approves a General Fund transfer. If no subsidy increase is made to offset the revenue loss, the appropriations must be reduced by resolution of the Board.
Expenditures

Expenditure appropriations are increased by resolution of the Board of Commissioners when spending is expected to exceed approved appropriations. The most common increases are linked to grant awards and increases in federal and State allocations. Adjustments are also made when the original appropriations were based on overly conservative or erroneous assumptions, or for reasons beyond the control of the department/officials.

As explained above, the Commissioners are limited in their ability to appropriate funds by the Certificate of Resources. Expenditure appropriations are occasionally reduced to reflect materially lower trends than originally anticipated. This happens when incorrect or excessively liberal assumptions were used in setting budgets, when program funding has been cut, or when other circumstances have changed since passage of the budget resolution. All reductions to appropriations are processed through the OBM and the County Auditor and require the approval of the Board of Commissioners.
The County adopts budgets for a number of agencies and departments, including a variety of functions and programs, funds and subfunds, and characters, or revenue and cost summary categories. The reports presented throughout the Adopted Budget Plan sort the data according to the organizations being examined, the services being delivered, and/or the accounting entities under scrutiny.

In proceeding through the Budget Plan, it is important to note that financial information is provided for comparison purposes only. These are not and should not be construed as the financial statements of the County, which are presented in the Comprehensive Annual Financial Report (CAFR), which is prepared by the County Auditor. Not only are the budgeting and accounting methods vastly different, but the reporting entities differ as well.

The major difference between the budget basis and the Generally Accepted Accounting Principals (GAAP) basis method of accounting is that under the budget basis, revenues are recorded when received as opposed to when they become measurable and available. Expenditures are recorded when paid, as opposed to when they are incurred. Encumbered amounts are treated as expenditures
Cuyahoga County budgets for the Board of County Commissioners and the departments under their authority (e.g., The Departments of Children and Family Services, Justice Affairs, and Development), other Elected Officials (e.g., the County Auditor, the County Prosecutor, and the courts) and independent Boards and Commissions (e.g., the Community Mental Health Board, the Board of Developmental Disabilities, and the Cuyahoga Planning Commission.) Since Ohio law governing the Commissioners’ authority to appropriate funds varies by organization, this three-level grouping has evolved.

The Commissioners have the full authority to appropriate funds for operations for both their own agencies and other Elected Officials. Although the Commissioners have full authority to appropriate funds for other Elected Officials, their approval of specific expenditures by these officials is not required, except in the cases of contractual agreements and purchases over an amount specified by Ohio law.

Their authority is further with regard to the independent Boards and Commissions. For some of these, the Commissioners have full appropriating authority (e.g., the Board of Developmental Disabilities), whereas for others their ability to control expenditures is confined to the provision of operating subsidies (e.g., the Community Mental Health Board, the Alcohol and Drug Addiction Services Board, and the MetroHealth Hospital System.).

The budget document only includes the operating budgets of those agencies for which the County Commissioners authorize appropriations. It does not include the operating budgets of agencies to which the County provides a subsidy, but does not control their budget, including, but not limited to:

- The MetroHealth Hospital System - the County hospital system
- Alcohol Drug and Mental Health Services Board of Cuyahoga County * Please note that the Alcohol and Drug Assistance Services Board of Cuyahoga County and the Cuyahoga County Community Mental Health Board consolidated into the ADAMH Services Board effective July 2009.
The Organizational Budget Entity

The organizations listed below are not included in either the appropriations measure or the CAFR. These entities, except for the General Health District, are classified as separate corporate and political governmental entities under Ohio law. In each case the County does not exercise management or financial oversight responsibility and does not influence daily operations, approve budgets, or provide substantial funding.

- **Cleveland-Cuyahoga County Port Authority** - conducts port development and operations
- **Cleveland Metropolitan Park District** - maintains and operates a park and land reserve district
- **Cuyahoga Community College** - provides higher education opportunities
- **Cuyahoga County Public Library District** - operates and maintains a countywide public library system
- **Cuyahoga Metropolitan Housing Authority** - provides public housing services
- **Greater Cleveland Regional Transit Authority** - operates and maintains a public transportation system
- **Northeast Ohio Regional Sewer District** - operates and maintains a storm and sanitary sewer system
- **County General Health District** - provides public health services
Overview of County Functions, Departments, and Funds

In determining budget allocations for the County as a whole, it has been the practice in recent years to concentrate on the functions and programs of government. It makes sense to emphasize the overall services provided, as opposed to the agencies or departments providing them, and set goals in relation to these outputs and intended outcomes.

These goals, however, can only be achieved through the efforts of personnel working in the County’s many departments. Since the County budgets by function, it can be difficult to trace the activities of an agency that is involved in the delivery of more than one program. Readers primarily interested in the status of a department can trace those budgets in the Department Index at the end of this volume. Additionally, total budgets for each agency and department are included in the performance plans in the Departmental Performance section.

In the following paragraphs, each function of County government is briefly described. A chart accompanies each description and illustrates the programs under each function and the departments operating within each program. More descriptions, goals, objectives, initiatives and budget data are found in the Departmental Performance and Program Budgets section of this document.

General Government

The central operation of County government is carried out by agencies funded in the General Government area of the budget, including general administration, fiscal management, personnel services, record keeping, elections operations, property management and support services. These agencies include, but are not limited to, the County Auditor, the County Treasurer, The County Engineer, the Department of Human Resources, and the Office of Budget and Management.
Overview of County Functions, Departments, and Funds

**Judicial**

The judicial area of the County’s budget include agencies that provide services that ensure the safety of citizens through the enforcement of laws and the operations of adult and juvenile correctional and rehabilitation facilities, as well as agencies that administer justice and enforce legal mandates via the various courts of law. Additionally, this area includes agencies that provide administrative and/or technical assistance services that support public safety and the administration of justice. These agencies include, but are not limited to, the Child Support Enforcement Agency, the Clerk of Courts, the Coroner, the Court of Appeals, the Court of Common Pleas, Domestic Relations Court, Juvenile Court, the County Prosecutor, the Public Defender, and the County Sheriff.

**Social Services**

Included here are agencies that fulfill the County’s legal or moral responsibility to assist the most vulnerable members of the community. The services provided include, but are not limited to, direct provision of income, food, and shelter; protection of or referral to services to strengthen the person’s functioning ability including counseling, training and employment. Agencies included in this area of government include, but are not limited to, the Department of Children and Family Services, the Department of Employment and Family Services, and the Department of Senior and Adult Services. The County fulfills its mandate to provide educational services for mentally retarded and developmentally disabled citizens through programs funded by a special levy and administered through the County Board of Mental Retardation and Developmental Disabilities.

**Health and Safety**

The County provides subsidies to various organizations that promote health and safety in the community. Services in this area include the management of emergency services, animal control, treatment for alcohol and substance abuse disorders, treatment and supportive services for the mentally ill, and a hospital system, which provides the full range of outpatient and inpatient medical care (e.g. primary, acute, rehabilitative, and long term.)
Overview of County Functions, Departments, and Funds

**Development**

Federal and local dollars are used to promote economic and community development in the County. Activities in this area include housing rehabilitation and community development in suburban communities, encouragement of business development via grants and low-interest loans, and the promotion of job retention and expansion.

**Public Works**

The County plays a key role in maintaining the infrastructure within its boundaries. It is responsible for the maintenance, repair, and construction of various bridges, roadways, and sewer lines. In addition to four public parking garages in downtown Cleveland and employee-only lots at various locations, the County owns and operates an airport.

**Miscellaneous**

Funding is provided for obligations not included in other function categories, which are either assigned to the County by the Ohio Revised Code or for services that the County has voluntarily undertaken in order to promote the health, safety, and vitality of the community. Miscellaneous spending has been significantly restricted in recent years due to the limitations of the County’s General Fund.
Cuyahoga County maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds. These include: the general, human services, health and human services levy, County Board of Mental Retardation and health and community services funds. Data from the other five governmental funds are combined into a single, aggregated presentation.

Cuyahoga County adopts an annual appropriated budget for its general fund and the other major funds as well as the Motor Vehicle Tax and Debt Service funds.

**Governmental Funds**

**General Fund:** This fund accounts for the general operating revenues and expenditures of the County not recorded elsewhere. The primary revenue sources are sales and use taxes, property taxes, local government fund receipts, investment earnings, and various service fees.

**Special Revenue Fund:** Special revenue funds are created to account for revenues from specific taxes or other revenue sources which, by law, are designated to finance particular functions or activities of government, including categorical grants.

**Debt Service Fund:** The Debt Service fund is used to account for revenues received and used to pay principal and interest on debt which the County has incurred through the sale of bonds or notes. Revenues are derived primarily from property taxes.

**Capital Project Funds:** These funds are used to account for the acquisition, construction, or renovation of capital assets other than those financed by Proprietary funds. Resources are derived from the issuance of debt, receipts from the General and Special Revenue funds, and capital grant programs.
County Fund Structure

Proprietary Funds

Enterprise Funds: These funds are used to account for agencies or departments that provide services (business-type activities) that are financed primarily by user charges. Both operating and capital activity can be included in these funds. Enterprise funds are expected to generate at least 50% of their total revenue from charges and user fees.

Internal Service Funds: These funds are used to account for the cost of goods or services provided by County departments to other County departments and funds on a cost-reimbursement basis. Revenues generally take the form of chargebacks to the fund that received the services.

Fiduciary Funds

Agency Funds: These funds are used to account for assets held by the County as an agent for other governments, other funds, and individuals. These assets include property and other taxes as well as other intergovernmental resources that have been collected and will be distributed to other taxing districts in Cuyahoga County.
Measurement Focus & Basis of Accounting For Reporting Purposes

• The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. State and local government fund shared revenues are recognized when the provider government recognizes its liability to the County. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

• Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

• Property taxes, sales and use taxes, other tax, state local government funds, licenses and permits and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.
Affirmation of County’s Budget & Financial Processes

The County has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) of the United States and Canada for its Comprehensive Annual Financial Report every year since the fiscal year ending December 31, 1983, except for 1993. The 2009 CAFR is pending award later this year. The County has also received the Distinguished Budget Presentation Award from the GFOA each year that it has submitted since 1988. The County takes great pride in these achievements and fully intends to produce the CAFR and Budget Plan in this and succeeding years in conformance with the highest possible standards.