
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 18, 2008

IBA Report Number: 08-83

City Council Meeting Date: July 21, 2008

Item Number: 202

Fiscal Year 2009 Appropriation Ordinance and Revisions to the City's Reserve Policy

OVERVIEW

The Annual Appropriation Ordinance is the spending authority for the budget and is required by City Charter Section 71. As prescribed by the Charter, the Ordinance shall be subject to two public hearings and must be adopted in July.

The Fiscal Year 2009 Budget, as passed by the City Council and approved by the Mayor, is the basis for the development of the Annual Appropriation Ordinance. This Ordinance is not subject to Mayoral veto (Charter Section 280(a)(4) and 290(d)).

City Charter Section 71 prescribes that in July of each year the City Council must pass an appropriation ordinance, which becomes the City's legal budget spending authority for the fiscal year.

Additionally, according to Charter Section 73, only the City Council has the authority to make any appropriation changes

throughout the fiscal year. However, the IBA recommends that the City Council choose to delegate some of their Charter authority, via the Appropriation Ordinance, in order to expedite certain routine financial matters. The Appropriation Ordinance establishes a comprehensive framework for how the budget is to be managed throughout the fiscal year, including the proper delegation of Council authority, and appropriates specific budget dollars for the fiscal year.

Item 202 on the Council docket is the first public hearing for the Fiscal Year 2009 Appropriation Ordinance. Included is a requested action to revise the City's Reserve Policy. The second public hearing and introduction and adoption of the Appropriation Ordinance are scheduled to occur on July 28, 2008.

FISCAL/POLICY DISCUSSION

Fiscal Year 2009 Appropriation Ordinance

The Budget and Finance Committee reviewed the Fiscal Year 2009 Appropriation Ordinance at its July 9, 2008 meeting. The Financial Management Department presented the proposed changes to the Appropriation Ordinance, consisting primarily of language revisions needed to address changed circumstances, including the separation of duties and change in title of the City Auditor and Comptroller due to the passage of Proposition C in June 2008, and the adoption of the Reserve Policy by the City Council in November 2007.

Prior to the Committee meeting, the Financial Management Department provided draft documents to the IBA, and responded to several questions and comments provided by our office. Input from the IBA has been incorporated in several areas, and the IBA appreciates the opportunity to review and comment on important documents, such as this, in advance.

The Financial Management Director issued a memorandum on Friday, July 18 to respond to specific questions that were raised at the Budget and Finance Committee meeting. Attached to the memorandum is the final change letter. The change letter reflects the changes made to the Proposed Fiscal Year 2009 Budget for each department, in order to arrive at the Final Fiscal Year 2009 Budget. Changes are categorized as either called for in the Mayor's May Revision, or by Council's action. Additional Budget and Finance Committee questions regarding the Appropriation Ordinance's Section 15, which is related to the authorization of payment of legal fees, were referred to the City Attorney. These issues will likely require additional discussion at the Council meeting.

Revisions to the Reserve Policy

Included in the requested actions are revisions to the Reserve Policy. The revisions are desired to clarify terminology related to the General Fund reserves, specifically indicating that the General Fund Reserves include the Emergency Reserves, the Appropriated Reserves and the Unappropriated Reserves. In the previous version of the Reserve Policy, Unappropriated Reserves was not a separately defined term, and was used interchangeably with Emergency Reserves. However, in practice, these terms represent two distinct reserves, with differing uses and requirements, which led to some confusion. The requested revisions provide needed clarification and provide consistency with the terminology utilized in the Appropriation Ordinance, and the IBA recommends the adoption of the revised Reserve Policy. The revisions to the Reserve Policy were provided to the Budget and Finance Committee meeting on July 9, as an informational item only.

CONCLUSION

The IBA recommends that the City Council adopt the Fiscal Year 2009 Appropriation Ordinance, following the two required public hearings. The second public hearing and introduction and adoption of the Appropriation Ordinance are scheduled to occur on July 28, 2008. In addition, the IBA recommends the Council approve the requested revisions to the Reserve Policy, in order to clarify terminology and provide consistency with the Appropriation Ordinance.

[SIGNED]

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Approved: Andrea Tevlin
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