
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 9, 2010

IBA Report Number: 10-69

Budget and Finance Committee Meeting Date: September 15, 2010

Item Number: 4a

Proposed Changes to Budget Policy Regarding Budget Monitoring Process

OVERVIEW

At the City Council meeting of June 14, 2010, the City Council adopted the Fiscal Year 2011 Budget, and directed that the City's Budget Policy be amended to incorporate changes to the Budget Monitoring process, as recommended by the IBA. These changes were prompted by the delayed recommendations provided to the City Council to address the FY 2010 General Fund budgetary shortfall, which negatively impacted the City Council's ability to make final decisions necessary to adopt the FY 2011 budget in time to meet Charter-required deadlines.

This report presents proposed changes to the Budget Policy to incorporate timing improvements to the Budget Monitoring process to prevent these complications from being repeated.

FISCAL/POLICY DISCUSSION

IBA Previous Suggestions

The IBA previously suggested improvements to the Budget Monitoring process, which were adopted by the Council in June 2010, as follows:

1. When a year-end deficit is projected in the Mid-Year Monitoring Report, action should be taken immediately to correct the budget through mid-year budget adjustments;
2. When a year-end deficit is still projected in the Year-End Report, solutions eliminating it should be proposed immediately, and Council should be given sufficient opportunity to provide input on proposed solutions;
3. The Year-End Report (including recommendations for eliminating any projected current year deficit) should be provided to the Council in advance of or on the same day as the

Council's first scheduled meeting on budget deliberations/decisions on the upcoming fiscal year budget.

Since that time, the IBA discussed the proposed changes to the Budget Policy with the Chief Operating Officer and the Chief Financial Officer. Of the three changes, the requirement to immediately correct projected deficits at the time of the Mid-Year Monitoring Report appeared to cause the greatest concern.

It was discussed that, at the time of the Mid-Year Report, revenue and expenditure projections are still subject to significant change prior to the end of the fiscal year, and premature efforts to mitigate a projected shortfall at that time could cause more harm than good, potentially hampering or causing the discontinuation of certain city services or programs unnecessarily.

Because of this, the IBA has revised the suggestions, eliminating the first proposed change, while continuing to recommend changes 2 and 3, which require that solutions to a year-end deficit be provided in the Year-End Report, and ensuring that the solutions are provided in a timely manner, prior to final Council decisions on the upcoming fiscal year budget. These changes specifically address the timing problems that were recently encountered, which complicated balancing the current budget, while adopting a new budget for the next year.

IBA Recommended Language Changes to Budget Policy

The specific language changes to the relevant Budget Policy sections to incorporate these recommendations are provided below. Additions are shown in bold, with double-underline. These changes have been reviewed and agreed to by the COO, the CFO and Financial Management staff. A complete version of the Budget Policy is provided as an attachment to this report, and also reflects strikeout/underline changes.

BUDGET DEFICITS: (page 6)

Unanticipated decreases in revenue and/or increases in expenditures may result in budget shortfalls. As such, revenue and expenditure projections shall be conducted throughout the fiscal year in order to identify any potential deficits that may require mitigation efforts authorized by City Council. Should revenues decline and/or expenditures increase, alternative funding sources, budget reductions, or reallocations of funds among departments shall be identified to support the ongoing activities of the City. **The Financial Management Department's quarterly budget monitoring process is the process by which potential deficits and surpluses will be identified. Mitigation steps will be recommended to City Council as determined necessary to offset unanticipated expenditures or revenue shortfalls. When a deficit is projected in the Year-End Budget Monitoring Report, the report will include recommendations for addressing the projected shortfall for Council consideration. The Year-End Budget Monitoring Report will be released to the Council in late May in order to incorporate nine months of actual results in the analysis. The Year-End Budget Monitoring Report will be released in advance and presented to the Council in advance of or on the same day as the Council's first public hearing on**

final budget decisions for the upcoming fiscal year. This will allow the Council to have a complete picture of the City's budget for the current fiscal year prior to making final decisions on the budget for the upcoming fiscal year.

Financial Reporting and Monitoring (page 9)

The Chief Financial Officer (CFO) is responsible for oversight of the City's comptroller, financial management, treasury, risk management, and debt management functions. On a monthly basis, the City Comptroller shall submit to the Mayor and to the City Council a summary statement of revenues and expenses for the preceding accounting period and the status of appropriations in comparison to actuals, in order to detail the financial condition of the City as mandated by the City Charter Sections 39 and 89.

The Financial Management Department oversees the City's budget and executes its budget monitoring responsibilities through the analysis of expenditures and revenues for operating funds included in the annual AO. This analysis may identify significant variances between budgeted and projected amounts and provide relevant information to maintain budgetary control and balance. Departmental expenditure activity shall be monitored at least quarterly and presented to the Budget and Finance Committee at least three times a year. The Independent Budget Analyst shall review these quarterly reports and may provide recommendations for City Council consideration.

The Financial Management Department shall prepare quarterly reports that include forecasts of annual revenues and expenditures based on actual results and knowledge of spending trends and operations. These reports shall explain significant revenue and expenditure variances and indicate trends that may require remediation, such as budget reductions, a reallocation of funds between departments, or the appropriation of new revenues. If departments are projected to overspend, Financial Management, in conjunction with the departments, shall develop remediation plans to reduce expenditures, including the deferral of hiring and major expenses for goods and services prior to recommending the use of reserves. **When the Year-End Budget Monitoring Report projects a deficit in the current year, the report will include recommendations for remedying the shortfall for Council consideration. The Year-End Budget Monitoring Report will be released in advance and presented to the City Council in advance of or on the same day as the Council's first public hearing on final budget decisions for the upcoming fiscal year.**

CONCLUSION

At the meeting of June 14, 2010, the City Council adopted the Fiscal Year 2011 Budget, and directed that the City's Budget Policy be amended to incorporate changes to the Budget Monitoring process. These changes were prompted by the delayed recommendations provided to the City Council to address the FY 2010 General Fund budgetary shortfall, which negatively impacted the City Council's ability to make final decisions necessary to adopt the FY 2011 budget in time to meet Charter-required deadlines.

This report presents proposed language changes to the Budget Policy to incorporate timing improvements to the Budget Monitoring process to prevent these complications from being repeated.

The IBA recommends that the Budget and Finance Committee recommend approval of the proposed language changes to the Budget Policy to the City Council, in order to improve the Budget Monitoring Process so that budget balancing solutions to year-end deficits are provided in the Year-End Report and in a timely manner, prior to final Council decisions on the upcoming fiscal year budget.

[SIGNED]

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[SIGNED]

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Independent Budget Analyst

Attachment:

1. Council Policy 000-02: Budget Policy (strikeout/underline) with Proposed Changes Regarding Budget Monitoring Process