

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 1

Item: Proposed Amendment to Statement of Fiscal Year 2008 Budgetary Principles

OVERVIEW

On July 23, 2007, the City Council adopted the Statement of Fiscal Year 2008 Budgetary Principles, which focuses on setting budgetary operating principles, establishing budget authority regarding service levels, and enhancing communication on management issues between the executive and legislative branches for Fiscal Year 2008.

During discussion of the item at the City Council meeting, and in order to address possible deficiencies in the proposed principles, the City Attorney's Office suggested the addition of a 3% cumulative cap on budgetary reductions the Mayor may undertake for fiscal reasons. It was directed that the concept of a cumulative cap on reductions be referred to the Budget and Finance Committee for further discussion.

FISCAL/POLICY DISCUSSION

The current Statement of Budgetary Principles contains no restrictions on the cumulative amount of budgetary reductions, and as currently stated, could technically result in the ability of the Mayor to make General Fund reductions totaling \$155 million without notification to the Council. This could occur if the Mayor made all of the allowable, incremental cuts as defined in the principles, across all departments. This would not be within the spirit of the principles but would technically be permitted within the stated criteria, unless a cumulative cap is put in place.

Attached is a redlined version of the Statement of Fiscal Year 2008 Budgetary Principles, which includes the addition of the following language to incorporate a cumulative cap: **“Notwithstanding anything herein to the contrary, the Mayor shall provide written notice to the Council as soon as practicable when the cumulative amount of Fiscal Year 2008 budgetary reductions undertaken for any reasons reaches 3% of the**

General Fund of the City, or 3% any other Major Fund of the City (provided that any such reductions shall not cause the City to breach or violate any covenant or other obligation to which such Major Fund may be subject). Such notice shall describe the nature of the budgetary reductions, the fiscal reasons therefor, and the impact on City services, if any. For purposes of this paragraph, Major Fund of the City shall mean the Water Enterprise Fund, the Sewer Enterprise Fund.”

A 3% cumulative cap would not allow budgetary reductions across departments within the General Fund to exceed \$33.2 million for Fiscal Year 2008 without notification to the City Council.

The City’s Chief Financial Officer indicated at the July 23rd Council meeting that the concept of a cumulative cap was acceptable, but the amount of the cap, and the specific City funds to which it applied, needed further review and analysis. Since that time, the Mayor’s Office has expressed a preference for a higher cap of 4%, or \$44.3 million, when applied to the General Fund.

Departments funded by the General Fund provide and maintain essential core community services such as public safety, parks and recreation, library services, and refuse collection, which are typically the primary focus of concern when discussing expected service levels, or possible reductions in the event General Fund revenues fall short during the course of the fiscal year.

Enterprise funds, including the water and sewer funds, are subject to restrictions on the uses of its funds, must operate within current revenue streams, are guided by state and federal regulations, and may also need to meet covenants required as part of past bond offerings. Based on the proposed amendment, budgetary reductions to these funds would not be permitted if the reductions caused the City to be unable to meet its obligations in these areas.

CONCLUSION

The IBA recommends the amendment to the Statement of Fiscal Year 2008 Budgetary Principles be adopted. Limiting the dollar value of potential budgetary reductions that can be made to the General Fund without notification to the City Council and the public provides greater protection for the expected provision of current levels of service, based on the adopted City budget.

[SIGNED]

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Attachment