

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 8, 2007

IBA Report Number: 07-97

City Council Docket Date: October 9, 2007

Item Number: 330

Subject: Additional Information Regarding Budget Committee Actions Related to the 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.

On September 12, 2007, the Budget and Finance Committee reviewed the proposed amendment to the Statement of Fiscal Year 2008 Budgetary Principles to incorporate a cumulative cap on reductions of 3% to the General Fund, and also to other Major Funds, which were defined as the Water and Sewer Funds.

During the committee discussion, Councilmember Frye requested the addition of the Development Services and Airports Funds as other Major Funds to be subject to the 3% cap. In addition, it was requested that the time frame for notification to the City Council be more specifically defined than “as soon as practicable.”

The IBA previously issued IBA Report Number 07-94 on 9/25/07, entitled “Proposed Amendment to Statement of Fiscal Year 2008 Budgetary Principles”. This report is intended to provide additional information and to clarify the Budget Committee’s actions related to notification of the City Council, when the 3% cumulative cap of budgetary reductions is reached. The IBA is providing two options for the notification process for the City Council to consider.

FISCAL/POLICY DISCUSSION

The Statement of Fiscal Year 2008 Budgetary Principles presented to the Budget Committee stated that the “Mayor provide written notice to the Council as soon as practicable when the cumulative amount of Fiscal Year 2008 budgetary reductions

undertaken for fiscal reasons reaches 3% of the General Fund of the City, or 3% any other Major Fund of the City...”

Budget Committee direction included the following: “With respect to the Mayor’s written notice to the City Council of cumulative cuts to either the General Fund or a Major Fund of 3% or more, the term “as soon as practicable” shall be deleted and replaced with “as part of the Auditor’s reports as required by Charter Section 39.” Attachment 1 to this report reflects this change to the language as directed by the committee.

The IBA prepared a revision to the Statement of Fiscal Year 2008 Budgetary Principles to specify that notification once the cumulative cap is reached occur no later than the Mayor’s next quarterly report to the City Council. While this differs from the Budget Committee’s motion to include it as part of the monthly Charter Section 39 reports, it achieves the intent of ensuring more timely notification to the City Council than the previous language, and utilizes the existing Mayoral quarterly reporting process called for in the principles. Attachment 2 to this report reflects this version as previously provided.

The reports required by Charter Section 39 are prepared on a monthly basis by the Comptroller and are presented to the Budget Committee. These reports detail year-to-date revenue and expenditure activity. However, notification regarding budgetary reduction decisions should be directed to the full City Council. The Mayor has already committed to reporting to the City Council on these and other issues on a regular basis.

The two versions of the Amended Statement of Fiscal Year 2008 Budgetary Principles are provided for review and consideration by the City Council (attached), one with each notification process outlined. The City Council may choose to adopt either version, which will ensure the Council receives notification of significant budget changes in a timely manner.

[SIGNED]

Elaine DuVal
Fiscal & Policy Analyst

[SIGNED]

Penni Takade
Deputy Director

Attachments:

- 1) Amended Statement of Fiscal Year 2008 Budgetary Principles – Budget and Finance Committee Recommendation (Charter Section 39 notification)
- 2) Amended Statement of Fiscal Year 2008 Budgetary Principles – Budget and Finance Committee Recommendation (Mayoral notification)

AMENDED STATEMENT OF FISCAL YEAR 2008 BUDGETARY PRINCIPLES

WHEREAS, pursuant to section 265(b)(15) of the City Charter the Mayor is required to propose a budget to the Council and make it available for public view no later than April 15 of each year; and

WHEREAS, on April 13, 2007, the Mayor released the Fiscal Year 2008 Budget to the Council and to the public; and

WHEREAS, the Council has duly considered the Mayor's Fiscal Year 2008 Budget and discussed such budget at several public meetings beginning on April 25, 2007 and ending on May 23, 2007, and at such meetings members of the public were invited to comment on and ask questions about the Fiscal Year 2008 Budget; and

WHEREAS, on May 16, 2007, the Mayor delivered a supplementary budget report to the Council making technical changes to the Fiscal Year 2008 Budget; and

WHEREAS, on May 21, 2007, each Council member delivered his or her budgetary priorities for the Fiscal Year 2008 budget for review by the City's Independent Budget Analyst; and

WHEREAS, on June 6, 2007, the Budget and Finance Committee reviewed the Report of the Independent Budget Analyst, dated June 1, 2007, entitled "Recommended Changes to the Mayor's Proposed Fiscal Year 2008 Budget, and recommended adoption of the Mayor's Fiscal Year 2008 Budget, including certain amendments thereto; and

WHEREAS, on June 11, 2007 the Council approved the Fiscal Year 2008 Budget, together with certain amendments thereto, and forwarded the same to the Mayor for his consideration under Charter section 290(b)(2); and

WHEREAS, in accordance with Charter section 290(b)(2), on June 20, 2007 the Fiscal Year 2008 Budget became the controlling document for purposes of preparing the annual appropriation ordinance; and

WHEREAS, pursuant to Charter section 71 and 290(c), the Council is required to adopt an appropriation ordinance during the month of July to establish budgetary appropriations for the Fiscal Year 2008 Budget; and

WHEREAS, the Mayor and the Council acknowledge that the Fiscal Year 2008 Budget reflects the best estimate of the Mayor and the Council regarding projected revenues and expenditures and that such estimate is simply a financial plan that may require adjustments in view of the available resources; and

WHEREAS, this Statement of Budgetary Principles is intended to facilitate better communication on fiscal matters between the Council and the Mayor and to establish a framework for the administration by the Mayor of the Fiscal Year 2008 Budget in light of the respective duties of the Mayor as Chief Executive Officer and Chief Budget Officer of the City, and the duties of the Council as the legislative and policy setting body of the City, and in light of the obligation of public officials to keep the public apprised of the conduct of the City's financial affairs;

Accordingly, the Mayor and the Council hereby agree to adhere to the following budgetary principles for the Fiscal Year 2008 Budget:

Fiscal Year 2008 Budget--Communication

1. The Mayor, or his designee, will provide reports to the Council on a quarterly basis regarding the administration of the affairs of the City. These reports can be given verbally, and are intended to improve the flow of information between the Mayor, Council and public.
2. The Council President will provide time on the Council's agenda for the Report of the Mayor.
3. Under pre-defined criteria as set forth below, the Mayor will provide Council with prior written notice of the elimination of any program or service funded by the Fiscal Year 2008 Budget. The notice shall describe with reasonable specificity the budgetary and/or fiscal rationale supporting the elimination of the program or service, and the service level impact, if any.
4. The Mayor will also provide Council with prior written notice of a material or significant reduction in any program or service affecting the community based on the criteria set forth below. Such notice will consist of a memo from the Mayor to the Council and the City Clerk describing the budgetary and/or fiscal reasons supporting the change, and the likely service level impact. Notwithstanding the forgoing, the Mayor need not give notice of any change or modification that results in a more efficient delivery of public services and that accomplishes the legislative intent.

Written notification of a service or program reduction will be triggered by criteria based on four categories of Activity Level (OCA) as identified in the City's Financial Accounting System and the corresponding size of the proposed service reduction:

Cost of Activity (OCA)	Up to \$2.0M	\$2.0M to \$5.0M	\$5.0M to \$10.0M	\$10.0 M Plus
Service Criteria Trigger	\$200,000+	\$500,000+	\$1.0M+	\$1.5M+

Notwithstanding anything herein to the contrary, the Mayor shall provide written notice to the Council, **as part of the Auditor's reports as required by Charter Section 39**, 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% of 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, the Development Services Enterprise Fund, and the Airports Enterprise Fund.

Fiscal Year 2008 Budget---Appropriation Ordinance

- 1 Neither the Mayor nor the Council has unilateral authority to make changes to the spending authority contained in the Fiscal Year 2008 Budget.
- 2 The Mayor shall in good faith fulfill the legislative intent reflected in the adopted Fiscal Year 2008 Budget, including the appropriations reflected in the Fiscal Year 2008 Appropriation Ordinance. However, the Mayor has discretion to effectively and efficiently spend public monies, and shall not be obligated to spend all the money the Council has appropriated if there is a less costly means of accomplishing the Council's stated purposes.
- 3 The Council shall have no authority to make or adopt changes to the Fiscal Year 2008 Budget without first receiving a funding recommendation of the Mayor. The Mayor will provide such funding recommendation within 30 calendar days of the Council request, or such later period as contained in the request of the Council.
4. In accordance with Charter sections 28 and 81, the Mayor has the authority to allocate Fiscal Year 2008 Budget appropriations within departments in order to best carry out the Council's legislative intent.

5. The Appropriation Ordinance implements the Fiscal Year 2008 Budget, as approved by the Council. The Appropriation Ordinance shall specify the spending authority by Department and by Fund, and all other conditions, authorizations and requirements appropriate therefore. The Appropriation Ordinance will include necessary budget delegation to carry out the business of the City; provided however, the Appropriation Ordinance will not include Policy directions.
6. The Council may restore a program or service which has been recommended for elimination or reduction by the Mayor by docketing and considering such action upon the request of four Council members.

The Statement of Budgetary Principles applies to departments and programs that are under the direction and authority of the Mayor, and shall not apply to offices independent of the Mayor. This Statement of Budgetary Principles is subject in all respects to the provisions of the City Charter.

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