
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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City Comptroller's Year-End Report

OVERVIEW

On January 15, 2008, the City Council will be asked to accept the City Comptroller Office's Fiscal Year 2007 Year-End Report, dated September 26, 2007. The Year-End Report provides unaudited totals for the expenditures and revenues of the General Fund and other budgeted funds for Fiscal Year 2007, which ended June 30, 2007.

A goal of the Year-End Report is to achieve the monthly reporting objective as set forth in City Charter Sections 39 and 89.

The Year-End Report was first presented to the Budget and Finance Committee at its meeting on September 26, 2007. The Budget Committee voted 3 to 0 to receive the report, with Councilmembers Peters and Frye not present.

Charter Sections 39 and 89 state: *The City Auditor and Comptroller shall submit to the City Manager and to the Council at least monthly a summary statement of revenues and expenses for the preceding accounting period, detailed as to appropriations and funds in such manner as to show the exact financial condition of the City and of each Department, Division and office thereof.*

The FY 2007 Adopted General Fund Budget totaled \$1.023 billion. In summary, the Year-End Report shows General Fund revenues exceeded the estimates in the FY 2007 Adopted Budget by \$31.5 million. In addition, General Fund expenditures and encumbrances, in total, resulted in savings of \$12.4 million, when compared to the FY 2007 Adopted Budget. Encumbrances in the amount of \$28.3 million remained unexpended by fiscal year-end, and carried over to the current fiscal year.

An encumbrance reserves funds for a specific purpose as approved by the appropriate authority. When goods and services are received, the encumbrance is released and the expenditure is recorded for the actual costs.

FISCAL/POLICY DISCUSSION

During the fiscal year, the Financial Management Department coordinates the financial monitoring of the City's budget, including projections for both revenues and expenditures with input from City departments, focusing primarily on the General Fund. The financial monitoring process results in quarterly reports to the City Council, including adjustments to the budget, as needed, to ensure it will be balanced at year-end. Budget adjustments may also be brought forward to the Council as unanticipated expenditures arise during the fiscal year.

Separately, the City Comptroller provides monthly reports to the City Council of the City's financial condition, with its reports reflecting actual revenue receipts and expenditure activity to-date. Due to the timing differences of the data reported, and the varying content which includes both actual data and projections for the remainder of the year, it is often challenging to compare and contrast the reports from the two sources. This is particularly true in the last quarter when up-to-date current year estimates can significantly impact the next year's budget development and decision-making.

Fiscal Year 2007 Budget Adjustments

In March 2007, the City Council approved the Fiscal Year 2007 Mid-Year Budget Adjustments, increasing the General Fund budget by \$11.4 million. In June 2007, Year-End Budget Adjustments increased the General Fund by an additional \$4.4 million. Additional budget adjustments totaling \$13.8 million were authorized for costs for legal, investigation, and claims needs that arose during the year. Of the total \$29.6 million increase to the budget, \$11.7 million was funded from the General Fund Unallocated Reserve.

Fiscal Year 2007 Year-End Report

The Year-End Report shows the General Fund experienced expenditure savings of over \$42 million. It should be noted that these savings are in addition to the vacancy factor (salary savings) of \$38.7 million included in the General Fund Budget, which together result in over \$80 million not expended on the delivery of city services.

VACANCY FACTOR – Adjustments that reduce the funding of personnel expenses due to vacant and/or under-filled positions, salary step savings, and any other circumstances that might contribute to personnel expense savings. The vacancy savings adjustments do not reduce positions.

Budget adjustments during the year totaled \$29.6 million as described above. Because the General Fund experienced net excess revenues and expenditure savings totaling \$44 million at year-end, it appears that the requested budget increases made during the course of the fiscal year (or some portion of them) may not have been needed.

Mayor's Recommended Revisions to Fiscal Year 2008 Proposed Budget

In May 2007, the Mayor's Office provided a memorandum to the City Council detailing proposed revisions to the Fiscal Year 2008 Proposed Budget, including adjustments to General Fund revenues and expenditures, as well as other funds, based on updated information obtained since the proposed budget was released in April.

The FY 2007 Adopted Budget included an allocation of \$7.2 million to the General Fund Reserve, and the FY 2008 Proposed Budget included another \$5.0 million for this purpose. The May Revision proposed an additional \$684,376 for the reserve. These amounts for 2008 were later revised during final budget deliberations, and resulted in a final allocation of \$3.3 million to the reserve for FY 2008. Based on budget estimates available at the time, it was believed that these new 2008 allocations were necessary to achieve the desired reserve goal of 6% of the General Fund budget for FY 2008.

In a September 24, 2007 memo to the Council, the Chief Operating Officer reported the reserves at year-end at \$93.1 million, which is 8.4% of the FY 2008 General Fund Budget of \$1.106 billion. This reserve level is far in excess of what was projected during the budget process. While this is a positive result, and the additions to the reserves were responsible actions, if more accurate, updated projections had been provided during the budget development process, they would have shown that these actions were unnecessary to achieve stated reserve goals for 2008. These reserve allocations may have, in fact, come at the expense of service cuts or other worthy needs.

CONCLUSION

The IBA recommends that improvements be made to the financial monitoring, monthly reporting, and budget processes to ensure that updated information reflecting current year experience is provided in a timely manner, and can be incorporated into the development of the proposed budget.

The Mayor's May Revision provides an excellent opportunity to update the City Council with new information related to current year experience that may have taken place since the proposed budget was presented. The IBA recommends that the May Revision include a description of how newly available data related to current year revenues, expenditures and expected savings may impact the proposed budget. If possible, budget changes should be proposed. This would ensure the City Council and the public have the most recent data available, and can use it to its full advantage during the final stages of the budget development.

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