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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** May 8, 2008

**IBA Report Number:** 08-43

**City Council Meeting Date:** May 12, 2008

**Item Number:** 200

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# Appropriation and Transfer of \$5 million for the General Fund Appropriated Reserve

## OVERVIEW

The City Council is being asked to authorize an amendment to the Fiscal Year 2008 Appropriation Ordinance to allow the expenditure of funds from the Appropriated Reserve by City Council resolution, rather than by ordinance. In addition, authorization is sought to approve actions the City Council had previously taken during the fiscal year to utilize Appropriated Reserves, and an additional \$5 million is requested from the Unallocated Reserve to replenish the Appropriated Reserve, as it has been exhausted.

## FISCAL/POLICY DISCUSSION

The General Fund Reserve Policy adopted on November 13, 2007 by ordinance O-19679 established the General Fund Appropriated Reserve and appropriated \$7 million from the General Fund Unallocated Reserve to provide funding for unanticipated expenses that could arise during the fiscal year.

It was the intention of the policy to allow each transfer from the Appropriated Reserve to be authorized by Council resolution. However, the final Council actions to approve the Reserve Policy in November 2007 did not include the language necessary to amend the Fiscal Year 2008 Appropriation Ordinance to provide this authority.

In the IBA's Review of Fiscal Year 2008 Mid-Year Budget Monitoring Report (Report No. 08-10), the IBA recommended that Council actions needed to fully implement the Reserve Policy be brought forward, including clarifying language in the Appropriation

Ordinance to allow for the expenditure of funds from the Appropriated Reserve by resolution of the City Council. Without this clarification, the Appropriation Ordinance would need amendment each time, and two public hearings would be required to allow for use of the reserve. Since the establishment of the Appropriated Reserve in November 2007, several Council actions to utilize these funds have been brought forward and approved by Council resolution. Actions are now requested to correct these previous approvals, and to institute the preferred procedure to allow Council resolutions to authorize the use of these funds. It is intended that these changes will also be included in Appropriation Ordinances in future years.

**Ratification of Prior Council Actions**

Ratification of actions that have been previously approved by Council resolution (as shown in the table) is necessary to allow these actions to be completed. Items 1 though 4 listed in the table have been specifically outlined in the actions brought forward to be re-approved by the Council.

<b>FY 2008 GENERAL FUND APPROPRIATED RESERVE STATUS</b>			
	Beginning Balance		\$7,000,000
<b>1</b>	<b>Legal Fees for SDCERS Board</b>	<b>\$2,219,500</b>	<b>R-303276</b>
<b>2</b>	<b>Soledad Mountain Road</b>	<b>\$2,000,000</b>	<b>R-303265</b>
<b>3</b>	<b>Otay Mesa Community Plan Update</b>	<b>\$800,000</b>	<b>R-303275</b>
<b>4</b>	<b>Liebert Cassidy Whitmore Agreement</b>	<b>\$184,750</b>	<b>R-303500</b>
5	Hawkins Delafield & Wood	\$369,500	O-19695
6	Council Committee Consultant Addition	\$40,000	O-19703
7	IBA Staff Addition	\$50,000	O-19702
<b>8</b>	<b>Grantville Master Planning Contract</b>	<b>\$792,181</b>	<b>R-303550</b>
9	Office of Homeland Security	\$475,500	O-19743
	TOTAL		\$6,931,431
	Remaining Balance		\$68,569

In the IBA’s review of the materials, we identified an additional action (Item 8) that requires reauthorization, as this action was also previously approved by Council resolution. Representatives of Financial Management and the City Comptroller agree this item should be included. Revised information and a corrected ordinance is being drafted and is expected to be distributed for review, which will allow for approval Monday, May 12, 2008.

Four other actions (Items 5, 6, 7 and 9) were approved by ordinance as necessary under existing requirements, and no further action on the part of the City Council is needed.

Following the adoption of the language changes proposed for the Appropriation Ordinance, and provided these same changes are incorporated in to future annual Appropriation Ordinances, the expenditure of funds from the Appropriated Reserve for a particular purpose will more simply be accomplished with one Council meeting and passage of a resolution by the Council, as intended.

### Replenishment of FY 2008 Appropriated Reserve

It is also requested that Council approve the transfer and appropriation of \$5 million from the General Fund Unallocated Reserves to the Appropriated Reserve for Fiscal Year 2008, in order to replenish the General Fund Appropriated Reserve for possible expenditures through the end of the fiscal year. With approximately six weeks remaining in the current fiscal year, the IBA has questioned the justification for the need of these funds. No specific actions are pending, however, additional actions for Year-End Budget Adjustments will be coming forward for Council review and approval in the weeks ahead. Financial Management has indicated that funds in the Appropriated Reserve, if any, would be the initial funding source for these actions, though a final determination has not yet been made on the total amount needed for this purpose.

In the last few days, new needs have now been identified and reviewed, including additional funds for the Soledad Mountain Road construction contract, and outstanding invoices for Macias, Gini & O'Connell, the City's outside auditor. While there is no harm in replenishing the Appropriated Reserve, and any funds that remain unexpended at year-end will return to the Unallocated Reserve, the IBA has not been able to sufficiently justify the \$5 million transfer, based on the information provided to date. At the public hearing, the IBA encourages further discussion on the necessity of replenishing the Appropriated Reserve at this point in the fiscal year, and, if replenishment is desired, the appropriate amount needed to do so.

As of April 23, 2008, the Unallocated Reserve will total \$14.1 million, assuming the requested transfer of \$5 million to the Appropriated Reserve is authorized. The Unallocated Reserve is in addition to the \$55 million Emergency Reserve. No minimum amount is required for the Unallocated Reserve, while the Emergency Reserve must be at least 5% of the total General Fund budget.

### Funding of FY 2009 Appropriated Reserve

In our review of the FY 2009 Proposed Budget, the IBA expressed concern that the Mayor's Proposed Budget included no allocation of funds to the Appropriated Reserve for next year. The IBA strongly supports the concept of the Appropriated Reserve, and has recommended that an amount be allocated for this purpose during the finalization of the budget. However, actions to replenish the Appropriated Reserve in FY 2008 will in no way impact the FY 2009 Appropriated Reserve level.

## **CONCLUSION**

Monday's action is the first public hearing of the requested amendments to the Appropriation Ordinance. The second public hearing and the introduction and adoption of the ordinance is expected to take place at the City Council meeting of Monday, May 19, 2008.

The IBA supports the requested language changes to the Appropriation Ordinance to allow the use of the Appropriated Reserve by Council resolution, and for the requests for

the Council to reauthorize previous actions taken. While there is no harm in replenishing the Appropriated Reserve, and any funds that remain unexpended at year-end will return to the Unallocated Reserve, the IBA has not been able to sufficiently justify the \$5 million request at this time, based on the information provided to date. At the public hearing, the IBA encourages further discussion on the necessity of replenishing the Appropriated Reserve at this point in the fiscal year, and, if replenishment is desired, the appropriate amount needed to do so.

**[SIGNED]**

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Approved: Andrea Tevlin  
Independent Budget Analyst