



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** July 15, 2011

**IBA Report Number:** 11-45

**City Council Docket Date:** July 18, 2011

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# Mid-Year Budget Adjustments

## OVERVIEW

Since implementation of the new Strong Mayor-Strong Council form of government in January 2006, the Mayor and City Council have worked cooperatively to address issues of budget authority between the two branches that were not clearly defined by the Strong Mayor City Charter amendment. A number of important budget policies, processes and principles have since been adopted which have helped to clarify roles and responsibilities in the annual budget monitoring and budget development processes.

However, a significant issue of concern not addressed in the Charter- that of City Council's authority to adjust the budget during the year due to changing circumstances- has not been effectively addressed in other documents to date. For the past several years our office has been a strong voice in advocating for resolution of this important matter. On July 18, 2011 the Council is being asked to consider an ordinance amending the San Diego Municipal Code requiring the Mayor to provide mid-year budget recommendations to the Council in the event there is a projected budget surplus or deficit and requiring Council notification prior to the elimination of significant programs or services. The IBA recommends City Council adoption of the proposed ordinance which addresses the issue of mid-year budget amendments by the Mayor and the City Council.

## FISCAL/POLICY DISCUSSION

### Statement of Budgetary Principles

In 2008 a Statement of Budgetary Principles ("Principles") (see Attachment 1) was agreed upon between the Mayor and City Council which established certain requirements for communicating and enacting mid-year budget changes. While the Principles helped to clarify certain aspects of mid-year budget authority not addressed in the Charter, it is a cooperative agreement with the current Mayor only, and therefore did not address the issue over the long term.

Furthermore, while the current Mayor has agreed to the Principles, certain sections of the Principles which provided Council some authority to make mid-year budget changes independent of the Mayor, were in conflict with the Charter and not enforceable. In the event of a disagreement between the Mayor and Council on a specific budget matter, the Charter would prevail rendering the Principles moot.

### Reserves Policy

The City's Reserves Policy adopted in 2007 provided the Council with another opportunity to address budget issues not known or anticipated at the time of budget adoption through the establishment of a small Appropriated Reserve. This reserve was funded during the annual budget process and was in addition to the Emergency Reserve and the Unallocated Reserve. From 2007 to 2010, a small amount of funding was budgeted for the Appropriated Reserve; and the Reserves Policy provided authority to the Mayor or the City Council to initiate expenditures from this reserve during the course of the year. City Council approval was required in both cases. However, over the past fiscal year the City Attorney's Office has provided advice on numerous occasions outlining the responsibilities of the Mayor and Council relative to the use of the Appropriated Reserve as well as other mid-year budget changes.

Per the City Attorney, as it currently stands the Council has a very limited role with regard to budgetary changes outside the course of the annual budget process, and must first receive recommendations from the Mayor for such changes. The City Attorney has also opined that the City Council has no authority to initiate mid-year budget changes independently of the Mayor from either the Appropriated Reserve or any other fund. This advice- which also brought a stop to the Community Infrastructure funds program- along with the shortcomings of the Principles elevated the issue substantially. Preliminarily, the City Attorney noted that a Charter amendment may be necessary to resolve this issue.

### The Search for a Solution

This matter was docketed at the Budget and Finance Committee several times this past fiscal year to discuss possible solutions as well as at the Rules Committee where Committee members discussed the possibility of a Charter amendment at the next regular election. Due to concerns about election costs, the Rules Committee requested the Budget and Finance Committee to continue to pursue options working within the existing Charter language. The Budget and Finance Committee requested the City Attorney's Office to renew its effort to look for solutions that would not require a Charter amendment and to work with the IBA and the Mayor's Office in doing so.

On May 18, 2011 the City Attorney's Office issued a report to the Budget and Finance Committee on "Mid-Year Budget Revisions" advising the Committee of the following:

*"The Council may adopt an ordinance requiring the Mayor to provide the Council with recommended revisions to the budget at whatever interval the Council determines is advisable, such as midway through the City's fiscal year. This would allow the City to*

*address any budget surplus or deficit arising during the fiscal year in accordance with the Charter's budget process."*

At the Budget and Finance Committee meeting of May 25, 2011 the City Attorney's Office further elaborated that requiring this information from the Mayor at a regular interval during the year would open up the budget allowing the Council to accept the Mayor's proposed revisions or adopt alternative revisions, mirroring the annual budget development process.

The Committee requested the City Attorney's Office to work with the IBA and the Mayor's Office to develop draft ordinance language. The Budget and Finance Committee reviewed the proposed ordinance at its meeting on June 29, 2011. Following are the major requirements of the ordinance presented at Committee:

- The Mayor is required at mid-year to report any projected surplus or deficit to the City Council and provide a recommendation to address the reported surplus or deficit.
- The Council may approve or modify the Mayor's recommendations in whole or in part but Council may not increase the budget by more than \$5 million or more than 50% of any projected surplus, whichever is less.
- Prior to any significant reduction in programs or services affecting the community the Mayor shall provide written notice to the City Council regarding such reduction.
- In the event of a disagreement between the Mayor and Council regarding what constitutes a significant reduction, the Council may put more definition to this through a resolution.

In response to feedback from the Budget and Finance Committee, the proposed ordinance also includes new language which clarifies that the cap of \$5 million or more than 50% of the surplus applies only to this mid-year adjustment process and does not apply to any other modifications to the budget proposed by the Mayor. The cap is recommended in the mid-year adjustment process due to the uncertainty that remains regarding revenues and expenditures for the remainder of the year.

The Committee had also requested the City Attorney to consider adding language that would require the Mayor to review the mid-year projections with the IBA and for the IBA to concur with the Mayor's projections. The City Attorney has advised that Council cannot require the Mayor to review projections with the IBA to seek the IBA's concurrence. Regardless, the IBA will continue to be diligent in reviewing the Mayor's projections and bringing any concerns regarding them to the attention of the City Council.

## CONCLUSION

The IBA supports the proposed ordinance which establishes a process for mid-year budget adjustments and defines the role of both the Mayor and the City Council in that process, and we recommend City Council adoption.



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Attachment: 1. Statement of Budgetary Principles