
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: June 9, 2011

IBA Report Number: 11-35

Budget and Finance Committee Meeting Date: June 15, 2011

Item Number: 2

Proposed FY 2012 Statement of Budgetary Principles

OVERVIEW

The Statement of Budgetary Principles was first put into place in FY 2008 to address issues of budgetary authority and communication of budget changes between the Executive and Legislative branches following budget adoption each year. These Principles were negotiated between the Mayor's Office and the City Council in response to specific situations that arose following the transition to the Strong Mayor/Strong Council form of government. The Statement of Budgetary Principles was developed to: set budgetary operating principles; establish budget authority regarding service levels; and enhance communication on management issues between the executive and legislative branches.

For the past four fiscal years, the Statement of Budgetary Principles has been adopted by the Council as a companion resolution to the Appropriation Ordinance (AO) in order to preserve the intent of the AO as a true appropriation setting document rather than a policy document.

The Statement of Budgetary Principles requires:

- the Mayor or his designee to provide quarterly reports to the Council regarding the administration of affairs of the City
- prior written notification by the Mayor of reductions in any program or service affecting the community, based on an established criteria

- that budgetary reductions that the Mayor may undertake for fiscal reasons be limited to a cumulative cap of 3% of the General Fund, and the Water, Sewer, Development Services and Airports Funds

No notifications of budgetary reductions, outside the formal budget process and Council approved budget amendments, have been made to the City Council since the Statement of Budget Principles have been in effect.

In October 2009, the City Council adopted a comprehensive Budget Policy (Council Policy 000-02), and many elements of the Principles have been incorporated into the Budget Policy.

FISCAL/POLICY DISCUSSION

Council's Current Authority to Initiate Mid-Year Budget Revisions

The City Attorney has provided advice on numerous occasions over the past fiscal year reiterating the budgetary process as outlined in the City Charter, outlining the responsibilities of the Mayor and the Council. In short, as it currently stands, the Council has a limited role with regard to budgetary changes, outside the course of the annual budget process, and must first receive recommendations from the Mayor for budgetary changes. Keeping this in mind, the IBA has prepared an update to the FY 2011 Statement of Budgetary Principles. A strikeout version for FY2012 is provided as an attachment to this report. Key sections of the Principles (shown in highlight) have been proposed for deletion, as they no longer seem appropriate or enforceable, given the recent City Attorney advice.

Proposed Ordinance to Provide Role for Council in Mid-Year Budget Revisions

On May 18, 2011, the City Attorney issued a report to the Mayor and City Council regarding "Mid-Year Budget Revisions", which was presented to the Budget and Finance Committee at its meeting of May 25, 2011. The report suggested the adoption of an ordinance by the Council that would require the Mayor to provide the Council with recommended changes to the budget in the event the City projects a budget deficit or surplus during the fiscal year. Such a requirement would provide the Council with an opportunity to consider the Mayor's recommendation for budget changes, and also allow them to propose and consider alternatives.

The Committee requested the City Attorney to work with the IBA and the Mayor's office to draft an ordinance to provide the Council the ability to make mid-year budget adjustments, with input from the Independent Budget Analyst and Mayor's Office. It is expected that the draft ordinance will be brought to the Budget and Finance Committee at its meeting of June 29, 2011.

CONCLUSION

The Statement of Budgetary Principles was important at the time it was first developed and adopted in 2008, as it clarified roles and responsibilities of the Executive and Legislative branches with regard to budget actions during the course of the fiscal year following formal budget adoption.

In the absence of any other such agreement or ordinance, the IBA recommends Council action to continue the Principles for FY 2012, at a minimum until a new ordinance can be developed and adopted. If recommended by the Budget and Finance Committee, the FY 2012 Statement of Budgetary Principles could be docketed for City Council consideration as a companion resolution to the FY 2012 Appropriations Ordinance, currently planned for July 18 and 25, 2011.

Some of the elements of the Principles have been included in the City's comprehensive Budget Policy, and also reside within other policies, processes or existing legislative authority. However, some elements of the principles could be considered for incorporation into the proposed ordinance, and this will be addressed as we work with the City Attorney and the Mayor's office on this matter.

The Budget and Finance Committee requested the City Attorney to work with the IBA and the Mayor's office to draft an ordinance to provide the Council the ability to make mid-year budget adjustments, with input from the Independent Budget Analyst and Mayor's Office. It is expected that the draft ordinance will be brought to the Budget and Finance Committee at its meeting of June 29, 2011.

[SIGNED]

Elaine DuVal
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment: Strikeout Version of Proposed FY 2012 Statement of Budgetary Principles

FY 2011~~2~~ STATEMENT OF 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 15, 201~~0~~, the Mayor released the Fiscal Year 201~~1~~2 Proposed Budget to the Council and to the public; and

WHEREAS, the Council has duly considered the Mayor's Fiscal Year 201~~1~~2 Budget; and

~~WHEREAS, between May 4 and June 6, 2011 the City Council held more than two public hearings to consider the City's Fiscal Year 2012 budget in accordance with San Diego Charter sections 290(b) and 71. discussed such budget at several public meetings beginning on April 30, 2010 and ending on May 26, 2010, and at such meetings members of the public were invited to comment on and ask questions about the Fiscal Year 2011~~2~~ Budget; and~~

~~WHEREAS, Council members submitted their budget ideas on May 20, 2010; and~~

~~WHEREAS, on May 23~~18~~, 201~~10~~, the Mayor's May revision (May Revision) to the Proposed Budget was presented to the City Council; and the Mayor delivered a supplementary budget report to the Council (referred to as the May Revision) making technical changes to the Fiscal Year 2011 Budget; and~~

~~WHEREAS, on May 25, 2011, Report No. RA-11-23, detailing the Fiscal Year 2012 Budget related to the payment of costs associated with certain Redevelopment Agency-funded projects (Agency Projects Budget Report) was presented to the Budget and Finance Committee of the City Council; and~~

~~WHEREAS, Council members submitted their budget ideas to the Independent Budget Analyst on May 25, 2011 to assist with the development of final budget recommendations; and~~

~~WHEREAS, on May 26, 2010, the Joint Budget and Finance Committee and Council Committee of the Whole reviewed the Mayor's May Revision and the Report of the Independent Budget Analyst, dated May 24, 2010, entitled "Fiscal Year 2011 Final Budget Report and Recommendations", and recommended to the City Council adoption of the Mayor's Fiscal Year 2011 Budget, including certain amendments thereto; and~~

WHEREAS, June 1, 2011, the Chief Operating Officer and the Chief Financial Officer provided the City Council with their Supplemental May Revision to the Fiscal Year 2012 Proposed Budget (Supplemental May Revision); and

WHEREAS, on June 2, 2011, the Independent Budget Analyst's Final Budget Report and Recommendations on the FY 2012 Budget (IBA FY 2012 Budget Report) was issued; and

~~WHEREAS, on June 14, 2010 the Council approved the Fiscal Year 2011 Budget, together with the Mayor's May Revision, and budget modifications as recommended by the IBA, and forwarded the same to the Mayor for his consideration under Charter section 290(b)(2); and~~

WHEREAS, on June 6, 2011, the City Council approved the City's Fiscal Year 2012 Budget, including the Mayor's Proposed Budget, as modified by the May Revision but excluding the Supplemental May Revision, and including the recommendations in the IBA FY 2012 Budget Report and the Agency Projects Budget Report, with revisions proposed by the City Council, and directed the City Clerk to return the same to the Mayor for his consideration under Charter section 290(b)(2); and; and

WHEREAS, on June ~~xx23~~, 20110 the Mayor approved the Fiscal Year 20112 Budget, ~~with a line item veto to the Council's budget modifications~~, in accordance with Charter section 290(b)(2)(A); and

~~WHEREAS, on June 29, 2010 the Council voted to override the Mayor's line-item veto, as allowed under Charter section 290(b)(2)(B), and approved the Fiscal Year 2011 Budget, together with certain amendments including Council's budget modifications; and~~

WHEREAS, in accordance with Charter section 290(b)(2), on June ~~29xx~~, 20110 the Fiscal Year 20112 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 20112 Budget; and

WHEREAS, the Mayor and the Council acknowledge that the Fiscal Year 20112 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 20112 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 201~~2~~⁴ Budget:

Fiscal Year 201~~2~~⁴ 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 201~~2~~⁴ 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 Fund Centers at the Group Level (as identified in the City's new Financial Accounting System) and the corresponding size of the proposed service reduction:

| Fund Center/Group Level* | 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+ |

*As identified in the new financial accounting system (OneSD).

Notwithstanding anything herein to the contrary, the Mayor shall provide written notice to the Council, as part of the City Comptroller's Auditor's

reports as required by Charter Section 39, and also as part of the Mayor's next quarterly report to the Council, when the cumulative amount of Fiscal Year 201~~2~~⁴ 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 201~~2~~⁴ 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 201~~2~~⁴ Budget.
2. The Mayor shall in good faith fulfill the legislative intent reflected in the adopted Fiscal Year 201~~2~~⁴ Budget, including the appropriations reflected in the Fiscal Year 201~~2~~⁴ 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 201~~2~~⁴ 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. **If the Mayor does not respond within the deadline, the Council, in consultation with the IBA, may make and adopt changes consistent with applicable Charter provisions.**
4. In accordance with Charter sections 28 and 81, the Mayor has the authority to allocate Fiscal Year 201~~2~~⁴ Budget appropriations within departments in order to best carry out the Council's legislative intent.
5. The Appropriation Ordinance implements the Fiscal Year 201~~2~~⁴ 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.