

Meeting Date: 4/26/2016

Report Type: Staff/Discussion

Report ID: 2016-00438

Title: Adoption of Proposed Budget Control Policy

Location: Citywide

Recommendation: Pass a Motion adopting the Budget Control Policy.

Contact: Leyne Milstein, Director, (916) 808-8491; Dawn Holm, Budget Manager, (916) 808-5574, Department of Finance

Presenter: Leyne Milstein, Director, (916) 808-8491, Department of Finance

Department: Finance

Division: Finance

Dept ID: 06001011

Attachments:

1-Description/Analysis

2-Budget Control Policy

City Attorney Review

Approved as to Form

Steve Itagaki

4/13/2016 8:34:49 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 4/7/2016 4:06:01 PM

Description/Analysis

Issue Detail: At the February 2, 2016, Budget and Audit Committee meeting, the Committee asked staff to develop a policy for Council consideration that would establish parameters for changes to the annual budget in order to minimize changes to the budget outside of the annual budget development process to ensure fiscal sustainability over the long-term.

Policy Considerations: The proposed policy (Attachment 1) is consistent with the Mayor and Council's budget priority to adopt financially sound policies and procedures that are prudent and take into account long-term financial planning and stability. A sustainable budget must be evaluated in a longer-term rather than a short-term context.

Economic Impacts: None.

Environmental Considerations: This action is not a project subject to CEQA because it involves only general policy and procedure making and does not have the potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. (CEQA Guidelines, §§ 15002(d), 15378, 15061(b)(3).)

Sustainability: None.

Commission/Committee Action: The Budget Control Policy was presented to the Budget and Audit Committee on April 5, 2016. The Committee approved a Motion to forward the policy to the Council for adoption, with direction for clarification related to the Midyear Budget Review. This has been addressed in the proposed policy.

Rationale for Recommendation: The purpose of the Budget Control Policy is to guide prudent financial management of the City's budgetary resources through a comprehensive process that curtails changes outside of the annual budget process and further, specifies that consideration of budget changes should include an analysis and consideration of the cost implications of proposed changes over the long term. The City's Budget Control Policy documents the annual budget process and the timeline for changes to the budget.

Financial Considerations: Budgeting on an annual basis provides time to review all revenue sources, develop solutions to previously identified problems, and to discuss and decide on policies and priorities. Making significant mid-cycle changes outside of the orderly budget process can lead to poor decision-making due to incomplete information and to inefficient and ineffective operations or service delivery.

Adoption of the Budget Control Policy will establish appropriate constraints on the consideration of budget changes to ensure that such changes are addressed in the context of all other budget considerations and that all revenues and costs, current and future, are recognized and included during the budget development process.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

Budget Control Policy

I. PURPOSE

The purpose of this policy is to ensure the City makes informed fiscal decisions that take into account the full costs, in terms of dollars and service impacts, of implementing spending increases during the fiscal year. To maintain a structurally balanced budget, any spending increases must be accompanied by compensatory revenue increases or spending decreases that clearly identify the associated opportunity costs.

2. BACKGROUND

The service plan for the City is based on an annual budget as required by the City Charter and by good financial and operational practices. Budgeting on an annual basis provides time to review all revenue sources, develop solutions to previously identified problems, and to discuss and decide on policies and priorities. An annual budget process also provides time for management to plan and more efficiently and effectively implement changes incorporated into the budget. Making significant mid-cycle changes outside of the orderly budget process can lead to poor decision-making due to incomplete information and to inefficient and ineffective operations or service delivery.

3. POLICY

3.1 Annual Budget Development

The annual budget process will be the method used by the City to develop its service delivery priorities and the level and type of resources required to fund those services.

Before the City undertakes any changes that would create fixed ongoing expenses, the cost implications of such changes will be projected for current and future years.

3.2 Budget Amendments

Changes to the budget and to service levels during the fiscal year will be minimized. Changes during the fiscal year will generally be limited to technical adjustments, emergency funding, unforeseen circumstances, time-sensitive opportunities or issues, or new grants or awards. The creation of a new program, a higher service level, or other increases in expenditures, without associated revenues or reimbursements, during mid-budget cycle is discouraged. Changes outside of the annual budget process should only be considered during the midyear budget review.

Unexpected revenue shortfalls or other significant issues that may create a budget shortfall during the fiscal year are to be reported to the City Council with recommendations by the City Manager as to whether a mid-year budget adjustment should be made.

Budget amendments shall be considered and adopted by the Council except for where authority has been delegated as prescribed within the adopted Budget Resolution.