



Legislation Text

File #: 19-0294, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director
Libby Bretthauer, Senior Financial Analyst
Marcelo Serrano, Management Analyst

SUBJECT:

Consider Adoption of Budget Policies and Provide Direction on Upcoming Budget Process (Finance Director Charelian).

- a) **APPROVE**
- b) **DISCUSS AND PROVIDE DIRECTION**

RECOMMENDATION:

Staff recommends that the City Council: 1) adopt Budget Policies for Fiscal Year 2020-2021, and 2) provide direction on the upcoming budget cycle commencing in January 2020.

FISCAL IMPLICATIONS:

There are no fiscal implications associated with the recommended action.

BACKGROUND:

In 2016, the City transitioned to a two-year budget cycle. The purpose of the two-year budget is to encourage long-range planning and allow for greater emphasis on management, service delivery, program evaluation, and monitoring. Other benefits include reallocation of human resources to more value-added activities other than budget preparation, and a reduction in staff time spent on budget development in the second budget year.

A key component of this process has been the adoption of Budget Policies to help guide development of the budget. These policies, along with the Budget Calendar, drive all activity and emphasis during the budget process.

In addition to the customary budget preparation, in 2018, the City embarked on a significant project to implement a new Enterprise Resource Planning (ERP) system. This monumental effort requires significant staff resources to ensure completion of the project on time and within budget, with one of the most important aspects being the conversion of data from the old system to the new.

DISCUSSION:

Budget Policies

As we commence the process for a new budget cycle in 2020, budget policies will provide the framework from which staff will develop the budget for City Council review and approval. Last approved in March 2018, the Budget Policies address the following topics:

1. Overall Budget Principles
2. Fiscal Integrity
3. Revenues
4. Funding Non-Current Liabilities
5. Internal Service Charges
6. Reporting
7. Civic Engagement
8. Capital Budgeting

Each section addresses important fiscal and budgetary principles including maintaining a structurally balanced operating budget, streamlining of costs, innovation and adaptability, appropriate use of one-time revenues, timing of budget reporting updates, methods of communicating with the community, and development of capital budgets.

While many of these Budget Policies are also appropriately addressed in the City's Financial Policies, directly tying them to the budget process emphasizes the importance of these principles, and helps guide staff in the preparation of the budget.

Compared to the 2018 version, the attached Budget Policies include minor grammatical changes and clarifications to ease readability. Staff recommends adopting the attached Budget Policies to once again formalize current practices and define our conservative budgeting approach.

Budget Calendar

Staff prepares a Budget Calendar each year to stay on schedule and ensure the Budget is formally adopted before each new fiscal year begins on July 1. Important 2020 dates for community involvement include:

January 14 - Community Budget Meeting - Tentative Date

February 4 - City Council Meeting - Fiscal Year (FY) 2019-2020 Mid-Year Review and Community Budget Meeting Outcomes

May 5 - City Council Meeting - Proposed Budget Presentation

May 12 - Budget Study Session - Tentative Date for Further Budget Review

May 19 - City Council Meeting - Final Review Prior to Adoption

June 2 - City Council Meeting - Public Hearings and Budget/Capital Improvement Program (CIP) Adoption

In the past, the City has also held Community Budget meetings and distributed online Budget surveys to better understand community priorities before the proposed budget is developed. A Community Budget Meeting is tentatively scheduled for January 14, 2020.

Budget Cycle

As part of the budget planning process, staff held internal discussions regarding initiating a one-year budget versus a two-year budget with respect to: 1) the election cycle, and 2) the ERP implementation process.

In the first year of the two-year budget cycle, both years of the Operating and CIP budget are concurrently developed and presented to the City Council in May. In June, the City Council adopts the first year of the Operating and CIP budget and “approves” of the second year. The second year Operating and CIP Budget is then formally adopted the following year. Benefits of a two-year budget include:

- Focus can be on longer term strategic planning, service delivery, and monitoring.
- First year presentations are focused on Operating Budget which allows for reduced staff time devoted to Operating budget development in the second year.
- Second year presentations can then be focused on presenting the CIP budget and longer-term planning needs.

In both of the last two biennial budget cycles, considerable time was spent discussing and refining the “approved” second year of the budget due to the timing of the City’s elections in March. With little time to prepare, incoming City Councilmembers were expected to adopt the spending plan approved in the prior year with minor modifications.

With the next City Council election moving to November 2020, staff recommends aligning the two-year budget cycle with the new election cycle to provide incoming City Councilmembers with more time to become familiar with City Operations and the budget. Incoming City Councilmembers will be sworn into office in December, allowing them more time in office to be involved in the development of the budget well before receiving the proposed budget in May and adopting the budget in June.

To accomplish the objective of aligning the two-year budget cycle with the election cycle, a one-year budget would need to be developed and adopted for FY 2020-2021. In spring 2021, the two-year budget cycle would restart, and a biennial budget will be adopted in June 2021 for fiscal years 2021-2022 and 2022-2023.

A secondary benefit of this realignment is the impact on the ERP implementation. The main ERP Financial modules (i.e. General Ledger, Project Ledger, Contracts, Purchasing, Accounts Payable, General Billing, and Accounts Receivable) are scheduled to “go live” on July 1, 2020, which is also the start of the new fiscal year. Prior to July 1, the FY 2020-2021 budget will be developed in the current financial system and then the detailed line-item data of the adopted budget must be re-entered into the new ERP system. Transferring data for one budget year instead of two will require less staff time during an already critical time in the implementation process.

In the weeks before the cutover to the new system, final preparations, including data proofing and training, will be occurring. In the weeks after the July 1 cutover, Finance department staff will be focused on maintaining workflows while following new processes and assisting other departments as needed to ensure a seamless transition. Once the ERP Financial modules are fully implemented, Finance Department staff will have sufficient time to train other departments on the new Budget

module and fully develop the next two-year budget using the new system in FY 2020-2021.

For these reasons, staff recommends adopting a one-year budget for FY 2020-2021 before returning to a two-year budget cycle for fiscal years 2021-2022 and 2022-2023.

PUBLIC OUTREACH:

After analysis, staff determined that public outreach was not required for this issue beyond the existing agenda posting process.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

ATTACHMENT:

1. Budget Policies