



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: FY20-21 Corrective Budget Actions
from Q2 R&E Report

DATE: June 9, 2021

City Administrator Approval

Date: Jun 11, 2021

RECOMMENDATION

Staff Recommends That the City Council Receive an Informational Report on Actions Taken to Bring FY2020-21 Expenditures in Line with the Budget

EXECUTIVE SUMMARY

The FY2020-21 Second Quarter Revenue and Expenditure [report](#) included projections that showed a number of departments projected expenditures to exceed budget by more than one percent. This report provides information to the City Council and to the public with regard to actions taken to bring expenditures in line with budget.

REASON FOR SUPPLEMENTAL

At the May 18, 2021, Council Meeting, Council requested that Staff provided additional detail for future mitigations of budget deviations.

BACKGROUND / LEGISLATIVE HISTORY

The City Council approved the FY20-21 budget initially as part of the two-year FY19-21 budget process in June of 2019. In June 2020, following the onset of the global pandemic, the City Council approved a significant midcycle budget adjustment for the current FY20-21 fiscal year.

Section 1 of the Consolidated Fiscal Policy establishes Budget Practices for the City to follow. Part I of that Section speaks to Alterations to the Budget and includes the following language:

The Finance Department will include departmental expenditure projections for the General Purpose Fund in the Second Quarter Revenue & Expenditure Report. In the event that a department is projected to overspend in the General Purpose Fund by more than one percent (1%), the City Administrator shall bring an informational report to the City Council within 60 days following acceptance of the Revenue & Expenditure report by the City Council. The report shall list the actions the Administration is taking to bring the expenditures into alignment with the budget.

City Council
June 15, 2021

Table 15 on page 17 of the Second Quarter report indicated the projected expenditure variance for each department. This report is required by policy because a number of departments showed variances or more than one percent.

ANALYSIS AND POLICY ALTERNATIVES

The table provided in the Second Quarter report indicated five departments projected to exceed expenditure budget by more than one percent.

Analysis of some of the projections included in the report identified adjustments that were planned to be made during the course of the fiscal year that would bring expenditures in line with budget. A common example is departmental charges that were initially applied to the General Purpose Fund that through the normal process of adjustment and reconciliation would be transferred to another fund.

Beyond the administrative actions taken in December 2020, as shared with the City Council via an [Informational Memo](#), accounting adjustments, and active management of expenditures as the fiscal year progresses, the City Council took action via its April 12, 2021 [resolution](#) to “align the general purpose fund ... with revenue and expenditures forecasted for said funds in the Q2 revenue and expenditure report”.

FURTHER CORRECTIVE ACTIONS

The administration has employed the following tools for corrective and mitigating actions to control overspending in the current and future years.

More Accurate Budget Development

In the budget development process, the zero-based budgeting exercise provided additional transparency in each department’s line O&M budget. The new starting point allows for more accountability in each department because the requests were discussed extensively and mutually validated.

Additionally, with respect to the Police Department, staff has undertaken a re-budget process to appropriately align services with sufficient appropriations, to ensure a more accurate baseline from which to measure police expenditures. This process included appropriately budgeting overtime, which has historically been underbudgeted – as pointed out by both the City Auditor and the Council’s budget analyst – and which has been a leading driver of overexpenditure. By properly budgeting for expected and reasonable overtime expenditures that account for service demands and staffing availability, the Department can manage and be held accountable for its budgeted expenditures. Likewise, the Fire Department overtime budget was adjusted accordingly.

Better Expenditure Monitoring

The Finance Department is currently charged with reviewing and approving all position requisitions, agenda reports, and budget change requests. Each of these approvals requires the

assigned Budget Analyst to review year-to-date expenditures, projections, and available budget. To the extent that the department's projections are indicating overspending at year-end, the item is either not approved/and or escalated to upper management for review. In addition, controls are maintained in the financial system such that departments cannot overspend their O&M budgets. Generally, if there is overspending, it is due to personnel costs.

Going forward, the Finance Department will provide enhanced monthly reporting to departments and enhanced quarterly reporting to the Council to assist in regular budget monitoring, increased accountability and budget transparency. The Finance Department is putting new mechanisms in place to track expenditures on a timelier basis so that City Administration has improved visibility into potential overexpenditure for which it can take earlier corrective action. The Controllers Bureau is working in conjunction with the Budget Bureau to provide improved reporting and targeted oversight to ensure that expenditures are charged to the correct department in line with the budgeted allocations.

The City Administrator's Office is requiring Department Directors to provide concerted decreases in expenditures to balance the department's budget in circumstances when externalities apply upward pressure.

Refined Expenditure Projections

The Budget Bureau will be reviewing the methodologies for expenditure projection – both personnel and operations & maintenance – to improve projection accuracy. Working with departments to understand anomalies, seasonal fluctuations, and other relevant contextual information should enhance projection efficacy.

Police

The Police Department has historically seen the most significant and consistent overexpenditure in recent years. One corrective action specific to the department is the re-budget exercise discussed above. Additionally, the Police Department has instituted a new Overtime Management Policy to better track and manage overtime spending throughout the department. The new policy significantly increases controls and accountability throughout the chain of command. Beyond the policy, the department is at a higher-level tracking and managing discretionary overtime programmatically as well.

FISCAL IMPACT

There is no fiscal impact associated with this informational report.

PUBLIC OUTREACH / INTEREST

There was no public outreach associated with this informational report.

COORDINATION

The City Administrator's Office coordinated with the Budget Bureau and City departments.

ACTION REQUESTED OF THE CITY COUNCIL

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For questions regarding this report, please contact Erin Roseman, Finance Director, at 510-238-2026.

Respectfully submitted,



[Erin Roseman \(Jun 11, 2021 08:33 PDT\)](#)

Erin Roseman
Director, Finance