

Memo

To: Jim Dinley, Municipal Administrator
From: Jay Sweeney, Finance Director
Date: 12/19/2011
Re: Interpretation of Budget Execution Guidelines

Jim,

As we have discussed, I would like to propose that we set an Agenda item for Assembly discussion in which we work to more broadly interpret the intention and meaning of Sections 11.11 and 11.13 of the Charter. The reason for doing so would be to reduce the size and complexity of the Quarterly Review budget adjustment ordinances.

In common practice over the last 15 years, we presented a large budget adjustment ordinance to the Assembly on a quarterly basis, following discussion at the Quarterly Review. The ordinances are lengthy, complicated, and technical, speaking to which actual account numbers are increased and decreased. Such detail is necessary for the Budget and Treasury Officer to accomplish her job, but the Charter does not require or direct such detail.

Applicable Charter Sections which spell out budget execution language are broad, and read as follows:

Section 11.11 (b) Transfer of Appropriations. The Administrator may transfer part or all of any unencumbered balance between classification of expenditures within a department, sub-department, internal service fund, or enterprise fund except for:

- (1) Transfer of appropriations for debt service, support payments, fixed assets, or transfers to other funds.
- (2) Transfer of appropriations to or from personnel costs and travel/training costs.

All transfers of appropriations will be documented and submitted to the Assembly by the next regular Assembly meeting.

The Assembly by ordinance may transfer part or all of any unencumbered balance from one division, department, or sub-department to another. No transfer may be made from appropriations for debt service.

Section 11.13 (a) Budget Authority. The Administrator shall be responsible for execution of the budget, with oversight by the Assembly. No monies shall be spent other than as authorized by the budget or in excess of budgeted amounts unless specifically authorized by the Assembly.

The Administrator shall provide the Assembly with detailed information on budget execution and the Assembly shall have the power to change or revoke any authorization.

Section 11.13 (c) Appropriations and Unencumbered Balance Required. No payment may be made and no obligation incurred against the municipality except in accordance with appropriations duly made. No payment may be made and no obligations incurred against any appropriation unless the Administrator ascertains that there is a sufficient unencumbered balance in the appropriation and that sufficient funds are or will be available to cover the obligation.

In practice, several recurring issues have repeatedly arisen which are not contemplated or clearly defined by the language in the Charter. As a result, to be safe, the municipality has historically dealt with these issues through Quarterly Review budget adjustment ordinances. As administration of the Municipality has grown more complex, especially with large increases in capital projects, the size of the budget adjustment ordinances has also grown. These recurring issues fall into the following categories:

- a. Transfer of unencumbered balances from parent funds to and from capital project funds. Capital project funds are established for the convenience of record-keeping and, as such, are not required under governmental GAAP. They are really an extension of the parent fund and, during CAFR preparation, the activity in the funds is recombined with the parent funds.
- b. Adjusting the budget to reflect previous Assembly actions to approve additional spending. An example would be the purchase of diesel fuel. Even though the Assembly approves the purchase of diesel fuel, under existing procedures, a follow-on budget ordinance would still need to occur in order to increase the required expense account.
- c. Transfers between Departments at fiscal year end. The level at which the term "appropriations" in Section 11.13 (c) refers to is not defined. As a result, there is no definitive guidance as to what level appropriations cannot be exceeded at. Does the Charter mean account, department, or fund? We don't know. Day-to-day management of an organization as large and complex as the City and Borough of Sitka means that individual accounts are often exceeded during the course of a budget year. As a result, the historical understanding of the intent of this Section is that appropriations cannot be exceeded at the aggregate departmental level.
- d. External events which cause both an additional revenue and expense to be incurred in the same amount. A good example is PERS on-behalf funding. The State of Alaska contributes to PERS on behalf of the City and Borough of Sitka. We never see the physical check, but still must record a transaction to account for the event.

The size and scope of the Quarterly Review budget ordinance could be greatly diminished by Assembly clarification of, and/or approval of, the following budget execution guidelines:

- a. An ordinance is not required to transfer funds from the parent fund to the related capital project, and vice versa, as long as the capital expenditure is approved by the Assembly.
- b. An ordinance is not required to specify the exact accounts whose budgets are to be increased in order to reflect additional spending previously approved by the Assembly. This can be left to the discretion of the Finance Director, as long as the budget increases do not exceed the amount of the additional approved spending.
- c. The term "appropriation" is defined to be at the fund level. This means that individual departments may exceed individual account budgets and overall departmental budgets without requiring a budget adjustment ordinance, as long as the overall

approved expenditure budget for the fund is not exceeded.

- d. If subsequent events cause both pass-through revenues and pass-through expenditures for a fund to be increased by the same amount, due to State or Federal action, an ordinance is not required. Likewise, if expense budgets are exceeded due to a benefit accrual accounting entry wherein an expense is completely offset by a liability, an ordinance is not required.

The system for budget execution that we now have works; however, the level of detail has, at times, taken our focus away from the bigger issues at hand. Implementing more flexible guidelines, such as those suggested above, will help to shift focus towards more strategic issues.

In addition, each suggestion is independent of the others and, if some are acceptable but others are too aggressive, I would welcome either a modification or partial adoption of the proposed recommendations. This is certainly not an all-or-nothing recommendation.