City of Culver City, California

City Council Agenda Item Report

Meeting Date: 05/18/09	Item Number: A-2
AGENDA ITEM: Introduction of an Ordinance Adding Sections 3.07.400 through 3.07.420 to the Culver City Municipal Code (Balanced Budget Ordinance)	
Contact Person/Dept.: Jeff Muir, Chief Financial Officer	Phone Number: 310-253-5865
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [X]	Attachments: [X]
Public Notification: Master Notification List (05/13/09)	
Department Approval: Jeff Muir (05/05/09)	City Attorney Approval: Carol Schwab (by H. Baker) (05/06/09)
Chief Financial Officer Approval: Jeff Muir (05/05/09)	City Manager Approval: Jerry B. Fulwood (05/06/09)

RECOMMENDATION:

It is recommended the City Council discuss and consider introduction of a Balanced Budget Ordinance.

BACKGROUND/DISCUSSION:

On December 1, 2008, the City Council directed staff to bring back an ordinance that would require the City to adopt a balanced budget. Staff has completed drafting this Ordinance, and it has been reviewed by the Budget & Finance Subcommittee.

A draft ordinance was presented to the City Council on March 9, 2009 for the Council's consideration. The general provisions of the draft Ordinance are as follows:

- Section 3.07.400 would be added to the Culver City Municipal Code requiring that General Fund ongoing expenditures shall not exceed budgeted ongoing revenues for each budget year.

- Section 3.07.405 specifies that for each budget year, the City's projected ending reserves shall not be less than thirty (30%) percent of budgeted operating expenditures.

- Section 3.07.410 provides the ability to use reserves for financial emergencies. If a financial emergency is declared by the City Council by a four-fifths vote, the City's required reserves may be used to help balance the budget for a single year, but the projected emergency reserves may not fall below twenty-five (25%) percent. Additionally, the City must implement measures to restore the projected ending reserves to thirty (30%) percent by the end of the immediately following budget year.

- Section 3.07.415 provides that ending reserves in excess of thirty (30%) percent may be appropriated only for one-time, non-recurring expenditures that will not increase future operating costs. It also provides that any other use of these excess reserves may be approved by a four-fifths (4/5) vote of the City Council.

Pursuant to comments made at the City Council meeting of March 9, 2009, the following provision is now part of the draft ordinance:

- Section 3.07.420 requires a quarterly budget monitoring report for the first, second and third fiscal quarters to be provided to City Council no later than 45 days after the end of the quarter.

The City is facing very difficult financial times in the coming years, and difficult decisions will need to be made. The currently approved financial policies also include language that the City will adopt a budget where ongoing expenditures do not exceed ongoing revenues, and that reserves in excess of the thirty percent (30%) requirement may only be used for one-time expenditures. This draft ordinance provides a more formal structure for ensuring the adoption of balanced budget than the City's current financial policies, while still providing the City Council some flexibility with a four-fifths (4/5) vote. Currently, the City Council could adopt a budget that does not comply with the budgetary provisions of the existing financial policies with a simple majority vote. The draft ordinance would not prohibit the City Council from such action in the future, but would require a 'super' majority 4/5 vote to do so.

Procedures/Practices from other Jurisdictions

Staff performed a survey regarding what requirements other cities have implemented similar to this proposed ordinance. Within California, there were no cities that responded that had a specific ordinance requiring an 'operationally' balanced budget. Most jurisdictions did report that they had financial policies in place that required varying level of reserves, as well as policies that projected recurring expenditures should not exceed projected recurring revenues. Additionally, most cities have financial policies stating that reserves or one-time revenues should not be used for operating expenditures. A copy of the survey showing the varying level of reserve requirements is attached.

Staff did locate an Ordinance adopted by the City of Cincinnati which directed the City Manager to implement procedures necessary to ensure that budgeted General Fund expenditures do not exceed budgeted revenues, and further directed that once the City's projected ending minimum combined reserve balance reached a specific level, only then could those resources over that level be appropriated for one time, non-recurring expenditures that would not increase future operating expenditures. A copy of this Ordinance is attached.

Most states, including California, have a balanced budget requirement. However, this 'requirement' is normally loosely defined and does not prevent balancing the budget by spending reserves or other one-time dollars. California is currently in a position of essentially no reserves while battling a growing deficit, with a very probable scenario of running out of cash next fiscal year.

Impacts on New Programs

The question of whether this draft ordinance would prevent a new program from being added to the budget was asked when this item was considered on March 9. In general, if there was a projected operating surplus in the budget, then new programs could be considered with a simple majority approval. If the new program was to be 'revenue generating' and projected revenues were included in the budget to cover the cost of the program then the program could be considered with simple majority approval. If the new program was to be 'revenue generating', but was not projected to generate sufficient revenues to cover its cost within the first year or two of the program, then the item could be approved by a simple majority if there was an operating budget surplus to cover the additional cost. In all cases, a 4/5 majority could approve new programs in the budget even if there was a projected budgetary deficit.

FISCAL ANALYSIS:

This Ordinance will require the City to adopt a balanced budget, where ongoing revenues meet or exceed ongoing expenditures, or require a 4/5 majority approval to do otherwise. This will assist the long-term financial viability of the General Fund, but will require difficult decisions to get there.

ATTACHMENTS:

1. Draft Ordinance
2. Council Policy Number 5002 – Financial Policies
3. Survey of Reserve Requirements
4. Cincinnati Ordinance 175-2008

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MOTION:

That the City Council:

1. Discuss the draft Ordinance; and,

2A. Introduce the Ordinance as presented;

OR

2B. Provide staff with alternate direction as deemed appropriate.