TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: JULY 20, 2004 CMR: 357:04

SUBJECT: REQUEST TO PRELIMINARILY APPROVE 2003-04 REAPPROPRIATIONS REQUESTS

RECOMMENDATION
Staff recommends that the Finance Committee preliminarily approve the 2003-04 reappropriations (Attachment 1).

BACKGROUND
As a part of the typical year-end process, department staff work with the Administrative Services Department (ASD) to review outstanding financial obligations as of year-end. In the course of regular operations, these items span two fiscal years in the processing—planning in one fiscal year and actual payment in the next. This necessitates carrying forward both encumbered and budgeted amounts. Council approves these carry forward items in the year-end closing ordinance once the accounting books are closed. Staff utilizes the reappropriation process if base funding in the following fiscal year cannot accommodate the expense. ASD staff works with departments to minimize the need for reappropriation and ultimately rejects requests that lack merit.

In 1995, the Fiscal Procedures Chapter of the Municipal Code (Chapter 2.28) was amended to implement mission driven budgeting and the 2-year budget process (CMR:212:95; CMR:155:95). Section 2.28.090 governing reappropriations was amended to allow Council to preliminarily authorize reappropriations of non-capital appropriations at the beginning of the fiscal year with final authorization to be made at the time of adoption of the budget closing ordinance. The purpose of this was to ease difficulties experienced by the departments caused by the late final approval of the reappropriations where the reappropriation was justified and sufficient funds from the prior year are clearly available. With ASD oversight, preliminary approval allows the
department to continue with normal operations and spend the funds as of the Council’s preliminary approval date rather than the year-end ordinance approval date.

To this point, the City has not been able to utilize the preliminary reappropriation process because of delays involved with the IFAS financial system, which required the manual entry of reappropriation amounts into the new year’s budget. The standard practice was to post the reappropriations after the Council approved the close of the fiscal year. Final Council approval would occur in January, resulting in at least a 7-month lag-time for these carry-forward items to be posted in the system.

**DISCUSSION**
With the implementation of SAP, there is an opportunity to take advantage of system efficiencies by allowing the system to automatically post the previous year’s reappropriations with the other encumbered carry-forwards as of the beginning of the new fiscal year. As noted above, the City of Palo Alto Municipal Code (Section 2.28.090) allows the “preliminary” approval of reappropriations, as long as final approval is included with the normal year-end closing ordinance. The preliminary reappropriation action allows for an early review of uncommitted funds in a just-concluded fiscal year for possible carry-forward into the next. Attachment 1 identifies those reappropriation requests that ASD recommends for preliminary approval. Final approval will be requested by Council after the books are closed.

**RESOURCE IMPACT**
Staff has determined that sufficient uncommitted budgeted funds do exist to allow for the preliminary approval of the attached 2003-04 reappropriations list (Attachment 1). General Fund proposed reappropriations total $444,322 along with $44,123 within a housing Special Revenue Fund. For comparative purposes, Council approved a similar operating amount ($311,671) in 2002-03.

**POLICY IMPLICATIONS**
This recommendation is consistent with adopted Council policy.

**ENVIRONMENTAL REVIEW**
The action recommended is not a project for the purposes of the California Environmental Quality Act.

**ATTACHMENT**
Attachment 1: 2003-04 Reappropriations List