TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: NOVEMBER 16, 2004 CMR: 475:04

SUBJECT: APPROVAL OF A BUDGET AMENDMENT ORDINANCE IN THE AMOUNT OF $35,881,000 FOR A TRANSFER OF INFRASTRUCTURE RESERVE FUNDS FROM THE GENERAL FUND TO THE CAPITAL FUND

RECOMMENDATION

Staff recommends that Council approve a Budget Amendment Ordinance (BAO) in the amount of $35,881,000 to transfer General Fund Infrastructure Reserve funds to the Capital Fund.

BACKGROUND

On December 3, 2002, the City Auditor issued an audit report on her analysis of the Long Range Financial Plan. As a result of this audit, it was determined that a number of transfers accounted for the flow of the infrastructure funding. These included transfers in and out of the General Fund, Capital Projects Fund, Infrastructure Reserve, and Budget Stabilization Reserve. In addition, the report noted that when a capital project is completed, any funds remaining in that project were returned to the originating funding source (e.g. General Fund). In the Auditor’s opinion, these transfers unnecessarily complicated the accounting for infrastructure funding.

The City Auditor recommended a simplification of infrastructure funding by: (1) moving the Infrastructure Reserve from the General Fund to the Capital Projects Fund; and (2) retaining unspent project funds in the Capital Projects Fund.

DISCUSSION

As a result of the City Auditor recommendations, the City Council approved a Capital Fund Reserve Policy with the adoption of the 2004-05 budget. A BAO is now necessary to implement the policy by transferring the Infrastructure Reserve from the General Fund to the Capital Projects Fund. This reserve transfer also eliminates the need for most of the future year operating transfers between the General and Capital Funds. In the future, unspent monies from Infrastructure Management Plan (CityWorks) projects will be returned to the Infrastructure
Reserve and be retained within the Capital Fund. Investment income from this reserve will also be retained within the Infrastructure Reserve to fund future capital project needs.

The Capital Fund Reserve Policy will be reviewed annually during the budget process.

**RESOURCE IMPACT**

The attached BAO will move the Infrastructure Reserve balance of $35,881,000 from the General Fund to the Capital Fund. This move will mean a reduction of approximately $1,000,000 in interest earnings to the General Fund per year. This interest will now accrue to the Infrastructure Reserve and in the Capital Fund and will be used to fund IMP Capital Projects. The 2004-05 Adopted Budget includes the interest income adjustment.

**ATTACHMENTS**

Attachment A: Budget Amendment Ordinance
Attachment B: Capital Reserve Policy

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