



Legislation Details (With Board Report)

File #: 13-0740 **Name:** Increase appropriation in ED 001-8221-DEO001
Type: General Agenda Item **Status:** Passed
File created: 7/2/2013 **In control:** Board of Supervisors
On agenda: 7/16/2013 **Final action:** 7/16/2013

Title: a. Approve an increase in appropriations for the Economic Development Department (001-1070-8221), Appropriation Unit DEO001 by \$636,999 and transfer from the General Fund Contingencies (001-1050-8034), Appropriation Unit CAO020 the amount of \$636,999 to fund the reduction in reimbursements received from Successor Agency revenue sources for FY 2012-13; and
b. Authorize the Auditor-Controller’s Office to incorporate the approved appropriations to the FY 2012-13 Budget (4/5th vote required). (ADDED VIA ADDENDUM)

Sponsors:

Indexes:

Code sections:

Attachments: 1. Completed Board Order

Date	Ver.	Action By	Action	Result
7/16/2013	1	Board of Supervisors	approved	Pass

a. Approve an increase in appropriations for the Economic Development Department (001-1070-8221), Appropriation Unit DEO001 by \$636,999 and transfer from the General Fund Contingencies (001-1050-8034), Appropriation Unit CAO020 the amount of \$636,999 to fund the reduction in reimbursements received from Successor Agency revenue sources for FY 2012-13; and
b. Authorize the Auditor-Controller’s Office to incorporate the approved appropriations to the FY 2012-13 Budget (4/5th vote required). (ADDED VIA ADDENDUM)

RECOMMENDATION:

It is recommended that the Board of Supervisors,

- a. Approve an increase in appropriations for the Economic Development Department (001-1070-8221), Appropriation Unit DEO001 by \$636,999 and transfer from the General Fund Contingencies (001-1050-8034), Appropriation Unit CAO020 the amount of \$636,999 to fund the reduction in reimbursements received from Successor Agency revenue sources for FY 2012-13; and
- b. Authorize the Auditor-Controller’s Office to incorporate the approved appropriations to the FY 2012-13 Budget (4/5th vote required).

SUMMARY/DISCUSSION:

The Economic Development Department (EDD) has reviewed its appropriation units in preparation for the FY 2012-13 year-end close. In the current FY 2012-13 budget, EDD’s Economic Opportunity Admin Unit 8221 has existing budgeted expenditures of \$1,734,434 for staff salaries and benefits plus \$298,497 for services and supplies totaling \$2,032,931 with offsetting reimbursements of \$1,710,241 resulting in a general fund contribution of \$322,690. At this time it is projected that EDD will not receive sufficient reimbursements from outside sources to offset the incurred and projected expenditures for FY 2012-13 and will end the fiscal year \$636,999 over its general fund contribution for the Economic Opportunity Admin Unit 8221. Expenditures in Unit 8221 are anticipated to end the fiscal year at \$2,016,329, whereas reimbursements are projected to be \$1,050,130, resulting in expenditures exceeding reimbursements by \$966,199. After deducting the adopted general fund contribution of \$322,690 the total amount projected over the approved general fund contribution is

\$636,999.

When the FY 2012-13 Adopted Budget for EDD Unit 8221 was developed in the February - March 2012 timeline, the then pending legislation associated with the dissolution of the Redevelopment Agency (RDA), now referred to as Successor Agency, was not known. As such, the budget for Unit 8221 assumed status quo revenue from the prior year and included the continuation of former RDA funding of \$574,000. In prior years, RDA funding was critical to successfully closing the fiscal year within budget for Unit 8221. At the end of each fiscal year, the accumulated costs over and above the general fund allocation would be redistributed across the RDA units based on the pro-rata share of the sum of all RDA units beginning fund balances. As a result of the dissolution of the RDA, there are no funds available in FY 2012-13 to allocate these costs and as such, Unit 8221 is projecting to over expend by \$636,999. It should be noted that the information regarding the budget including the uncertainty surrounding RDA funding was not included in the Budget Impact or Policy sections of the FY 2012-13 Recommended Budget although the Departments working papers used to develop the FY 2012-13 budget indicated that the RDA funding was considered "TBD pending legislation".

It was not obvious until recently that an issue of this magnitude existed within Unit 8221 due to a couple of reasons. The first is related to the overstatement of budgeted reimbursements. As Unit 8221 relies heavily on having its costs reimbursed, at the beginning of the fiscal year, the Department established an accrued expenditure account of \$1,710,241 which allowed the Department to incur expenditures at the budgeted level even though the reimbursements were not being recognized. The second reason is that accounting systems disguised the fact that the reimbursements were not being recognized at the amount budgeted. Prior EDD management instructed staff to process internal transactions that allowed easy visibility into staff charges remaining within Unit 8221 with an offset to an unbudgeted reimbursement account 7305. While there was no financial impact of these transactions, it caused expenditures and reimbursements to be overstated. The current EDD staff has met with both the CAO-Budget and Analysis Division and the Auditor Controller to remedy these practices and these transactions will not be used in the future. In addition, the overstatement of expenditures and reimbursements are being corrected prior to the close of the FY 2012-13.

As a result of the attrition that has occurred within the EDD, the new management team is reviewing current operations to better manage required tasks and associated funding sources. It is apparent that the dissolution of the Redevelopment Agency (RDA) has had a significant impact on the current operations within EDD. Once operations, tasks, associated funding sources and performance measures are determined, EDD will return to the Board to determine its policy for EDD and any associated funding requirements. Pursuant to that end, EDD will be reporting to the Budget Committee on a quarterly basis during FY 2013-14 to track EDD's progress and budget status, and return to the Board by December 2013 with an update and to seek further directives from the Board as necessary and appropriate.

OTHER AGENCY INVOLVEMENT:

Due to the need to immediately meet the year-end deadlines, the CAO-Budget and Analysis Division cannot confirm the information provided but will work with the Economic Development Department to work through the issues and any subsequent impact to their FY 2013-14 Adopted Budget.

FINANCING:

General Fund Operational Contingencies are sourced with one-time funding. The FY 2012-13 budgeted General Fund Contingencies was \$4,550,162. With the requested action to use \$636,999 in appropriations from Contingencies, the remaining General Fund Operational Contingencies budget in FY 2012-13 would be \$2,389,453. The recommended \$636,999 from contingencies (001-1050-8034-7811-CAO020) shall be used to cover the reduction in budgeted reimbursements of \$636,999 in the Economic Development Department (001-1070-8221-DEO001).

Approved by:

David L. Spaur, Director
Economic Development Department
Ext. 5387