



AGENDA MEMO
12/5/2017 Agenda

TO: Honorable Mayor and City Council

FROM: Thomas W. Tvardzik, Director of Finance

SUBJECT: Ordinance amending FY2018 budget to carry forward FY2017 encumbrances

BACKGROUND:

Each year City staff prepares and proposes a budget amendment to bring forward funds encumbered at the end of the prior fiscal year. Encumbrances are commitments to purchase specific goods or services, generally evidenced by an open and approved purchase order. They are budgeted, authorized transactions that have not concluded by year end. Approval of these FY2017 encumbrances (open purchase orders) moves the corresponding budget amount from FY2017 to FY2018, thereby making the funds available for expenditure in the current fiscal year.

Impact on the FY2018 budget

As noted above, the proposed budget amendment will increase FY2018 authorized expenditures. The specific amounts per account, department and vendor are displayed in Exhibit "A" of the attached ordinance. The overall impact on the FY2018 budget is shown in the table below:

Fund	Adopted Budget	Encumbrances	Amended Budget
General	\$31,416,105	\$309,933	\$31,726,038
Utility	\$15,874,252	\$45,234	\$15,919,486
Sanitation	\$3,153,552	\$-0-	\$3,153,552
Storm Water	\$450,000	\$47,409	\$497,409
	<u>\$50,893,909</u>	<u>\$402,576</u>	<u>\$51,296,485</u>

Please note that the encumbrances related to capital projects are not presented in the totals above, as the Capital Projects funds (Fund 42 and Fund 44) derive their income solely through inter-fund transfers and interest income, and are not part of the legally adopted budget. The encumbrance amounts for Fund 42 and Fund 44 are \$374,597 and \$2,055,776, respectively.

Impact on FY2017 financial position

Shifting authorized expenditures from FY2017 to FY2018 will have the effect of increasing FY2017 fund balances (and working capital). This is because fund balance is impacted when funds are actually expended. Lower expenditures in FY2017 will increase fund balance, while the opposite will be true in FY2018 when the funds are actually expended. Over the course of the two year period, the net effect on fund balance will be zero.

Fund Balance Compliance

In order to monitor compliance with City minimum fund balance requirements, staff assumes that all FY2017 encumbrances were converted into expenditures during the 2017 fiscal year. Had those funds actually been spent, the impact on working capital would be as follows:

Fund	9/30/17 Working Capital Balance*	Add'l Expenditures	Adjusted Working Capital Balance
General**	\$9,213,010	(\$309,933)	\$8,903,077
Utility	\$5,138,164	(\$45,234)	\$5,092,930
Sanitation	\$1,532,004	(\$0-)	\$1,532,004
Storm Water	\$1,749,910	(\$47,409)	\$1,702,501
	\$17,633,088	(\$402,576)	\$17,230,512

* - As presented in the September 30, 2017 Fund report, before year-end and audit-related adjustments.

** - The balance of the General Fund has been adjusted to reflect the results of transfer activity that will eventually be before the Council in a separate agenda item. The amount transferred out of the fund is assumed to be \$1,753,372, subject to further adjustment and adoption.

The resulting working capital balances are above the minimum levels established by the City's Financial Management Policies. The following page displays the FY2018 adopted budget and the change to each department made by this proposed amendment.

RECOMMENDATION:

The encumbrance carry-forward is presented to the Council each year as a routine item. City staff recommends approval of the attached ordinance.

ATTACHMENTS:

FY2018 Adopted budget (as amended)
Ordinance amending FY2018 Budget
FY2018 Budget Amendment No. 1 by Fund and Department (Exhibit "A")