



City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: June 21, 2011

SUBJECT: Fiscal Year 2012 Preliminary Operating Budget and City Budget
and Fiscal Policy

Report in Brief

On March 29 and May 24, staff presented information regarding the FY 2012 budget that included recommended actions to restructure the organization, mitigate the structural deficit and present a balanced 10-year Financial Plan for the General Fund. The City Council provided direction on May 24 that supported the recommended actions. A 10-year Financial Plan was also presented which will, based on the assumptions discussed on May 24, maintain a balanced General Fund that will actually add to the reserves in a manner that is consistent with the City's Budget and Fiscal Policy.

In order to facilitate the City Council's consideration and adoption of the FY 2012 preliminary operating budget, the following information will be presented in this report: (1) summary of changes to the General Fund from the information presented on May 24 that need to be considered as part of budget adoption; (2) revenues and expenditures for all operating funds; and (3) 10-year Financial Plans for all operating funds.

In addition to consideration and adoption of the FY 2012 budget, staff is also asking the City Council to review and approve the Budget and Fiscal Policy. As the Council is aware, the Budget and Fiscal Policy was originally approved as part of the FY 2009 budget adoption. Last year, the Council approved two revisions to the Policy based on recommendations from the Chamber of Commerce Budget Task Force and previous comments from Council members. There are no changes to the Policy proposed this year; however, staff believes it is appropriate to review the document each year in order to validate that the proposed budget is consistent with the Policy.

Staff recommends that the City Council (1) adopt the Preliminary Fiscal Year 2012 budget as described herein, including the issuing of layoff notices for up to three employees; and (2) reaffirm the Budget and Fiscal Policy and certify that the proposed preliminary budget is consistent with the Policy.

Background

On March 29 and May 24, the City Council received information regarding the FY 2012 General Fund budget during scheduled workshops. The information presented during the workshops focused on actions necessary to restructure the organization in order to mitigate the structural deficit and present a balanced 10-year Financial Plan. These actions included the following strategies:

- Implementation of a Public Safety Management Consolidation;
- Modifications to the Building Division and Fire Prevention;
- Restructuring of the Community Development Department;
- Meet and Confer Process with Bargaining Units to Implement Pension Reform;
- Consideration of Alternative Expenditure Reductions

At the conclusion of the May 24 meeting, the City Council expressed support for the Public Safety Management Consolidation, Building/Fire Prevention modifications, Community Development restructuring and continuing the Meet/Confer process with bargaining units to implement pension reform. In addition, the City Council approved a set of expenditure reductions totaling \$976,806 which would offset a \$664,444 deficit and contribute \$312,362 to the General Fund reserves. The contribution to the reserves was a high priority because a revenue shortfall last year caused the City to utilize \$963,000 of the General Fund reserves to balance in FY 2010.

In addition, staff announced during the May 24 workshop that the City had received a \$1.2 million federal grant to hire six additional firefighters for two years and is in the process of finalizing an extension of the solid waste franchise agreement that will result in a \$1,000,000 cash payment as one of the conditions. These recent developments, combined with the expenditure reductions and organizational restructuring, provides a healthy fund balance which, if managed prudently, will insulate the City to withstand the sunset of the supplemental sales tax measure in FY 2015 and maintain present service levels. Implementation of pension reform expressed as ending the Employer Paid Member Contribution (EPMC) is the additional critical strategy that will further reduce costs and support fiscal stability through the end of the 10-year Financial Plan.

Since the May 24 workshop, staff has been engaged in the following activities to finalize the FY 2012 budget:

- Refine the service levels and expenditures for the Woodland Cemetery to avoid the impacts described during the May 24 workshop;
- Finalize agreements with Police bargaining units that include compensation concessions necessary to meet FY 2012 General Fund expenditure assumptions; and

- Address a changed condition within the Fire Department that will impact the Building/Fire Prevention modification.

The information within the Discussion section of this report will provide the City Council with a summary of the activities and changes described herein and the impact to the proposed FY 2012 General Fund budget. In addition, staff will provide an overview of the other funds by reviewing the updated 10-year Financial Plans in order to seek Council approval of the entire FY 2012 preliminary operating budget.

The City Council should note that the action under consideration will be limited to the FY 2012 operating budget. The Capital Budget is still in the process of being updated and will be presented to the Council on July 19. This will not have an adverse impact on capital projects because the City Council annually approves a three-year expenditure plan for Capital Improvement Program; therefore, staff has authority to continue the work associated with the various projects. The delay in bringing the CIP to the City Council for FY 2012-2014 is primarily due to the schedule for major infrastructure projects including surface water and reviewing strategies for addressing internal debt between the various categorical funds. The Council may recall that one of the amendments to the Budget and Fiscal Policy approved last year focused on addressing the internal debt issue.

Discussion

The following section of this report will summarize the changed conditions listed in the preceding section. Please note that these conditions apply to the General Fund. Information associated with the remaining funds will be summarized within the remainder of this section

General Fund – Changed Conditions

Refine Service Levels/Expenditure Assumptions for the Woodland Cemetery

On May 24, the City Council directed staff to refine the service levels and expenditure assumptions for the Woodland Cemetery. The Council's direction was based on the description of maintenance activity that would have closed the Cemetery during certain periods and may have allowed improvements such as the installation of new sod on the west side of the facility to deteriorate.

Staff's May 24 recommendation was based on the Public Works Department's request to add an additional \$185,000 in General Fund resources to the Cemetery operating budget. While the Cemetery does generate income, the total General Fund support for the program would have increased from \$200,000 to \$385,000. The City Manager's Budget Review Team evaluated this request as unsustainable and proposed the reduction.

Following the May 24 meeting, Public Works and Finance staff reviewed the Cemetery expenditures and agreed on reductions primarily focused on part time staff hours. These reductions will decrease the level of maintenance in certain areas such as mowing, edging and weeding. There will be

extended time periods between mowing, edging and weeding cycles that will cause the Cemetery grounds to appear less well kept. However, the reductions will not require the Cemetery to be closed and the resources necessary to irrigate the grounds have been restored. Providing irrigation is essential to maintaining the sod that was installed in 2007-2009.

Staff also believes that the Cemetery provides an excellent community volunteer opportunity for organizations that are interested in supporting a highly valued historical resource. Much of the work necessary to maintain the grounds can be provided by volunteers capable of operating power trimmers, picking up debris and using a paint brush. Many Woodland residents have strong connections to this historic facility which could generate commitments to help in some way.

Finalization of Agreements with Police Bargaining Units

As the Council is aware, progress has been made with Police bargaining units that involved the need for compensation concessions necessary implement the balanced budget presented on May 24. The details are still being finalized so it is not appropriate to summarize the information at this time. Information discussed during the closed sessions of May 17 and June 7 will be drafted into amendments to the current labor agreements that representatives of the respective units and management will need to review. Despite the fact that work is still in progress, staff believes that the concessions will allow the City to maintain a balanced budget and show progress on the pension reform issue.

Changed Condition Associated with the Building/Fire Prevention Modification

The May 24 report summarized the modifications to Building and Fire Prevention as stated below:

- Reduce one Fire Prevention Specialist;
- The vacancy for the Fire Prevention Specialist would be generated by an incumbent staff member who has met requirements necessary to qualify as an entry professional firefighter;
- Hire that staff member as an entry level firefighter;
- Reassign the current Fire Marshall to a newly created position of Deputy Fire Marshall that is similar in classification and compensation to a Fire Captain position;
- Designate the Deputy Fire Marshall as the authorized representative to enforce the State Fire Code who would report to the Deputy Fire Chief and Public Safety Chief;
- The Deputy Fire Marshall will be responsible for field inspections and not primarily focused on management as is currently the case with the Fire Marshall;
- Coordinate all plans review activity within the Building Division in order to streamline the development process.

Unfortunately, this plan now must be adjusted to account for a change. The Fire Prevention Specialist has declined the opportunity to become a firefighter. As a result, the incumbent staff member will remain as Fire Prevention Specialist. Based on existing labor agreements, the incumbent Fire Marshall will be discharged through the layoff process. Staff will need to hire a part time Deputy Fire Marshall to support Fire Prevention during FY 2012. In addition, the Deputy Fire Chief and Public Safety Chief will be tasked with preparing one of the two remaining Fire Prevention Specialists to become the full time Deputy Fire Marshall beginning in FY 2013.

10-Year Financial Plan

Attachment No 1 is the General Fund 10-year Financial Plan. Total appropriations for FY 2012 are **\$36,914,030** against total revenues of **\$38,721,392**. The Plan shows the one time revenue of \$1.6 million generated by the solid waste franchise agreement extension and year 1 of the fire grant in FY 2012 and \$600,000 for year 2 of the fire grant in FY 2013. In addition, the Plan assumes all of the expenditure reductions discussed on May 24 are approved, implemented and maintained for the balance of the ten years. The Plan assumes a two-year phase in for the end of the Employer Paid Member Contribution in FY 2013 and 2014; over those two years, the benefits line item will be reduced by \$957,000. Other notable expenditure assumptions include an annual 2% cost of living adjustment which, if implemented as shown, would allow all salaries to increase by a cumulative 20% by FY 2021. Another critical assumption is that the supplemental sales tax measure shown as Measure V will end as scheduled in September 2014.

Despite the loss of Measure V, the combined impact of one time revenue and the expenditure reductions discussed on May 24 will enable the General Fund to remain balanced with reserves exceeding the minimum standards set forth in the Budget and Fiscal Policy. The annual operating budget would run deficits ranging from \$87,000 to \$222,500 beginning in FY 2017 through FY 2021. While these deficits are concerning, the fact that the fund retains reserves of over 20% is an indicator of fiscal stability. With deficits beginning in FY 2017, staff will have time to develop and propose strategies to correct the problem and bring the expenditures and revenues into balance.

It is also important for the Council to note that the 10-year Plan assumes that a successful Proposition 218 election will occur in FY 2012 so that the \$242,000 General Fund subsidy for storm drainage ends in FY 2013. If that does not occur, then expenditure reductions will need to be implemented in order to maintain a balanced Plan.

As stated verbally during the May 24 presentation, long range financial planning is very difficult during these uncertain economic periods. Nonetheless, the projections provide some understanding of potential trends that staff can use to guide the development of strategies for Council consideration. The General Fund 10-year Plan will be reviewed following the close out of the current fiscal year and as key economic information is received throughout next year.

Water Enterprise Fund

Attachment No. 2 is the 10-year Financial Plan for the Water Enterprise Fund. The FY 2012 Preliminary Budget projects revenues generated by utility service charges of \$10,903,680, other miscellaneous revenues of \$20,400 and bonds issued for the Surface Water Project of \$7,554,267 for total revenues of **\$18,479,347**. The operating expenditure for the preliminary budget is \$7,925,882 and the capital expenditure is \$10,044,267 for total expenditures of **\$17,970,149**. Net income for FY 2012 is **\$508,198** which will increase the working capital fund balance to **\$5,291,738**.

Reinvestment in the water utility infrastructure remains a major priority for this fund with the focus beginning to shift away from metering and water distribution to the Surface Water Project. The 10-year Plan shows the projected full impact of Surface Water within revenue and expenditure line items. The revenue projections assume the continuation of the 20% rate increases approved in November 2009 through FY 2013. In order to support an additional bond issue for the final phase of Surface Water, three additional years of 20% rate increases will be necessary through FY 2016. After that, rate increases are projected at the rate of inflation or approximately 3% annually. An update to the Water Rate Study is underway and staff expects to initiate the required 218 process in early 2012. It is critical that additional rate increases are adopted prior to seeking additional bonding for the Surface Water project.

The expenditure projections show major increases in the capital budget of approximately \$22 million in FY 2013, \$68 million in FY 2014, \$64 million in FY 2015 and \$26 million in FY 2016. Debt service associated with the Surface Water Project increases from \$153,000 in FY 2013 to nearly \$14 million in FY 2016 - FY 2021. In addition, Summer Water Purchases are shown as beginning in FY 2016 based on the agreement approved by the City Council last December. Finally, Anticipated JPA Operations primarily associated with the water treatment plant are estimated at \$780,000 in FY 2016 and increased to \$1,160,000 in FY 2017 – FY 2021.

The Council should note that the projections for the Surface Water Project impacts could change depending on many factors. Project scheduling could cause increases or decreases in the allocation of capital costs within various years. Bond issuance may be delayed or scheduled sooner than expected based on the project scheduling. These factors could change the debt service payments. Finally, the cost of the project could also change depending on many factors, including the global economy. It is hoped that the selection of Design Build Operate as the delivery model will provide long range cost savings for the Surface Water Project as has been the result in other projects.

Despite the significant expenditures, the Water Enterprise Fund retains reserves that meet the City's Budget and Fiscal policy. The Committed and Operational Reserves are maintained at the combined total of 13% and the Unassigned Reserve increases significantly as the additional obligations associated with Surface Water are implemented. As part of issuing the debt for the Surface Water project, the City must maintain debt service coverage in a range of 120% to 150% of the annual debt service in order to receive the high rating from bonding agencies and meet covenants in existing bond documents. In addition, the healthy Unassigned Reserve will allow the City to continue reinvestment into the water utility infrastructure in future years without having to issue debt.

Sewer Enterprise Fund

Attachment No. 3 is the 10-year Financial Plan for the Sewer Enterprise Fund. The FY 2012 preliminary budget projects revenues generated by utility service charges of **\$10,931,291** against expenditures of **\$10,092,334**. Capital budget requests totaling **\$2,631,000** will be partially offset by the net operating income of **\$880,956**; however, there will be a net reduction in working capital of **\$1,750,044** in order to complete projects such as Annual Sewer Repair and Replacement and Trunk Line Repairs scheduled for FY 2012. It should be noted that the Beginning Working Capital for FY 2012 includes \$9,000,000 of unspent bond funds issued in FY 2009. The Plan shows that these bonds would be expended over the next two years on various projects that will be discussed when the Capital Improvement Program is reviewed with the City Council next month.

Reinvesting in the City's sewer collection infrastructure and Waste Water Treatment Plant are major priorities over the next ten years. Approximately \$24.7 million in capital projects are shown as funded in the 10-year Plan. The Plan also shows approximately \$23 million in unfunded projects that are currently being evaluated. Moving these projects forward will be discussed in more detail when the capital program is presented next month.

The Sewer Enterprise Fund retains healthy reserves that meet the City's Budget and Fiscal Policy. Operational and Assigned reserves at 10% and 3% respectively are projected every year. Unassigned reserves range at \$13.8 to \$17.5 million which would support reinvestment into the infrastructure. The need for a healthy Unassigned Reserve will allow the Sewer Enterprise Fund to issue future debt for major repairs, if necessary, by meeting debt service coverage requirements set by financial institutions.

Public Works staff has proposed the addition of equipment and staffing costs throughout the 10-year Plan primarily based on anticipated regulatory changes. These additional costs are not included in Attachment No. 3. The City Manager's Budget Review Team will evaluate these additional requests and, if appropriate, schedule review by the Council's Infrastructure Committee and the entire City Council as part of a workshop. Staff believes all additional costs proposed by the Public Works Department require a thorough review because such costs will have an impact on future rates and would affect the levels of reserve balances discussed above. A consultant has been retained to complete an evaluation of the current sewer rates; results are expected to be available this fall.

Combined Transportation Funds

Attachment No. 4 is the 10-year Financial Plan for the Combined Transportation Funds. The sources of revenue for this Financial Plan include Net Transportation Development Act (TDA) funds and Gas Tax payments. For FY 2012, total revenues of **\$2,566,750** are projected against expenditures of **\$2,864,367** which will require a contribution from Measure E. In 2007, the City Council authorized the contribution not to exceed \$750,000 which is used for maintenance activities that support road rehabilitation and repair projects.

Staff has summarized the continuous concern regarding the transportation program based on the assumption that TDA funding will eventually diminish to the point that additional Measure E funds

will be needed to maintain the present level of street maintenance. Last year, staff believed that FY 2012 would be the year that the \$750,000 Measure E funding would not be enough and service level reductions ranging from reduced sign replacement to turning off street lights would need to be considered. These unpleasant alternatives were summarized within the March 29 report.

Fortunately, the Yolo County Transportation District has implemented strategies to efficiently operate the transit system that has saved resources and allowed the Net TDA allocation to Woodland and other cities to remain at a higher level than expected. Based on current projections, net TDA funding will allow the Council authorized Measure E contribution to keep the program funded at current service levels until FY 2016 when an increase to \$800,000 will be necessary. In future years, over \$1,000,000 will be needed. After Measure E expires in FY 2018, the City will need another funding source or the unpleasant alternatives presented on March 29 will need to be implemented.

Since Measure E is linked to the Capital Program, staff believes more discussion of this matter should be provided when the CIP is reviewed on July 19. Additional allocation of Measure E funds will have an impact on capital projects and the Measure E Implementation Plan. This discussion should generate support for investigating alternatives that would supplement the Gas Tax revenues and keep the transportation program at the levels necessary to provide a safe and efficient circulation system.

Budget and Fiscal Policy

The FY 2010 budget adoption on June 16, 2009 included the approval of the Budget and Fiscal Policy. Staff believes that it is appropriate to review the Policy each year to determine if changes should be considered and certify that the proposed budget is consistent with the Policy conditions.

Attachment No. 5 is the Budget and Fiscal Policy. Staff believes the FY 2012 Preliminary Operating Budget is consistent with the Policy based on the following conditions:

- All funds presented herein maintain reserve levels as established per Section 1.0;
- 10-year Financial Plans have been developed with the exception of the Capital Program which will be presented to the City Council on July 19 and the remaining conditions of Section 2.0 are continuously implemented;
- Implementation of a Performance Based Budget remains a high priority with the targeted implementation in FY 2014;
- Staff suggests deferring comment on Section 3.0 until the 10-year Capital Program is presented on July 19;
- Implementation of all Internal Service Funds listed in Section 5.0 remains scheduled for FY 2014;

- Enterprise funds have been managed in a manner consistent with Section 6.0 and all revenue generating agreements are periodically reviewed;
- A Performance Based Budget, once developed as scheduled for FY 2014, will be presented annually as the City Council's operating and performance document.

Fiscal Impact

The Preliminary Fiscal Year 2012 Operating Budget being presented for adoption reflects the current economic conditions, the Budget and Fiscal Policy and balance of services desired by Woodland's residents, business and the City Council.

The following appropriations associated with the Preliminary FY 2012 Budget are presented for adoption:

General Fund - \$36,914,030

Water Enterprise Fund - \$17,970,149

Sewer Enterprise Fund - \$12,723,334

Transportation Program - \$2,864,367

Public Contact

Posting of the City Council Agenda. There was also extensive discussion of the FY 2012 budget on March 29 and May 24. A copy of the May 24 and March 29 reports are provided as an attachment for the Council and community's reference.

Alternative Courses of Action

1. Adopt the Preliminary Fiscal Year 2012 budget as described herein, including the issuing of layoff notices for up to three employees; and reaffirm the Budget and Fiscal Policy and certify that the proposed preliminary budget is consistent with the Policy.
2. Provide alternate direction to staff.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1

Mark G. Deven
City Manager

- Attachment No. 1: General Fund 10-year Financial Plan
- Attachment No. 2: Water Enterprise Fund 10-year Financial Plan
- Attachment No. 3: Sewer Enterprise Fund 10-year Financial Plan
- Attachment No. 4: Combined Transportation Funds 10-year Financial Plan
- Attachment No. 5: Budget and Fiscal Policy

**City of Woodland
General Fund 10 Year Forecast - Recommended Scenario**

Estimated Beginning Fund Balance \$ 4,171,851 \$ 5,979,213 \$ 7,602,238 \$ 9,229,854 \$ 9,631,458 \$ 9,773,640 \$ 9,677,819 \$ 9,455,344 \$ 9,283,851 \$ 9,157,885

Revenues by Source	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Tax Revenues (Property, Sales, Other)	\$ 22,324,177	\$ 23,091,435	\$ 23,945,246	\$ 24,970,999	\$ 26,046,508	\$ 26,839,611	\$ 27,657,749	\$ 24,247,348	\$ 25,209,043
Special Tax - Measure V	\$ 1,850,000	\$ 1,887,000	\$ 1,924,740	\$ 481,185	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees, Fines, Revenue from Other Sources	\$ 8,090,548	\$ 8,288,884	\$ 8,492,283	\$ 8,700,878	\$ 8,914,808	\$ 9,134,213	\$ 9,359,240	\$ 9,590,038	\$ 9,826,760	\$ 10,069,565
Indirects	\$ 3,950,636	\$ 4,171,872	\$ 4,405,496	\$ 4,652,204	\$ 4,912,728	\$ 5,187,840	\$ 5,478,359	\$ 5,785,148	\$ 6,109,116	\$ 6,451,226
Other Miscellaneous Revenue	\$ 906,031	\$ 921,832	\$ 985,501	\$ 949,444	\$ 963,665	\$ 839,793	\$ 854,589	\$ 869,680	\$ 885,074	\$ 900,775
ONE TIME Money (including SAFER Grant)	\$ 1,600,000	\$ 600,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 36,721,392	\$ 38,961,023	\$ 39,703,266	\$ 39,754,710	\$ 40,837,709	\$ 42,001,457	\$ 43,349,938	\$ 40,492,214	\$ 42,029,994	\$ 43,633,566
Expenditures by Category										
Salaries, Benefits, Overtime	\$ 22,476,080	\$ 22,752,306	\$ 23,108,408	\$ 23,953,567	\$ 24,849,058	\$ 25,788,694	\$ 26,785,953	\$ 27,845,615	\$ 28,960,527	\$ 30,134,007
Meetings, Supplies and Services	\$ 3,983,951	\$ 4,055,006	\$ 4,127,482	\$ 4,201,407	\$ 4,276,811	\$ 4,353,723	\$ 4,432,174	\$ 4,512,193	\$ 4,593,812	\$ 4,677,065
Non-Discretionary Costs	\$ 10,211,999	\$ 10,530,685	\$ 10,839,761	\$ 10,998,131	\$ 11,369,657	\$ 11,754,861	\$ 12,154,286	\$ 8,105,900	\$ 8,401,620	\$ 8,709,825
Storm Drain Subsidy	\$ 242,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gateway Subsidy	\$ -	\$ -	\$ -	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Total Expenditures	\$ 36,914,030	\$ 37,337,998	\$ 38,075,650	\$ 39,353,105	\$ 40,695,527	\$ 42,097,278	\$ 43,572,413	\$ 40,663,707	\$ 42,155,959	\$ 43,720,396
Net Surplus (Deficit)	\$ 1,807,362	\$ 1,623,025	\$ 1,627,616	\$ 401,604	\$ 142,182	\$ (95,821)	\$ (222,475)	\$ (171,493)	\$ (125,966)	\$ (86,830)
Fund Balance										
Contingency (10%)	\$ 3,872,139	\$ 3,896,102	\$ 3,970,327	\$ 3,975,471	\$ 4,083,771	\$ 4,200,146	\$ 4,334,994	\$ 4,049,221	\$ 4,202,999	\$ 4,363,357
Unrestricted Fund Balance	\$ 2,107,074	\$ 3,706,136	\$ 5,259,527	\$ 5,655,967	\$ 5,689,869	\$ 5,477,673	\$ 5,120,350	\$ 5,234,629	\$ 4,954,886	\$ 4,707,699
Ending Fund Balance	\$ 5,979,213	\$ 7,602,238	\$ 9,229,854	\$ 9,631,458	\$ 9,773,640	\$ 9,677,819	\$ 9,455,344	\$ 9,283,851	\$ 9,157,885	\$ 9,071,055

Sewer Enterprise Fund 10 Year Plan

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21		
Beginning Working Capital	\$20,160,671	\$18,410,627	\$15,292,162	\$15,093,187	\$16,011,073	\$16,854,589	\$17,872,777	\$18,494,665	\$18,494,665	\$19,035,941	\$19,035,941	\$17,908,348
Revenues												
Utility Service Charges	\$10,973,291	\$11,339,200	\$11,717,389	\$12,115,849	\$12,535,476	\$12,977,413	\$13,434,383	\$13,907,136	\$14,396,208	\$14,902,153		
Operating Expenditures												
Salaries and Benefits	\$3,462,674	\$3,498,612	\$3,546,728	\$3,672,489	\$3,805,939	\$3,946,119	\$4,095,113	\$4,253,659	\$4,420,648	\$4,596,590		
Supplies & Services	\$3,071,401	\$3,175,336	\$3,283,295	\$3,395,450	\$3,511,982	\$3,633,081	\$3,758,945	\$3,889,781	\$4,025,807	\$4,167,249		
Vehicles/Equipment	\$453,151	\$466,746	\$480,748	\$495,170	\$510,025	\$525,326	\$541,086	\$557,319	\$574,038	\$591,259		
Education/Training	\$68,164	\$68,164	\$68,164	\$68,164	\$68,164	\$68,164	\$68,164	\$68,164	\$68,164	\$68,164		
Indirects	\$404,850	\$427,522	\$451,463	\$476,745	\$503,442	\$531,635	\$561,407	\$592,846	\$626,045	\$661,103		
Taxes	\$3,000	\$3,030	\$3,060	\$3,091	\$3,122	\$3,153	\$3,185	\$3,216	\$3,249	\$3,281		
Debt Service	\$2,329,094	\$1,818,256	\$2,008,316	\$2,012,267	\$2,004,725	\$2,007,127	\$2,010,006	\$2,000,874	\$2,005,850	\$2,007,900		
Settlement	\$300,000											
Total Operating Expenditures	\$10,092,334	\$9,457,666	\$9,841,774	\$10,123,375	\$10,407,400	\$10,714,606	\$11,037,906	\$11,365,860	\$11,723,800	\$12,095,547		
Operating Income (Loss)	\$880,956	\$1,881,535	\$1,875,614	\$1,992,474	\$2,128,076	\$2,262,807	\$2,386,477	\$2,541,276	\$2,672,407	\$2,806,606		
Capital Budget	\$2,631,000	\$5,000,000	\$2,074,589	\$1,074,589	\$1,284,589	\$1,244,589	\$1,774,589	\$2,000,000	\$3,800,000	\$3,800,000		
Net Chg in Working Capital	(\$1,750,044)	(\$3,118,465)	(\$198,975)	\$917,885	\$843,487	\$1,018,218	\$621,888	\$541,276	(\$1,127,583)	(\$983,394)		
Ending Working Capital	\$18,410,627	\$15,292,162	\$15,093,187	\$16,011,073	\$16,854,559	\$17,872,777	\$18,494,665	\$19,035,941	\$17,908,348	\$16,914,955		
Committed Op Reserve (10%)	\$1,009,233	\$945,767	\$984,177	\$1,012,337	\$1,040,740	\$1,071,461	\$1,103,791	\$1,136,586	\$1,172,380	\$1,209,555		
Assigned Op Reserve (3%)	\$302,770	\$283,730	\$295,253	\$303,701	\$312,222	\$321,438	\$331,137	\$340,976	\$351,714	\$362,866		
Unassigned Op Reserve	\$17,098,624	\$14,062,665	\$13,813,757	\$14,695,034	\$15,501,597	\$16,479,879	\$17,059,737	\$17,558,379	\$16,384,254	\$15,342,534		
Unfunded Capital Projects	\$4,589,206	\$2,177,628	\$5,776,302	\$1,871,000	\$1,669,000	\$2,889,000	\$2,856,000	\$1,215,000	\$0	\$0		

NOTE: Beginning working capital for FY11/12 includes unspent bond proceeds of \$9m from the \$11m 2009 Sewer Bonds.

**Combined Transportation Tax Funds (TDA & Gas Tax)
10-year Projections**

	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Revenues (3% annual Inc)										
Net TDA Revenue (354-4537)	\$ 1,055,294	\$ 798,825	\$ 785,389	\$ 770,508	\$ 754,106	\$ 736,103	\$ 716,417	\$ 694,961	\$ 671,644	\$ 646,373
Fund 355 Gas Tax Revenues	\$ 1,511,456	\$ 1,541,685	\$ 1,572,519	\$ 1,603,969	\$ 1,636,049	\$ 1,668,770	\$ 1,702,145	\$ 1,736,188	\$ 1,770,912	\$ 1,806,330
Available Streets	\$ 2,566,750	\$ 2,340,510	\$ 2,357,908	\$ 2,374,477	\$ 2,390,154	\$ 2,404,873	\$ 2,418,562	\$ 2,431,149	\$ 2,442,556	\$ 2,452,702
Expenditures										
Salaries/benefits	\$ 1,506,852	\$ 1,527,236	\$ 1,553,575	\$ 1,612,850	\$ 1,675,772	\$ 1,741,885	\$ 1,812,179	\$ 1,887,006	\$ 1,965,838	\$ 2,063,180
Prof / Contract Svs	\$ 100,388	\$ 102,396	\$ 104,444	\$ 106,533	\$ 108,663	\$ 110,836	\$ 113,053	\$ 115,314	\$ 117,621	\$ 119,973
Supplies & Services 52xx	\$ 374,734	\$ 382,229	\$ 389,873	\$ 397,671	\$ 405,624	\$ 413,737	\$ 422,011	\$ 430,452	\$ 439,061	\$ 447,842
Utilities	\$ 233,700	\$ 245,385	\$ 257,654	\$ 270,537	\$ 284,064	\$ 298,267	\$ 313,180	\$ 328,839	\$ 345,281	\$ 362,545
Vehicles										
Fixed	\$ 52,406	\$ 53,978	\$ 55,598	\$ 57,265	\$ 58,983	\$ 60,753	\$ 62,576	\$ 64,453	\$ 66,386	\$ 68,378
Variable	\$ 224,477	\$ 231,211	\$ 238,148	\$ 245,292	\$ 252,651	\$ 260,230	\$ 268,037	\$ 276,078	\$ 284,361	\$ 292,892
Lease Payments	\$ 97,745	\$ 100,677	\$ 103,698	\$ 106,809	\$ 110,013	\$ 113,313	\$ 116,713	\$ 120,214	\$ 123,820	\$ 127,535
DP Charges	\$ 66,968	\$ 70,718	\$ 74,678	\$ 78,860	\$ 83,277	\$ 87,940	\$ 92,865	\$ 98,065	\$ 103,557	\$ 109,356
Education & Training 53xx	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103	\$ 19,103
Machinery & Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Indirect Expenditures 56xx	\$ 187,994	\$ 193,634	\$ 199,443	\$ 205,426	\$ 211,589	\$ 217,937	\$ 224,475	\$ 231,209	\$ 238,145	\$ 245,290
Total	\$ 2,864,367	\$ 2,926,567	\$ 2,996,213	\$ 3,100,346	\$ 3,209,739	\$ 3,324,001	\$ 3,444,192	\$ 3,570,734	\$ 3,703,173	\$ 3,856,093
MSE Contributions	\$ 750,000	\$ 750,000	\$ 750,000	\$ 800,000	\$ 800,000	\$ 800,000	\$ 800,000	\$ 800,000	\$ 800,000	\$ 800,000
Add'l MSE/Alternative Funds.										
Net Surplus (Loss)	\$ 452,383	\$ 163,943	\$ 111,694	\$ 74,131	\$ -					

Assumptions

- (1) Revenues based on historical averages; and conservative projections on future growth
- (2) Net TDA revenues represent that portion that is available to Cities after Transit use. Staff worked with YCTD on future projections and adjusted net City revenues to be consistent with their strategic long term plans
- (3) Council approved using up to \$750,000 of MSE to support the City's road program

PROCEDURES

1.0 Reserve Funds

- 1.1 Reserve funds will be designated in the following terms:
 - 1.1.1 **Committed Operational Reserve:** Established to maintain self imposed limitations to facilitate financial stability of each operating fund and the City organization;
 - 1.1.2 **Assigned Operational Reserve:** Established to reflect the intended use of resources primarily associated with unforeseen events that have a financial impact on the City organization;
 - 1.1.3 **Unassigned Operational Reserve:** The working capital that can be utilized to offset the year to year fluctuations between operating revenues and expenses within a specific fund.
- 1.2 The **Committed Operational Reserve** shall be established **as part of the FY 2009-10 budget** in an amount equal to 10% of the specific fund operating expenses. This fund balance shall be maintained at all times and may only be utilized if specifically approved by the City Council. If the use of any or all of the **Committed Operational Reserve** is approved by the City Council during any fiscal year, than in the following Fiscal Year budget adoption the **Committed Operational Reserve** must be restored to an amount equal to 10% of the operating expenses in accordance with this policy. The City Council may establish a **Committed Operational Reserve** at an amount that is less or more than 10% of operating expenses by approving a specific change to the Budget and Fiscal Policy during a regular City Council meeting. The **Committed Operational Reserve** must be maintained at the level adopted by City Council for each year of the 10-Year Plan for each fund.
- 1.3 The **Assigned Operational Reserve** shall be established in an amount equal to 3% of the specific fund operating expenses in order to address unanticipated financial impacts. These impacts may include state borrowing or possession of local revenues, economic contingencies and natural or man-made disasters. Use of the **Assigned Operational Reserve** requires the specific approval of the City Council. If the use is approved, the City Council has the option, based on the availability of revenues to support such action, to replenish the **Assigned Operational Reserve** at any amount as described herein.
- 1.4 The **Unassigned Operational Reserve** is the amount within each fund that is in excess of designated operating funds, Committed Operational

Reserve and Assigned Operational Reserve. The ***Unassigned Operational Reserve*** is essentially surplus funds that can be utilized as working capital to offset the year to year fluctuations within each fund.

2.0 10-Year Financial Planning

- 2.1 The City Manager will present a budget (Capital and Operating) that is balanced over the 10-year planning period for all funds.
- 2.2 Utilize the 10-Year Plan as the basis for making long-range financial planning decisions.
- 2.3 Develop and maintain a revenue monitoring and forecasting system to assist in trend analysis and revenue forecasting for the 10-year planning period.
- 2.4 Document all assumptions for revenue and expenditure forecasts each year.
- 2.5 Establish a financial plan for the Redevelopment Agency that ensures a positive cash balance at the end of the life of the Agency.
- 2.6 Seek reimbursement for State and Federal mandated programs and projects.
- 2.7 Produce fee schedules that recapture the cost of providing programs and/or services at a level consistent with Council Policy.
- 2.8 Conduct periodic audits for sales tax (point-of-sale), franchises and concessions, and transient occupancy tax (TOT).
- 2.9 Pursue grants that can be sustained or where reliable replacement funding may become available.

3.0 Performance Based Budgeting (PBB)

- 3.1 **Effective with the FY 2013-14 budget**, establish the PBB as the City Council's service delivery policy document.
- 3.2 Establish a PBB that measures service levels, efficiency and effectiveness.
- 3.3 Follow the principles of outcome management in utilizing the PBB.

- 3.4 Ensure all costs (direct and indirect) are charged against each program budget.
- 3.5 Measure work efficiency and effectiveness to ensure an optimal allocation of human and fiscal resources to budget approved services and programs.
- 3.6 Ensure all operating programs have measurable performance objectives which identify the service and level of service, and the resources required to accomplish the objectives.
- 3.7 Complete year-end reports and audits to measure the work accomplished against what was planned at the beginning of the fiscal year and evaluate future service levels.

4.0 Capital Improvement Program

- 4.1 Develop a 10-year plan for CIP.
- 4.2 Seek grants for needed capital projects which can offset use of other City funds; these funds can then be utilized for other needed projects.
- 4.3 Develop the capacity to maintain capital improvements to the level required to adequately protect the City's capital investment and to minimize future maintenance and replacement costs.
- 4.4 Include resources required to maintain and operate new capital improvements commencing the year the project is completed and continuing through the balance of the 10-Year Plan.
- 4.5 Ensure capital budgets contain all costs to complete the project (design, right-of-way, construction, inspection, contract management and contingency).
- 4.6 Ensure all proposed projects in the 10-Year Plan have a viable source of funding for both construction and maintenance.
- 4.7 Fund projects proposed for Enterprise programs by revenues derived from user fees.
- 4.8 Fully evaluate the financing of capital improvements to determine the most economical means to complete the work.
- 4.9 Discontinue the practice of internal borrowing between enterprise and categorical funds; funding for capital projects must be determined

based on the available resources within each fund to meet its cash payment or debt service requirements and strategies to balance each fund and implement fund integrity should be continued.

- 4.10 Discontinue the practice of issuing bonds for desired capital improvements based on projected development and the collection of impact fees associated with development. This source of revenue is dependent on the level of economic activity within the region and is uncertain and unstable.

5.0 Internal Service Funds

- 5.1 **Effective with the FY 2013-14 budget**, develop Internal Service Funds for Workers' Compensation, Risk Management, Storm Water, Fleet Maintenance and Replacement, Technology Maintenance and Replacement (including all computer/software and communications equipment), Building Maintenance and Replacement, and Miscellaneous/Office Equipment Maintenance and Replacement.
- 5.2 Develop a 10-year financial plan for all Internal Service Funds.
- 5.3 Develop projections that include cost of operation, maintenance and replacement in the 10-year financial plans.
- 5.4 Develop the capacity to charge all costs (operation, maintenance and replacement) associated with each Internal Service Fund to the appropriate user department.
- 5.5 Develop the capacity to maintain equipment and facilities to the level required to adequately protect the City's investment and to minimize future maintenance and replacement costs.

6.0 Enterprise Funds

- 6.1 Maintain a 10-year financial plan for all Enterprise Funds.
- 6.2 All costs associated with providing administrative support (finance, personnel, legal, etc.) shall be charged to the appropriate Enterprise Fund.
- 6.3 The cost of each enterprise shall be completely offset by user charges and fees derived from the enterprise activity. Costs shall include operating, maintenance, capital, debt service, contingency and administrative costs.

- 6.4 Periodically review and adjust user fees in order to avoid large one-time fee increases.
- 6.5 Periodically review concession agreements, lease agreements and all other revenue generating agreements in order to determine if the City is receiving a return that reflects the market for similar agreements.

7.0 Review and Adopt a Performance Based Budget

- 7.1 The budget will be adopted as shown in the operating and Performance Based Budget document annually.
- 7.2 Full review of revenue assumptions and preparation of the Capital Improvement Program and Ten-Year Plans on all funds will be done annually.
- 7.3 The City Council will hold public hearings and formally approve a budget for the City annually.