

## THE ANNUAL BUDGET PROCESS

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Each year, the City undertakes its annual budget process in the context of a forward looking Five Year Financial Plan. The budget development phase begins in January with the preparation of budget instructions by the City Manager and goal setting sessions with the City Council. Through this process the City Council establishes a "Policy Calendar" that identifies goals for the upcoming year. Next, an analysis of future trends, events and issues that will impact City operations and finances over the five year forecast is reviewed to establish a preliminary budget strategy. Potential significant changes in revenues and expenditures are identified. Ultimately, through discussions involving City department staff, the City Manager, and the City Council, a valuable long-range financial and operational vision for the City emerges.

The next step of the budget process involves the development of the City's annual budget. Unlike the "Big Picture" view of the Five Year Financial Plan, the annual budget provides a detailed plan of the City's proposed fiscal operation for the upcoming year. The City's annual budget is prepared on a July 1 to June 30 fiscal year basis. Inasmuch as the annual budget authorizes expenditures to be made, the annual budget process includes development, review, adoption, and monitoring.

The budget process for FY 11-12 started in July 2010 when City departments met to begin the development of a five-year financial plan that would solve a projected budget deficit in the City's General Fund by FY 2013-2014. Staff met with the City Council in a series of public and closed session meetings to receive budget direction from the City Council that culminated in two Budget Study Sessions in November 2010 to develop a

five-year plan to address the structural deficit. Upon the completion of that meeting, as well as a Budget Study Session on January 31, 2011 to establish the Policy Calendar and further budget direction, the City Manager provided budget preparation instructions to his Executive Team. Preliminary information relative to cash flow projections of the Community Development Agency, long-term (10-year) and near-term (5-year) capital improvement project plans, projected water and wastewater rates, and internal services funds operations was prepared and discussed with the City Council in March. Meanwhile, departments prepared their departmental budgets and submitted them to the City Manager for review. Departments met individually with the City Manager to review their service levels and funding needs. The City Manager and his Executive Team then reviewed a five-year forecast of budgeted operating and capital expenditures, along with estimated revenues, to determine that organizational goals would be met in the proposed budget and in light of the multi-year plan to address the General Fund structural deficit. Final recommendations and adjustments were made and the preliminary budget for all funds was prepared for presentation to the City Council.

The full preliminary budget is reviewed in May in a study session, which includes review of City general funds, special revenue funds, enterprise funds, internal service funds, and the Community Development Agency. Prior to June 30, the City Council holds a public hearing on the budget and adopts the final budget by resolution. The adopted budget takes effect on July 1, the first day of the new fiscal year.

After the budget is adopted, the budget is monitored under the City Manager's direction by the Finance Director and the Financial Services Department staff. Revenues are monitored to determine that financial resources are available to meet budgeted objectives. Department managers work to ensure that funds are expended as approved. Adjustments within or between departmental budgets are accomplished on an as-needed basis throughout the year. City Council approval is required for additional appropriations from fund balances or from new revenue sources.

The public is encouraged to participate in every phase of the budget process. All five-year plan and annual budget study sessions, meetings, and public hearings, including the Policy Calendar work session, are open to the public. By attending one or more of the study sessions or public meetings, citizens are able to be active participants in the City's budget process. Citizens can also be a part of the budget process by communicating their priorities to Councilmembers for inclusion in the budget process.

# **FISCAL YEAR 2011-2012 ANNUAL BUDGET FIVE YEAR FINANCIAL PLAN BUDGET CALENDAR**

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## **November 29 (Monday) and November 30 (Tuesday) Study Sessions at 5:30 p.m.**

- Review of Three-Year Plan to Balance the General Fund Budget by FY 2013-2014

## **January 31 (Monday) Study Session at 5:30 p.m.**

- Mid-year Financial Review for FY 2010-2011
- Policy Direction Regarding Preparation of FY 2011-2012 Annual Budget and Five-Year Financial Plan
- Review Non-profit Agencies Funding Process and any other Special Reports

## **February 7 (Monday) Regular City Council Meeting at 6:30 p.m.**

- Review of Comprehensive Annual Financial Report (CAFR) for FY 2009-2010

## **March 28 (Monday) Study Session at 5:30 p.m.**

- Review of Capital Improvement Projects, development of a long-term CIP funding plan
- Review of Enterprise Funds, Internal Services Funds; and, Community Development Agency Funds, including Tax Increment Projections
- Review Analysis of Water and Wastewater Rates for FY 2011-2012
- Review other Special Reports

## **May 9 (Monday) and 10 (Tuesday) Study Session at 5:30 p.m.**

- Review of Five-Year Financial Plan, Review of Preliminary FY 2011-2012 Budget (All Funds)
- Proposed Changes for Fees and Charges

## **June 6 (Monday) Study Session at 5:30 p.m.**

- Presentation of Funding Requests from Non-profit Agencies

## **June 6 (Monday) Regular City Council Meeting at 6:30 p.m.**

- Budget Public Hearing and Follow-up from All Prior Budget Study Sessions
- Public Hearing and Adoption of Water and Wastewater Rates for FY 2011-2012
- Public Hearing and Adoption of Master Fee Schedule for FY 2011-2012

## **June 20 (Monday) Regular City Council Meeting at 6:30 p.m.**

- Adoption of FY 2011-2012 Budget

## **June 30 (Wednesday)**

- FY 2010-2011 Budget and Five-Year Financial Plan Printed, Distributed and Posted Online

## GLOSSARY OF BUDGET TERMS

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**Account** - A separate financial reporting unit for budgeting, management or accounting purposes. All budgetary transactions, whether revenue or expenditure, are recorded in accounts.

**Adopted Budget** - Revenues and appropriations approved by the City Council in June for the following July 1 through June 30 fiscal year.

**Allocated Costs** - An expense charged by one department/division to another for services performed or expenditures of a general nature which are charged to one main account and allocated to other departments/divisions by a specified formula.

**Appropriation** - An authorization made by the City Council which permits the City to incur obligations and to make expenditures of resources.

**Assessed Valuation** - The value of property against which a tax is levied. Valuations are established by the County Assessor and reflect a percentage of the true or market value of a property.

**Bond** - The written evidence of the debt issued by the government entity (City, District, Community Development Agency, etc.). It bears a stated rate of interest and maturity date on which a fixed sum of money plus interest is payable to the holder.

**Budget** - A financial plan for a specific period of time (fiscal year) that matches all planned revenues and expenditures with various municipal services.

**Budget Amendment** - A legal procedure utilized by the City Manager or City Council to revise a budget appropriation. Adjustments to expenditures within or between departmental budgets may be accomplished administratively by the City Manager. City Council approval is required for additional appropriations from fund balance or new revenue sources.

**Budget Deficit** – Generally, defined as the amount by which a fund's spending exceeds its income over a period of time. Specifically, it is the sum of expenditures and transfers out that exceed the sum of revenues, transfers in and other adjustments. It is normally determined as a result of a quarterly review.

**Budget Guidelines** - Guidelines developed by the City Manager, in consultation with the City Council, that describe the budget environment – e.g. revenue expectations and policy emphasis - for the forthcoming year; departments make their budget requests on the basis of the guidelines.

**CAFR** - Comprehensive Annual Financial Report containing audited financial statements and related materials.

**Capital Assets (fixed assets)** - Things the local government owns that cost a considerable amount of money and are intended to last a long time – for example, buildings, land, roads, bridges and sewer and water systems.

**Capital Improvement Program** - A plan for capital expenditures to provide for the acquisition, expansion or rehabilitation of an element of the City's physical plant to be incurred over a fixed period of several future years.

**Capital Outlay** - Expenditures relating to the purchase of equipment, land and other fixed assets which usually occur in a single fiscal year.

**Cash Flow** - A cash budget that projects the inflow, outflow, and net balance of cash reserves on a daily, weekly and monthly basis.

**Cost Recovery** - The establishment of user fees that are equal to the full or partial cost of providing services.

**Debt Service** - Principal and interest paid on bonds and notes.

**Department** - A major administrative segment of the City that indicates overall management responsibility for an operation or a group of related operations within a functional area. (e.g. Public Works Department)

**Division** – An area of activity organized as a functional unit within a department. (e.g. Engineering, Water Operations and Street & Lagoon Maintenance Divisions within the Public Works Department)

**Encumbrances** - A budgetary technique for recording unperformed contracts for goods and services. Use of encumbrances restricts the balance in each fund so that total commitments (expenditures plus encumbrances) will not exceed appropriations.

**Enterprise Funds** – Funds used to account for business-like operations of a governmental agency that are funded by customer services charges. The enterprise funds include Water Utility operations, Sewer Utility operations, and the Foster City Connections Shuttle.

**Expenditure** - Utilization of fund resources. Expenditures include operating expenses, debt service and capital outlays.

**Expenditure Category** - A basis for distinguishing types of expenditures. The major expenditure categories used by the City are employee services, services and supplies, internal service charges, capital outlay and reallocations.

**Fiscal Year** - A twelve-month time period signifying the beginning and ending period for recording financial transactions. The City has specified July 1 through June 30 as its fiscal year.

**Fund** - A set of separate, self balancing accounts to account for resources that are used for a specific purpose based on regulations or limitations.

**Fund Balance** - The net worth of a fund, which is the difference between the assets and liabilities of a fund at any given point in time.

**General Fund** - The fund used to account for the major operating revenues and expenditures of the City, except for those financial resources required to be accounted for in another fund category. General Fund revenues are derived primarily from property and other taxes. This fund is the most flexible but also the most vulnerable to economic influences.

**Goal** - Broad mission statement that defines the purpose of a department, based upon the needs of the community.

**Grant** - A payment of money from one governmental unit to another, from a governmental unit to a not-for-profit agency or from a private foundation to a governmental agency. Grants are often earmarked for a specific purpose or program.

**Infrastructure** - Basic public investments such as streets, storm drains, water and sewer lines, streetlights and sidewalks.

**Interest** - The amount paid for the use of money.

**Interfund Transfer** - The transfer of money from one fund to another in a governmental unit. Interfund transfers usually have to be approved by the governing body and are normally subject to restrictions in state and local law.

**Internal Service Funds** - A series of funds used to account for the services provided by one department to other departments on a cost reimbursement basis.

**Interim Financial Reports** - Quarterly or monthly comparisons of budgets with actual revenues and expenditures to date. These reports provide decision-makers with an early warning of potential expenditure overruns or revenue shortfalls.

**Line Item Budget** - A budget format in which departmental outlays are grouped according to the items that will be purchased, with one item or group of items on each line.

**Notes** - Short term promises to pay specified amounts of money, secured by specific sources of future revenue.

**Objective** - Desired output-oriented accomplishments that can be measured and achieved within a given time frame.

**Operating Budget** - A financial plan for the provision of direct service and support functions that provide basic governmental services. The operating budget contains appropriations for such expenditures as employee services, services and supplies, internal service charges, capital outlay and reallocations.

**Principal** - The face amount of a bond which the issuer promises to pay at maturity.

**Program** - A group of related activities performed by one or more organizational units for the purpose of accomplishing an objective.

**Public Hearing** - An open meeting which provides citizens with an opportunity to voice their views on the merits of proposals.

**Reserve** - An account used to designate a portion of the fund balance for a future use and is, therefore, not available for general appropriation.

**Resolution** - A legal and public declaration by the City Council of intent, policy or authorization.

**Revenue** - Increases in fund resources. Revenues include income from user fees, taxes, permits and other sources.

**Revenue Bond** - A bond on which the debt service is payable solely from the revenue generated from the operation of the project being financed.

**Special Revenue Fund** - A fund used to account for revenues legally earmarked for a particular purpose.

**Subsidy** - Supplemental resources provided to ensure adequate funding when anticipated expenditures exceed revenues.

**Tax Rate** - The amount of tax levied for each \$100 of assessed valuation.

**User Fees** - Fees charged to users of a particular service provided by the City.

# STRUCTURE OF THE CITY'S, DISTRICT'S AND CDA'S FINANCES

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Funds are the basic accounting and reporting entities in governmental accounting. The fund types that comprise the 2010-2011 budget are grouped into three major categories, Governmental Funds, Proprietary Funds, and Account Groups. The purpose of the various funds within each category is described below:

## GOVERNMENTAL FUNDS

### GENERAL FUND

The General Fund is used to account for all revenue and expenditures necessary to carry out basic governmental activities of the City/District that are not accounted for through other funds. For the City/District, the General Fund includes such activities as police, fire protection, planning, building inspection, engineering, recreation and community services, public works operation and maintenance, legal and administrative services and local maintenance districts.

### SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenues that are restricted by law or administrative action to expenditures for specified purposes. Special Revenue Funds used by the City/District are listed below:

*Traffic Safety Fund:* Revenues received by the City as its share of fines generated from violations of the State Motor Vehicle Code. Expenditure of these funds is restricted to traffic safety programs.

*Measure A Fund:* Revenues generated by a special one half cent sales tax that was approved by the voters of San Mateo County in 1988 and subsequently reauthorized by voters in 2004 for a period of an additional 25 years up to December 31, 2034. Expenditure of these funds is restricted to engineering construction and maintenance of City/District streets and transportation-related purposes.

*Gas Tax Funds (2105-2107.5; 2103):* Revenues apportioned to the City from State-collected gasoline taxes. Expenditure of these funds is restricted to engineering, construction and maintenance of City streets.

*Measure M:* Revenues generated by a special \$10 registration fee for each vehicle registered in San Mateo County for a period of 25 years that was approved by the voters of San Mateo County in November 2010. Expenditure of these funds is restricted to congestion mitigation programs (including roadway maintenance, pothole repairs, and traffic congestion management) and pollution mitigation programs (water pollution prevention).

*Park-In-Lieu Fees Fund:* Revenues received from residential property developers with which the City has negotiated fees, under the provisions of state law. Expenditure of these funds is restricted to improvements of local parks and recreation amenities that benefit residents of the new development.

*SLESF/COPS Grant Fund:* Revenues received from the State of California. Expenditure of these funds is restricted to funding personnel, equipment and program operating expenses associated with supplemental law enforcement

services such as anti-gang and community crime prevention programs, as well as traffic safety initiatives.

*CLEEP Grant Fund:* Revenues from the California Law Enforcement Equipment Program (CLEEP). Expenditure of these funds is restricted to the purchase of equipment that will improve Police services.

*CalOpps.org Fund:* Revenues and expenditures associated with a City-created a public sector recruitment and applicant tracking website for the benefit of public employers. Expenditure of these funds is restricted to programs and services associated with the activities of this endeavor.

*Proposition 42 Transportation Funds:* Revenues dedicated by the voters of California from sales tax on gasoline to state and local transportation programs. Expenditure of these funds is restricted to capital projects associated with maintenance of local roads.

*Foster City Foundation:* The Foundation is a separate 501(c)(3) non-profit corporation which allows individuals and organizations to donate funds on a tax-deductible basis for the benefit of the residents of Foster City. The City is the administrator of those funds, which are donated for specific purposes by donors to fund various City programs, services, and/or improvement projects.

*Foster City CDA Affordable Housing Reimbursement Agreement:* Revenues provided under the terms of an Affordable Housing Reimbursement Agreement between the City and the Agency, the purpose of which is for the City to administer affordable housing programs on the Agency's behalf, funded from net available tax increment from the Agency's project areas dedicated to low- to moderate-income housing programs.

*Foster City CDA Cooperative Services Agreement:* Revenues provided under the terms of a Cooperative Services Agreement between the City and the Agency, of which a primary purpose is for the City to act on the Agency's behalf to liquidate the provisions of a Settlement Agreement between the Agency and the San Mateo Union High School District with a stipulated payment schedule from tax increment generated by the Agency's Project Area One.

## **CAPITAL PROJECTS FUNDS**

Capital Projects Funds are used to account for resources used for the acquisition and construction of capital facilities or major capital equipment, except for capital facilities financed by proprietary fund types. Capital Project Funds used at the City/District are listed below:

*City Capital Projects Fund:* Revenues from City sources are used for development, construction or acquisition of approved capital projects funded by certain general obligation bonds, the sale of property, or other unrestricted revenue sources of the City.

*Foster City CDA Public Improvements Reimbursement Agreement:* Revenues from the property tax increments and City loan proceeds are used for further development under the terms of a Public Improvements Reimbursement Agreement between the City and the Agency.

## **PROPRIETARY FUND TYPES**

### **ENTERPRISE FUNDS**

Enterprise Funds are used to account for City/District operations that are financed and operated like private business enterprises. Use of this type of fund permits user charges to

finance or recover the cost of providing the enterprise's services to the general public on a continuing basis.

Enterprise Funds used at the City/District are listed below:

*Water Enterprise Funds:* Activities associated with providing water services including construction and maintenance of water distribution systems. There are four funds associated with the Water Enterprise:

- *Water Revenue* – Accounts for all of the revenues and the operational and maintenance expenditures associated with the retail sale of water to customers.
- *Water Reserve* – A fund that reserves 25% of annual budgeted operating expenditures as dictated by Estero Municipal Improvement District Board policy.
- *Water Rate Balancing Fund* – In FY 2006-2007 the District Board implemented a 10-year Rate Smoothing model to even out the rate increases necessary to pay for the anticipated wholesale water rate increases from the San Francisco Public Utilities Commission's Water System Improvement Project. Excess revenues are transferred from the Water Revenue fund to fund the balancing account, with the remainder transferred to the Capital Investment Water fund.
- *Capital Investment Water* – Captures funds that are spent towards capital improvements to the Water system, funded through monies collected from ratepayers that go towards current or future capital improvement projects.
- *Water Equipment Replacement* – Equipment replacement, acquisition and funding from water

revenues for replacement of equipment supporting water operations.

*Wastewater Enterprise Funds:* Activities associated with wastewater collection and treatment including construction of wastewater treatment plant facilities (shared with the City of San Mateo). There are four funds associated with the Wastewater Enterprise:

- *Wastewater Collection System (Sewer) Revenue* – Accounts for all of the revenues and the operational and maintenance expenditures associated with the wastewater collection system and treatment activities.
- *Wastewater Collection System (Sewer) Reserve* – A fund that reserves 25% of annual budgeted operating expenditures as dictated by Estero Municipal Improvement District Board policy.
- *Capital Investment Wastewater Collection System (Sewer)* – Captures funds that are spent towards capital improvements to the Wastewater Collection (sewer) system, funded through monies collected from ratepayers that go toward current or future capital improvement projects.
- *Wastewater Equipment Replacement* – Equipment replacement, acquisition and funding from wastewater revenues for replacement of equipment supporting wastewater operations.
- *Wastewater Expansion* – Accounts for collection of wastewater system expansion fees for vacant parcels representing new developments that will be connected to the system. Funds are transferred to the Capital Investment Fund (above) where they are spent on

Wastewater Collection (sewer) system expansion capital projects.

*Shuttle Fund:* Activities associated with an intracity shuttle to relieve traffic congestion in Foster City and to serve residents and businesses.

### **INTERNAL SERVICE FUNDS**

Internal Service Funds are used to account for the financing of goods and services provided by one department to other departments on a cost reimbursement basis. Internal Service Funds used at the City/District are listed below:

*Vehicle Replacement Fund:* Vehicle replacement, acquisition and maintenance service charges and the related billings to various departments.

*Equipment Replacement Fund:* Equipment replacement, acquisition and the related billings to various departments for non-Enterprise fund assets.

*Self-Insurance Fund:* Charges to the various departments for general liability and property insurance premiums, defense costs and related administrative costs.

*Information Technology Fund:* Information technology-related acquisitions, maintenance service charges and the related billings to various departments.

*Building Maintenance Fund:* Management, maintenance, janitorial service, and some capital replacement for all City/District buildings and building-related equipment.

*Longevity Recognition Benefits Fund:* Benefits paid to retired employees in accordance with benefit plans approved in labor contracts and/or compensation and benefits plans, funded by

charges to operating departments based on salary costs and investment earnings.

*PEMHCA Benefits Plan Fund:* Benefits paid on behalf of retirees participating in the CalPERS' Public Employees' Medical and Hospital Care Act (PEMHCA) medical benefits plan.

### **COMMUNITY DEVELOPMENT AGENCY FUNDS**

The Community Development Agency's funds are broken out into the following areas:

#### **PROJECT AREA ONE FUNDS**

The following funds have been established to account for the activities associated with the project area established in the original Plan of the Agency in 1981.

*General Fund – Project Area One:* All non-housing related expenditures, including debt service payments to the City on the outstanding loan balance, are paid for out of this fund, which is funded by excess tax increments available from the Special Fund after bonded indebtedness obligations are met. This fund was closed out as of June 30, 2011 as the Project Area One reached its tax increment cap during FY 2010-2011, with residual assets transferred to the Foster City CDA Public Improvements Reimbursement Agreement and the Foster City CDA Cooperative Services Agreement Fund.

*Housing Fund – Project Area One:* All housing tax increment revenue is deposited into this fund annually. All housing related activities in Project Area One are paid for out of this fund. This fund was closed out as of June 30, 2011 as the Project Area One reached its tax increment cap during FY 2010-2011, with

residual assets transferred to the Foster City CDA Affordable Housing Reimbursement Agreement Fund.

### **MARLIN COVE FUNDS**

The following funds have been established to account for the activities associated with the redevelopment of the Marlin Cove Shopping Center as a multi-use project area established in 1999.

*General Fund – Marlin Cove:* All non-housing related tax increment revenues and expenditures associated with this project area are accounted for in this fund.

*Housing Fund – Marlin Cove:* All housing related tax increment revenues and expenditures, including transfers from excess Marlin Cove General Fund tax increment revenues as allowed by law, associated with this project area are accounted for in this fund.

### **HILLSDALE/GULL FUNDS**

The following funds have been established to account for the activities associated with the redevelopment of the old Port O' Call Shopping Center as a multi-family housing project area established in 1999.

*General Fund – Hillsdale/Gull:* All non-housing related tax increment revenues and expenditures associated with this project area are accounted for in this fund.

*Housing Fund – Hillsdale/Gull:* All housing related tax increment revenues and expenditures, including transfers from excess Project Area One Housing Fund tax increment revenues as allowed by law, associated with this project area are accounted for in this fund.