

BUDGET MESSAGE

FISCAL YEAR 2008-2009

July 1, 2008

Honorable Mayor and Members of the City Council:

INTRODUCTION

The FY 2008-2009 budget is the culmination of many hours of preparation. This year, we have again combined the Five-Year Financial Plan and the Annual Budget document into one seamless document. We have done that by incorporating the City's Five-Year Financial Plan into the Financial and Personnel Summary section, as well as the individual department and non-department sections of this document.

The City's Five-Year Financial Plan is merely that – a five-year forecast of revenues and expenditures based upon the strategies and Policy Calendar adopted earlier this year. While the City Council will incorporate the Five-Year Financial Plan as part of this document, the City Council will only appropriate funds on an annual basis. Thus, the Annual Budget for FY 2008-2009 has been prepared.

The annual budget results in the actual appropriation of funds. Funding requests were carefully reviewed and considered prior to their inclusion in the recommended budget.

The budget is the primary policy document adopted by the City Council each year. It describes the City's goals and details how resources are allocated to achieve these goals. In addition, the budget serves as the annual financial plan, an operational guide and a communications tool.

ELEMENTS OF THE BUDGET

The budget document is organized as follows:

- 1. Introductory Items**
 - Table of Contents
 - Page References for Frequently Asked Questions
 - Mission Statement
 - City Government Organization Chart
 - Policy Calendar for 2008
- 2. Budget Message:** Includes the letter of transmittal from the City Manager submitting the recommended budget to the City Council, major initiatives/issues, organizational changes addressed in the budget and the City's current and projected financial position.
- 3. Budget Guide:** Includes a description of the annual budget process, a glossary of budget terminology and the structure of the City's finances.
- 4. Five Year Financial Plan:** Includes a City-wide look at expenditure and revenue trends affecting the City over the course of the next five years.
- 5. Financial and Personnel Summaries:** Includes financial information on projected revenues, expenditures, fund balances and reserves, a summary of funds as well as fund descriptions and information on all revenue sources and expenditure projections.
- 6. Department Operating Budgets:** Includes for each

operating department or fund, a mission statement of the organization, major accomplishments, trends, new program objectives, resource requirements, graphic depictions of proposed budget expenditure distributions and department account summaries. The account summaries include the following five major categories of department appropriations:

Employee Services represents permanent full-time and part-time salary costs, overtime, holiday pay and fringe benefits.

Services and Supplies represents legal, consulting, and other professional services, contract repair and maintenance, utility charges, training and memberships, equipment rentals, insurance and employment services. This category also represents items purchased for repair and maintenance, operational activities such as publications, uniforms, recreation supplies and office supplies.

Internal Service Charges represents vehicle replacement charges, information technology service charges, equipment replacement charges, building maintenance charges, longevity recognition benefit funding, and self-insurance charges.

Capital Outlay represents expenditures for fixed assets in excess of \$1,000 including land, buildings, furniture, equipment, and City vehicles.

Reallocation represents reallocation of department operating expenses to non-General Fund budgets such as Special Revenue Funds, Enterprise Funds and the Community Development Agency.

Behind the account summaries are the detailed line item expenditures.

7. **Non-Department Budgets:** Includes historical and proposed expenditures for non-department, special revenue, debt service, special assessment, enterprise and internal service fund budgets.
8. **Community Development Agency Budget:** Includes the mission statement, current accomplishments, new program objectives, resource requirements by funds, revenue report, Agency funded capital improvement program, summary of bonds payable, personnel summary and agency account summary.
9. **Capital Improvements:** Includes various tables showing the proposed capital projects for the upcoming fiscal year, along with detailed descriptions of capital improvement projects.

HIGHLIGHTS FOR 2008-2009

The City enters FY 2008-2009 with a cautious eye toward the impact of national and state economies on its local budget. The subprime lending crisis has led to an economic crisis across the nation and in the state, with some economists opining that the US economy is in a recession. The State of California has declared a fiscal emergency, facing by some reports a \$24 billion deficit through FY 2008-2009. Yet employment rates and inflation seem to be maintaining consistent levels in the San Francisco Bay Area. The housing market in Foster City remains comparatively strong, with slight increases in median home prices and multiple offers on homes for sale. Yet the turnover rate in homes has declined substantially. There have been only three (3) reported foreclosure sales in Foster City in the past 12 months, and only six (6) reported assessment appeals were filed with the County Tax Assessor's Office. Still, property tax collections appear to be meeting predicted revenues in FY 2007-2008. Growth in

property tax revenues may slow somewhat, but the City is not expecting any declines.

Sales tax revenues are also expected to reach their estimated amounts in the FY 2007-2008 budget, but given the state of the economy and its ripple effect in Foster City, no growth is expected in sales tax revenues over the next two years, with slight growth projected thereafter.

Nevertheless, the City's financial health is the envy of the Peninsula. The General Fund starts FY 2008-2009 with nearly \$17 million in unrestricted reserves, nearly 55% of its annual operating expenditures. Revenues and transfers in exceeded expenditures and transfers out in FY 2006-2007, and are expected to follow that trend in FY 2007-2008 and FY 2008-2009. In FY 2009-2010 and 2010-2011, the City's General Fund projects an infusion of cash flow from: 1) the payoff of the loan to the Community Development Agency; and, 2) based upon the business terms between the City and the developer of the Mirabella San Francisco Bay / Parkview Plaza projects, commonly referred to as the "15-acre site", the first revenues from the ground lease on the site will be realized. Over the next 12 months, the City Council will make land use decisions on the 15-acre site property that will provide greater clarity as to the nature, timing and extent of revenues to be realized from the project. Over the five-year forecast, the City's General Fund is expected to grow by nearly \$5 million, even after nearly \$8 million in transfers to the City Capital Improvement Projects funds.

Given the overall health of the City's General Fund, the budget for FY 2008-2009 has been prepared with an emphasis on maintaining existing service levels.

There are a number of initiatives outlined in each departmental budget, highlights of which are provided here:

- Complete the construction of a Permanent Teen Center and related recreational facilities.
- Commence construction of synthetic turf fields at Catamaran and Sea Cloud (S-3) Parks, which are partially funded by local youth sports groups.
- Update the General Plan of the City.
- Execute a ground lease and overall development plan for the 15-acre site adjacent to City Hall.
- Process the land use approvals for the proposed redevelopment of the commercial space in the Pilgrim / Triton area.
- Maintain emphasis on emergency planning and preparedness for the City, for the residents and for the business community.
- Place increased emphasis on local and regional transportation issues.
- Place increased emphasis and efforts on greenhouse gas emissions and overall environmental sustainability issues.

In the past year, staff updated and reviewed succession plans for key personnel which are likely to retire in the next 5-10 years. The City needs to be prepared for the personnel and organizational changes that will result from these retirements. With a brighter financial future being projected in FY 2009-2010 and beyond, there is an opportunity to restore during this five-year financial plan some positions in the Police and Fire Departments that have not been funded for the last several years. Personnel needs in the Police and Fire Departments will be carefully considered prior to making any recommendations for the FY 2009-2010 budget.

ORGANIZATIONAL CHANGES

The City previously reduced its full-time employees by nearly 10% (from 234.5 FTE in FY 2003-2004 to 213 FTE in FY 2005-

2006). Departments redistributed workloads and modified business processes to provide service levels to acceptable levels given the reduction in staffing. Staffing levels as we enter FY 2008-2009 will drop to 213 FTE from 214 FTE in FY 2007-2008 due to the elimination of the Office Assistant II position that was authorized for one year in the City Clerk's department. Three additional part-time positions are included in the FY 2008-2009 budget to help the City manage its citizen emergency response training programs and the enhanced efforts in environmental sustainability and greenhouse gas initiatives as well as local and regional transportation initiatives.

FINANCIAL OVERVIEW

The City/District/Community Development Agency funds are all in sound financial condition and will have adequate reserves at the beginning and the end of the fiscal year. The City's five-year financial forecast shows that revenues will exceed expenditures throughout the entire forecast before transfers out to other funds. In the third (3rd) year (FY 2010-2011), the Community Development Agency Project Area One is projected to hit its \$170 million revenue cap and stop receiving tax increment revenues. Accordingly, the District will see an infusion of approximately \$5 million dollars in annual property tax revenues at that time.

Based upon past City Council direction, the General Fund minimum reserve level has been established at \$10 million. The five-year forecast shows the City being able to stay well above these reserve levels in each of the successive 5 years.

I would like to highlight a few of the significant items found in the proposed FY 2008-2009 Annual Budget.

- The City will maintain existing service levels enjoyed by the community in this budget. The proposed FY 2008-2009 General Fund budget indicates that unrestricted reserves

will grow by over \$131,000 on a budget basis, and that reserve levels will be maintained well above \$10 million throughout the 5-year forecast.

- All employee groups are in multi-year agreements that call for cost-of-living adjustments in FY 2008-2009 with a floor of 0% and a ceiling of 5% based on CPI. A cost of living increase of 3.2% is included in the FY 2008-2009 budget based upon the terms of existing memoranda of understanding and compensation and benefits plans with employee groups.
- There is no increase in Planning Commissioner salaries or City Council salaries.
- Retirement contributions to the PERS retirement system for Miscellaneous Employees will increase in FY 2008-2009 by 5.0% due to the implementation of retirement benefit enhancements adopted in FY 2007-2008. Public Safety employee contribution rates remain virtually the same.
- Water revenues are planned to be increased by 10% in FY 2008-2009 based upon a 10-year Rate Smoothing model adopted by the District Board in FY 2006-2007. That smoothing model was implemented to mitigate the impact of significant increases in water rates charged to EMID by the SFPUC resulting from the costs of significant capital improvements on the Hetch Hetchy System that supplies water to Foster City and much of the Peninsula.
- Increased capital costs expected in conjunction with the Wastewater Treatment Plant owned in conjunction with the City of San Mateo and other District capital improvements will require sewer rate increases of 8% starting in FY 2008-2009.
- The impact of the State of California budget on revenues and expenses will not be known until after the City budget

is adopted. The budget reflects the best information available in the Governor's proposed FY 2008-2009 budget, which includes three primary assumptions: 1) COPS grant funds are expected to be eliminated, which increases General Fund expenditures by \$100,000 per year; 2) reduced state funding of booking fees is anticipated to require an additional \$18,000 from the City's General Fund to the County; and, 3) continued funding of infrastructure-related projects and revenue sources such as Proposition 42 funds.

- There is a 3% increase in the proposed Master Fee Schedule to reflect the increased cost of providing services.
- Funding for the Foster City Connections Shuttle for FY 2008-2009 in the amount of \$200,000 has been included based upon the continued receipt of a 50% matching grant from the City/County Association of Governments (CCAG) under the "Local Transportation Services" component of the Countywide Congestion Relief Plan. The General Fund subsidy is expected to be \$100,000.
- We reviewed carefully all budget requests prior to their inclusion in the budget. The intent of this budget is to maintain the level of services currently being provided to the community.

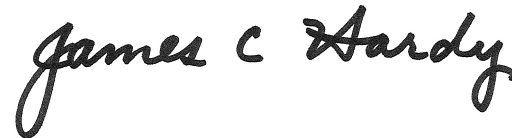
CONCLUSION

The City of Foster City, Estero Municipal Improvement District and Community Development Agency have been well managed and are in sound financial condition. This condition is the direct result of the fiscally conservative approach of this City Council and former City Councils. It is also the result of an excellent and talented staff that has committed itself to the City's Mission and Values Statement and to serving the

community to the best of its ability.

On behalf of all the City employees, we look forward to providing the service levels funded in the FY 2008-2009 budget.

Sincerely,

A handwritten signature in black ink that reads "James C. Hardy". The signature is written in a cursive, flowing style.

James C. Hardy
City/District Manager

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