

BUDGET MESSAGE

FISCAL YEAR 2009-2010

July 1, 2009

Honorable Mayor and Members of the City Council:

INTRODUCTION

The Final FY 2009-2010 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 2009-2010 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
 - Mission Statement
 - City Government Organization Chart
 - Policy Calendar for 2009
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, equipment replacement charges, self-insurance charges, information technology service charges, building maintenance charges, and longevity recognition benefit funding.

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 General Fund, 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 2009-2010

The nation, state, and region are in the midst of an economic recession the likes of which have not been seen since at least the 1950's, and quite possibly since the 1920's. The subprime lending crisis that triggered this recession has seen credit frozen, home foreclosures and short sales, rising unemployment, and bankruptcies of several large and small companies. The Federal government, in an effort to stimulate the economy, has already approved nearly \$1.5 trillion in financial assistance to credit markets and as part of the stimulus package. The State of California has declared a fiscal emergency, passed a FY 2008-2009 budget 3 months late that solved a \$25 billion deficit, and then had to pass a 2-year budget in February to cure an additional \$41 billion deficit through 2009-2010. The State is now looking to cure an additional \$25 billion shortfall as a result of overly optimistic forecasts and the failed Propositions on the May 19, 2009 ballot. The unemployment rate in California has reached 11.0% and is expected to rise further. The housing market in

Foster City has declined by nearly 15% in home prices, and home sales volume is less than half of what it was in 2007. There have been only three (3) reported foreclosure sales in Foster City in the past 12 months, but a recent report by the County Tax Assessor's Office indicated property assessment appeals that could put over \$89 million in assessed value at risk of being reduced. Still, property tax collections appear to be meeting predicted revenues in FY 2008-2009. Growth in property tax revenues will slow somewhat, but the City is not currently expecting any declines in overall property tax revenues.

Sales tax revenues have dropped nearly 25% from projected revenues for FY 2008-2009, and we expect further declines of nearly 10% in the coming year.

Nevertheless, the City has positioned itself well to weather this economic crisis, but will require prudent fiscal decisions over the coming years to maintain service levels and reserves of over \$10 million. The General Fund starts FY 2009-2010 with just over \$18.8 million in unrestricted reserves, nearly 60% of its annual operating expenditures. In FY 2009-2010, the City's General Fund projects an infusion of cash flow from the significant paydown of the Community Development Agency's loan owed to the City. Over the five-year forecast, significant development revenues are also anticipated based upon the active pursuit by the developers to construct the Pilgrim-Triton and Gilead Sciences Campus projects. However, development of the Mirabella San Francisco Bay / Parkview Plaza projects has come to a halt, and the five-year forecasts conservatively assumes that there will be no revenues coming from that project until such time as the developer has secured the requisite financing to proceed with the project. Over the next 12 months, the City Council will need to pay close attention to the developer's plans on the 15-acre site. Without that development, it is projected that the City's General Fund will

have a structural deficit of nearly \$1.5 million per year by the end of the fifth year, for which the five-year forecast shows a decline in reserves from \$18.8 million to nearly \$13.5 million, a \$5.3 million decrease. In order to respond to this structural deficit, the City would need to either reduce expenditures or increase revenues starting FY 2010-2011.

Given the current reserve levels and the need to provide stable levels of service to the community, there are no proposed reductions in service levels in FY 2009-2010. The one-time significant CDA Loan Repayment will allow the City to finish the year with a surplus of \$728,000. Thereafter, the City will continue to proactively monitor the economic outlook, revenue trends and expenditure forecasts to develop a long-term economic plan to eliminate the structural deficit.

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

- Implement the newly completed Teen Center and related recreational facilities.
- Complete construction of synthetic turf fields at Catamaran and Sea Cloud (S-3) Parks, which are partially funded by local youth sports groups and will help the City reduce its water consumption.
- Complete construction of the Arterial and Collector Overlay Project along Foster City Boulevard, utilizing \$440,000 in funds from the Federal Stimulus Package.
- Commence Phase I construction of the Levee Pedway Improvements project that will repair deficiencies and keep the pedway in good condition.
- Update the City's General Plan.
- Process the land use approvals and developer agreements for the proposed redevelopment of the commercial space in the Pilgrim / Triton area and the Gilead Sciences Campus.
- Participate in discussions with the San Mateo-Foster City

School District to address school overcrowding issues and their desire to build a 4th elementary school in Foster City.

- Implement the action plan developed by the Ad Hoc Transportation Committee to address local and regional transportation issues.
- Implement the action plan developed by the Ad Hoc Environmental Sustainability Committee in an effort to create a more environmentally sustainable community.
- Implement conservation-minded tiered water rates for residents, businesses and irrigation customers in an effort to incent water conservation and manage water usage within the water supply allocation from the City and County of San Francisco.
- Maintain emphasis on emergency planning and preparedness for the City, for the residents and for the business community.

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 2009-2010 remain at 213 FTE. In addition we will maintain the two part-time intern positions in the City Manager's Office to assist in managing the implementation of the Environmental Sustainability and Transportation Action Plans, respectively.

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. The business needs of the City will be carefully considered prior to making any recommendations for the FY 2010-2011

budget.

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. However, the City's five-year financial forecast shows that General Fund expenditures will exceed revenues after FY 2009-2010. In the second 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 \$4 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 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 2009-2010 Annual Budget.

- The City will maintain existing service levels enjoyed by the community in this budget. The proposed FY 2009-2010 General Fund budget indicates that unrestricted reserves will grow by over \$728,000 on a budget basis, and that reserve levels will be maintained above \$10 million throughout the 5-year forecast. However, there will exist a structural deficit in FY 2010-2011 and beyond if development on the 15-acre site does not occur or the economy does not rebound.
- All employee groups are in multi-year agreements as we start FY 2009-2010. Management employees and those employees represented by the American Federation of State County and Municipal Employees (AFSCME) are in the final year of their agreement that calls for a cost-of-

living adjustment in FY 2009-2010 of 0.3% based on the April-to-April CPI index for the San Francisco Bay Area. Employees represented by the International Association of Firefighters (IAFF) and the Foster City Police Officers' Association (FCPOA) will be in the first year of two-year agreements.

- Retirement contributions to the PERS retirement system for Miscellaneous Employees will remain virtually the same in FY 2009-2010. However, due to the significant decline of investment markets, retirement costs are expected to increase in FY 2011-2012 – 11% for public safety employees and 6.5% for all other employees. The City would, however, have a one-time opportunity to reamortize the unfunded accrued liability over 30 years for the public safety rate, which could reduce that increase to 3%.
- Councilmember salaries have been increased by 5% based upon Council direction starting in December 2009 when the new City Council is seated.
- There is no increase in Planning Commissioner salaries.
- Water revenues are planned to be increased by 9% in FY 2009-2010 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 as part of the Wastewater Treatment Plant owned in conjunction with the City of San Mateo, plus other District capital improvements to lift stations, will require sewer rate increases of 7% starting in FY 2009-2010.

- The Final Budget has been prepared based on the 2-year budget that the State passed in February 2009 for FY 2008-2009 and FY 2009-2010. With an additional projected \$25 billion deficit through FY 2009-2010, the State is now considering borrowing local property tax revenues from cities. This could result in a loan of over \$1.2 million to the State which would have to be paid back with interest to the City within 3-years. This will require close watch on the potential impacts to the City as the State addresses its shortfall.
- 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 2009-2010 in the amount of \$313,000 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 \$156,500.
- 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.

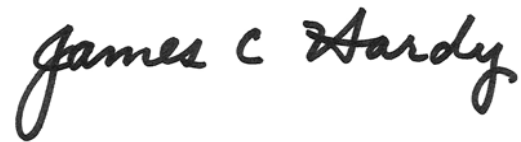
CONCLUSION

The City of Foster City, Estero Municipal Improvement District and Community Development Agency have been well managed and are in sound financial condition. This has served the City well in being able to maintain existing service levels to the fullest extent possible during these tough economic times. The City will need to exercise vigilance in its approach to the future beyond FY 2009-2010. Nevertheless, this City has a long history of being fiscally conservative, the result of wise

policy decisions by current and former City Councils and excellent and talented staff that have committed themselves to the City's Mission and Values Statement 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 Final Budget for FY 2009-2010.

Sincerely,

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

James C. Hardy
City/District Manager