



# City of Menlo Park

Introduction to the  
Budget Process  
Fiscal Year 2010-11

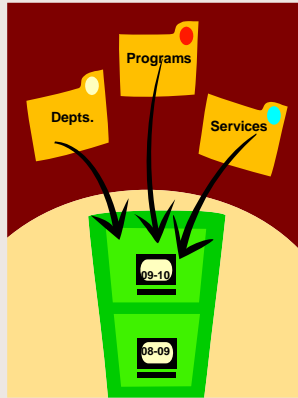


## 2010-11 Budget Schedule

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- February 23 – Mid-Year Report
- March 9– 5-year CIP Introduced
- March 23– 2010-11 CIP Projects Approved
- April 20 – Budget Study Session
- May 25– City Manager’s Proposed Budget to Council (Public Hearing)
- June 22– Revised Budget to Council; Budget Adoption

# Structure Overview



- 6 Departments
- 30 Programs
- 110 Services
- 103 Projects
- 489 Accounts
  - Revenues
  - Expenditures
  - Assets
  - Liabilities
  - Fund Balances
- And >40 Funds

*Equals...*

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Examples of the Account Structure: 8-17 digit account number

Fund, Department, Program, Project (if applicable), Account

**Example 1:** 851-201-01-20010-5101

Capital Improvement Fund (851) Public Works(201) City Facilities(01) Street Resurfacing Project (20010) Regular Salaries(5101)

**Example 2:** 100-310-02-7000-5322

General Fund(100) Community Service(310) Pre-School Child Care(02) Menlo Children's Center(7000) Employee Training(5322)

## Structure Overview (cont.)



*Over 3,980 Budget  
Line Items!*



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All items require estimates for current fiscal year and forecast for the upcoming fiscal year.

# Fund Types

- Governmental
  - General Fund
  - Community Development Agency (4)
  - Special Revenue Funds (24)
  - Debt Service Fund
  - Capital Projects Funds (3)
  - Internal Service Funds (4)
- Proprietary Funds
  - Water Enterprise Fund (2)
- Fiduciary Funds

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To ensure legal compliance and financial management for the various restricted revenues and program expenditures, the City's accounting and budget structure is segregated into various *funds*. This approach is unique to the government sector. Fund accounting segregates functions and activities into separate self-balancing funds that are created and maintained for specific purposes; for example, Special Revenue Funds are used to account for the expenditure of restricted revenues, while Enterprise Funds account for self-sustaining "business" related activities for which a fee is charged to cover all costs associated with that business. The General Fund is the City's chief operating fund and is used to account for all financial resources, except those required to be accounted for in another fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

# Revenues



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In this presentation, each General Fund revenue source and the factors which influence the forecasting of these amounts will be noted.

## How We Estimate Revenues

- Regional economy
- Historical analysis
- State and County data
- Economic development opportunities
- Growth expectations
- State & County contract estimates
- Department recommendations

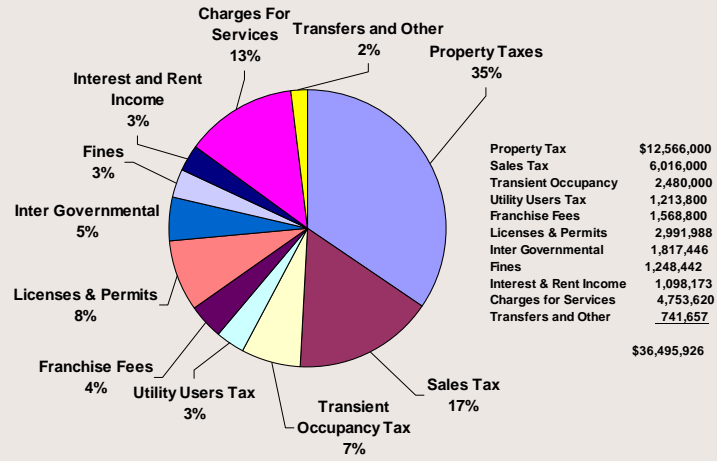


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The regional economy, along with State and County impacts, are noted in each budget, Comprehensive Annual Financial Report (CAFR), and mid-year report. Other factors are included in quarterly investment reports or as events/ opportunities are brought to management's attention.

Departmental revenues (which largely consist of Licenses, Permits, and Charges for Services) are the last revenues to be entered in to the budget forecast.

# Sources of Revenues 2009-10\*

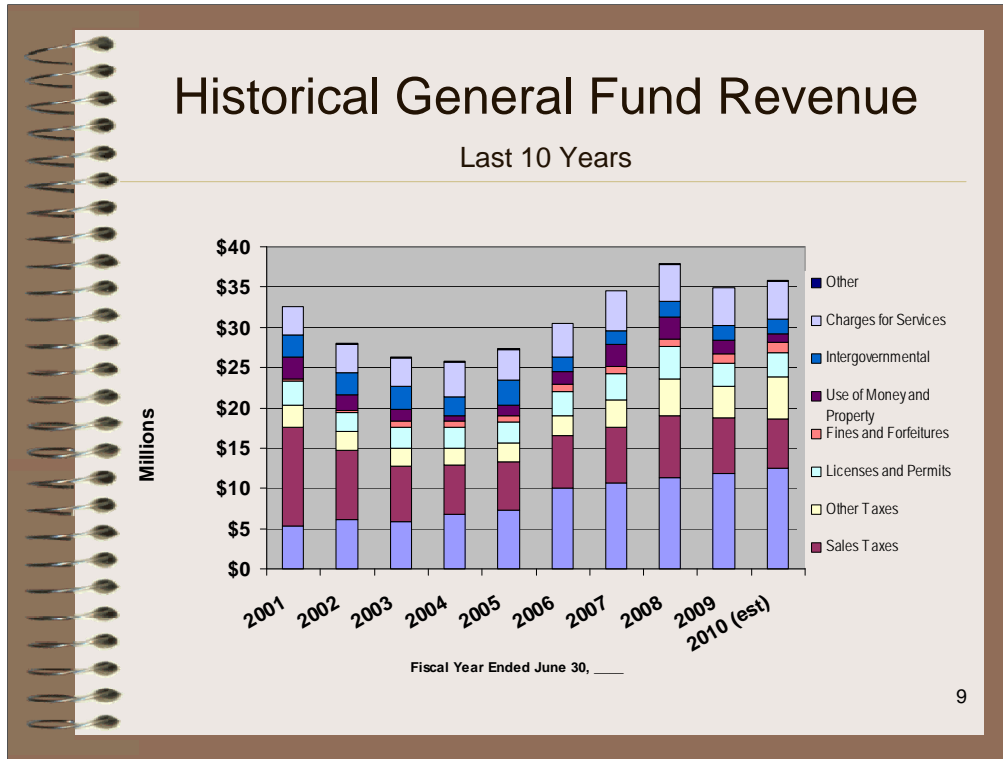


\*Projected Revenue

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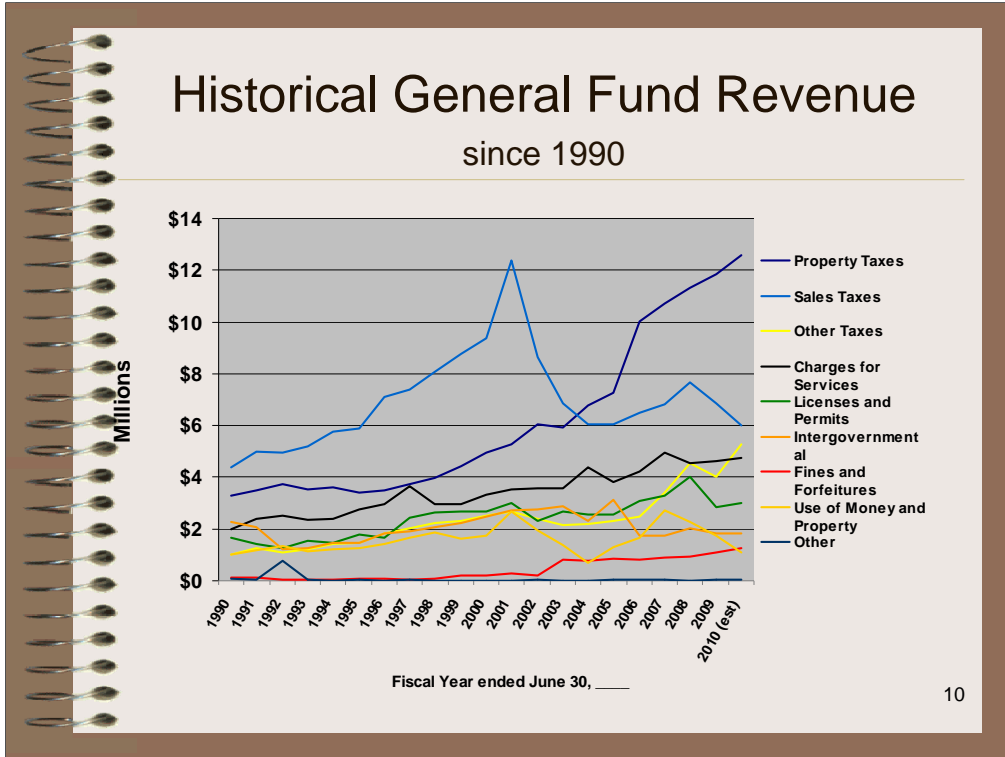
(General Fund only)

This type of graph is often used to describe a city's "revenue mix".



(General Fund only; Does not include transfers in.)

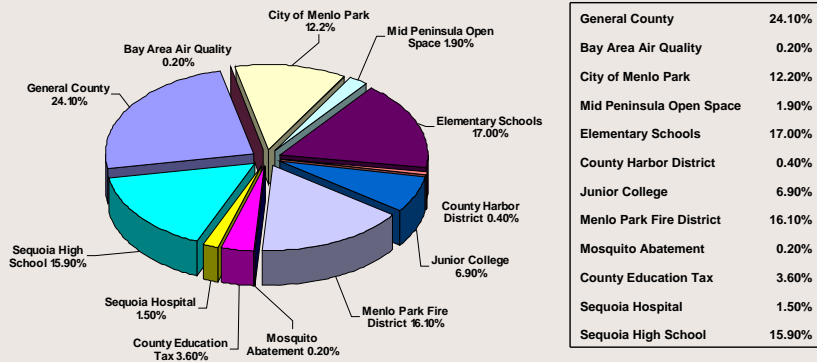
This chart includes the past nine years, plus the preliminary estimated revenues for 2009-10. The Utility Users Tax (UUT) tax (\$1,162,595 for 2008-09 and \$1,213,800 estimated for 2009-10) and the TOT (Hotel Tax) (\$1,351,578 2008-09 and \$2,480,000 estimated for 2009-10) are included in "Other Taxes".



(Chart shows General Fund only; does not include transfers in.)

Total General Fund revenues budgeted for 2009-10 remain flat from the prior year as a result of the downturn in the economy. Some revenue categories are more negatively impacted than others.

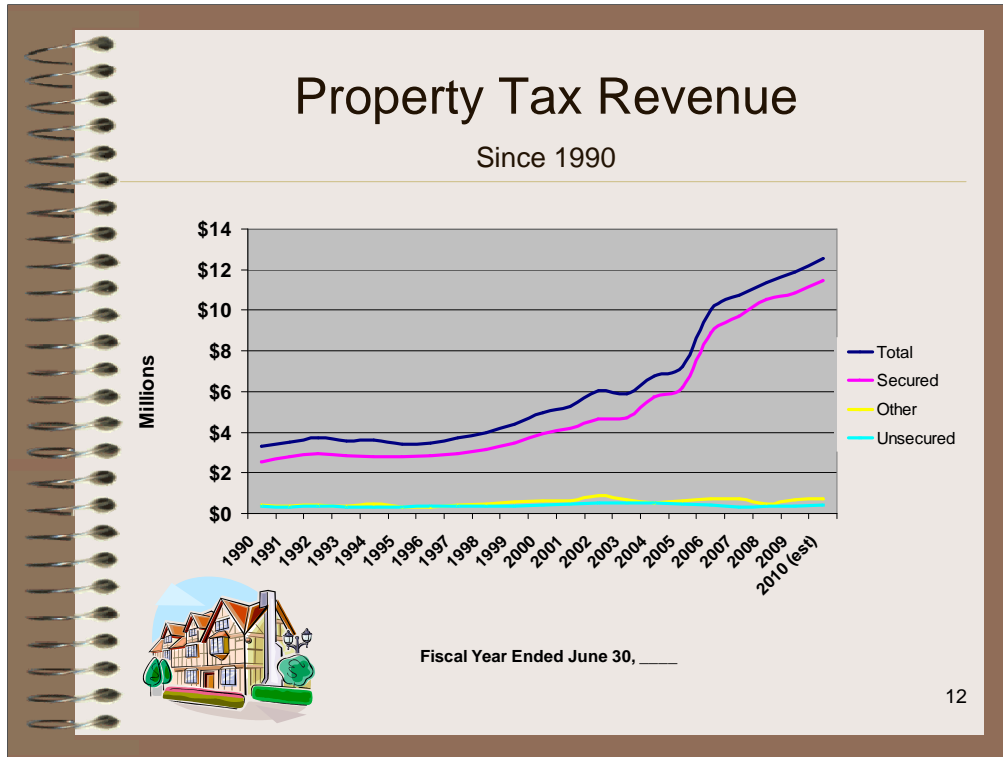
# Menlo Park's Share of Property Taxes



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This chart is also shown in every budget document, as it helps to answer the most frequently asked question, “Where do all the Property Tax revenues go?”

Menlo Park’s share of the 1% tax rate is equivalent to 12 cents for every \$1.00 collected from property taxes. With the passage of Prop 13 in 1978, assessed valuations are limited to a 2% increase each year.



Property Tax is imposed on real property (land and permanently attached improvements such as buildings) and tangible personal property (moveable property) located within the State, based on the property value rather than on a fixed amount or benefit. Properties are distinguished as secured and unsecured (property for which the value of the lien is not sufficient to assure payment of the tax). Article XIII A of the State Constitution limits the real property tax rate to 1% of the property's assessed value plus rates imposed to fund indebtedness approved by the voters.

“Secured” accounts for about 90% of total Property Tax revenues.

Most recent property tax growth is attributable to the resale of existing residential properties. The high median price of homes in the area coupled with strong residential property turnover, (which triggers reassessments) has kept these revenues growing even through the 2001-2005 downturn. Growth should slow in the next two years as the housing market continues to decline.

## Revenue Projection – Example

Taxes	2008-09 Actual	2009-10 Budget	2009-10 Mid-year Adjustment	2009-10 Estimated	2010-11 Proposed Budget
1001 - Secured Property Tax-Current	10,826,698	11,244,000	200,000	11,444,000	11,644,270
1002 - Supplemental Tax	309,814	400,000	(153,300)	246,700	300,000
1003 - Unsecured Personal Prop Tax	385,377	400,000	53,000	453,000	460,000
1004 - Redemptions- Property Tax	6,443	7,000	18,000	25,000	45,000
1005 - Property Transfer	278,290	250,000	85,000	335,000	350,000
1006 - Homeowners Prop Tax Rel.	60,937	65,000	(2,700)	62,300	65,000
<b>Total Property Taxes</b>	<b>11,867,559</b>	<b>12,366,000</b>	<b>200,000</b>	<b>12,566,000</b>	<b>12,864,270</b>

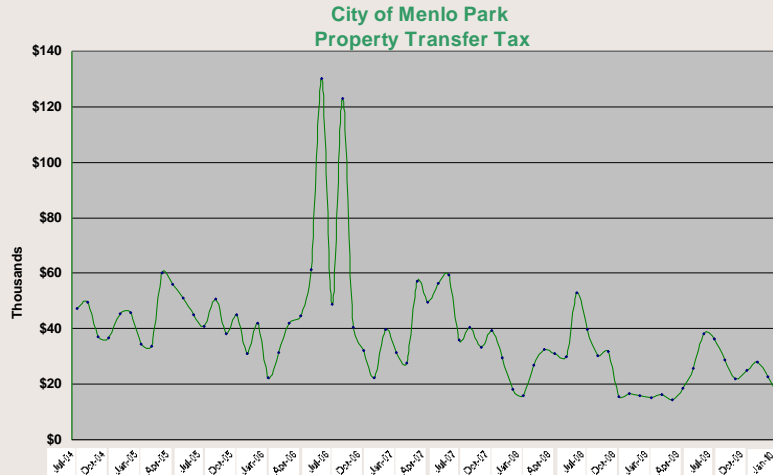
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This is an example of a 2009-10 Mid-year projection using a traditionally stable General Fund revenue source – Property Taxes.

The Secured Property Tax is obviously the largest of the six components; the Property Transfer tax is the most volatile.

As shown above, Property Taxes as a whole were adjusted upward by \$200,000 with the Mid-year analysis presented to Council on February 23, 2010.

## Revenue Projection – Example (cont.)



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Property Transfer Tax, which is assessed when property changes ownership, is just one piece of the property taxes revenue category. The rate is .055% of the selling price for properties in Menlo Park.

The adopted budgets for property transfer tax were adjusted upward at mid-year during the fiscal years 2005-2007, due to peak receipts in June 2006 and August 2006 representing the sale of large commercial areas.

Recent declines in property transfer tax are due to a 50% decline in volume (sales) and a slight decline in average value per transaction.

## Menlo Park's Share of Sales Taxes

**City's share: One cent of every retail dollar spent in Menlo Park**

7.25%	State of California
<b>1.00%</b>	<b>City Local Tax</b>
.25%	County Transportation Funds
.75%	County and City Operations
<u>9.25%</u>	Total rate

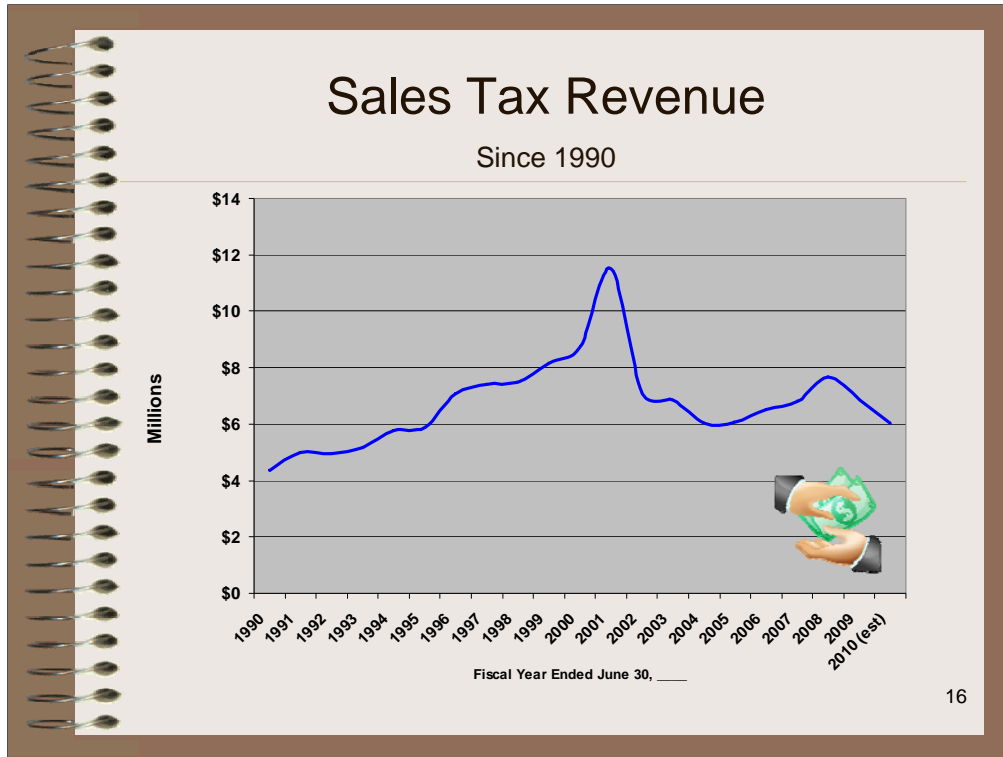


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The sales tax is imposed on retailers for selling tangible personal property in California. The use tax is imposed on the user of a product purchased out-of-state and delivered for use in California.

Most sales tax revenue is derived from the 1.00% City Local Tax, based on point-of sale, and shown as General Fund Sales Tax revenue.

The City also receives some of the County Transportation Authority amount; these revenues are recorded in the City's Measure A fund and used for transportation improvements and projects.



(General Fund only shown)

During 2001-2004, the technology industry posted losses affecting business-to-business transactions that impacted sales tax revenue.

During 2004-2010, sales tax revenue did not rebound as much as in other cities due to the relocation of auto dealerships. In 2009-10, the downturn in the economy has negatively affected business-to-business operations causing a decline in sales tax revenue.

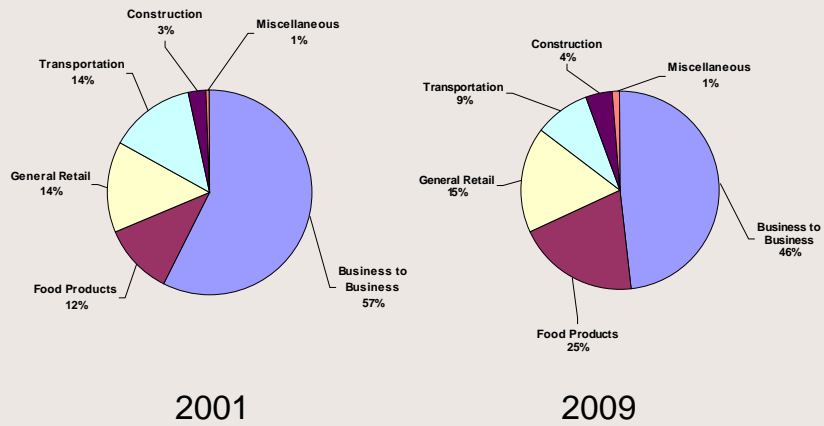
## Menlo Park's Sales Tax Generators

- By business category:
  - Business To Business 46%
  - Food Products 25%
  - General Retail 15%
  - Transportation 9%
  - Construction 4%
  - Miscellaneous Retail 1%

Source: 3rd Quarter 2009 Sales Tax Analysis Detail

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## Sales Tax Composition by Major Business Category



Source: 3rd Quarter 2009 Sales Tax Analysis Detail

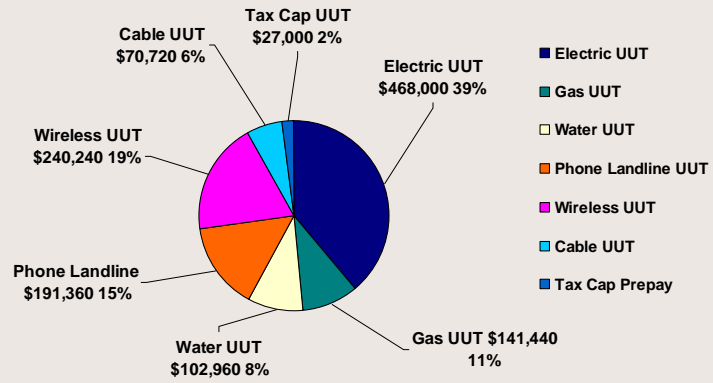
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Comparative pie charts show changes in the composition of Menlo Park's sales tax receipts over the past eight years.

	<u>2001</u>	<u>2009</u>
Business to Business	57%	46%
General Retail	14%	15%
Transportation	14%	9%
Food Products	11%	25%
Construction	3%	4%
Miscellaneous	1%	1%

# Utility User's Tax 2010-11

UUT Estimated Revenue  
\$1,237,500 \*

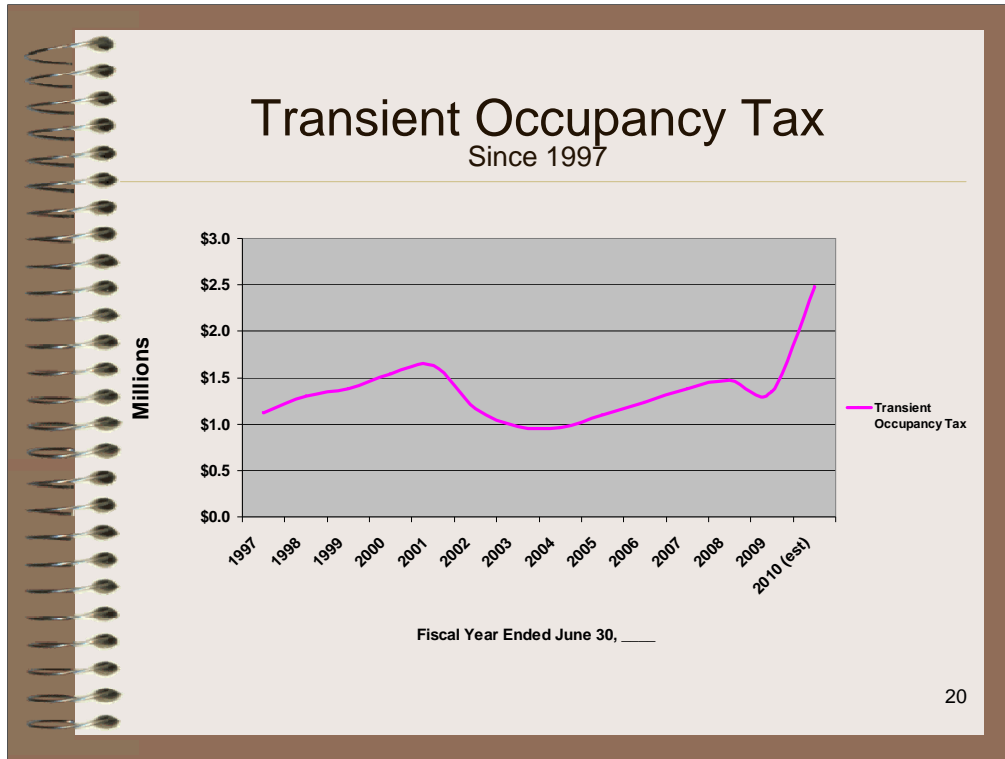


\*2010-11 Estimated Budget

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## Utility Users Tax

Projected revenue at the tax rate of 1%.



The Transient Occupancy Tax (TOT), or Hotel Tax is imposed on persons staying 30 days or less in a hotel, inn, motel, tourist home or other lodging facility. The City's current rate is 10%. 2009-10 TOT revenue represents about 7% of General Fund budgeted revenue, an increase of 2.5% from prior years since the opening of the Rosewood Sandhill Hotel in April 2009.

Revenue from this source is anticipated to reach \$2,702,000 in 2010-11

## Franchise Fees

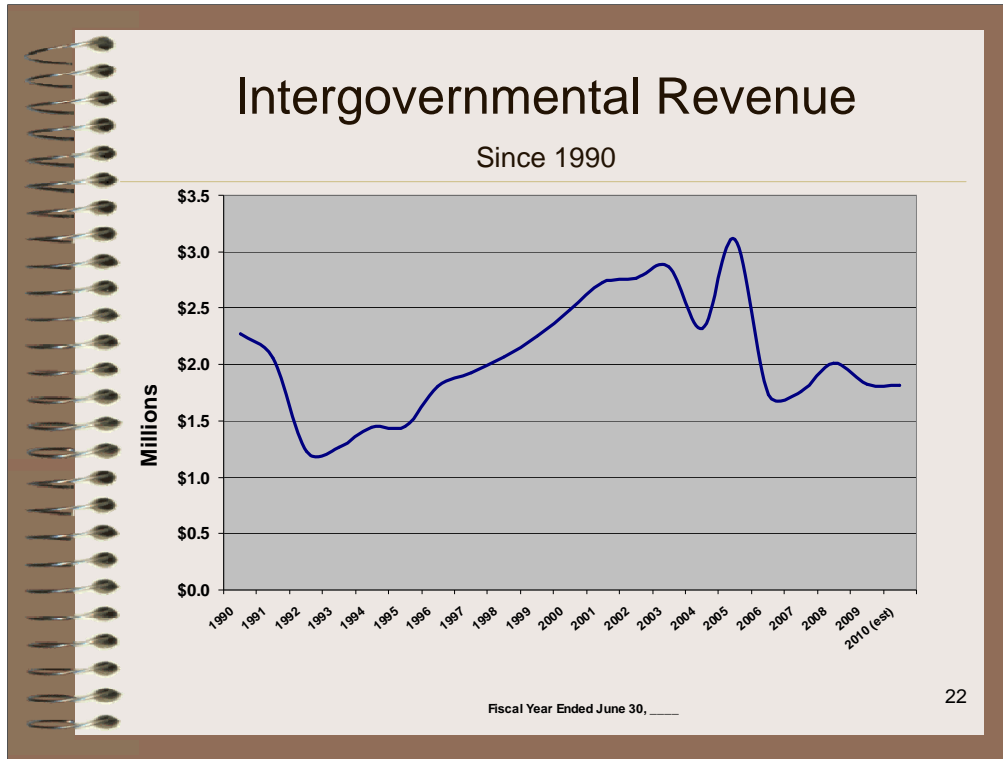


2009-10 Estimated Budget

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Franchise fees are paid to the City from a franchise for “rental” or “toll” for the use of city streets and rights-of-way.

This is a relatively stable, if not growing source of General Fund revenues.



This category of General Fund revenues has been very volatile in recent years:

2003-04 – \$530,000 loan of Motor Vehicle License Fee (MVLFF) to State

2004-05 – “Backfill” of MVLFF with additional property tax allocation

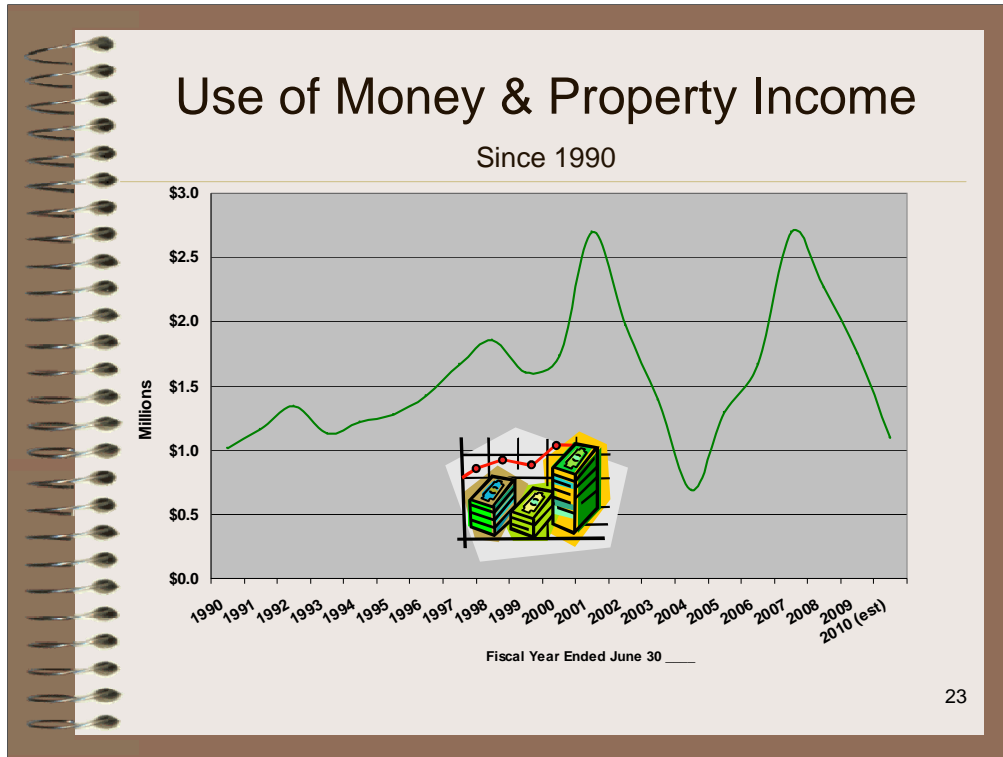
2005-06 – Payback of 2003-04 loan; property tax in-lieu of MVLFF reclassified as property tax

2006-07 – Increase of (\$373,000) for dispatch due to consolidation of operations and associated contract with the city of San Carlos; increase in \$200,000 in State Mandated Cost reimbursements

2007-08 – Add’l increase of \$230,000 for full year of Dispatch contract; decrease from 2006-07 of \$250,000 in State Mandated Cost reimbursements

2008-09 – Decrease in Motor Vehicle In-Lieu fee of \$65,000 and decrease in State and Federal Grants of \$35,000

2009-10 – Add’l decrease in Motor Vehicle In-Lieu fee of \$17,000 and an increase in Federal Grants of \$20,000.

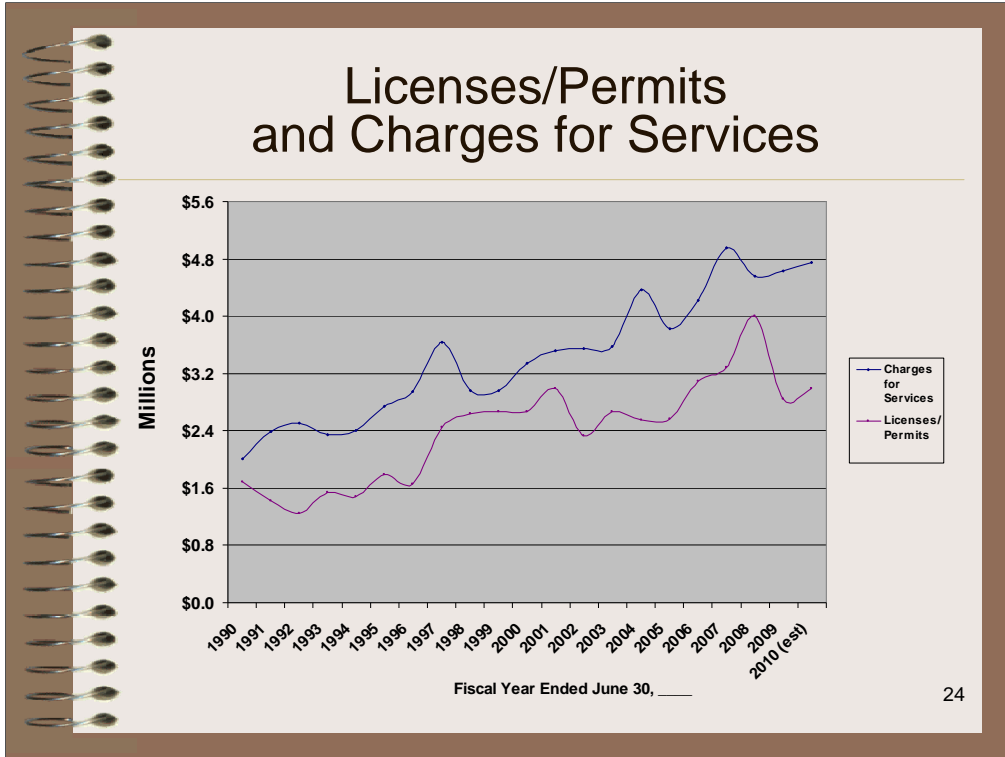


(General Fund only shown)

This revenue category consists of interest/investment earnings from cash fund balance in Reserves and rental income on City properties.

This revenue source became more volatile with the 1999 implementation of Governmental Accounting Standards Board (GASB) #31, which requires the reporting of unrealized gain/loss on the portfolio based on any net change in fair value of investments.

For 2009-10, approximately 33% of this category is Rental Income.



(General Fund only shown)

Licenses and Permits are issued to regulate activities within the City's jurisdiction. These charges are to cover the costs of these regulatory services and programs.

Charges for Services are revenue received for services that range from planning and inspection fees to recreation classes for children and adults.

# Charges for Services

- 39 Different Fees

- Include:

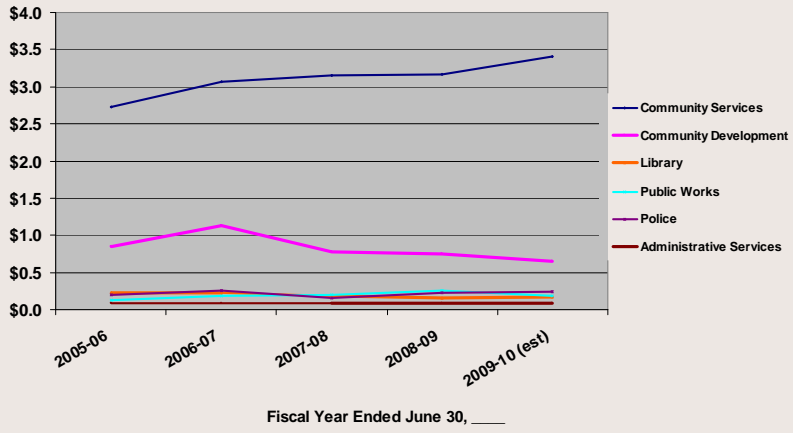
	<u>2009-10</u>
– Resident Recreation Fees	\$2,034,300
– Non-Resident Recreation Fees	149,900
– Child Care Fees	815,580
– Recreation Rental Income	194,500
– Library Book Fines	159,000
– Planning Fees	500,000
– Alarm Citation Fees	100,000

2009-10 Estimated Budget

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# Charges for Services by Department

(last 5 years)



## Licenses & Permits



2009-10 Estimated Budget

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In 2002-03, as part of the program-based budget, Parking Fines were re-classified from “Charges for Services” to “Fines and Forfeitures” (\$537,000 that year).

Beginning in FY 2008-09, Police implemented the Redflex program (cameras located in intersections that take a series of pictures of a red-light runner).

# Fines and Forfeitures

• Traffic Fines – Violations	\$ 240,000
• Red Flex – Red-light Violations*	\$ 300,000
• Parking Violations	<u>\$ 708,442</u>
Total 2009-10 budget	\$ 1,248,442

2009-10 Estimated Budget



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\* Red-light violation revenue is net of Red Flex cost for monitoring and maintaining the four approaches within Menlo Park.

# Other Financing Sources

## Transfers In – Transfers from other funds for General Fund overhead (2009-10):

– Community Development Agency	\$ 287,452
– Water Fund	\$ 160,814
– Garbage Service Fund	\$ 68,526
– Landscaping/Tree Assessment	\$ 56,041
– Storm Water Management	\$ 31,970
– Other Transfers	<u>\$ 87,172</u>
Total	\$ 691,975

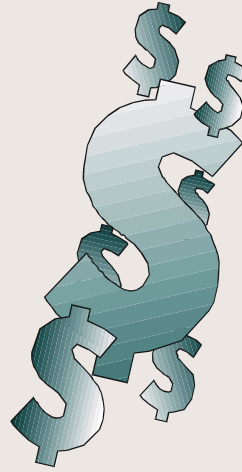
2009-10 Estimated Budget

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Most Transfers In are intended to reimburse the General Fund for administrative services (overhead). Note that direct labor costs associated with activities in other funds are directly charged to these other funds.

# Expenditures

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## How We Estimate Expenditures

- **Personnel category** - based on authorized positions and allocated to funds and programs by departmental use.
- **Services costs** - consists primarily of approved contracts and based on known or estimated costs.
- **Operational costs** - based on department justification and historical trends.

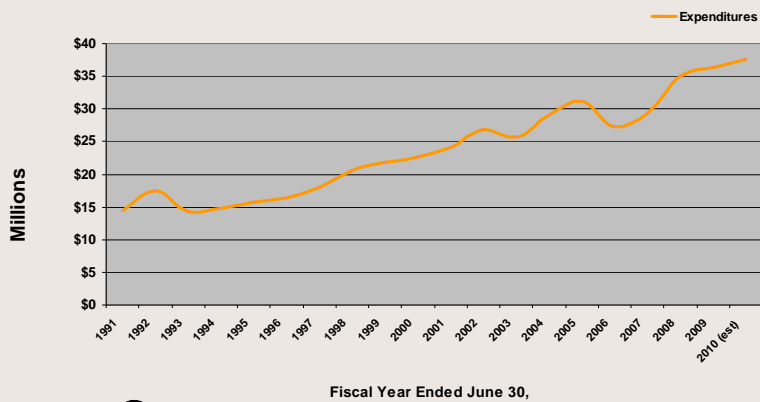


## How We Estimate Expenditures

(continued)

- **Utilities** - based on historical trends, known factors such as new facilities, and Public Utilities Commission (PUC) approved rate changes.
- **Allocated Costs** - Based on rates set for Equipment Maintenance and Self-Funded Insurance in Internal Service funds.
- **Transfers Out** - Based on known estimates for administrative services provided to the funds; or other purposes established in the budget.

# Expenditure History

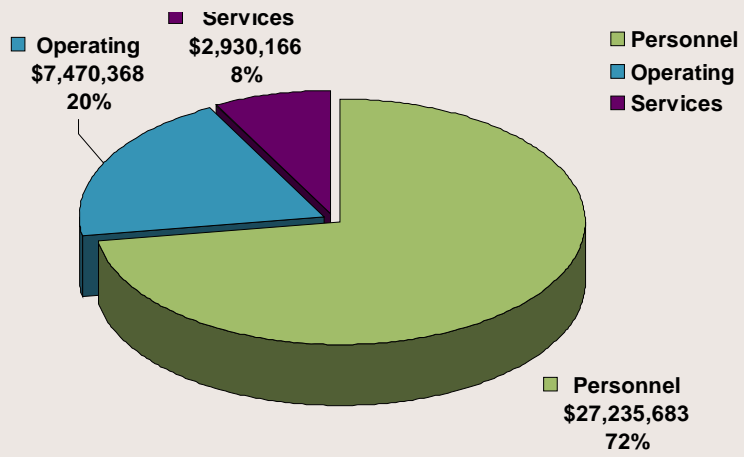


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(General Fund only shown)

Estimates for 2009-10 reflect current budgeted expenditures (all other years' expenditures are actual). These estimates continue to be updated and are subject to change. As the budget represents the legal level of budgetary control in each program/activity, budgetary savings will be realized.

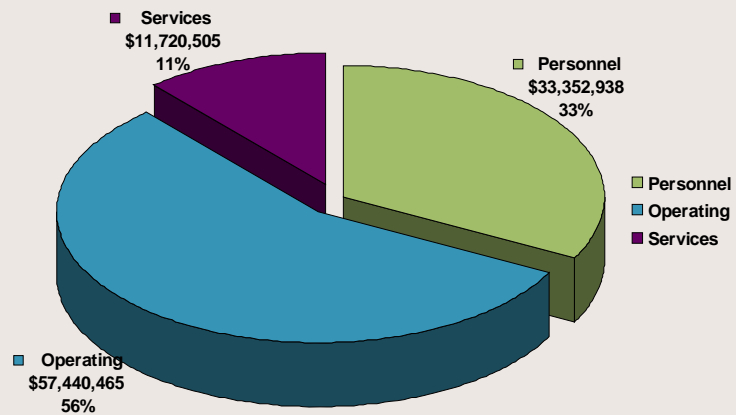
# Expenses by Category



2009-10 General Fund Estimated Budget

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## Expenditures by Category – All Funds



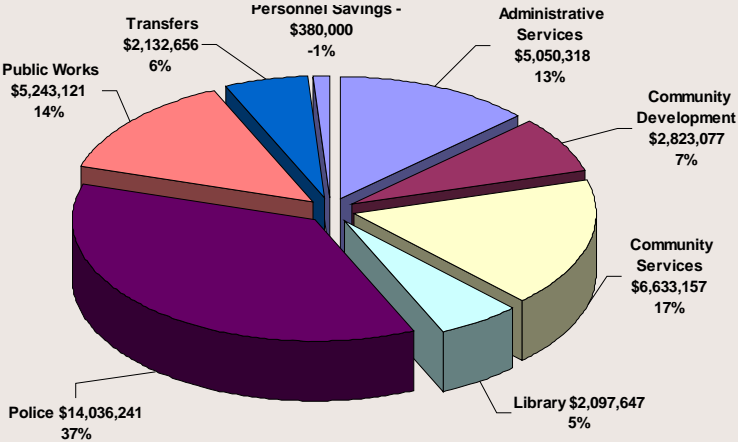
2009-10 All Funds Estimated Budget

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This chart shows the magnitude of the City's Budget when all funds are considered – including capital expenditure funds and debt service. For 2009-10 the break-down is:

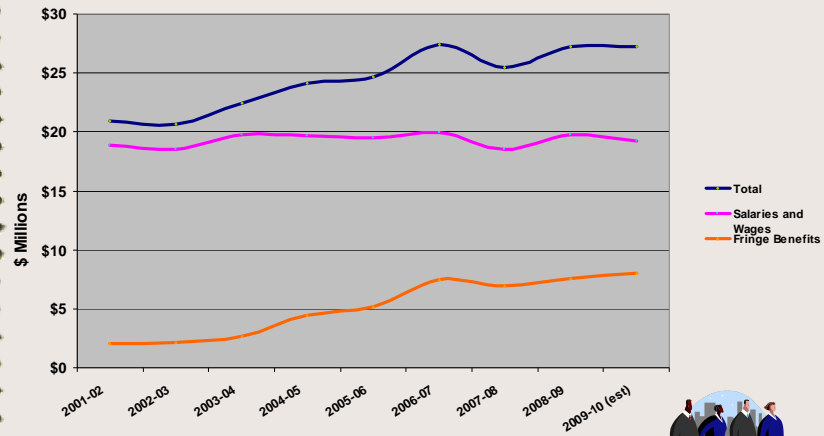
Operating Expense	\$57,440,465
Personnel Costs	33,352,938
Contract Services	<u>11,720,505</u>
Total Funds Managed	\$102,513,908

# Expenses by Department – General Fund



2009-10 General Fund Estimated Budget

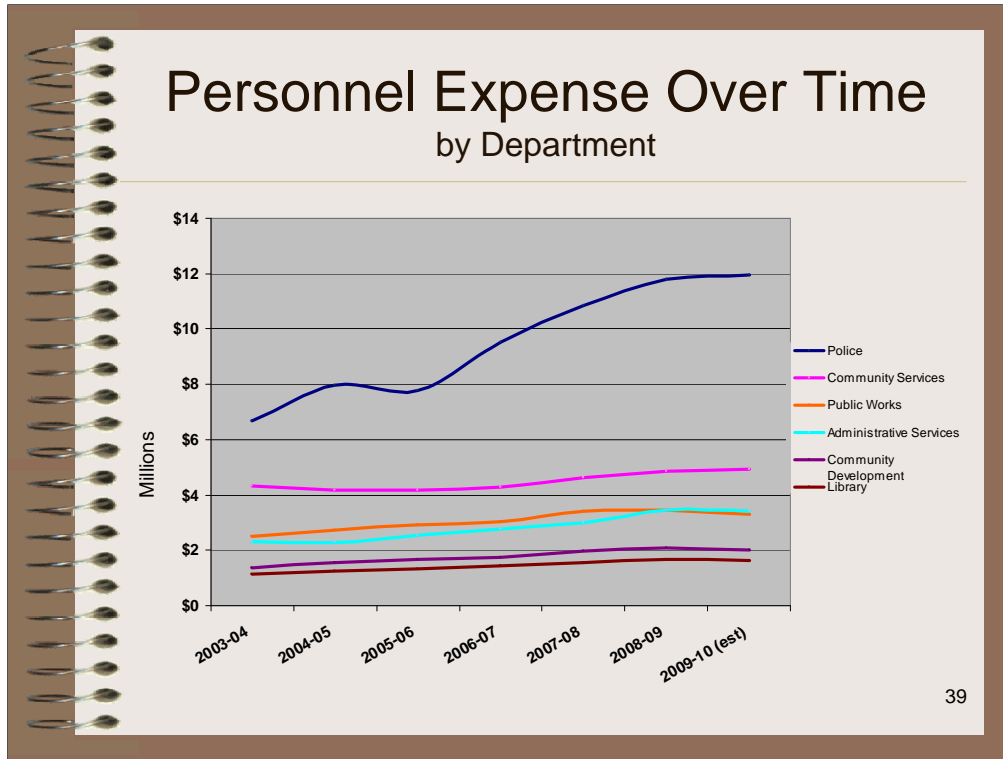
# Personnel Expense Over Time



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(General Fund only shown)

2009-10 estimate reflects budget year to date, which was updated with the mid-year report in February 2010.



(General Fund only shown)

Actual personnel expenses in Police declined in 2005-06; 2009-10 estimates reflect budget year to date; as adjusted at mid-year.

Note that prior to 2006-07, no OPEB (Other Post Employment Benefits- the cost of the City's retiree medical plan) costs were included in departmental personnel costs except for pay-as-you-go basis. These costs were included for the first time in 2007-08.

Police personnel costs increased in 2008-09 due to the Police Officers Association labor contract effective July 1, 2008, a restructuring of dispatch personnel in 2007-08, and the Police Managers' Association contract effective January 1, 2009.

## Personnel Expense Drivers

- Number of employees/retirees
- Salary levels
  - Wages = 70% of personnel cost
- Benefit levels and rates
  - Benefits = 30% of personnel cost
    - Retirement = 42% of benefit cost
    - Health care = 36% of benefit cost

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Based on City-Wide costs (All Funds)

## Source of Personnel Savings

- **Vacancy Rate**
  - Budgets reflect full staffing
  - Actuals reflect vacancies, leave w/o pay
  - 8.2% in 2005-06, 6.7% 2006-07;
  - 5.6% 2007-08; 3.2% 2008-09; 6% 2009-10 (est)
- **Salary levels**
  - Budgets reflect negotiated contracts, estimates of cost increases in both wages and benefits

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(City wide)

## Number of Employees All Funds

- 245.75 FTEs in 2009-10 adopted budget
- Number of employees by department:

- Administrative Services:	30.05
- Community Development:	19.93
- Community Services:	51.90
- Library:	14.50
- Police:	75.76
- Public Works:	53.61



2009-10 Adopted Budget

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Administrative Services includes five FTE representing City Council.

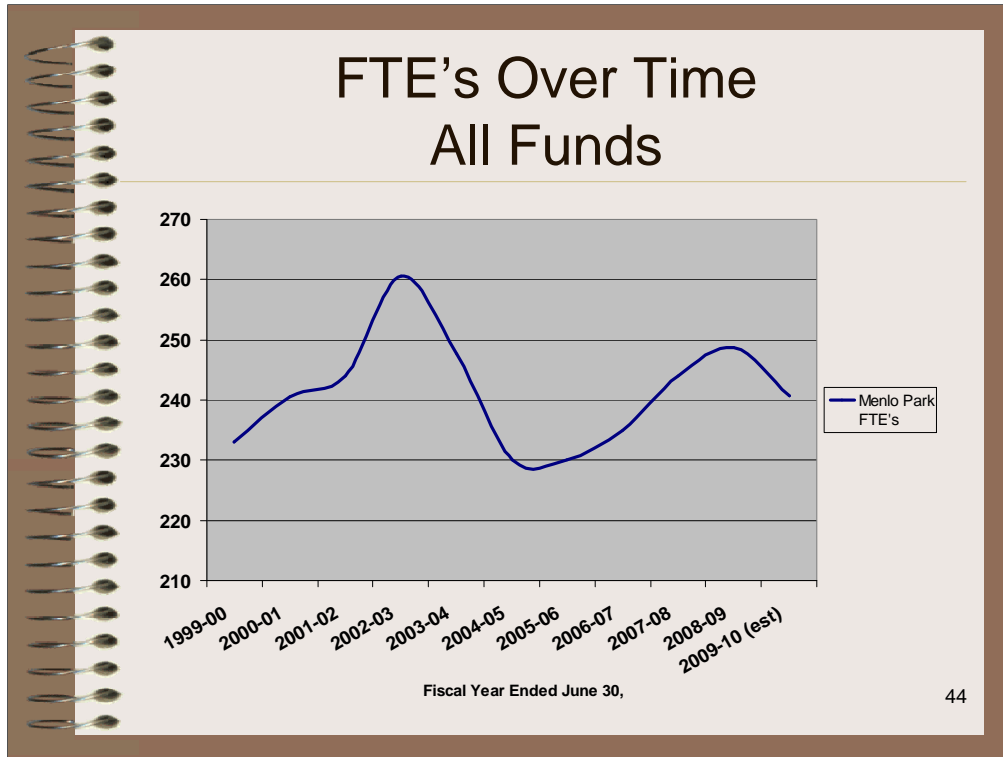
## Number of Employees All Funds

- Number of employees by unit:

- Management:	16.00
- Confidential:	3.00
- AFSME:	31.00
- PMA:	8.00
- POA:	37.00
- SEIU:	144.75
- Council:	5.00
- Attorney:	<u>1.00</u>
<b>TOTAL</b>	<b>245.75</b>

2009-10 Adopted Budget

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Note that an increase of five FTE's in fiscal year 2007-08 were in large part of the result of council initiatives:

- Financial Reporting
- Traffic Law Enforcement (2)
- Transportation projects
- Land & Building Development Services

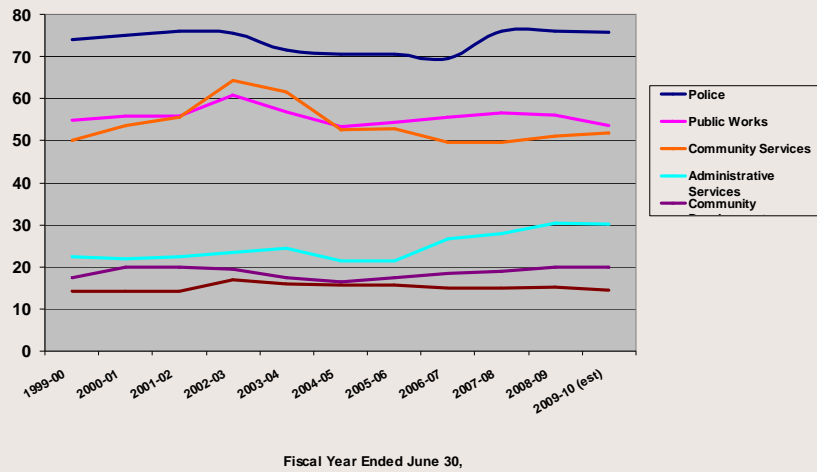
In addition, four FTE's were added to provide for Police dispatch consolidation with the city of San Carlos (for which the City receives contractual revenue)

In 2008-09, three FTE's completed Council's prior year initiatives in the following areas:

- Business Development
- Community Engagement
- Information Technology

# FTEs Over Time

## All Funds by Department



# The Impact of OPEB

## OPEB - (Other Post-employment Benefits)

- For Menlo Park, represents retiree medical benefit obligations
- Months covered are determined by “credit” accumulated in a retiree’s leave account and years of employment with the City



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Retiree medical premiums are the only OPEB cost of the city. The first actuarial analysis of this future liability was performed as of 6/30/2006.

An employee must retiree from the City of Menlo Park to receive this benefit. The City pays the retiree’s medical insurance premium for a variable number of months, based on “credits” accumulated during an employee’s tenure with the City and the number of years employed.

## The Impact of OPEB (cont.)

- Actuarially-determined liability fully funded in 2007-08 (\$10.4 million placed in irrevocable trust)
- Actuarially-determined “normal” cost is \$584,000 for fiscal year 2010-11
- Funded by payroll “surcharge” of 3.2%; accounted for in an ISF (Internal Service Fund) so that costs are allocated with payroll charges

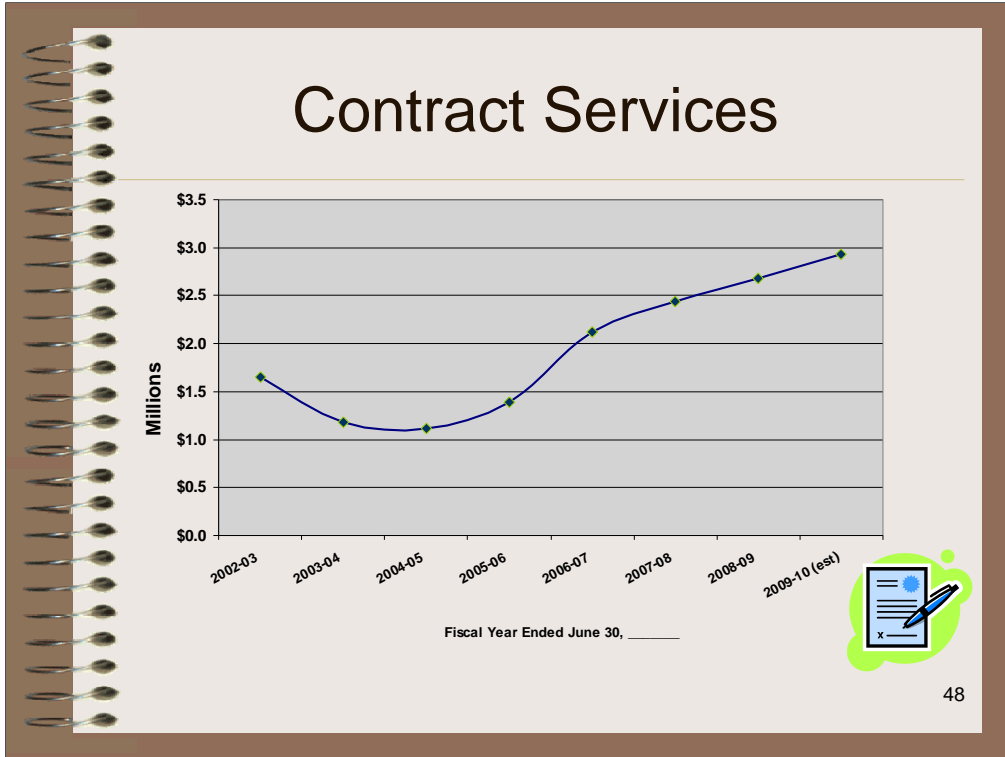
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Numbers shown are City-wide (not General Fund Only)

The OPEB liability was totally pre-funded in May, 2008. The irrevocable trust is administered by CalPERS in the CERBT – California Employers’ Retiree Benefits Trust.

As long as the City contributes the actuarially-determined “normal” cost of its retiree medical program, the liability will be fully funded.

By utilizing a payroll surcharge, OPEB costs are included in personnel costs, and the cost of programs are “fully loaded”.



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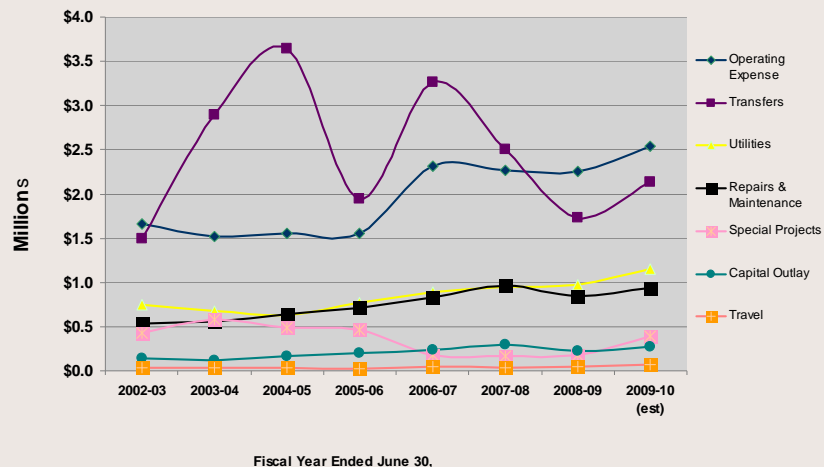
(General Fund only shown)

This is the expenditure item most impacted by encumbrances – contractual agreements to which the City is committed . These amounts must be in the budget in order to provide for the contract, but may not be fully expended prior to the fiscal year-end. The amount of any contractual commitment is *carried over* to the next fiscal year’s budget.

# Encumbrances

Encumbrances – are shown as a “reservation” of fund balance. These are open purchase orders or contracts that are unfilled by the end of the fiscal year. The remaining commitments are carried over and included in the next year’s budget.

# Other Operating Expenses



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(General Fund only shown)

Includes transfers out for infrastructure maintenance (\$1.918 million in 2009-10)

2006-07 shows additional \$2.2 million in transfers out due to the establishment of Internal Service Funds (IFSs) for the City's Workers' Comp and General Liability insurance programs.

2007-08 amount is shown net of OPEB transfer of \$9.2 million and contribution of \$2.6 million for Menlo/Atherton Performing Arts Center

2009-10 transfers out were reduced by \$245,144 at Mid-year to reflect deferral of , or alternative funding for, certain capital projects.

## 2009-10 General Fund Budget Transfers Out

- Transfer to the General Capital Improvement Fund for Infrastructure maintenance - \$1,918,056
- Match Literacy Grants - \$55,000
- General Fund's Landscaping/Tree Assessment - \$159,600

(after 2009-10 Mid-year adjustment)

# Infrastructure Funding

- Currently \$2.1 million annually
- “Base Line” maintenance for current condition of streets, sidewalks, buildings, parks, storm drains, trails and bridges
- Included in General Fund Operating Budget Transfers Out



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## The Impact of Internal Service Funds

- Workers Compensation
- General Liability
- Vehicle Replacement
- OPEB

(These funds were not operated as true ISF's until 2006-07).

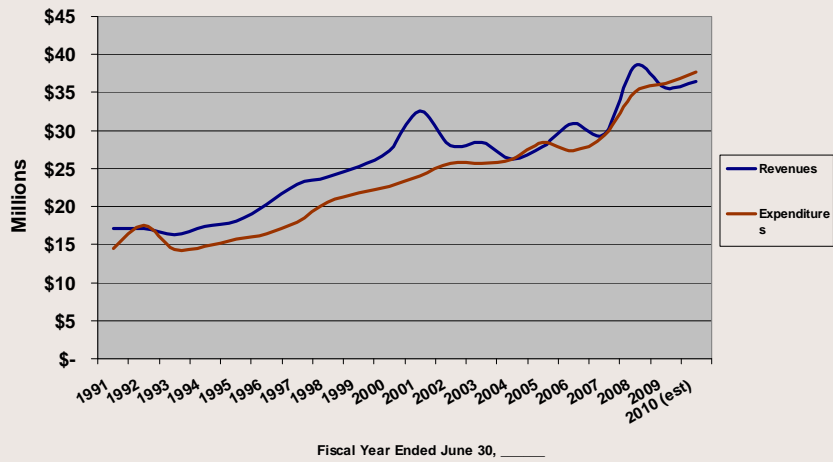
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All the Internal Service Funds except Other Post Employee Benefits (OPEB) were established in order to allocate the costs of a particular activity to other funds and programs on a cost-reimbursement basis.

Prior to 2006-07, these three internal service funds acted as “sub-funds” of the General Fund. True ISF's have their own assets, liabilities and fund balances. A move to the use of actual internal service funds provided more clarity in actual expenses and fund balances in the City's financial reports and budget.

In the City's CAFR, these expenditures are now shown as departmental expenditures, rather than “General Government” or “Administrative” costs.

## Sources and Uses of Funds since 1991



(General Fund Only)

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(General Fund only shown)

Reflects latest revenue and expenditure estimates, shown net of extraordinary expenses.

## Fund Balance

A listing of estimated fund balances is included in the back of the budget document. Because some fund budgets may include funding for projects with a time frame of greater than one year, the “estimated” fund balance may vary significantly from the actual year-end fund balances.



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Other (than the General Fund) fund balances are also monitored carefully to insure continued stability in the long-term.

## Community Input on the Budget

- Your input is welcomed – see the Council’s budget schedule on slide 2 or contact Council via their email at:  
[city.council@menlopark.org](mailto:city.council@menlopark.org)
- For more information about the City budget or questions, call Finance at:  
650-330-6640

