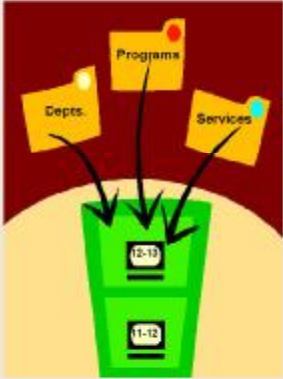




2012-13 Budget Schedule

- January 30 – Preliminary Budget Review in light of Redevelopment Agency Dissolution
- February 28 – Mid-Year Report
- March 13 – Five-year CIP Introduced; Overview of Budget Parameters
- April 24 – Five-year CIP Projects Approved
- May 22 – City Manager's Proposed Budget to Council (Public Hearing)
- June 12 – Budget Adoption

Structure Overview



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

Equals...

3

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.)

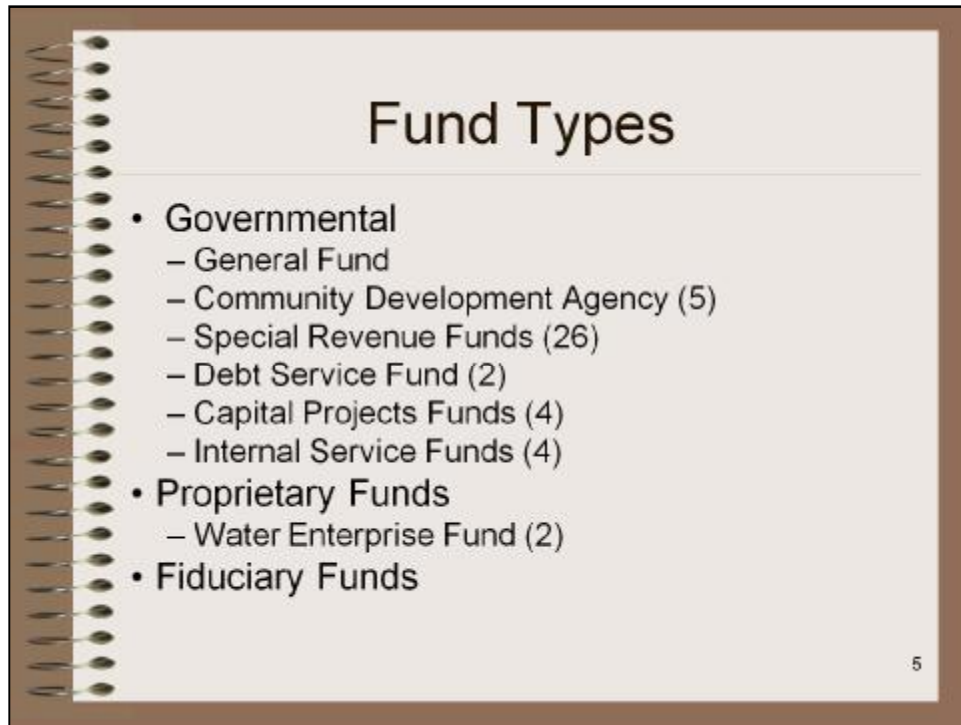


*Over 3,980 Budget
Line Items!*



4

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



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.



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
- Known factors
- State & County contract estimates
- Economic development opportunities
- Growth expectations
- Department recommendations



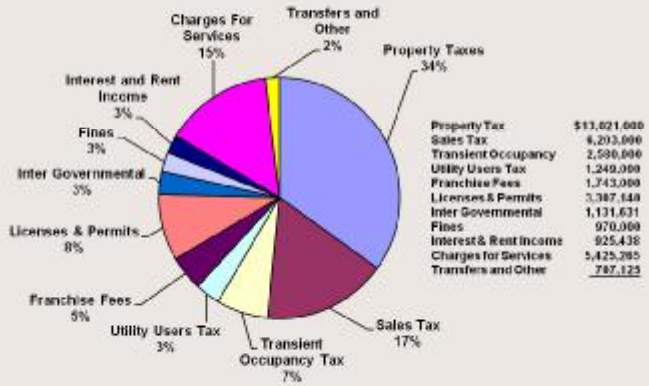
7

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, quarterly general fund budget-to-actual analysis, or as events/ opportunities are brought to management's attention.

Taxes and Franchise Fees are forecasted by Finance personnel. Departmental revenues (which largely consist of Licenses, Permits, Charges for Services and Fines) are entered in to the budget forecast.

Interest Income is the last revenue to be determined as the year's cash flows are projected.

Sources of Revenues 2011-12*

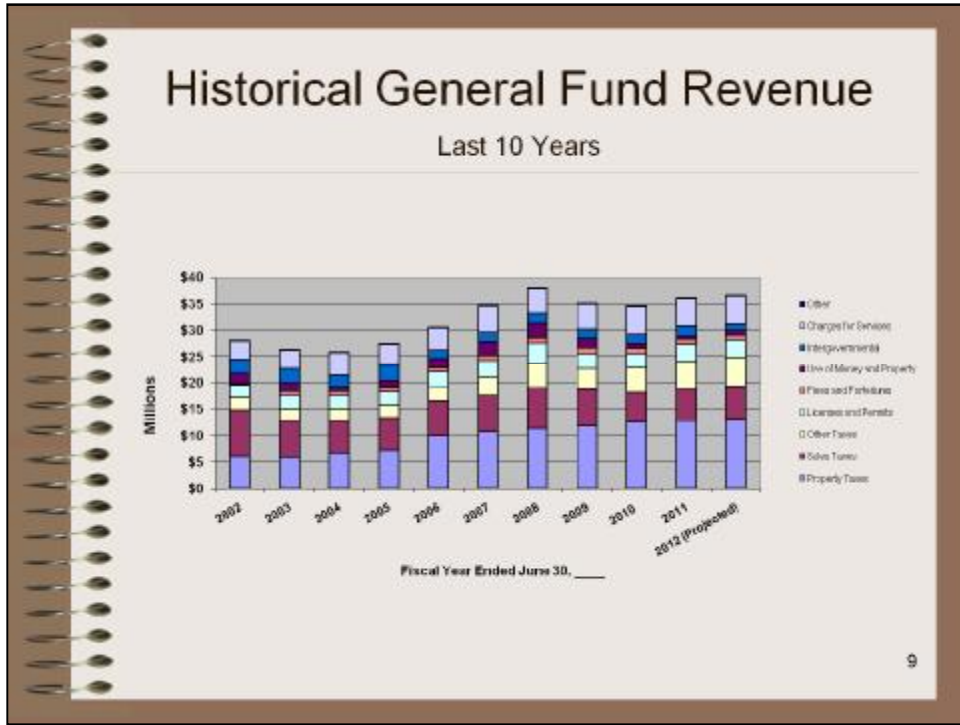


*Adopted Budget

8

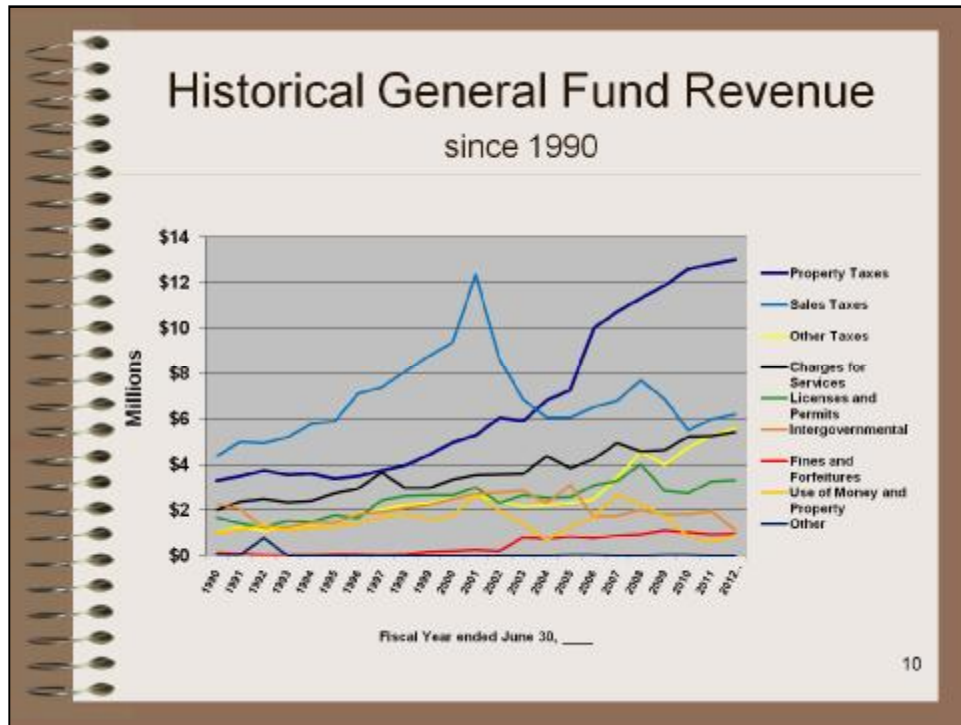
(General Fund only)

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



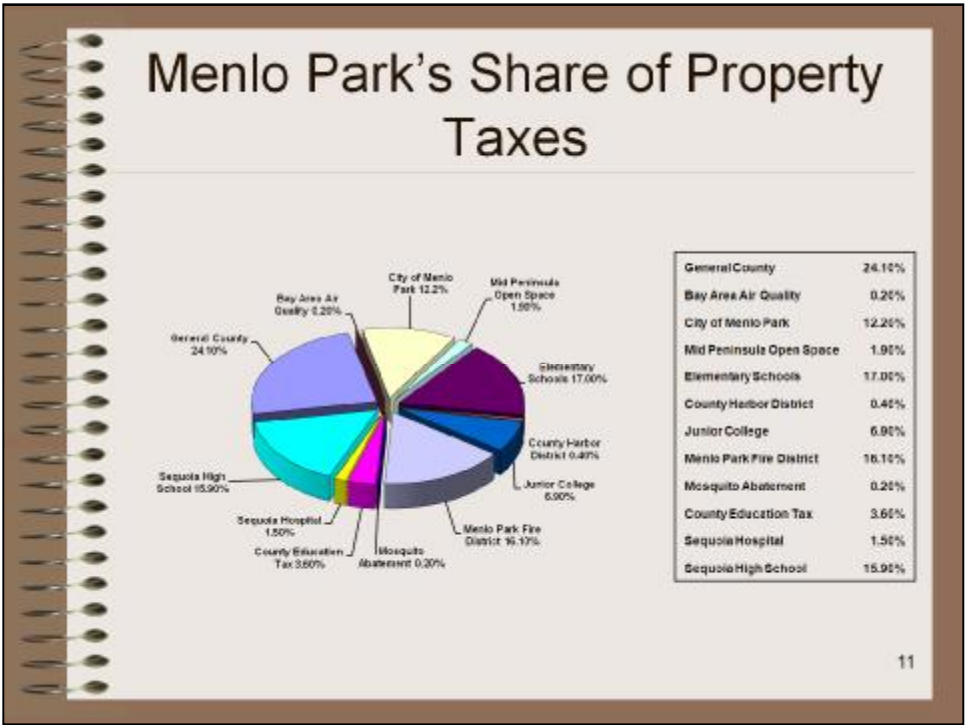
(General Fund only; Does not include transfers in.)

This chart includes the past ten years, plus the preliminary estimated revenues for 2011-12. The Utility Users Tax (UUT) tax (\$1,148,454 for 2009-10 ;\$1,122,940 for 2010-11 and \$1,249,000 estimated for 2011-12) and the TOT (Hotel Tax) (\$2,074,486 for 2009-10 ; \$2,453,981 for 2010-11 and \$2,580,000 estimated for 2011-12) are included in "Other Taxes".



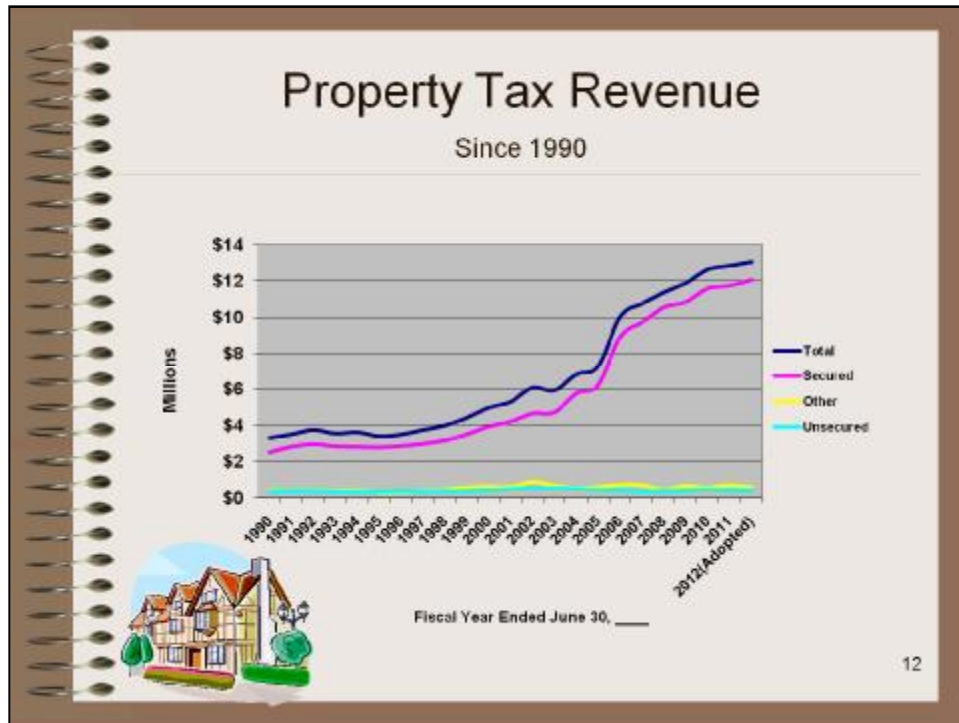
(Chart shows General Fund only; does not include transfers in.)

Total General Fund revenues budgeted for 2011-12 increased moderately from the prior year as a result of the very slow recovery in the economy.



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.

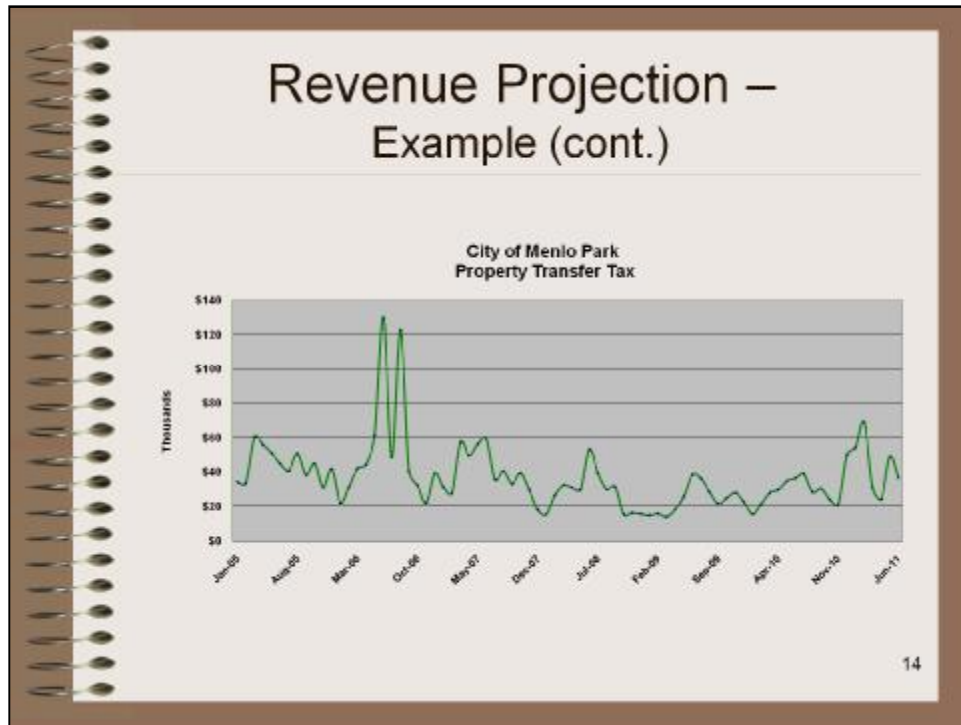
Property tax growth prior to the housing downturn was attributable to the resale of existing residential properties. The high median price of homes in the area coupled with strong residential property turnover, (which triggers reassessments) kept these revenues growing even through the 2001-2005 downturn. Growth continues to slow for the next few years as the housing market stabilizes.

Revenue Projection – Example

	2009-10	2010-11	2011-12	2011-12	2011-12
Taxes	Actual	Actual	Adopted Budget	Mid-year Adjustment	Adjusted Budget
1001 - Secured Property Tax-Current	11,563,259	11,724,140	12,040,000	0	12,040,000
1002 - Supplemental Tax	149,550	145,489	100,000	0	100,000
1003 - Unsecured Personal Prop Tax	472,082	393,250	400,000	0	400,000
1004 - Redemptions- Property Tax	27,149	26,549	15,000	0	15,000
1005 - Property Transfer	329,368	457,702	400,000	0	400,000
1006 - Homeowners Prop Tax Rel.	62,334	64,194	66,000	0	66,000
Total Property Taxes	12,603,742	12,811,324	13,021,000	0	13,021,000

13

The Secured Property Tax is obviously the largest of the six components, accounting for 90% of total Property Tax revenues. Property Transfer Tax is the most volatile component.



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 properties). An upswing during January through March of 2011 also represents sale of large commercial areas.

However, average monthly receipts have dropped in recent years with decreased activity in home sales.

Menlo Park's Share of Sales Taxes

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

6.25%	State of California
1.00%	City Local Tax
.25%	County Transportation Funds
.75%	County and City Operations
<hr/>	
8.25%	Total rate



15

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.



(General Fund only shown)

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

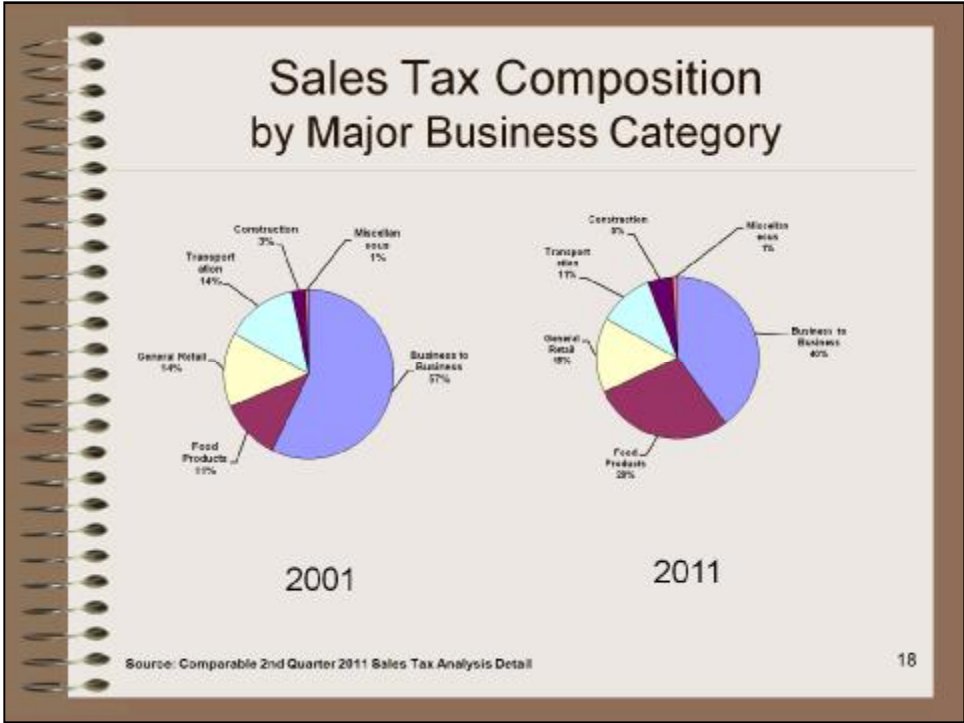
During 2004-2011, sales tax revenue did not rebound as much as in other cities due to the relocation of auto dealerships and the recent sale of the Sun Microsystems/Oracle site. Sales Tax revenues for the City decreased 22% from fiscal year 2007-08 to 2009-11.

Menlo Park's Sales Tax Generators

- By business category:
 - Business To Business 41%
 - Food Products 27%
 - General Retail 15%
 - Transportation 12%
 - Construction 4%
 - Miscellaneous Retail 1%

Source: 2nd Quarter 2011 Sales Tax Analysis Detail

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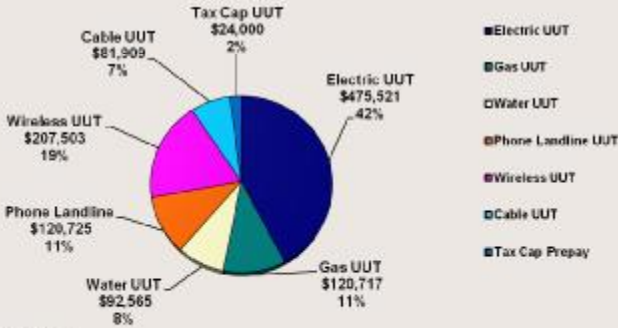


Comparative pie charts show changes in the composition of Menlo Park’s sales tax receipts over the past nine years.

	<u>2001</u>	<u>2011</u>
Business to Business	57%	41%
General Retail	14%	15%
Transportation	14%	12%
Food Products	11%	27%
Construction	3%	4 %
Miscellaneous	1%	1%

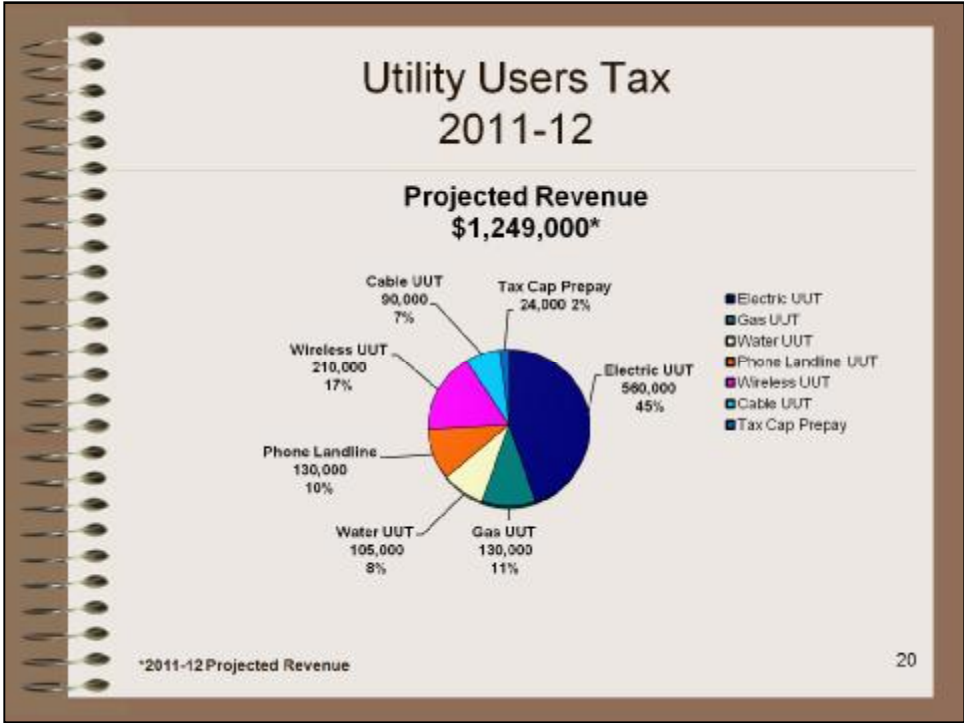
Utility Users Tax 2010-11*

UUT Revenue
\$1,122,940



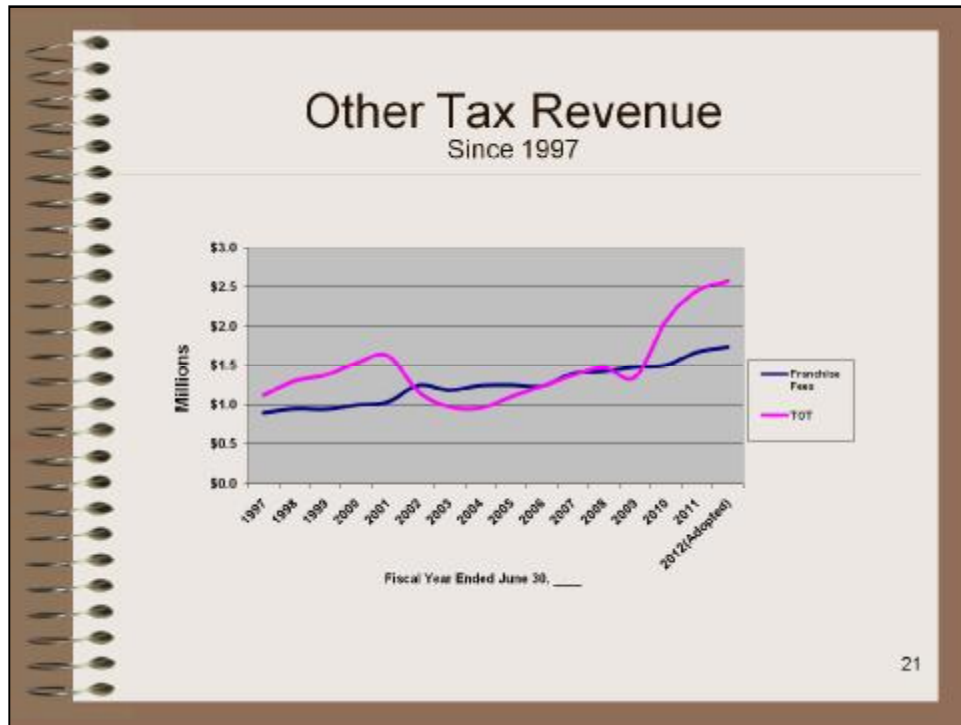
*2010-11 Actual Revenue

Utility User's Tax
Projected revenue at the rate of 1%.



Utility Users Tax

This tax was passed by voters in November 2006 at an initial rate of 3.5% on water, gas and electric utilities and a 2.5% rate on cable and telecommunication use. The tax rate was reduced by Council to a 1% rate for all utilities effective October 2007.



Prior to 1997, TOT and Franchise fees were combined as “Other Taxes” in the City’s Comprehensive Annual Financial Report.

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%. Although hotel revenues have been impacted by the recession, recent growth is attributable to the addition of the Rosewood Sand Hill Hotel and Spa that opened in April 2009.

2010-12 TOT revenue represents about 7% of General Fund budgeted revenue.

A graphic of a spiral-bound notebook with a brown cover and a light-colored page. The page contains the title "Franchise Fees" and a list of franchise types with their respective fees. The total fee is listed at the bottom right. The notebook has a spiral binding on the left side.

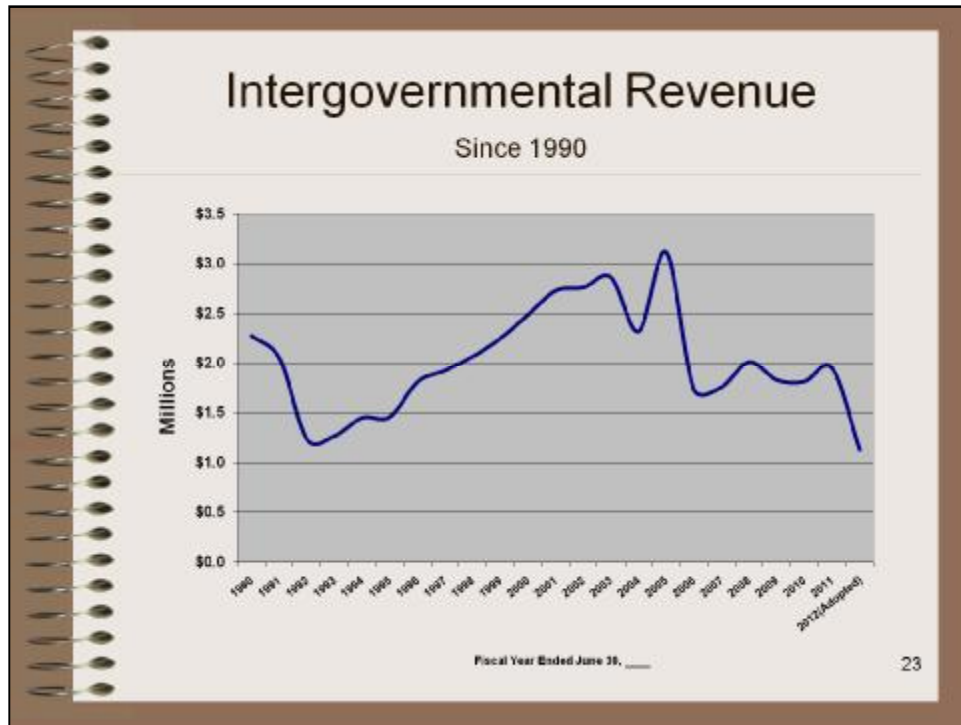
• Garbage Franchise	\$ 450,000
• Electric Franchise	\$ 580,000
• Gas Franchise	\$ 140,000
• Water Franchise	\$ 173,000
• Cable TV Franchise	<u>\$ 400,000</u>
	\$1,743,000

2011-12 Adopted Budget 22

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 source of General Fund revenues.

Franchise fees increased 17% from 2007-08 to 2010-11.



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

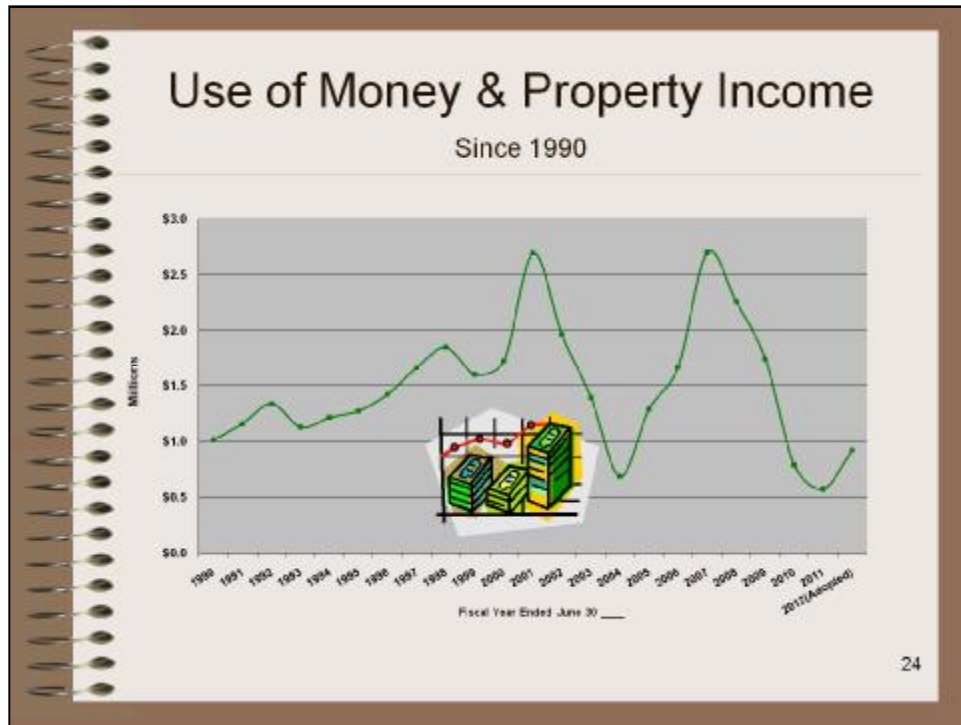
2007-08 – Add’l increase of \$230,000 for full year of Dispatch contract; decrease from 2006-07 of \$250,000 in State Mandated Cost reimbursements

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.

2010-11 – Budget to remain flat from previous year especially State of California grants, with a small increase in Federal Grants of \$4,000.

2011-12 – Decrease (of \$524,000) for dispatch due to the contract with the City of San Carlos dispatch ending in November 2011; budget for Motor Vehicle In-Lieu fee for 2011-12 is zero based on the State funding COPS program.

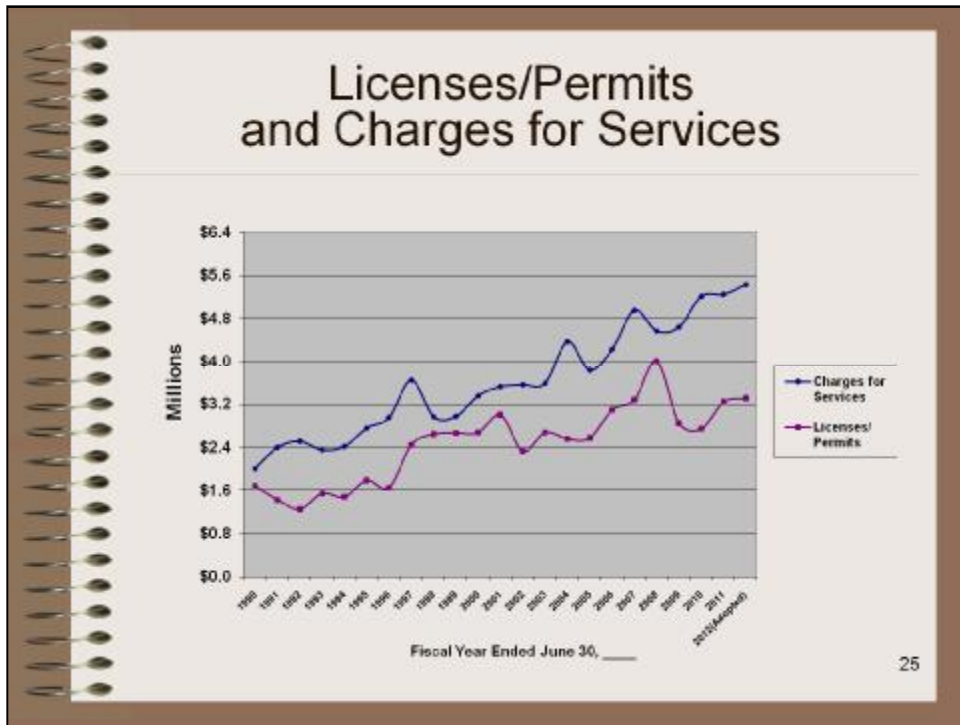


(General Fund only shown)

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. In addition, interest rates have plummeted with the 2007-08 crisis and the financial markets are expected to remain at a low level in the next few years.

For 2011-12, approximately 39% of this category is Rental Income.



(General Fund only shown)

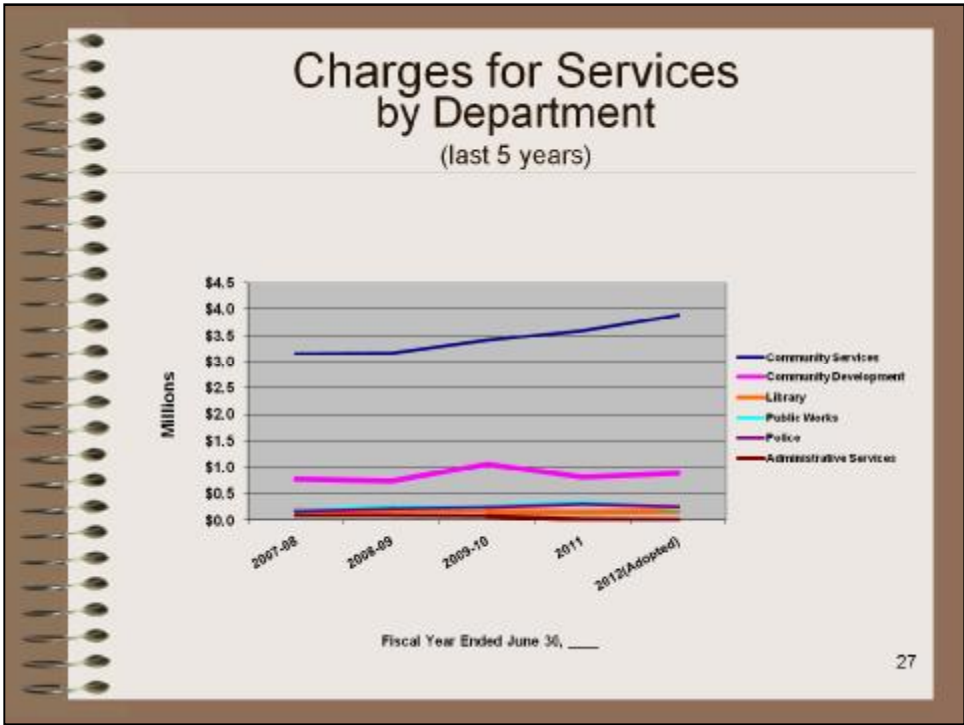
Licenses and Permits are issued to regulate activities within the City’s jurisdiction. These charges are to cover the costs of these regulatory services and programs. Recent decreases in these revenues are the result of less development and business activity during the economic downturn.

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 Total =\$5,425,265

• Include:	<u>2011-12</u>
– Resident Recreation Fees	\$2,197,965
– Non-Resident Recreation Fees	174,300
– Child Care Fees	903,000
– Recreation Rental Income	416,050
– Library Book Fines	159,000
– Planning Fees	680,000
– Alarm Citation Fees	100,000



(General Fund only shown)

Licenses & Permits



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	\$ 170,000
• Red Flex – Red-light Violations	\$ 200,000
• Parking Violations	<u>\$ 600,000</u>
Total 2011-12 budget	\$ 970,000



Other Financing Sources

Transfers In – Transfers from other funds for General Fund overhead (2011-12):

- Community Development Agency	\$ 304,959
- Water Fund	\$ 170,606
- Garbage Service Fund	\$ 76,309
- Landscaping/Tree Assessment	\$ 59,454
- Storm Water Management	\$ 33,917
- Other Transfers	<u>\$ 42,330</u>
Total	\$ 687,575



2011-12 Adopted 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



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)

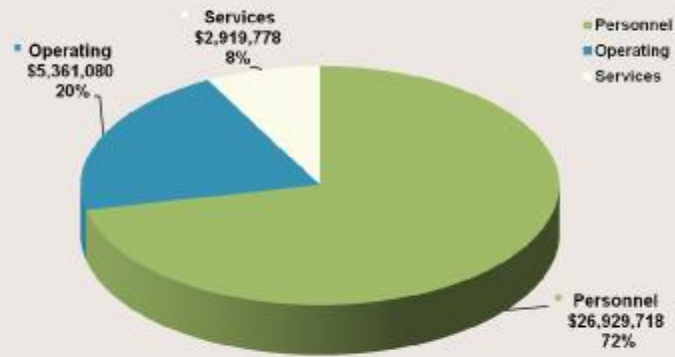
- **Utilities** - based on historical trends, known factors such as new facilities, and Public Utilities Commission (PUC) approved rate changes.
- **Allocated Costs** - Based on rates set for Equipment Maintenance and Self-Funded Insurance in Internal Service funds.
- **Transfers Out** - Based on estimates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



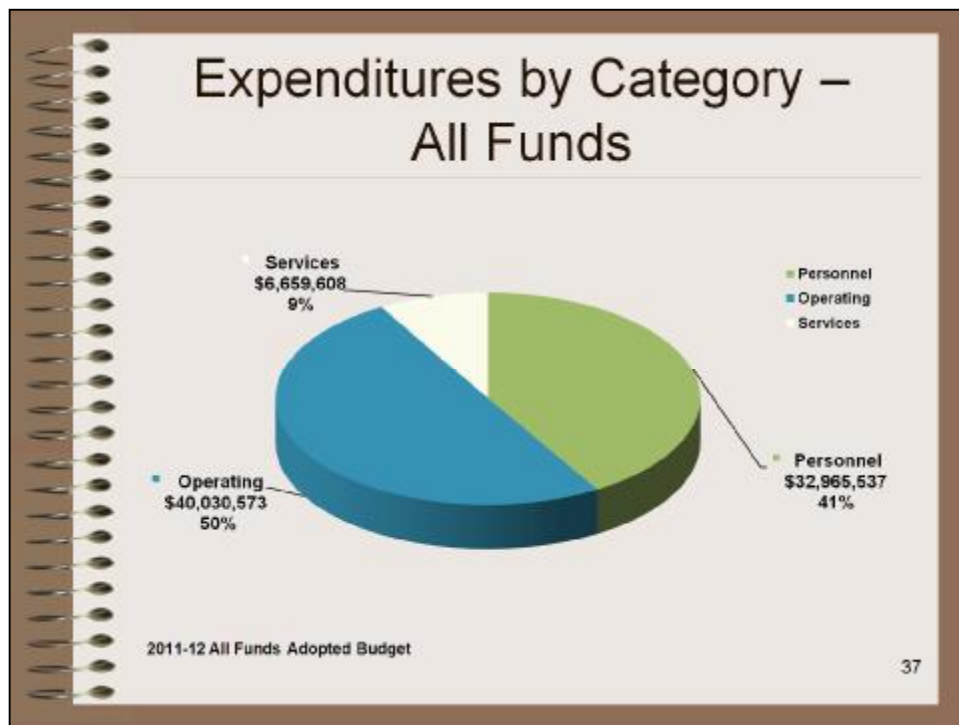
(General Fund only shown)

Estimates for 2011-12 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 in every fiscal year.

Expenditures by Category

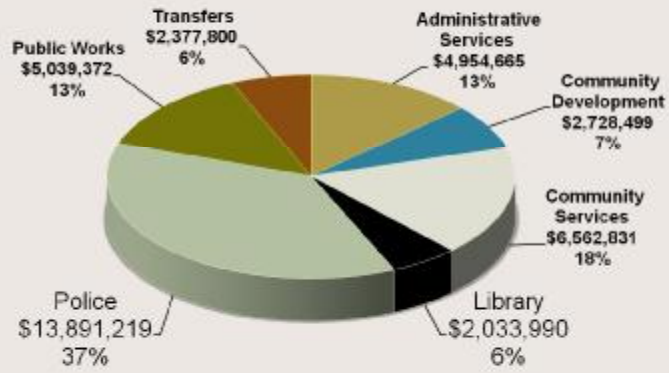


2011-12 General Fund Adopted Budget



This chart shows the magnitude of the City's Budget when all funds are considered – including capital expenditure funds and debt service. For 2011-12, total funds managed amounts to \$80 million.

Expenditures by Department – General Fund

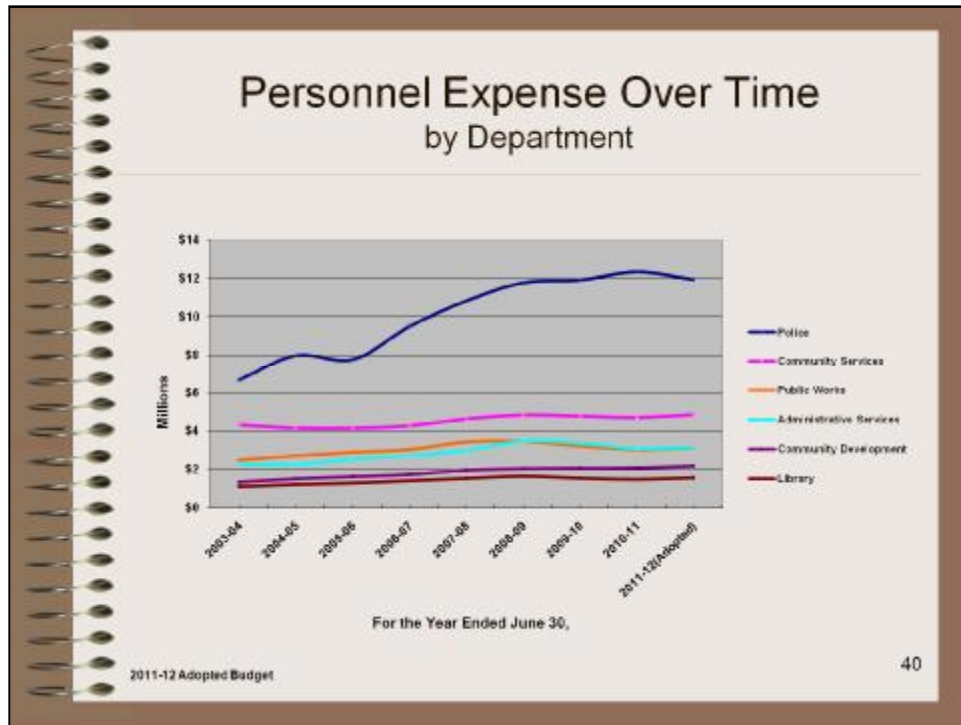


2011-12 General Fund Adopted Budget

38



(General Fund only shown)
 2011-12 estimate reflects budget year-to-date.



(General Fund only shown)

Actual personnel expenses in Police declined in 2005-06; 2011-12 reflect budget prior to any mid-year adjustments.

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 expenses. 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** = 71% of personnel cost
- Benefit levels and rates
 - **Benefits** = 29% of personnel cost
 - Retirement = 42% of benefit cost
 - Health care = 31% of benefit cost

2011-12 All Funds Projected Budget

41

Based on City-Wide costs (All Funds)

Source of Personnel Savings

- **Vacancy Rate**

- Budgets usually reflect full staffing
- Actuals reflect vacancies, leave w/o pay
- 5.6% 2007-08; 3.2% 2008-09
- 5.7% 2009-10; 5% 2010-11; 4% 2011-12(est.)

- **Salary levels**


- Budgets reflect negotiated contracts, estimates of costs in both wages and benefits

42

(City wide)

**Number of Employees
All Funds**

- 236.75 FTEs in 2011-12 adopted budget
- Number of employees by department:
 - Administrative Services: 28.49
 - Community Development: 16.21
 - Community Services: 50.74
 - Library: 13.75
 - Police: 73.75
 - Public Works: 53.81

 43

2011-12 Adopted Budget

Administrative Services includes five FTE representing City Council.

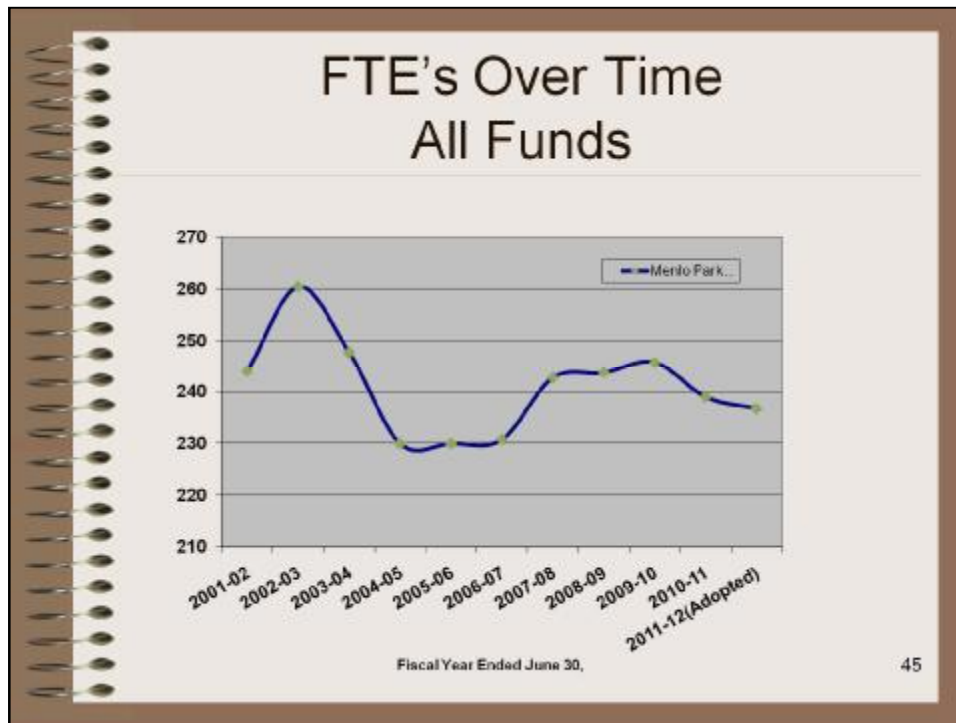
Number of Employees All Funds

• Number of employees by unit:	
- Management:	13.00
- Confidential:	3.00
- AFSCME:	34.00
- PMA:	8.00
- POA:	36.00
- SEIU:	136.75
- Council:	5.00
- Attorney:	<u>1.00</u>
TOTAL	236.75

2011-12 Adopted Budget

44

2011-12 budgeted number of employees is 236.75, this is fewer than the previous year budgeted amount of 239; reflecting a decrease of 2.25 positions.



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

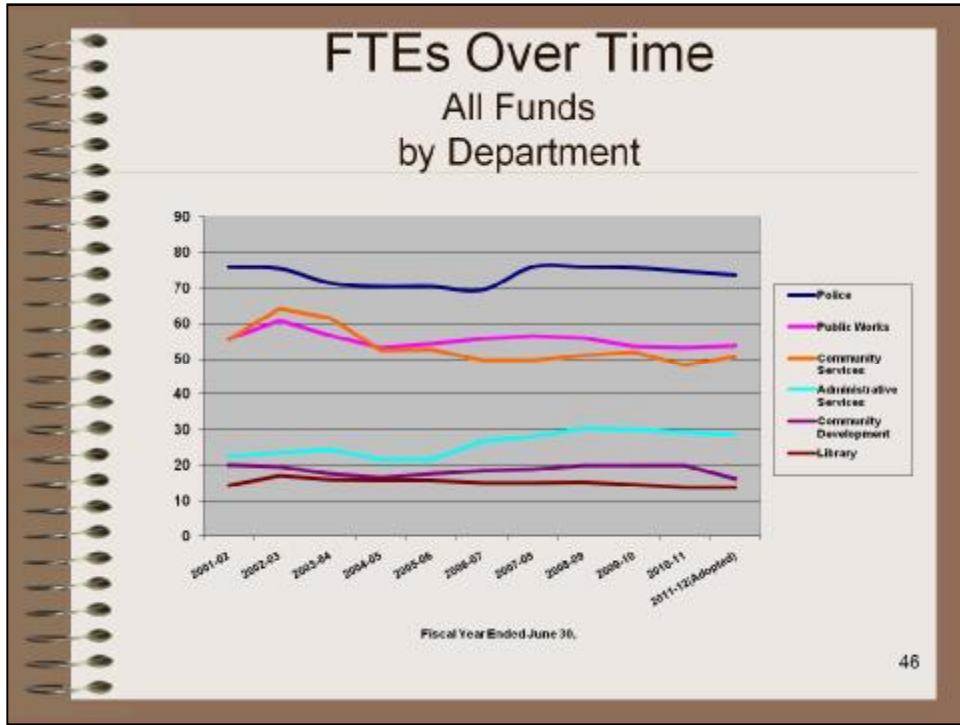
- Financial Reporting
- Traffic Law Enforcement (2)
- Transportation projects
- Land & Building Development Services

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,

In developing the budget for 2010-11, key budget strategies were implemented, restructuring for efficiencies as positions became available. This has allowed for a decrease of 6.75 positions from the 2009-10 fiscal year.



FTE – Full Time Equivalents, permanent employees only..

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



47

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 of approximately \$581,000 for fiscal year 2011-12
- Funded by payroll “surcharge” of 3%; 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”.

Encumbrances

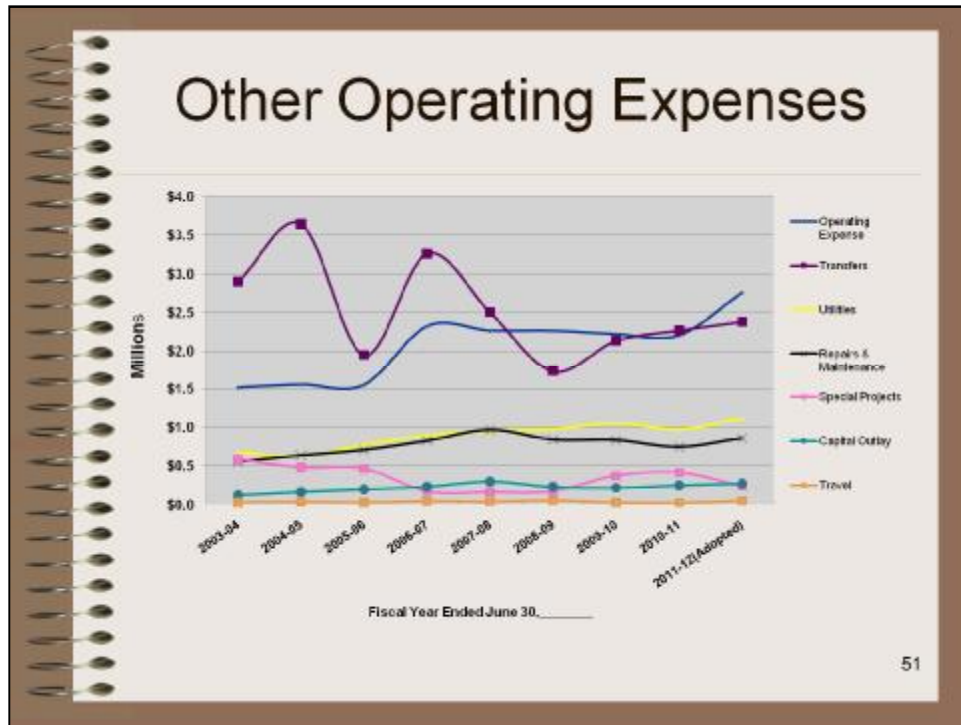
Encumbrances – are shown as a “assignment” of fund balance; that portion of the fund balance that is legally *committed* – i.e, is no longer available for appropriation.



(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 as the first budget revision of the fiscal year’s budget.

At year-end, funding for commitments must remain in the budget, but are not shown as “spent” in the CAFR (Comprehensive Annual Financial Report.)



(General Fund only shown)

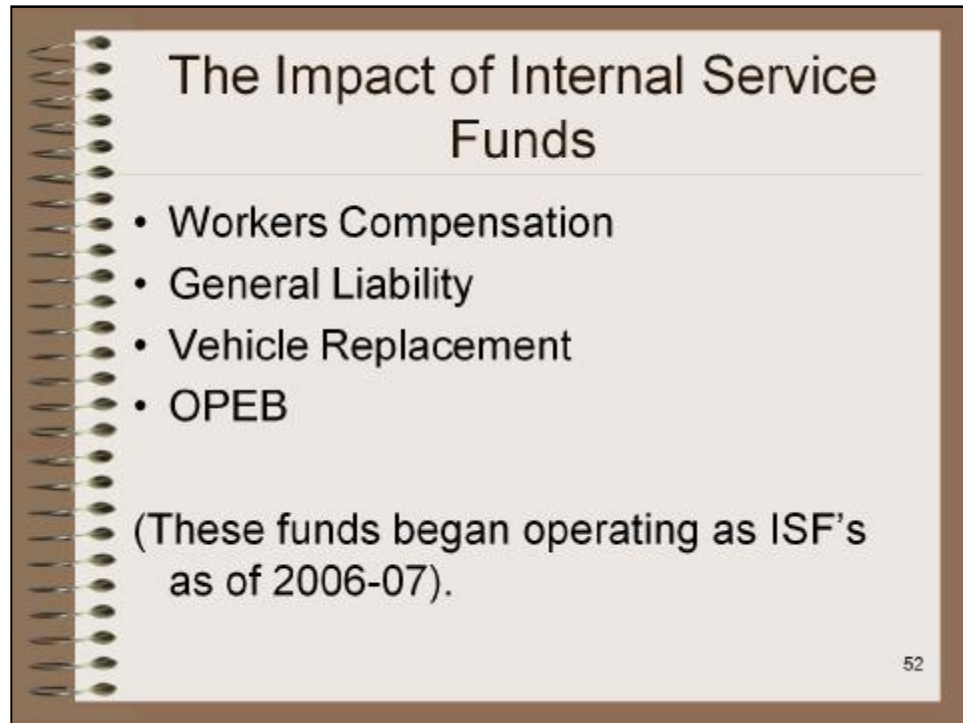
Includes transfers out for infrastructure maintenance (\$1.918 million in 2009-10)

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.

2011-12 transfers out reflect \$2,163,200 to Capital Improvement Fund for infrastructure maintenance. This amount reflects full funding of this long-term liability, a key component in the City's development of a sustainable budget.



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.

2011-12 General Fund Budget Transfers Out

- Transfer to the General Capital Improvement Fund for Infrastructure maintenance - \$2,163,200
- Match Literacy Grants - \$55,000
- General Fund's Landscaping/Tree Assessment - \$159,600

(2011-12 Adopted Budget)

53

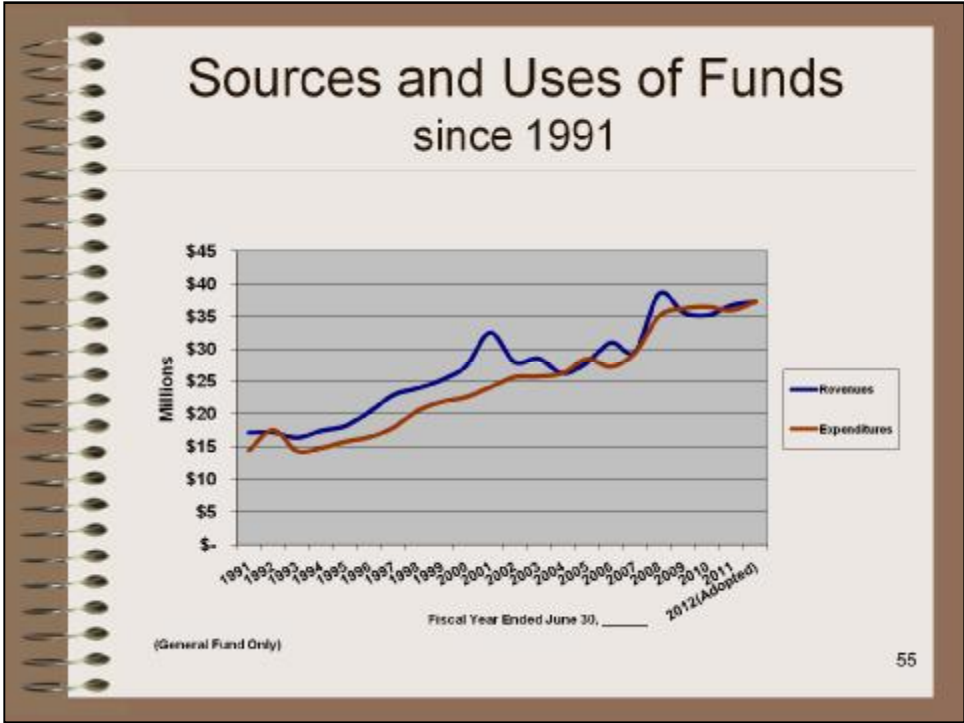
Infrastructure Funding

- \$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



54

The inclusion of this transfer as an annual cost in the General Fund budget is unique to the city of Menlo Park as a key component of a sustainable (long-term) budget.



(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
- For more information about the City budget or questions, call Finance at:
650-330-6640

