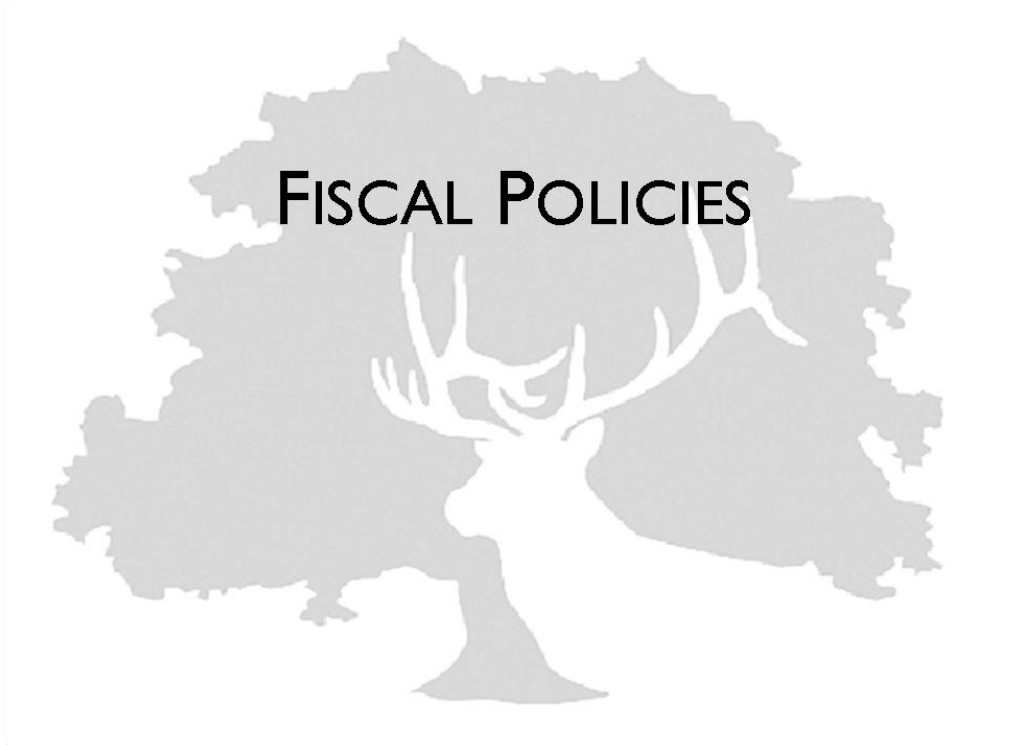


ANNUAL BUDGET
Fiscal Year 2009-2010



FISCAL POLICIES

The overall goal of the City's budget is to establish and maintain effective management of the City's resources. Formal statements of budget policy and major goals provide the foundation for effective planning.

Overview

Some of the benefits to establishing financial policy include:

- Publicly adopted policy statements contribute greatly to the credibility of and public confidence in the City. For the credit rating industry and prospective investors, such statements show the City's commitment to sound financial management and fiscal integrity.
- Established policy saves time and energy. Once decisions are made at the policy level, the issues do not need to be discussed each time a decision has to be made.
- The process of developing overall policy directs the attention of staff and Council to the City's total financial condition rather than single-issue areas. Moreover, this process requires staff and Council to think about linking long-term financial planning with day-to-day operations.
- Developing financial policies reinforces the Council's policy role in maintaining a positive financial condition. Setting sound financial policies can improve the City's fiscal stability by setting a forward-looking approach to planning while contributing to continuity in handling the City's financial affairs.

Fund Structure

The annual budget is divided into many separate funds with a specific purpose. Understanding the City of Elk Grove's fund structure is the basis for interpreting the City's finances. As such, the budget document is divided into the following categories:

General Fund – 100 Series

This is the City's main operating fund, which pays for basic services such as governance, administration, public safety, and quality of life functions.

Special Revenue Funds – 200 Series

These funds account for revenues received or set aside for a specific purpose, such as public safety and recycling grants, street maintenance, and environmental mitigation. The Development Services fund, one of the City's major funds, is categorized as a special revenue fund.

Capital Project Funds – 300 Series

These funds account for the acquisition or construction of major capital facilities. Revenue sources include federal and state grants, development impact fees, and special taxes from community facility districts.

Debt Service Funds – 400 Series

These funds accumulate resources for and make the payment of long-term debt principal and interest.

Enterprise Funds – 500 Series

These funds account for specific services funded directly by fees and charges to users and are intended to be self-supporting. Functions such as transit, drainage, and integrated waste are captured in enterprise funds.

FISCAL POLICIES

Internal Service Funds – 600 Series

These funds are created to finance and account for services and commodities provided to internal City departments, rather than directly to the public. Examples of internal services are risk management, information technology, facilities management, and fleet services.

Agency Funds – 700 Series

These funds are used to account for assets held by the City as an agent for individuals, other governments, and other organizations.

Budget Strategies

- Strategic Focus – The City’s financial management should be strategic, reflecting the Council’s and the community’s priorities for service while providing resources that realistically fund routine operations.
- Fiscal control and accountability – The City’s financial activities should be fiscally sound and accountable to the City Council through the City Manager.
- Clarity – The City’s financial planning and reporting should be clear and easy to understand so that all participants, the Council, the community, and staff can productively participate in making good decisions.
- Long-term planning – The City’s financial planning should emphasize multi-year horizons to promote long-term planning of resource uses.
- Flexible and cost effective responses – The City’s financial management practices should encourage a mission-driven organization that responds quickly and straightforwardly to community demands. The City’s management should flexibly respond to opportunities for better service, should proactively manage revenues, and should cost-effectively manage ongoing operating costs.
- Staff philosophy – The City Council desires to retain a mix of contract staff and employment staff in order to ensure a cost effective and flexible service delivery system. A core group of City employees create the oversight and administrative guidance necessary for contractual staff.

Major City Goals

The involvement of the City Council in setting major City goals is essential to the budget process. These goals provide short-term and long-term direction to staff, determine the allocation of resources, and establish priorities. These goals will provide focus to the organization-wide efforts of staff and ensure that the most important, highest-priority objectives are accomplished and that these priorities are communicated to the public.

Financial Plan Organization

Through its financial plan, the City will:

- Identify community needs for essential services.
- Establish policies and goals which define the nature and level of services required.
- Identify and organize activities required to provide these services.

FISCAL POLICIES

- Propose objectives for improving the delivery of services.
- Set standards to measure and evaluate the output of activities, accomplishment of objectives, and expenditure of appropriations.

The status of major program objectives will be reported to the Council who will review and amend appropriations as necessary to achieve these objectives.

Financial Activity Reporting

The City's financial activity will be reported in a variety of funds, which are the basic accounting and reporting entities in governmental accounting. The City's accounting structure will make it possible:

- To present fairly and with full disclosure the financial position and results of financial operations of the funds of the City in conformity with generally accepted accounting principles and government auditing standards.
- To determine and demonstrate compliance with finance-related legal and contractual provisions.

Annual Budget and Financial Plan

The City Manager will present an annual budget and financial plan and periodic financial information to the City Council setting from the following information;

- Actual revenues, expenditures, reserve balances, and fund balances for the prior fiscal year. Fund balance is the difference between assets and liabilities in any given fund.
- Estimated revenues, expenditures, reserve balances, and fund balances for the current fiscal year.
- Projected revenues, expenditures, reserve balances, and fund balances for the next fiscal year.
- Articulated priorities and service levels to be achieved by the organization over the next year.
- Long-range financial plan, which will include projected revenues, expenditures, and reserve balances for the next seven years.
- Capital Improvement Program for the next five years.

Budget Development and Administration

The City's annual budget represents the official financial and organizational plan by which City policies and programs are implemented. It is also an action and financial plan of services to be provided to the citizens of Elk Grove.

Development

The budget is prepared by City staff under the direction of the City Manager. The annual budget process commences in January with the City Manager and the Budget Manager providing to the department managers information on the financial condition of the City and establishing general parameters for budget submittal.

FISCAL POLICIES

The department managers prepare their operating and capital budget requests in accordance with the general parameters. The City Manager, along with the budget review team, reviews each manager's requests and proposals and formulates them into a "Proposed Budget" for submission to the City Council. The proposed budget is balanced when expenditures are equal to or less than the sum of total revenues and the use of reserves, according to Council adopted policy.

Budget study sessions between the City Council, City Manager and City staff are scheduled in April or May. In May or June, a public hearing is scheduled by the City Council to receive public input for consideration regarding the proposed budget. The budget is then adopted by Council Resolution and becomes the City's action plan for the ensuing fiscal year. If the City Council fails to adopt the budget by July 1, the City Council may elect one of the following courses of action until passage of a budget and the appropriation of funds:

- Provide the City Manager with Continuing Resolution Authority to allow continued services at expenditure levels not greater than those levels approved in the prior year budget; or
- Require staff to obtain prior approval for the expenditure (disbursement) of City funds.

Copies of the City budget as adopted are public records and shall be made available to the public upon request.

Appropriation Control

Appropriations of fiscal resources are the responsibility of the City Council and the City Manager.

Appropriations requiring Council action are:

- Appropriation of reserves, except replacement reserves
- Transfers between funds
- Appropriations of any unassigned revenues – assigned revenues are those revenues that are not associated with a particular business or service unit
- Inter-fund multi-year loans over \$500,000

Appropriations requiring City Manager action are:

- Transfers within a fund or department
- Appropriation of unbudgeted assigned revenues – unassigned revenues support a specific business or service unit and allow expansion or contraction of that unit in response to demand as manifested by receipt of assigned revenues
- Appropriation of replacement reserves
- Inter-fund loans under \$500,000

FISCAL POLICIES

Administration

City departments perform the following budgetary control functions:

- Reviews purchasing transactions and payment requests for compliance with City rules, regulations, and budgetary limits;
- Administers the City's payment system to review, process, and pay purchasing transactions and expense claims;
- Receives and deposits all City receipts, which are invested by the elected City Treasurer;
- Maintains records for all these transactions and their effect on cash balances;
- Maintains a position control system, based on the budget, to control City staffing in conjunction with the City Manager Department;
- Administers the City's payroll system to process personnel transactions and to review and pay personnel expenses.

Monthly detail budget reports are prepared and distributed to the City Council, department managers, and support staff. These reports are organized by department, division, and line item showing the authorized budget amount as well as expenditures and encumbrances to date. As a matter of policy, expenditures are not to exceed the appropriated budget. In the course of the fiscal year, it may become necessary to amend, transfer, or adjust the amounts appropriated in the adopted budget. Any subsequent appropriation of additional monies for a fiscal year requires approval by the City Council, as does the transfer of appropriations between departments in the operating budget or between capital project accounts.

Fees and Rates

Ongoing Review

Fees and rates will be reviewed and updated on an on-going basis to ensure that they are correct and appropriate based on the changing needs of the community, including economic concerns, social issues, and public safety.

General concepts regarding the use of service fees and rates include:

- Revenues normally will not exceed the reasonable cost of providing the service.
- Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide costs such as accounting, personnel, data processing, vehicle/building maintenance and insurance.
- The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service and the influence rates and fees have on economic development.
- A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

FISCAL POLICIES

Fund Balance Designations and Reserves

The City strives to maintain adequate fund balances in the General Fund. This is necessary to maintain the City's credit worthiness and to adequately provide for:

- Economic uncertainties, local disasters, and other financial hardships or downturns in the local economy;
- Contingencies for unforeseen operation or capital needs; and
- Cash flow requirements.

The City establishes and maintains Facilities Improvement and Equipment Fund to provide for the timely replacement of capital equipment and public facilities. The minimum fund balance in these funds should allow for annual fluctuations in expenditures while maintaining a level annual transfer and allow for emergency replacement purchases. Interest earnings and sales of surplus equipment, as well as, any related damage and insurance recoveries will be credited back to these funds to reduce the need for other revenue enhancements.

Fund balance levels will be sufficient to meet funding requirements for projects approved in prior budgets that are carried forward into the new year. Sufficient fund balances will also be maintained to meet debt service reserve requirements, reserves for encumbrances, and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

Appropriation Limitation

The Council will annually adopt a resolution establishing its appropriation limit calculated in accordance with Article XIII B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter-approved amendments of state legislation that affect the City's appropriation limit.

The City will strive to develop revenue sources, both new and existing, which are considered non-tax proceeds in calculating its appropriations subject to limitation.

Investments

Investment and cash management will be the responsibility of the Administrative Services Director/City Treasurer or designee. The City Treasurer will develop and maintain an Investment Policy which addresses the City's administration of its portfolio, including investment guidelines, practices, and procedures. Additionally, the Treasurer will develop and maintain a comprehensive, well-documented investment reporting system which complies with Government Code Section 53607. The City's primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default. Accordingly, the following factors will be considered, in priority order, in determining individual investment transactions:

- Safety
- Liquidity
- Yield

FISCAL POLICIES

The City will strive to keep idle cash balances fully invested through daily projections of cash flow requirements. To avoid force liquidation and loss of investment earnings, cash flow and future liquidity needs will be the primary consideration when selecting maturities. As the market and the City's investment portfolio change, care will be taken to maintain a healthy balance of investment types and maturities.

The City will invest only in those instruments authorized by the California Government Code Section 53601. The City will not invest in stock, will not speculate, and will not deal in futures, options or reverse repurchase agreements. The investment market is highly volatile and continually offers new and creative opportunities for enhancing interest earnings. Accordingly, the City will thoroughly investigate any new investment vehicles prior to committing City funds to them. Ownership of the City's investment securities will be protected through third-party custodial safekeeping.

In order to maximize yields from its portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.

Capital Financing and Debt Management

Capital Financing

The City will consider the use of debt financing for capital projects and under the following circumstances:

- When the project's useful life will exceed the term of the financing.
- When project revenues or specific resources will be sufficient to service the long-term debt.
- Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation.

Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes, or developer agreements when benefits can be specifically attributed to users of the facility. The City will use the following criteria to evaluate "pay-as-you-go" versus "long-term financing" in funding capital improvements:

Pay-As-You-Go

- When current revenues and adequate fund balances are available or when project phasing can be accomplished.
- When debt levels adversely affect the City's credit rating.
- When market conditions are unstable or present difficulties in marketing.

Long-Term Financing

- When revenues available for debt service are deemed sufficient and reliable so that long-term financing can be marketed with investment grade credit ratings.
- When the project securing financing is of the type which will support an investment grade credit rating.

FISCAL POLICIES

- When market conditions present favorable interest rates and demand for City financing.
- When State or Federal requirements and current revenues mandate a project and available fund balances are insufficient.
- When the project is required to meet or relieve service requirements.
- When the life of the project or asset financed is 10 years or longer.

Debt Management

The City will not obligate the General Fund to secure long-term financing, except when the marketability can be significantly enhanced. A feasibility analysis will be prepared for each long-term financing to assess debt service on current and future operations. This will also include an analysis on the reliability of revenues to support a debt service.

The City will generally conduct debt financing on a competitive basis. However, negotiated financing may be used due to market volatility or the use of an unusual or complex financing or security structure. The City will seek investment grade ratings (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

The City will monitor all forms of debt annually coincident with the budget process. This process will include monitoring compliance with bond covenants and ensuring adherence to federal arbitrage regulations.

The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).

Capital Improvement Budget

The Capital Improvement Budget will emphasize project planning, with projects progressing through at least two and up to six of the following phases:

Designated - Set-aside funding for future project development under "pay-as-you-go" financing.

Study - Includes concept design, site selection, feasibility analysis, schematic design, environmental determination, property appraisals, scheduling, grant application, grant approval, and specification preparation for equipment purchases.

Acquisition - Includes equipment purchases and property acquisition for projects, if necessary.

Design - Includes final design, plan and specification preparation, and construction cost estimation.

Construction - Includes bid administration, construction, project inspection and management, and closeout.

Debt Service - Installment payments of principal and interest for completed projects funded through debt financing.

FISCAL POLICIES

Funding and related appropriations to a project account will only be made upon approval of each phase by the City Council. Accordingly, project appropriations for acquisition and construction will generally be approved when contracts are awarded.

Personnel Resource Management

Regular employees are the core work force and the preferred means to staff ongoing, year-round activities. Where possible and justified, the City strives to provide fair compensation and benefit schedules for its regular work force. Each regular employee will:

- Fill an authorized position.
- Receive salary and benefits consistent with the labor market.

To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:

- The City Council will authorize all regular positions.
- Human Resources will coordinate the hiring of all employees and evaluate the reallocation of existing positions.

All requests for additional regular positions will be supported by an explanation as to the necessity, term, and expected results of the proposed position; staffing and material costs including salary, benefits, equipment, uniforms, clerical support and facilities; and cost effectiveness (additional revenues or cost savings which may be realized).

Part-time or temporary employees are employees other than regular employees, elected officials, and volunteers. Part-time or temporary employees will augment regular staffing only as limited-term employees, seasonal employees, emergency, intermittent, contract employees, and interns.

Temporary employees will be used to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less-than-regular, year-round staffing is required. Independent contractors will not be considered City employees. Independent contractors may be used in three situations:

- Short-term, peak workload assignments to be accomplished through the use of personnel contracted through an outside employment agency. All placements through an outside employment agency will be coordinated through the Administration Department.
- Construction of public works projects and the provision of operating, maintenance, or specialized professional services not routinely performed by City employees. Such services will be provided without close supervision by the City staff, and the required methods, skills, and equipment will generally be determined and provided by the contractor.
- When it is determined that work can be completed affectively and cost efficiently through the use of contractors. The work performance of the contractors should be periodically evaluated.

FISCAL POLICIES

Productivity Review

The City will constantly monitor and review its methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. The review process encompasses a wide range of issues, a few of which are discussed below.

Maintaining a decentralized approach in managing City's services

Although some level of centralization is necessary for review and control purposes, decentralization supports productivity by:

- Encouraging accountability by delegating authority to the lowest possible level.
- Stimulating creativity, innovation, and individual initiative.
- Reducing the administrative cost of operation by eliminating unnecessary review procedures.
- Improving the organization's ability to respond to changing needs and to identify and implement cost saving programs.
- Assigning responsibility for effective operations and citizen responsiveness to the department.

Analyzing systems and procedures

This analysis provides a means to identify and remove unnecessary review requirements. The process includes investing in the City's most valuable asset, its employees, by developing the skills and abilities of all City employees. This process also recognizes that those who perform the function are a vital part of the process.

Identifying and evaluating the ability of new technologies

As new technology emerges, whether it is in the computer-related or mechanical equipment field, an objective evaluation provides the City with necessary information as to how it may enhance employee efficiency, thereby allowing the City to continue providing high-quality services.

Evaluating local market service providers

An evaluation of other local market service providers, including other government agencies, assists in determining whether the comparable service is available at a lower cost than provided by City staff.

Allocating the Cost of Services

General Policy Guidelines

The City is committed to achieving efficiency by centralizing general administrative services to the extent they serve the needs of the City as a whole and provide for greater cost efficiency. Accordingly, general and administrative services will be charged to those activities not financed by General Fund by use of a cost allocation plan.

Cost Allocation Criteria

Cost will be allocated considering the following criteria:

- Cause and effect - the identification of output in proportion to the service provided.
- Benefits received - the allocation of cost in relation to the benefits received.

FISCAL POLICIES

- Fairness and equity - the allocation must be mutually satisfactory to the parties affected.
- Ability to bear - the allocation of cost must consider the ability to pay and the impact on the services provided.

Purchasing

The City will maintain a purchasing policy designed to support and enhance the delivery of governmental services while seeking to obtain the maximum value for each dollar expended.

Performance Measures

The City Manager will annually develop performance measures and assess how efficiently and effectively the functions, programs, and activities in each department are provided and for determining whether program goals are being met.

Funds of the City of Elk Grove

Governmental accounting systems are organized and operated on a fund basis. A fund is a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances. Funds are used to segregate the City's financial activities in categories that attain certain objectives in accordance with special regulations, restrictions, or limitations.

Basis of Budgeting

The budget is adopted on a modified accrual basis, consistent with generally accepted accounting principles. Under the modified accrual basis, revenues are recognized when they are measurable and available. "Measurable" means the amount can be determined and "available" means collectible within the current period. Expenditures are recorded when the related fund liability is incurred.

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