

# CITY MANAGER'S BUDGET MESSAGE

## CITY OF PETALUMA, CALIFORNIA

July 1, 2006

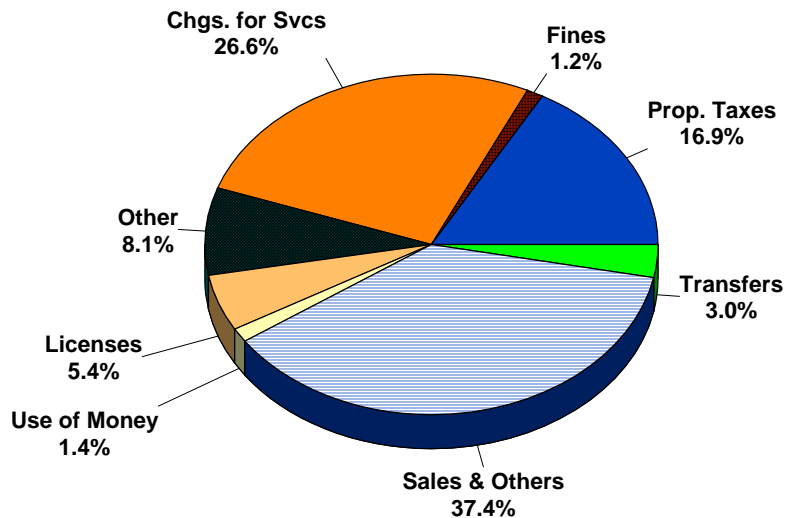
It is my pleasure to present the FY 2006-2007 Adopted City Budget. All component units of the City are combined into one budget document, including the Capital Improvement Program (CIP), and the Petaluma Community Development Commission (PCDC). The budget is balanced and reserves continue to be maintained and held at a reasonable level in spite of the State of California's budget woes and impacts on Petaluma's intergovernmental revenues. General Fund Reserves now total \$2,113,054 which is 5% of General Fund Expenditures. An additional \$5,200,000 is set-aside in restricted and contingent reserves to meet City's future obligations and commitments.

The City has continued the practice of setting aside additional funds in the City's Vehicle Replacement Fund. For Fiscal Year 2006-07 the City is transferring \$200,000 from its General Fund; \$100,000 from its Waste Water Utility Enterprise Fund; and \$100,000 from its Water Utility Enterprise Fund. The City has significantly replaced its older vehicle fleet in most departments. It is the goal of the City over the next few years to build on the vehicle replacement reserves so that replacements can be timed with each vehicle's useful life. The estimated beginning fund balance as of July 1, 2006 is \$2,171,862.

This year's budget continues to be a "bare bones" budget. Revenues have been adjusted modestly along with a fee structure that offsets the cost of providing related city services. Personnel salaries are the greatest costs in the City's general fund.

The approach to the General Fund budget process was consistent with last year's budget. The budget is formulated and based on the "Revenue Approach", whereby an estimate of General Fund Revenues is first determined. Fixed Costs, based on existing staffing levels, including salaries, benefits and intergovernmental charges are then determined. Each department is then requested to submit a budget based on its allocation of General Fund Revenues. The total General Fund Resources were determined to be \$39,250,650. This approach forces each department to maintain its budgets within a determined revenue structure, thus establishing a direct nexus between department expenditures and available resources (revenues).

### GENERAL FUND REVENUES



Initial allocations for departments were based on the net General Fund resources that would be available. The net resources were determined, as follows:

Total General Fund Resources	\$ 38,110,650
Plus:	
Transfers In	<u>1,140,000</u>
Net General Fund Resources	<u>\$ 39,250,650</u>

The allocations were based on the net General Fund resources of \$39,250,650 and were allocated to each General Fund Department. Following is a comparison between the department allocations from Fiscal Year 2005-06 and Fiscal Year 2006-07 (Excluding Transfers):

	<b>2005-06 Adopted</b>	<b>2006-07 Adopted</b>	<b>Change (Under) Over</b>
City Council	\$ 284,450	\$ 286,550	\$ 2,100
City Clerk	338,700	378,850	40,150
City Attorney	357,250	356,300	(950)
City Manager	334,800	300,950	(33,850)
Administrative Services	1,848,150	1,942,100	93,950
General Plan	985,450	221,750	(763,700)
Police	14,511,900	15,010,350	498,450
Fire	7,667,050	7,703,900	36,850
Community Development	2,561,600	1,807,150	(754,450)
Public Facilities and Services	4,953,700	4,874,300	(79,400)
Animal Control	682,350	731,550	49,200
Parks and Recreation	<u>3,950,100</u>	<u>4,072,300</u>	<u>122,200</u>
	<u>\$ 38,475,500</u>	<u>\$ 37,686,050</u>	<u>\$ (789,450)</u>

The FY 2006-07 General Fund budget has increased by \$202,450 over FY 2005-06. Details of the overall increase follow:

	<b>Fiscal Budget Year</b>		<b>Increase (Decrease)</b>
	<b>2007</b>	<b>2006</b>	
Salaries	\$ 20,560,950	\$ 20,397,300	\$ 163,650
Benefits	9,242,500	9,325,000	(82,500)
Services & Supplies	5,157,150	5,949,100	(791,950)
Intragovernmental	2,559,950	2,687,200	(127,250)
Capital Equipment	165,500	150,000	15,500
Reserve for Equity	150,000	-	150,000
Transfers Out	<u>1,188,000</u>	<u>313,000</u>	<u>875,000</u>
Total	<u>\$ 39,024,050</u>	<u>\$ 38,821,600</u>	<u>\$ 202,450</u>

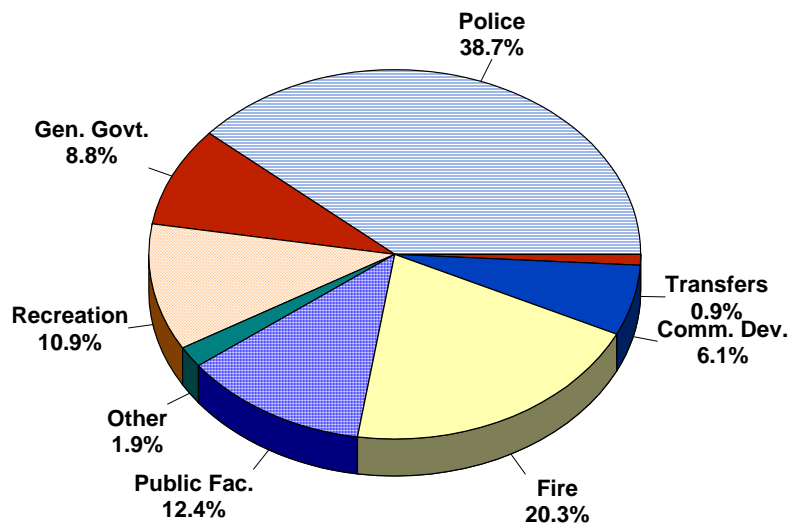
Transfers out are proposed as follows:

Transfers Out:	
Landscape Assessment District Contribution	\$ 13,000
Street Maintenance Fund	500,000
Airport CIP	375,000
Allowance for Retirements	100,000
Vehicle and Equipment Replacement	<u>200,000</u>
Totals	<u>\$ 1,188,000</u>

The total General Fund appropriations were \$39,024,050. This includes a \$150,000 allowance for equity adjustments effective July 1, 2006. This spending plan provides for a slight increase of revenues over expenditures by \$226,600.

### GENERAL FUND EXPENDITURES

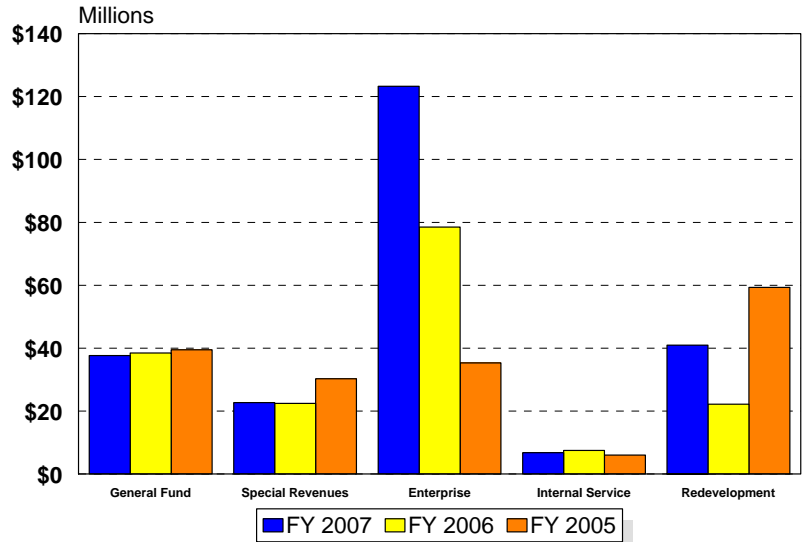
Although this budget includes all funds, emphasis is focused on the General Fund. This fund provides the basic services, which are expected of a local government. These include Police and Fire General Government, Recreational activities, Community Development and Public Works. As can be seen from above, the Adopted General Fund budget is \$202,450 more than the adopted FY 2005-06 budget. Public safety retirement employer costs fell from 34.910% to 29.434%, a 5.48% decrease. For miscellaneous member employees, the City's retirement costs for miscellaneous members fell from 12.537% in FY 2005-06 to 11.489%, a 1.05% decrease.



All nine bargaining groups which include Police (Unit 6), Fire (Unit 7), Public Safety Management (Unit 10), AFSCME Units Confidential (Unit 1), Maintenance (Unit 2), and Clerical/Technical (Unit 3), the non-represented groups Professional (Unit 4), Department Heads (Unit 8), and Mid-Management (Unit 9), completed negotiations for FY 06-07.

## BUDGET BY FUND

Overall, the total FY 2007 budget is presented at \$237,804,368 (all funds-CIP, Enterprise Funds, and PCDC). The budget continues to be based on a sound financial base, although the City continues to rely on sources that will become problematic in the future. These include the heavy reliance on CIP overhead fees (\$4,000,000) or 6% of the budget); overhead charges to the Ambulance Fund (\$551,850 or 2% of the budget); and the Vehicle In-Lieu fees (\$2,500,000) or 7% of the budget.



The Motor Vehicle In-Lieu Fees have been the prime target for exactions by the State to assist in its budget crisis. In Fiscal Year 2004-05, the City expected revenue of \$2,420,000. In Fiscal Year 2005-06, there is a slight increase of 3% to \$2,500,000. However, if the recession continues, then uncertainty is a major factor. Because of these factors, the City needs to pay particular attention to services provided other funds and charge those funds for personnel costs and other services that are provided in order to support various operations to maintain existing levels of service.

Combining this reliance with the significant reliance on sales tax (\$10,600,000 or 29%) of which over 40% is generated from the transportation sector (auto sales) significantly exposes this City's ability to deliver services if a downturn in the economy is prolonged.

Although these are uncertain times, this budget continues to build a strong financial base. The Vehicle and Equipment Replacement Fund continues to be financed with contributions from the General Fund (\$200,000), Water (\$100,000) and Waste Water (\$100,000). This program will be fully implemented (although not fully funded) by FY 2007 with charges being applied to each department based on their vehicle inventory and replacement costs.

## FINANCIAL AND OPERATIONAL POLICIES

During the preparation of the budget, cost reductions or revenue increases needed to be identified in the face of an economy in recession:

- ❑ Limited growth in revenue sources including development fees, sales taxes and property tax.
- ❑ Anticipated funding of retirements that are being addressed with regular contributions to the Employee Benefits Fund from the affected funds.
- ❑ Increase demand for services and repairs to the existing infrastructure without the attendant increase in resources to pay for them.
- ❑ Increased demand on Public Services and Facilities.
- ❑ All salary or wage increases for negotiated contracts are included.
- ❑ Covering the cost of medical insurance premiums – approximate cost increase was 15%. Part of this cost will be offset by the City staff who are paying 5% of the medical benefit.
- ❑ Decreased Workers' Compensation costs of \$470,250.
- ❑ Although the PERS rates below shows a decrease, salary increases offset the decrease. Consequently, we anticipate no net change for FY 2007.

	<b>% FY 06-07</b>	<b>% FY 05-06</b>	<b>% Increase</b>
Public Safety	29.434%	34.910%	-5.476%
Miscellaneous	11.489%	12.537%	-1.048%

- ❑ Intragovernmental allocations to the Internal Service Funds have been fully expensed.
- ❑ Worker's Compensation negative reserve balance of approximately \$500,000 has turned into an estimated positive of \$45,000.

This has not been an easy year for the departments, but overall service levels will remain adequate and layoffs have been avoided.

Staff plans to enact fee increases for all City services in late summer, which should improve the currently proposed revenues.

There are several new and continued programs, initiatives, or issues contained in the preliminary budget:

- Expenditures and revenues of \$1.3 million have been removed from the General Fund to create a Community Development Department Enterprise fund. This fund will be used to track full cost recovery of 4 FTE's through improved charging of fees to developers for services provided. The Council received a report at the end of FY 2005 detailing how the Community Development Department enterprise would function. This is the first phase of implementation. This was a goal for FY 2006, which can be implemented with the new budget.
- Gas Tax revenue from the State of California has been transferred to the Street Maintenance Fund for use on street repair only; street signs and street lights are funded in the General Fund.

- Property taxes continue to increase, due to increased assessment, which result from the positive housing market sales.
- One million dollars (\$1,000,000) of the Transient Occupancy Tax (TOT) funds have been transferred to the General Fund.
- Sales tax decreased due to a significant drop in car sales of 12%. Also, the flood and rain caused some stores to close.
- CIP administration fees will rise for FY 2007 by \$3 million, but in FY 2008, the revenue will decrease by \$2 million. We have reserved \$1 million of this amount for FY 2008 to help offset the expected decrease.
- Currently, Parking Enforcement employs two full time staff who cover enforcement Monday – Saturday. On Monday, Tuesday, Friday and Saturday, only one Parking Enforcement officer is on duty. We are adding two part time staff to cover the four days that currently have one on-duty officer.

The challenges for FY 2006-07 continue from the plan set out in FY 2005-06. During FY 2005-06, all bargaining groups were up for negotiations and the “meet and confer” process took eight months to complete. The FY 06-07 budget remains predominately a “status-quo” budget with the exception of the following additions/subtractions:

1. The added appropriations for two (2) Street Maintenance Workers, which are offset by the elimination of outsourced contracts for street patching.
2. The added appropriations for two (2) Information Technology positions – one of which is being paid through charges to Enterprise funds, due to a significant increase in IT services provided to those funds.
3. The added appropriations for one half (.5) Office Assistant II for Community Development. This position will assist the new Code Enforcement function that City Council is in the process of reviewing.
4. Added appropriations for two (2) Parks Maintenance Workers, which are offset by the elimination of four part time staff positions.
5. The deletion of five (5) full time positions (all currently vacant): Administrative Assistant, Economic Development Director, General Plan Director, Redevelopment Program Manager and Redevelopment Project Manager.
6. In an effort to limit costs, vacancy adjustments are utilized in several departments, including Police and Fire. One vacant Firefighter and one vacant Police Officer position are unfunded. The positions were not eliminated. Recruitment efforts continue for other vacancies, including those from annual retirements.

## **ACKNOWLEDGEMENTS**

The Fiscal Year 2006-07 Budget was delivered on time to the City Council in accordance with the City Charter. This effort and accomplishment is mainly credited to the hard working, dedicated staff of the Administrative Services Department including:

Steven Carmichael, Administrative Services Director  
Cinde Rubaloff, Accounting Manager  
Sue Simmons, Commercial Services Manager  
Chris Jones, Administrative Technician

I would also like to acknowledge and thank the Department Directors and their management teams for their insights and challenges overcome in the preparation of this year's budget. Extra time and effort was necessary and truly appreciated.

Finally, I would like to acknowledge and thank the City Council, all City Commissions, City Committees, the many volunteers, and all City employees who have worked so diligently to make Petaluma a great place to work, live and raise a family. To all...A Job Well Done!

Respectfully Submitted,

Michael A. Bierman  
City Manager



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Petaluma  
California**

For the Fiscal Year Beginning

**July 1, 2005**

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Petaluma, California for its annual budget for the fiscal year beginning July 1, 2005.

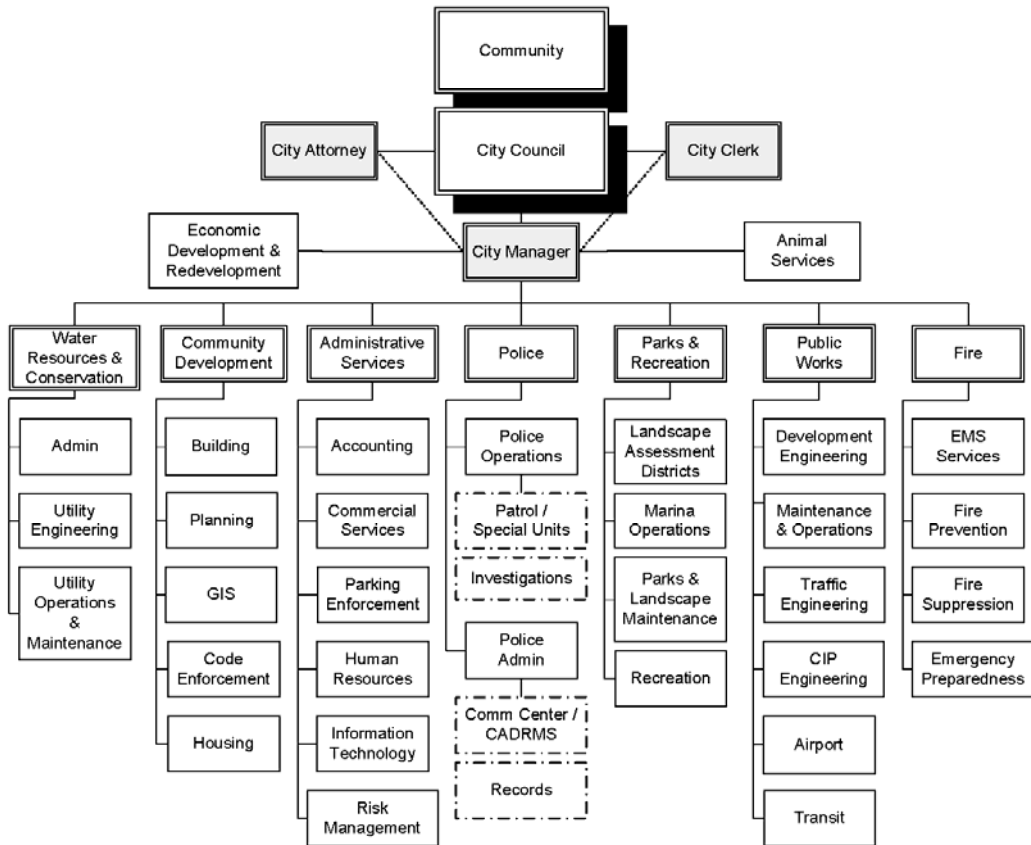
In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements and we are submitting it to GFOA to determine its eligibility for another award.

# Organizational Chart

## Offices, Departments, & Divisions City of Petaluma, California

July 1, 2006





## **Economic Conditions**

Sonoma County has experienced recessionary conditions for several years. Employment has taken a turn downward during that time with major lay-offs in the high-tech manufacturing industries. Wineries and vineyards also contributed to the weakness due to expanded global supply and downward pressure on prices.

The current economy is continuing to improve with estimates of increased salary and wages as well as an increase in business profits. Interest rates will continue to rise in 2006 with a constant to slight increase in the stock market. It is also believed that the national unemployment rate will decline. The housing market remains strong with increased appreciation along with healthy household balance sheets indicated by low and stable rate of personal bankruptcy filings.

Despite recent concerns, rising gas prices have not affected most businesses in Sonoma County. 98% of local executives reported no loss in business due to rising gas prices. Recent automobile rebates have resulted in record sales during the last quarter. In general, Sonoma County businesses appear resilient to the economic effects of higher gas prices.

Recoveries are noted in health services, hospitality, real estate and construction industries. Health care is on the rise due to the aging population and increased availability of medical facilities in the County. The hospitality industry has been depressed since the tragic 9-11 incident but continues to build confidence with greater consumer discretionary income being spent on travel plans. Real estate and construction industries have shown reasonable gains due to the lower mortgage interest rates and increased housing starts in the County.

Retail sales in Petaluma increased slightly in FY 2006 over FY 2005 results. Total estimated sales tax received in FY 2006 will be \$10,600,000 or 1% higher than FY 2005. Other areas of revenue that increased included property taxes (1%), licenses, permits and fees (25%), and charges for current services (7%).

# CITY OF PETALUMA, CALIFORNIA

## STATISTICAL INFORMATION

**As of June 30, 2006**

Date of Incorporation/Charter	1858/1947
Form of Government	Council/Manager
Number of Full Time Positions	332.5
Population	56,727
Area in Square Miles	13.4
Altitude in Feet (Downtown)	11

**City of Petaluma Facilities and Services:**

**Public Works:**

Miles of Streets	170
Number of Street Lights	4,740
Number of Signalized Intersections	48
Turning Basin Public Dock Footage	995
Number of City Parking Lots/Spaces	3/1,043

**Water Resources & Conservation:**

Miles of Water Mains	250
Annual Water Purchased in Billion/Gallons	3.273
Utility Accounts	18,955
Average Dry Weather Flows of Sewage	4.4 mgd
Sewage Treatment Type	Secondary

**Fire Protection and Paramedic/Ambulance Service:**

Number of Stations	3
Number of Fire Personnel	58
Number of Ambulances	4

Number of Fire Protection Vehicles	15
Number of Fire Calls	1,401
Number of Ambulance Runs	3,484

**Police Protection:**

Number of Stations	1
Number of Police Personnel - sworn	74
Number of Police Personnel - non sworn	27.5

Number of Police Vehicles	59
Number of Police Calls	58,748

**Culture and Leisure:**

Parks	43
Community Centers	2
Recreational Facilities	3
Ball/Soccer Fields	40
Library/Museum	1

Park Acreage	200
Community Swimming Pools	2
Tennis Courts	7
Marina Berth Slips	198
Food Kitchen	1

**Transit & Airport:**

Number of Bus Routes/Buses	3/9
Runway Length in Feet	3,600
City Hangars	182

Annual Ridership	163,775
Tiedown Spaces	97
Acreage at Airport	219

**Other Agencies:**

**School/College Districts:**

Number of School Districts	4
Number of Students Enrolled	10,820

Number of Community Colleges	1
Number of Students Enrolled	6,025

**Hospital District:**

Number of Hospitals	1
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Number of Patient Beds	99
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**County Library:**

City Branches	1
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Books/Audiovisual Recordings in Circulation	99,500
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# THE BUDGET PROCESS

## POLICIES GUIDING THE BUDGET PROCESS

The City Council's Goals and Objectives are the primary driving force behind the development of the City of Petaluma's Annual Budget. The Council Goals and Objectives include strategies designed to promote short- and long-term financial stability in the City. The second policy that guides the budget process is the Financial Policies that were developed in conjunction with the Administrative Services Department to guide daily financial decision-making.

## CITY OF PETALUMA FINANCIAL POLICIES

### General Policies

- All current operating expenditures will be paid for with current revenues.
- Budgetary emphasis will focus on providing high quality municipal services, recognizing the fundamental importance to the public of public safety and properly maintained infrastructure.
- The budget will strive to provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment.
- The budget will reflect a higher priority for maintenance of existing facilities than for acquisition of new facilities.
- Future maintenance needs for all new capital facilities will be identified with inclusion in the capital project.
- Strong customer service and productivity improvements with a focus on cost savings remain important budgetary goals.

### Revenue Policies

- A diversified and stable revenue system will be maintained to shelter the City from short-run fluctuations in any single revenue source.
- Revenues will be conservatively estimated and will be updated quarterly throughout the fiscal year.
- Intergovernmental assistance in the form of grants and loans will be used to finance only:
  - Those capital improvements which can be maintained and operated over time: and
  - Operating programs which either can be sustained over time with General Fund revenues or have a limited horizon.

- One-time revenues will be used for operating programs only after an examination determines whether they are subsidizing an imbalance between operating revenues and expenditures, and then only if a long-term forecast shows that the operating deficit will not continue. In general, one-time revenues will be used only to support capital or other non-recurring expenditures.
- Development process costs and related administrative expenses will be totally offset by development fees.
- The City will identify basic tax-provided services and will establish user fees and charges for services provided in excess of basic services and/or to non-taxpaying users.

### **Reserve Policies**

- A minimum fund balance reserve in the General Fund will be maintained at all times. The City's goal is to reach an optimal level for this reserve of 15% of the General Fund operating budget. The reserve will be drawn down as a funding source of last resort and only after other reserve accounts have been accessed.
- For all other operating funds, there will be a reserve equal to 15% of its annual operating budget for the purpose of coping with emergencies. It may take more than one year to meet the 15% goal if these emergency reserves do not presently meet the 15% goal.
- The unappropriated fund balance in the General Fund will be maintained at a level sufficient to provide adequate working capital and to accommodate required adjustments to other reserve accounts, including the reserves for advances to other funds, deposits and prepaid items.
- Reserves for Encumbrances and Continuing Appropriations are established at the end of every fiscal year to reserve fund-balance in the amount equal to the City's unpaid obligations and unfinished projects at year-end.
- Other reserves, such as for cash flow, in the event that current cash flow needs exceed combined fund balances, or anticipated costs for service enhancements, will be established each fiscal year as needed.
- Funding levels of General Fund reserves will be reviewed during periods of economic stagnation to avoid reductions in operating service levels.
- Appropriation or use of funds from any designated reserve will require Council action.

## Cash Management

- Investments and cash management will be the responsibility of the City Treasurer.
- In accordance with Section 53646 of the Government Code, the City Council will review and update annually, an investment policy. The primary purpose of this policy is to set forth the City's investment philosophy and objectives. The City's investment objectives are, in order of priority: safety, compliance with Federal, State and local laws, liquidity, and yield. The policy also specifically outlines authorized investments, the maximum maturities allowed for each investment instrument and the criteria used to determine qualified depositories and/or dealers.
- The City invests all idle cash as determined by analysis of anticipated cash flow needs. Specific emphasis will be placed on future cash requirements when selecting maturity dates to avoid forced liquidations and the potential corresponding loss of investment earnings.
- In order to maximize yields from the overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund that has a positive cash balance. Interest expense will be charged to those funds that maintain a negative cash balance.
- The City will maintain the investment portfolio under the prudent person standard. The investment officer, acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments. The Prudent Person Standard is as follows: Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- To protect against potential losses by collapse of individual securities, dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the City will be held in safekeeping by a third party bank trust department, acting as the City's agent.
- The City Treasurer will generate a monthly report to the City Manager and a quarterly report to the City Council in conformance with all State laws and City investment policy requirements.
- The City's independent auditors, in conjunction with their annual audit, will audit the cash and investment balances in conformance with generally accepted accounting principles. In addition, the Treasurer shall establish an annual process of independent review by an external auditor to assure compliance with internal controls. The City Council may at any time order an audit of the investment portfolio and/or City Treasurer's investment practices.

## **Debt Policy**

- It is the intent of the City of Petaluma to issue debt in a manner, which adheres to state and federal laws, existing bond covenants and prudent financial management. Schedule 3 in the Appendix provides a summary of the existing debt obligations, by fund, and a summary of total debt service requirements.
- The General Fund currently does not have any general obligation bonds and does not anticipate issuing such debt. Other General Fund debt was extinguished when the Airport refinancing was completed in December, 2003. We do not anticipate issuing any further General Fund debt in the near future.
- When the City finances capital projects by issuing bonds, it will pay back the bonds within a period that is consistent with the useful life of the project.
- The City will not use long-term debt financing for any recurring purpose such as current operating and maintenance expenditures. Short-term debt instruments such as revenue tax or bond anticipation notes shall be excluded from this limitation.
- The City will generally conduct debt financing on a competitive basis. However, negotiated issues may be used due to market volatility or the use of an unusual or complex financing or security structure.
- The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
- The City will operate under the provisions of Proposition 13, the California Constitutional Amendment that limits the incurrence of “general obligation” debt. To incur this debt, the City must receive 2/3 votes of the voters at a general election.

## **Cost Allocation**

- The purpose of the City’s cost allocation from its Internal Service funds is to charge the departments for City resources that are being used by the individual departments.
- Self-Insurance Fund Allocation – The self-insurance fund is used to account for the cost of the City’s insurance premiums (such as general liability, property, and automobile insurance), as well as claims adjuster services, and legal costs.
- Charges to department are calculated based on the number of permanent staff in each department.

- Equipment Replacement Allocation – The equipment replacement fund is used to account for the acquisition, depreciation, and replacement of City vehicles and other large equipment, i.e. exhaust system for Fire stations. Charges to department are calculated based on the actual depreciation charge for vehicles used by each department.
- Computer Replacement Allocation – The computer replacement fund is used to account for the acquisition, depreciation, and replacement of computers and related equipment. Charges to departments are calculated based on the number of computer workstations supported by the Information Technology staff in each department.

## **Capital Budget**

- The Five-Year Capital Improvement Plan shall be prepared and updated each year.
- Although this plan may include “unfunded” projects that carry out the City’s strategic and general plans, it must also include a capital-spending plan that identifies projects that can be completed with known funding sources.
- Each department must, when planning capital projects, estimate the project’s impact on the City’s operating budget.
- Each capital project must include an “administrative overhead charge” equal to five percent (5%) of the total project cost less contingency amounts.
- Amendments to capital appropriations can be approved by the City Manager for costs above the Charter established formal bid amount which is currently below \$20,000. Greater than contingency must be approved by the City Council by Resolution.

## **Risk Management**

- The City is self insured for the first \$250,000 on each general liability claim against the City.
- Third party coverage is currently maintained for general liability claims greater than \$250,000 up to a limit of \$15,000,000 and for all workers’ compensation claims. Claims have decreased significantly and Worker’s Compensation costs have gone down by over \$450,000.
- The City has a Safety Committee to promote safe and healthy work practices. The objectives of the Committee include
  - Identifying, reviewing, and correcting unsafe conditions and practices, establishing employee safety training programs, and promoting a system of communications with employees regarding safety and health matters.
- The City maintains a comprehensive risk assessment program and annual hazard survey to identify areas that may pose liability issues.

- The City has a policy of vigorously defending claims filed against Petaluma and continues to maintain an excellent loss history.

**Annual Audit**

- Sound accounting practices suggest that an annual audit is a prudent business decision.
- The City requires an annual audit by a qualified independent accountant of all financial records, inventories and reports of all City officers and employees involved in the handling of financial matters.
- For fiscal year ending June 30, 2005, the City commissioned the Certified Public Accounting firm of Caporicci and Larson.
- Fixed Asset Procedures – Fixed assets include equipment, computers, furniture and vehicles. All vehicles are contributed to the Equipment Services Fund where depreciation is calculated. Once purchased, all capital items are maintained in the physical inventory and Capital Replacement Program until disposed. GFOA’s recommended capitalization threshold level for individual items is \$5,000 with a minimum life of 2 years.
- Purchasing Fixed Assets – Capital items (fixed assets) shall be identified for purchase through three methods: a) new, b) replacement, c) emergency.

<b>ACCOUNTING STRUCTURE AND PRINCIPLES</b>
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**CITY GOVERNMENT REPORTING ENTITIES AND SERVICES**

The budget includes all of the funds and accounts of the City of Petaluma. The City provides the following municipal services directly:

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Administrative and Financial</li> <li>Administrative Services</li> <li>Building Permit/Plan Approval</li> <li>Community Development</li> <li>Emergency Services</li> <li>Engineering</li> <li>Parks and Recreation</li> </ul> | <ul style="list-style-type: none"> <li>Planning and Zoning</li> <li>Public Safety (Police and Fire)</li> <li>Street Maintenance</li> <li>Transit Services</li> <li>Water Utility</li> <li>Waste Water Utility</li> </ul> |
|--|--|

## **FINANCIAL STRUCTURE**

### **1. Accounting System and Budgetary Control**

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition; and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a specific control feature should not exceed the benefits likely to be derived, and the evaluation of costs and benefits require estimates and judgments by management.

All evaluations of the City's internal control will continue to occur within the above framework. The City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **2. Basis of Accounting**

The budgets of all governmental and fiduciary funds types are prepared on a modified accrual basis. Under the modified accrual basis, revenue is recognized when susceptible to accrual (e.g., when it becomes both measurable and available). "Measurable" means the amount can be determined and "available" means collectible within the current period or soon enough thereafter to pay current liabilities. This is generally within sixty-days (60) after the end of the fiscal year. Expenditures are recognized when the related fund liability is incurred.

The budgets of the proprietary funds (enterprise and internal service funds) are prepared on a modified accrual basis. Under this method, revenue is recognized when earned and expenses are recognized at the time the liability is incurred. Under this method, capital expense and debt principal is budgeted, but depreciation expense is not budgeted.

### **3. Financial Reporting**

Beginning with fiscal year ending June 30, 2003, the City implemented the provisions of GASB 34 in its Comprehensive Annual Financial Report (CAFR). The CAFR presents the status of the City's finances on the basis of "Generally Accepted Accounting Principles" (GAAP). In most cases, this conforms to the way the City prepares its budget with the following exceptions:

- Compensated absences liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees (GAAP) as opposed to being expended when paid (Budget).

- Principal payments on long-term debt within the Enterprise Funds are applied to the outstanding liability on a GAAP basis as opposed to being expended on a Budget Basis.
- Capital outlays within the Enterprise Funds are recorded as assets on a GAAP basis and expended on a Budget basis.
- Inventory is recorded as expenditure at the time it is used.
- Depreciation expense is not budgeted as an expense.

The Comprehensive annual Financial Report (CAFR) shows governmental fund expenditures and revenues on both a GAAP basis and Budget basis for comparison purposes.

## BUDGET POLICIES AND PROCEDURES

### **Policy**

The City Manager shall submit a proposed budget to the City Council each year by the first Monday of May as specified in the City's charter. The budget that is submitted is a balanced budget either through the matching of ongoing revenues with proposed expenditures or the use of existing reserves.

### **Budget Basis**

The budgets of general government type funds (for example, the general fund itself, and special revenue funds) are prepared on a modified accrual basis. Briefly, this means that obligations of the City are budgeted as expenses, but revenues are recognized only when measurable and available.

### **Responsibility**

The department heads are responsible for preparing their budgets in accordance with the guidelines provided by the City Manager and Administrative Services Director. The Finance Division provides cost experience data as required by City departments.

### **Operating Budget**

Ongoing operating costs should be supported by ongoing, stable revenue sources. This protects the City from fluctuating services levels and avoids crises when onetime revenues are reduced or removed. Listed below are some corollaries to this policy:

- Fund balances or contingency accounts should be used only for one-time expenditures, such as capital equipment and capital improvements.
- Ongoing maintenance costs, such as street resurfacing and trail maintenance, should be financed through recurring operating revenues rather than through bond issuance.
- In addition, at least \$1 million of transportation related funding should annually fund the annual overlay and slurry program.
- Fluctuating federal grants should not be used to fund ongoing programs.

### **Budget Review**

During the budget review phase, the City Manager's Office, in conjunction with the Finance Division, analyzes new positions, and operating and capital budget requests. This information is then compiled and the City Manager and the Administrative Services Director hold meetings with each department to review their estimated expenditures for the current fiscal year and the proposed base line requests and enhancements for the proposed budget year. At the completion of these meetings, the Administrative Services Director again compiles all the financial data and presents the Preliminary Budget to the City Manager for review.

### **Budget Adoption**

The City Manager presents, via publicly noticed study sessions, the budget to the City Council. Public hearings are held and, after modifications and revisions, the preliminary budget is adopted by resolution. Actual appropriations are established through Ordinance.

### **Budget Implementation**

A budgetary control system will be maintained to ensure compliance with the budget. The Finance Division is responsible for setting up the budget for tracking purposes and is charged with ensuring fund availability during the year to cover expenditures and appropriations. Reports comparing the budget with expenditures are generated and sent to departments on a monthly basis.

### **Budget Revision**

The City Council approves total budgeted appropriations throughout the year. Actual expenditures may not exceed budgeted appropriations at the department level (e.g., Police, Fire, City Manager, etc.). The City Manager or his designee is authorized to transfer budgeted amounts at the category level (e.g. Personnel, Materials and Supplies, Capital Outlay). Use of unappropriated reserves must be specifically approved by the City Council.

### **Budget Amendments**

The City has a policy of reviewing the budget quarterly. Budget amendments are generally considered at mid year. Formal budget amendments are approved and adopted by the City Council.

## **BUDGET SCHEDULE**

The City's budget preparations follow a three-phased approach that begins each year with the annual mid-year review, proceeds through the publication of the City Manager's Preliminary Budget and culminates with the publication of the Adopted Budget document.

Although the City does not conduct special meetings prior to the budget process for citizen input, that input is afforded through the Commissions and during the mid-year budget review. Additional input is always available to the public during the budget hearings that are conducted during the months of May and June. Citizen input is encouraged and individual Council members bring forth concerns and recommendations from the citizens. As the budget is essentially built on what citizens desire, as demonstrated through the City Council's goals and objectives that were presented earlier.

A listing of significant preparation milestones in the FY 2006-2007 budget follows:

**December/January**

Work began on the FY 2005 – 2006 mid-year budget review. It established preparatory guidelines for the FY 2006 – 2007 budget. It contains estimates of budgetary outcomes as well as discussions of important financial issues facing the City. Also included were current and future year revenue estimates as developed in cooperation with other City departments.

Presentations regarding the budget and the budget process were provided to department heads and their staff.

**February**

The completed fiscal year 2005 – 2006 mid-year budget review was distributed and the City Council, staff and the general public for consideration.

The Council's annual midyear review meeting was held which fastened guidelines for the fiscal year 2006 – 2007 budget preparation.

The Administrative Services Department in conjunction with the City Manger's office develops revenue estimates for fiscal year 2006 – 2007 and establishes expenditure targets by fund. Salary and benefit information is also completed. Budget materials are distributed to the various departments for assembly of budget proposals using a series of Excel worksheets that were initially set up by Finance.

**March/April**

Budget proposals for FY 2006 – 2007 are due from individual departments.

City Manager and the Administrative Services Director meet with representatives of the various departments to review and amend budget proposals.

**May/June**

In accordance with the City Charter, Section 59, the City Manager's Preliminary Budget is distributed to the City Council by the first Monday in May (May 1, 2006).

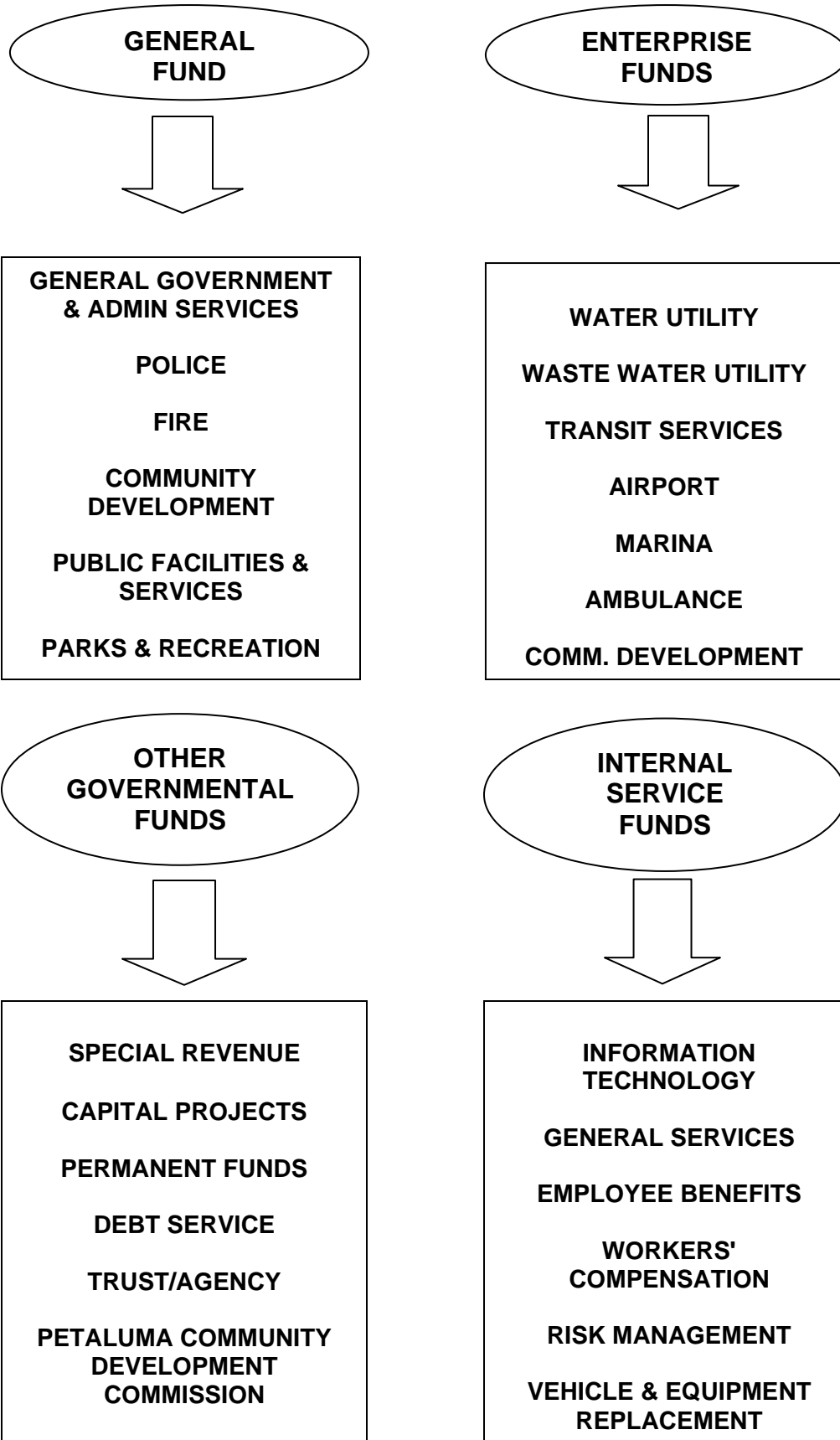
City Council held a series of five public hearings. The budget was approved on June 5, 2006

GANN Appropriations Limit Resolution is considered and passed

Budget was unanimously adopted at the June 5, 2006 Council meeting.

December/January	<p>Mid-year review report preparation begins. This will form the basis for the FY 2006 – 2007 budget.</p> <p>Departments are provided with how the budget process will take place</p>
February	<p>Completed mid-year review report – distributed to Council, departments and general public. Council holds hearing on the mid-year budget review and gives direction as to priorities for the FY 2007 budget.</p>
March	<p>Departments submit proposed budgets by end of the month</p> <p>Council meets and determines Goals and Objectives which form the basis of the budget document</p> <p>Individual departments meet with City Manager and Administrative Services Director to review budget proposals</p>
April	<p>Final changes to the budget document are processed</p> <p>Updated revenue estimates are finalized</p>
May	<p>Preliminary Budget document released on May 1, 2006 in accordance with City Charter</p> <p>Public hearings are held in May</p>
June	<p>Public hearings continue in June</p> <p>Council consideration to adopt budget on June 5, 2006</p> <p>GANN Appropriating Ordinance takes effect</p>

# DIAGRAM OF FUNDS



## FUND DESCRIPTIONS

The City of Petaluma uses fund accounting to track revenues and expenditures. Some funds such as the Gas Tax Fund are required by state legislation. Others were adopted by the city to track and document revenues and ensure accountability. Two recent examples of this need is the establishment of the Street Maintenance Fund and the Street Reconstruction Fund. Both of these funds will be used to track the resources applied to those activities and track the specific expenditures for those two activities. Enterprise Funds are expected to be self-supporting through revenue generated from the services provided. For these funds, the city often charges a fee for a specific service, such as water, just like any other business would.

### GOVERNMENTAL FUNDS

Governmental funds typically include those activities which are financed through the use of tax-supported activities. The major categories within this fund type are the General Fund, Special Revenue Funds and Debt Service Funds. This category also includes Capital Project Funds and Permanent Funds. The latter two are not budgeted in the City and

**GENERAL FUND** -- the fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general operating revenues not restricted as to use are recorded in this fund.

**SPECIAL REVENUE FUNDS** -- used to account for activities supported by specific taxes or other designated revenue sources. These funds are generally required by statute, charter or ordinance to finance specific government functions and include:

- **Community Development Block Grant (CDBG):** used to account for federal grants received under the Housing and Community Development Act of 1974.
- **HOME/Begin Program Fund:** used to account for federal grants received from the State of California from funds received from the US Department of Housing and Community Development.
- **Low and Moderate Income Housing Fund:** this fund provides for low and moderate income housing programs that are financed from 20% set-aside from the property tax increments of the redevelopment agency.
- **Community Facilities Impact Fees Fund:** used to account for fees received from all development projects to be used to construct and/or repair community facilities.
- **Library Facilities Impact Fees Fund:** used to account for fees received from all development projects to be used to construct and/or repair the library.
- **Public Facilities Impact Fees Fund:** used to account for fees received from all development projects to be used to construct and/or repair the public facilities.
- **Fire Suppression Impact Fees Fund:** used to account for fees received from all development projects to be used to construct and/or repair the fire stations.
- **Parkland Acquisition and Development Fee Fund:** used to account for fees, which are received from new residential development and used specifically for park development purposes.
- **Aquatic Center Fee Fund:** used to account for fees, which are received from new residential development and used specifically for aquatic center development.

- **Police Facilities Fee Fund:** used to account for fees received from all development projects to be used to construct and/or repair the police facility.
- **Storm Drainage Impact Fees Fund:** used to account for fees from development projects, to be used for storm drainage improvements.
- **Housing In-Lieu Fees Fund:** used to account for fees from residential development to provide funds for low and moderate-income housing projects.
- **Commercial Linkage Fees Fund:** used to account for fees from commercial development to provide funds for low and moderate-income housing projects.
- **Traffic Mitigation Impact Fees Fund:** used to account for fees received from all development projects to be used for transportation improvements that were necessitated from new development.
- **Gas Tax Fund:** used to account for funds received from the State of California from the statewide tax on gasoline and other fuels. Used specifically for road related projects.
- **Landscape Assessment Districts Fund:** use to account for special assessments on property for the maintenance of public landscaped areas.
- **Supplemental Law Enforcement Fund:** used to account for grant funds received from the state for enhancement of law enforcement technology.
- **Asset Seizure/Forfeiture Fund:** used to account for funds received as the result of asset seizure in conjunction with narcotic enforcement programs.
- **Transient Occupancy Tax Fund:** used to account for funds received from the 10% excise tax on hotel/motel charges.
- **Street Maintenance Fund:** used to account for resources dedicated for street maintenance and expenditures related to that purpose.
- **Street Reconstruction Fund:** used to account for resources dedicated for street reconstruction projects and expenditures related to that purpose.
- **Governmental Grant and Donation Funds:** used to account for revenues received and related expenditures as determined by grantors or donors.
- **Abandoned Vehicle Abatement Fund:** used to account for receipts from County and restricted expenditures.
- **Haz Mat Fines and In-Lieu Fire Funds:** used to account for special collections related to the Fire Marshal's office.

**DEBT SERVICE FUNDS** – used to account for the accumulation of resources and payment of long-term debt principal and interest.

**REDEVELOPMENT FUNDS** – used to account for PCDC tax increment revenue and redevelopment programs and administrative costs.

**CAPITAL IMPROVEMENT PROJECT FUNDS** – used to account for resources and expenditures related to governmental CIP projects.

## **PROPRIETARY FUNDS**

These funds are established to account for the self-supporting municipal activities that are similar to private business. The activities are financed by sales and service fees. The City operates seven (7) enterprise funds and six (6) internal service funds.

**ENTERPRISE FUNDS** – these funds were established to account for City operations that are financed and operated in a manner similar to private business enterprises where the cost of services that are provided is financed through user charges. Funds that are maintained include:

- **Airport Operation Fund:** used to account for the operation and maintenance of the City's Municipal Airport.
- **Ambulance Operations Fund:** used to account for the activities needed to provide emergency medical services in the City.
- **Community Development Fund:** used to account for full funding of development related services through billing developers.
- **Marina Operations Fund:** used to account for the operation and maintenance of the City's marina.
- **Public Transportation Fund:** used to account for the operation and management of the City's local transportation (buses) system.
- **Waste Water Utility Fund:** used to account for the activities and maintenance of the City's local wastewater system.
- **Water Utility Fund:** used to account for the activities associated with the purchase, distribution and transmission of water within the City.

**INTERNAL SERVICE FUNDS** – these funds were established to finance and account for services and commodities furnished by a designated department of the City to other departments of the City. These services and commodities are only supplied within the City structure and not furnished to the general public. The funds that the City maintains include:

- **Employee Benefits Fund:** used to finance and account for the City's self-insured employee benefit programs.
- **General Services Fund:** used to finance and account for activities such as purchasing, copying and mail processing services that are delivered to other City departments.
- **Information Technology Fund:** used for the purchase, operation and maintenance of the City's voice and data systems.
- **Risk Management Fund:** used to account for the activities related to the City's self-funded program for liability.
- **Vehicle and Equipment Replacement Fund:** used to account for programmed replacement of the City's vehicle and equipment assets.
- **Workers' Compensation Fund:** used to account for the activities related to the City's self-funded program for workers' compensation.

## FIDUCIARY FUNDS

These funds are used to account for resources held by the City, which must be spent as provided in the legal trust agreements, statutes, ordinances or other governmental regulations. These include:

- **Thomas Lee Charity Fund:** used for one-time aid to citizens in need.
- **Child Care Trust:** used to provide ongoing assistance to very low-income parents for childcare purposes.
- **Wickersham Park:** used for the maintenance and improvements to Wickersham Park.
- **Prince Trust:** used for the maintenance and improvements to Prince Park.
- **General Agency Funds:** used to account for receipts and disbursements of amounts which are not revenue or expenditures of the City.
- **Assessment District Funds:** used to account for funds received for assessments through Sonoma County and expenditures for assessment district debt.

