

CITY OF FOLSOM

50 Natoma Street
Folsom, CA 95630



May 23, 2006

Honorable Mayor and Members of the Folsom City Council:

I am pleased to submit the Preliminary Budget for Fiscal Year (FY) 2006-07 for your review and adoption. I submit this budget on behalf of your Interim City Manager, Sam Spiegel. As the City Council is aware, my tenure as City Manager ended on April 15, 2006. It was my pleasure to return, at the City Council's request, to complete the budget with the City's Chief Financial Officer, Navdeep S. Gill.

The preliminary FY 2006-07 budget is \$193.3 million. The major components are: \$58.7 million for the General Fund, \$41.3 million for Enterprise Fund operations, \$28 million for Special Revenue Funds, \$12.4 million for Debt Service Funds, and \$37.9 million for Capital Improvement Program (CIP) projects.

This year's recommended budget is prepared using the Strategic Plan priorities identified by the City Council at its February 3, 2006, retreat. In this retreat, the City Council reaffirmed its 2005 commitment to a strategic framework shaped around two overall goals:

- *To maintain the City's long-standing financial health and stability.* The City Council has placed a top priority on activities related to economic growth to protect the City from State actions that may adversely affect revenue streams.
- *To maintain and enhance the quality of life and the quality of service levels.* The City Council has given top priority to the maintenance of core services - public safety, water, sewer, solid waste, traffic management, personnel support, and information technology infrastructure.

In February 2006, the City Council also emphasized technology investment as an essential core service. Once the delivery of these core services is assured, then the City should move on to "high priority" capital improvement projects and new programming efforts that enhance the quality of life for Folsom residents.

The Preliminary FY 2006-07 Budget clearly aligns appropriations to the strategic framework. Each department's budget section also includes the strategic priorities that will be accomplished during the fiscal year.

The Preliminary FY 2006-07 Budget provides continued support for current programs and service levels that must increase as our population increases. In addition, the proposed budget supports the quality of service levels by providing additional resources:

- to correct deficiencies in fire service staffing,
- to augment police resources through the establishment of a specialized team,
- to enhance compensation for police and fire employees,
- to provide additional operating operations and maintenance support for parks and recreation programs, and
- to provide additional staffing for the Georgia Murray Library, which will open in the fall of 2006.

Fortunately, the City of Folsom remains in good fiscal health. To ensure continued fiscal stability, and in accordance with the City Council's adopted financial policies, the City's undesignated fund balance in the General Fund is estimated at \$8.5 million, which is 15% of the budget. Also consistent with the City's financial policies, the proposed FY 2006-07 budget provides for the third year an additional budgeted contingency in the General Fund equal to one (1) percent of proposed appropriations.

During the current year, staff has informed the City Council of a slow-down in development activity. This leads to a financial trend of less robust growth in financial resources than what the City has become accustomed in recent years. This results in both less residential and retail development activity. Both the Development Fund and Impact Fee funds are affected by this trend. Perhaps more significantly for the long-term, this trend will also result in a flatter growth rate in the property tax base. As the City approaches build-out (anticipated in FY 2009-10), our property and sales tax revenues will continue to stabilize. Folsom must plan carefully in order to avoid finding itself in the same position as neighboring cities that are experiencing service level reductions as development activity subsides. As we get closer to build-out, the City Council must carefully weigh the cost of new programs against estimates of future available revenue. We must continue to examine our cost of doing business and seek efficiencies wherever possible.

With these parameters in mind, I will now outline the high points of the FY 2006-07 strategic priorities and related budget recommendations.

FY 2006-07 Service Plan – Key Strategic Priorities

Ensuring the City's Financial Health. The City has taken numerous steps in guaranteeing its financial vitality. The City Council has adopted financial policies that assist in financial management of the City. The City also has a five year revenue and expense projection for the General Fund and the Redevelopment Agency. These projections guide and assist us in prudent fiscal management.

The City has established various reserve funds to protect the City's financial health. The proposed budget continues to build on previous years' achievements of prudently building reserves. As noted in my introductory comments, the proposed budget provides for a General Fund contingency of 1 percent. In addition, in compliance with the City's financial policies, the

level of undesignated fund balance is 15 percent of appropriations. With these continuing efforts to protect the City's financial health, I believe that the City remains in a strong fiscal position to weather any economic downturns or emergency situations.

Public Safety. Overall, proposed public safety appropriations total 56.4% percent of the General Fund budget, which is higher than last year's appropriations due to compensation adjustment and fleet funding.

Citygate Associates, LLC was hired during FY 2005-06 to complete an analysis that included 1) a fire service deployment plan and performance goals known as a "Standards of Response Cover Plan;" 2) recommended response performance goals in order to best determine the quantity, staffing and location of fire stations; and 3) an independent review of the current fire station sites and number of fire companies, possible station location change opportunities that may exist, and possible fire station sites. With this information, this budget allocates additional funding of \$360,000 to the Fire Department. This funding will be used to provide additional services as determined by a staffing analysis that will be completed in FY 2006-07.

The Fire Department budget also includes funding for a Type I Engine, Type II/III Engine (Grass Unit) and an ambulance. Also included are funding for Emergency Medical Servers (EMS), computer replacements, and EMS patient care software.

This budget maintains the ratio of 1.3 police officers per thousand population. The City is in the third year of absorbing the cost associated with receiving a Community Oriented Policing (COPS) grant for the hiring of ten police officers. As a condition of the grant, the City must assume a greater share of funding each year for the next two years. The City will absorb 100 percent of the cost of the ten officers beginning in FY 2007-08. In addition this budget also includes absorbing the 50 % of cost of two police officers funded from a grant received from the State Office of Traffic Safety grant for DUI enforcement and education. The City is expected to absorb the full cost next year, in FY 2007-08.

To add additional police services this year, the Police Department has applied to the State Department of Alcoholic Beverage Control (ABC) for \$125,000 to fight alcohol-related crime. This grant is a part of an ABC program to provide grant assistance to local police departments to target liquor license locations that generate alcohol-related crime problems in their communities. The request includes funding for equipment, training and one year salary for a police officer who would be assigned to duties described in the grant request. The City will be expected to absorb the full cost in FY 2007-08.

I also recommend funding for a special enforcement team to address narcotics, graffiti, homeless issues, and street issues. This proposed budget includes funding of two police officers and a reallocation of three police officers which will form the special enforcement team. This year's budget also contains \$426,600 for the purchase of nine replacement vehicles.

The City Council also recently approved salary adjustments to Fire personnel, which allows Folsom to maintain a competitive compensation package and retain quality fire staff. This is consistent with the salary adjustments provided to sworn police officers in FY 2004-05.

Transportation and Traffic. The budget consolidates the City's street and traffic activities in one fund. This will allow more clarity in presenting the fiscal picture. Several key projects will continue over the next fiscal year to alleviate traffic congestion.

- New Bridge – The Public Works Director and his staff are working closely with the United States Army Corps of Engineers to have the new bridge below Folsom Dam open to traffic by the end of 2008. In order to facilitate this key project, the City has agreed to be the non-federal sponsor for this project. The new bridge project will include a four-lane bridge and roadway with bike lanes from East Natoma Street to Folsom-Auburn Road below the existing Folsom Dam. Congress has authorized approximately \$83 million of federal funding for this project. Currently, the project is estimated to cost approximately \$105 million. The City expects to provide funding up to \$28 million from the renewal of the Measure A sales tax program. However there is a timing issue as to when the Measure A proceeds will become available. The City may be required to provide some initial funding for the project costs that occur in FY 2006-07.
- Traffic Noise Mitigation: This budget will continue to fund \$350,000 for the construction of high priority noise mitigation projects, which use the application of rubberized asphalt to reduce tire noise. Projects completed in FY 2005-06 include portions of East Natoma Street, Riley Street and Blue Ravine Road.
- Light Rail: Rail transit service between Folsom and downtown Sacramento began in October 2005. The City bus operations have been modified to provide feeder service to the new Light Rail line and the downtown commuter bus service has been discontinued. The City is currently reviewing with the Sacramento Regional Transit District to evaluate extending the hours of light rail services. Regional Transit funding for the equivalent of two police officers will continue in this next fiscal year.

Solid Waste Utilities. Over this past fiscal year, the City's Solid Waste Management Program focused on expanding the recycling collections to our non-residential and multi-family customers, and implemented operational changes to improve efficiencies – a major cause for eliminating a planned rate increase. Efficiency improvements included consolidation of collection routes, changes to collection vehicle equipment, re-organization of assignments to collections staff and increasing non-residential customer participation. As the new programs unfolded, permanent staffing positions originally planned for this program were determined to be unnecessary as a result of the operational changes. No new positions are proposed for the next fiscal year.

For this upcoming year, we are targeting the development of a transfer facility, which will help to reduce the number of direct hauls to the landfill or recycling facilities. In addition, we will also complete the expansion of commercial recycling and the construction-and-demolition recycling program. These solid waste programs have been included in the current rates and previous cost analyses, and the savings from the operational changes have been used to offset planned rate increases.

Infrastructure Maintenance. We continue to include infrastructure enhancements to provide for the proper maintenance of existing City infrastructure.

- **Street Rehabilitation:** As portions of the City's street system age, street reconstruction or resurfacing is necessary. Street rehabilitation projects include street reconstruction, resurfacing, or slurry sealing. The Public Works Department completed the Pavement Management Plan, which identified long-term maintenance priorities for street overlay and identified funding gaps. The funding needed to bring all of the streets in the City to a "good" condition is approximately \$36.6 million. The City does not have the fiscal capacity to provide this one-time funding. The FY 2005-06 Budget included \$3 million to fund street rehabilitation. This rehabilitation work is slated to be completed in summer 2006.

For this fiscal year, the proposed budget includes \$1.3 million from various one-time sources from grants, transportation development, and Redevelopment Agency funds. This funding also includes the projects discussed under Traffic Noise Mitigation. The General Fund contribution has decreased by \$500,000. The \$500,000 was the last repayment of the loan made for the construction of Lake Natoma Bridge. Beginning in FY 2009 the City will start receiving additional funds earmarked for street maintenance from the renewal of Measure A. We will need to balance this need against demands on Measure A for the construction of the bridge below the Dam. The loss of loan repayment and use of one-time funds create an ongoing challenge, particularly in FY 2006-07 and FY 2007-08 to fund our street rehabilitation efforts.

- **Storm Water Management Program:** The City of Folsom is a co-permittee with the County of Sacramento and the Cities of Sacramento, Citrus Heights, Galt, and Elk Grove operating under the third generation of a Phase I National Pollutant Discharge Elimination System Permit. The City continues to comply with the permit requirements. The Public Works Director and the Chief Financial Officer are developing recommendations regarding the feasibility of a fee for this service and what services this fee would provide. This information will be presented to your new city manager and the city council in the third quarter of the fiscal year.
- **Technology Improvements.** This budget provides funds to maintain the City's investment in technology. Included are funds to increase network switches, routers, and storage; provide web casting of City Council meetings; and increase capacity for wireless encrypted access for our field employees. The City currently uses HTE software to process fiscal, personnel, land use, and police and fire data. In the upcoming year the Administrative Services and Finance departments will collaborate in identifying alternatives for a new software system to meet the City's growing needs.
- **Lighting & Landscaping (L&L) Districts** – The Neighborhood Services Department has identified a need to add a Construction Inspector. This budget includes this position that will monitor maintenance and improvements, facilitate timely repairs, and respond to citizen inquiries.

Economic Development. During FY 2006-07, the City will continue its economic development efforts to strengthen and enhance our fiscal base. The City has started implementing the approved master conceptual plan for mixed-use development of the Railroad Block, located in the heart of the Historic District. Construction of the transit plaza adjacent to the Historic District Light Rail Station was completed in September 2005. The City expects to complete negotiations for the development of the Railroad Block by the end of calendar year 2006; the environmental review for this project is also expected to be completed by that time. The construction of a multi-level public parking structure will begin in November 2006 and is anticipated to be completed in December 2007. The Folsom Redevelopment Agency approved a parking structure on 602 Sutter Street. This structure will be complete in fall of 2007. This parking structure will support 28,500 square feet of retail and office space.

Entitlements for the regional mall “Palladio” and the adjacent 50-acre Kaiser Permanente medical campus have been approved. Phase 1 construction is currently underway, and it is anticipated that this project will be open to the public in 2008. During the past fiscal year, B.J.’s Restaurant, Fat’s Asian Bistro Restaurant, Mel’s Diner, Islands Restaurant, and California Family Fitness were completed. Future development plans include In-N-Out Burgers; Hampton Inn Hotel; La Quinta Hotel; Olive Garden Restaurant; Bed, Bath & Beyond; Circuit City; and Ethan Allen furniture.

Business expansion in Folsom also is proceeding in a positive manner. Businesses that have been assisted with their expansion plans over the past year include Raley’s Supermarket, Syblon Reid Construction, and Mercy Hospital. The City continues to implement a Wi-Max pilot project to demonstrate the feasibility of a City-wide wireless system.

Planning efforts for the Historic District are ongoing. It is anticipated that a report detailing the needed improvements will be presented to the City Council in fall 2006.

Planning for future development. In November 2004, Folsom voters approved Measure W to establish standards for the development of 3,600 acres of land south of Highway 50. Among other requirements, there must be adequate water supply, schools, and infrastructure prior to annexation. The Community Development Department completed the visioning process in June 2005 and is currently working with the property owners to amend the General Plan and prepare a Specific Plan for the entire area based on the conceptual vision plan. Staff expects to begin the environmental review process in FY 2006-07, leading to an annexation application with the Sacramento Local Agency Formation Commission (LAFCo) in early FY 2007-08.



The FY 2006-07 budget includes developing a General Plan Update schedule/budget. The General Plan Update is expected to address economic development, focus on infill development

opportunities, incorporate smart growth concepts, and preserve and enhance existing neighborhoods.

Public Outreach. Included in the budget is funding of \$440,000 for Phase II of the City-wide way finding program. This program will welcome visitors to our City and assist visitors and citizens in locating key business and tourist destinations within the City. The Public Information Officer will be submitting a recommendation to the City Council concerning the prioritization of sign marker installation this fall. The implementation of the way finding program will require additional appropriation beyond FY 2006-07, and will be completed in stages. The City will also be pursuing private partnerships to complete funding of the project.

Library Services. The Library staff and the Administrative Services Director have continued their efforts to expand our library services. The Georgia Murray Library will be completed and open for business by late 2006. The proposed budget continues the transfer to the Library Development Fund of \$325,000. The General Fund transfer will be used to cover the increased operating and maintenance expenses for the new library. This budget includes 3.5 new library staff positions to assist in operating the new library. All of these new positions are covered by the planned General Fund contributions that the City Council has systematically set aside for the past four years.

The City continues to work towards construction of the joint use library at the Lago del Vista High School, which is planned to open in fall of 2007.

Cultural and recreational services. The Parks and Recreation Department continues to provide first-rate programs and services to our community.

For the FY 2006-07 Budget, Park and Recreation funding will constitute 14 percent of the General Fund budget for FY 2006-07, which is higher than previous fiscal year due to increases in park maintenance and General Fund support to the Community Center and to the Recreation and Aquatics fund. The subsidies from the General Fund to various parks and recreation activities such as Community Center, Aquatics and Recreation Funds totals \$2.6 million, or an increase of \$368,000 over the FY 2005-06 budget. The increase in the General Fund support is primarily due to increased personnel and operational costs of \$283,000, including the conversion to full-time for the Marketing Coordinator. The secondary reason is static program revenues. For FY 2006-07, the General Fund subsidy to the various parks and recreation activities has risen to 50% of expenditures. This subsidy amount is higher than the Parks and Recreation cost recovery target, which calls for 40% General Fund subsidy. Parks and Recreation is submitting a rate adjustment for the Community Center rental and will need to evaluate the recreation fees and cost. The Zoo subsidy for FY 2006-07 is projected to be \$1,034,000 which is a slight increase from the previous fiscal year.

During FY 2005-06, the City acquired the Folsom Sports Complex. This budget includes full year revenue and cost for operating the complex. Per City Council direction, \$225,000 of the General Fund transfer to the Park Renovation fund is being set aside as an operating reserve for the Sports Complex. Any unused amount from the reserve will be available for future park renovation projects.

As part of the acquisition of the Sports Complex, the City Council also prioritized future park construction consistent with recommendations from the Parks and Recreation Commission. Future parks will be approved when capital funding and operational funding has been secured and stabilized. The proposed budget also contains the annual payment of \$500,000 for the Sports Complex that will continue until 2013. The Budget is also in compliance with the City Council's direction of reserving annual payments for two years, equivalent to a \$1 million set-aside, as recommended by the Parks and Recreation Commission.

The proposed budget also includes funding to complete the renovation for a combined Senior, Arts and Cultural Center to be located at the former fire station in the Civic Center Complex. Parks and Recreation staff anticipate opening this center in the spring of 2007, and every effort will continue to be made to move this date up earlier. Also slated to be completed in FY 2006-07 is the renovation of Hinkle Creek Center. Full-year operational costs for both centers have been included in the proposed budget. This budget also includes additional funding for required park maintenance that is due to the completion of Briggs Ranch Park and the proposed Willow Hills recreation area. In the past, we have added staff to provide maintenance. Consistent with direction from the City Council, the proposed budget contemplates that the cost for maintenance will be provided through contractual services. No new maintenance employees have been added this fiscal year.

The proposed FY 2006-07 Budget also includes funding improvements to our Zoo Sanctuary, such as a coyote exhibit, animal observation cameras, and a cougar safety squeeze cage. None of these capital projects will require additional staffing, but rather provide for health safety improvements and enhance exhibits to maintain visitor levels. Zoo capital projects are funded through the Zoo trust.

Parks and Recreation also identified a need for matching funds for trail grants. A potential source is the existing Tree Mitigation Fund, and the Parks and Recreation Director will be pursuing an ordinance change to facilitate the expanded use of these funds.

Employee Benefit Costs and Insurance Issues

In previous years, the City Council has identified as a key strategic priority the analysis of long-term benefit costs for current and retired City employees. The FY 2006-07 budget is built upon the following assumptions regarding employee benefit costs.

Retirement Increase. The City provides a retirement plan to its employees through the California Public Employees' Retirement System (CalPERS). CalPERS retirement benefits are funded through contributions paid by contracting employers (such as the City and earnings from CalPERS investments). In the 1990s, CalPERS achieved high rates of return on its investments. Those high rates of return were passed along as savings to participating employers through decreasing employer contributions. As investment income decreased with the weakening of the national economy, CalPERS increased employer contributions. In response to increases in employer contributions, CalPERS has adopted a policy of imposing an annual contribution amount by establishing a rolling 30-year amortization of all remaining unamortized gains or

losses. Based on this new methodology, the City's FY 2006-07 financial contributions for miscellaneous employees have decreased by 1.22% and by 14.02% for public safety. Based on projections provided by CalPERS, future years have a nominal increase in contribution.

Health Insurance Increases. The FY 2006-07 Proposed Budget includes funding for a projected 15 percent increase in health insurance premiums effective January 1, 2007. This amount is consistent with projections used in the City's financial forecast.

Retiree Health Insurance. In August 2004, the Government Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as *other post employment benefits*, or *OPEB*. The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The effective date for the City will be July 1, 2007. The City has been working with an actuary to evaluate the potential impact of this new accounting standard.

City staff has continued to work with the City Council and the City's employee representatives in response to GASB 45 reporting requirements. It is important that this matter remain a high priority for resolution in the first half of this upcoming fiscal year. The City will face serious budgetary issues if the retiree health program is not resolved this next fiscal year.

Financial Plan

Property Tax/Sales Tax/VLF Swap. Proposition 1A has altered the historical funding sources for local governments. The State eliminated \$4.1 billion in Vehicle License Fees (VLF) backfill and decreased the VLF rate from 2 percent to 0.67 percent. Cities and counties receive an equivalent amount of property taxes. In FY 2004-05 and FY 2005-06, however, the State did not swap the full amount, retaining \$700 million (\$350 million from counties and \$350 million from cities). Folsom's annual loss from this action was \$1 million a year in both FY 2004-05 and FY 2005-06, for a total of approximately \$2 million.

Beginning in FY 2006-07, local agencies will receive the full swap amount of \$4.1 billion, of which Folsom's share is \$1 million. Also, in FY 2005-06, the State repaid the \$1.3 billion VLF gap loan, and Folsom received \$1.2 million

Property Tax Growth. The FY 2006-07 Proposed Budget estimate for property tax revenue is \$14.5 million, an increase of 17 percent over FY 2005-06 budget estimates due to the \$1 million funding being restored by the State. Without the \$1 million, the growth is 8%. The City also allocates a portion of its property tax received to the Library function. For FY 2006-07 it is projected that the Library Fund will receive \$1.5 million in property taxes, which is an increase of 5% over prior year.

Sales Tax Growth. The Proposed FY 2006-07 Budget assumes a 7 percent increase in sales tax receipts.

Vehicle License Fees. For the Proposed FY 2006-07 Budget it is anticipated that this revenue will grow by 9% over the previous fiscal year.

Water, Sewer, Solid Waste Rates. City customers are charged a monthly utility rate for water, sewer, and solid waste services. The Proposed FY 2006-07 Budget is based on the following assumptions:

Solid Waste Rates – The solid waste program is based on the current rate structure as adopted by the City Council in June 2005. The overall residential and non-residential rates are not expected to change. The program for proposed construction-and-demolition collections is expected to be presented for consideration to the City Council this summer.

Sewer Rates - The review of rates and cost of service indicates no rate adjustment for FY 2006-07.

Water Rates - This year's budget is based on water rates adopted by the City Council in December 2005 as developed by the Utilities and Finance Departments for flat and metered water rates. This year, these departments will focus on the implementation of a city-wide metered water rate plan and planning for a dry year water supply. It is anticipated that the water meter implementation plan will be developed and presented to City Council by this fall for public input and for subsequent City Council consideration.

Analysis of Fund Balance in the General Fund. During FY 2004-05, the City Council established a financial policy of maintaining 15% as the undesignated fund balance. As noted above, the Proposed FY 2006-07 Budget abides with this policy.

Relationship between Budget and Strategic Plan

This year's budget continues the improvements introduced in the FY 2003-04 budget document. The City's strategic planning initiative drives the budget proposal, and departmental budgets are linked to a strategic planning goal. Each department page includes key departmental issues, objectives, and strategies that tie to the strategic plan. Key performance measures are included to measure departmental progress. New for the proposed budget are key customer service performance indicators for each department.

Conclusion/Acknowledgements

I am pleased to acknowledge again that the City's FY 2005-06 budget document received awards from the Government Finance Officers Association and the California Society of Municipal Finance Officers. This is the third consecutive time that the City has received these awards. The Proposed FY 2006-07 Budget document continues to improve upon an already excellent process.

I am pleased to leave the City in excellent fiscal health. While there will be challenges for your new city manager, the City Council continues to offer its residents and businesses first-rate services and an excellent quality of life. Over the past fiscal year, the City Council has made it clear that continued efficiencies are necessary as the City approaches build-out. This theme should be a priority for your management staff in all facets of city government over the next fiscal year. I believe this budget sets the stage for achieving success in this direction.

In closing, I would like to thank Interim City Manager Sam Spiegel and the City's Executive Management Team and their staffs for their participation in the budget process. In particular, Chief Financial Officer Navdeep Gill, assisted by Budget and Evaluation Manager Jeffrey Meyer, has devoted significant effort to the coordination, developing and completion of this budget document. They were supported by Financial Analysis and Reporting Manager Mark Bresolin; Disbursement Supervisor Jean Young; Revenue Supervisor Anne Clayton; Financial Analysts Scott Denny, Terri Hemley, and Stacy Tamagni; and Administrative Assistant Deanne Gabrik.

The City Council will hold a work session concerning this budget proposal on May 30 and hold a public hearing to receive citizens' comments on the proposed budget on June 13.

The staff and I look forward to working with you as you review the proposed budget.

Very truly yours,

Martha Clark Lofgren



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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July 1, 2005

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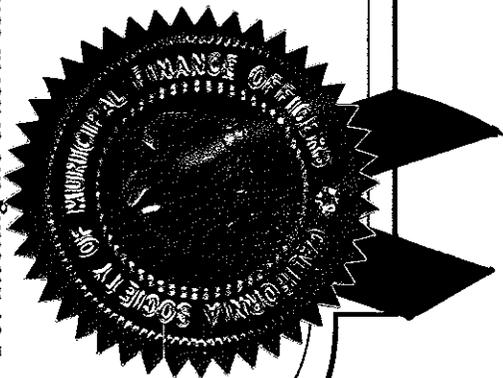
*Excellence in Operating Budgeting
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The California Society of Municipal Finance Officers (CSMFO) proudly presents this certificate to

The City of Folsom

For meeting the criteria established to achieve the EXCELLENCE AWARD in the OPERATING BUDGET CATEGORY.

February 23, 2006



Paul S. Shuter

President

Agnes J. Walker

Agnes Walker, Chair
Budgeting & Financial Management

The City of Folsom (the “City”) was founded in 1856, incorporated in 1946, and chartered in 1990. Folsom is a “full service” charter City, serving a population of over 63,800. The City is approximately 110 miles northeast of San Francisco and 20 miles east of Sacramento. The City is located along the eastern end of the Highway 50 corridor in an area of the Sacramento Valley that has experienced considerable industrial, residential, and commercial growth over the past 10 years.

Folsom is rich in history, established primarily by European and Asian prospectors during the early gold-rush era. Numerous antique dealers make the City one of the oldest and largest centers of the antique trade in the West. The City’s historical district includes the Folsom History Museum and the Folsom Hotel, a landmark since 1885.

Over 130 years ago Folsom was selected as the site for Folsom Prison to provide manpower for the construction of a larger dam and a powerhouse. The Prison has gained notability with the renowned song “Folsom Prison Blues” by Johnny Cash. The Powerhouse provided the world’s first long-distance transmission of electric power. In 1973 the Powerhouse was placed on the National Register of Historic Places and in 1982 was named a National Historic Landmark.

Folsom Lake and Lake Natoma are at the City’s borders offering an abundance of recreational activities. Folsom Lake State Recreation Area is one of the most popular multi-use, year-round recreational areas in the California State Park System. Each year visitors come to the 18,000-acre park—with 120 miles of shoreline—to fish, hike, camp, ride horseback, water ski, boat, swim, and study nature.

The Folsom Aquatic Center is a state-of-the-art swimming pool facility which includes a family play pool, interactive water play climbing structure, a warm water therapy/instructional pool, and an Olympic size pool. Over 100,000 visitors come each year to visit the Folsom Zoo Sanctuary, home to over 75 animals. Folsom Parks cover over 300 acres of playgrounds and recreational facilities. Additionally, Folsom Parks was the recipient of the 1999 Facility Design and Park Planning Award for the John Kemp Park from CPRS.

The City provides a number of municipal services including, administration, police, fire, recreation, parks, and public works. The City also has its own transit system, Folsom Stage Line, which provides local fixed routes, downtown and light rail commuter service, and a Dial-a-Ride program catered to the seniors and disabled citizens of the community.

The Folsom-Cordova Unified School District operates schools both in the City and in the Sacramento suburb of Rancho Cordova. In the City, the district has two high schools, four middle schools, and nineteen elementary schools serving over 18,000 students. Four of the schools, Natoma Station, Carl Sundahl, Folsom Hills Elementary, and Folsom Middle School, all received the highest rank possible on the State of California’s first Academic Performance Index (API) Report. Additionally, The Folsom Lake College campus is accredited as a branch of the Los Rios Community College District of Sacramento and serves the community of adults achieving higher education.

The City acknowledges the importance of and continually strives towards preserving, enhancing, and managing open space, oak trees, wetlands, and riparian habitats. Folsom has grown to over 15,000 acres, of which over 6,000 acres are parks, schools, and undeveloped open space. Folsom City is a beautiful and thriving community, and home to many families and businesses.



The format of the City budget document is divided into seven sections: Introduction, Budget Summaries, General Fund Summary, Departmental Presentations, Debt Management, Capital Improvement Plan (CIPs), and an Appendix.

Introduction

The Introduction section includes: City Manger’s Budget Message, Guide to the Budget, City Wide Organizational Chart, Vision, Mission, and Core Values of the City, Strategic Plan Goals, Budget Process, Calendar, and Management and Budget Policies.

Budget Summaries

The Budget Summaries section includes the following schedules encompassing all funds: Fund Description, Major Revenue Description, Appropriation Description, Summary of Revenues by Fund, Summary of Appropriations by Fund, Summary of Transfers, Vehicle Purchase Schedules, and Summary of Staffing Positions.

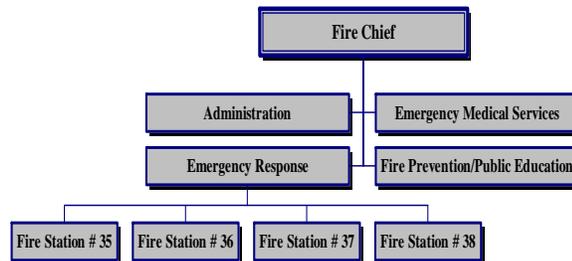
General Fund Summary

The General Fund Summary section includes the schedules pertaining specifically to the general fund.

Department Presentations

Organizational Chart:

Each Department presentation begins with an Organization Chart. Each chart displays the various functions within that department and their relationship to one another.



Mission Statement:

The Mission Statement outlines the objectives of each department.

Budget Summary:

The Budget Summary includes Expenditures, Number of Positions, and Funding Source. The Expenditure section may include some or all of the following: Salaries, Benefits, Operations and Maintenance, Capital Outlay, Transfer Out, Reimbursement, and Debt Service. The Number of Positions section includes only Full-Time and Permanent Part - Time positions. The Funding Source section will include the various sources of funding for the operation of the department.

Expenditure	Actual FY 2001-02	Budget FY 2002-03	Revised FY 2002-03	Proposed FY 2003-04	Change From 02-03 Budget
Salaries	\$37,200	\$37,200	\$37,200	\$37,200	0.00%
Benefits	\$29,337	\$45,634	\$45,634	\$61,584	34.95%
Operation & Maintenance	\$49,089	\$30,729	\$32,729	\$32,729	6.51%
Capital Outlay	\$0	\$0	\$0	\$0	0.00%
Total	\$115,626	\$113,563	\$115,563	\$131,513	15.81%
Full-Time Positions	5.00	5.00	5.00	5.00	0.00%
Part-Time Positions	0.00	0.00	0.00	0.00	0.00%
Funding Source					
General Fund	\$115,626	\$113,563	\$115,563	\$131,513	15.81%
Total Revenue	\$115,626	\$113,563	\$115,563	\$131,513	15.81%

Program Information:

Program Information includes a detailed description of the department and the specific functions and duties.

Accomplishments:

The Accomplishments are outlined in bullet format and represent each department's accomplishments for FY 2005-06.

Work Plans:

Outlined in a table format are the departments Work Plans or goals for the FY 2006-07. Each department has descriptive Objectives, Strategies, and Performance Indicators to keep track of their progress for years to come. Each Objective follows that Department's Strategic Goal, located at the beginning of each Work Plan, to continue making the City of Folsom a safe, healthy, and vibrant community.

Objective : To go beyond current repair standards. (Strategic Plan Goal V, Objective 4)	Strategies: To train and use to ensure that a vehicle is safe and dependable. (Fleet Management)												
	<table border="1"> <thead> <tr> <th>Indicator</th> <th>Actual 2003</th> <th>Budget 2004</th> <th>Budget 2005</th> </tr> </thead> <tbody> <tr> <td>Reduction in down time and return repair</td> <td>N/A</td> <td>N/A</td> <td>7%</td> </tr> <tr> <td>Percentage of records of CHP inspections completed on time</td> <td>95%</td> <td>95%</td> <td>95%</td> </tr> </tbody> </table>	Indicator	Actual 2003	Budget 2004	Budget 2005	Reduction in down time and return repair	N/A	N/A	7%	Percentage of records of CHP inspections completed on time	95%	95%	95%
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Customer Service Performance Indicators:

A new performance measure for FY 2006-07 is the departmental customer service performance indicator. As part of the city's ongoing process improvement, each department has identified key customer service performance indicators and targets that will track their customer service to both external and internal customers.

Performance Indicator	Actual 2004-05	Projected 2005-06	Budget 2006-07
Return calls for Customer Billing Inquiries			95% within 1 Business Day

Key Issues:

FY 2006-07 issues and future issues identified by departments.

Position Information:

The Position Information Table provides more specific information beyond the number of positions that the Budget Summary provides. Included are position titles with salary and benefit estimates.

Position	FY	FY	Salary		Total
	2002-03	2003-04	Estimate	Benefit	
Personnel Director	1	1	101,180	37,564	138,744
Administrative Analyst	0	1	60,107	31,455	91,562
Administrative Assistant	2	2	89,302	43,709	133,011
Clerk Typist II	0.75	0	-	-	-
Personnel Analyst	1	0	-	-	-
Personnel Manager	0	1	84,586	35,162	119,748
Personnel Technician	1	1	51,499	22,548	74,047
Secretary II	0	1	33,185	21,095	54,280
TOTAL	5.75	7	419,860	191,531	611,391

Major Contracts:

Major Contracts are defined as any contract over \$25,000. At the end of each department presentation is a table for all Major Contracts for that entire department.

New or Replacement Vehicles:

At the end of each department presentation is a table for all New or Replacement Vehicles.

Debt Management

The Debt Management section includes Credit Ratings, Types of Debt Financing Instruments, Legal Debt Margin, and a Summary of Debt Positions.

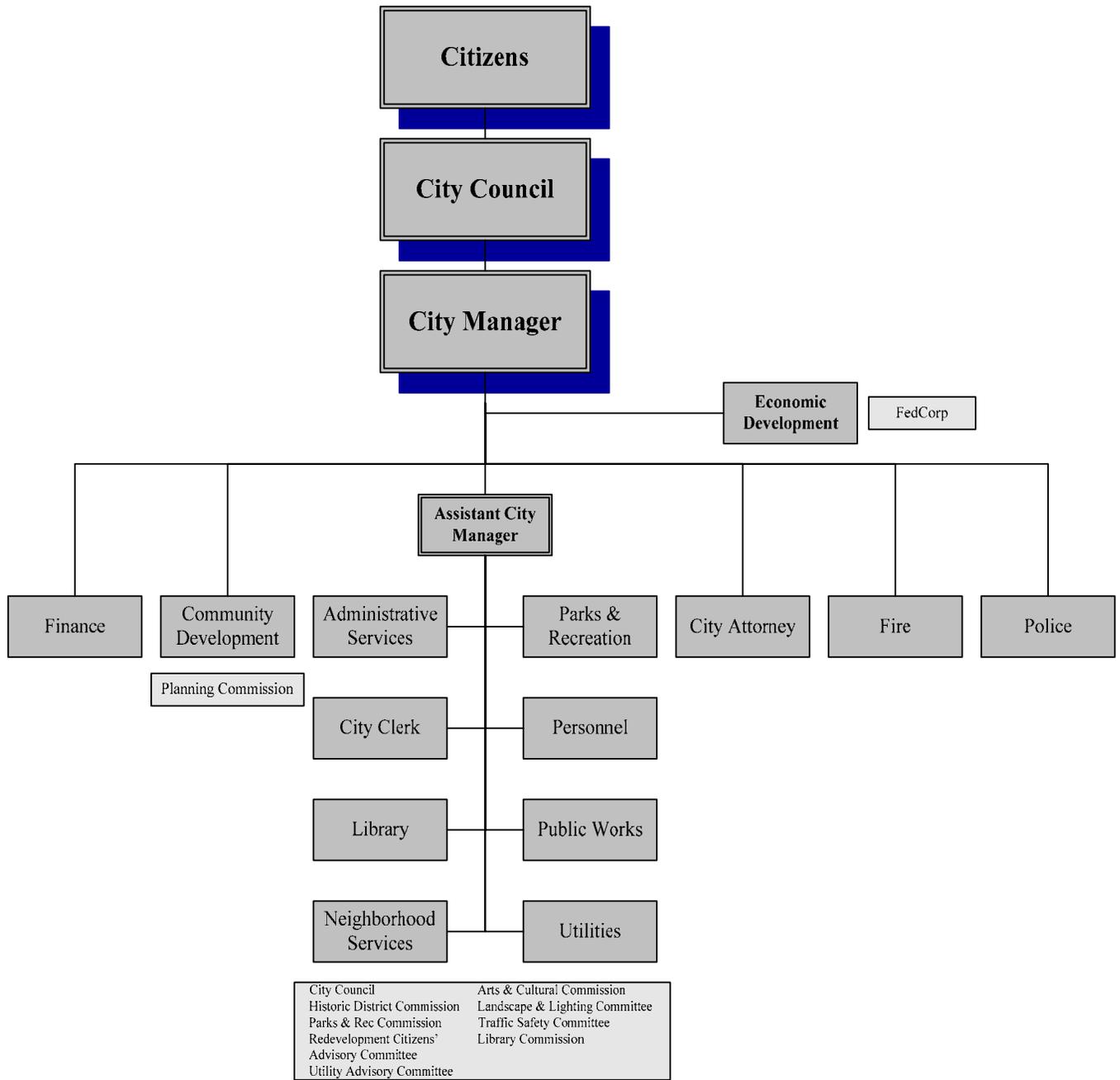
Capital Improvement Plan (CIP)

The budget document also includes a proposed Capital Improvement Plan (CIP) for all capital improvements with a useful life of at least ten years and a total project cost of at least \$100,000. The CIP is developed over a six-year planning horizon and will be updated annually. The inclusion of a project in the CIP in future years shows the intent to fund the project. Circumstances and priorities may change. Each project is reevaluated in subsequent fiscal years and therefore only the first year of the plan is appropriated.

Appendix

The Appendix includes a City Profile, Demographics, Major Employers in the City, the Appropriation Limit, the City Council Resolution Adopting the Budget and Strategic Plan, a Directory of Acronyms, and an Index.

City Organizational Chart



Vision, Mission and Core Values

Vision Statement of the City of Folsom

The City of Folsom strives to be a role model and regional leader that blends its rich historical roots and diverse recreational and business resources into a great community.

Mission Statement of the City of Folsom

The City of Folsom will provide a safe, healthy, and vibrant community through innovative, responsive, and effective delivery of public services to maintain and enhance the quality of life of our residents.

Core Values

Integrity

We act with integrity, doing what is legally and ethically correct. We recommend the right course of action even if it is unpopular.

Professionalism

We are committed to excellence. We are responsive and accountable.

Teamwork

Collaboration, communication, and cooperation are essential to our success. We consider all stakeholders to be an integral part of serving the public.

Trust and Respect

We are free to express opinions, we listen to understand, and we encourage responsible decision making at all levels.

Innovation

We foster innovation as a means to achieve quality and cost effectiveness. We value employees who demonstrate initiative and creativity.

Workplace of Choice

We have a sense of purpose, take pride in accomplishments, demonstrate compassion for each other, and celebrate our successes.

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Budget Process & Calendar

The Finance Department has a Budget Preparation Manual and a Capital Improvements Plan Manual to assist the department. The manuals contain and explain policies, procedures, budget schedule which highlights the milestones and due dates, and forms to be used in the budget process.

On January 2006, the manuals were distributed at a Budget and CIP Kick-off workshop held with the City Manager and the Executive Management Team. This workshop included a briefing on the status of the current fiscal year budget, a review of the FY 2006-07 schedule and budget process, including changes in the process, and a discussion on essential principles and elements of the budget process.

Departments were requested to prepare budget requests based on the following criterion:

1. Appropriation Target:

Regardless of funding sources, the FY 2006-07 appropriation target for each department is the originally adopted appropriation for FY 2005-06, adjusted for salary and benefits as required by various memoranda of understanding.

2. Alignment with Strategic Plan:

Budget requests should support the achievement of the current strategic goals.

3. Work Plan and Performance Indicators:

The work plan includes information on specific departmental goals, the measurable objectives for progress in achieving the departmental goals, and the strategies that departments plan to use during FY 2006-07. Additionally for FY 2006-07, departments developed customer service performance indicators to track key customers service measures for both external and internal customers

The initial analysis of the departments' operating and CIP budgets was performed by the Budget Manager and Financial Analysis and Reporting. Meetings with the Budget Manager and the departments clarified departmental requests and prioritized proposed increases to departmental budgets. Additionally, departmental budget hearings were scheduled, where each department had an opportunity to present their budget to the City Manager, the Assistant City Manager, the Chief Financial Officer, and the Budget and Evaluation Manager.

The Folsom Municipal Code requires that the budget for the ensuing fiscal year shall be presented to the City Council on or before the first working day of the last month of each fiscal year. A budget workshop will be held on May 30 with the City Council to receive public comment and to review the components of the proposed budget, prior to formal consideration for adoption.

Budgets are adopted on a basis consistent with generally accepted accounting principles. The City Council adopts the annual budget submitted by the City Manager prior to the beginning of the new fiscal year. All appropriations lapse at year-end except for those relating to encumbrances, which are approved for carryover to the subsequent year. The City Manager has

the authority to make adjustments within departmental budgets. Adjustments between funds require the approval of the City Council.

Budgetary controls are maintained to ensure compliance with the budget as approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the fund and department level.

Department directors and other management staff with budgetary responsibilities are provided with a monthly budget versus actual expenditure report. Quarterly financial statements are prepared for the City Council, which include a budget-to-actual analysis for both revenues and expenditures. Revenue projections are revised as part of the mid-year budget analysis, and appropriations are adjusted, if required.

January 2006	<ul style="list-style-type: none"> ✓ Budget & CIP Kick-off
February	<ul style="list-style-type: none"> ✓ Operating Budgets and CIPs due to Finance Department ✓ Accomplishments, Key Issues and Performance Measures
March	<ul style="list-style-type: none"> ✓ Mid-Year 2005-06 Budget Review ✓ Finance reviews Budgets with Departments
April	<ul style="list-style-type: none"> ✓ Budget Hearings with the City Manager, Assistant City Manager, Finance Director, and Budget Manager
May	<ul style="list-style-type: none"> ✓ City Manager presents Preliminary Budget to City Council ✓ City Council Budget Workshop
June	<ul style="list-style-type: none"> ✓ City Council adopts Final Budget ✓ Finance Department implements Adopted Budget
Ongoing	<ul style="list-style-type: none"> ✓ Budget is monitored through quarterly financial statements to City Council

Management & Budget Policies

On May 25, 2004, the City Council adopted policies pertaining to the City's finances. Below is a summary of those adopted policies.

Financial Plan

A. Through the Financial Plan (the budget document), the City will link resources with results by:

1. Identifying community needs for essential services.
2. Organizing the programs required to provide these essential services.
3. Establishing program policies and goals that define the nature and level of program services required.
4. Identifying activities performed in delivering program services.
5. Proposing objectives for improving the delivery of program services.
6. Identifying and appropriating the resources required in performing program activities, and accomplishing program objectives.
7. Setting standards to measure and evaluate:
 - a. Output of program activities.
 - b. Accomplishment of program objectives.
 - c. Expenditure of program appropriations.

B. Multi Year Financial Planning:

In order to determine the effect of current year decisions on the City's future, a five year financial forecast, projecting revenues and expenditures for all operating funds, shall be developed as a part of each year's budget process and shall be updated during the mid year budget review. This tool shall be used as a planning document for developing the budget guidelines and for evaluating the future impact of current year decisions.

C. Planning for Long Term Liabilities:

To avoid future financial burdens that could affect financial stability, the City shall proactively plan for potential liabilities, such as leave payouts, pension plans, retiree health costs, state and/or federal unfunded mandates.

D. Mid-Year Budget Review:

Approximately six months after the beginning of the fiscal year, the City Council will formally review the City's fiscal condition and amend appropriations if necessary.

E. Balanced Budget:

Section 5.05 (f) of the Folsom City Charter prohibits over expenditures. The Charter requires that the total of proposed expenditures shall not exceed the total of estimated revenues plus carried forward fund balance, exclusive of reserves, for any fund.

Basis of Accounting and Budget

Basis of accounting and budget refers to the concept of recognizing the time a transaction has occurred for the purpose of recording that transaction.

A. Governmental Funds:

The governmental funds use a modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Expenditures generally are recorded when a related liability is incurred, as under accrual accounting.

B. Proprietary Funds:

The proprietary funds use a full accrual basis of accounting, which recognizes revenues when earned, and expenses are recorded when a liability is incurred.

C. Fiduciary Funds:

The fiduciary funds are treated according to the nature of the fund. Agency funds are custodial in nature (assets equal liabilities) and do not measure results of operations. Fiduciary funds use a modified accrual basis.

D. Account Groups:

The account groups employed by the City are not funds and do not reflect available financial resources and related liabilities. They are accounting records of the general fixed assets and general long-term debt of the City and are not intended to measure or portray financial flows or net income.

The Annual Budget shall comply with the provisions of Section 5.05 (Budget and Accounting) of the Folsom City Charter and Chapter 3.02 (Budgeting, Accounting and Fiscal Procedures) of the Folsom Municipal Code. The Annual Budget shall meet the following criteria:

A. Balanced Budget:

The City shall maintain a balanced budget. The total of proposed expenditures shall not exceed the total of estimated revenues plus carried forward fund balance, exclusive of reserves, for any fund.

B. Structural Balance:

The Annual Budget shall clearly identify anticipated revenue for all funds for the upcoming fiscal year. Current revenue shall be sufficient to support current expenditures (defined as “structural balance”). Estimates of current revenue shall not include beginning fund balances (whether General Fund, Revenue Funds, or other Specially Designated Funds). Any unreserved fund balance available at the commencement of a fiscal year shall generally be used only to fund capital items in the operating budget or in the capital improvement plan. If projected revenue is insufficient to support projected funding requirements, the City Manager and Chief Financial Officer may recommend

allocation of all or a portion of an unreserved fund balance if it appears that (1) the revenue source leading to the development of the available revenues is likely to remain stable in future years, (2) the expenditure requiring the appropriation of additional revenues is not likely to be recurring, or (3) the City Manager and Chief Financial Officer can otherwise establish an appropriate match of revenue/expenditures that will not lead to structural imbalance in future years.

C. Appropriations Limit:

Appropriations in the Annual Budget shall comply with the annual determination of the City's appropriations limit, calculated in accordance with Article XIII B of the Constitution of the State of California and Government Code section 7900.

D. Operating Carryover:

Operating program appropriations not spent during the fiscal year shall lapse at year end, except for long term projects in progress that are carried forward to the following year and reserved for encumbrances.

E. One-Time Revenues:

One-time revenues shall only be used for one-time expenditures. Prior to allocating any one time revenues, the Chief Financial Officer shall determine that such revenues are not being used to subsidize an imbalance between operating revenues and expenditures. If the Chief Financial Officer determines that one time revenues are needed to correct a structural imbalance, the Chief Financial Officer shall present the City Manager and City Council with a financial forecast demonstrating that the operating deficit will not continue.

F. Internal Service Funds:

The City may establish and operate one or more Internal Service Funds. Internal Service Funds shall be created to report any services that are provided to other City departments and the Cost Allocation Plan does not recoup that cost. At the same time that it adopts the budget ordinance, the City Council must approve a balanced financial plan for each Internal Service Fund. A financial plan is balanced when estimated expenditures do not exceed estimated revenue.

G. Maintenance Accounts:

Equipment and buildings shall be maintained at reasonable levels to avoid service disruptions, and to achieve maximum useful life, and to ensure safety of employees and the public. Maintenance and replacement funding shall be allocated each year consistent with this policy.

H. Level of Contingency Appropriations:

A General Fund Contingency of 1% of total budgeted departmental expenditures shall be budgeted annually. The Contingency Appropriation may be used to provide for unanticipated or unforeseen needs that arise during the year. Funds shall be allocated from the Contingency Fund only after an analysis has been prepared and presented by the Chief Financial Officer and City Manager to the City Council outlining the initial and recurring costs associated with the proposed expenditure. The Contingency Fund will be exhausted prior to any utilization of Undesignated Fund Balance.

I. Strategic Plan Objectives:

The Annual Budget shall establish measurable program objectives consistent with the City's Strategic Plan. The status of major program objectives identified in the Annual Budget and the Strategic Plan shall be formally reported as part of the Quarterly Financial Report.

Financial Reporting and Budget Administration**A. Annual Financial Reporting:**

Annually, the City prepares a budget and a comprehensive annual financial report. These and all other financial reports are prepared with the informational needs of the public and the City Council in mind, as well as meeting the requirements of generally accepted accounting principles, audit standards and the reporting requirements of other governments.

- *Annual Budget*

The City's annual budget includes a budget message by the City Manager for the ensuing fiscal year. The budget message provides an explanation of the budget in fiscal terms and in terms of the City's work programs, major changes in financial policies, expenditures, revenues and debt position. The budget also contains proposed goals, objectives and appropriations for each fund by organization unit and program. The City's annual budget is prepared under the guidelines of the Government Finance Officer's Association of the United States and Canada (GFOA) Distinguished Budget Presentation Awards Program.

- *Comprehensive Annual Financial Report*

The City prepares a comprehensive annual financial report (CAFR) at the end of each fiscal year. The report contains the independent auditor's report and financial statements of the City, along with operating results, statistical and demographic information about the City. This report is prepared under the guidelines of the GFOA for Certificate of

Achievement for Excellence in Financial Reporting Program. The City has been awarded the Certificate of Achievement by the GFOA for the last fifteen consecutive years.

B. Interim Financial Reporting:

- *Quarterly Financial Report*

The City Manager and the Finance Director submit a Quarterly Financial Report to the City Council after the end of each quarter during the fiscal year. The report is required under the City Charter, and provides an analysis of budgeted versus actual revenues and appropriations, expenditures and encumbrances on a year-to-date basis.

- *Investment Report*

The City's Treasurer provides monthly investment reports to the City Council on a quarterly basis. These reports include the elements required under the California Government Code Section 53646.

C. Budget Administration:

As set forth in the City Charter, prior to the City Council making any supplemental appropriation, the City Manager shall certify that monies in excess of those estimated in the budget are available for appropriation. Any such supplemental appropriation may be made for the fiscal year by resolution up to the amount of any excess.

For emergency appropriations, the City Council, by four-fifths vote only, can make emergency appropriations to respond to a public emergency affecting life, health, public welfare, property or the public peace.

Appropriations may be reduced any time during the fiscal year by the City Council or City Manager if it appears probable that either the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized.

The City Manager may transfer monies between departments and divisions, programs and accounts within departments and divisions. All such transfers made by the City Manager are reported in writing quarterly to the City Council. Only the City Council, by resolution, may transfer monies between funds and from unappropriated balances or fund balances to any fund or appropriation account.

D. Cost Allocation:

The City of Folsom contracts with a consultant for the Cost Allocation Plan.

Through meetings with the staff of support departments, a list of services was developed. Time of support department staff was allocated to the sub pools within that department. These allocations were then reviewed numerous times until staff felt comfortable with the allocations. The time allocations were applied to the fully allocated hourly rates developed for each position to arrive at the costs for each sub pool.

Once the costs of each sub-pool was defined, an equitable and easily reproducible means of spreading those costs was developed. Therefore, an allocation factor is developed for each sub pool. The allocation factor varies for each sub pool, depending on what makes sense for the service being provided and also uses data that is, or can be, compiled

without creating a major research project for staff. The sub pool costs are then allocated based on the allocation factors.

Since support departments collaborate to provide services to each other as well as end user departments, those costs must be allocated as well. The costs that are allocated to support departments must then be re-allocated. This process is repeated 20 times in order to allocate all of the costs to end user departments. The end result is the cost of the internal support provided to each end user department.

Appropriations Limit

A. Annual Resolution:

The City Council annually adopts a resolution establishing the City's appropriations limit calculated in accordance with Article XIIB of the Constitution of the State of California, Section 7900 of the State of California Government Code. A description of the City's appropriation limit for FY 2005-06 is presented in the Appendix of this budget document.

Investments

The City's Statement of Investment Policy is reviewed and adopted annually by the City Council as required under the California Government Code Section 53646. The major objectives of the City's investment policy are as follows:

A. Safety:

Investment transactions are made to minimize credit risk and ensure the preservation of capital in the portfolio. The City limits investments to the safest types of investment grade securities and diversifies them among a variety of securities and financial institutions offering independent returns.

B. Liquidity:

Sufficient liquidity in the investment portfolio is maintained to enable the City to meet all reasonably anticipated cash flow requirements. Liquidity is accomplished by investing operating funds in primarily shorter-term securities and structuring the portfolio so that investments mature concurrent to meet anticipated demands. Emphasis is placed on securities with low sensitivity to market risk.

C. Return on Investment:

Investment earnings are secondary to meeting the basic requirements of safety and liquidity. The investment portfolio is managed to attain a benchmark rate of return throughout budgetary and economic cycles. The benchmark rate of return against which the portfolio's performance is measured is the U.S. Treasury's one-year Treasury note as the weighted average maturity of the City's portfolio typically averages one year or less.

Capital Improvement Management

A. Capital Improvement Plan (CIP) Purpose:

The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP plan encompasses five or more years and is organized into comparable functional groupings used for the operating programs.

B. Project Manager:

Every CIP project has a project manager who prepares the project proposal, ensures that required phases are completed on schedule, authorizes all project expenditures, ensures that all regulations and laws are observed, and periodically reports project status.

C. CIP Appropriation:

The City's annual CIP appropriation is based on the projects listed in the first fiscal year covered by the Financial Plan, through adoption by resolution on or before the beginning of the first fiscal year.

Debt Management

The City's Debt Management Policies are discussed in the Debt Management section of this budget document.