



CITY HALL
13777 FRUITVALE AVENUE
SARATOGA, CALIFORNIA 95070
(408) 868-1200

June 3, 2009

Honorable Mayor and Council members:

Shortly after the 2008/09 fiscal year (FY) budget was adopted, the national and regional economy entered into a recession. During this period, revenues supporting the fee for service departments sharply declined. This reduction in fees is expected to continue into FY 2009/10. Therefore, the City has undertaken cost-cutting measures in the two departments that are most significantly impacted by the change in fees.

One of the affected departments, Community Development, operates on a cost recovery basis. The Community Development Department receives the majority of its revenues from planning applications and building permits. The Recreation Department, the other department that has seen a drop in fees, is required by Council budget policy to recover 65% of its expenses each year. Despite the economic impact on the Community Development and Recreation Departments, the City's general fund revenues held steady during this period with some slippage in interest earnings and sales tax revenue towards the end of the fiscal year.

In addition to loss of fees, the State of California's difficult budget adoption has also affected the City. While funding from the State has remained intact, some payments have been delayed. Furthermore, the League of California Cities notified municipalities that the State Department of Finance is presenting the Governor with a May budget revision option that would allow the State to borrow 8% of city, county, and special district property tax revenues to help close the deficit in the State's FY 2009/10 budget. If this revision is adopted, cities can expect significant losses. For Saratoga, preliminary estimates are up to \$650,000. Reserves from FY 2007/08 have been set aside to mitigate the impacts of this possibility.

Despite the economic challenges of this budget year, the City of Saratoga's FY 2009/10 budget is balanced. However, for the first time in eight years, no excess fund balance is projected for the end of the fiscal year.

Community Development

The Planning Division's development revenues in both FY 2008/09 and FY 2009/10 reflect a severe downturn in the economy—fewer applications are being received for new projects, previously approved projects are not being built, and some applicants have withdrawn their applications. The Council's directive to the Community Development Department has been to provide services at full cost recovery levels. With fewer development applications to process and a loss in revenues, the department is pursuing aggressive cost cutting measures that will bring expenses back into balance with anticipated revenues. Estimated revenues were developed using average fees for building and planning since the sharp drop-off that began in October 2008. The following measures have been undertaken to reduce expenditures:

- One Planner and one Building Inspector position have been eliminated from the departmental budget.
- With fewer development applications, Planning consultants used to process overflow work are no longer necessary and funding for this has been eliminated from the budget.
- Advanced planning activities will be handled by Planning staff instead of consultants.

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- Planning staff will mail out development notices, rather than using contractors.
- Transcription services for detailed minutes were eliminated; staff will develop action minutes.
- An attorney will no longer be present at Planning Commission meetings.

Consequences of these cutbacks in the Community Development Department will be as follows:

- The Planning and Building counters will be closed every Friday.
- Turn around on requests for building permit inspections will increase from 24 hour to 48 hours.
- Items in the Planning work plan may take longer to accomplish.

Recreation Department

Fee-for-service revenue also dropped considerably in the Recreation Department. While this Department has not seen the same losses as the Community Development Department, the shortfall has required the City to take action to cut costs to balance the departmental budget and recoup 65% of the Department's expenditures. The Department is taking the following actions to meet their cost recovery requirements and minimize expenses:

- Maintain Recreation Coordinator position (currently vacant) open and unfilled for FY 2009/10.
- Reduce an Account Clerk position from full-time to .75 FTE
- Reduce excursion activities by 50%.
- The FY 2009/10 teen services budget reflects a reduced staffing level from last year.
- Operating expenses were also reduced.

The measures taken above will mean that the number of class offerings, camps, and excursions offered in FY 2009/10 will be reduced. The Department will focus its efforts on profitable recreational activities.

General Fund

After significant cuts to the two fee-for-service departments, the Community Development Department still had a shortfall of approximately \$150,000. Therefore, general fund expenditures have been reduced to compensate for the loss of revenue in the Community Development Department. Some of the most significant cuts made to balance the budget are noted below.

- The Executive Assistant to the City Manager position will be reduced from full time to .75 FTE, limiting the assistant's position to eight-hour days, Monday through Thursday.
- Reduction of temporary employee hours in the Administrative Services Department.
- Reduced Internal Service Fund charge backs.
- The CAL-ID program was eliminated and service will be provided through the Sheriff's Office.
- Reduction in staff training budget.

CIP Projects for this year:

No funds for new CIP projects are forecasted. Ongoing CIP projects of significance include:

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- Kevin Moran Park –Finalize improvements for Kevin Moran Park in accordance with the recommendations of the Kevin Moran Park Improvement Task Force. Planned improvements include the construction of new park facilities, including a tennis court, two bocce courts, new grass areas, picnic areas, and a restroom. Park construction is scheduled to be finished in July 2009.
- North Campus –Fellowship Hall Improvements – This project continues the work at North Campus to create two functional and fully accessible buildings for multi-purpose public use. The Fellowship Hall project includes the addition of two fully disabled-accessible restrooms, and an updated kitchen. Projected completion date is July 2009. The Recreation Department has already had inquiries about renting the remodeled facility.
- Village Streetscape Improvements – This project includes pedestrian safety enhancements, general improvements and beautification, and repair to sidewalks. The Council approved conceptual Design Plans by Gates and Associates on April 1, 2009. The project is to go out to bid in July 2009 with planned completion in spring 2010.
- Pavement Management Program –This yearly project has been augmented with Federal Stimulus funds. Saratoga Avenue from the City limits at Prospect Avenue to Highway 85 will be repaired with funds provided by Federal Stimulus Funds

Conclusion

In conclusion, as in past years, the City is taking a measured and prudent approach by modestly reducing staffing costs, curtailing new spending, working to stabilize revenues, and undertaking operational efficiencies to better use existing resources.

Given the uncertainty of the economy, pending news from the State about their intentions to redirect monies from municipalities, and continuing problems in the housing market, the City continues its focus on the cost-effective provision of high quality, essential services to the residents of Saratoga. Even with the current economic situation, staff is presenting the Council with a balanced budget for fiscal year 2009/10.

I would like to thank all of the departments for their participation in preparation of this document and, in particular Mary Furey, Finance & Administrative Services Director.

Respectfully Submitted,



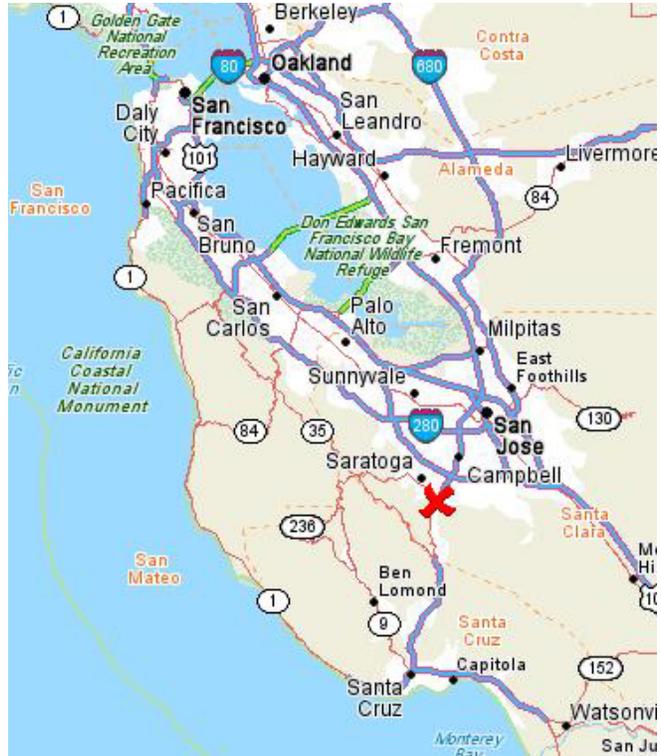
Dave Anderson
City Manager



HISTORY AND CULTURE OF SARATOGA

Located in the foothills of the Santa Cruz Mountains, approximately 26 miles east of the Pacific Coast, 10 miles southwest of San Jose, and 50 miles south of San Francisco, the City of Saratoga runs along the western edge of Santa Clara County. Although the incorporated City of Saratoga dates back only to 1956, the town had its beginning more than a century earlier when William Campbell built a sawmill here in 1848, about two and one-half miles above the present downtown village, along what is now State Highway 9. Having spent the winter of 1846/47 in the abandoned adobe buildings of Mission Santa Clara, Campbell correctly surmised that the settlers who were beginning to come to the Santa Clara Valley would want to build sturdy wood houses, reminiscent of the homes they had left in the East.

With this belief, William Campbell started a sawmill operation along the stream here in 1847. It was delayed however after another millwright constructing a sawmill at the western base of the Sierra mountains a hundred and fifty miles northeast found gold flakes in the American River, touching off the 1849 California Gold Rush. While no such discovery occurred here, there were later reports of copper and silver deposits in the region. Instead, for more than half a century, the wealth of the local mountains was in timber, mostly redwood, and the settlement that later became Saratoga owes its start and early development to that wealth.



In 1850, Martin McCarty leased the sawmill Campbell had started, and set about to improve its access by building a road to the site. To recoup his investment, McCarty erected a tollgate near the present intersection of Third Street and Big Basin Way, and charged a fee for the use of the road. It was common practice in those early days for roads to be built on a private-enterprise basis, then after a period of time, the counties would take them over and maintain them as public thoroughfares. In McCarty's case, although the tollgate was used for only about a year, it was sufficient for the settlement to be known as Tollgate for some years afterward.

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Due to the natural resources in the area, the town had a brief industrial era. With the abundance of lumber products, a tannery and paper mills were built along the stream, as well as several flour mills, and a furniture factory in town. Due to the collection of mills, the settlement's post office was given the name of Bank Mills in 1863. Shortly thereafter, the discovery of local mineral springs with a chemical content similar to that of Congress Spring at Saratoga Springs, New York, led to the renaming of the settlement to Saratoga in 1865.

In the latter part of the 1800's, the area's fertile soil and available land saw the emergence of another industry - agriculture. Apricots, cherries and French prunes were particularly well-suited to Saratoga's soil and climate. During the late 1880's, the hillsides were found to be conducive to viticulture and many wineries were established. In 1890, Saratoga became the home of the world-renowned Paul Masson Winery. Convinced that the rich California soil could produce grapes for champagnes comparable to those of France, the French immigrant Masson brought grape cuttings from his native land to plant on the hillsides.



Saratoga developed into a pleasant village as it became the trading center for the surrounding fruit-growing farms. The mountain setting and mild climate also made Saratoga a popular resort area. The elaborate resort hotel Pacific Congress Springs, flourished for almost forty years about two miles above the village, until it was destroyed by fire in 1903. The resort image lingered through succeeding years, even as agriculture became the dominant industry in Saratoga and the Santa Clara Valley.

During the early 1900's, Saratoga had an enviable reputation as a highly desirable place to live. The Interurban Rapid Transit of the day began service which connected Saratoga with the rest of the Santa Clara Valley and beyond. Saratoga soon became a haven for wealthy San Franciscans who came to build elegant hillside homes overlooking the lush valley. One of these was the palatial Mediterranean-style home of the United States Senator James Phelan. His Villa Montalvo is now a center for the cultural arts.



After World War II, the valley's rapid urbanization changed the character of Saratoga from agricultural to suburban. As space technology and the defense and electronics industries were established in nearby communities, Saratoga's open land soon became more valuable for homes for the rapidly growing population, than it was for fruit orchards, although some vineyards and a few scattered orchards do remain as a reminder of the bygone era. The City of Saratoga strives to maintain these elements of its natural beauty and colorful past through careful zoning policies and historic preservation.

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Public interest was stirred to new heights in the mid-1950s when, with orchards giving way to subdivisions, the annexation designs of the City of San Jose became obvious. As a result of this concern, Saratogans voted to incorporate in 1956 and to establish their own city government.

Saratoga Today

The City of Saratoga, as it exists today, is an attractive residential community of 31,679 (January 1, 2009) known for its excellent schools and prestigious neighborhoods. The community's historic downtown



district, known as "The Village", has distinctive dining, unique shops, and numerous buildings dating back to the late 1800's and early 1900's. Saratoga residents place an emphasis on historical preservation, and on retaining the quality of the city's semi-rural ambiance. The City also is home to Villa Montalvo, the former home of Senator James Duval Phelan which hosts an art gallery, an artist in residence program, concert performances, park trails and grounds. Additionally, the former Paul Masson homestead and winery in the Saratoga foothills, now known as the "Mountain Winery", features world-class concerts each spring and summer. And Hakone

Gardens, the oldest Japanese-style residential garden in the Western Hemisphere, maintained and run by the Hakone Foundation, lies just outside of the Village offering classes, festivals, and Japanese culture.

City Government

The City of Saratoga was incorporated in 1956 and operates under a Council/Manager form of government. The City government receives most of its revenue from property tax, although the City's share of property tax receipts is only about 5.45% of the 1% assessment Saratoga property owners pay. This "low tax" status limits the City to providing minimal services to its residents. Staffing is low for a city this size (58.35 FTE) with many services provided on contract.

In addition, with the relatively late incorporation of the city after the community had developed, many school districts and utility districts were already in place, meaning more than one pre-existing district may serve within City of Saratoga boundaries. Public safety services are provided by other governmental organizations, including the Saratoga Fire Protection District and the Santa Clara County Fire Department through property tax allocation agreements, and by the Santa Clara County Sheriff's Office by city contract. Animal control services are contracted with the City of San Jose.

The City's departments are structured by function, and include Public Works – which oversees city infrastructure maintenance and projects, Community Development – which guides the physical growth of the City through planning, zoning, and code compliance, Recreation and Facilities – which provides recreation programs and maintains city facilities, Administrative Services – which provides oversight and support for the City's financial, administrative, and technology operations, and the City Manager's Department – which provides oversight and guidance for the all City functions, and legislative and administrative support for the City Council and Commissions.

Transportation

Saratoga is part of a comprehensive transportation network that links the City to other Silicon Valley cities and beyond through roadways, bikeways, and mass transit systems, including the bus and light rail systems, the Caltrain system, and to the Mineta International Airport in San Jose. Bus routes provide

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inter-city transportation needs with access to the Village, schools, the community college, and local office and shopping markets. Highway 85 runs through Saratoga, providing linkage to other area freeways and major cities. San Francisco is 47 miles north, and Santa Cruz is about 26 miles southwest. The tourist havens of Monterey and Carmel are approximately 65 and 73 miles south of Saratoga, respectively.

Schools

The City of Saratoga is served by 6 different schools districts, which include Saratoga Union School District, Cupertino Union School District, Campbell Union School District, Los Gatos-Saratoga High School District, Campbell Union High School District, and Fremont Union High School District.

The schools in these districts that serve Saratoga residents are among the best in the nation. Saratoga High School and Monte Vista High School have been ranked by U.S. News & World Report within the top 100 schools in the country.

City of Saratoga Vision

The City of Saratoga strives to maintain a high quality of life for its residents through careful planning and infrastructure maintenance, through activities to build community, and by providing opportunities for extensive citizen participation in community issues. Succinctly, the vision for our City is that:

Saratoga is a Community

- Where the common good prevails;
- Where the natural beauty of the City and its hillsides is preserved;
- Where historic assets are preserved and promoted;
- Where local commerce provides a vibrant presence in the Village and the other commercial areas;
- Where the orientation is toward the family;
- Where homes and neighborhoods are safe and peaceful;
- Where government is inclusive and values community involvement;
- Where desirable recreational and leisure opportunities are provided;
- Where quality education is provided and valued;
- Where value is placed on an attractive, well maintained and well planned community;
- Where government provides high quality, basic services in a cost effective manner;
- Where a small town, picturesque, residential atmosphere is retained;
- Where the arts and cultural activities which serve the community and the region are promoted;
- Where neighbors work together for the common good;
- Where leadership reflects community goals; and
- Where, because of the forgoing, the citizens and the families of Saratoga can genuinely enjoy being a part of and proud of this special community.

CITY COMMISSIONS

Finance Committee

The Finance Committee (previously termed the Finance Advisory Committee and the Finance Commission) was originally formed in 1981 to advise the City Council on financial matters pertaining to the governing of the City, as well as on the use of fiscal resources and the development of technology for the City. In 2007, the Council reconstituted the Finance Commission as a Finance Committee to review financial matters with the City's Finance Director in preparation for the City Council meetings. The Committee consists of two Council members who each serve one year terms of office, and will meet on as-needed basis.

Heritage Preservation Commission

The Heritage Preservation Commission functions as a liaison working in conjunction with the Council, the Planning Commission, and the agencies and departments of the City to implement the City's Heritage Preservation Ordinance. The Commission's scope includes property surveys within the boundaries of the City of Saratoga for the purpose of establishing an official inventory of heritage resources and recommending to the City council specific proposals for designation as a historic landmark, heritage lane or historic district. One member is nominated by the Saratoga Historical Foundation and two members must be trained and experienced in the field of construction and structural rehabilitation, such as a licensed architect, engineer, contractor or urban planner.

Library Commission

The Library Commission provides counsel and recommendations on library policies, budgets, plans and procedures to the City Council, City staff, the Santa Clara County Library staff, and the Saratoga Library Supervisor. The Library Commission has no administrative authority over the library's operations but does participate in the general planning of the library operation and library-related programs and policies. One member is nominated by the City of Monte Sereno.

Parks and Recreation Commission

The Parks and Recreation Commission advises the Council on a variety of matters as they relate to parks and recreation. Principally, the commission serves as a conduit between the public and the Council, assesses public input, collects information, and makes recommendations to the Saratoga City Council. After being suspended for several years, the Parks and Recreation Commission was reinstated by the Council on May 16, 2007.

Pedestrian, Equestrian, and Bicycle Trails Advisory Committee

It is the mission of the Pedestrian, Equestrian, and Bicycle Trails Advisory Committee to advise the city regarding the planning, acquisition, and development of trails and sidewalks and to maintain the trails network to enhance the quality of life in Saratoga.

Planning Commission

The Planning Commission advises the City Council on land use matters such as the General Plan and specific plans, zoning and subdivisions. The Commission plans for the future orderly physical

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development of the City and informs and educates the public on current land use and urban planning issues. In many areas the Planning Commission also acts as a legislative body in making determinations within the framework of applicable State laws and City ordinances. Ultimate decisions on land use reside with the City Council. Members are required by State law to file an annual statement of economic interests.

Traffic Safety Commission

The Traffic Safety Commission investigates reviews and analyzes traffic safety issues raised by the Community members and Public Safety Agencies. It provides a venue for the public to express concerns regarding traffic safety issues. The Traffic Safety Commission makes recommendations to the City regarding traffic safety.

Village Economic Development Committee

The Village Economic Development Committee was established at the June 18, 2008 City Council Meeting. The Council has charged the Committee with the responsibility to investigate economic development issues in Saratoga Village. The Committee consists of two City Council members and two Planning Commissioners.

Youth Commission

The Youth Commission is comprised of middle and high school students appointed by the City Council in two-year terms. Youth Commissioners serve as a liaison between the teen community and the City Council.

**BUDGET & FINANCIAL POLICY
INFORMATION**

BUDGET PROCESS OVERVIEW

The City of Saratoga adopts an annual Operating and Capital Budget and an annual budget update of the five-year Capital Improvement Plan. The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1st and ending June 30th. The budget documents are prepared in accordance with generally accepted accounting principles (GAAP).

BUDGET PURPOSE

The Operating and Capital Summary Budget and the Capital Improvement Plan serve as the City's financial plan, as well as a policy document, a communications tool, and an operations guide. Developed with an emphasis on long range planning, service delivery, and program management, a fundamental purpose of these documents is to provide a linkage between the services and projects the City intends to accomplish, and the resources committed to get the work done.

The format of the budget facilitates this linkage by clearly identifying program purpose, key projects, and workplan goals, in relation to revenue and expenditures appropriations.

BASIS OF BUDGETING AND ACCOUNTING

Developed on a program basis with fund level authority, the operating and capital budgets represent services and functions provided by the City in alignment with the resources allocated during the fiscal year.

Basis of Accounting and Budget refers to the timing factor concept in recognizing transactions. This basis is a key component of the overall financial system because the budget determines the accounting system. For example, if the budget anticipates revenues on a cash basis, the accounting system must record only cash revenues as receipts. If the budget uses an accrual basis, accounting must do likewise. The

City's budgeting and accounting systems both use a combination of modified accrual and full accrual basis in the accounting and budget systems.

The City's Governmental Funds consist of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds. Governmental Fund budgets are developed using the modified accrual basis of accounting. Under this basis, revenues are estimated for the period if they are susceptible to accrual, e.g. amounts can be determined and will be collected within the current period. Principal and interest on general long-term debt are budgeted as expenditures when due, whereas other expenditures are budgeted for liabilities expected to be incurred during the current period.

Proprietary fund budgets are adopted using the full accrual basis of accounting whereby revenue budget projections are developed recognizing revenues expected to be earned during the period, and expenditures are developed for expenses anticipated to be incurred in the fiscal year. The City maintains one type of proprietary fund: Internal Service Funds.

Fiduciary funds are also budgeted under the modified accrual basis. Trust funds are subject to trust agreement guidelines, and Agency Funds are held in a custodial capacity involving only the receipt, temporary investment, and remittance of resources. Saratoga administers two agency funds.

SUMMARY OF BUDGET DEVELOPMENT

The City develops its budgets with a team-based budgeting approach. City Management and the Finance Department guide the process through budget development; however program budgets and workplans are developed with each department's director or program manager's oversight and expertise. This approach allows for hands-on planning and creates a clearer

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understanding for both management and staff of a program's goals and functions to be accomplished in the next budget year.

THE DEVELOPMENT PROCESS

Typically both the Operating and Capital Budget and Capital Improvement Plan (CIP) processes begin in early January with the City Council and City Manager's development and refinement of initiatives and directives for the upcoming budget year. The CIP is reviewed during this time to determine funding capabilities, project priorities, and to refine project workplans. Although the CIP budget document is prepared separately from the Operating and Capital Budget, CIP program information is incorporated into the Operating and Capital Summary Budget document through the resulting financial appropriations and service level requirements.

In February, the budget preparation process begins officially for staff. Budget assumptions, directives and initiatives are provided to set the City's overall objectives and goals. Over several months, staff identifies and analyzes program revenue and expenditure projections in coordination with Finance/Budget staff and City management. Capital improvement projects are assessed and refined, and CIP funding and appropriation requirements are finalized.

Through rounds of budget briefings and revisions, staff's final program budget and workplans are developed by the end of April; operational and capital workplans are finalized, and the Finance/Budget staff prepares financial summary information for City Council review in addition to departmental budgets and workplans.

BUDGET ADOPTION

During the month of May, the City Council reviews the proposed Operating and Capital Summary Budget, and the Capital Improvement Plan for the five year period in a public hearing. Notice of the hearing is published in a local newspaper at least ten days prior to the Council's public hearing date. The public is invited to participate and copies of the proposed

budgets are available for review in the City Clerk's office and at the budget hearing.

Under requirements established in Section 65401 of the State Government Code, the City's Planning Commission also reviews the proposed Capital Improvement Plan and reports back to the City Council as to the conformity of the plan with the City's Adopted General Plan .

Final council-directed revisions to the proposed budget are made and the budget documents are resubmitted to the Council for adoption, again in a publicized public hearing prior to the beginning of the fiscal year.

Section 2-20.050(i) of Saratoga's City Code requires the City Manager to prepare and submit an annual budget to the City Council. This is accomplished in June, when the final proposed budget is formally submitted to the Council in the subsequent public hearing.

The approved resolutions to adopt the CIP and operating budgets and the appropriation limitation (Gann Limit) follow this section.

BUDGET AMENDMENTS

During the course of the fiscal year, workplan changes and unanticipated needs will necessitate adjustments to the adopted budgets. The City Manager is authorized to transfer appropriations between categories, departments, projects, and programs within a fund in the adopted budget, whereas the City Council holds the authority for budget increases and decreases and transfers between funds.

BUDGET CALENDAR

December	<p>Budget Office to begin development of financial forecast and budgets for following fiscal year, including:</p> <ul style="list-style-type: none">• Draft operating budget revenue and expenditure projections• Prior fiscal year-end fund balance available for CIP
January	<p>Budget Office to prepare Mid-Year Budget Report and Five-Year Financial Forecast for Council review at annual retreat</p> <p>For Operating Budget:</p> <ul style="list-style-type: none">• Budget Office to provide budget information to staff on budget assumptions, directives, initiatives, and goals• Budget Office and Program Managers to prepare Internal Service and Equipment Replacement Fund analyses and schedules, finalize internal service rates• Budget Office to prepare operating budget worksheets for updates, including departmental/program narratives, staffing and financial worksheets, asset and staffing requests. <p>For Capital Budget:</p> <ul style="list-style-type: none">• Budget Office to prepare updated five-year CIP project projections
February	<p>Budget Office and departments to review current User Fee Schedule for appropriate changes in preparation of annual updates process</p> <p>For Operating Budget:</p> <ul style="list-style-type: none">• Budget Office to finalize Internal Service Fund program workplans• Budget Office to prepare budget worksheets for departments, including staffing and internal service program costs• Departments to prepare draft revenue expenditure workplans <p>For Capital Budget:</p> <ul style="list-style-type: none">• Project Managers to prepare funding and cost estimates for new projects
March	<p>City Council to hold Public Hearing for Annual User Fee Update</p> <p>City Council to hold Annual CDBG and Community Grant Public Hearing for review and direction for following fiscal year grant appropriations</p>

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	<p>For Operating Budget:</p> <ul style="list-style-type: none">• Departments to finalize budget workplans and program narratives• Budget Office to compile program narratives, financial and supplemental schedules, and financial budget summaries and charts• Proposed budget briefing with City Manager <p>For Capital Budget:</p> <ul style="list-style-type: none">• Project Managers to finalize projects for CIP submittal
April	<p>For Operating & Capital Budgets:</p> <ul style="list-style-type: none">• CIP Budget Team to assemble final list of recommended projects and funding requirements• Final budget briefing with City Manager
May	<p>For Operating & Capital Budgets:</p> <ul style="list-style-type: none">• Budget revisions finalized, proposed budgets assembled and distributed to City Council and posted on website• Public Hearing held for proposed Operating and Capital Budgets
June	<p>For Operating & Capital Budgets:</p> <ul style="list-style-type: none">• City Council revisions incorporated into budget documents• City Council adoption of Operating and Capital Budget• City Council adoption of Gann Appropriation Limit
July/ August/ September	<p>Final document preparation of financial and supplemental schedules, charts, reference materials, etc</p> <p>Adopted Operating and CIP Budget documents finalized, printed and distributed</p>



FINANCIAL POLICIES

The City of Saratoga manages its financial, operational, and budgetary affairs in accordance with the following general policy statements. These policies represent long-standing accounting, budgeting, debt, investment, and reserve principles and practices, and are the foundation which guides the City in maintaining its financial stability.

GENERAL FINANCIAL POLICIES:

- The City Council's financial based goals, objectives, and policies will be incorporated into and implemented with the City's Operating and Capital Budgets.
- Efforts will be coordinated with other governmental agencies and joint power associations to achieve common policy objectives, share the cost of providing governmental services, and support legislation favorable to cities at the state and federal level.
- The City will seek out, apply for, and effectively administer federal, state, local, and foundation grants which address the City's current priorities and policy objectives.

AUDITING AND FINANCIAL REPORTING:

- California State statute requires an annual financial audit of the City's financial records and transactions by independent Certified Public Accountants. The city will comply with Generally Accepted Accounting Principles (GAAP) and produce annual financial reports pursuant to Governmental Accounting, Auditing, and Financial Reporting (GAAFR) guidelines.
- Weekly check registers and monthly Cash and Investment Reports will be submitted for review and approval at City Council meetings. A mid-year budget status report will be presented at the City Council retreat.

APPROPRIATIONS AND BUDGETARY CONTROL:

- The City Council will adopt an annual balanced operating budget and the first year of an integrated five-year capital improvement plan budget, to be effective for the fiscal year running from July 1st through June 30th. Operating and capital budgets are to align with the City's long-term financial goals.
- Each year the Finance Department will provide an updated five year (or longer) financial forecast to the City Council prior to Council's review of the proposed annual budgets to provide a long-range fiscal perspective to the City's economic status.
- Budgets are prepared on the same basis used for financial accounting and reporting: governmental fund types (General, Special Revenue, and Debt Service) are budgeted according to the modified accrual basis of accounting; proprietary funds (Internal Service Funds) and fiduciary funds are budgeted under the accrual basis of accounting.
- The City Council maintains budgetary control at the fund level; any changes in total fund appropriations during the fiscal year must be submitted to the City Council for review and Council

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majority approval. Operating Budget appropriations lapse at the end of each fiscal year unless specifically re-appropriated by the City Council in the following fiscal year. Capital Budget appropriations are structured as a multi-year workplan; therefore project expenditure balances are carried forward to the following fiscal year as part of the annual budget adoption until funding is exhausted or the project is completed.

- The City Manager is authorized to implement the City's workplan as approved in the adopted budget. Within a specific fund, the City Manager may transfer appropriations between categories, departments, programs, and projects as needed to implement the adopted budget, provided no change is made to the total appropriation amount provided for any one fund.
- Recurring expenditures are to be funded with recurring revenues, or funds specifically designated for operational use. One time expenditures may be funded with one-time revenues or fund balances. Fund balance reserves will be used only for non-recurring one-time and capital projects.
- The CIP Streets/Pavement Management program has an established minimum annual funding goal of \$1,000,000, with Gas Tax Revenues and Road Impact Fees as designated funding sources. The \$300,000 of designated TEA proceeds previously transferred to the CIP Streets/Pavement Management program was reverted back to the General Fund effective with the FY 2008/09 budget.
- \$100,000 of TEA General Fund property tax revenues are designated for CIP Facility Improvements.
- The Recreation Department cost recovery rate is to exceed the California Parks & Recreation Society's (CPRS) average cost recovery rate for all California recreation departments as established in the current CPRS benchmarking report.

REVENUE POLICIES:

- The City will encourage a diversified and stable revenue system to offset short-run fluctuations in any one revenue source.
- Designated and legally restricted tax and revenue funding sources will be accounted for in the appropriate funds. General taxes and revenues not allocated by law or some other contractual agreement to other funds are accounted for in the General Fund. Capital project revenues are to be directly accounted for in the appropriate capital project fund.
- The City establishes user charges and fees at a level that recovers the direct and indirect activity cost of providing a service or product. The City will consider market rates and charges levied by other municipalities of similar size for like services in establishing rates, fees, and charges. For services having partial cost recovery objectives, cost recovery ratios may vary according to policy objectives. A master schedule of User Fees is reviewed and updated each year to adjust fees to the established level.
- The City will follow an aggressive policy of collecting local taxes and revenues due to the City through persistent follow-up procedures, and external resources as necessary.
- Unrestricted donations, gifts, and bequests to the City in excess of \$5,000 must be brought to Council for approval and acceptance. All restricted donations, gifts and bequests must be submitted to the Council for approval prior to acceptance.

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EXPENDITURE POLICIES:

- All expenditures shall be in accordance with the City's purchasing policy, travel policy, credit card policy, or any other applicable guidelines.
- Expenditures are managed at the program level. Program managers are to ensure expenditures do not exceed the budgeted workplan and must take immediate action if at any time during the fiscal year an operating deficit is projected at year-end. Corrective actions may include expenditure reductions, or with Council approval, budget adjustments, service reductions, or service fee increases.

PURCHASING POLICY:

- The City's current purchasing policy, with an effective date of 4/23/2007, establishes purchasing authority levels, purchasing procedures, and requirements, for the procurement of supplies, equipment, and services, in conformance with Federal and State codes and regulations, and City Ordinance No. 2-45.
- Public Work projects which are governed by the State's Public Contract Code are excluded from provisions of the City's purchasing policy.
- Guidelines established by the City's Purchasing Policy directs the City's departments to purchase the best value obtainable, securing the maximum benefit for funds expended, while giving all qualified vendors an equal opportunity to do business with the City.
- All purchases exceeding \$5,000, up to \$25,000 require written quotes and must be approved by the Purchasing Officer or designee. All purchases exceeding \$25,000 must be authorized by the City Council.

FIXED ASSETS AND INFRASTRUCTURE:

- All assets with a cost equal to or greater than \$10,000 and a useful life of more than one year will be capitalized. Repairs and maintenance of infrastructure assets will generally not be subject to capitalization unless the repair extends the useful life of the asset.
- The City will sustain a long-range fiscal perspective through the use of a five-year Capital Improvement Plan designed to maintain the quality of City infrastructure, including streets, sidewalks, curbs and storm drains, lighting, building, parks, and trees.
- Asset information is to provide information for preparation of financial statements in accordance with GAAP, with emphasis placed on completion of GASB 34 requirements.

INTERNAL SERVICE FUNDS:

- Asset replacement and maintenance Internal Service Funds are to provide a consistent level of funding for asset replacement and building maintenance projects, and ensure sufficient funding is available for the regular maintenance and repair of the City's vehicles, equipment, and buildings.

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Internal Services Funds are established to both allocate operating costs to departments for support and maintenance services in the effort to distribute costs appropriately, and to stabilize the City's replacement and operational costs for the purpose of providing an accurate and balanced long-range fiscal perspective of the use of services and assets.

- Technology and Office Equipment replacement and maintenance Internal Service Funds are to provide a consistent level of funding for the replacement of technology assets and projects, and appropriately distribute support and maintenance costs to departments.
- The Liability and Workers Compensation Insurance Internal Service Funds are to maintain adequate reserves to pay all valid self-insured claims and insurance deductibles, including those incurred but not reported, in order to keep the insurance funds actuarially sound.
- Each Internal Service Fund will set recovery charges at rates sufficient to meet all operating expenses, depreciation, and cash reserve policy objectives.

FUND BALANCE RESERVES:

- Fund balance reserves in a governmental fund are classified as either Reserved or Unreserved Fund Balances, depending on purpose. Reserved Fund Balances represent funding set aside for established legal obligations and liabilities, and are not available for appropriation. Unreserved Fund Balances are comprised of both designated and undesignated fund balances, and are not legally obligated for a specific use.

Unreserved Designated Fund Balance Reserves represents funds identified by Council for an intended use; however as there is no legal obligation, the funds may be re-designated and utilized for another purpose if Council chooses. Unreserved Undesignated Fund Balance represents funds not yet identified for a specific use by Council, and is available for designation or appropriation.

- Adequate reserves are to be maintained for all known liabilities and established City Council and community directed initiatives.
- At year-end, after the City's financial records are finalized and audited, revenues in excess of expenditures and funding obligations close out to Unreserved Undesignated Fund Balance. Council established \$500,000 as the base amount for Undesignated Fund Balance. Any accumulated available funding in excess of \$500,000 is to be held for appropriation to Capital Improvement and Cost Efficiency projects in the following budget process.
- Year-end undesignated fund balance distribution is to be prioritized as follows:
 1. Funding of legal obligation and liability reserves
 2. Repayment of borrowing from Fund Balance Reserve to established levels
 3. Replenishment of Unreserved Undesignated Fund Balance to \$500,000
 4. Designation of remaining funds for Capital Improvement and Cost Efficiency Projects
- Reserved Fund Balance reserves are to be maintained on an on-going basis for the following legal obligations and liabilities:
 1. Petty cash
 2. Retiree Medical (liability amount determined at year-end)
 3. Development Deposits (liability amount determined at year-end)

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- Unreserved Designated Fund Balance reserves are to be maintained on an on-going basis for the following Council established purposes:
 1. Operations Reserve (Established on July 1, 1999 at \$2,000,000 to provide working capital cash flow for the General Fund. Interest earnings are applied at fiscal year-end at LAIF interest rate.)
 2. Economic Uncertainty /Hillside Reserve established at \$1,500,000
 3. Designated for Liability Claims
 4. Development Services Fund Balance
 5. Environmental Services Fund Balance

TREASURY MANAGEMENT:

- California Government Code Section 53600; City of Saratoga Municipal Code Section 2-20.035; and Section 16.0 of the City of Saratoga Investment Policy require the City Council to annually review and approve the City's Investment Policy.
- It is the policy of the City of Saratoga to invest public funds in a manner which will provide the maximum security with the highest investment return, while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of funds.
- The Finance & Administrative Services Department shall prepare and present to the City Council in sufficient detail to show the financial condition of the City at month end, the cash and investments balance by fund, and fund balances by fund type.

LONG-TERM DEBT:

- Long-term Financing Debt will be confined to capital improvements or special projects that cannot be financed from current revenues, and is to be used only if the debt service requirements do not negatively impact the City's ability to meet future operating, capital, and cash reserve policy requirements.
- The term for repayment of long-term financing will not exceed the expected useful life of the project.

RISK MANAGEMENT POLICY:

- The City is insured for up to \$25 million of general liability, auto, and property damage claims through the Association of Bay Area Government's (ABAG) Pooled Liability Assurance Network (PLAN) Corporation. The City is self-insured for the first \$25,000 for general liability and auto claims; property damage after \$5,000, and third party auto claims after \$10,000.
- Workers Compensation claims are insured after the first \$250,000 through ABAG and an excess coverage policy. The coverage provides an employer liability limit of \$5,000,000 per occurrence, and workers' comp per occurrence limit of \$100,000,000. The City participates in a Workers Compensation risk pool for the first \$250,000 of coverage, known as SHARP (Shared Agency Risk Pool). Workers' Compensation claims are managed by a third party administrator.
- The City's role in managing its risk management program is to be preventative in nature which will be accomplished through careful monitoring of losses, working closely with the third party administrator, and designing and implementing programs to minimize risk and reduce losses.

GANN APPROPRIATION LIMIT

On November 6, 1979 California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIII B of the State Constitution. This proposition, which became effective in Fiscal Year 1980/81, mandated an appropriations (spending) limit on the amount of tax revenues that the State and most local government jurisdictions may appropriate within a fiscal year. This limit grows annually by a population and cost-of-living factor.

The State Appropriation Limit was since modified by two subsequent initiatives – Proposition 98 in 1988 and Proposition 111 in 1990. Proposition 98 established the return of tax revenues exceeding appropriation limit levels to the State or citizens through a process of refunds, rebates, or other means. Proposition 111 allowed more flexibility in the appropriation calculation factors.

Only tax proceeds are subject to this limit. Charges for services, fees, grants, loans, donations and other non-tax proceeds are excluded. Exemptions are also made for voter-approved debt, debt which existed prior to January 1, 1979, and for the cost of compliance with court or Federal government mandates.

The City Council adopts an annual resolution establishing an appropriations limit for the following fiscal year using population and per capita personal income data provided by the State of California's Department of Finance. Each year's limit is based on the amount of tax proceeds that were authorized to be spent in fiscal year 1978/79, with inflationary adjustments made annually to reflect increases in population and the cost of living. This State Appropriation Limit is therefore established as the amount of funds that can be appropriated from tax proceeds for that fiscal year.

APPROPRIATION LIMIT CALCULATION

The following schedule reflects historical appropriation factors for the prior ten years, and the calculation for FY 2008/09:

APPROPRIATION LIMIT FACTORS

For YE June 30	Beginning Appropriation Limit	County Population Factor	City Population Factor	California Per Capita Income Δ	Ending Appropriation Limit	% Limit Increase
2000	18,502,359	1.0173	1.0072	1.0453	19,675,107	6.34%
2001	19,675,107	1.0163	1.0055	1.0491	20,977,606	6.62%
2002	20,977,606	1.0147	1.0055	1.0782	22,950,540	9.40%
2003	22,950,540	1.0125	1.0191	0.9873	23,092,833	0.62%
2004	23,092,833	1.0079	1.0029	1.0231	23,694,794	2.61%
2005	23,694,794	1.0072	1.0000	1.0328	24,471,983	3.28%
2006	24,471,983	1.0112	1.0124	1.0526	26,078,624	6.57%
2007	26,078,624	1.0118	1.0034	1.0396	27,203,516	4.31%
2008	27,203,516	1.0152	1.0138	1.0442	28,837,681	6.01%
2009	28,837,681	1.0172	1.0077	1.0429	30,592,104	6.08%
2010	30,592,104	1.0156	1.0070	1.0062	31,261,971	2.19%

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The City of Saratoga's appropriation limit for fiscal year 2009/10 is calculated as follows:

FY 2009/10 Calculation

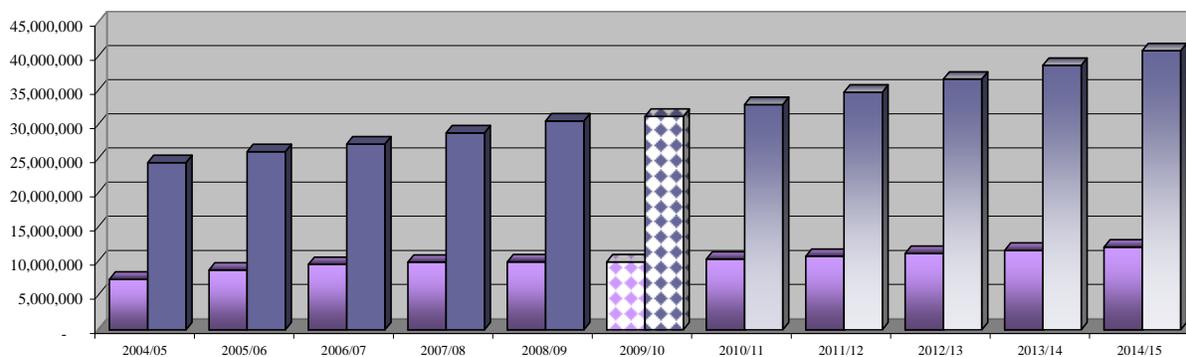
% Increase in County Population		California Per Capita Income Δ		Appropriation Factor		2008/09 Appropriation Limit		2009/10 Appropriation Limit
1.0156	X	1.0062	=	1.0219	X	\$ 30,592,105	=	\$ 31,261,971

As illustrated above, the total amount of tax revenues appropriated to the City in FY 2009/10 is not to exceed \$31,261,971. The FY 2009/10 budget anticipates \$9,941,500 in Gann designated tax revenues which equates to \$21,320,471 less than, or approximately 32% of, the appropriation limit for FY 2009/10. Therefore, the City's tax revenues fall substantially below the appropriation limit.

APPROPRIATION TREND

The City of Saratoga is an affluent suburb community, known for its excellent schools and beautiful neighborhoods, and is home to many Silicon Valley executives and professionals. As a highly desirable place to live and comprised of high-value homes, property values increased significantly over past years. Even with the economic downturn, property tax revenues held stable over the last year. However, as the City was established as a low-tax city, the property tax dollar growth in the tax base has increased at a slower pace than population and per capita personal income growth rate since 1979. Together, these factors contribute to a large margin between tax revenues received and the revenue limitation established under the Gann Proposition. With a conservative forecast for annual 4.0% revenue growth and a 5.5% appropriation growth trends (based on a 30 year average) there remains a strong expectation for an ongoing level of comfort in future year's appropriation margins.

Tax Revenues to Appropriation Limit 10 Year Trend



	Actuals 2004/05	Actuals 2005/06	Actuals 2006/07	Actuals 2007/08	Estimated 2008/09	Budgeted 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15
Tax Revenues	7,382,403	8,730,852	9,559,152	9,887,434	9,939,632	9,941,500	10,339,160	10,752,726	11,182,835	11,630,149	12,095,355
Appropriation Limit	24,471,983	26,078,624	27,203,516	28,837,681	30,592,104	31,261,971	32,981,379	34,795,355	36,709,100	38,728,100	40,858,146
Revenue to Limit %	30%	30%	33%	35%	34%	32%	32%	32%	32%	31%	30%

APPROPRIATION LIMIT ADOPTION

The resolution to adopt the revised appropriation limit of \$31,261,971 was adopted by Council via Resolution 09-031 on June 3, 2009.

GANN APPROPRIATION LIMIT RESOLUTION

RESOLUTION NO. 09-031

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SARATOGA
ESTABLISHING THE FISCAL YEAR 2009/10 GANN LIMIT APPROPRIATION
FOR THE CITY OF SARATOGA**

WHEREAS, the City of Saratoga has established its Base Year Appropriation Limit as \$5,961,747 in Fiscal Year 1978/79; and

WHEREAS, the cumulative changes to population and to the California per capita personal income since the Base Year established the revised Proposition 111 Fiscal Year 1996/97 Appropriation Limit as \$16,153,314, and

WHEREAS, to the best of the City's knowledge and belief, the State Department of Finance figures provided to the City in response to Proposition 111 passed by the voters in June 1990, reflects the appropriate statistics relevant to the calculation of the Fiscal Year 2009/10 Appropriation Limit, which includes:

- County population adjustments for the year ended December 31, 2008 equal to 1.56%, and
- City population adjustment for the year ended December 31, 2008 equal to .70%, and
- Change in California per capita cost of living for fiscal year 2009/10 equal to .62%

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Saratoga hereby resolves that, based on the foregoing figures and the provisions of the Article XIII B of the Constitution of the State of California, the following figure accurately represents the Fiscal Year 2009/10 Appropriation Limit for the City of Saratoga at: \$31,261,971

The above and foregoing resolution was passed and adopted at a regular meeting of the Saratoga City Council held on the 3rd day of June 2009 by the following vote:

AYES: Councilmember Susie Nagpal, Howard Miller, Jill Hunter, Vice Mayor Kathleen King, Mayor Page

NOES: None

ABSENT: None

ABSTAIN: None


Chuck Page, Mayor

ATTEST:

Ann Sullivan, City Clerk

ANNUAL BUDGET RESOLUTION

RESOLUTION NO. 09 - 035

A RESOLUTION OF
THE CITY COUNCIL OF THE CITY OF SARATOGA
ADOPTING THE FISCAL YEAR 2009/10 OPERATING & CAPITAL BUDGET

WHEREAS, the City Council held a public hearing on the Proposed Operating & Capital Budget for Fiscal Year 2009/10 on May 20, 2009,

WHEREAS, Section 2.20.050(i) of the Code of the City of Saratoga requires the City Manager to prepare and submit the proposed annual budget to the City Council for its approval;

WHEREAS, the City Manager did submit a proposed budget for FY 2009/10 to the City Council; and

WHEREAS, the City Council has considered and modified the proposed budget during a public hearing; and

WHEREAS, the Planning Commission is to conduct an annual review of the proposed Capital Improvement Plan for consistency with the City's general plan when new projects are submitted; and

WHEREAS, the City Council gave staff direction to adopt the Fiscal Year 2009/10 operating and capital budgets as proposed;

NOW THEREFORE, BE IT RESOLVED, that the City Council of the City of Saratoga hereby adopts the Fiscal Year 2009/10 Operating & Capital Budget as shown in the *Total Fund Summary - Source and Use of Funds* schedule in the budget adoption report;

AND BE IT FURTHER RESOLVED, that the final adopted budget includes carry-forward appropriations for prior year capital projects, identified funding for specified expenditures, grants, and pass-through balances; that capital projects are in compliance with the General Plan; that there be carried forward from the prior year within each fund an amount sufficient to cover approved outstanding encumbrances as of June 30, 2009;

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FURTHER RESOLVED, that the City Council hereby directs staff that any change resulting from: Council approval of the meet and confer process or management classification adjustments or miscellaneous corrections; from changes due to grant approvals, or claim reimbursements; from development fee based pass-throughs; or from further City Council consensus direction received on June 3, 2009 be the final Fiscal Year 2009/10 Operating & Capital Budgets;

FURTHER RESOLVED, that the Finance and Administrative Services Director is to make the changes into the City's accounting records in accordance with appropriate procedures.

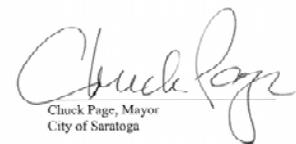
This resolution was passed and adopted at a regular meeting of the Saratoga City Council on the 15th day of June, 2009, by the following vote:

AYES: Councilmember Susie Nagpal, Howard Miller, Jill Hunter, Mayor Page

NOES: Vice Mayor Kathleen King

ABSENT: None

ABSTAIN: None


Chuck Page, Mayor
City of Saratoga

ATTEST:

Ann Sullivan,
City Clerk of the City of Saratoga

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