OFFICE OF THE CITY MANAGER
CHARLES E. MCNEELY

300 North "D" Street · San Bernardino· CA 92418-0001
909.384.5122 · Fax: 909.384.5138
www.sbcity.org

June 11, 2010

Honorable Mayor and Members of the Common Council:

With this transmittal letter, I am presenting the proposed Fiscal Year 2010-11 budget for your consideration and action. As we transition into the new fiscal year, there are a number of important themes to keep in mind.

Economic Background and Impact on the City

We are experiencing an economic downtown of unprecedented proportion that is widespread and devastating in its magnitude. It began with the housing industry and banking crisis and has now expanded to virtually all facets of the economy, not just in San Bernardino, but throughout the State of California and nationwide.

The economy continues to suffer from decreasing property values, a reduced credit capacity, ongoing instability within our financial institutions and reduced consumer confidence. The continued rise in unemployment directly impacts business production and sales. These factors significantly impact our ability to maintain a healthy revenue base to support essential services for our community.

We are living through historic economic times that cause both tremendous challenges and unique opportunities. Our short and long term priority continues to be fiscal stability with the challenge of continuing to provide quality service and operation levels while living within our means; restoring and maintaining a healthy reserve to weather the uncertain future; and sustaining programs that will support economic vitality by which we can support strong and safe neighborhoods within our community.

Budget Measures

Over the last year, the City has implemented numerous actions designed to constrain General Fund spending, including imposing a freeze on most hiring, asking vendors to take a voluntary 5% reduction in contract costs, placing restrictions on non-mandated travel and training, and reducing supply and material purchases to the extent practical. Additionally, significant

reductions in budget allocations for facilities and public infrastructure maintenance were imposed, new revenue sources were identified and personnel costs were reduced through employee granted wage concessions. To further address a major shortfall in revenue resources, the City implemented one-time revenue mechanisms to help close the gap. These actions were undertaken to address a net General Fund shortfall of more than $59 million the City identified in mid 2008. These budget reduction actions have had significant impacts on the City's ability to deliver services to its residential and business communities, as well as on the employees who continue to provide these services.

Despite the City's best efforts, a deficit of over $24 million is projected for next fiscal year with an estimated five-year cumulative deficit of $188 million. In large part this deficit is due to an anticipated continued decline in sales tax, utility user tax and property tax revenues, as well as increases in costs related to personnel compensation, retirement and other benefits.

This year, the proposed budget reflects a change in the format from a traditional line-item budget to a program based budget. This format provides the Council with a meaningful policy tool and allows the residents of San Bernardino to understand what will be accomplished, as well as identifies the resources necessary to support individual programs in the upcoming fiscal year. One new aspect of the program budget is that it sets forth a business plan for each operation with specific goals and objectives. Performance measures have been identified that directly relate to the stated goals and objectives for each department program.

Building upon discussions with Council during several goal-setting sessions and fiscal workshops held over the last several months, the proposed budget is consistent with the Mayor and Common Council's commitments and goals. It includes a realignment of department operations, restructuring the organization for more efficiency and customer service orientation.

The proposed budget is balanced and it remains relatively flat from last year's expenditures. To accomplish this, the budget includes revenue strategies to increase our resources in several areas: Increase of Real Property Transfer Tax Rate, Increase of Refuse/Water/Sewer surcharge, changes in certain fines and permit fees, adoption of a more focused effort on debt collections and future sale of the Convention Center to the Economic Development Agency (EDA). An additional budget balancing strategy is the extension of the date of the City's repayment of an existing $1.3 Million EDA loan. The City's ability to meet these financial assumptions is predicated on future actions including voter approval of the property transfer tax, ability to create a City-wide assessment district and the completion of a study providing appropriate justification for assessing utility franchise fees.

If these revenue generating measures are not realized, the City will continue to experience deficit spending and the projected revenue shortfalls will continue to grow exponentially. In order to prepare for an uncertain future, I have requested that the departments review their operations and prepare for Council consideration a contingency budget that will reflect 15% across the board reductions with recommendations on how to reduce the City's expenditures to match depleting revenue resources.

As a full service provider which includes retaining our own police and fire services including labor intensive operations such as integrated waste management, the primary cost driver in the general fund is employee costs. Therefore, potential reduction solutions to the City's current budget crisis will require a critical look at changes within the workforce and the significant impact such changes will have on City services recognizing that the City has in fact already made serious cuts in this area.

Within the proposed budget workshops, I am requesting that the Council consider the presentation of the new program budget with each department providing an overview of its organizational structure and performance measures for the upcoming year. Following a thorough review of the "status quo" budget, the departments and I are prepared to engage in dialogue on how to reduce programs and expenses if revenue generating measures are not realized or revenues resources do not materialize as projected. We are prepared to assist the Mayor and Council in pursuing the hard decisions necessary to stabilize the City's financial situation.

After careful and thorough consideration of the proposed financial plans for fiscal year 2010-11, the following actions are recommended for adoption: 1) Approval of the proposed budget with any recommended changes; 2) Approval of necessary actions related to implementation of proposed revenue measures; 3) Adoption of a contingency budget reduction plan that can be implemented immediately if needed in the future; and 4) Approval of an amending agreement between EDA and City that will defer repayment of an existing $1.3 Million EDA loan.

City staff and I look forward to working with the Mayor and Common Council and the community to ensure that the City's future reflects the Council's vision.

Respectfully submitted,

Charles E. McNeely

Charles E. McNeely
City Manager

BUDGETING & ACCOUNTING POLICIES

The City of San Bernardino, California was incorporated on April 13, 1854 as a Charter City and operates under a "Strong Mayor" form of government. The Mayor is elected at large by voters citywide while the seven (7) Councilmembers are elected by voters within their respective wards. The City Manager provides overall management and supervision of all City departments.

The City provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, community development (planning, building and zoning), public utilities (water and sewage), and general administrative services.

Annual Budget Process

Mid-Year Budget Review

The City's fiscal year begins July 1st and ends on June 30th. Preparation for the annual budget process actually begins with a mid-year review of the current year's budget. In February, City departments are asked to estimate what their actual expenditures and revenues will be at June 30th based on actual expenditures and revenues received through December (the first half of the fiscal year). Finance Department staff analyzes the departmental estimates and makes adjustments to the estimates as needed. A report is then presented to the Mayor and Council which not only details what year-end expenditures and revenues are estimated to be, but also gives a preliminary first estimate of the City's budget needs for the upcoming year.

Preliminary Budget Preparation

Departments are given their budget instructions in March. The budget instructions include: bottom-line departmental budget amounts, personnel costs for currently authorized budgeted positions, costs for internal service charges, instructions on how to use the automated budget system and current year revenue information. City departments are essentially held to the same bottom-line budget amounts as allocated in the current budget year with adjustments for changes in internal service charges, negotiated changes in personnel costs, increases/decreases in retirement and health benefit costs, and any other specific changes approved by the Director of Finance and City Administrator.

Internal Service Departments (Information Services (IS), Fleet Services, Risk Management, Utilities and Telephone) prepare their expenditure and revenue budgets prior to other City departments so that internal service charges can be developed and included with the budget information and instructions given to other City departments.

Preliminary Budget Review

Budget submittals are due back in Finance in early April for review and analysis before submittal to the City Administrator. Finance staff makes adjustments to departmental submittals as needed.

Throughout the month of April, budget hearings are held with individual City departments, Finance staff, and the City Administrator. During the hearings, departments present their budget submittals and explain any requests for increased funding.

Upon completion of hearings with each individual department, the City Administrator makes final adjustments to the departmental requests. A preliminary budget document is developed which presents the cost of providing service to the community at current levels (no service reductions are included in the Preliminary Budget Document). The Preliminary Budget Document also presents the estimated funding resources available, given the current economic outlook, legal restrictions, and the availability of state and federal funding. The Preliminary Budget Document is presented to the Mayor and Council in early May.

Final Budget Adoption

A series of special Council meetings are held in the month of June to review the Preliminary Budget Document and, if necessary, discuss options for balancing the City's budget. Departmental suggestions for revenue enhancements and expenditure reductions are presented to the Mayor and Council for their consideration. By June 30th, the Council adopts a balanced budget through passage of a resolution.

Budgetary Control and Accounting

The City utilizes the following general procedures in establishing its annual budgets:

- The Annual Budget adopted by the Common Council provides for the City's general operations. Such annual budget includes proposed expenditures and estimated revenues for all Governmental Fund Types.

- The City Administrator or designee is authorized to administratively transfer budgeted amounts (with the exception of personnel accounts) within departments up to $25,000. Any other transfers or amendments to the budget required the approval of the City Council. Actual expenditures may not exceed budgeted appropriations at the department level for the General Fund and at the fund level for all other budgeted funds. The budget figures used in the financial statements are final adjusted amounts.

- The budget is formally integrated into the accounting system and employed as a managed control device during the year for all funds.

- Budgets for the budgeted Governmental Fund Types are adopted on a basis consistent with generally accepted accounting principles.

- At fiscal year-end, operating budget appropriations lapse; however, incomplete capital improvements, equipment and contractual appropriations and can be carried over to the following year upon approval by the Mayor and Common Council.

Significant Accounting Policies

Reporting Entity

As required by generally accepted accounting principles, the City's financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 year-end. **Because these blended units are legally separate entities, budgets for these entities are adopted separately by their respective boards and not included in this document.**

Blended Components Units: The Economic Development Agency (Agency) of the City serves all the citizens of the City and is governed by a board comprised of the City's elected council. The activity of the Agency is reported as a separate fund in the special revenue, debt service, capital projects and enterprise fund types. Included with the Agency's activities is the San Bernardino Joint Powers Financing Authority which is a blended component unit of the Agency.

Discretely presented Component Units: The Municipal Water Department (Department) of the City serves all the citizens of the City and is governed by a board whose members are appointed by the mayor of the City. The Department operates three enterprise funds: the Water utility, Sewer Utility and Geothermal utility Enterprise Funds. Each of the Department's utilities are reported as separate enterprise funds. Included with the Department's activities is the West End Water Development, Treatment and Conservation Joint Powers Authority, the San Bernardino Public Safety Authority and the Colton/San Bernardino Regional Tertiary Treatment and Water Reclamation Authority, all of which are reported as blended component units of the Department.

Complete financial statements and budgets of the individual component units can be obtained directly from their administrative offices.

Economic Development Agency
201 North "E" Street, Third Floor
San Bernardino, CA 92401

Municipal Water Department of the City of San Bernardino
300 North "D" Street, Fifth Floor
San Bernardino, CA 92402

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management

in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The City has the following fund types and account groups:

Governmental funds are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and judgments and claims which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The **general fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **special revenue funds** account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

The **debt service funds** account for the servicing of general long-term debt not being financed by proprietary funds.

The **capital projects funds** account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned costs incurred and/or net income is necessary for management accountability.

Internal service funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

The **agency fund** is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity.

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent management plans that are subject to change. The proprietary funds' contributed capital represent equity through capital grants and capital contributions from developers, customers or other funds.

FY 2010-2011 BUDGET CALENDAR

March 11, 2010	**Budget Workshop**
April 19, 2010	**Budget Workshop**
June 15, 2010	**Budget Hearing**
June 16, 2010	**Budget Hearing**
June 23, 2010	**Budget Hearing**
June 30, 2010	**Target Date for Adoption of FY 2010-2011 Budget by Mayor and Council**

DRAFT
SAN BERNARDINO MAYOR AND COMMON COUNCIL
VISION AND GOALS

San Bernardino…Building a Better Community

VISION STATEMENT

In 2025, San Bernardino will be a prosperous community that reflects the fabric and traditions of an All American City. With its unique location, the City will serve as a destination for youth sports and recreation, cultural heritage and as a hub of governmental activity and professional services.

San Bernardino is a wonderful place to live, work, and play, offering diversity in housing, amenities, and services which will all be easily accessible through this multifaceted transportation hub.

San Bernardino will offer one of the most aggressive business incubator programs in Southern California to assist with the acceleration and successful development of entrepreneurial companies through an array of business support resources and services. The City will develop business initiatives that embrace sustainable growth in the market.

San Bernardino places special emphasis on education, and works diligently to distinguish itself as a leader in the academic forefront. The City has a top-ranked public school system and is privileged to have one of Cal-State's distinctive campuses located within the city.

San Bernardino's historic charm melds with its modern, family-friendly atmosphere, and its cultural diversity will be celebrated and woven throughout the community. As the County Seat, San Bernardino takes great pride in our reputation as a role model for other cities in the Inland Empire.

GOALS

Goal 1: Safe Community
In 2025, San Bernardino's reputation will be second to none when it comes to the safety and welfare of its residents. In 2025 the residents of San Bernardino will support and appreciate their law enforcement personnel and view them as a valued asset to their crime free community. It will have active neighborhood associations that engage in their communities through town hall meetings and provide guidance to their elected officials. The Neighborhood Cluster Association takes a leadership role in coordinating neighborhood cleanups. In addition, there are neighborhood watches that take responsibility for crime prevention in their neighborhoods.

Goal 2: Business and Economic Development
The City of San Bernardino is business friendly, striving to provide easy access to public officials, resources, and incentives necessary to create an environment that expands job

opportunities. We strive to expedite and streamline economic development by providing one-stop business support services including eco-friendly options. We promote a competitive business environment that attracts and retains healthy businesses, reducing unnecessary bureaucratic red tape.

Goal 3: Education
We are a city that embraces the concept of lifelong learning. Together with our educational partners, we provide a network of support services from birth through retirement. We provide quality day care and preschool for all of our children. Our learning ready children have enviable choices in both quality public and charter K-12 programs. We offer our residents abundant educational opportunities through our local community college, our highly ranked state university, and 14 private colleges offering degrees for every career path.

The City offers education, financing, location, and employee training assistance in partnership with the state university to startup business to assure the success of new enterprises. For those in retirement we offer a host of extended learning programs at all of our recreation and senior centers as well as our college and university campuses.

Goal 4: Responsive Government
The City of San Bernardino respects each one of its residents and business community and serves individual needs with efficient, transparent, and expedient action. Public officials are accountable to the people they serve by providing easy, effective access to services the public desires. The City of San Bernardino is fiscally responsible, visionary, and intelligent in its implementation and delivery of quality, cost effective services. We partner with the community and private sector for the greater good.

Goal 5: Enhance our Vibrant Quality of Life
In 2025, San Bernardino continues to be the premier location for family friendly events such as the Orange Show, Route 66, and the Western Regional Little League. The City boasts a beautiful, walkable downtown with an ambassadors program and many family friendly amenities. Visitors can catch a show at the California Theater or Sturgis Center for the Performing Arts, or stroll through our new modern art museum.

Visitors will find a downtown that is full of public art, murals, statues and street performers. Sports oriented individuals and families have many choices as well. Visitors can take in a baseball game at the Arrowhead Credit Union Stadium or see an NCAA basketball game at the Cousollis Arena at CSUSB. We have added many ball fields and sports facilities in neighborhoods around the City so that families and kids can easily access our parks. Today, the City can brag about 20 libraries and community centers that make San Bernardino the most family friendly and diverse city in the Inland Empire.

Goal 6: Transportation and Infrastructure
In 2025, San Bernardino will welcome residents and visitors to the Inland Empire with a thriving, vibrant International Airport, which will be accessible by the SBX bus line and light rail. The City will become a model for transportation initiatives and will serve as a hub for all neighboring committees with its transit center. It will be a walkable community with many bike

lanes populated by water features which will be serviced by our abundant Bunker Hill Basin water reservoir. The City is a place with an intelligent, environmentally planned infrastructure designed for long term sustainability for all who live and work here.

Goal 7: Beautification
In 2025, the City of San Bernardino will have a reputation as a beautiful, clean city that is both inviting and attractive to its residents and visitors. The City has inviting corridors with murals at all entryways to the City. The once blighted, low yielding commercial corridors have been transformed into well thought out and pedestrian friendly walkways with greenbelts that include water features. Code enforcement ensures that all major corridors are maintained and parks are lush and green with youth sports amenities peppered throughout.

Goal 8: Housing and Home Ownership
In 2025, the City has an abundance of quality neighborhoods complete with parks, trails, and community centers. In addition, there is ample senior housing to provide for aging residents. The new government center has attracted condominium projects that provide housing opportunities to those who prefer living the urban lifestyle.

Along with the wide range of housing opportunities, new or existing residents can choose from two master planned communities – "Arrowhead Springs" and "Martin Ranch" projects. The Cal State area has 900 units that offer live, work, and single-family residents all within access of a clubhouse. The EDA continues to provide first time homeowner assistance and has an impressive plan to buy former rental properties and convert to single-family owner occupied homes.