



# BUDGET PLAN for FY 2011-12

CITY OF HERCULES, CALIFORNIA  
Adopted by City Council June 30, 2011

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Interim City Manager

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FY 2011-12 OPERATING AND CAPITAL BUDGET  
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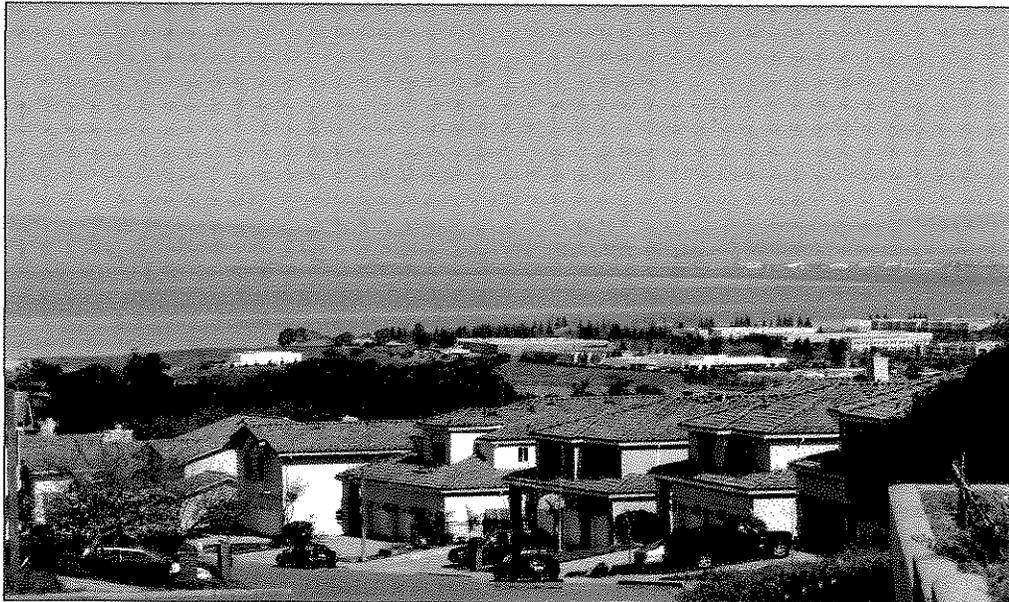


### *Mission Statement*

**“Our mission is to lead our diverse community and enhance the quality of life in the City of Hercules, now and in the future. We do this by providing effective, efficient, responsive, and innovative services with integrity.”**

### VISION STATEMENT

The City of Hercules is a richly diverse community, serving as a major transportation hub and a prime destination for the Bay Area. It is built on a sound economic and physical infrastructure, and its residents enjoy public safety, security, well-maintained parks, streets and public facilities. We conduct our work in an atmosphere of trust and respect. We constantly look for better ways to deliver services and always strive for excellence.



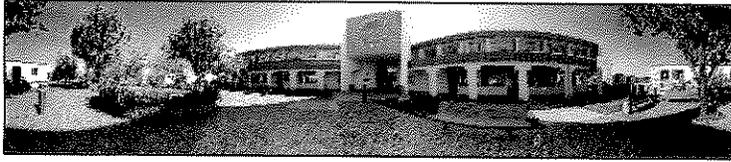
# Hercules City Council

Myrna de Vera, Mayor  
John Delgado, Vice-Mayor  
Gerard Boulanger, Council Member  
Dan Romero, Council Member  
William Wilkins, Council Member

## Finance Sub-Committee and Citizens Financial Advisory Ad-Hoc Members

Myrna de Vera Vega, Vice-Mayor  
John Delgado, Council Member

Hector Rubio, Committee Chair  
Virgil dela Vega, Committee Vice-Chair  
Frank Batara  
Gabriel Naguit



City of Hercules

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# BUDGET PLAN for FY 2011-12

CITY OF HERCULES, CALIFORNIA

Adopted by City Council June 30, 2011

Dear Mayor and Council Members:

It is with pleasure that our City staff presents the budget plan for fiscal year 2011-12.

This budget was developed to sustain essential City operations within the limited revenues available. Many cities in our region have been hit hard by the downturn in the economy, and Hercules especially felt that impact during this budget development process. Since FY 2006-07 the City's general property tax collections have declined by 36% resulting in a \$500,000 loss of revenue for the General Fund, and property tax increment revenue has declined by 41% resulting in a loss of \$4.5 million in revenue to the Redevelopment Agency. In order to meet the declining tax base, the City laid off 40 employees.

Adoption of this budget is the first of several action steps the City must undertake to regain a sustainable financial footing. Discussions have begun on a debt reduction strategy for the Hercules Redevelopment Agency and to develop a long-term fiscal plan. City staff knows that more hard work and tough decisions are ahead. We greatly appreciate the support and input from Council and the community as we work together to reach agreement on decisions that achieve solutions.

This budget plan document outlines the financial status of all the City's funds. Contained within are discussions of City departments' services and accomplishments, overviews of departmental financial performance, fund balance projections for this year and the budget year, summary, detailed revenue and expenditure information, employee positions, an overview of the status of the City's capital improvement program, and City's plan for and commitment to meet our debt obligations. The information presented in this book forms

our proposed budget plan for meeting the City's service commitment to citizens and creditors in FY 2011-12.

Two short months ago on April 15, consultants from Management Resources Group reported to you that the City's General Fund had a structural deficit of \$6 million per year, and projected that the fund would end fiscal year 2012 with a \$9.9 million deficit available fund balance. City staff is pleased to report that the proposed budget contains a plan for sustainable operations that finishes the fiscal year with a projected \$3.3 million unreserved fund balance. In response to the MRG report, management took immediate steps in April to reduce its ongoing employee and other costs. Among many additional cost reduction endeavors over the past short months, the most significant achievement was the renegotiation of all the City's outstanding labor agreements. We greatly appreciate the partnership and collaboration we have had with our employee organizations during this difficult time.

With adoption of this budget plan, Council is approving a spending plan for one fiscal year. Yet, there remain several outstanding issues of which the City would be advised to address during this fiscal year. Additionally, unexpected events may arise of which are not planned. As a result staff expects to return to Council in February of 2012 with proposed mid-year budget revisions and request for authorization of adjustments to the budget in order to maintain a sound financial footing in the General Fund that will provide the ability to continue the quality of service level that is expected by the community.

A special thank you goes to the entire City staff team that was involved in the preparation of this budget. Every department contributed time and effort to meet the extraordinary fiscal challenges. Special acknowledgement goes to the budget team and their countless hours of analysis.

Fred Deltorchio  
Interim City Manager

Elizabeth Warmerdam  
Finance Director

## ACKNOWLEDGEMENTS

We greatly appreciate the dedication of all City employees for their contribution towards providing quality services to Hercules citizens. We would also like to acknowledge those who assisted in developing the FY 2011-12 Operating and Capital Budget. Appreciation is extended to ***Fred Deltorchio***, former Interim City Manager during the budget development process, for his expertise and management direction. A special thanks goes to the members of the ***Finance Sub-Committee and Citizen Financial Advisory Ad Hoc Committee*** for the many hours they dedicated to reviewing preliminary budget estimates and their advice. Also, the collaborative efforts of the City's senior staff members and representatives of the City employee organizations greatly contributed to this year's successful budget process in addressing the fiscal challenges the City faces.

A very special thanks goes to ***Kathleen VonAchen***, Consultant, for her expertise as she guided the City through the budget process, ***Janielyn Bayona***, Acting Finance Services Manager, for her knowledge of the City's financial accounting and collaboration; ***Katrina Thomas-Dycus***, former Human Resources Manager, for her advice and assistance; ***Heylin Bermudez***, Accounting Technician II, for developing the salary and benefits calculations; ***Jeff Brown***, Maintenance Supervisor, for updating City facilities space plan; and ***Robert Reber***, Assistant Planner II, for the City map and other demographic information.

### ***City of Hercules Senior Staff Members***

Fred Deltorchio, Interim City Manager (FY 2010-11)

Elizabeth Warmerdam, Interim City Manager (FY 2011-12); Finance Director (FY 2010-11)

Alfred Calbral, City Attorney

Bill Goswick, Interim Police Chief

Pedro Jimenez, Interim Parks and Recreation Director

Doreen Mathews, Administrative Services Director / City Clerk

John McGuire, Chief Building Official

John Stier, Municipal Services Director

Dennis Tagashira, Planning Director

### ***Finance Department Staff***

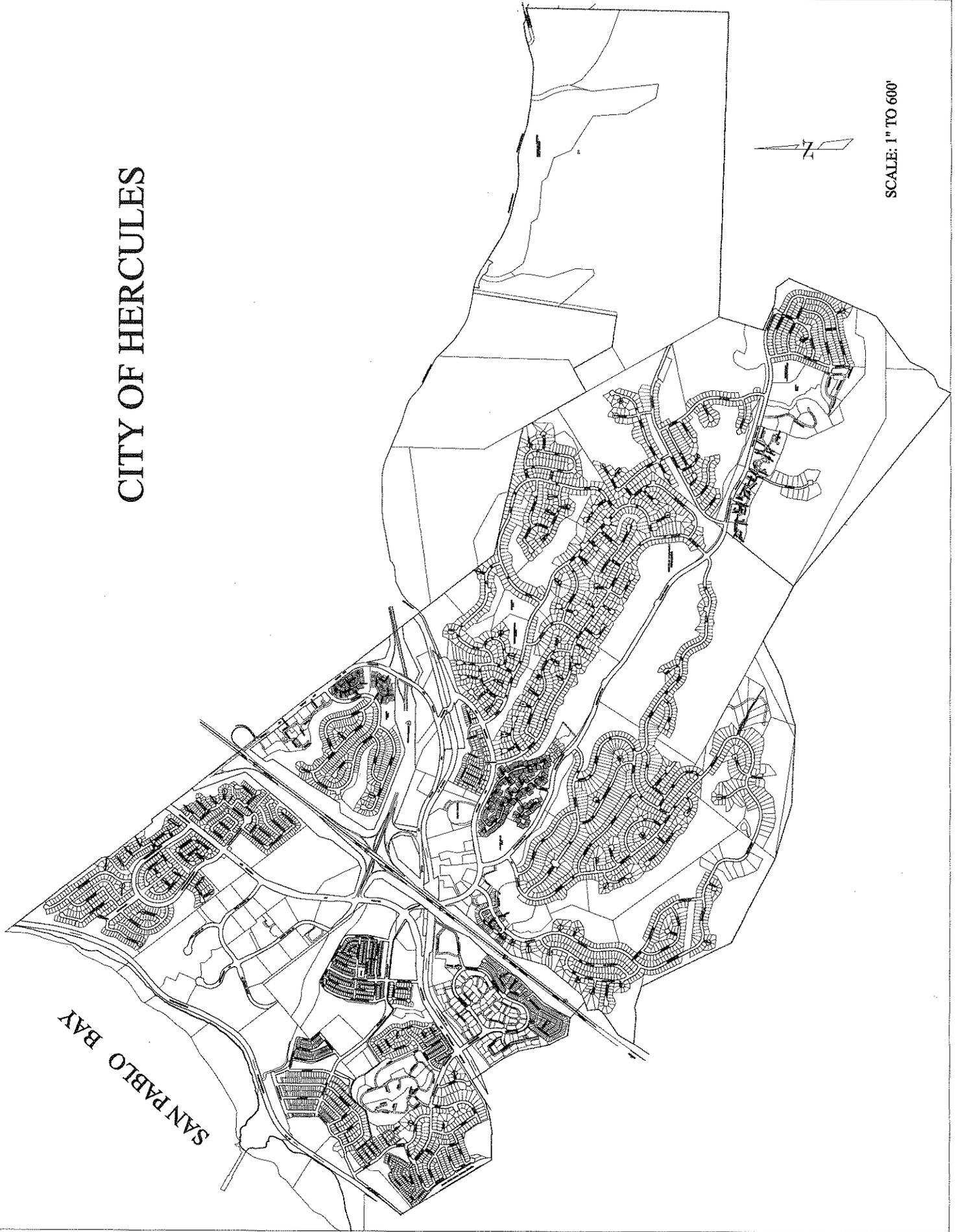
Janielyn Bayona, Acting Finance Services Manager

Heylin Bermudez, Accounting Technician II

Maria Makosa, Accounting Technician I

Thanh Nguyen, Accounting Technician II

# CITY OF HERCULES



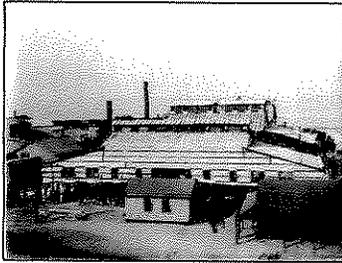
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## THE HISTORY OF HERCULES

The City of Hercules has a unique history which has transformed the city from a small company town to a bustling and thriving community. In the late 1800's the Industrial Revolution changed the face of business throughout the country. The California Powder Works company was a part of this revolution and played a key role in the formation of the city now known as Hercules. California Powder Works plants made black powder. Due to the explosive nature of black powder, used mainly for guns, and the growing population areas of Santa Cruz and San Francisco, the company was forced to find a more rural location.



*Company Town is Formed.* In 1879, that new location was found and the history of Hercules begins. The Hercules plant opened in 1881 and produced dynamite. In 1913, the Santa Cruz plant and its workers were relocated to Hercules and black powder was added to its production schedule. Due to various company restructurings, the California Powder Works evolved into the Hercules Powder Company in 1912.



Company managers incorporated the town on December 14, 1900. The first City Council consisted of plant managers and ordinances were passed primarily to ensure the success of their products. California Powder Works sold their dynamite under the name of Hercules Powder. Hercules, the Greek mythological hero, was chosen to showcase their dynamite product's potency. When the town became incorporated, the name Hercules became a natural choice for the community leaders, who were also the plant managers.

In the first 38 years of the California Power Works' operations in Hercules, 59 lives were taken by explosions. The nitroglycerine house and the building in which the dynamite was produced were the primary locations of the blasts. The largest explosion of the plants history took place in February, 1908 with 24 men killed in a single explosion.



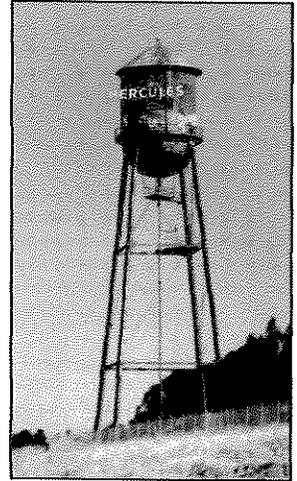
Dangers of producing explosives, growing Bay Area populations, and changing market trends forced plant managers to look ahead. In the 1940's the company decided to build an anhydrous ammonia (NH<sub>3</sub> fertilizer) plant. When dynamite manufacturing was discontinued in 1964, transitioning completely from explosives to fertilizer was a natural step. Hercules Powder was then renamed to Hercules, Incorporated. The land surrounding the plant had served as a buffer zone when Hercules Power Company was manufacturing dynamite, but was no longer needed when only fertilizer was being produced. Hercules, Inc. decided to sell this land and in 1974, Centex Homes of

California, Inc. purchased the first section of land and built a large residential area near modern day Lupine Road. Labor disputes and economic conditions led to the permanent closure of the historic plant in the late 1970s.

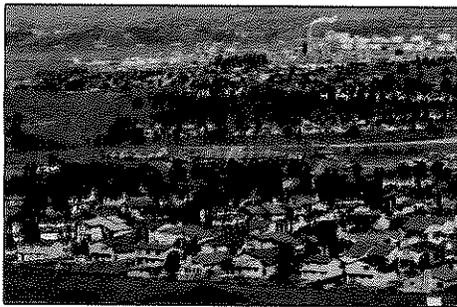
Another important company in the history of Hercules is the Pacific Refinery Company. The refinery opened in Hercules in 1966 and provided hundreds of good paying jobs for residents.

The City's revenues and expenditures fluctuated in relation to the financial performance of the Pacific Refinery. In 1978, when the refinery was doing very well, the city reduced property tax rates substantially. In 1993 with the economy in recession, the plant reduced its operations and the City Council followed suit with across the board cuts, eliminating many programs.

Pacific Refinery ceased refinery operations in August 1995 and dedicated the land to the City in 2000. Since the refinery provided much needed sales tax revenue for the City, the effects of Proposition 13 passed by the State of California in 1978, were not fully felt in Hercules until the refinery plant closed. Prop 13 put a cap on the amount of property tax that could be collected per parcel and regulated property tax for all property owners in California. Even though, all Californians now pay one percent in ad valorem property tax (this excludes bonds and special districts), the amount each city gets is based on the tax rates from 1978.



Because of the very low property tax rates in place upon passage of the 1978 Prop 13 law, the City's property tax revenue base is much lower compared to most California municipalities; even though economic conditions in the community have changed. Despite the lack of revenue generated by property taxes, the City has worked diligently to maintain high levels of service for its residents.

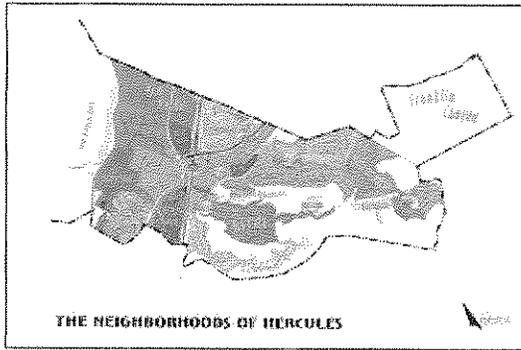


**Bedroom Commuter Town.** Before Pacific Refinery or Hercules, Inc, closed their doors, economic conditions were good and the city passed its first General Plan in 1972. The plan divided the city into 'villages' and each village was a subdivision of homes. The primary focus was creating a bedroom community and its legacy is still apparent today. The first housing subdivisions in 1975 brought a new need to the community: schools. Hercules Elementary (now Lupine Hills) opened first in 1976 and Ohlone Elementary opened the following year.

The 1980's continued to see vast amounts of growth. Hercules was one of the fastest growing suburbs in California in the 1980s. Sycamore Place and Creekside shopping center both opened, new parks including Refugio Valley and Foxboro were created, and City officials opened in the early 1990s a new Civic Center and Community Swim Center.

Throughout the 1990's Hercules continued to grow into the community it is today. Despite the 1998 revision to the General Plan, in the early 2000s it was recognized that the City's growth plans needed to be revised. Neighborhoods felt disconnected and shopping centers were scattered. Increasing need for city services coupled with budget constraints compelled city officials to address long term sustainability to keep the community alive and preserve its history of quality.

**Regional Center, Central Hercules Plan.** To accomplish this, city officials involved the community, including both private and public stakeholders, in the 2000 Charrette process. Over 300 participants outlined what they wanted to see for their community. A coherent vision, walkability, interconnectedness and meaningful neighborhood centers were key elements the community wanted and all were incorporated to create the Central Hercules Plan.

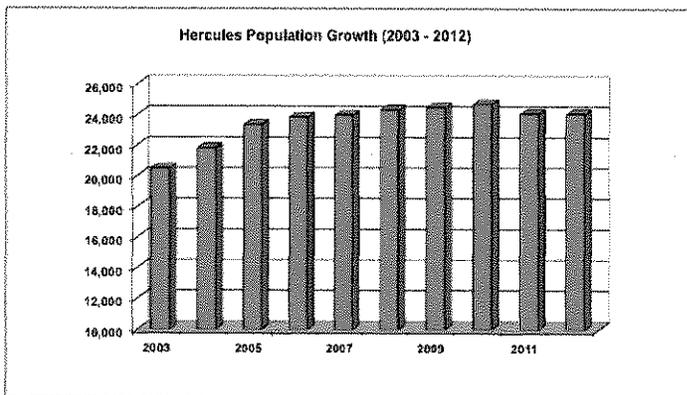
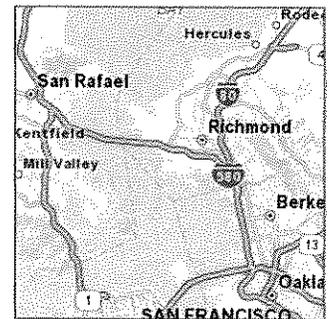


The Central Hercules Plan lays out how four under-developed neighborhoods will be transformed into thriving, distinct neighborhoods. The four neighborhoods are Hilltown, the Waterfront, the Central Corridor and the Hospitality District. In 2003, several new home subdivisions began opening, including Victoria by the Bay and Promenade. The Bayside and Baywood neighborhoods were completed a few years later. Live/work buildings were part of both the Promenade and Bayside neighborhoods, and are one of the primary steps towards the transit-oriented community outlined in the Central Hercules plan.

Today, with over 24,000 residents, Hercules continues to grow into a transit-oriented community and to become a model for other Bay Area towns. Using smart growth principles and ensuring development conforms to the Central Hercules Plan, Hercules remains true to its unique history and quality that residents have come to appreciate and love.

**LOCATION AND POPULATION TRENDS**

Hercules is situated in west-central Contra Costa County on the east side of the San Francisco Bay where State Highway 4 intersects with Highway 1-80. The City boundaries encompass just over 20 square miles, approximately 12.5 miles of which are the waters of San Pablo Bay. The land portion of the City covers approximately 7.6 square miles and runs from its westerly boundary of San Pablo Bay into the hills of Pinole Ridge. It is bordered by the City of Pinole to the south and the unincorporated community of Rodeo to the north.



The City of Hercules is a culturally diversified community that has experienced significant growth. The City's 2003 population was 20,489, compared to the recent 2010 Census of 24,060, or a 17.4% increase over the past ten years. As the graph illustrates, all of this population growth occurred in the first half of the past ten years. This level of population drove the need for substantial infrastructure needs and development projects in the City. As follows the City's history, Hercules'

development philosophy is of planned, responsible and sustainable growth consistently aimed at improving the community's quality of life. Into the future the City seeks to pursue this historic policy of sustainable growth, while also ensuring that financial sustainability is a key evaluation component for policy makers. Continued economic potential has been identified for Hercules' future, once the regions' general economic indicators improve.

**GOVERNING STRUCTURE AND BASIS OF BUDGETING**

The City of Hercules is a municipality incorporated in 1900 under provisions of the Constitution of the State of California. The City operates under a Council Manager general law form of government and

is governed by a council of five elected members with staggered four-year terms. The City Council also serves as the Hercules Redevelopment Agency Board (Agency). The Mayor serves as the Chair of the Agency; the City Manager is the Executive Director; and the City Clerk serves as the Secretary. As required by generally accepted accounting principles, the budget document and financial statements of the reporting entity include the Agency. Additionally, City Council members act as the board of directors of the Hercules Public Financing Authority (PFA).

## **BASIS OF BUDGET AND FUND STRUCTURE**

Local governments account for revenues and expenditures through separate funds such as General, Special Revenue, Enterprise, Internal Service and Fiduciary funds. The accounts of the City of Hercules are organized on the basis of funds, each of which is considered a separate financial entity. Each fund is comprised of a set of self-balancing accounts for its revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into generic fund types and fund categories as follows:

### **Governmental Funds**

- **General Fund:** The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Special Revenue Funds:** Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.
- **Capital Projects Funds:** The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust / Agency Funds).
- **Debt Service Funds:** Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
- **Internal Service Funds:** Internal Services Funds are a type of proprietary fund used to report any activity that provides goods and services on a cost reimbursement basis to other City funds and departments of the primary government and its component units.
- **Trust / Agency Funds:** Trust Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments, and/or other funds.

### **Business-Type Funds**

**Enterprise Funds:** Enterprise Funds are used to account for operations:

- (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the full costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be recovered primarily through user charges; or
- (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred is appropriate for capital maintenance, management control or accountability.

Because enterprise funds use the full-accrual basis of accounting under FASB, all long-term debt liabilities and debt service payments are recorded within the enterprise fund itself. For tracking convenience, a separate fund for enterprise debt service payments is shown on the following table although all transactions are reported together within an enterprise fund's financial statements.

City budgets contain three major categories - operating, capital and debt. The table on the following page lists the City's funds and the categories in which a fund's financial transactions contain.

## HERCULES FINANCIAL REPORTING FUND STRUCTURE

Fund By Category Order and GL Fund #	Operating	Capital	Debt
<b>GENERAL FUND (100)</b>	X		X
<b>SPECIAL REVENUE FUNDS</b>			
Fiscal Neutrality Fee/Reserve (401)	X		
Landscape and Lighting (220-224)	X		
Stormwater (242)	X		
Community Development (242, 243)	X	X	
Gas Tax; Street/Traffic (262, 263, 265)	X	X	
Solid Waste / Recycling (291)	X		
Grants (201, 295)	X		
<b>CAPITAL PROJECT FUNDS</b>			
City Capital Project (300, 310, 311)		X	
Develop Imp Fac Fees (241, 244-261, 264, 521)		X	
<b>DEBT SERVICE FUNDS</b>			
Assessment Districts DS (380-382)			X
City Fac. Energy Efficiency Lease (383)	X		X
2003A Series Lease Rev Bnds DS (671)	X		X
2003B Lease Rev Bnds DS (672)	X		X
2009 Series Lease Rev. Bnds(673)	X		X
<b>REDEVELOPMENT AGENCY FUNDS *</b>			
RDA Operating (601, 613, 614)	X		X
Affordable Housing Operating (640)	X		X
RDA Capital Projects (630-632)		X	
TAB Series 2005 DS (615)	X		X
TAB Series 2007A DS (619)	X		X
Housing TAB Series 2007A/B (617, 618)	X		X
<b>ENTERPRISE FUNDS</b>			
Sewer Utility (420, 535)	X	X	X
Sewer Rev. Bnds 2010 Debt Srvc (675)	X		X
Hercules Muni. Utility (Electric) (430)	X	X	X
HMU Revenue Refunding Bnds 2010 (674)	X		X
Electric Rev. Bnds 2010 Debt Srvc (676)	X		X
<b>INTERNAL SERVICE FUNDS</b>			
Vehicle Replacement ISF (450)	X	X	
Equipment Replace/Info Tech ISF (460)	X	X	
Facility Maintenance ISF (470)	X		
Retiree Health OPEB (511)	X		
<b>TRUST FUNDS</b>			
Taylor Woodrow Mainte. LMOD (501)	X		
Hercules Comm Library Fund (531)	X		

\* The Redevelopment Agency's fund structure has operating, capital and debt fund types, but is being reporting together as a unit to provide better information to the readers of this document.

### BASIS OF ACCOUNTING AND FINANCIAL REPORTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting depends on the purpose for which the fund has been established and by its measurement focus.

All governmental and expendable trust funds use a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenue/other financing sources) and decreases (i.e., expenditures/other financing uses) of net current assets.

All *proprietary funds, pension trust and agency funds* are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with operation are included on the balance sheet. Fund equity for proprietary funds (i.e., net total assets) is segregated into restricted net assets and unrestricted net assets. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. Agency and trust funds are custodial in nature (assets equal liabilities) and do not involve measuring the results of operations.

***Modified Accrual Accounting.*** The modified accrual basis of accounting is used by all governmental funds and expendable trust funds, as required by generally accepted accounting principles (GAAP), the Governmental Accounting Standards Board (GASB) and the State of California. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available as net current assets. Property tax and assessments are recognized as revenues in the fiscal year in which the taxes were levied. Sales and use taxes are reported as revenue when collected by the State of California for subsequent remittance to the City. Intergovernmental revenues and investment earnings are accrued when earned. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements are satisfied. Fines and permits revenue are not susceptible to accrual as they generally are not measurable until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, recognized when due, and accumulated unpaid vacation and compensatory pay that is accrued and reported on the government-wide financial statements for governmental funds.

***Full Accrual Accounting.*** As mentioned previously, the full-accrual basis of accounting is used for the enterprise and proprietary fund types. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The City has chosen to utilize GASB as its standard setting body for the accounting in its proprietary funds, as allowed since November 30, 1989.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures, or when housing loans are extended upon agreement for future lease or loan repayment proceeds. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Past actual data presented in this budget document reconcile to the City’s financial statements using the GAAP basis of accounting for governmental funds and full-accrual basis for enterprise funds.

***Basis of Budgeting Method.*** The budget for FY 2011-12 uses the basis of budgeting method. The basis of budgeting and the basis of accounting are the same for all governmental funds. The budgeting basis for enterprise and proprietary funds do not include depreciation/amortization of debt principal and interest payments or the capitalization of capital construction costs or donated/contributed capital. Depreciation of capital assets for enterprise and internal service funds has been budgeted.

## **BUDGET PROCESS AND PROCEDURES**

The City follows the following procedures in establishing the budgetary data reflected in this document:

1. In June, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution before July 1.
4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device. Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP) and are consistent with the basis used for financial reporting. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any reconciliation. The General Fund budget is adopted on the budgetary basis, which is not consistent with accounting principles generally accepted in the United States of America. Commitments for material and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are encumbered at year-end lapse, then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2009, based on the calculations by City Management, proceeds of taxes did not exceed the appropriations limit.
7. Budget revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue sources and re-appropriated amounts for prior year encumbrances. The City Manager must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications, with approval of the Finance Director.
8. Certain appropriations carryover and are re-appropriated for the subsequent year.
9. Budget appropriations for the various governmental funds become effective July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level.

## **FY 2011-12 BUDGETARY PROCESS**

There are two pieces to the budget: an operating budget and a capital budget. The departmental operating budgets represent current year operations whereas the capital budget covers major construction projects and the purchase of major equipment for multiple fiscal years. The operating and capital budgets are concurrently created and adopted in a similar manner. However the operating budget covers a one-year period while the capital budget covers a five-year period with money being

appropriated for the first year along with the current year operating budget and the remaining four years of the capital plan being approved in concept.

The budget and this document is the culmination of a process in which the community -- through its elected leaders, commission members, public hearings, and the advice of City staff -- decides upon the services it shall receive from its government under the constraint of resources available to it through taxes, fees, and transfers from the federal, state, and county governments. In other words, it reflects the priorities of residents in the community while balancing revenues and expenditures over the long-term.

### **Operating Budget Process**

The FY 2011-12 budget process began in March with the request by the Finance Department for revenue projections and an estimation of operating expenditures requests. Economic indicators negatively impacting the City's revenue projections necessitated reductions to salary and benefit costs, and curtailment to other operating expenditures for FY 2011-12. Further, capital construction project requests were limited to only continuing projects where resources were available or required major maintenance and equipment acquisition minimally necessary to sustain the City's fixed assets and capital investments.

*City Council / Citizen "Ad Hoc" Finance Committee Budget Meetings.* The City Manager and the City's senior staff discussed the City's FY 2011-12 budget issues with the City Council/Citizen Ad Hoc Finance Committee at six budget work sessions during the months of March through June. This committee includes two City Council members and appointed members from the public. The budget work sessions provided time for the Committee members to discuss issues and to provide policy direction.

*Citizen Input on the Budget and Final Adoption.* Citizen participation was encouraged during the Ad Hoc Finance Committee budget work sessions. Additionally, public notice of Council consideration of the City's proposed budget resolution was advertised per state law. A copy of the proposed FY 2011-12 Budget was available at the City Clerk's Office for citizen review prior to the Council meeting scheduled on June 28, 2011 during a regularly scheduled City Council meeting. Any amendments made by Council are incorporated into the final adopted budget.

*Mid-Year Budget Review and Revision Process.* After the adoption of the budget, there are scheduled reviews of the budget's progress. In February of the fiscal year, there is a major mid-year (second quarter) review in which revenues and expenditures are examined and adjustments made if necessary. There are also first, third and fourth quarter reports prepared and reviewed with the Finance Subcommittee of the City Council. Any adjustments to the budget must be passed by City Council resolution.

In addition to these scheduled reviews of the adopted budget, there is a process for amending the budget during the year if a department finds that more money is needed to be spent on a program than was originally anticipated, or finds that there are new funded or unfunded needs to be met. In this case, the department must present to City Council its reasons for requesting a budget adjustment. As with the scheduled budget reviews, these budget adjustments must also be adopted by City Council resolution before a department can spend money amounting to more than the original appropriation.

Requests for adjustment to the budget fall into two categories:

- Pre-Approval - Departments may present to Council on an individual basis revised funding requests for approval to proceed with a new initiative, program or project. Council approval of such requests constitutes formal budget appropriations authority.
- New Requests - Department requests may be submitted through the mid-year revision resolution. Departments submit a memorandum to the City Manager outlining the cost of the requested item, its justification, the financing source(s), whether the request is a one-time or on-going cost, and accounting codes impacted. If approved by the City Manager, these requests are listed on the subsequent mid-year revision resolution. City Manager review includes a determination of the necessity for the request and its fiscal impact.

*Continuing Appropriations of Prior Year Unspent Capital Project Budgets.* A third manner for adjustments to the current year budget is the re-appropriation of various prior year unspent capital project budgets. During the budget process, senior staff reviews each project to determine whether it will continue or be “closed”. This information is presented to Council in the capital budget discussions. Because of the difficulty in determining the exact amount which should continue into the future budget year, multi-year capital project budgets submitted by staff and approved by Council to continue are subject to re-appropriations to the new fiscal year. This ensures that the initial total cost estimate of a given capital project is maintained in the general ledger, and is not at risk of increasing over years due to budget estimations.

### **Capital Improvement Budget**

The Capital Improvement Budget is a plan for capital projects, fixed assets, and infrastructure owned by the City of Hercules. Requests from senior staff are reviewed by the City Manager as part of the annual budget development process to insure that the City’s assets are maintained in an efficient manner and that Council long-term goals are met. The capital budget is organized by the department and/or fund responsible for the asset. The capital process starts with departments submitting their requests for maintenance, replacement, and the addition of assets under their control. The City Manager oversees a disciplined process to provide assurance to citizens that the City’s assets and infrastructure are properly maintained.

### **USING THIS BUDGET DOCUMENT**

The first section of this document is a general introduction to the budget and the document itself. The document covers both the operating and capital budgets for the City with most of this document being devoted to the City’s operating budgets. In general, the document is organized by fund type with the majority of it devoted to the General Fund.

The first section of this document gives a general overview of the City’s revenues, expenditures, and fund balances. This gives the reader an understanding of the City’s financial condition. More specifically, this section gives a summary of the fund balances for all of the funds and thus the resources available to the City to meet current and future obligations. Also presented are the detailed account information of all the City’s revenues, citywide intra-fund transfers in and out, and a list of the City employee positions for all departments.

The next section is an overview of the General Fund, which provides most of the primary services of the City’s government operations. In addition to an overview, the General Fund section also presents the budget details of each General Fund department. The following information pieces make up those departmental budgets:

1. Discussion of the departments' purpose, current services, goals for the budget year and accomplishments achieved in the prior year.
2. A financial performance overview summarizing the departments revenues generated by operations, expenditures by budget category, and the difference between a department's generated revenues and its expenditures. This difference presents the department's reliance on the General Fund's tax and other revenue resources.
3. Expenditure detail line item budgets for each division of the department.

Following the sections following the General Fund are the City's various special revenue funds, capital project funds, debt service funds, Hercules Redevelopment Agency, enterprise funds, and internal service and trust funds. In these sections, there are narratives discussing the services and initiatives of the funds, financial performance overviews, and detailed descriptions of expenditures. The Appendices section includes the resolutions that adopted the budgets, the adopted fee schedule, and a glossary of budgeting and accounting terms.

### **CITY ORGANIZATIONAL STRUCTURE**

The organizational structure of the City of Hercules' municipal departments is found in the chart on the following page. The chart outlines the supervisory reporting structure of the City's senior staff. The City Manager reports to and serves at the pleasure of the City Council, a five-member elected body. There are nine functions overseen by the City Manager. These nine program areas are:

- ✓ Public Safety
- ✓ Buildings and Maintenance
- ✓ Parks and Recreations
- ✓ Library Services
- ✓ Community Development
- ✓ Hercules Redevelopment Agency
- ✓ Utility Enterprises
- ✓ Hercules Public Financing Authority
- ✓ Administrative Services

The City Manager holds a weekly Department Head Meeting to review the occurrences of the prior week and the upcoming week. This meeting is also held to discuss any items of special interest or concern.

### **CITY COMMISSIONS AND SUB-COMMITTEES**

The City has two (2) commissions and five (5) full/sub committees appointed either by or jointly with the City Council, City senior staff and/or elected officials. Commissions and committees provide advisory recommendations, counsel and guidelines on their relevant topic areas. These commissions and committees include:

Planning Commission	Education Sub-Committee
Community and Library Services Commission	Public Utilities Committee
Business Development/Transportation/Sustainability Sub-Committee	Public Safety/Traffic Sub-Committee
Finance Sub-Committee	

CITY OF HERCULES  
ORGANIZATION CHART  
 As of June 30, 2011

