

June 20, 2006

Honorable Mayor and Members of the City Council:

I am pleased to submit the operating and capital budget for fiscal year 2006-07 (FY 07). This was an extremely challenging budget to develop, but the cooperative effort of the entire staff and the Council ensured a smooth process and a successful outcome.

The budget is intended to serve as a policy document, a financial plan, a communications device, and an operations guide. The budget reflects the policies, goals, programs and service priorities that the Council and staff are committed to providing to Campbell residents.

The FY 07 budget was developed using conservative assumptions and incorporating \$1.9 million in budget correction strategies necessary to resolve a budget imbalance. This required freezing/unfunding an additional 3.75 full-time positions (for a total of 20.1) and reducing expenditures while increasing some fees and adding several new ones. While some utilization of reserves has been budgeted for specific purposes, total reserve utilization has been reduced substantially and no Economic Fluctuation reserves are used. Budgeted expenditures are considered necessary and proper, taking into consideration the Strategic Plan objectives and the City's goal of providing a high quality of services to our residents. Reserve requirements have been maintained consistent with established and updated financial policies. The result is an overall budget that is lean, and which may result in noticeable service impacts in the community given the amount of expenditure reductions that have been made this year and last. Nonetheless, the budget continues most of the programs and services the residents of Campbell are accustomed to receiving.

Although the economic environment has been difficult for several years, the City has seen a number of significant projects come to fruition including the opening of a new Kohl's department store on the former Breuner's site, the opening of the Vasona Light-Rail extension connecting Campbell residents and visitors with downtown San Jose, and the opening of a new 95-room Marriott Town Suites hotel. The City also saw a record amount of building activity take place during the year including the mixed use residential/retail project, Downtown Developer Site, which is nearing completion and several other significant residential, commercial and mixed use developments that will bring new vibrancy and excitement to the City's downtown and surrounding area. In FY 07, the City awaits the completion of these projects and anticipates beginning work on several other important development projects that are expected to occur during the year.

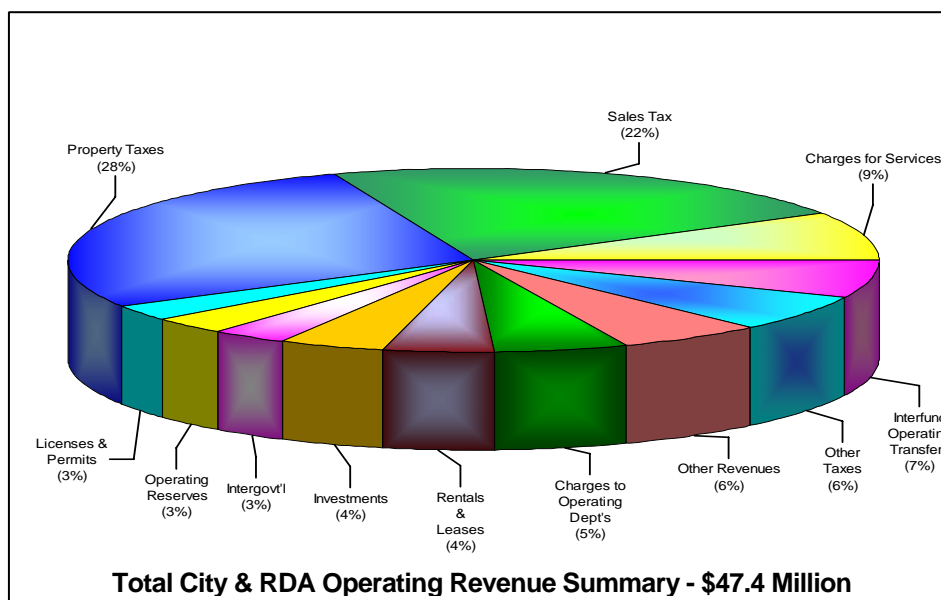
BUDGET SUMMARY

The combined FY 07 operating and capital budget totals \$54.0 million comprised of \$47.3 million for the City and \$6.7 million for the Redevelopment Agency (RDA). Related revenue sources total \$54.8 million comprised of \$47.3 million for the City and \$7.5 million for the RDA, indicating a balanced budget in which revenues meet or exceed expenditures. Excluding capital transfers, the City's budget would be \$45.0 million and the RDA's budget would be \$5.4 million.

The following table depicts total operating and capital budget for the City and the RDA at their respective legal levels of appropriation compared to the prior fiscal year:

	FY 2006-07			FY 2005-06			\$ Change Operating Budget	% Change
	Operating Budget	Capital Budget	Adopted Budget	Operating Budget	Capital Budget	Adopted Budget		
City	\$ 41,118,629	\$ 3,874,800	\$ 44,993,429	\$ 40,915,115	\$ 5,220,600	\$ 46,135,715	\$ 203,514	0.5%
Capital Transfers	-	2,293,300	2,293,300	-	5,045,600	5,045,600	-	n/a
Total City	41,118,629	6,168,100	47,286,729	40,915,115	10,266,200	51,181,315	203,514	0.5%
RDA	5,446,338	-	5,446,338	6,423,352	-	6,423,352	(977,014)	(15.2)%
Capital Transfers	-	1,226,500	1,226,500	-	175,000	175,000	-	n/a
Total RDA	5,446,338	1,226,500	6,672,838	6,423,352	175,000	6,598,352	(977,014)	(15.2)%
Total City & RDA	\$ 46,564,967	\$ 7,394,600	\$ 53,959,567	\$ 47,338,467	\$ 10,441,200	\$ 57,779,667	\$ (773,500)	(1.6)%

Overall, the budget is down 1.6% from the previous year. Broken down, it consists of a \$0.2 million increase in City operating budget due primarily to negotiated cost of living increases offset by freezing/unfunding an additional 3.75 full-time positions and other expenditure reductions. RDA expenditures decreased almost \$1 million due to completion of a significant low-moderate income housing project with a non-profit entity in FY 06.



Operating Budget:

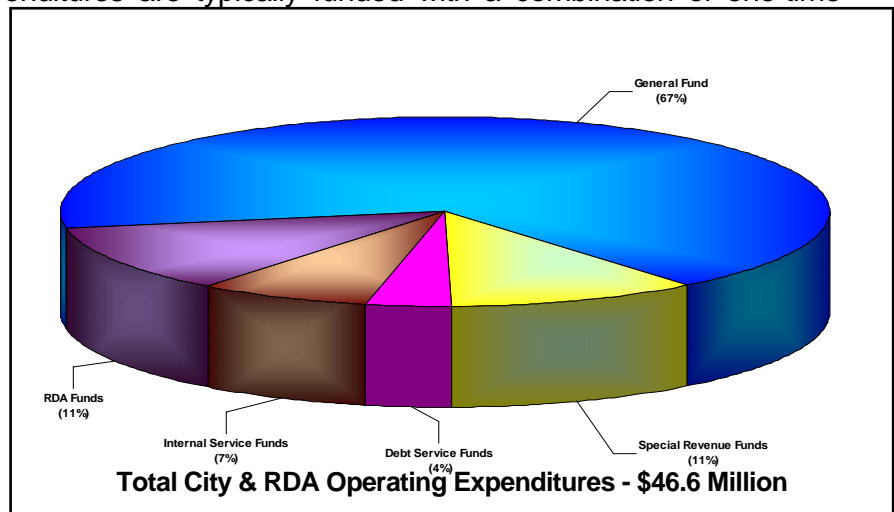
The total operating portion of the budget is \$46.6 million, comprised of \$41.1 million for the City and \$5.5 million for the RDA. Related revenue sources total \$41.1 million for the City and \$6.3 million for the RDA. The budget reflects expenditures that are expected to recur on an annual basis as well as those that may be non-

recurring or one-time in nature. The recurring expenditures are generally funded with recurring

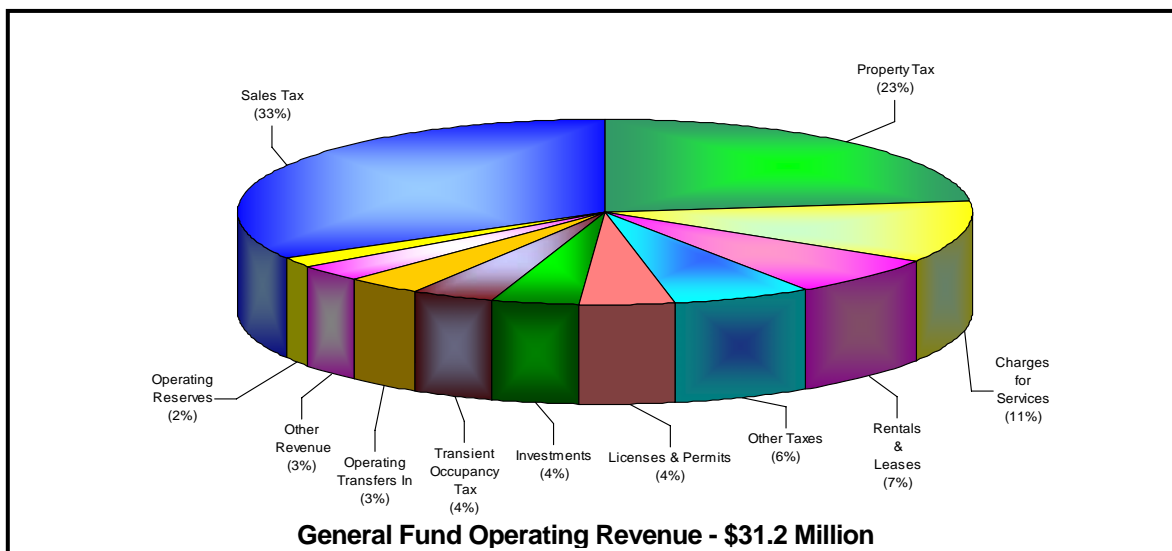
operating revenues that are expected to be received annually.

Non-recurring or one-time expenditures are typically funded with a combination of one-time revenues, specific reserves and/or unreserved fund balances, all of which are considered to be revenue sources for purposes of presentation within this document.

The FY 07 operating budget relies on a total of \$1.4 million in non-recurring revenues, reserves and fund balances, to fund operating expenditures.



General Fund revenues and expenditures are budgeted at \$31.2 million including \$0.6 million in General Fund reserves.



Capital Budget: The City's seven year Capital Improvement Plan (CIP) is both a short and long-range plan for acquisition, improvement and/or renovation of City assets. The CIP is a dynamic document and is reviewed and updated annually. The first year of the seven-year CIP is incorporated within the operating / capital budget document, and is appropriated accordingly. The remaining six years function as a project planning and budgeting tool. Operating budget impacts resulting from the CIP are incorporated into the operating budget.

Pursuant to Council policy, the CIP includes projects and equipment items in excess of \$25,000. Also included are studies or evaluations that will potentially lead to a capital project. Capital items with a value of less than \$25,000 are included in the operating budget in the appropriate capital outlay line item or as a building maintenance special project if related to facility improvements. Because the annual budget formally adopts both an operating and a capital component, this document contains a summary within the CIP section that is dedicated to FY 07, the first year of the CIP. Capital projects totaling \$3.9 million plus related inter-fund transfers

of \$3.5 million anticipated total of \$7.4 million in capital appropriations. By entity, \$6.2 million represents the City's portion and \$1.2 million represents the RDA. A summary of the capital projects and related appropriations for FY 07 is as follows:

<u>Project Title</u>	<u>FY 07 Allocation</u>
Library Building Program	\$ 175,000
Bike / Pedestrian / Traffic Safety Improvements	105,000
Community Center Track Surface	125,000
Deferred Street Maintenance	935,000
Hamilton / Hwy 17 Southbound Off Ramp Widening	275,000
Miscellaneous Storm Drain Improvements	50,000
Ainsley House Roof Repair	105,000
City Hall Chiller Replacement	100,000
Main Gymnasium Exhaust System	28,000
Orchard City Hall Banquet Hall Improvements	1,901,800
Storefront Improvement Program	<u>75,000</u>
Total	<u>\$ 3,874,800</u>

Further detail on the capital improvement budget is summarized in the Capital Improvement Plan section of this document. The full CIP document is also available under separate cover through the City Manager's office.

REVENUES

Pursuant to City financial policies, revenues are projected conservatively. No new taxes are included in this FY 07 budget. In projecting revenues, program managers evaluated comparative historical data in conjunction with necessary inflationary adjustments, changes in volume or activity, and any fee increases. This process resulted in total budgeted revenue for FY 07 of \$54.8 million, including capital funding sources of \$7.4 million. This reflects a decrease of \$3.0 million (5.2%) from the previous year. In looking at just the operating budget component, total revenue is \$47.4 million, a decrease of \$0.1 million from the previous year.

It is important to note that the capital project budget can fluctuate dramatically from year to year depending upon the number and size of projects that are approved. Capital projects are funded with non-operating revenue hence there is no impact on the operating budget funding sources. Both the operating and capital budgets contain transfers-in totaling \$3.2 million and \$3.5 million, respectively. Although this has a tendency to make the budget appear higher in total than it actually is, the transfers-in on the revenue side are offset by transfers-out on the expenditure side. Including transfers in the City's adopted budget is done to readily demonstrate that budgets are balanced and match the internal budgeting system.

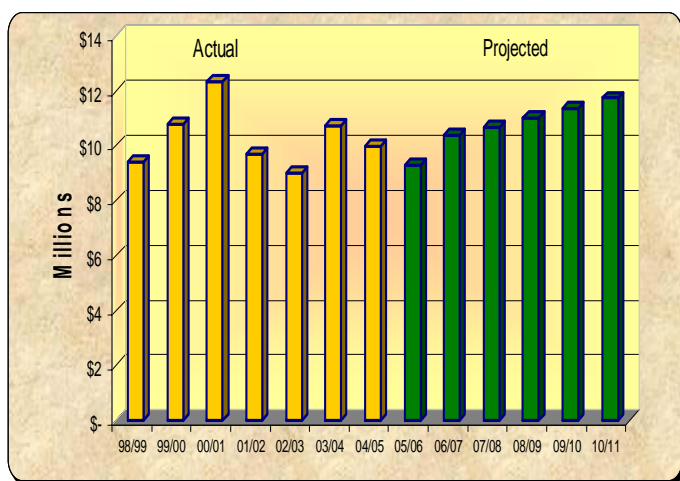
General Fund: Contained within the budget are a variety of funds, each with its own source(s) of revenue. This year, the budget document is organized by operating department, then by program within the department. The General Fund is the City's largest single fund where the majority of services are budgeted. It funds general services such as police, parks, streets and administration. Therefore, the focus of this section of the budget message is on the General Fund. General Fund operating revenue, excluding capital funding sources and use of operating reserves/beginning fund balances, is estimated to be \$30.7 million, an increase of \$2.5 million

(8.9%) from the previous year. The majority of this increase is related to this fund's largest revenue components, sales and property taxes, which are discussed below.

Sales Tax: Sales tax revenue comprises approximately 33% of the General Fund's net operating revenue base. Net revenues exclude beginning fund balance, which is not considered to be an on-going revenue source. The City's sales tax base is comprised of approximately 4,600 diverse businesses throughout the City. While most of the City's largest sales tax producers can be considered stable businesses, they are still subject to fluctuations from general and regional economic conditions which can have a direct impact on the City's sales tax revenue base. The loss of any one of the top generators could have a significant financial impact to the City. Accordingly, the revenues from these entities are closely monitored.

The FY 07 budget of \$10.4 million is \$0.4 million (4.0%) higher than the adopted FY 06 budget and \$1.1 million (11.8%) higher than projected FY 06 actual revenue of \$9.3 million. The significant fluctuation is the result of a \$0.6 million one-time reduction by the State for overpayments made in the prior year as well as several new retail developments that are

anticipated to open during the year. The existing base was increased by 2% for next fiscal year and 3.1% for future years based on the latest information available from the City's sales tax consulting firm and recent trends.



Sales Tax Revenue - General Fund

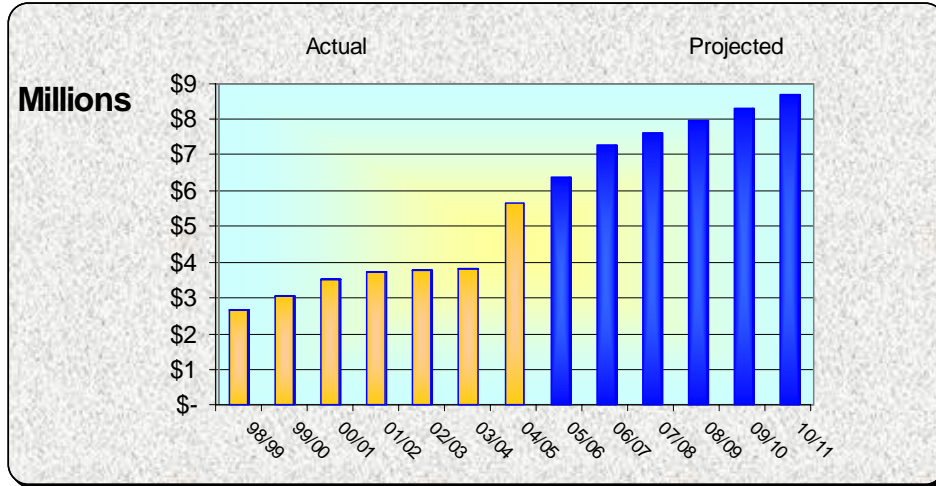
The graph to the left reflects actual sales tax performance for the past seven fiscal years and projected revenue through FY 11. As can be seen, sales tax revenue is expected to increase at a steady but modest pace, and not reach its previous high from FY 01 until at least FY 12.

Property Tax: Property tax revenue is the second largest source of revenue to the General Fund, estimated at \$7.3 million or 23% of net operating revenue for FY 07. This is an increase of \$1.4 million or 22% from the previous fiscal year's adopted budget and \$0.9 million (14%) higher than projected FY 06 actual revenue. For the past two years, the City was under a State mandate to pay into the Educational Realignment Augmentation Fund (ERAF), representing an annual reduction in net property tax revenues of approximately \$0.6 million for each year. In FY 07, this obligation no longer exists, so revenues increase substantially. This is the first time since 2003 the Governor's budget has not sought to take local revenue.

With respect to the base revenue level, property tax growth is estimated to be 5% higher than the revised budget amount for FY 06, which was almost \$0.5 million higher than the adopted FY 06 budget, due to the continuing increases in property values, both from in-fill development and sales in the residential real estate sector despite the recent cooling down of the housing market.

Primary factors in the projection are historical growth in assessed valuation and new construction. The following graph depicts the historical and projected trend for property tax revenues in the General Fund. The significant jump from FY 04 to FY 05 is attributable to legislative action taken by the State that reduced the City's vehicle license fee and replaced it with additional property tax revenue taken from the State's ERAF fund.

Property Tax Trend – General Fund

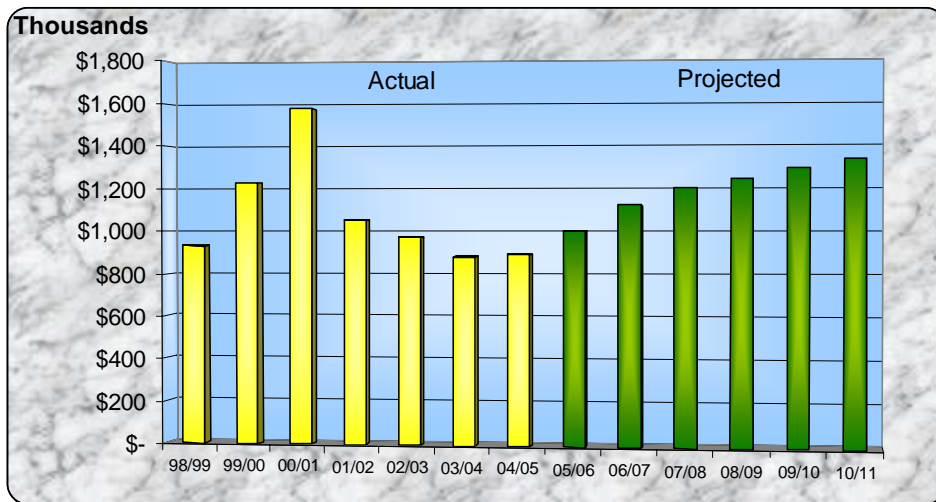


Transient Occupancy Tax: This tax, more commonly referred to as hotel/motel tax, or simply TOT, is derived from a 10% tax that is applied to the room rates of the City’s hotels/motels. TOT revenue for FY 07 is budgeted at \$1.1 million, reflecting an increase of \$0.2 million or 18% from the previous year’s adopted budget and a \$0.1 million or 10% increase from the revised FY 06 projections. The projection is based on slightly higher occupancy levels and room rates of existing hotels/motels that assume modest growth over the next year. It also includes the addition of a new hotel that opened midway through FY 06.

Key factors in developing the revenue projections are such things as historical trends, the number of available rooms, the occupancy rate, exemptions, new rooms coming on-line, and the weighted average room rate. Historically, Campbell hotels/motels have averaged occupancy rates of 85%. In recent years, occupancy rates have been in the 65-70% range, but increasing TOT revenue during FY 06 indicates a positive upward trend for the local region.

The following chart depicts historical activity and projections for current and future years. The projections do not include revenues from another hotel expected to be built on Creekside Way in the next couple of years.

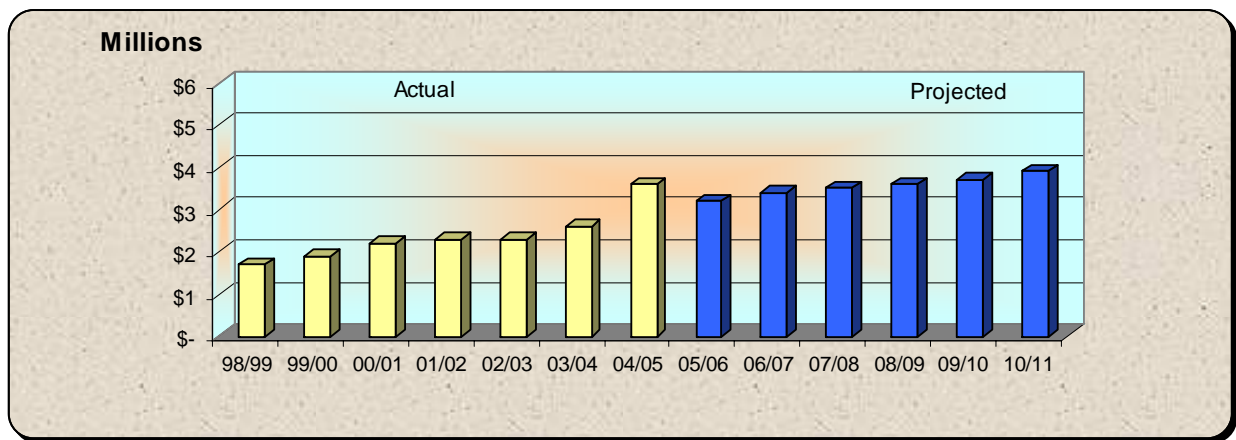
Transient Occupancy Tax (TOT) Trend – General Fund



Charges for Services: Charges for services include revenues derived from Recreation program fees, classes/lessons, and trips/tours; Police and Fire services; planning, building, and engineering permit fees/charges; and business licenses. The combined revenues are anticipated to generate \$4.7 million for the General Fund during FY 07 compared to \$4.4 million in the previous fiscal year, an increase of nearly 7%. This is due to adding several new recreation classes as well as increasing fees for other classes. Construction and related building activity is up slightly from FY 06 adopted levels. Additionally, a number of new building and planning fees will be implemented and other fees increased in FY 07 to better capture the cost of service.

In addition to the cost of providing the service, other factors such as the allowable percentage of recovery, number of participants or attendees, inflationary factor, comparison to other agencies, and the historical trends are analyzed for nearly all fees and charges. The following chart depicts historical activity and projections for current and future years:

Charges for Services Trend – General Fund

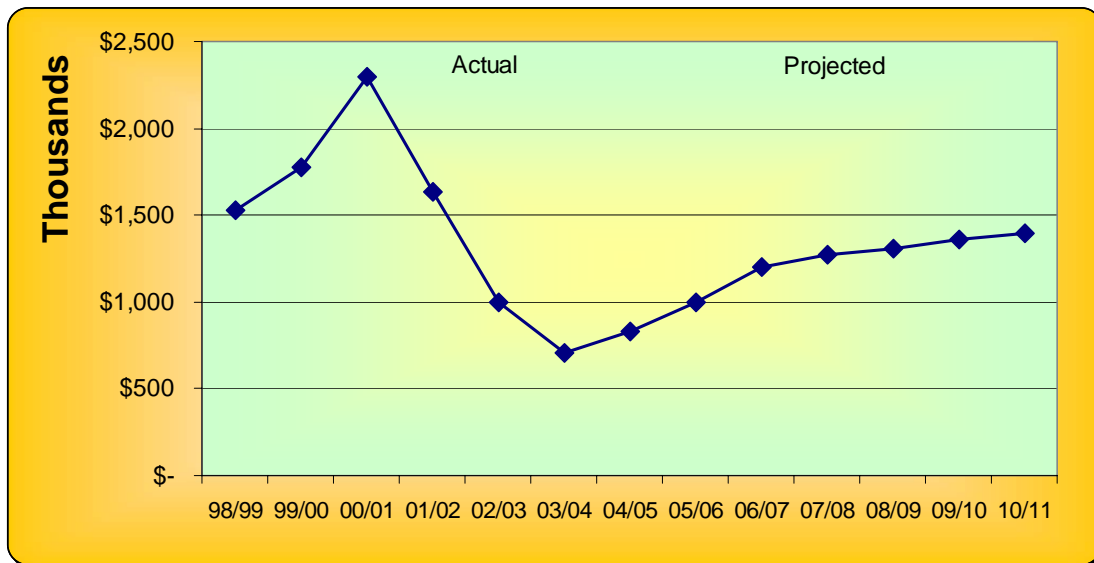


The City maintains a cost allocation plan and user fee model, which serves as the basis for the Schedule of Fees and Charges. A Council-established User Fee Policy framework for establishing appropriate percentages of recovery is the guideline from which fee modifications are proposed and approved annually in conjunction with the budget process. A more thorough review of the cost recovery methodology will be undertaken in FY 07.

Investment Income: Investment income comprises approximately 4% of General Fund net operating revenue and is estimated to be \$1.2 million for FY 07, an increase of \$0.3 million or 41% from the previous year’s adopted budget and an increase of \$0.2 million (20%) from the revised FY 06 projections. Although investment earnings had been trending downward for several years due to a period of historically low interest rates, rates began to rise early in FY 05 and have continued to increase for the past couple of years based on strong anti-inflationary policy direction of the Federal Reserve Bank. Consequently, the average interest rate yields are expected to be higher in FY 07 than they were in FY 06. The estimate for FY 07 contemplates an average yield of 4.4% on an investment balance of approximately \$27 million for the General Fund.

The following chart depicts historical activity and projections for current and future years:

Investment Income Trend – General Fund



Lease Rental Income: The City collects rental income by leasing out space to tenants at its Community Center facility. Lease rental income is projected to be approximately \$1.3 million for FY 07, representing approximately 4.4% of net General Fund operating revenues. Rental income from this source is reasonably consistent from year to year attributable to having a number of long-term leases. Occupancy has been at or near capacity for the past several years and is expected to continue similarly for the new fiscal year. The revenue projection is based on actual lease contracts as well as market rates for available space.

Franchise Tax: Franchise tax revenue is generated from fees charged to various utilities for doing business within the City. The fee is usually computed as a percentage of the gross income of the utility. This revenue source is projected to generate General Fund revenue of approximately \$1.3 million for FY 07. The projection is developed from a combination of increased services/customers plus an inflationary factor averaging 3% on the historical amounts generated by utilities operating within the City limits, e.g. cable, water, garbage, gas and electric. Others are set contractually. In developing the electric and gas franchise fees, consideration was given to the changes in market conditions in the State of California, which have tended to generate higher energy costs and produce variations in consumption. However, Campbell has not experienced a significant variance in this revenue source as a result of the current economic state.

Other General Fund Revenues: The remaining significant General Fund revenue sources consist of other rental income of \$0.7 million, operating transfers-in of \$1.1 million representing reimbursements from other funds for services provided by the General Fund, and reserves of \$0.6 million that are used to fund operating expenditures such as a portion of the Heritage Theatre. Where appropriate, other revenue sources are projected to reflect modest inflationary increases and/or changes in activity levels.

Revenue - Other Funds

A variety of additional funds are contained within the budget and explained in greater detail later in the budget message. In summary, each fund's operating revenue meets or exceeds operating expenditures consistent with established financial policies. Exhibit A within each program budget provides a summary of that program's funding sources and all revenues monitored by that program. Narrative descriptions and account number references pertaining to the particular revenue sources can be found in the budget reference materials section of this document. Charts and graphs for General Fund revenue as well as total City revenue, other than what is presented in this budget message, can be found in the financial summaries section of the budget document. Because this budget is organized by program, funds other than the General Fund are included in the respective operating department's section of the budget along with the General Fund programs. Each program is identified with the fund number at the beginning of each section.

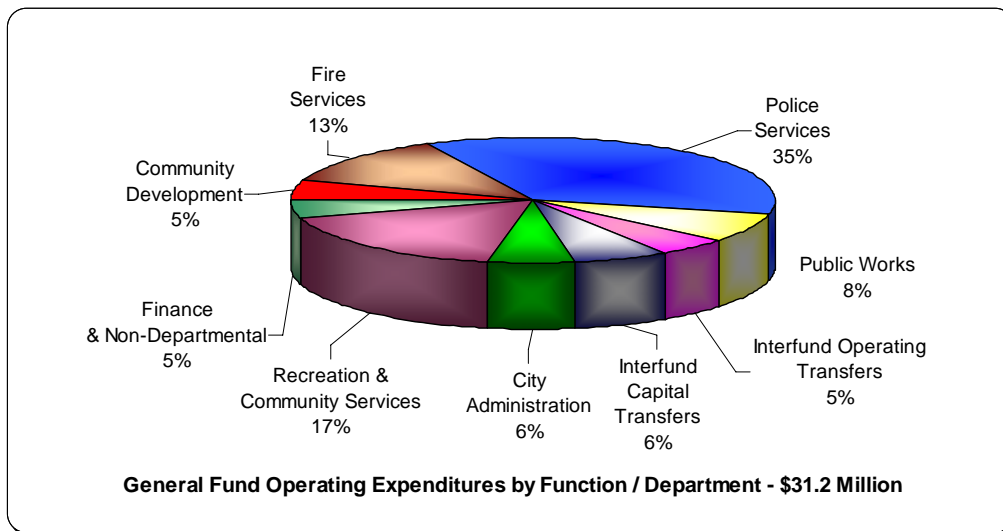
Special Revenue Funds consist of Gas Tax; Lighting and Landscape District; Housing and Community Development; Environmental Services; Parkland Dedication; Asset Forfeiture; Supplemental Law Enforcement; Other Grants; Other Special Revenues; and, RDA Housing. Gas Tax revenue is considered a State-shared revenue. Projections for this revenue source come directly from the State on an annual basis. Revenue in funds such as the Lighting and Landscape District and Environmental Services are based on rates that are assessed to individual properties depending upon type of service being provided or type of property. Total revenues for Special Revenue funds for FY 07 are \$6.3 million.

Debt Service Funds are incorporated within the budget due to various bond covenant requirements. Local Improvement District (LID) revenue comes from the County of Santa Clara via property tax levies assessed against the properties that received the specific improvements. Certificates of Participation (COP) debt service are funded by the General Fund with an offset from the RDA. RDA debt service funds are funded with tax increment from properties located within the redevelopment project area in Campbell. Such properties start out in a blighted condition and, as they are redeveloped and improved, the RDA receives the incremental growth in property tax over the established base. For presentation purposes, the RDA debt service fund is grouped along with other RDA funds under the Redevelopment Agency tab in the budget document. Total funding sources for Debt Service funds, excluding the RDA fund, for FY 07 are \$1.7 million. The RDA Debt Service funding sources for FY 07 are \$4.6 million.

Three **Internal Service Funds** (Motor Vehicle, Information Technology and Workers' Compensation) are presented within the City's budget. Revenues in these funds are generated primarily through charge-backs to user departments depending upon the volume of assets and type of service provided by the specific fund. Costs that get recovered include staff time, repair, maintenance, claims payout and replacement of assets managed by the particular fund. Total revenues for Internal Service funds for FY 07 are \$2.6 million.

EXPENDITURES

As noted previously, the FY 07 budget is comprised of operating and capital expenditures for both the City and the Redevelopment Agency totaling \$54.0 million. City operating expenditures total \$41.1 million, and RDA operating expenditures total \$5.5 million for a combined total of \$46.6 million.



The General Fund comprises approximately 67% of total City and Redevelopment Agency operating appropriations. Other City funds comprise 22%, and RDA makes up the balance at 11% of the total. **Operating expenditures in the General Fund are budgeted at \$31.2 million, which is \$0.4 million (1.3%) higher than the FY 06 adopted budget.**

Personnel Services: Staffing resources are an integral part of the City's annual budget. The prior year's budget contained a total of 175.75 permanent positions. However, there were 16.35 full-time equivalent (FTE) positions frozen/unfunded. The number of vacant unfunded positions in FY 07 will increase by 3.75 FTE for a total of 20.1 FTE unfunded positions resulting in budgetary savings of approximately \$1.8 million, primarily benefiting the General Fund. Once the City's revenue picture improves, each position will be reviewed on a case-by-case basis, and funding could be reinstated as appropriate. Conversely, as other vacancies occur, they will be reviewed and reorganization opportunities will be evaluated.

Salaries and Benefits: Salary and benefit summaries including charts can be found within the financial summaries section of this document, and can also be seen in the departmental budget summaries section, or on Exhibit B-1 of each program budget. These summaries reflect FTE's and budgeted expenditures for both permanent full-time, permanent part-time, and temporary staffing. Exhibit B in each program budget summarizes the various salary and benefit line-items contained within that program's budget.

The salaries and benefits category represents all personnel-related costs and makes up the largest component of the General Fund expenditures. In fact, personnel costs are approximately 47% of the total budget and 61% of the General Fund. For FY 07, salaries and benefits in the operating budget total \$22.0 million for all City funds, which is a \$0.3 million (1.3%) increase over the previous fiscal year. The impact of freezing an additional 3.75 FTE positions was partially offset by additional funding to backfill some lost positions with temporary hours as well as increases in salary and benefit costs.

The following table summarizes the categories of compensation and benefits Citywide with a comparison to prior years' actual and adopted budget.

Description of Salary & Benefit Categories (All Funds)	FY 03/04 Actual	FY 04/05 Actual	FY 05/06 Adopted	FY 06/07 Adopted	% Increase (Decrease)
Salaries – Regular	\$ 12,677,533	\$ 13,182,064	\$ 13,393,969	\$ 13,509,927	0.87%
Wages – Temporary	1,654,507	1,699,323	1,689,450	1,530,246	(9.42%)
Overtime	555,617	553,974	394,917	338,842	(14.20%)
Other Pays (Holiday, POST, Auto, Uniform, Meal Allowance)	563,391	589,483	565,107	566,698	0.28%
Medical / Dental / Life Insurance Premiums	1,638,444	1,742,855	1,964,611	2,098,933	12.4%
Public Employees Retirement Systems (PERS) *	216,874	2,172,610	2,661,075	2,681,274	0.76%
Other Benefits (FICA, Medicare, PARS, Unemployment, Other Benefits Pay, Disability, Workers Comp., Deferred Compensation)	1,541,740	1,414,872	1,016,771	1,243,591	22.31%
Total Employee Services	\$ 18,848,106	\$ 21,355,181	\$ 21,685,900	\$ 21,969,511	1.31%

* City was super-funded with PERS through 2002-2003; hence actual cost was significantly less than budget.

One of the conservative budgetary strategies the City of Campbell employs is to budget salary and benefit costs at the top step of the salary range for each position. This is consistent with the City's prudent fiscal policies and generally results in budgetary savings, which in years of economic slow-downs or actual recessions, can significantly help to maintain a balanced budget. Historically, these savings have benefited the Capital Improvement Program Reserve (CIPR), which is a major source of funding for capital projects. The FY 07 budget and fiscal forecast continue this budgetary strategy, however; only 20% of employees are not at or near top step.

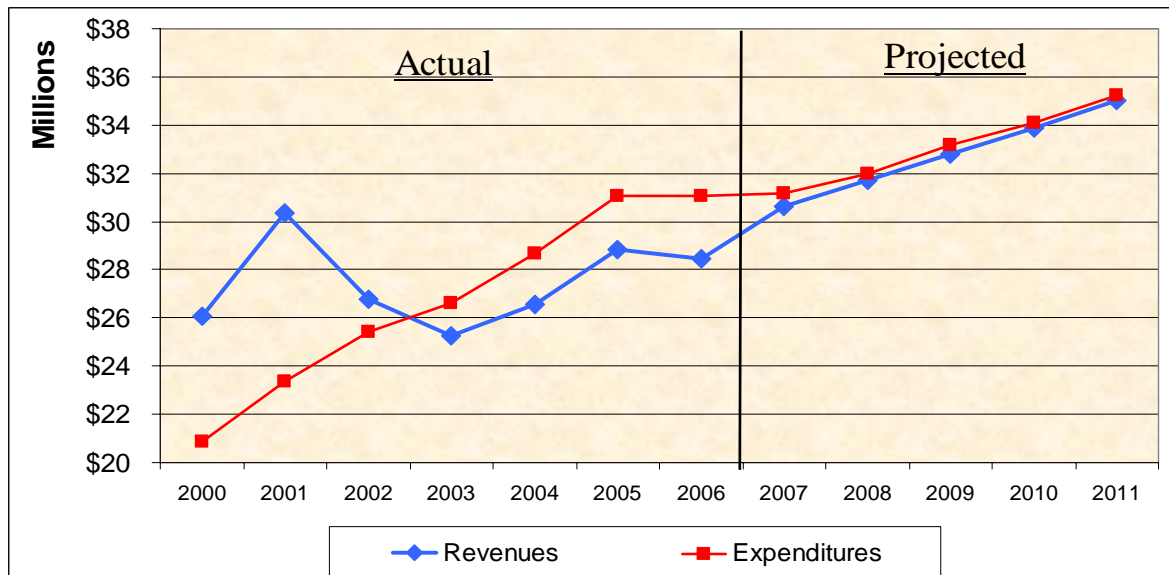
MULTI-YEAR COMPARATIVE ANALYSIS

General Fund - Revenues and Expenditures: The comparative analysis that follows reflects the historical trend between General Fund revenues and expenditures covering the past five years as well as projections through FY 11. City revenues peaked in FY 01 realizing significant financial surpluses attributable to the “dot-com” era successes that had been experienced during the several years leading up to that time. Subsequently, the quickly declining regional economy led to several years of shortfalls in a number of critical revenue sources to the City such as sales taxes, transient occupancy taxes and investment earnings. As the local economy continues to slowly recover, the City has kept expenditure growth to a minimum while revenues increase at a slightly faster pace. Notwithstanding, the City will continue exploring alternative revenue strategies during FY 07 to broaden the City's revenue base to the extent possible in order to maintain and restore services as well as to fund many unmet needs.

The City's multi-year projection assumes revenue growth averaging approximately 3.4% through FY 11 while expenditures average approximately 3%. Where expenditures exceed revenues, the difference is anticipated to be balanced from reserves set aside for those specific purposes. Any on-going operating impacts related to capital projects have been included in the projections to the extent information was available. Any such impacts are specifically discussed in the Capital Improvement Plan section of the budget.

The following chart depicts General Fund operating revenues and expenditures from FY 01 to 11.

Comparative Analysis: General Fund – Revenues to Expenditures



Redevelopment Agency (RDA) Funds: Redevelopment is a primary means to eliminate economic and physical blight from a designated area and to achieve desired development and private investment to revitalize the area. The designated area is commonly referred to as a redevelopment project area. Funding for redevelopment activities comes from incremental growth in property tax revenue within the project area as a result of redevelopment efforts. Such revenue can only be used to fund capital improvements and/or debt service after a 20% housing set-aside. The redevelopment operating budget is comprised of three funds: the 20% Housing Fund; the RDA Administration Fund; and the RDA Debt Service Fund.

Operating revenue and expenditures in these funds for FY 07 total \$5.5 million, which is a \$0.9 million (15%) decrease from the previous fiscal year's adopted budget. Included in the FY 06 budget was an estimated amount of \$0.5 million in State takeaways related to ERAF payments. For future years, revenue projections utilize an average inflation factor of 3%, which takes into consideration the maximum annual increase in assessed value plus a percent for new construction or changes of ownership resulting in reappraisals. Expenditures are projected utilizing a modest inflationary factor.

Internal Service Funds: The City utilizes three internal service funds (more commonly referred to as "pool funds") to finance and account for goods and services provided by one City department to other City departments on a cost reimbursement basis. These funds are: (1) Motor Vehicle; (2) Information Technology (IT); and, (3) Workers' Compensation.

The primary funding source for these funds is user charges. City and RDA program budgets

contain line items for charges from the various pool funds. Included in these charges to other City departments or programs are the pro-rata share of the cost of operations of the particular fund in addition to a replacement cost factor whenever physical assets such as vehicles and computers belong to the fund. As operating or replacement costs change or as asset inventories grow, the corresponding changes are reflected in the charges to the user departments. For FY 07, revenues and expenditures in these funds total \$3.3 million or \$0.1 million (3%) more than the previous year's adopted budget. Revenues typically exceed expenditures by the amount established as a replacement set-aside. Annually, any assets scheduled for replacement are funded from reserves within the respective fund. This can and does result in large variances when making year-to-year budgetary comparisons. Also, the various methodologies utilized to determine reserve levels and replacement charges are periodically evaluated and modified. Projections in future years have been estimated using a modest inflationary factor.

Special Revenue Funds Funds in this category are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. These are generally created when legally mandated in accordance with State and/or Federal statutes or is otherwise restricted by the funding source. Consistent with the City's financial and administrative policies, revenues in the special revenue funds must meet or exceed expenditures, and one-time monies are not utilized to fund on-going expenditures. To the extent revenue shortfalls exist in a given year, expenditures would either be amended and/or the fund may receive subsidization from the General Fund. In any case, the goal is a balanced budget in all special revenue funds. Listed below are the major funds in this category:

Gas Tax Fund: Gas tax revenue is derived from State imposed taxes on the purchase of gasoline which is then appropriated to cities based on population and other factors. Revenues are restricted to be used for the construction, improvement and maintenance of public streets and roads. Revenue projections are provided annually by the State Controller's office and future years include an inflationary factor on the current year's projection plus or minus any known variances.

Expenditures in this fund pertain to on-going maintenance of the City's street infrastructure. Revenue and expenditure totals for FY 07 are projected to be \$1.2 million, essentially flat with the previous year's adopted budget. FY 07 is a balanced budget for this fund, with expenditures equaling revenues. Projections for future years utilize a modest inflationary factor approximating 2% for revenues and expenditures.

Lighting and Landscape District Fund: The City provides a range of services, which are eligible for funding through the City-wide annual Lighting and Landscape District (LLD) as allowed under the Lighting and Landscaping Act of 1972. Annual levies are established and assessments are collected via property tax bills. The County of Santa Clara bills, collects, and remits LLD revenue to the City of Campbell Lighting and Landscape District fund. Services that are provided include the installation, operation, and maintenance of public lighting, including traffic signals, landscaping, parks and recreational improvements, including play equipment and public restrooms, and other equipment for maintenance of the above, including curb, gutters, sidewalk, irrigation, and drainage improvements.

For FY 07, the operating revenues and expenditures total \$2.6 million resulting in a balanced budget. This includes operating transfers-in of \$0.8 million and transfers-out of \$0.2 million. The General Fund accounts for most of the total transfers-in as a subsidy to this fund. In other words, revenues from the assessment are not sufficient to cover the cost of services funded by the LLD. Details related to transfers-out may be found in Exhibit E of Program 775 in the Lighting

and Landscape District Fund budget worksheets. Projections for future years are based on inflationary increases approximating 2%.

Environmental Services Fund: This fund budgets and accounts for revenues and costs associated with administration and management of the City's solid waste collection and disposal, storm water management, and other environmental programs as needed or required. The City participates in a Solid Waste Joint Powers Authority (JPA) and utilizes a franchised solid waste and recycling provider who bills, collects, and remits revenues to the City related to services provided to Campbell residents and businesses. Any increases in rates, such as those approved for FY 07, as well as the proposed budget for solid waste and recycling services are approved by the City Council. The City then develops the Environmental Services budget around these fees. Fees remitted to the City include storm water, storm drain, solid waste, hazardous waste, and recycling fees. Operating revenues and expenditures for FY 07 are \$0.8 million, which is a \$0.04 million (5%) decrease from the previous fiscal year's adopted budget. Future years are based on inflationary increases approximating 2%.

ECONOMIC AND FISCAL ISSUES FACING THE CITY

Over the past several years, the City has struggled with a structural budget imbalance in which on-going revenues were insufficient to fully fund on-going expenditures. This can be attributable to a number of factors including **State-imposed revenue reductions, a weak local economy, and increases in personnel costs.**

Over the past twelve years, the City has lost \$11.8 million due to state takeaways of local revenues. The City and RDA had revenue reductions imposed by the State in the form of additional ERAF (Education Revenue Augmentation Fund) payments of \$560,000 and \$463,000, respectively, during FY 06. The State also eliminated booking fee payments to the City of \$103,000 in FY 07. The two-year ERAF III revenue takeaway ends this year, effectively returning funds to the revenue base beginning in FY 07 that will be able to fund on-going expenditures. A couple of other bright notes in the proposed State budget for 2006-07 are the early repayment of Proposition 42 Local Streets and Transportation monies that had been borrowed in FY 2004-05 and the early repayment of suspended state mandates reimbursement. This should provide the City approximately \$160,000 to be used for street maintenance and an undetermined amount of reimbursement for state mandates claims.

Both the national and California economies have experienced growth during most of FY 06 and are expected to continue into FY 07. The labor market in California added a total of 255,000 jobs between March, 2005 and March, 2006 (1.7% increase). The local economy, comprising Silicon Valley and Santa Clara County, grew at half the State rate adding just 7,300 jobs (0.8% increase). The housing market began slowing during FY 06 as the volume of sales is down from FY 05 and price appreciation, while still in double digits for resale homes, is in single digits for new construction. This trend is expected to continue into FY 07. Increased corporate profits, higher personal income, increased taxable sales and growth in the level of gross private domestic investment are just some of the measures pointing to economic recovery. The local economy has not fared as well as the national or statewide levels due to the concentration of high tech firms in the region; however, recent trends provide some measure of optimism that the pace of the local recovery may soon quicken.

The unemployment rate is an important economic statistic as to the state of the economy in general. As of May 2006, the State seasonally adjusted unemployment rate was 4.8% compared to 5.3% the prior year. For Santa Clara County, the unadjusted rate was 4.8%, down

from 6.0% in the prior year. Campbell generally trends lower than both the County and the State in its unemployment rate. In fact, as of May 2006, Campbell's unemployment rate was 4.1%, unadjusted, which is down from 4.6% in the prior year. While unemployment statistics are only a piece of the total economic puzzle, they do provide a comparative indicator of how each area is doing relative to a prior period. The City's lower unemployment rate is a positive sign for our local economy.

While employees have agreed to limited pay raises in recent years, including no increase in FY 06, retirement benefit expenditures have increased substantially and are anticipated to remain at those levels for the foreseeable future.

The City was able to close the budget imbalance for FY 07 and beyond through the development of more than 70 discreet budget correction strategies totaling \$1.9 million (see Exhibit 2 to this message). However, the existing plan does not provide for bringing back any of the currently frozen and unfunded full-time positions or account for **unmet capital needs**. For example, the unfunded projects in the capital improvement plan total nearly \$59 million. Consequently, additional **revenue enhancement strategies** may be necessary to expand the City's revenue base and provide for a more stable source of on-going funding for future expenditures as well as provide a buffer for when economic conditions begin to falter again. A study of such strategies will be undertaken in FY 07.

Growth and new development within the City pose opportunities and challenges. The City of Campbell is essentially "built out", meaning there are no significant areas of undeveloped land in the city limits available for improvement. Therefore, the challenge is to focus on "in-fill" projects, consisting of smaller individual parcels of land dispersed throughout the City or redevelopment of existing structures whose current use may be enhanced by new development. The City's goal is to preserve the quality of life for Campbell residents by providing a variety of balanced land uses via established standards for residential, commercial and industrial development. Strategies include developing and retaining a diversified and stable economic base, marketing the community to targeted businesses, and working with existing businesses.

The City recently updated its **Economic Development Plan** to take a fresh look at these types of issues. As part of that plan, the City established an Economic Development Advisory Committee. Members of this committee consist of representatives of various business segments including retail, commercial, industrial and small business. Further, an internal Economic Development Team has been formed, consisting of several key department representatives, to prepare for, respond to, and provide analysis of, economic development opportunities.

New development during FY 07 is anticipated to bring additional housing units, progress on a new hotel, new restaurants, and new retail establishments. Although the City and the RDA stand to gain financial benefits from these developments, significant consideration will be given to the overall impacts on our community so that they remain manageable and environmentally balanced.

The City has always strived to provide reasonable health care coverage to its employees. As the general population ages, more reliance is put upon the health care system to provide for comprehensive coverage for employee and their families. Unfortunately, the **cost of providing medical care coverage** continues to escalate year after year. Accordingly, the City has to consider how to balance the level of on-going benefits it can offer with the cost of providing them.

Related to the aging population, **succession planning** is an issue as more and more of the “baby-boom” generation is attaining the age of retirement and the number of retirements are anticipated to increase over the next five years. This is the situation in Campbell where a significant number of staff, including senior management, are at or near retirement age. Many of these employees have been with the City 20-30 years. The challenge to the City is in being able to manage the loss of institutional knowledge, ensure sufficient resources are available to replace these positions and enable a smooth transition with minimal disruption in operations.

The City contracts with the Santa Clara County Fire Department to provide **fire and medical response services** to the community. It is anticipated that the cost for service will increase considerably in FY 09 when the current contract expires. The City is closely monitoring the budget condition to determine whether any additional revenue sources will be necessary to continue providing the same service level as today. Staff will also explore what other options may be available to address this issue.

An ongoing challenge is the need to maintain the City’s **infrastructure, particularly its streets and sidewalks**. Nearly \$14 million dollars have been invested in the City’s street infrastructure over the past 9 fiscal years, and work will continue into FY 07 with an additional \$0.9 million in capital project dollars set aside for this purpose. While the City’s overall condition of streets is good, a significant amount of resources are required to maintain a “good” condition rating on an on-going basis. Providing this source of funding will continue to confront the City. After FY 07, the capital improvement plan shows only minimal resources available to fund street infrastructure improvements. Due to reassessment of the City’s financial reserves policy in FY 06, it is anticipated there will be a one-time addition to capital improvement reserves. However, these reserves are not set aside solely for this purpose. Both street and sidewalk infrastructure are priorities for the City, and every effort will be made to maintain these assets in the best conditions possible. County voters recently rejected Measure A, which had the potential to provide funding for pavement maintenance. Proposition 1B on the November ballot, if passed, will provide one-time funding for road improvements.

Fuel costs have risen dramatically in the past year. To the extent possible at the time of drafting the budget, this increased expenditure has been built in. Nonetheless, the constant fluctuations, and additional increases, could have an impact not only directly on the City’s fuel purchases, but on the cost of automotive parts and supplies, street maintenance and capital projects that depend on oil related commodities.

Rapid **changes in the telecommunication industry**, and related legislative activity, could impact the City’s franchise authority and revenue. National and state legislation currently under discussion threaten cities’ ability to control the public right of way and ensure universal access. If enacted, the City may lose franchise fee revenue, which is currently more than \$250,000.

Deployment of technology continues to be important for the City. To maintain the City’s current and proposed standards of performance as well as protect systems from outside attacks and viruses, constant attention and resources are required to ensure systems remain stable and reliable for all users. Additional measures are planned to improve system security, facilitate user assistance through an on-line help desk and improve network reliability during power interruptions. Development and application of Geographical Information Systems (GIS) database layers will continue to be pursued in order to provide a wider range of usable information to end users utilizing data provided through the County. Steps to enable on-line permitting are also being taken to make it easier for the public to transact certain business within the City. Another area of on-going development includes strengthening the City’s website

presence with additional content to provide improved access to a wide range of useful information and more convenient ways of transacting City business. The City recently redesigned its website during FY 06 to facilitate finding information important to users and to more easily navigate the site. The City is also considering what options are available to establish a "Wi-Fi" wireless internet service in the City. This is being explored through Joint Venture Silicon Valley, a not-for-profit, public-private partnership whose membership includes many of the municipalities in the region.

FISCAL 07 MAJOR WORK PLAN ITEMS

Departmental work plan items for the upcoming budget year were presented and discussed with the City Council at a study session on May 16th. In general, the lists are shorter in the past due to limited resources, and also a restructuring that moved many items into the "ongoing responsibilities" section. Both categories can be found within the department program sections of the budget document.

FY 06 SIGNIFICANT ACCOMPLISHMENTS

Despite \$1.6 million budget reductions implemented for the FY 06 budget year, including freezing of staff vacancies, the City was able to realize many accomplishments. These are summarized in Exhibit 1 to this budget message.

STRATEGIC PLAN AND PERFORMANCE REPORTING

In addition to allocating necessary resources for the provision of ongoing services and work plan activities, the FY 07 budget serves as the financial plan for accomplishment of the Strategic Plan vision and objectives, which are summarized within the City and Community Information section of the document.

At the beginning of each program budget section, the individual program mission statement, ongoing and major work plan items are listed, and the total program budget is detailed by type of expenditure and by line item. Once the major work plan items have been identified, the departments proceed with development of budgetary resources necessary to accomplish the objectives and annual work plans. Many of the major work plan items are based on meeting Strategic Plan objectives and, therefore, are the link between the Strategic Plan and the annual budget.

The City of Campbell has developed a set of performance outcomes and productivity indicators whereby work input and related outcomes are measured and reported. The indicators are located within each respective program budget section of the document. Performance reporting assists the Council in establishing policies related to the quantity, quality and appropriateness of municipal services provided by the City of Campbell. These were initially implemented in January 1996. A comprehensive review of missions and measures will be undertaken in FY 07.

Performance outcomes are reported to the Council on an annual basis with prior years' information provided as a benchmark for comparison. For FY 06, estimates are used because the budget document was prepared prior to the year-end results being available.

FINANCIAL POLICIES

The City of Campbell's Financial Policies were formally adopted by the Council in 1987. Their purpose is to enable consistent management of the City's fiscal resources, establish criteria in which to evaluate the City's financial condition, create a sound financial basis for City operations, promote public confidence, and increase the City's credibility in the eyes of bond rating agencies and potential investors. The policies are detailed in Exhibit 3 of this budget message. An updated reserve policy was reviewed at a study session on April 18th and will be approved as a separate agenda item on June 20th.

BASIS OF BUDGETING

The City budgets on a modified accrual basis for all funds except for its internal service funds which are budgeted on a full accrual basis. This is consistent with the City's basis of accounting as reported in its Comprehensive Annual Financial Report (CAFR). The City's *Governmental Funds* consist of the General Fund, special revenue funds, debt service funds, and capital project funds for both the City and the RDA. To summarize, under this basis, revenues are estimated for the fiscal year 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 or shortly thereafter to pay current liabilities.

The primary exceptions are that depreciation and compensated absences are not budgeted. *Proprietary fund* budgets are adopted using the full accrual basis of accounting whereby revenue projections are developed recognizing revenues expected to be earned in the period, and expenditure estimates are developed for all expenses anticipated to be incurred during the fiscal year. The City's proprietary fund type consists only of internal service funds, as the City has no municipally owned utilities or other enterprise activities.

Level of Budgetary Control: The City's budget is a working document that is utilized throughout the organization. Although the expenditure budget is legally adopted by resolution of the City Council at the total City and Redevelopment Agency (RDA) levels, it is important to note that the administrative level of accountability is at the line-item level within each program and fund. The City's financial policies authorize budget adjustments within the adopted budget or requiring transfers from reserves of less than \$5,000 to be approved by the City Manager. These are referred to as administrative budget adjustments. All budget adjustments that increase appropriations or any adjustments to capital projects must be approved by the City Council.

Budget Development: Development of the operating and capital budget is a process that takes place over six months and is summarized by the budget calendar located in the City & Community Information section of this document. The City's financial policies establish a process whereby a budget study session is held with the City Council during the annual budget development process. This meeting is generally held during March/April timeframe. Council is presented with an overview of the City's fiscal condition and proposed work plans for the upcoming year. Given the fiscal challenges of developing this year's budget, the study session focused primarily on budget correction strategies that addressed the City's structural budget deficit. Prior to the April study session, an earlier one was held in February to provide a mid-year budget update and begin planning for FY 07.

The budget document is arranged by department/function, then by program. Each program

budget consists of a series of exhibits that are presented at a summary level followed by additional levels of detail. A flow chart of the budget exhibits and narrative on each exhibit are contained in the City & Community Information section of the budget. Additionally, a Program/Department/Fund matrix and other reference information are contained within the budget reference materials section of the document along with an index to facilitate locating specific information. Within each program's proposed budget is a series of hierarchical exhibits presented in the order listed below and which are further described in the City & Community Information section of the document:

- Exhibit A Expenditures by Type, Funding Sources & Revenues Monitored
- Exhibit B Employee Services Summary
- Exhibit B-1 Permanent and Temporary Personnel (Salary and Full Time Equivalents or FTE's)
- Exhibit C Supplies & Services Summary
- Exhibit C-1 Supplies & Services Line-Item Detail
- Exhibit D-1 Debt Service Detail by Line-Item
- Exhibit E-1 Transfers-Out

Every program may not contain all of the exhibits listed above. For example, programs that have no full-time or temporary personnel will not contain Exhibits B and B-1. Only the Debt Service Funds will contain Exhibit D, and only those programs with transfers-out will contain Exhibit E. The highest-level summary is Exhibit A. It appears as the first page in each program and reflects a summary of expenditures by type, the various funding sources, and all revenues monitored by the respective program. The remaining exhibits further detail the information contained on Exhibit A.

The City's budget presentation and format incorporate many of the best features of fund order and program order budgets, and provide a document that is distinctive for its readability as well as its utility as a policy document, an operations guide, a communication tool, and a financial management instrument. It is a working tool that contains a considerable amount of information that is utilized at every level of the City organization throughout the fiscal year.

BUDGET AND FINANCIAL AWARDS

For the thirteenth consecutive year, the City's budget received national recognition by earning the Government Finance Officer's Association (GFOA) "Distinguished Budget Award", a copy of which appears in the Budget Reference Materials section of this document. To receive the Distinguished Budget Presentation Award, a city must publish a budget document that serves as a policy document, a financial plan, a communications device, and an operations guide. We believe the FY 07 budget conforms to GFOA program requirements. The City also received the "Excellence in Operational Budgeting Award" from the California Society of Municipal Finance Officers (CSMFO). This is the ninth consecutive operating budget award the City has received from CSMFO. In addition, the City received its tenth "Excellence in Capital Budgeting Award" from CSMFO. It should also be noted that the City's Comprehensive Annual Financial Report has been an award-winning document for excellence in financial reporting at both the State and national levels for many years.

CONCLUSION AND ACKNOWLEDGEMENTS

This was another difficult budget year given the on-going budget imbalance that existed. Due to the tough economic times that have negatively affected the City during the past several years, the City has taken necessary and appropriate corrective action. With the collaboration and

cooperation of all levels of City staff, coupled with the clear guidance of the City Council, we addressed the structural budget deficit with as little impact on the community as possible. As a result, the City continues to be fiscally sound, and still maintains healthy reserves. The FY 07 operating and capital budget is a constrained but balanced budget. Fiscal restraint and conservatism will be needed to maintain our financial position.

After experiencing declining revenues, the economic picture appears to be brightening for the City despite the increasing demands that on-going expenditures place upon available resources. These conditions can make it challenging to cover normal inflationary cost increases while attempting to provide resources for high priority expenditures such as street maintenance and other unmet community needs.

The development of this budget was made possible through the knowledge and contributions of many individuals on staff. I wish to express my deep appreciation and thanks to everyone who participated throughout the budget process. Labor groups, and all employees, enabled a tough process to go smoothly; all of the Executive Team worked extremely hard on developing this budget; the entire Finance Department, particularly Sherrie Doherty, Executive Assistant, Mark Gaeta and Sophie Kao, Accountants, deserve recognition for their hours of dedication and hard work in coordinating, developing, and publishing this budget document; and, the City Council's support and direction was critical to our success. Finally, I would like to acknowledge Jesse Takahashi, Interim Finance Director, for his tireless efforts throughout the entire budget process. I am honored and proud to work with such a dedicated and collaborative group of professionals.

Respectfully submitted,

Daniel Rich
City Manager

FY 06 SIGNIFICANT ACCOMPLISHMENTS

City Manager's Department:

- Coordinated two Neighborhood Meetings
- Conducted Revenue Enhancement Study Session to explore options
- Completed RFP process and selected vendor for Cablecasting Equipment Upgrade capital project
- Organized Council Study Session on, and completed selection of consultant for, Library Needs Assessment
- Initiated and oversaw update of Economic Development Plan
- Initiated review of, and established workplan for, update of Administrative Policies
- Facilitated enhancement of City's website in collaboration with interdepartmental team
- Developed Budget Correction Strategy to eliminate structural budget deficit
- Completed negotiations with four labor groups
- Implemented new mandatory sexual harassment training
- Completed scanning and indexing of City Clerk records into document imaging system for calendar years 2004, 2005 and 2006.
- Served on, and staffed, Ethics Subcommittee that developed Campbell Statement of Values adopted by Council
- Developed Administrative Policy for standardization of City Council Staff Reports
- Reviewed AB 1234 and updated policy for compliance

Community Development:

- Major Development Construction Projects: construction monitoring and building inspection of Kohl's/ and Bed Bath and Beyond; Onyx (formerly known as Maple Grove); Campbell Townplace Suites; Downtown mixed use project; Mozart Annexation and 24 single-family home planned development subdivision; Water Tower Condos
- Major Development Projects - Entitlement Process: 40 units Charities Housing Affordable Housing Project Development; 700 - 750 E. McGlincy Lane Business Park with 4 multi-unit industrial condominium buildings
- Signed an agreement with the County of Santa Clara for new Ortho-rectified Aerial Photographs to update the City's GIS system
- Zoning Code Update Phase II - to be completed this summer
- Successfully resolved 267 Code Enforcement cases, including repair to 6 substandard rental units with 3 more currently under repair. Code Enforcement responded to over 200 new citizen complaints
- Worked with IT Division staff to complete successful document retrieval link between 'Tidemark' Permit system and 'Laser Fiche' digital imaging system
- Created several new Tidemark Permit System reports and documents to streamline project management systems
- Digitized all Building Division public handouts to enable access to print from City web page (13 current offerings)

FY 06 SIGNIFICANT ACCOMPLISHMENTS

Community Development: (Continued):

- Created digital image files for all closed Planning project files and five years of building permit files, remaining files to be imaged are currently not yet closed or are on microfilm
- Worked with the City Attorney to resolve conflicts in the administration of the Rental Mediation Program
- Prepared Historic Design Guidelines as an educational tool for interested residents and professionals
- Restructured the Development Review Process to streamline response time to applicants
- Prepared Study Sessions for the City Council concerning Readerboards, Zoning Update and Annexation

Finance:

- Updated the financial reserves policy to ensure the preservation of the City's fiscal health
- Implemented positive pay procedures to prevent and/or detect fraudulent check activity
- Assisted in revenue enhancement analysis to provide options for increasing Citywide revenues
- Assisted in analysis of proposal to annex County parcels
- Assisted in development of budget correction strategies for FY 07 operating budget
- Completed replacement of Citywide fleet of old CRT monitors with LCD flat panel displays
- Redeployed and added new technology infrastructure to accommodate Police department building remodeling involving new dispatch center and assisted in rewiring network connections
- In conjunction with a Citywide committee, redesigned and launched a new City Website
- Coordinated and completed hardware migration for new Pentamotion financial system network server
- Implemented new Track-It call tracking software including Helpdesk software version upgrade, enabled online [helpdesk](#), integrated into active directory, and activated automated email notifications
- Installed and configured FAX from the Desktop allowing users to send outbound faxes directly from their PCs
- Performed upgrade of Laserfiche software to version 7 and related user training
- Defined, documented and implemented Laserfiche DVD archive process to enable destruction of permanent paper records
- Assisted with Heritage Theatre Wireless Security Camera network installation and integration that provides monitoring of the Theatre and fountain pools
- Installed and configured remote environmental control management system access that enables city staff to monitor and control heating and cooling for city facilities remotely
- Completed CAD (Computer Aided Dispatch) software upgrade for Police Department
- Completed network Ethernet switch replacements through the city network
- Completed reconfiguration of the "Titan" (Iomega NAS) server involving deploying a new server "Aquarius" Track-It server, and migrating PD applications and centralizing the Ghost disk image repository
- Designed and deployed departmental contact "Web Forms" and email

FY 06 SIGNIFICANT ACCOMPLISHMENTS

Legal:

- Collaborated in preparing draft of new News rack Ordinance
- Obtained Restraining Order to protect City employee from potential stalker
- Obtained compliance with City's Rental Dispute Ordinance from apartment complex

Public Safety:

- Continued participation in the Silicon Valley Regional Interoperability Project (SVRIP). The project team is currently working on seeking grant dollars to fund the various outlined work items
- Participated in area-wide Homeland Security exercises and other safety training including preparation for a variety of hazardous situations including issues involving Weapons of Mass Destruction (WMD)
- Participated with Building Maintenance staff on the Police Department Remodel Project Police Captain to continue as Project Manager and participate in the Steering Committee for the Silicon Valley Regional Interoperability Project on behalf of the Network Participants
- Initiated joint activities with Los Gatos / Monte Sereno Police Departments

Public Works:

- Assisted with completion of Vasona Light Rail Extension, acceptance of Campbell facilities, initiation of service, designation as a quiet zone and response to neighbor concerns
- Completed construction of the Los Gatos Creek County Dog Park
- Completed design of the Silicon Valley Animal Control Authority Thomas Road Shelter Project
- Installed new bridge on the Los Gatos Creek Trail at Camden Avenue
- Completed construction of Ainsley Park improvements
- Completed selection and approved agreements for solid waste collection and disposal contracts
- Developed and issued a RFP for Campbell Avenue Master Plan
- Completed design, plans and specifications for Hacienda / Winchester Percolation Pond Project
- Supported RFP and selection process for new solid waste contract
- Continued to work on water district well construction project
- Completed various street and sidewalk maintenance projects
- Completed Campbell Avenue / Victor Avenue traffic signal construction

Recreation & Community Services:

- Raised \$73,500 in funding to supplement fees and General Fund support to programs
- Assisted with the City website review and update
- Reviewed and updated the Special Event and Fee Waiver processes
- Conducted a market analysis on office space lease rates
- Provided a new summer History Camp

FY 06 SIGNIFICANT ACCOMPLISHMENTS

Recreation & Community Services (Continued):

- Working with the Friends of the Heritage Theatre, added \$9,000 to their Cultural Growth Fund and developed criteria for disbursement of the funds
- Completed the Police Department Remodel, CIP #98-08
- Initiated a Pre-K program as an extension of the pre-school program
- Assumed field scheduling and supervision of four additional CUSD sites
- Reviewed Museum operations and alternative staffing models

Redevelopment Agency:

- Approval of an updated Economic Development Strategy
- Began updating Downtown Development Plan
- Land use approvals for the 40 unit Charities Housing project were granted on November 1, 2005. Demolition of the site was completed in March 2006, and San Jose water lines were relocated in April, 2005, all milestones in the terms of the agreements with the Santa Clara Valley Water District and Charities Housing respectively leading to the development of 511 – 555 West Campbell Avenue for affordable housing
- A strategy for facilitating the development and redevelopment of key parcels was developed and approved for the downtown by the Council Downtown Sub-Committee in February, 2006
- Drafted and facilitated adoption of an amended news rack ordinance to regulate the placement and type of news racks to be permitted in the Downtown

BUDGET CORRECTION STRATEGIES

Department	Program	Item
City Manager	Council	Reduce Advisory Commission Dinner
	Council	Reduce Employee Picnic/Holiday lunch
	Administration	Miscellaneous Reductions in Supplies / Services
	Human Resources	Reduction to Miscellaneous items such as Advertising, Printing, Consulting Services, Polygraphs, Fingerprinting.
		Reduction of Volunteer Event
	City Clerk	Miscellaneous Reductions in Professional Services, Supplies & Leases
	Redevelopment	Pick up Additional Staff Costs and Membership in Joint Venture
	Redevelopment Admin.	Pick-Up Additional Housing Staff Costs
	Recreation	Adult Services
		Eliminate .75 Clerk Typist (<i>vacant</i>)
		Reductions to Miscellaneous items such as Office Expenses, Expenses for Trips and Events, do newsletter bi-monthly, and increase transfer from Trust Fund.
Community Center		Special Events, Picnic Fees & Additional Vending Machine Income
		Increase Leases
		Increase Reader Board Fees & Skate Park Rentals
		Rental Fees: Last year's fee increases realized this year. Total number of rentals increased. Eliminated 50% discount for "decorating time".
		Increase Concert Sponsorships
Museum		Increase Program Fees
		Increase Admission Fees
		Museum Trust Transfer-In
		Freeze Historic Resources Supervisor
Building Maintenance		Reduce Cells Phones, Custodial Services (Parks in Winter) and Maintenance Agreements
		General Maintenance Reduction
Sports/Aquatics/Fitness		Program Fees Increases
	Reduction to Equipment Maintenance & Supplies	
Trips/Tours/Special Classes	Program Fee Increases	
	Re-negotiated Agreements with Contractors	

BUDGET CORRECTION STRATEGIES

Department	Program	Item		
Finance	Various	Reduce portfolio holdings in LAIF and invest in higher yielding securities.		
		Eliminate Financial Advisory Services Consultant related to City's investment portfolio.		
Community Development	Administration	Address Fee		
		Condition Monitoring - <i>New</i>		
		Home Occupation Processing Fee - <i>New</i>		
		Pre-Application Fee - <i>New</i>		
		Record Search Fee		
		Reduction to Miscellaneous Items such as Advertising, Office Supplies, Books, Etc.		
		Current Planning	Increase Zoning Fees	
			Increase Zoning Verification Letter Fee	
			General Plan Maintenance Fee Increase	
				Reduction to Miscellaneous Items such as Books, Training, Etc.
				Reduce Funding for Historic Preservation Activities
		Policy Planning	Freeze vacant Recreation Coordinator Position	
			Reduction to Miscellaneous Items such as Books, Film, Etc.	
Housing	CDBG Pick-up Additional Administrative Expenses			
City Attorney	Legal Services	Miscellaneous Reductions, Including Memberships, Subscriptions and NexisLexis		
Police	Administration	Increase Parking Fines		
		Increase DUI Cost Recovery		
		Reduce Overtime by eliminating Non-Mandatory Training		
	Various	Miscellaneous Reductions in Supplies & Services		
		Reduce Overtime		
		Reduce 3.25 FTE Temporary Personnel		
		Freeze .5 FTE Police Sergeant		
		Freeze .5 FTE Agent		
		Freeze .5 Police Officer		

BUDGET CORRECTION STRATEGIES

Department	Program	Item
Public Works	Engineering	Eliminate Annual Sidewalk Program. Only do repairs (grind and a/c patching)
		Utilization of Storm Drain Area fees
	Lighting	Reductions to signal and lighting preventative maintenance, upgrades, etc.
		Eliminate Replacement Cost for 2 CSO Pickups, 1 DARE Van, 2 Motor Pool Cars
		Reduce Temp labor in Parks and Streets
	Parks	Reduce Special Project and volunteer support
	Various	Reduce overtime for Special Events
		Allocate Proposition 42 Revenue to Operating Program
		Eliminate Shopping Cart Collection contract (<i>Do with Staff at Lower Frequency</i>)
		Orchard City Green Magnolia Trees Holiday Lighting
		Eliminate Neighborhood Tree Planting
		Eliminate Street Tree Spraying
		Reduce Intern hours in Three Divisions
		Traffic
	Engineering	Reduce City Engineer to .75 FTE
Various	Various	Miscellaneous expenditure reductions and revenue increases, such as office supplies, materials, and consulting services; and revenue increases from fees and transfers (<i>net</i>)
		Cancel ACS Contract & Hire IT Staff as City Employees (FY 08)
		Utilize General Fund RDA Advances Reserve to pay sales tax obligation

FINANCIAL POLICIES

Revenue Policies: The development and maintenance of balanced and reliable revenue streams will be the primary revenue policy of the City. Efforts will be directed to optimize existing revenue sources while periodically reviewing potential new revenue sources. The need to promote a healthy business climate is recognized as one method to maximize existing revenue sources. Revenue estimates will be prepared on an annual basis during the preparation of the budget and shall be projected on a five-year and seven-year basis for operating and capital purposes respectively. Revenues will be estimated conservatively using accepted standards and estimates provided by the State and other governmental agencies. Alternative revenue sources will be periodically evaluated to determine their applicability to meet identified City needs. Sources of revenue will be evaluated and modified as necessary to assure a diversified and growing revenue base. Revenues from “one-time” or limited duration revenue sources will not be used to fund operating expenses. The schedule of user fees and charges and the cost allocation plan will be evaluated and, if necessary, adjusted annually to assure that they generate sufficient revenues to meet service delivery costs.

Expenditure and Budget Policies: Operating expenditures will be projected on a five-year basis. The “Proposition 4” expenditure limit will be calculated on an annual basis prior to the adoption of the budget and will be projected for an additional two years. The operating budget shall serve as the annual financial plan for the City. It will serve as the policy document of the City Council for implementing Council goals and objectives. The budget shall provide the staff the resources necessary to accomplish City Council determined service levels. Annual budgeted operating expenditures shall not exceed annual operating revenues. A budget study session will be held annually to review the City Manager’s “narrative budget” prior to the submittal of the operating budget to the City Council.

The City Manager shall prepare and submit to the City Council annually a proposed operating budget by June 1st of each year. The annual budget (operating and capital) will be adopted by Resolution of the City Council by July 1st of each year for both the City and the Redevelopment Agency. The Finance Director has the authority to make technical corrections in compiling the adopted budget such as incorporating the results of the bargaining unit meet and confer process in years when this occurs. Budget status reports will be prepared monthly and distributed to all departments.

Because the budget is based on estimates, from time to time, it is necessary to make adjustments to fine-tune the line-items within it. Various levels of administrative control are utilized to maintain the budget’s integrity. Program managers are accountable for the line-item level of control of their individual program budgets. Department heads are accountable for the fund level of control for funds within their departments. Finance oversees the general level of accountability related to budgetary integrity through systems checks and balances and various internal controls. The City Manager can authorize budget adjustments within the adopted budget or those requiring transfers from reserves less than \$5,000, referred to as administrative budget adjustments. All budget adjustments that increase appropriations or any adjustments to capital projects must be approved by resolution of the City Council whether they are for the operating or capital budget. A General Fund mid-year budget status report will be prepared and presented to the City Council in January of each year including projections to year-end.

The City shall attempt to keep budgetary records in such a manner to qualify for the Distinguished Budget Presentation Award from the Government Finance Officer’s Association (GFOA) and the Excellence in Operating and Capital Budgeting Award from the California Society of Municipal Finance Officers (CSMFO).

FINANCIAL POLICIES

Capital Improvement Policies: A seven-year Capital Improvement Plan shall be adopted on an annual basis. Sufficient financial commitment will be made to preserving the City's investment in its public facilities (buildings, streets, parks, equipment, etc.) to assure preservation of these assets. The ongoing maintenance and operating costs of any proposed capital improvements will be evaluated prior to the approval of any capital improvement project and are to be incorporated as appropriate within the operating budget. Equipment replacement and maintenance shall be projected and funded throughout the life of the equipment. The annual capital improvement budget shall only include those projects that can reasonably be accomplished within the fiscal year. The City shall attempt to develop a capital improvement plan and keep project records in such a manner to qualify for the Excellence in Capital Budgeting Award from the CSMFO.

Accounting Policies: The City's financial records will be audited annually through an independent auditing firm. An annual financial report shall be prepared each year within five (5) months of the close of the previous fiscal year and reviewed with the City Council Finance Committee and the City Council. The auditor's annual "management letter" will be reviewed with the City Council Finance Committee for a recommendation to the City Council. Financial records shall be kept consistent with the standards of the GFOA and the Governmental Accounting Standards Board (GASB). Full disclosure will be provided in annual financial statements and in bond presentations. Account status reports will be prepared monthly and distributed to all departments.

The City will change independent auditors no less frequently than every five (5) years based on a review of qualified firms and a recommendation to the City Council. The City shall attempt to keep accounting records in such a manner to receive an unqualified audit opinion and to qualify for a Certificate of Achievement for Excellence in Financial Reporting from GFOA and the Certificate of Award for Outstanding Financial Reporting from the CSMFO.

Reserve Policies: The City's financial policies mandate the level at which reserves shall be maintained. The **Emergency Reserve** shall be maintained at a level of 10% of General Fund revenues and used only in case of dire need as a result of physical or financial emergencies as determined by the City Council.

The **General Fund Operating Reserve** shall be maintained at a level of \$1 million. This reserve may be used to meet necessary, but unbudgeted, expenditures during the fiscal year, including mid-year budget adjustments, and/or to cover minor unanticipated revenue shortfalls. Funds drawn from this reserve during the year shall be replenished with the adoption of the ensuring fiscal year budget.

A **Reserve for Economic Fluctuations** will be maintained at a target of \$6 million to provide budget stabilization during an economic downturn that could otherwise result in significant reductions in service levels and/or organizational staffing. This reserve shall not be less than \$2 million. However, if the reserve balance falls below the minimum requirement at any time during this period, City staff shall present to Council, by the following year's budget adoption, a plan to return to the target amount within five years.

A **Capital Improvement Program Reserve** shall be maintained at a level to cover unbudgeted capital improvement costs, to fund future capital and infrastructure improvements, and to fund anticipated one-time expenditures in the operating budget. This reserve shall be targeted at \$5 million, including an annual funding target of \$1.5 million specifically for infrastructure needs. Any unappropriated General Fund surplus, not needed to fund other required reserves at fiscal year-end, shall be applied to this reserve.

FINANCIAL POLICIES

A reserve shall be maintained sufficient to cover 50% of outstanding sick leave and vacation liability otherwise known as **Compensated Absences**.

Reserves for the replacement of **Motor Pool and Information Technology Pool** assets shall be evaluated annually and maintained at sufficient levels to provide for the replacement of approximately 50% of the equipment based on accumulated depreciation and estimated replacement costs.

The **Workers' Compensation Self-Insurance Reserve** will be maintained at a level deemed adequate to meet projected liabilities as determined by an actuarial evaluation to be conducted at least once every two years.

The **General Liability Self-Insurance Reserve** will be maintained at a level deemed adequate to meet projected liabilities. This level may be determined by an actuarial or derived from estimates provided by the City's third party risk pool provided, subject to a minimum level equal to 100% of the self-insured retention (SIR).

Other reserves required by law, contractual obligation or Generally Accepted Accounting Principles (GAAP) shall be provided for.

The City Manager may, at his/her discretion, establish additional reserves and/or recommend annual reserve fund replenishments, deemed necessary and prudent to ensure the fiscal health of the City, subject to City Council approval.

Cash Management Policies: The City's adopted investment policy adheres to the provisions of California government code and is reviewed annually and revised as appropriate. Among the primary objectives stated in the policy are the maintenance of safety, liquidity and yield (in that specific order). The policy further identifies allowable investment instruments, the percentage of surplus funds that can be invested in the various types of instruments, the parties authorized to make investment decisions, and their related investment authority by dollar amount. The City's administrative procedure governing investments shall be updated and approved by the City Council annually.

A complete report on the City's investment portfolio shall be presented to the City Council monthly and to the California Debt and Investment Advisory Commission (CDIAC) on a bi-annual basis. A cash flow analysis for all funds shall be prepared monthly. The City shall periodically conduct a bid process for the provision of banking services. The City will invest all funds based on the following criteria: 1) safety of invested funds; 2) maintenance of sufficient liquidity to meet cash flow needs; and, 3) attainment of the maximum yield possible consistent with the above priorities.

Debt Management Policies: Debt management can be of particular interest to readers of budget documents. A numerical presentation related to the City's debt service obligations consisting of special assessment debt, certificates of participation and tax allocation bonds may be found in the financial summaries section of the budget. To ensure the City manages its debt appropriately, policies have been adopted and are adhered to. The City restricts long-term borrowing to the funding of capital improvement projects and equipment. The term of the debt shall not exceed the expected useful life of the project.

General obligation debt may not exceed 3.75% of the City's assessed value. Presently, however, the City has no general obligation debt. The City maintains good relations with rating agencies about its financial condition. Lastly, the City uses refunding techniques where appropriate to allow for the restructuring of outstanding debt, remove or change restrictive covenants, and/or to reduce annual debt service costs in an amount sufficient to justify the costs of refunding/re-issuance.