



June 5, 2007

Honorable Mayor and Members of the City Council:

I am pleased to present the operating and capital budget for fiscal year 2007-08 (FY 08). 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.

During the past two years, the City implemented approximately \$3.5 million in budget correction strategies that reduced expenditures and increased revenues as a means of resolving a structural budget deficit. Over the past four years, 20 full time equivalent (FTE) positions have been frozen/unfunded. The FY 08 budget maintains the same level of frozen positions as in FY 07. The FY 08 budget was developed using conservative assumptions and, for the most part, is "status quo" with the FY 07 budget but has provided for some increases in professional development and training as well as facilities maintenance.

While some utilization of reserves has been budgeted for specific purposes, no usage of Economic Fluctuation reserves is proposed. Budgeted expenditures are considered necessary and proper, taking into consideration the Strategic Plan objectives and the City's goal of providing quality 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 ongoing service level impacts in the community due to the amount of expenditure reductions that were made during FY 06 and FY 07. 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 continues to benefit from its popularity as a place to live and work. Partly due to its attractive location in the midst of Silicon Valley, being situated close to Downtown San Jose, major freeways, shopping centers and the coastal area, and also due to its small town charm, Campbell has a growing reputation for being an ideal place to live and raise a family. In fact, the City has been in transition for the past decade. While the City prides itself on preserving its history and uniqueness, it also recognizes the necessity for preserving its fiscal health through thoughtful and balanced development that will ultimately enable the City to continue providing the breadth and quality of services and amenities to its residents that make it the desirable place it is.

BUDGET SUMMARY

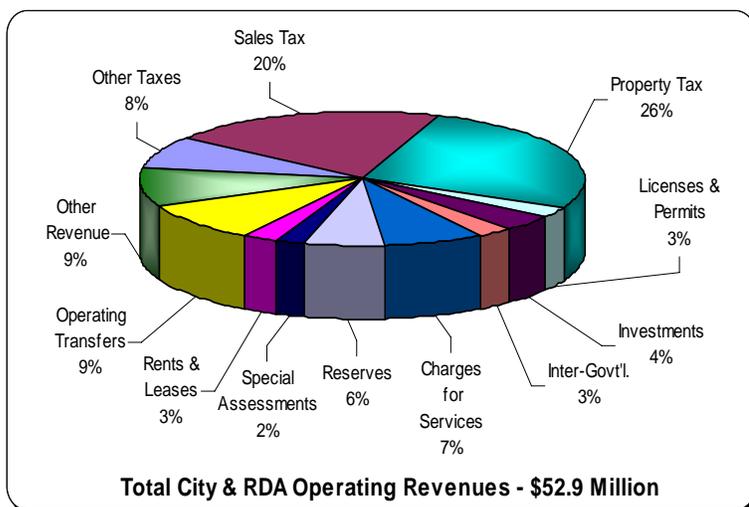
The combined FY 08 operating and capital budget totals \$56.6 million, comprised of \$48.7 million for the City and \$7.8 million for the Redevelopment Agency (RDA). Related revenue sources total \$57.4 million comprised of \$49.4 million for the City and \$8.0 million for the RDA, indicating a balanced budget in which revenues meet or exceed expenditures. Excluding capital transfers, the City's budget would be \$46.8 million and the RDA's budget would be \$7.8 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 2007 - 08			FY 2006 - 07			\$ Change Operating Adopted	% Change
	Operating Budget	Capital Budget	Adopted Budget	Operating Budget	Capital Budget	Adopted Budget		
City	\$ 44,501,591	\$ 2,296,500	\$ 46,798,091	\$ 41,118,629	\$ 3,874,800	\$ 44,993,429	\$ 3,382,962	8.23%
Capital Transfers	-	1,946,500	1,946,500	0	2,293,300	2,293,300	-	n/a
Total City	44,501,591	4,243,000	48,744,591	41,118,629	6,168,100	47,286,729	3,382,962	8.23%
RDA	7,848,082	-	7,848,082	5,446,338	-	5,446,338	2,401,744	44.10%
Capital Transfers	-	-	-	-	1,226,500	1,226,500	-	n/a
Total RDA	7,848,082	0	7,848,082	5,446,338	1,226,500	6,672,838	2,401,744	44.10%
Total City & RDA	\$ 52,349,673	\$ 4,243,000	\$ 56,592,673	\$ 46,564,967	\$ 7,394,600	\$ 53,959,567	\$ 5,784,706	12.42%

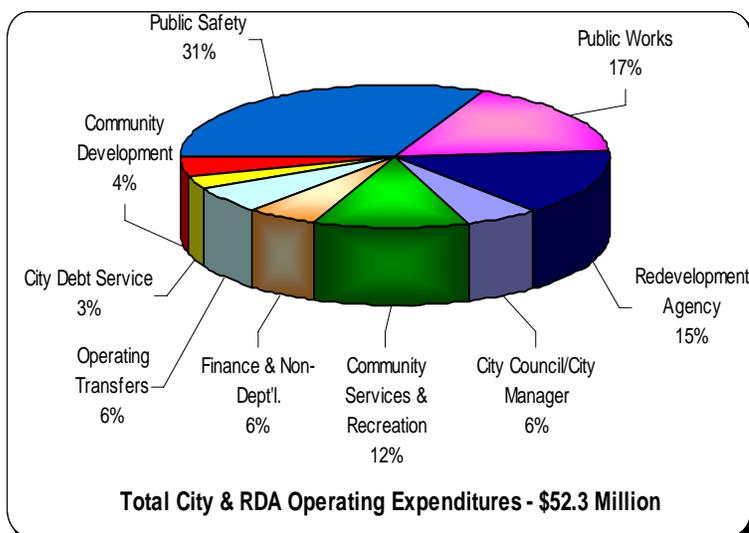
Overall, the total budget increased 12.4% from the previous year. The City, by itself, increased 8.2%. Included in the increase are anticipated cost of living increases for employees as well as increased costs for facility maintenance and acquisition of new and replacement vehicles and equipment. The RDA expenditures increase is attributable to a 40 unit affordable housing project with a non-profit entity that is expected to begin construction in FY 08.

Operating Budget: The total operating portion of the budget is \$52.3 million, comprised of \$44.5 million for the City and \$7.8 million for the RDA. Related revenue sources total \$45.0 million for the City and \$7.9 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.



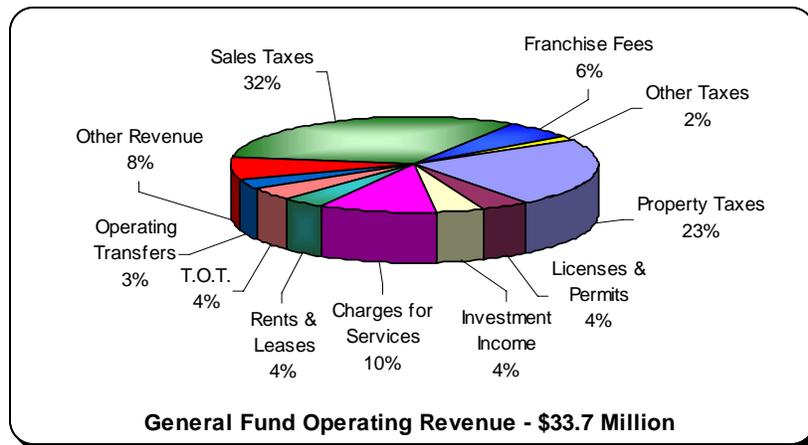
Non-recurring or one-time expenditures are typically funded with a combination of one-time revenues, specific reserves and/or unreserved fund balances, all of which are considered to be revenue sources for purposes of presentation within this document.

The FY 08 operating budget relies on a total of \$3.2 million in non-recurring revenues, reserves and fund balances, to fund operating expenditures. Included in this total is \$1.3 million related to the RDA affordable housing project.



General Fund operating revenues and expenditures are budgeted at \$33.7 million and

utilizes just under \$1.0 million in General Fund reserves including \$0.5 million related to partially funding a Workers' Compensation fund deficit.



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 08, the first year of the CIP. Capital projects totaling \$2.3 million plus related inter-fund transfers of \$1.9 million total \$4.2 million in capital appropriations, all related to the City. A summary of the capital projects and related appropriations for FY 08 is as follows:

<u>Project Title</u>	<u>FY 08 Allocation</u>
Emergency Communications	\$
Bike / Pedestrian / Traffic Safety Improvements	
Deferred Street Maintenance	
Hacienda Avenue Rehabilitation (Design)	
Hamilton Avenue / Hwy. 17 Southbound Offramp Widening	
Hamilton Avenue / Phoenix Signalization	
Pollard Road Bike Lane	
Signal System Replacement – Phase I	
Building "M" Restroom Renovation	
New Roof for Corridor Canopy	
Total	<u>\$ 2,296,500</u>

Further detail on the capital improvement budget is summarized in the Capital Improvement Plan section of this document. The full CIP document has been provided under separate cover.

REVENUES

Pursuant to City financial policies, revenues are projected conservatively. No new taxes are included in this FY 08 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 08 of \$57.4 million, including capital funding sources of \$4.5 million. This reflects an increase of \$2.6 million (4.7%) from the previous year. In looking at just the operating budget component, total revenue is \$52.9 million, an increase of \$5.5 million (11.6%) from the previous year.

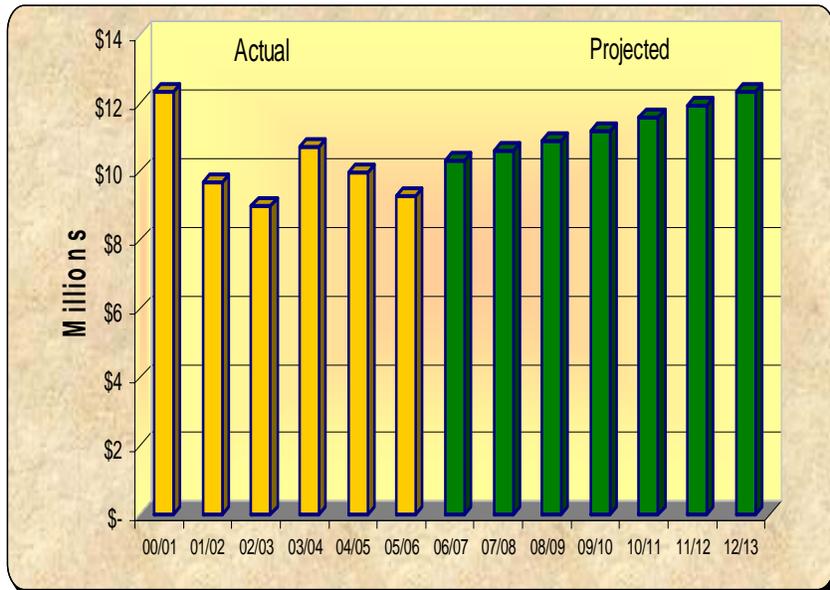
It is important to note that the capital project budget can fluctuate dramatically from year to year depending upon the number and size of projects that are approved. Capital projects are funded with non-operating revenue hence there is no impact on the operating budget funding sources. Both the operating and capital budgets contain transfers-in totaling \$5.0 million and \$1.9 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. 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 \$32.7 million, an increase of \$2 million (6.5%) 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, the City's single largest revenue source, 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 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 sales tax revenue base. The loss of any one of the top generators would have a significant financial impact to the City.

Growth in the sales tax base is limited because the City is largely "built out" with little room for new retail development and growing reliance on "in-fill" projects of smaller scale and redevelopment of existing parcels. In addition, increased regional competition and the impact of electronic commerce continue to erode the revenues of some of the City's larger existing sales tax producers. By comparison, other Silicon Valley cities and the State overall have seen higher levels of sales tax growth, on average, due to their capacity to accommodate new retail business as the economy expands. Campbell has also not seen significant growth in its business-to-business segment compared to neighboring cities, making the City's largest revenue source one of the most challenging to deal with in future years.

As a result of this situation, the FY 08 budget of \$10.6 million is just \$0.2 million (2.2%) higher than the adopted FY 07 budget and \$0.3 million (3.0%) higher than projected FY 07 actual revenue of \$10.3 million. While there are several new retail businesses that are anticipated to open during the upcoming year, future revenue increase is expected to be modest at best. Future revenue growth is projected at 3% based on the latest information available from the City's sales tax consultant and recent trends. However, it remains to be seen whether even this level of growth is realizable.



Sales Tax Trends - General Fund

The graph above reflects actual sales tax performance for the past six fiscal years and projected revenue through FY 13. As can be seen, sales tax revenue does not reach its previous high from FY 01 until FY 13.

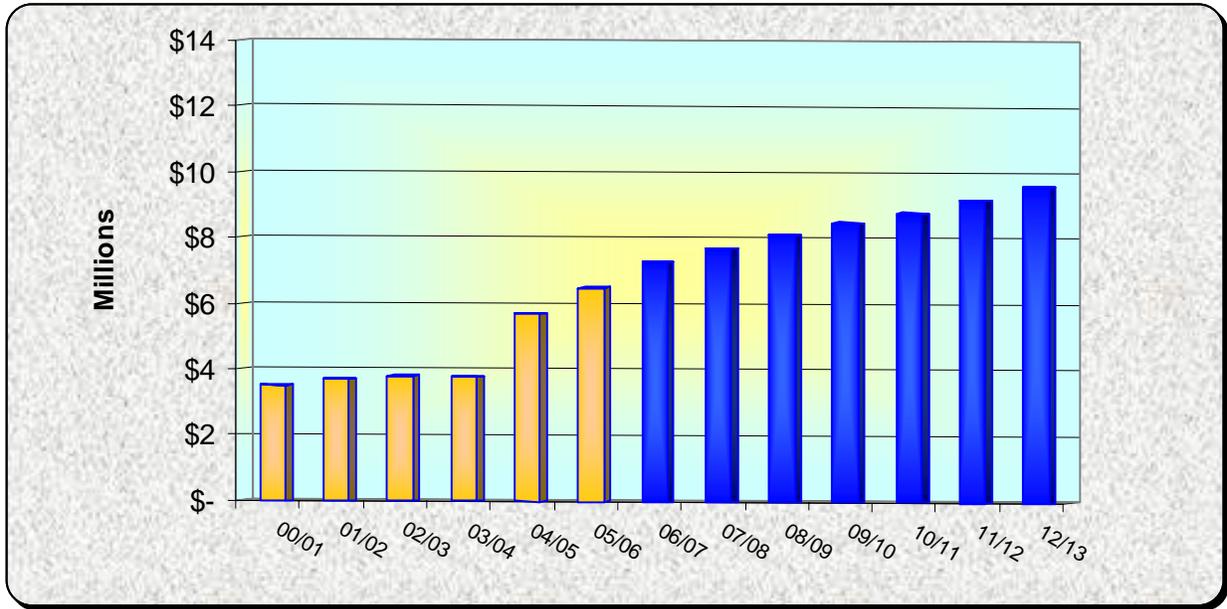
Property Tax: Property tax revenue is the second largest source of revenue to the General Fund, estimated at \$7.7 million or 24% of net operating revenue for FY 08. This is an increase of \$0.47 million or 6.4% from the previous fiscal year's adopted budget. For the past two years, the City was under a State mandate to pay into the Educational Revenue Augmentation Fund (ERAF III), representing an annual reduction in net property tax revenues of approximately \$0.6 million for each year. In FY 07, this obligation ceased, so revenues increased substantially and returned to a more normal trend of positively sloped growth.

However, beginning in fiscal year 1993, and continuing for the past thirteen years, the City has cumulatively lost in excess of \$13 million in property tax revenue due to State legislated takeaways. Under the enabling ERAF (I & II) legislation, the State, as a means to fix a significant budgetary deficit, began diverting local government property tax revenues to the ERAF to help fund its fiscal obligation to schools. The ongoing impact to the City is approximately \$1.5 million in annual lost revenue for which there is no end in sight.

With respect to the base revenue level, property tax growth is estimated to be 4.5% higher than the revised budget amount for FY 07, which was almost \$0.5 million higher than the adopted FY 07 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

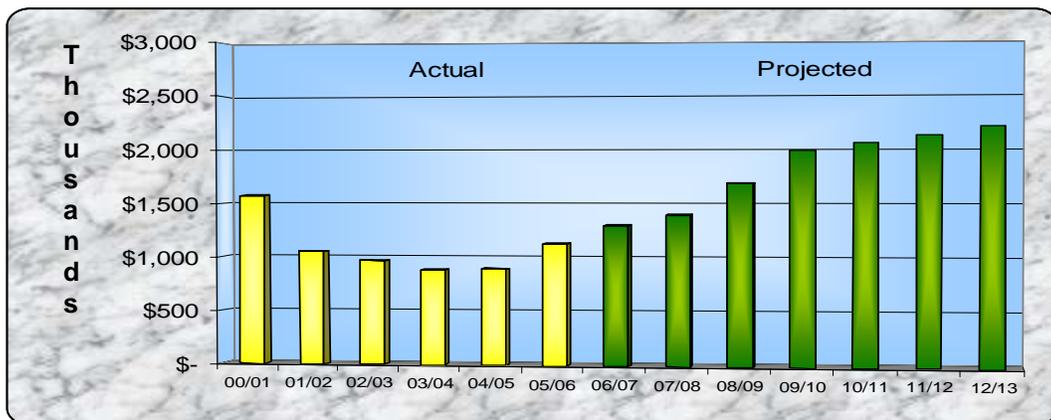


Transient Occupancy Tax: This tax, more commonly referred to as hotel/motel tax, or simply TOT, is derived from a 10% tax that is applied to the room rates of the City’s hotels/motels. TOT revenue for FY 08 is budgeted at \$1.4 million, reflecting an increase of \$0.3 million or 25% from the previous year’s adopted budget and a \$0.1 million or 7.7% increase from the revised FY 07 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 based on recent trends.

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 range of 65-80%, and increasing TOT revenue during the past two years indicating 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 open sometime during FY 09.

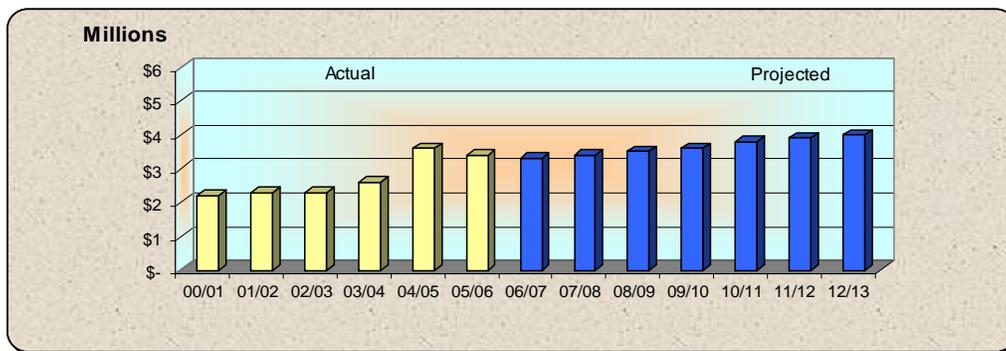
Transient Occupancy Tax (TOT) Trend – General Fund



Charges for Services: Charges for services include revenues derived from Recreation program fees, classes/lessons, and trips/tours; Police and Fire services; engineering services; and business license processing fees. The combined revenues are anticipated to generate \$4 million for the General Fund during FY 08 which is an increase of 1% from the previous fiscal year.

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

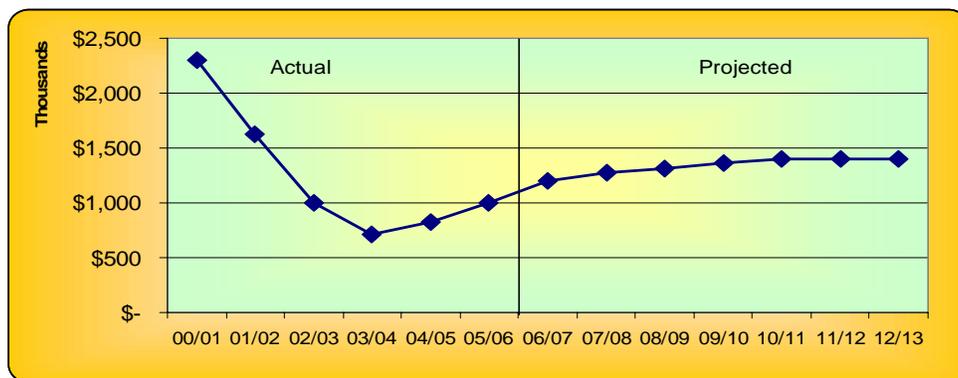


The City maintains a cost allocation plan and user fee model, which serves as the basis for the Schedule of Fees and Charges. A Council-established User Fee Policy framework for establishing appropriate percentages of recovery is the guideline from which fee modifications are proposed and approved annually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

Investment Income: Investment income comprises approximately 4.3% of General Fund net operating revenue and is estimated to be \$1.4 million for FY 08, an increase of \$0.2 million or 17% from the previous year's adopted budget and an increase of \$50,000 (3.7%) from the revised FY 07 projections. Investment earnings have continued to increase for the past couple of years based on strong anti-inflationary policy direction of the Federal Reserve Bank. Average interest rate yields are expected to be higher in FY 08 than they were in FY 07. The estimate for FY 08 contemplates an average yield of 5% on an investment balance of approximately \$28 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 \$1.4 million for FY 08, representing approximately 4.3% 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. While this situation is expected to continue similarly for the new fiscal year, upcoming lease renewal periods could result in increased levels of vacancies. The revenue projection is based on actual lease contracts and estimated 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 \$2.1 million for FY 08. This is an increase of \$0.8 million from the previous year and is due primarily to a new garbage franchise agreement that was restructured to eliminate user surcharges in favor of a higher franchise fee. The remaining 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 licenses and permits revenue of \$1.4 million, consisting primarily of construction permits and plan check fees, 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 \$1.0 million that are used to fund operating expenditures including \$0.5 million to fund a deficit in the Workers' Compensation Internal Service Fund. Where appropriate, other revenue sources are projected to reflect modest inflationary increases and/or changes in activity levels. In particular, building construction related revenue is expected to see slower growth in the near term after experiencing two years of significant increases in FY 05 & FY 06 followed by a significant decline in FY 07.

Revenue - Other Funds

A variety of additional funds are contained within the budget and are 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 operating revenues for Special Revenue funds for FY 08 are \$5.4 million.

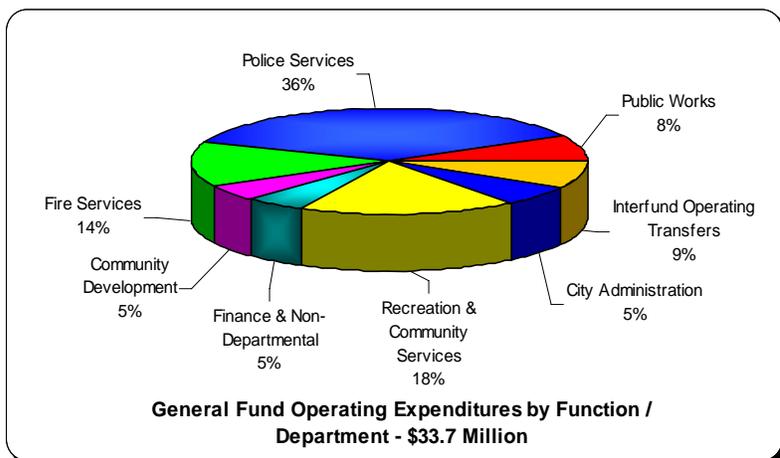
Debt Service Funds are incorporated within the budget due to various bond covenant requirements. Local Improvement District (LID) revenue comes from the County of Santa Clara via property tax levies assessed against the properties that received the specific improvements. Certificates of Participation (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 08 are \$1.7 million. The RDA Debt Service funding sources for FY 08 are \$4.8 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 08 are \$4.2 million including a \$0.5 million transfer in from the General Fund to partially fund a deficit in the Workers' Compensation Fund.

EXPENDITURES

As previously noted, the FY 08 budget is comprised of operating and capital expenditures for both the City and the Redevelopment Agency totaling \$56.6 million. City operating expenditures total \$44.5 million, and RDA operating expenditures total \$7.8 million for a combined total of \$52.3 million.

The General Fund comprises approximately 64% of total City and Redevelopment Agency operating appropriations. Other City funds comprise 21%, and RDA makes up the balance at 15% of the total. **Operating expenditures in the General Fund are budgeted at \$33.7 million, which is \$2.5 million (7.9%) higher than the FY 07 adopted budget.** Of this increase, approximately \$0.7 million represents a pass-through



of franchise revenues to the Environmental Services fund to pay for operating costs related to managing the City's garbage services contract. Another \$0.5 million pertains to the Workers' Compensation transfer previously discussed.

Employee Services: Staffing resources are an integral part of the City's annual budget. The prior year's budget contained a total of 176.1 permanent positions including 20.1 full-time equivalent (FTE) positions that were frozen/unfunded. The number of vacant unfunded positions in FY 08 remains unchanged from FY 07; however, total permanent positions is planned to increase by 4 FTE due to the creation of in-house staffing of the Information Technology division which was previously provided on a contractual basis. As discussed below, one FTE is being eliminated bringing the total number of permanent FTE positions to 179.1. The estimated total increase in personnel costs is \$0.5 million due to salaries and related benefits while supplies and services will decrease by a corresponding amount from the previous year.

Within the Public Works Department, the Street Maintenance Lead Worker position is being reclassified to a Street Maintenance Field Supervisor (non-management). Concurrently, the existing Street Maintenance Supervisor classification, a management position, is being eliminated. In addition, the Mechanic I and Mechanic II job classifications were reviewed with the intent to provide flexible staffing progression from I to II as part of a normal promotional process without the need for a recruitment process. This is consistent with how the Street Maintenance Worker I and II and Park Maintenance Worker I and II classifications are currently structured. There is no net change in the total FTE resulting from these reclassifications. The anticipated cost impacts are reflected in the respective program budgets.

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 45% of the total budget and 59% of the General Fund. This number is relatively low because fire personnel are provided by contract with the County, so do not show up as City personnel costs. For FY 08, salaries and benefits in the operating budget total \$23.4 million for all City funds, which is a \$1.4 million (6.4%) increase over the previous fiscal year. The increase is primarily attributable to built-in allowances for salary and benefit increases resulting from the meet-and-confer process as well as the personnel reclassification changes and addition of IT staff previously discussed.

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 04/05 Actual	FY 05/06 Actual	FY 06/07 Adopted	FY 07/08 Adopted	% Increase (Decrease)
Salaries – Regular	\$ 13,182,064	\$ 12,775,530	\$ 13,509,927	\$ 14,360,595	6.30%
Wages – Temporary	1,699,323	1,582,967	1,530,246	1,574,871	2.92%
Overtime	553,974	377,379	338,842	369,842	9.15%
Other Pays (Holiday, POST, Auto, Uniform, Meal Allowance)	589,483	602,875	566,698	574,421	1.36%
Medical / Dental / Life Insurance Premiums	1,742,855	1,880,942	2,098,933	2,246,593	7.04%
Public Employees Retirement Systems (PERS)	2,172,610	2,615,551	2,681,274	2,829,444	5.53%
Other Benefits (FICA, Medicare, PARS, Unemployment, Other Benefits Pay, Disability, Workers Comp., Deferred Compensation)	1,414,872	1,421,528	1,243,591	1,415,637	13.83%
Total Employee Services	\$ 21,355,181	\$ 21,256,772	\$ 21,969,511	\$ 23,371,403	6.38%

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 help 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 08 budget and fiscal forecast continue this budgetary strategy; however, more than 75% of employees are at or near top step already, so the savings are modest.

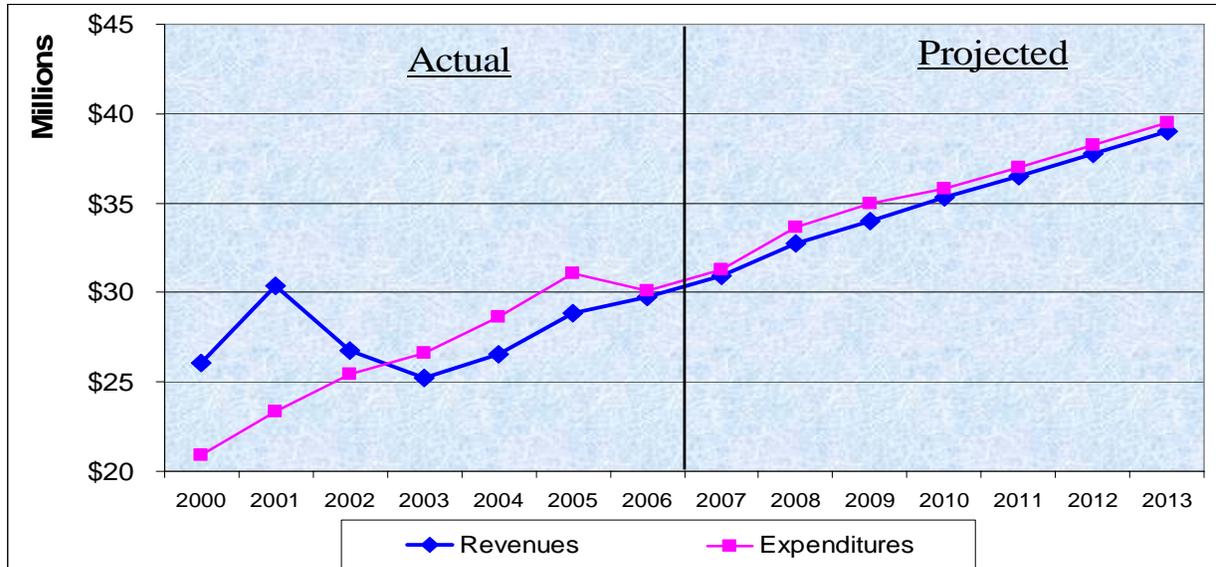
MULTI-YEAR COMPARATIVE ANALYSIS

General Fund - Revenues and Expenditures: The comparative analysis that follows reflects the historical trend between General Fund revenues and expenditures covering the past seven years as well as projections through FY 13. 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, a sharp decline in the region's economy led to several years of shortfalls in several economically dependent revenue sources such as sales taxes, transient occupancy taxes, construction permits and investment earnings. While revenues have recovered somewhat in recent years, the next five years show revenue growth anticipated to be matched by expenditure growth. With a large anticipated increase in the City's cost to provide fire services in FY 09 and the continued increase in health and benefit costs, modest deficits are again anticipated. Because of this situation, it is important for the City to consider finding a new stable revenue source if we want to preserve existing community services as well as fund unmet infrastructure and other capital needs. A review of these issues is planned for the fall.

The City's multi-year projection assumes total revenue growth ranging from 3.4% to 3.9% through FY 13 while expenditures range from 2.3% to 4.0%. 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 actual and projected General Fund operating revenues and expenditures:

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 08 total \$7.8 million, which is a \$2.3 million (42%) increase from the previous fiscal year's adopted budget. The majority of the increase is attributable to appropriations for a 40-unit affordable housing project with Charities Housing, a not-for-profit entity. 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 08, revenues and expenditures in these funds total \$4.2 and \$3.7 million, respectively. Revenues are \$0.9 million higher due to a transfer of \$0.5 million from General Fund reserves, specifically to fund an accumulated deficit in the Workers' Compensation fund, and increases in all pool fund charges that were reduced over the past several years. Expenditures are \$0.4 million (12%) more than the previous year's adopted budget due to needed replacement of pool

fund assets. 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 08 are projected to be \$1.2 million, an increase of 3.5% over the previous year's adopted budget. In FY 08 approximately \$0.13 million in State Proposition 42 funding will be used to fund a portion of the operating budget. Projections for future years utilize a modest inflationary factor approximating 3% 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.

In FY 08, the operating revenues and expenditures total \$2.8 million resulting in a balanced budget. This includes operating transfers-in of \$1.0 million and transfers-out of \$0.1 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 3%.

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. Fees remitted to the City include storm water, storm drain, solid waste, hazardous waste, and recycling fees. Operating revenues and expenditures for FY 08 are \$0.87 million, which is a \$0.15 million (21%) increase from the previous fiscal year's adopted budget. The increase is due primarily to increases in operating transfers related to higher landfill disposal costs and mitigation of street impacts from the weight of garbage trucks. Future years' costs are based on inflationary increases approximating 3%.

ECONOMIC AND FISCAL ISSUES FACING THE CITY

For 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 attributed to a number of factors including **State-imposed revenue reductions**, a **weak local economy**, and **increases in employee services costs**. While the structural imbalance was eliminated with the FY 07 budget, ongoing deficits are expected to come back in FY 09. As such, there are remaining issues and key budgetary assumptions that continue to challenge the City fiscally.

The City was able to close a budget imbalance in FY 07 through the development of more than 70 discreet budget correction strategies totaling \$1.9 million. That was on top of \$1.6 million adjustments made in FY 06. However, the existing plan did not provide for bringing back any of the currently frozen and unfunded full-time positions or address significant **unmet capital needs**. For example, the unfunded projects in the capital improvement plan total nearly \$59 million. Consequently, **new stable revenue sources** are needed to expand the City's revenue base and provide for on-going funding for future expenditures as well as provide a buffer for when economic conditions begin to falter again. A study of revenue enhancement options was undertaken in FY 07 with follow-up dialogue with the Council planned for the first half of FY 08.

The California and San Francisco Bay Area economies grew during most of FY 07 and are expected to continue this trend into FY 08. Silicon Valley, in particular, has experienced positive results, especially in the housing market. Although nationally the housing market has cooled down considerably during 2007, the overall situation in the region surrounding Campbell has been much less impacted. Partially due to the ongoing shortage of housing in this region compared to demand, market values of residential housing continue to hold up and are expected to do so over the near term. The labor market in California added a total of 237,000 jobs between April, 2006 and April, 2007 (1.4% increase). The local region, comprising Silicon Valley and Santa Clara County, added 24,100 jobs (2.7% increase) during the same period which was a marked improvement over the prior year's increase.

The unemployment rate is also an important economic statistic as to the state of the economy in general. As of April 2007, the State seasonally adjusted unemployment rate was 5.1% compared to 5.0% the prior year. For Santa Clara County, the unadjusted rate was 4.4%, down only slightly from 4.5% in the prior year. Campbell generally trends lower than both the County and the State in its unemployment rate. In fact, as of April 2007, Campbell's unemployment rate was 3.7%, unadjusted, which is unchanged with 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 its local economy.

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 and provide 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.

Related to the issue of growth and new development, an area of concern is **limited retail growth**. The City's largest source of revenue is sales tax, which is used to fund various City services such as policing, fire safety, road improvements and other amenities such as museum, theatre and senior services. With projected increases in this revenue source barely keeping up with projected expenditure growth, this will be an area requiring continued vigilance.

The City 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. In addition, a staff Economic Development Committee was formed, consisting of several key department representatives, to prepare for, respond to, and provide analysis of, economic development opportunities.

New development during FY 08 is anticipated to bring additional residential housing units, ground-breaking 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 is 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 health care and other post-retirement benefits coverage** continues to escalate year after year, typically outpacing the City's revenue growth. 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 retirees is anticipated to increase over the next five years. This is the situation in Campbell where a significant number of staff, including senior management, is 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. As noted earlier, it is anticipated that the cost for service will increase considerably in FY 09 when the current contract expires. Discussions with County Fire are expected to begin in the next few months. The City is monitoring the budget condition to determine whether any additional revenue sources will be required to continue providing the same service level as today. Staff will also explore other options available to address this issue.

Another ongoing challenge is the need to maintain the City's **infrastructure, particularly its streets and sidewalks**. More than \$15 million dollars have been invested in the City's street infrastructure over the past 10 fiscal years, and work will continue into FY 08 with an additional \$2 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 challenge the City.

After FY 08, the capital improvement plan shows only minimal resources available to fund street infrastructure improvements. 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. State Proposition 1B was approved by voters in November, 2006 and will provide some one-time funding for road improvements.

Deployment of technology remains an important ongoing issue 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 were recently taken 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 were also recently completed to facilitate the building permit process for the public. The City will be exploring a community notification system in the upcoming year.

Another area of on-going development includes continual improvement of the City's website with additional content to provide enhanced access to a wider range of useful information and more convenient ways of transacting City business. The City redesigned its website during FY 06 to facilitate finding information important to users and to more easily navigate the site. The City is also participating in a project 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 08 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 April 17th. While still substantial, in general, the lists are shorter than 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 07 SIGNIFICANT ACCOMPLISHMENTS

Despite \$1.6 million in budget reductions implemented during FY 06 and another \$1.9 million in budget corrections in FY 07, along with having 20.1 FTE frozen/unfunded positions, the City was still able to realize numerous accomplishments. The key accomplishments 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 08 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 ongoing 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.

During FY 07, the performance outcomes and productivity indicators which track and report work input and related outcomes were revised from the previous format. The new performance outcomes are located within each respective program budget section of the document. However, because a large portion of these measures are new, historical data is not available to report in the FY 08 budget, but will be reported in future years as data is compiled. Performance reporting assists the Council in establishing policies and priorities related to the quantity, quality and appropriateness of municipal services provided by the City of Campbell.

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 2 of this budget message. An updated reserve policy was approved by the City Council during FY 06.

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.

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. This year's budget study session was held on April 17th.

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, along with 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.

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

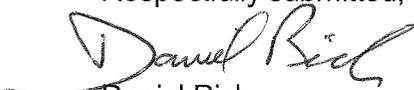
For the fourteenth consecutive year, the City's budget received national recognition by earning the Government Finance Officer's Association (GFOA) "Distinguished Budget Award", a copy of which appears in the Budget Reference Materials section of this document. To receive the Distinguished Budget Presentation 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 08 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 tenth consecutive operating budget award the City has received from CSMFO. In addition, the City received its eleventh "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

The FY 08 operating and capital budget is balanced incorporating the use of reserves/beginning fund balances for primarily non-recurring expenditures. In future years, however, it is apparent that fiscal challenges still remain that will require all stakeholders to be involved in whatever solutions are ultimately taken to resolve them. With the collaboration and cooperation of all levels of City staff, coupled with the clear guidance and direction of the City Council, we will continue to discuss ways of funding those services and amenities that are considered most important to the City's residents. Despite these fiscal challenges, the City remains strong while continuing to maintain sufficient and prudent reserves.

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, including the entire executive team. In addition, the 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, 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 07 SIGNIFICANT ACCOMPLISHMENTS

City Manager's Department:

- Collaborated with League of Women Voters and Campbell Chamber of Commerce on "Meet The Candidates" and "State of our Cities" forums
- Completed comprehensive Library Needs Assessment
- Helped plan and organize retirement event for outgoing Mayor Jeanette Watson
- Reviewed cell phone usage and issued RFQ for citywide cellular services
- Developed RFP and reviewed proposals for 2007 Community Satisfaction Survey
- Explored options for revenue enhancement opportunities and presented results to City Council
- Facilitated citywide review and update of program missions and measures
- Promoted Project Cornerstone in collaboration with Campbell school districts
- Implemented Mandatory Ethics Training (AB 1234) for elected officials and Advisory Board and Commission Members
- Administered November 7, 2006 General Municipal Election
- Participated in Pentamation upgrade
- Coordinated review and implementation of revised Travel and Meeting Expense Policy
- Coordinated Advisory Commissioner recognition dinner
- Provided New Educational Offering to Employees – Certified Financial Planner from ICMA
- Conducted Meet and Confer process with CPOA, CMEA, MIC, CPCEA to adopt new Memorandums of Understanding
- Completed position audits and developed new class specifications and salary ranges for four IT positions brought in-house
- Conducted a job analysis for Streets Maintenance Supervisor resulting in a reclassification of Streets Maintenance Lead Worker
- Created a new class specification of a flexibly staffed Mechanic I/II
- Conducted 12 recruitments, 8 of which were unplanned
- Provided sexual harassment training to all new supervisors in compliance with AB1825
- Revised department missions and measures

Community Development:

- Processed Major Development Projects, including but not limited to: the extension of the approval for 649 Creekside Way (hotel, office tower and two parking structures); a new commercial building at Winchester Blvd./Rincon Ave.; a 20-unit townhouse development at 430-450 Salmar Avenue; a 15-lot small lot single-family development at 154 & 160 S. First Street; and, the upgrades to two, existing service stations:
- In-Process Major Development Projects, including but not limited to: revised design for Hilton Garden Inn, a Senior Housing Project on Winchester Blvd., a Mixed-use Project on Bascom Ave., and a Mixed-use Project at Hamilton Ave. and San Tomas Expressway.
- Completed the Phase II Zoning Code Update including new, noticed Administrative Hearing process.

FY 07 SIGNIFICANT ACCOMPLISHMENTS

Community Development (continued):

- Updated the Downtown Development
- Developed and completed an Inclusionary Housing Ordinance that requires 15 percent in BMR units for developments over 10 units.
- Processed and completed the Annexation of three Unincorporated County Pockets into the City of Campbell, and coordinated service changes.
- Developed and completed the Development Design Guidelines for the East Campbell Avenue Master Plan.
- Developed and completed Historic Residential Design Guidelines.
- Processed Historic Remodel Permits, including: the East Campbell Ave. Motion Ultralounge, and four historic Downtown neighborhood residences.
- Entered Historic Property tags into Tidemark.
- Listed four new Heritage Trees (two public, two private).
- Designed and acquired the Ainsley House National Register Plaque.
- Completed Building Inspector training on the new suite of California Building Codes.
- Adoption of new suite of California Building Codes scheduled for June 2007.
- Progressed significantly with the transfer of data from the old "GTS" permit system to Tidemark.
- Developed and implemented read-only access to Tidemark via the City of Campbell website.

Finance:

- Completed implementation of Government Accounting Standards Board (GASB) Statement No. 34 related to recording of citywide infrastructure.
- Implemented GASB Statement No. 44 on Economic Condition Reporting.
- Coordinated the implementation and migration of the application software portion of the Pentamation financial management system.
- Assisted HR in the transition of restructuring IT services from contract to in-house.
- Explored citywide revenue enhancement opportunities for council study session.
- Reviewed program mission and performance outcome standards.
- Purchased and deployed replacement mobile data computers for police vehicles.
- Installed new network security firewall and to permit secure remote access to the City network via the Internet.
- Automated network processes to remotely enable on-line helpdesk, remote operating system and security patch management, software deployment, asset discovery and inventory and software license management.
- Configured new UPSs (Uninterruptible Power Supplies) and signaling to enable servers to remain up and running during a power failure.
- Tested and Installed Tidemark Advantage Upgrade to version 3.5 and provided capability of on-line queries.

FY 07 SIGNIFICANT ACCOMPLISHMENTS

Legal:

- Collaborated on Round II Zoning Code amendments
- Prepared and presented AB1234 Ethics Program
- Collaborated on Inclusionary Housing Ordinance
- Collaborated on annexation of territory to City
- Revised Public Records Act Policy
- Obtained injunction against harassment of City employee by stranger
- Collaborated on Newsrack Ordinance
- Prepared Skatepark Ordinance; and
- Collaborated on proposed Water District Stream Protection Ordinance

Public Safety:

- Executed an agreement with the Town of Los Gatos to create a regional Campbell-Los Gatos-Monte Sereno Tactical Team and initiated joint training exercises.
- Following staff research and input received in a City Council Study Session, led in development of a new strategy for addressing day laborer-related problems in the community.
- Trained all City first responders on National Incident Management System (NIMS).
- Reviewed and revised all program mission and performance outcome standards.
- Continued participation in the Silicon Valley Regional Interoperability Project (SVRIP). The project team continues to work on seeking grant dollars to fund the various outlined work items.

Public Works:

- Provided Construction Support through completion of Silicon Valley Animal Control Authority (SVACA) Animal Shelter
- Managed construction of Hacienda/Winchester Percolation Pond Improvements (90% complete)
- Completed repair of Community Center all-weather track
- Supported Community Development and Finance with analysis of newly annexed County pockets
- Completed East Campbell Avenue Master Plan
- Completed preliminary conceptual plan for San Tomas and Smith Creek Trail Improvements
- Selected Consultant and initiated Orchard City Banquet Hall Feasibility Study
- Awarded Contract and initiated for construction of Water Extraction Wells for Santa Clara Valley Water District (60% complete)
- Initiated new solid waste collection contract effective March 1, 2007
- Developed new Solid Waste Rates for Council consideration and recommendation to the West Valley Solid Waste Management Authority
- Began working with a citizens committee on a Campbell Veterans Memorial
- Completed design and awarded contract for Hamilton/Salmar resurfacing project.

FY 07 SIGNIFICANT ACCOMPLISHMENTS

Recreation & Community Services:

- Reviewed and updated all facility use policies and fee schedules.
- Compiled a comparative analysis of fees charged for recreation classes & programs with those of other service providers.
- Completed the fire alarm system installation for Community Center
- Completed the City Hall chiller replacement.
- Completed the Community Center Building 'M' modifications.
- Completed the Ainsley House and Carriage House roof replacement.
- Completed the volunteer restoration and exhibit of the electric car.
- Created a new 'Ohlone' Trunk Rental Program for schools
- Worked with non-profit & private sources to raise \$30,000 to fund Museum operations and an additional \$151,785 to fund the Ainsley House and Carriage House roof replacement.
- Installed water meters on all Parks buildings.
- Offered additional day camps to generate an extra \$65,000 in net revenue.

Redevelopment Agency:

- Corroborated with several property owners of key downtown properties regarding redevelopment opportunities.
- Assisted hotel application for Creekside Way has received entitlements.
- Implemented the first phase of the Economic Development Strategy and reported out to the City Council.
- Prepared an Inclusionary Housing Ordinance which went into effect in December, 2006.
- Prepared an In-lieu Fee Study for meeting certain affordable housing requirements under the Inclusionary Housing Ordinance.
- Prepared a Density Bonus Ordinance.
- Continue to work with the Water District in moving the well project forward to allow Charities Housing to proceed with the Housing Project.
- Assisted in the preparation of the East Campbell Avenue Master Plan.
- Updated news rack ordinance and completed oversight of installation of modular news racks downtown.

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.