



June 3, 2008

Honorable Mayor and Members of the City Council:

I am pleased to present the fiscal year 2008-09 (FY 09) operating and capital budget. 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 the Campbell community.

Over the course of the past five years, the City has implemented some \$4 million in budget cuts/adjustments as a means of resolving a budget deficit that existed after the "Dot-Com bust." During this timeframe, approximately 10% of the City's staffing has been frozen/unfunded.

Unfortunately, despite these cuts, this year's budget sees the return of a deficit and requires the use of nearly \$2 million from the City's Reserve for Economic Fluctuations in order to maintain the current services in the operating budget for FY 09. This reserve was specifically established to buffer the City from significant downturns in the economy lasting more than a single year. The budgeted level of proposed expenditures are considered necessary and proper, taking into consideration the City's Strategic Plan objectives 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 continues most of the program and service levels the residents of Campbell have indicated are important to them. However, this use of reserves is not sustainable for the long-term and continuing these services will be dependent upon whether a new stable revenue source can be secured.

As of the date of this letter, the State of California is in the process of closing a \$17 billion deficit for its FY 09 budget. Funding for several public safety and other local programs are currently "on the table" and could result in revenue losses to the City if adopted by the State. The City stands to lose approximately \$0.5 million annually which is now used to maintain front-line police operations and assist with the cost of booking prisoners into the local County detention facility. The Redevelopment Agency could also be impacted by State actions. The proposed FY 09 budget has not built in any contingency for this potential State take-away of funding.

BUDGET SUMMARY

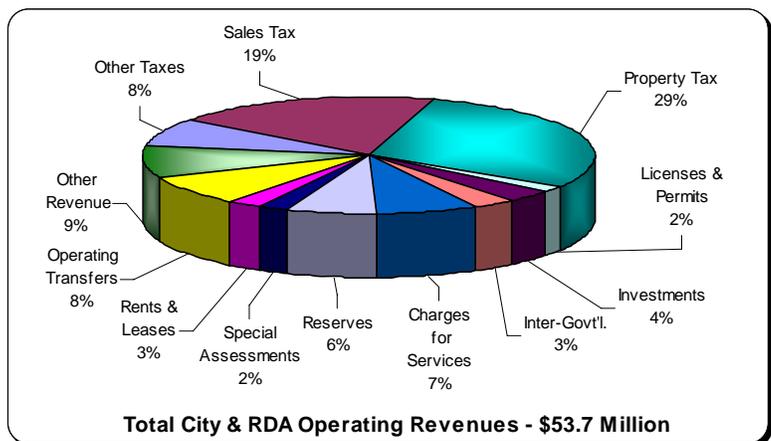
The combined FY 09 operating and capital budget totals \$61.7 million, comprised of \$54.2 million for the City and \$7.5 million for the Redevelopment Agency (RDA). Related revenue sources total \$63 million comprised of \$54.4 million for the City and \$8.6 million for the RDA, indicating a balanced budget in which total revenues, including the use of reserves, meet or exceed total expenditures. Excluding capital transfers, the City's budget would be \$50.5 million and the RDA's budget would be \$6.7 million. The excess of total combined revenue over expenditures is attributable primarily to RDA revenue that is not being fully appropriated in FY 09.

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:

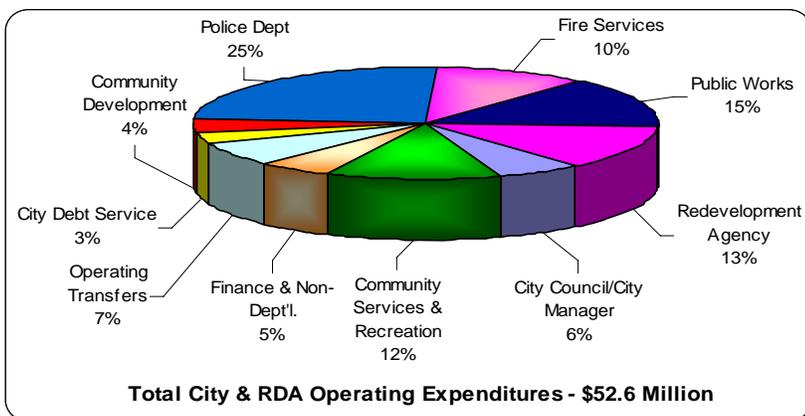
	FY 2008 - 09			FY 2007 - 08			\$ Change Operating Adopted	% Change
	Operating Budget	Capital Budget	Total Adopted Budget	Operating Budget	Capital Budget	Total Adopted Budget		
City	\$ 45,948,954	\$ 4,535,000	\$ 50,483,954	\$ 44,501,591	\$ 2,296,500	\$ 46,798,091	\$ 1,447,363	3.3%
Capital Transfers	-	3,710,000	3,710,000	-	1,946,500	1,946,500	-	n/a
Total City	45,948,954	8,245,000	54,193,954	44,501,591	4,243,000	48,744,591	1,447,363	3.3%
RDA	6,699,382	-	6,699,382	7,848,082	-	7,848,082	(1,148,700)	(14.6%)
Capital Transfers	-	825,000	825,000	-	-	-	-	n/a
Total RDA	6,699,382	825,000	7,524,382	7,848,082	-	7,848,082	(1,148,700)	(14.6%)
Total City & RDA	\$ 52,648,336	\$ 9,070,000	\$ 61,718,336	\$ 52,349,673	\$ 4,243,000	\$ 56,592,673	\$ 298,663	0.6%

Overall, the total operating budget increased just 0.6% from the previous year. The City, by itself, increased 3.3%. Included in this increase is almost \$1 million in additional cost for the City's fire services contract with the County. Also included is expected cost of living increases resulting from negotiated memorandums of understanding with employee labor groups. The RDA expenditures decrease is attributable to appropriations in FY 08 for an affordable housing project with a non-profit entity.

Operating Budget: The total operating portion of the budget is \$52.6 million, comprised of \$45.9 million for the City and \$6.7 million for the RDA. Related revenue sources total \$53.7 million comprised of \$46.0 million for the City and \$7.7 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.



In FY 09, however, approximately \$2 million in expenditures are proposed to be funded with the Reserve for Economic Fluctuation.

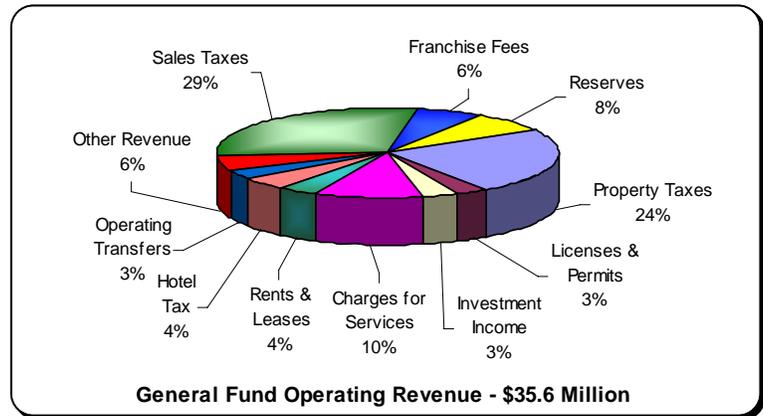


Non-recurring or one-time expenditures are typically funded with a combination of one-time revenues, specific reserves and/or unreserved fund balances, all of which are considered to be revenue sources for purposes of presentation within this document.

The FY 09 operating budget relies on a total of \$3.4 million in non-recurring revenues, reserves and fund balances, to fund operating expenditures. The

largest component is the \$2 million from the Reserve for Economic Fluctuations. An additional \$0.4 million is proposed for replacement of vehicles and computer assets for which funds have already been set aside for this purpose. Also included is \$118,000 in reserves that will be used to begin funding the City's obligation for post-retirement health benefits.

General Fund operating revenues and expenditures are budgeted at \$35.6 million utilizing \$2.7 million in reserves including \$2 million from the Reserve for Economic Fluctuations. In the chart shown on the right, use of reserves make up approximately 8% of the total funding sources for FY 09.



Capital Budget: The City's Capital Improvement Plan (CIP) is used both as a short and medium-range plan for the acquisition, improvement and/or renovation of City assets, infrastructure in particular. The CIP is reviewed and updated annually by a committee of senior management staff. It includes projects and equipment items valued 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.

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Historically, the CIP has been presented for a seven-year horizon in which project scheduling was dependent upon various factors including the urgency of need, availability of funding and staff workload to name a few. The first year of the CIP is incorporated within the operating / capital budget document, and formally appropriated by the City Council. The remaining years function as a project planning and budgeting tool. Any expected operating budget impacts resulting from the CIP are incorporated into the operating budget.

Beginning with the FY 09 budget, the CIP is proposed to be reduced to a five-year horizon. This reflects the new reality that economic conditions have been consistently more challenging over the last five years, making it extremely difficult to reasonably estimate project revenues beyond five years. Historically, many capital projects have been funded with General Fund surpluses. With current projections indicating the City will be in a deficit position for the next several years, the number and scope of projects has diminished considerably from previous years given the limited funding.

There are 13 capital projects proposed for funding in FY 09. Project expenditures of \$4.5 million plus related inter-fund transfers of another \$4.5 million total \$9 million in capital appropriations for the City and RDA combined. The largest component of the projects is \$2.2 million related to the acquisition and improvements of Stojanovich Park, paid for with restricted Park Dedication funds. The full CIP, along with details of specific projects, can be found in the Capital Improvement Plan tab of this document.

REVENUES

No new taxes are included in this FY 09 budget. In fact, the City has not asked its residents for additional citywide taxes in 40 years (the late 1960s, to fund the building of City Hall and the Civic Center Library).

In projecting revenues, program managers evaluate 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 09 of \$63 million, including capital funding sources of \$9.3 million. This reflects an increase of \$5.6 million (9.8%) from the previous year. In looking at only the operating budget component, total revenue is \$53.7 million, an increase of just \$0.8 million (1.6%) from the previous year.

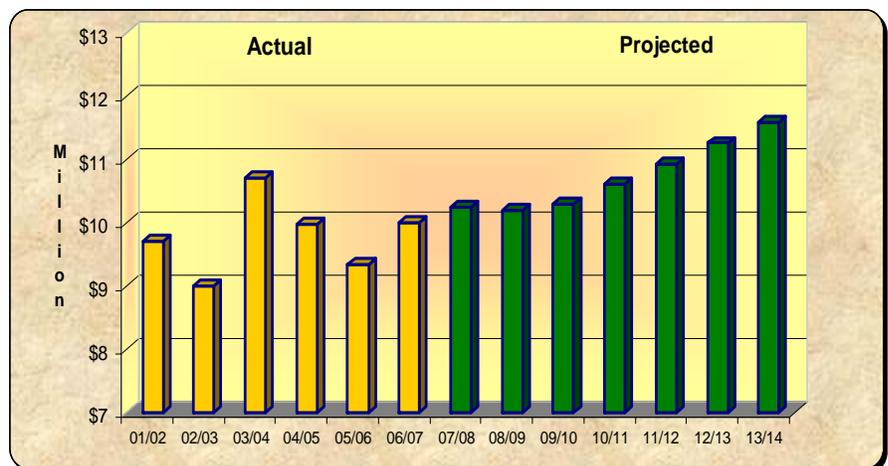
It is important to note that the capital project budget can fluctuate dramatically from year to year depending upon the number and size of projects that are approved. Capital projects are generally one-time and long-term in nature, and they are funded with non-operating revenue so there is no impact on the operating budget funding sources. Both the operating and capital budgets contain transfers-in totaling \$4.5 million each. 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, fire, 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 \$32.9 million, **an increase of \$0.2 million (0.6%) from the previous year.** The majority of this increase is related to higher property taxes offset by decreases in sales tax and development revenues, which are discussed below.

Sales Tax: Sales tax, the single largest revenue source for the General Fund, comprises approximately 31% of its net operating revenue base. Net revenues exclude reserves, which are 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 when 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 09 budget of \$10.2 million is \$0.4 million (3.8%) lower than the adopted FY 08 budget and \$47,000 **(0.5%) lower than projected FY 08 actual revenue** of \$10.2 million. Future revenue increases are expected to be modest at best. In fact, revenue growth is projected at just 1% for FY 10 based on the latest information available from the City's sales tax consultant and recent trends.



Sales Tax Trends - General Fund

However, it remains to be seen whether even this level of growth is realizable. Beyond, the growth assumption is 3% based on general improvement in the economy within the next couple of years.

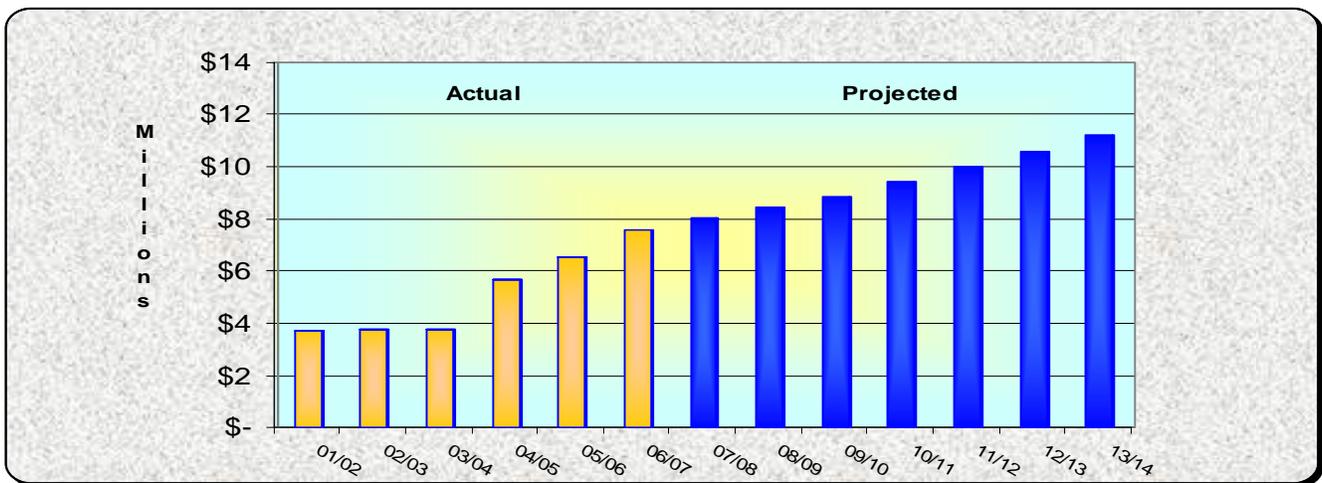
The graph on the previous page reflects actual sales tax performance for the past six fiscal years and projected revenue through FY 14. It should be noted that sales tax revenue is not anticipated to return to the FY 01 peak of \$12.1 million until FY 16.

Property Tax: Property tax revenue is the second largest source of revenue to the General Fund, estimated at \$8.4 million or 26% of net operating revenue for FY 09. This is an increase of \$0.7 million (9%) from the previous fiscal year's adopted budget and \$0.4 million (5%) higher than estimated FY 08 revenues. The growth rate is down from previous year increases. Although the Statewide and national housing market has experienced a significant downturn during the past year, Silicon Valley has been impacted to a lesser extent due to overall shortage of housing stock compared to ongoing demand.

Beginning in fiscal year 1993, and continuing for the past fourteen years, the City has cumulatively lost in excess of \$14 million in property tax revenue due to State legislated takeaways. Under the enabling "Education Revenue Augmentation Fund" (ERAF) 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 \$1.3 million in annual lost revenue for which there is no end in sight.

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



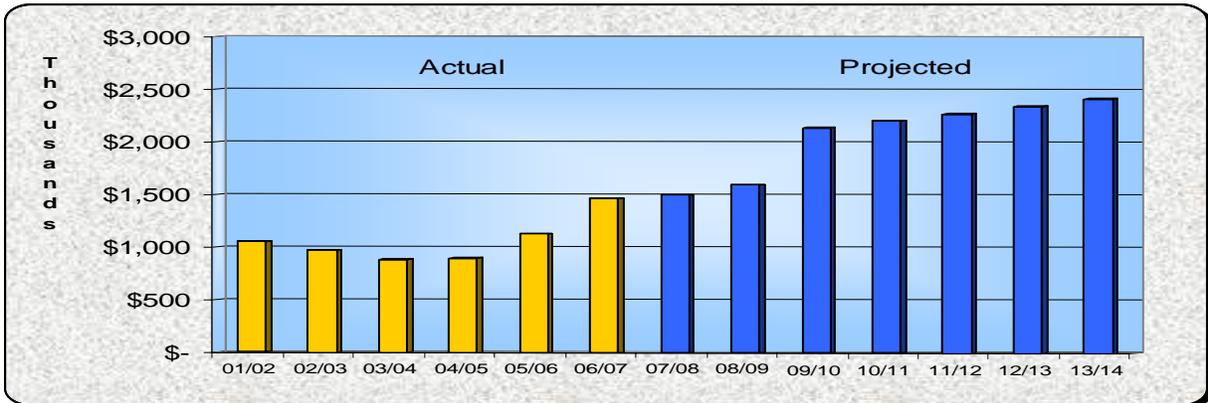
Transient Occupancy Tax: This tax, more commonly referred to as hotel/motel tax, or simply TOT, is derived from a 10% tax that is applied to the room rates of the City's hotels/motels. TOT revenue for FY 09 is budgeted at \$1.6 million, reflecting an increase of \$0.2 million or 14% from the previous year's adopted budget and a \$0.1 million or 6.7% increase from the revised FY 08 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 also include increased revenues from another hotel anticipated to open in FY 10.

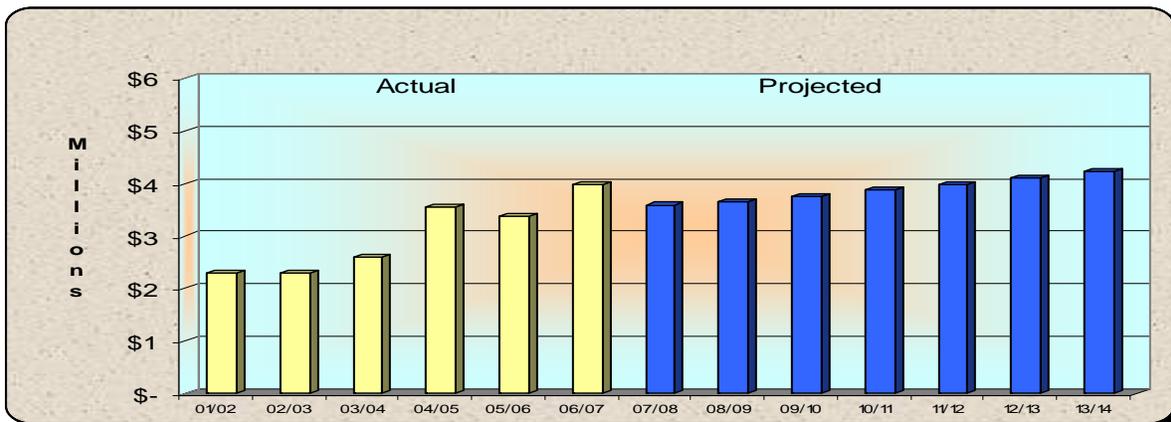
Transient Occupancy Tax (TOT) Trend – General Fund



Charges for Services: Charges for services include revenues derived from a variety of sources, the largest being Recreation program fees that consist of classes/lessons, trips/tours, preschool and theater revenues. Other fees are charged for Police and Fire services; engineering services; zoning review and business license processing. The combined revenues are anticipated to generate \$3.7 million for the General Fund during FY 09 which is an increase of 1.8% 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:

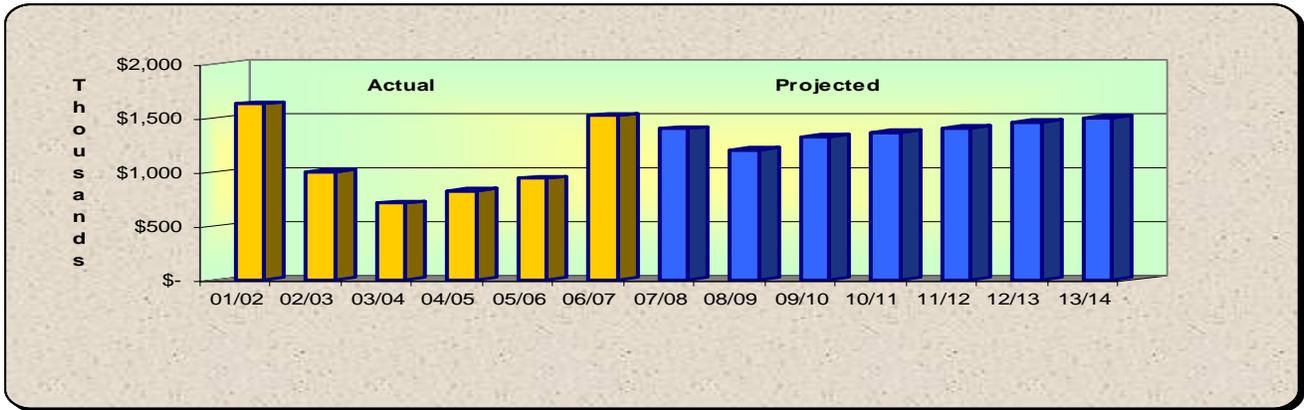
Charges for Services Trend – General Fund



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.

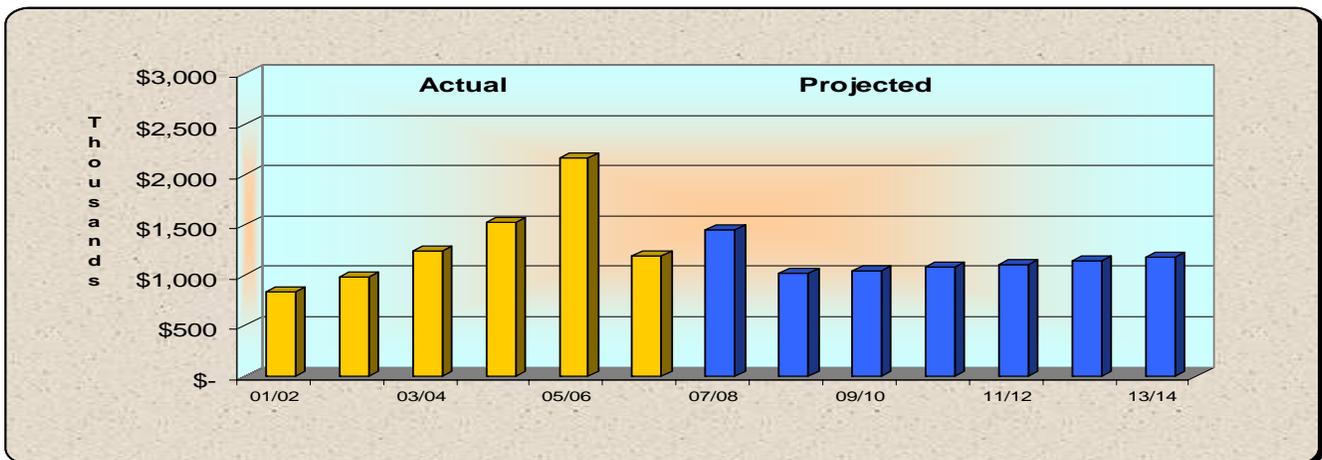
Investment Income: Investment income comprises approximately 3.6% of General Fund net operating revenue and is estimated to be \$1.2 million for FY 09, a decrease of \$0.2 million or 14% from the previous year's adopted budget and revised FY 08 projections. Investment earnings are expected to decrease due to the change in policy direction of the Federal Reserve Bank which has resulted in the lowering of short term interest rates. Average interest rate yields are expected to be lower in FY 09 than they were in FY 08 which, in turn, was down from FY 07. The following chart depicts historical activity and projections for current and future years:

Investment Income Trend – General Fund



Licenses & Permits: Revenues in this category are comprised primarily of construction permits and advanced plan check fees. Also included are fire permits and other Building fee revenues. Total revenues from this category fluctuate with the level of development activity and serve as one measure of how the economy is faring. Budgeted FY 09 revenues are \$1 million compared with \$1.4 million budgeted in FY 08, a reduction of 28%. Estimates are based on expected levels of development activity taking into consideration the economy and markets for residential and commercial properties. Although historical revenues from this source have been growing for several years, future projections indicate construction activity to slowdown and flatten out for the near term due to the slowdown in the housing market and the overall economic conditions.

Licenses & Permits – 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 09, 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 \$2.2 million for FY 09. This is an increase of \$0.1 million from the previous year. 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 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 \$2.7 million that are used to fund operating expenditures including approximately \$2 million from the Reserve for Economic Fluctuations. 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 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 09 are \$5.6 million, up \$0.2 million from the previous year.

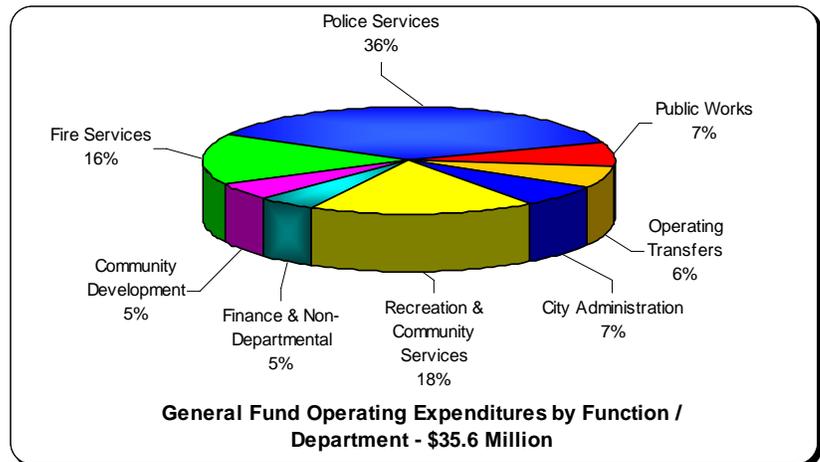
Debt Service Funds are incorporated within the budget due to various bond covenant requirements. Local Improvement District (LID) revenue comes from the County of Santa Clara via property tax levies assessed against the properties that received the specific improvements. Certificates of Participation (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 09 are \$1.7 million. The RDA Debt Service funding sources for FY 09 are \$5.7 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 09 are \$3.2 million.

EXPENDITURES

As previously noted, the FY 09 budget is comprised of operating and capital expenditures for both the City and the Redevelopment Agency totaling \$61.7 million. City operating expenditures total \$45.9 million, and RDA operating expenditures total \$6.7 million for a combined total of \$52.6 million.

The General Fund comprises approximately 67% of total City and Redevelopment Agency operating appropriations. Other City funds comprise 20%, and RDA makes up the balance at 13% of the total. **Operating expenditures in the General Fund are budgeted at \$35.6 million, which is \$1.9 million (5.7%) higher than the FY 08 adopted budget.** About half of the increase is attributable to the City's new fire contract that becomes effective July 1, 2008.



Employee Services: Staffing resources are an integral part of the City's annual budget. The prior year's budget contained a total of 181 permanent positions including 20 full-time equivalent (FTE) positions that were frozen/unfunded. To more clearly show the actual funded positions, the FY 09 budget no longer reflects these positions in either the detailed program exhibits nor in the organization charts. However, page 12 of this budget has been added to capture the previously frozen/unfunded positions. The current number of budgeted permanent positions proposed in FY 09 is 164.

There are just two staffing changes being made from FY 08. The first is the addition of a Police Officer Trainee as a temporary over-hire for an upcoming retirement in the Police Department. The second is a reclassification of an Office Specialist to Human Resources Representative in the City Manager's Department. The estimated total increase in personnel costs is \$0.1 million for salaries and related benefits.

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.

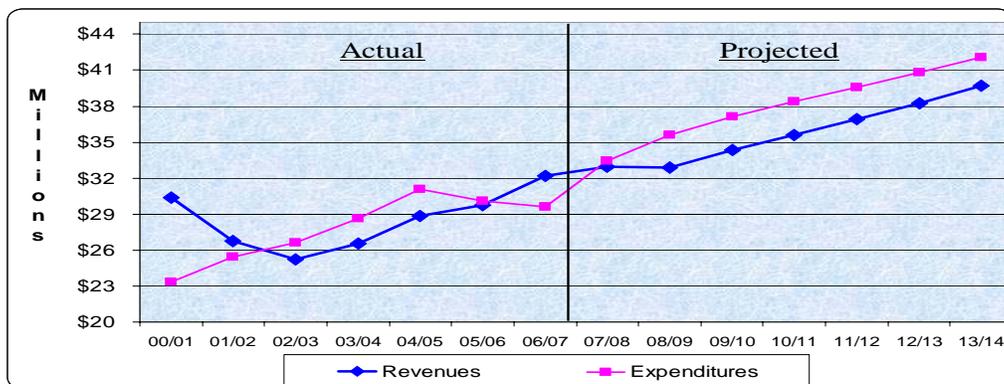
The salaries and benefits category represents all personnel-related costs and makes up the largest component of the General Fund expenditures. In fact, personnel costs are approximately 47% of the total budget and 59% of the General Fund. This number is relatively low because fire personnel are provided by contract with the County, so do not show up as City personnel costs. For FY 09, salaries and benefits in the operating budget total \$24.7 million for all City funds, which is a \$1.3 million (5.5%) increase over the previous fiscal year.

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 09 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 eight years as well as projections through FY 14. 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 that revenue growth will be outpaced by the growth in expenditures. With the large increase in the City's cost to provide fire services beginning in FY 09, coupled with weak revenue growth, significant deficits are again anticipated to return. Because of this situation, the City is making outreach efforts to discuss the budget situation with residents and get input on priorities and the importance of preserving existing programs. Without a new and stable revenue source, significant cuts will be required to bring the budget back into balance. 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 for FY 09 totals \$7.7 million, which is a \$0.2 million (3%) decrease from the previous fiscal year's adopted budget. Operating expenditures for FY 09 is 6.7 million, a \$1.1 million (15%) decrease from the previous fiscal year's adopted budget. The majority of the decrease is attributable to appropriations in FY 08 for a 40-unit 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 09, revenues and expenditures in these funds total \$3.2 and \$3.1 million, respectively. Expenditures are \$0.6 million (16%) lower than the previous year's adopted budget due to reduced replacement of various pool fund assets compared to the previous year. 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. 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 are used for on-going maintenance of the City's street infrastructure. Gas Tax funds, however, are insufficient to fully maintain the City's roads. Revenue and expenditure totals for FY 09 are projected to be \$1.3 million, an increase of 9% over the previous year's adopted budget. In FY 09, approximately \$0.2 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, sidewalks, irrigation, and drainage improvements.

In FY 09, the operating revenues and expenditures total \$2.8 million. 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 09 are \$0.87 million, the same as the previous fiscal year's adopted budget. Future years' costs are based on inflationary increases approximating 3%.

ECONOMIC AND FISCAL ISSUES FACING THE CITY

The City has been experiencing **significant revenue instability** stemming from two principal causes: 1) an economy that contracted sharply twice in the past seven years and has been slow to recover, and 2) **State of California-imposed take-aways** of the City's property tax revenues and the take-away and deferred backfill of other revenues such as sales tax and motor vehicle license fee revenues. At the same time, inflationary increases in the cost of living, especially with fuel and energy costs, have continued to exert upward pressure on operating expenditures. As a result, the City has been constantly challenged to close a **structural budget deficit** in which on-going revenues are insufficient to fully fund on-going expenditures. While the budget deficit was eliminated for the FY 07 budget, after making \$1.9 million in budget adjustments (comprising over 70 discreet strategies), on top of previous cuts/adjustments made in earlier years, ongoing deficits are projected to return in FY 09 and beyond absent a new source of on-going revenue or a significant reduction in on-going expenditures.

An initial study of revenue enhancement options was undertaken in FY 07. This was followed by conducting a community satisfaction survey that demonstrated residents had a very high level of satisfaction with City programs and services, but a relatively low understanding of the City's financial situation. During FY 08, several study sessions were held with the Council to discuss the various options and a follow-up poll was conducted to ascertain residents' priorities and whether the community

would support a possible revenue measure. Finally, the City initiated a **public outreach and education** effort to communicate the City's financial situation to the community. This includes going out and meeting with various community groups face-to-face, to educate them on the City's budget facts and gather feedback to be used in developing a long-term plan to resolve the budget deficit situation.

The California and San Francisco Bay Area economies slowed considerably during FY 08 due, in large part, to the troubled housing and sub-prime loan problems that affected most of the nation. Residential housing values declined significantly around many regions of the State due to an increasing number of defaulted loans and reduced numbers of loan applicants that could no longer qualify for loans based on tighter credit standards being enforced. Silicon Valley has seen its residential market values decline as well, although to a much lesser degree than in many parts of the State. One reason for this is the ongoing shortage of housing in this region compared to demand. Consequently, market values of residential housing in Silicon Valley have held up better relative to the rest of the State and should recover over time. The labor market in California added a total of just 54,000 jobs between April, 2007 and April, 2008 (0.3% increase). At the same time, the local region, comprising Silicon Valley and Santa Clara County, added 11,700 jobs (1.3% increase) which is significant compared to the rest of the State; however, this is lower, by more than half, than the previous year's increase highlighting the economic slowdown since last year.

The unemployment rate is also an important economic statistic as to the state of the economy in general. As of April 2008, the State seasonally adjusted unemployment rate was 6.2% compared to 5.1% the prior year. For Santa Clara County, the unadjusted rate was 5.1%, higher than last year's April rate of 4.4%. Campbell has generally trended lower than both the County and the State in its unemployment rate. In fact, as of April 2008, Campbell's unemployment rate was 4.3%, unadjusted, compared to 3.7% 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 contracts with the Santa Clara County Fire Department to provide **fire and medical response services** to the community. With the expiration of the current contract at the end of FY 08, the City's cost for these services will increase by almost \$1 million (20%) in FY 09. All available options were explored including having other jurisdictions provide services and bringing this in-house, both of which were determined to be more costly.

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 to retain and grow existing businesses.

Related to the issue of growth and new development, an area of particular concern is **limited retail growth**. The City's largest source of revenue is sales tax, which is used to fund a variety of City services such as police patrol and emergency response, fire and paramedic services, road improvements and other amenities such as parks and senior services. Because this revenue source is projected to decline in FY 09 and see only slight growth in future years, the City is closely monitoring this sector which could have a severe impact on future programs and services.

FY 09 will see additional residential and commercial development, including the construction of a new hotel 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 health of the broader economy will also help shape the level of new development activity. In this regard, there has been a significant emphasis placed on **environmental sustainability** and doing what we can to preserve it, including minimizing the City's carbon footprint. Accordingly, the City took steps to become a certified "Green" organization during the past year and is committed to undertaking a variety of green policies and practices.

The City is also committed to providing reasonable health care coverage to its employees. As the general population ages, more reliance is placed upon the health care system to provide 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, like all employers, has to consider how to balance the level of on-going benefits it can offer with the cost of providing them. The City recently completed an actuarial valuation of its obligation for providing retired employees health benefits and will need to begin funding of this obligation in FY 09. While the City's exposure is relatively low compared to other agencies, an additional \$118,000 is being proposed in FY 09 to begin setting aside funds to meet our obligation and work toward full funding of the annual required contribution over the next five years.

Succession planning is a growing 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. 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.

Another ongoing challenge is the need to maintain the City's **infrastructure, particularly its streets and sidewalks**. More than \$17 million dollars have been invested in the City's street infrastructure over the past 11 fiscal years, and work will continue into FY 09 with additional dollars set aside for this purpose. While the overall condition of streets has been good for the past several years, a significant amount of resources are required to maintain a "good" condition rating on an on-going basis. Consistent funding for maintaining this level will continue to be a challenge for the City. Although the City received \$0.6 million in Proposition 1B funds from the State (approved by State vote in November, 2006) that will be applied to maintenance needs, the General Fund is still expected to fund the majority of needed repairs, competing with other General Fund programs for limited dollars.

The City also has a significant amount of **unmet capital needs**. The capital improvement plan contains a long list of desired but unfunded projects (see capital improvement plan tab). In addition, there is another \$1.7 million of annual lifecycle and maintenance needs that were identified as not being fully met. Consequently, the City will be unable to initiate or complete these projects until such time as adequate funding becomes available.

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. A **new Community Emergency Notification System** was implemented in FY 08 that allows City officials to contact residents within minutes of significant or critical events through rapid-dial telephone calls. This system strengthens the City's ability to prepare for and coordinate emergency situations and immediately notify residents, in specific neighborhoods or citywide, of what's occurring and advise them on what action should be taken. In this regard, the City's disaster recovery and business continuity plans will be updated in FY 09.

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. New features added include posting of all public notices, requests for proposals and the ability to sign up for automatic update notifications for various web postings. The City's website may be accessed at www.cityofcampbell.com.

FISCAL 09 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 15th. While still substantial, in general, the number of work plan items is less than in the past due to ongoing limited resources. Major work plan items, in addition to a list of the ongoing responsibilities of each department, can be found within the department program sections of the budget document.

FY 08 SIGNIFICANT ACCOMPLISHMENTS

Despite the ongoing constraints of the budget and lower number of employees, the City was able to realize numerous accomplishments during the past year. The key accomplishments, summarized by department, are shown 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 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, on-going 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 updated performance measures are located within each respective program budget section of the document. However, because a large portion of these measures are new, only results of the first six months of FY 08 are reported in the FY 09 budget. In some cases, data is not available until the end of the fiscal year. As data is accumulated, eventually the budget will show three years of comparative results. This will help Council, staff, and the community to assess trends and strive for continual improvement. 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. Changes in resource levels can often also be articulated in terms of the impact on performance measures.

FINANCIAL POLICIES

The City of Campbell's Financial Policies were first 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 15th.

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 fifteenth 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 09 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 eleventh consecutive operating budget award the City has received 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 09 operating and capital budget is balanced, but only with the use of reserves, specifically almost \$2 million in Economic Fluctuations Reserve. Looking ahead, it is evident that the City will continue to face significant fiscal challenges that will require all stakeholders to be involved in whatever long-term 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 and input from residents, we will develop a plan to fund those services and amenities that are considered important to the community. Despite these fiscal challenges, the City remains a vibrant place in which to live, work and relax.

This year's budget is dedicated to all the hardworking employees of Campbell (some of whom are pictured on the cover page). 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 Sandy Terpko, Executive Assistant, Mark Gaeta and Sophie Kao, Accountants, deserve recognition for their dedication and hard work in coordinating, developing, and publishing this budget document. Finally, I would like to acknowledge Jesse Takahashi, Finance Director, for his efforts and leadership throughout the entire budget process. I am proud to work with such a dedicated and collaborative group of professionals.

Respectfully submitted,

Daniel Rich
City Manager

FY 08 SIGNIFICANT ACCOMPLISHMENTS

City Manager's Department:

- Completed strategic review of 7-year Capital Improvement Program (CIP).
- Presented revenue enhancement options.
- Completed Heritage Orchard study.
- Continued organizational implementation and partnership with school districts on Project Cornerstone.
- Initiated exploration of webcasting options of Council meetings.
- Compiled and reviewed City's unmet operating and capital needs.
- Conducted and reviewed 2007 Community Satisfaction Survey.
- Created citizens' Budget Task Force and initiated public outreach efforts.
- Led contract renewal negotiations for fire services and explored alternative options.
- Participated in Pentamation migration to Plus Series.
- Participated in business license amnesty program to identify and register non-compliant businesses.
- Completed scanning current and two prior years of legislative history into document imaging system.
- Assisted in upgrade of the Pentamation HR module.
- Conducted 19 recruitments in a timely manner.
- Provided a successful volunteer luncheon to 158 volunteers.
- Evaluated the Planner I and II class specifications and created a new class specification of a flexibly staffed Assistant/Associate Planner.
- Participated in the transition to in-house IT services.
- Implemented a new Long Term Care option for all employees.
- Initiated conversation with IT for security setup of the electronic records management system.

Community Development:

- Received Priority Development Area (PDA) status from the regional FOCUS Program.
- Completed LAFCO Service Review and continued dialogue on additional pocket annexations.
- Supported Business License Amnesty Program.
- Implemented new Administrative Hearing Process.
- Major Projects Entitled: Creekside 7-story/162 room hotel, Merrill Gardens mixed use, Boyce mixed use, 1930 Bascom Medical Building, ECOMM Tower and Winchester/Rincon (A&W site) commercial redevelopment.

Community Development continued:

- Major Projects Under Construction: Salmar townhouses (20 units), Chevron remodel @ Hamilton/Bascom and First Street small-lot single-family (15 units).
- Major Projects Completed: 175-201 E. Campbell Ave. mixed use, Onyx @ Bascom mixed use, Pet Food Express, 1400 W. Campbell/Round Table and exterior upgrades to the Pruneyard and Hamilton Plaza.
- Contributed to completion of the final draft of the East Campbell Avenue Master Plan.
- Historic Preservation: digitized Historic Resource Inventory (214 properties), received Governor's Award for Historic Design Guidelines, installed Ainsley National Register Plaque, drafted revisions to the Historic Preservation Code, designated Heritage Trees, recognized historic property owners and preformed Community outreach.
- Developed draft private development standards for the upcoming Winchester Boulevard Plan.
- Zoning Code Changes: Density Bonus, Late Night Uses in the Planned Development Zone, Uses in Industrial Zones, Adult-oriented Businesses, Smoking Establishments and Medical Marijuana.
- "Green" Effects: Served on Santa Clara County Cities Association (SCCCA) Green subcommittee, prepared Green recommendations for Council adoption, established Policy/Practice/Education Teams and team contributor for the Santa Clara County Green Business Program recognition of City facilities as "green".
- Reviewed and recommended changes to the Planning Process with the Planning Commission and City Council.
- Developed tracking program for housing rehabilitation projects.
- Adopted 2007 California Building Code.
- Converted GTS (Government Tech Series) Software to archive.
- Completed inspector code training for new codes.
- Accomplished and instituted permit plan digital scanning.
- Reestablished on-line permit viewing.
- Adopted ordinances for unreinforced masonry, parking on unpaved surfaces and administrative citation procedures.
- Prepared Developer's Agreement and developed monitoring systems for inclusionary and density bonus housing.
- Prepared below market rate sample calculations for inclusionary housing projects.

Finance:

- Completed migration/upgrades to City's financial and revenue systems.
- Completed an actuarial valuation and analysis of funding strategies for the City's retiree health plan benefit as required by Government Accounting Standards Board (GASB) Statement #45.
- Issued an RFP for audit services and awarded a three-year contract to a new audit firm.
- Assisted citywide outreach efforts aimed at educating the community about the City's financial situation and challenges including developing presentations for community groups.
- Coordinated and completed a citywide physical inventory of fixed assets.
- Consolidated citywide infrastructure fixed assets into new Pentamation financial system.

Finance continued:

- Updated financial policies related to investments and procurement of financial auditing services.
- Assisted in the review of the Capital Improvement Plan process and development of new format.
- Completed the transition of Information Technology services from contract based to in-house by recruiting and hiring four new staff positions.
- Implemented a Community Emergency Notification System.
- Identified and implemented a low cost means for providing automatic notification of updates on the City Website using Real Simple Syndication (RSS) feeds.
- Created a Power Failure Systems Procedure for use by Information Technology, which will be the starting point for a Disaster Recovery Plan.
- Researched and went to competitive bid for maintenance on the City's telephone switch resulting in an annual savings of \$13,000.
- Completed an upgrade to our e-Safe Security Appliance, increasing protection against malware and hackers.
- Completed an electronic inventory of desktop personal computer software/hardware.
- Identified and purchased a low cost, comprehensive online training solution for Information Technology staff.

Legal:

- Adoption of amendments to the Nuisance Abatement Ordinance.
- Adoption of Density Bonus Ordinance.
- Adoption of Amendments to Industrial Zones regarding assembly and fitness uses.
- Adoption of unpaved parking ordinance.
- Obtained withdrawal of subpoena in gang case.
- Obtained dismissal of tort claim without payment from the City.

Public Safety:

- Provided Pandemic Flu Prevention training for all City employees.
- Negotiated a new agreement with Santa Clara County Fire Department.
- Worked with IT to purchase and implement a Community Emergency Notification System.
- Hosted a Youth Summit for middle school-aged students in support of Project Cornerstone and in cooperation with the Campbell Union School District.
- Focused resources on gang activity; joined the San Jose Mayor's Gang Prevention Task Force; and partnered with the City of San Jose Gang Intervention Team in providing Gang Awareness training for middle school students and parents.
- Implemented additional strategies to address Day Labor issues.

Public Works:

- Completed construction and held dedication for Hacienda Percolation Pond Improvement Project.
- Implemented Construction and Demolition Debris Diversion Ordinance.
- Completed design and awarded construction contract for three well pump stations at Campbell Avenue and San Tomas Expressway in cooperation with the Santa Clara Valley Water District.
- Completed site selection and initiated design for the Campbell Veterans Memorial.
- Completed Hamilton/Salmar Avenue overlay project.
- Prepared RFP and awarded consultant contract for Highway 17/Hamilton Avenue off-ramp improvement project.
- Strengthened and clarified provisions of the Campbell Municipal Code relating to protection and removal of street trees.
- Completed conceptual design for Orchard City Banquet Hall renovation project.
- Participated in Winchester Boulevard Master Plan.
- Initiated Civic Center East Master Plan.
- Completed East Campbell Avenue Master Plan and obtained Council approval for preliminary design and improvement plan project scope.
- Completed plans and specifications for 2008 Collector Street Maintenance project and awarded construction contract.

Recreation & Community Services:

- Provided input and oversight to the Orchard City Banquet Hall project.
- Inventoried and updated emergency supplies in the ARK.
- Updated the Community Center emergency plan.
- Coordinated leasing and tenant improvements for 3,151 square feet in Building E.
- Created a new "Canning and Orchards" Trunk Rental Program at the Museum for schools.
- Worked with non-profit and private sources to raise \$28,000 of funding for Museum operations.
- Increased theatre season subscription options to create more sales.
- Decreased the City's General Fund support of the Theatre by 30% over FY 06.
- Completed the following carryover Capital Improvement Project:
 - Community Center General Improvements.
- Initiated new Capital Improvement Projects:
 - HVAC for Building 'B'.
- Installed exhaust fans in main gym.
- Replaced the sodium hypochlorite generator system at the Community Center swimming pool.
- Applied for and received the Certified Green Business designation for all City buildings.
- Offered stroller exercise classes.
- Increased youth basketball league participation from 240 to 260 players.
- Applied for a grant from the Santa Clara County Historic Heritage Commission to restore the Hyde Park Water Tower.

Exhibit 1

Recreation & Community Services continued

- Re-roofed Building 'J' at the Community Center.
- Replaced HVAC units for J68 and K62 at the Community Center.
- Re-varnished the main gym floor at the Community Center.
- Upgraded the Service Center to make it more energy efficient.

Redevelopment Agency:

- Drafted Five Year Expenditure Plan for Housing Fund.
- Guided the Agency through amendments to the Purchase Agreement and DDLA with respect to Charities Housing Project at 515 and 555 W. Campbell Ave.
- Partnered with Senior Solutions to acquire a home in Campbell for five low income seniors.
- Assisted in the development and formation of the East Campbell Avenue Master Plan.
- Put in place a temporary downtown parking in-lieu fee policy and initiated a Downtown Parking Demand Study.
- Negotiated and managed the acquisition of the Stojanovich property for a public park.
- Directly or indirectly responsible for attracting 13 businesses into the 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 issue a request for proposals no less frequently than every five (5) years. The City Council must approve the audit firm which may serve for a maximum of two consecutive five-year terms. 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 ensuing fiscal year budget.

A **Reserve for Economic Fluctuations** will be maintained with 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 \$5 million, or the City's five-year financial projections indicate the reserve will fall 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 review 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.