



June 2, 2009

**Honorable Mayor and Members of the City Council:**

I am pleased to present the fiscal year 2009-10 (FY 10) 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.

The City has managed through difficult economic times for the past 7 years with the most recent year presenting even more challenges. Described by many economists and experts as the worst economic times since the Great Depression, the nation has been in a recession since December, 2007 with no clear end in sight, making it one of the longest periods of national recession this century. For most of calendar 2008 and into early 2009, the economic news was consistently negative. From the collapse of the housing and credit markets to a significant rise in unemployment to the troubles in the corporate financial world, the recession has been unprecedented in scope and magnitude, affecting markets and economies around the world. The complexity and inter-relationships of these global economies have created more uncertainty making it difficult to predict what will happen next and when things will improve and/or stabilize. In the latter half of FY 09, the news appears to have improved somewhat with the stock market showing improvement after the Federal government approved its bailout and stimulus package that were meant to improve the troubled economy. It is unknown whether this is the beginning of a longer-term recovery or just a temporary and short-lived blip in a longer decline that has yet to fully play out.

This difficult climate has severely impacted the State of California, which has been dealing with an extremely large budget deficit and its inability to resolve what has become an ongoing and ever growing problem. Setting a new record for the length of time it took to pass its budget, the State had to re-open its budget after original revenue estimates proved obsolete due to the continued deterioration in the economy. With an estimated deficit of \$21 billion, the State, on May 19, 2009, failed to obtain voter approval of several statewide propositions that would help reduce the deficit. As a result, the State is preparing to make drastic reductions to its programs and services. Although not yet implemented, it is expected that the State will seek to invoke an emergency clause allowing it to borrow up to 8% of the local government's property tax revenue for three years. This would create a funding gap for local governments that could very likely impact their own local programs and services. At the time this message was written, the City's FY 10 budget had not built in any impacts from the potential loss of its property tax revenue, estimated to be just under \$1 million.

After several years of budget cuts subsequent to the "dot-com bust", approximating \$4 million, Campbell was fortunate that its residents approved Measure O in November, 2008, a ¼ cent sales tax increase that will bring in a new and significant revenue source to the City and that

was intended to preserve service levels in the community. Because the economy has fared much worse than anticipated, this revenue source is now expected to bring in less than originally estimated, and most of the other revenue sources are also down from previous projections. However, with this funding source, the City is much better positioned to continue weathering the remainder of the recession than had it not passed. For the first time in recent history, the City re-opened existing labor contracts with its employee groups to ask for concessions in salary and benefit increases previously agreed to. Because of the strong relationship between the City and labor groups, this was done cooperatively and in a spirit of mutual trust. All levels of staff within the organization participated to help reduce expenditures for FY 10 and beyond by approximately \$0.5 million.

The Redevelopment Agency (RDA) anticipated a loss of revenue to the State as a result of the State attempting to divert redevelopment agency revenues to its own coffers for budget balancing purposes. Recently, the courts determined this to be unconstitutional and denied the State mandate to turn over these funds. It is not known whether the decision will be appealed; however, for the time being, this bullet has been dodged. Accordingly, the budget for FY 10 does not provide any amount for this purpose.

As a result of the continuing economic difficulties, the City anticipates the need to draw from reserves to balance the FY 10 budget. The estimated draw from the City's Reserve for Economic Fluctuations is \$0.5 million. This reserve was specifically established to buffer the City from significant downturns in the economy lasting more than a single year. The City's reserve policies require that whenever this reserve falls below \$4 million or the City's five-year financial projections indicate the reserve will fall below this minimum, a plan be submitted to the Council by the following year's budget adoption to get back to the target within five years.

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 the program and service levels from the prior year, which the residents of Campbell have indicated are important to them. However, the use of reserves is not sustainable for the long-term and continuing these services will be dependent upon when and to what extent the economy improves as well as the City's ability to manage the growth in its expenditures.

## **BUDGET SUMMARY**

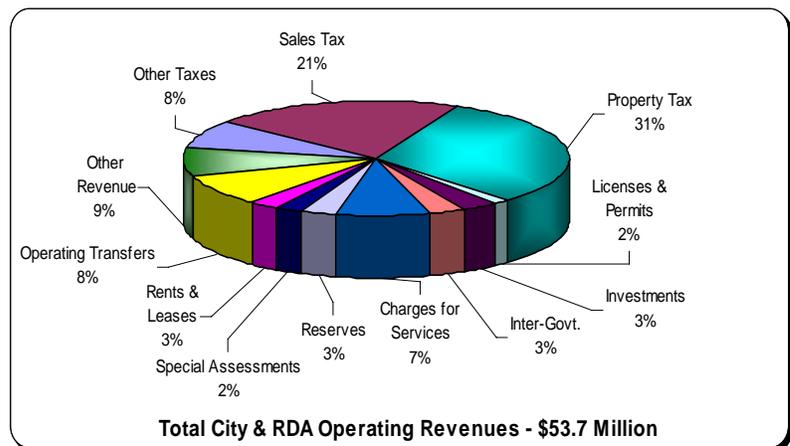
**The combined FY 10 operating and capital budget totals \$58.2 million**, comprised of \$50.1 million for the City and \$8.1 million for the Redevelopment Agency (RDA). Related revenue sources total \$58.7 million comprised of \$50.3 million for the City and \$8.4 million for the RDA, indicating a balanced budget in which total revenues, including the use of reserves, meet or exceed total expenditures. Excluding capital transfers, the City's budget would be \$47.7 million and the RDA's budget would be \$8.1 million. The excess of total combined revenue over expenditures is attributable primarily to RDA revenue not fully appropriated in FY 10.

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:

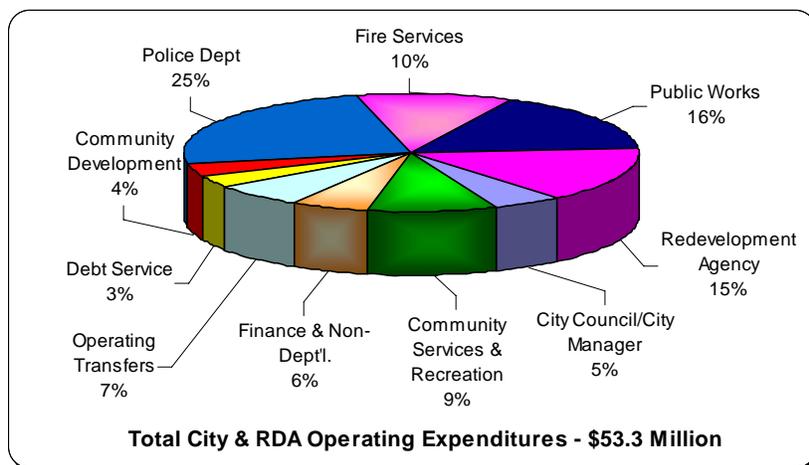
	FY 2009 - 10			FY 2008 - 09			\$ Change Operating Adopted	% Change
	Operating Budget	Capital Budget	Total Adopted Budget	Operating Budget	Capital Budget	Total Adopted Budget		
City	\$ 45,250,915	\$ 2,458,250	\$ 47,709,165	\$ 45,948,954	\$ 4,535,000	\$ 50,483,954	\$ (698,039)	-1.5%
Capital Transfers	-	2,364,500	2,364,500	-	3,710,000	3,710,000	-	n/a
<b>Total City</b>	<b>45,250,915</b>	<b>4,822,750</b>	<b>50,073,665</b>	<b>45,948,954</b>	<b>8,245,000</b>	<b>54,193,954</b>	<b>(698,039)</b>	<b>-1.5%</b>
RDA	8,070,709	-	8,070,709	6,699,382	-	6,699,382	1,371,327	20.5%
Capital Transfers	-	93,750	93,750	-	825,000	825,000	-	n/a
<b>Total RDA</b>	<b>8,070,709</b>	<b>93,750</b>	<b>8,164,459</b>	<b>6,699,382</b>	<b>825,000</b>	<b>7,524,382</b>	<b>1,371,327</b>	<b>20.5%</b>
<b>Total City &amp; RDA</b>	<b>\$ 53,321,624</b>	<b>\$ 4,916,500</b>	<b>\$ 58,238,124</b>	<b>\$ 52,648,336</b>	<b>\$ 9,070,000</b>	<b>\$ 61,718,336</b>	<b>\$ 673,288</b>	<b>1.3%</b>

Overall, the total operating budget is just 1.3% higher than the current year. **The City's operating budget, by itself, actually decreased by \$0.7 million (1.5%).** Included in the net City decrease is a \$0.5 million cost increase related to the City's fire services contract with the County. The RDA expenditures increase is attributable to higher appropriations for an affordable housing project with a non-profit entity and a higher tax sharing obligation to the County.

**Operating Budget:** The total operating portion of the budget is \$53.3 million, comprised of \$45.2 million for the City and \$8.1 million for the RDA. Related revenue sources total \$53.7 million comprised of \$45.4 million for the City and \$8.3 million for the RDA. The budget reflects expenditures that are expected to recur on an annual basis as well as those that may be non-recurring or one-time in nature. The recurring expenditures are generally funded with on-going operating revenues that are expected to be received annually.



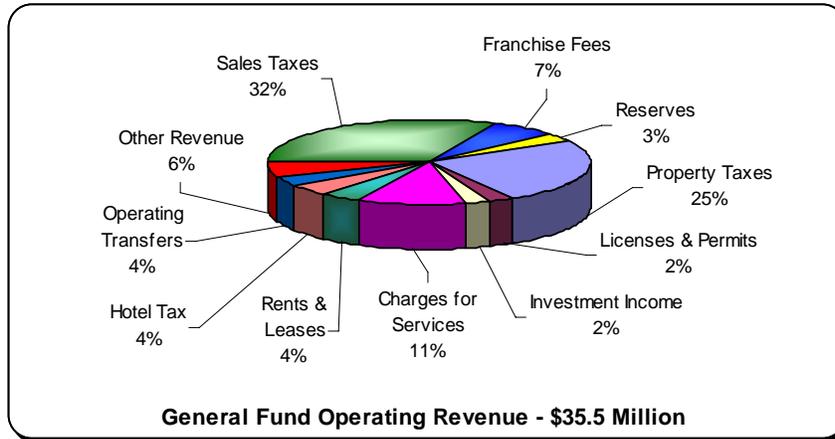
Non-recurring or one-time expenditures are typically funded with a combination of one-time revenues, specific reserves and/or unreserved fund balances, all of which are considered to be revenue sources for purposes of presentation within this document. The FY 10 operating budget



relies on a total of \$1.6 million in non-recurring revenues, reserves and fund balances, to fund operating expenditures. The largest component is the \$0.5 million from the Reserve for Economic Fluctuations. An additional \$0.3 million is proposed for replacement of vehicles and computer assets for which funds have already been set aside for this purpose. Also included is

\$250,000 in reserves set aside to fund the City's obligation for post-retirement health benefits.

**General Fund operating revenues and expenditures are budgeted at \$35.5 million, representing a \$0.1 million reduction from the FY 09 adopted budget.**



**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.

The CIP is presented on a five-year horizon in which project scheduling is 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.

The City has historically funded various capital projects with General Fund surpluses. Current projections, however, indicate the City will be in a deficit position for the next several years, thereby, limiting the number and scope of proposed capital projects compared to previous years.

There are 9 capital projects proposed for funding in FY 10. Project expenditures of \$2.45 million plus related inter-fund transfers of an additional \$2.45 million total \$4.9 million in capital appropriations for the City and RDA combined. The largest component of the projects is \$0.9 million for annual street maintenance projects, paid for with State Proposition 42 funding. In fact, the majority of project funding for FY 10 comes from restricted revenue sources such as grants or park dedication fees. The full CIP, along with details of specific projects, can be found in the Capital Improvement Plan tab of this document.

## **REVENUES**

The FY 10 budget includes \$1.7 million in estimated revenues derived from a ¼ cent increase in the City's sales tax rate that Campbell voters approved in November, 2008. This is down from an original estimate of \$2 million. Measure O was passed to preserve City services and programs that were slated for reduction absent a new funding source. This was the first time the

City had asked its residents for a citywide tax increase in over 40 years when funding was needed for City Hall and the Civic Center Library. The sales tax increase went into effect April 1, 2009.

In projecting revenues, program managers evaluate comparative historical data in conjunction with necessary inflationary adjustments, changes in volume or activity, and any fee increases. Needless to say, the unprecedented economic turbulence that has plagued us for the past year has made projecting revenues extremely difficult. **Total budgeted revenue for FY 10 of \$58.7 million**, including capital funding sources of \$5.0 million. This reflects a decrease of \$4.3 million (6.8%) from the previous year. In looking at only the operating budget component, total revenue is \$53.7 million, essentially unchanged 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. The operating and capital budgets contain transfers-in totaling \$4.5 million and \$2.5 million, respectively. Although this has a tendency to make the budget appear higher in total than it actually is, the transfers-in on the revenue side are offset by transfers-out on the expenditure side. Including transfers in the City's adopted budget is done to readily demonstrate that budgets are balanced and match the internal budgeting system.

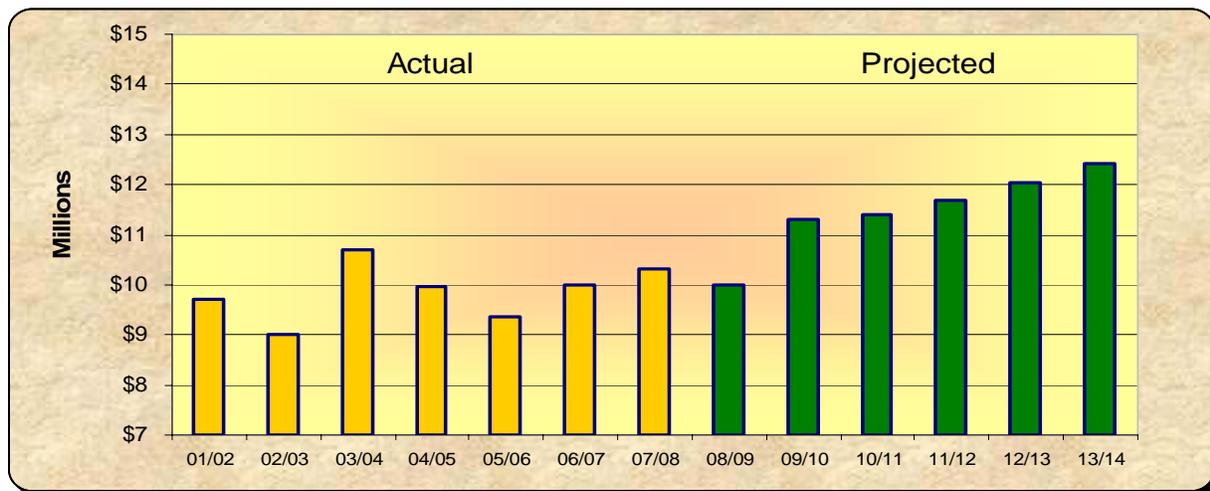
***General Fund:*** Contained within the budget are a variety of funds, each with its own source(s) of revenue. The budget document is organized by operating department, then by program within the department. The General Fund is the City's largest single fund where the majority of services are budgeted. 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 \$34.4 million, **an increase of \$1.5 million (4.5%) from the previous year adopted budget.** The majority of this increase is related to the new Measure O sales tax revenue rate offset by a decline in the existing sales tax base.

**Sales Tax:** Sales tax, the single largest revenue source for the General Fund, comprises approximately 32% 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 over 1,300 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 regional and national 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.

The General Fund expects to realize an additional \$1.7 million from the ¼ cent higher sales tax rate. However, offsetting this new revenue, the existing sales tax base is projected to decline 3% from the previous year due to the difficult economic climate for retail. Accordingly, the FY 10 budget of \$11.3 million is a net \$1.1 million (10.8%) higher than the adopted FY 09 budget. Because the economy is not expected to begin recovering until well into next year, future revenue increases are expected to be modest at best. In fact, revenue growth is projected at just 1% for FY 11 based on the latest information available from the City's sales tax consultant and recent trends. Beyond next year, the growth assumption ranges from 2.5-3.0% based on general improvement in the economy over the next several years.



Sales Tax Trends - General Fund

The graph above reflects actual sales tax performance for the past seven fiscal years and projected revenue through FY 14.

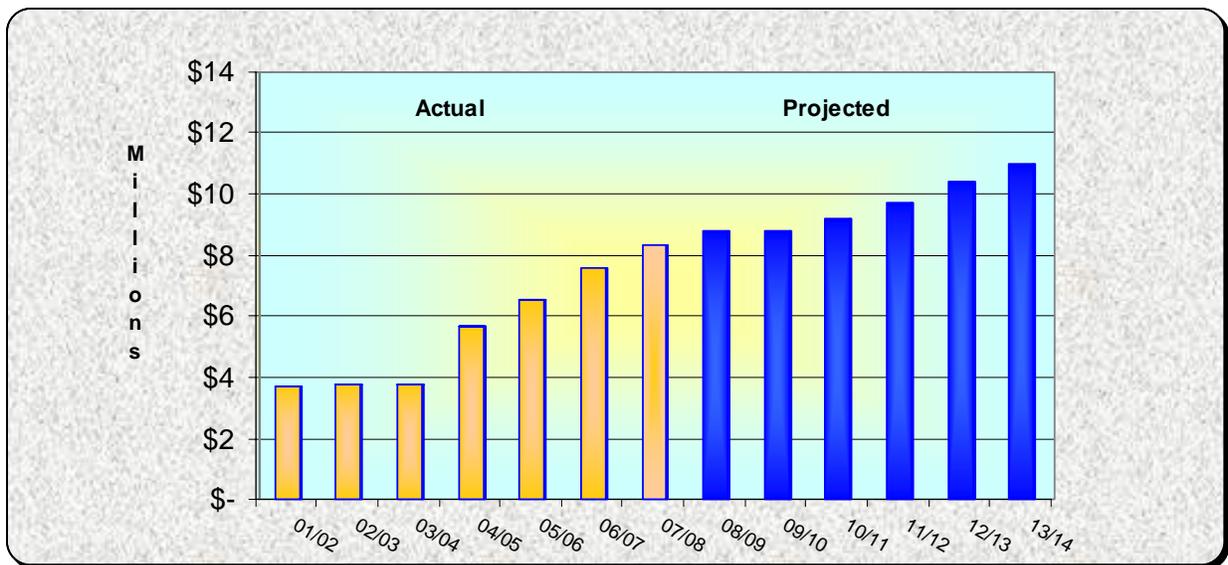
**Property Tax:** Property tax revenue is the second largest source of revenue to the General Fund, estimated at \$8.8 million or 25% of net operating revenue for FY 10. This is an increase of \$0.4 million (4%) from the previous fiscal year's adopted budget but essentially flat (0% growth) from estimated FY 09 revenues. This is due to the unprecedented decline in assessed values in parts of Silicon Valley. The County Assessor indicated negative County-wide growth has only occurred four times in the past 75 years, primarily during the years immediately following the Great Depression of 1929. Clearly, this is an anomaly to the usual positive growth which typically results from the general desirability of the region and the limited housing supply compared to overall demand. Despite the current difficulties experienced in the housing market, exacerbated by the financial credit markets meltdown that caused a constriction in mortgage lending, it is expected that housing in the Silicon Valley will rebound over a relatively short period of time once these troubled markets are resolved.

Beginning in fiscal year 1993, and continuing for the past fifteen years, the City has cumulatively lost in excess of \$15 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 \$1.5 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. As discussed, although projected to have no growth next year, future projections anticipate a return of modest growth over the next several years.

**Property Tax Trend – General Fund**

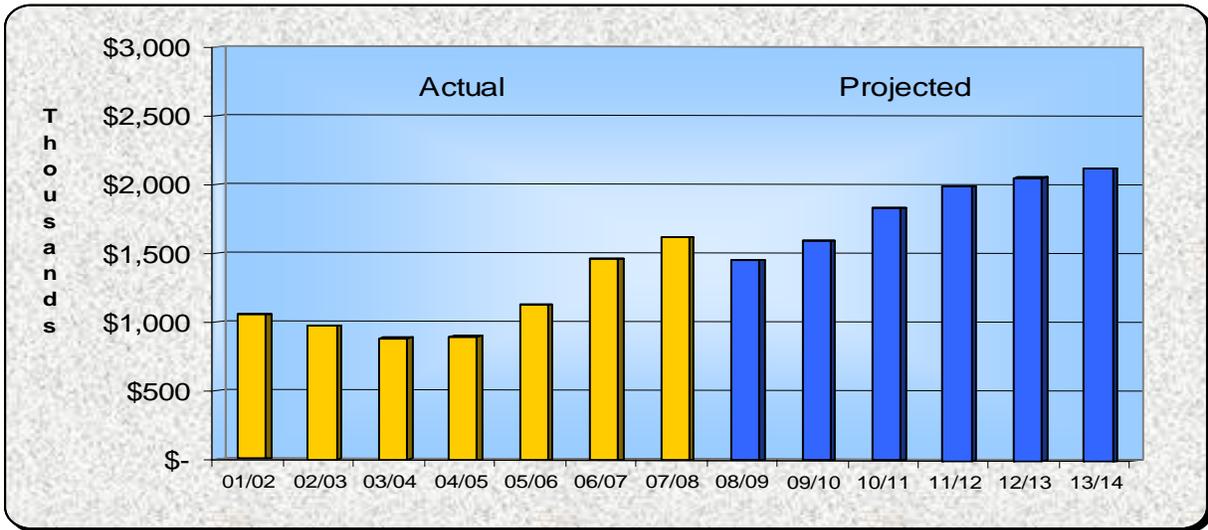


**Transient Occupancy Tax:** This tax, more commonly referred to as hotel/motel tax, or simply TOT, is derived from a 10% tax that is applied to the room rates of the City's hotels/motels. TOT revenue for FY 10 is budgeted at \$1.6 million, reflecting no increase from the previous year's adopted budget and a \$0.2 million increase from the revised FY 09 projections. The expected increase is due to a new 162 room hotel that is currently being constructed and is expected to open mid-way through FY 10. Otherwise, a decrease in existing hotel/motel revenue is anticipated due to the impact of the economy on travel budgets. Occupancy levels are projected to be lower significantly from FY 09, as are room rates, on existing hotels/motels 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 65-85%, however, the most recent two quarters indicate revenues will be down from recent years for at least the next year.

The following chart depicts historical activity and projections for current and future years. The projections also include the anticipated revenues from the new hotel.

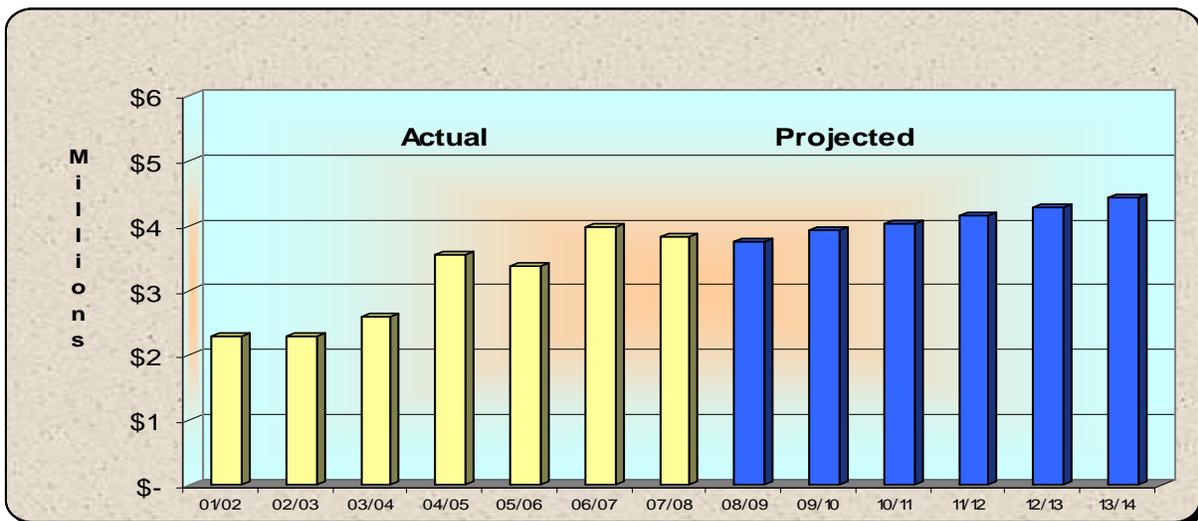
**Transient Occupancy Tax (TOT) Trend – General Fund**



**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 \$3.9 million for the General Fund during FY 10, an increase of 5.4% 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:

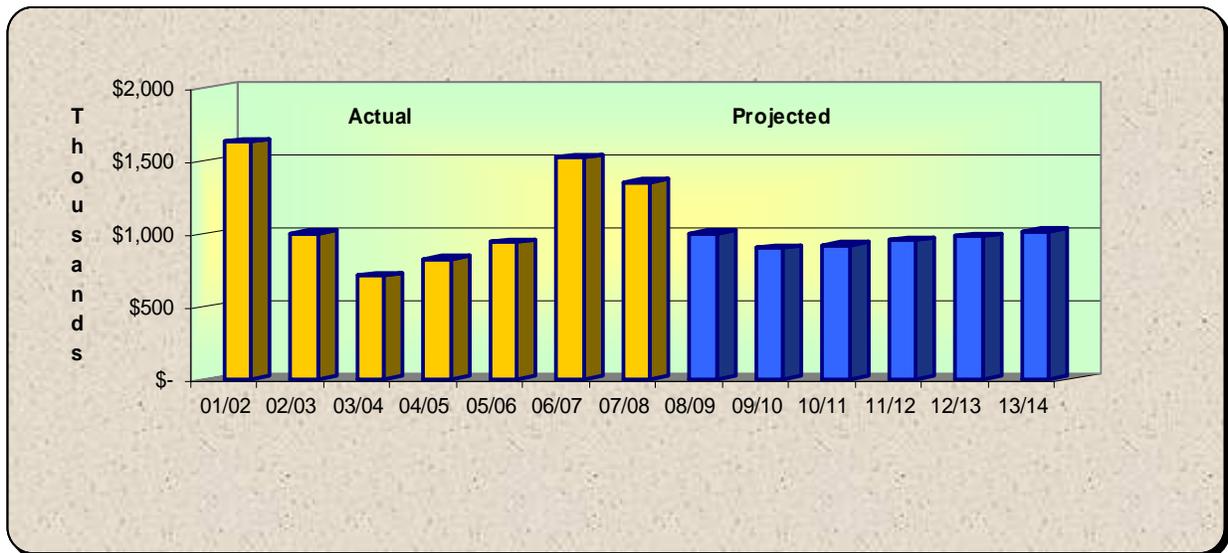
**Charges for Services Trend – General Fund**



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.

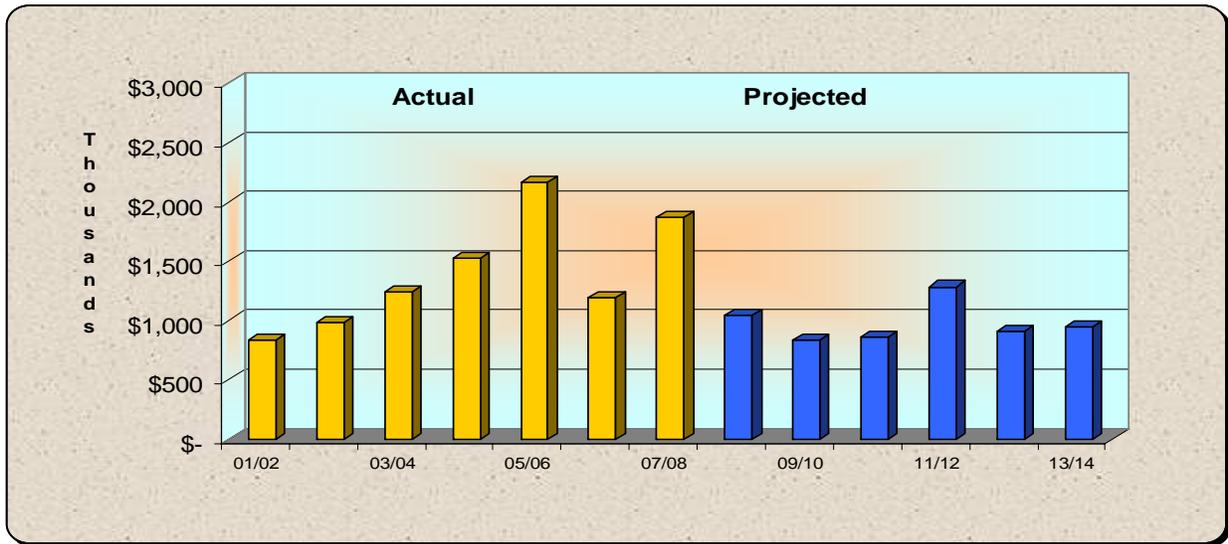
**Investment Income:** Investment income comprises approximately 2.6% of General Fund net operating revenue and is estimated to be \$0.9 million for FY 10, a decrease of \$0.3 million or 25% from the previous year's adopted budget and a 10% reduction from the revised FY 09 projections. Investment earnings are expected to decrease due to the Federal Reserve Bank keeping short-term interest rates low in order to counteract the recessionary impact of the sluggish economy. Average interest rate yields are expected to be lower in FY 10 than they were in FY 09 which, in turn, was down from FY 08. For example, in May 2009, the yield from the City's Local Agency Investment Fund is expected to be around 1.5% compared to 3.07% in May 2008. 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 Division 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 10 revenues are \$0.84 million compared with \$1.0 million budgeted in FY 09, a reduction of 18%. 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 shown significant growth for several years, recent years have declined considerably and future projections indicate construction activity will be limited due to overall economic conditions and waiting until new housing and commercial construction demand returns. A bump is projected in FY 12 assuming one of the major entitled, but not yet built, projects gets underway.

## 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 in FY 10 is projected to be approximately the same as in FY 09 at \$1.4 million, representing approximately 4.1% 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. However, it is expected that due to the severity of the economy, occupancy levels may decline modestly while leasing rents may also have to be negotiated downward. 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 \$2.4 million for FY 10. This is an increase of \$0.2 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 \$1.3 million, representing reimbursements from other funds for services provided by the General Fund, and reserves of \$1.2 million that are used to fund operating expenditures including approximately \$0.5 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 other funds is contained within the budget and which 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 10 are \$5.4 million, down \$0.2 million from the previous year due to decreased operating transfers-in from other funds.

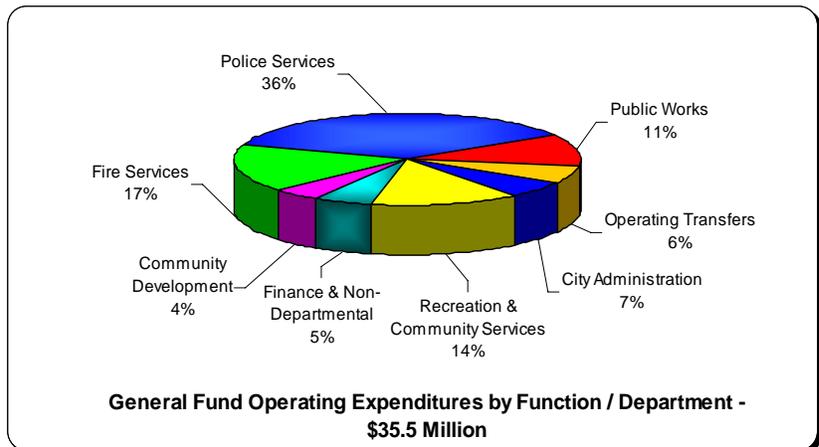
**Debt Service Funds** are incorporated within the budget due to various bond covenant requirements. Local Improvement District (LID) revenue comes from the County of Santa Clara via property tax levies assessed against the properties that received the specific improvements. Certificates of Participation (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 10 are \$1.7 million. The RDA Debt Service funding sources for FY 10 are \$6.1 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 10 are \$2.8 million, down \$0.4 million from the previous year. The majority of this decrease is due to reduced charges for the Workers' Compensation fund which benefited from lower claims expense during the past year.

## **EXPENDITURES**

As previously noted, the FY 10 budget is comprised of operating and capital expenditures for both the City and the Redevelopment Agency totaling \$58.2 million. City operating expenditures total \$45.2 million, and RDA operating expenditures total \$8.1 million for a combined total of \$53.3 million.

The General Fund comprises approximately 67% of total City and Redevelopment Agency operating expenditures. Other City funds comprise 18%, and RDA makes up the balance at 15% of the total. **Operating expenditures in the General Fund are budgeted at \$35.5 million, which is 0.2% less than the FY 09 adopted budget.** This is net of a \$0.5 million increase in the City's fire contract.



**Employee Services:** Staffing resources are an integral part of the City's annual budget. Page 12 of this budget ("City and Community Information" tab) captures the currently frozen/unfunded positions for the City which total more than 10% of the workforce. The current number of budgeted permanent positions proposed in FY 10 is 157, down one from FY 09.

There is just one staffing change and one position title change being made from FY 09. The previous Redevelopment Manager was appointed to the position of Community Development Director. The effect was to move partial funding for the position from the General Fund to the RDA. The RDA Manager position was concurrently frozen/defunded as it is not expected to be filled. The estimated impact of this structural reorganization is a total savings to the City of approximately \$150,000 in salaries and related benefits. The title of the Principal Planner has been changed to Planning Manager.

**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 46% of the total budget and 58% of the General Fund. This number is relatively low compared to many other cities because fire personnel are provided by contract with the County, so do not show up as City personnel costs. For FY 10, salaries and benefits in the operating budget total \$24.3 million for all City funds, which is a \$0.4 million (1.6%) decrease from the previous fiscal year. The largest contributing factor to the overall decrease was a successful renegotiation with

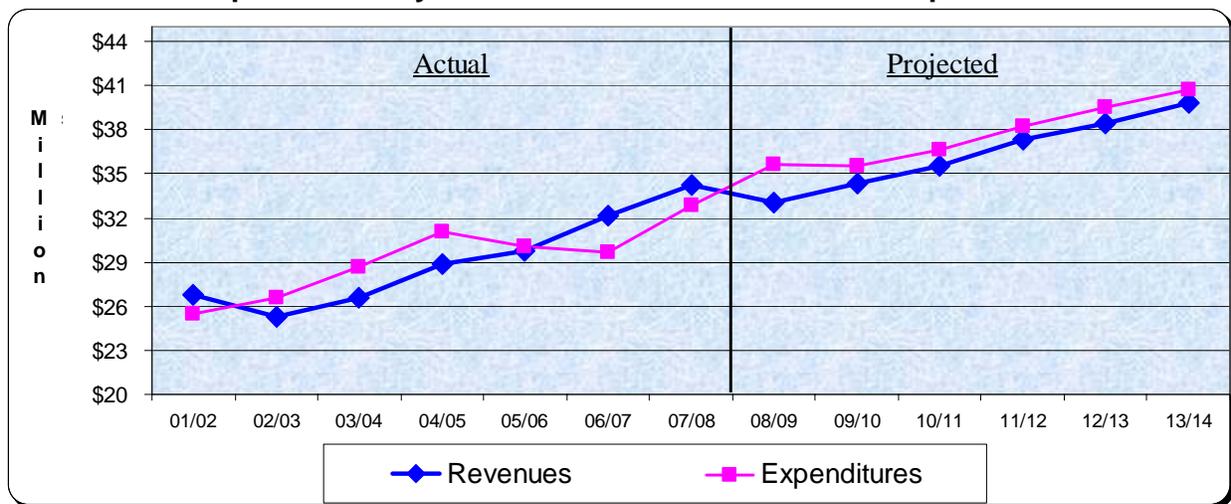
City labor groups of previously agreed to salary increases, which significantly reduced scheduled salary and benefit increases for at least one year, thereby, improving the City's budget situation by approximately \$500,000.

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 some budgetary savings. The FY 10 budget and fiscal forecast continue this budgetary strategy; however, because the majority of employees are at or near top step already, the savings are expected to be modest. There is no increase in the top of the salary range for department heads in the FY 10 budget, and neither the City Manager nor the City Attorney is taking a salary increase.

### **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 declined sharply following a peak in FY 01 after the "dot-com" era. Subsequently, increased costs combined with the lower revenues to create several years of budget deficits. Two years of significant expenditure cutbacks coupled with a slight growth in revenues brought back the budget into a surplus. However, this did not last long as the economy faltered once again, this time even more severely while at the same time the City's fire services contract saw a 35% increase over 3 years creating several years of projected deficits once again. The City will need to continue finding ways to limit expenditure growth while seeking new sources of revenue. 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 20% of the revenue is set aside for affordable housing. 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 10 totals \$8.3 million, which is a \$0.6 million (7.8%) increase from the previous fiscal year's adopted budget. Operating expenditures is \$8.1 million, a \$1.4 million (21%) increase from the previous fiscal year's adopted budget. The majority of the increase is attributable to appropriations to acquire property for a multi-unit housing project with a not-for-profit entity. Additional cost increases are due to higher expected tax-sharing payments to various recipients of property tax pass-through payments. For future years, revenue projections utilize an average inflation factor of 3%, which takes into consideration the maximum annual increase in assessed value plus a percent for new construction or changes of ownership resulting in reappraisals. Expenditures are projected utilizing a modest inflationary factor.

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

The primary funding source for these funds is user charges. City and RDA program budgets contain line items for charges from the various pool funds. Included in these charges to other City departments or programs are the pro-rata share of the cost of operations of the particular fund in addition to a replacement cost factor whenever physical assets such as vehicles and computers belong to the fund. As operating or replacement costs change or as asset inventories grow, the corresponding changes are reflected in the charges to the user departments. For FY 10, revenues and expenditures in these funds total \$2.7 and \$2.6 million, respectively. Expenditures are \$0.5 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 10 are projected to be \$1.4 million, an increase of 1% over the previous year's adopted budget. In FY 10, approximately \$0.3 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 2.5% for revenues and 1.5% for 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 10, the operating revenues and expenditures total \$2.7 million. This includes operating transfers-in of \$0.9 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 1.5%.

**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 10 are \$0.86 million, the same as the previous fiscal year's adopted budget. Future years' costs are based on inflationary increases approximating 2.5%.

## **ECONOMIC AND FISCAL ISSUES FACING THE CITY**

Since December, 2007 the nation has been in a recession with no clear timeframe for recovery. This has been a major source of **revenue instability** resulting from several causes: 1) the prolonged economic weakness which has eroded consumers' ability to make retail purchases, 2) the hit being taken by numerous key City revenues such as development revenue, transient occupancy taxes and investment income, and 3) **State of California-imposed ERAF (Educational Revenue Augmentation Fund) 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 fuel and energy costs, as well as contractual obligations such as fire services, 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 came back in FY 09 and are projected for FY 10 and beyond even with the City's new ¼ cent sales tax. The City will have to explore additional strategies to close the budget gap.

The California and San Francisco Bay Area economies slowed considerably during FY 09 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. Still, the average house price in Santa Clara County for January, 2009 was \$611,000 compared to \$882,000 a year earlier. The labor market in California lost some 544,000 jobs between April, 2008 and April, 2009 (3.2% decrease). During this same period of time, the local region, comprising Silicon Valley and Santa Clara County, lost 39,800 jobs (4.3% decrease) which highlights the significant changes that have occurred since last year.

The unemployment rate is also an important economic statistic as to the state of the economy in general. As of April 2009, the State seasonally adjusted unemployment rate was 11% compared to 6.2% the prior year. For Santa Clara County, the unadjusted rate was 10.8%, higher than last year's April rate of 5.1%. Campbell has historically trended better than both the County and the State in its unemployment rate. In fact, as of April 2009, Campbell's unemployment rate was 9.3%, unadjusted, compared to 4.3% 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 emergency medical response services** to the community. A new 5-year contract was renegotiated effective FY 09, increasing the City's cost for these services by almost \$1 million (20%). In FY 10, the cost escalates by 8.5% followed by a 7% increase in FY 11. Although such increases were largely the result of the City receiving favorable rates during the previous contract term, absorbing the cost increases during these economically challenging times has proven a difficult task and has contributed to the current deficit.

**Growth and new development** within the City pose continuing 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. Four such projects have been approved but not yet built due to the harsh economy. 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. While the existing sales tax base is expected to see a decline of 3% due to the weak economy, the City's passage of Measure O, a ¼ cent increase in the sales tax rate, will result in an additional \$1.7 million resulting in a net increase in this revenue source beginning in FY 10.

FY 10 will see reduced levels of residential and commercial development due to the economic slowdown which has hampered construction activity. However, the City is preparing itself to address the overall impacts on the community of future development projects 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. The City's practices qualified it as a certified "Green" organization, and it is committed to further exploring 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. Based on an actuarial valuation, the City is committed to pre-funding its obligation for providing retired employees health benefits and has budgeted \$250,000 in FY 10 to partially fund this obligation.

**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. With the departure of three senior staff during the past year, the City has been able to do organizational restructuring to realize savings where feasible.

Another ongoing challenge is the need to maintain the City's **infrastructure, particularly its streets and sidewalks**. More than \$18 million dollars have been invested in the City's street infrastructure over the past 12 fiscal years, and work will continue into FY 10 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. The City received \$0.6 million in Stimulus funds from the Federal government that will be utilized for street maintenance. However, much more is needed to adequately maintain the infrastructure at current levels.

The City also has a significant amount of other **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 approximately \$1.7 million of annual lifecycle and maintenance needs that were identified as not being adequately met. Consequently, the City will be unable to initiate

or complete these projects until such time as additional 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. Additionally, the City's technology infrastructure is aging and many components are reaching end of life. With limited resources available for capital replacements as well as operating budgets, due to the tough economic environment, equipment is being stretched to maximum life-cycle expectancy and bumping up against capacity issues. The City's Technology Master Plan is being revised in the context of revisiting technology expectations in light of the limited funding resources.

### **FISCAL 10 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 7<sup>th</sup>. 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 09 SIGNIFICANT ACCOMPLISHMENTS**

Despite the ongoing constraints of the budget and lower number of employees, the City was able to realize numerous significant 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, 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.

Performance outcomes and productivity indicators, which track and report work input and related outcomes, were revised from the previous format during FY 08. 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 from FY 08 and the first six months of FY 09 are reported in the FY 10 budget. 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 updated by the City Council in FY 09. 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.

## **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. For this year's budget development process, two study sessions were held, the first on April 7<sup>th</sup> followed by a second study session on May 4<sup>th</sup>.

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 16<sup>th</sup> 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 10 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 12<sup>th</sup> 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 10 operating and capital budget was challenging to develop due to the unprecedented fiscal environment we face. Nonetheless, it is balanced and preserves service levels, but only with the use of reserves, specifically almost \$0.5 million in Economic Fluctuations Reserve. Looking ahead, it is evident that the City will continue to face 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.

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 Terpkko, Executive Assistant, Mark Gaeta and Sophie Kao, Accountants, deserve recognition for their dedication and hard work in coordinating, developing, and publishing this budget document. I would like to acknowledge Jesse Takahashi, Finance Director, for his efforts and leadership throughout the entire budget process. Finally, I would like to express my appreciation to all Campbell employees, who came together and made significant sacrifices to help control the City's budget deficit. I am proud to work with such a dedicated and collaborative group of professionals.

Respectfully submitted,

  
Daniel Rich  
City Manager

**FY 09 SIGNIFICANT ACCOMPLISHMENTS**

**City Council:**

- Reviewed and updated Statement of Values.

**City Manager's Department:**

- Provided public information and objective analysis regarding Measure O.
- Oversaw development of City's ADA Transition Plan update.
- Oversaw implementation of City's "green" policies, practices and education.
- Completed orientations for Council candidates and new Council members.
- Explored and provided recommendations to City Council on staffing alternatives and options related to funding a Museum Director, Environmental Coordinator and overall Police Department staffing.
- Coordinated the November 4, 2008 General Municipal Election.
- Completed review and update of Campbell Municipal Code Title 2.
- Participated in transition of new banking services contract.
- Monitored compliance of AB1234 – Ethics training for elected and appointed officials.
- Conducted 7 recruitments in a timely manner.
- Initiated review of existing Volunteer Services Program.
- Conducted negotiations with Millmen & Industrial Carpenters (MIC).
- Began use of electronic records management system.
- Provided sexual harassment training to all employees.
- Conducted management classification study.
- Reviewed and revised Employee Recognition Program.
- Conducted classification audits for requested positions.
- Revised City job announcements format.
- Conducted Interest Based Bargaining training with labor groups.
- Became a participant of the Employer Support of the Guard and Reserve (ESGR).
- Participated in Regional County Internship Program.
- Began to explore and evaluate an internal employee development program.
- Re-negotiated terms of existing MOU's with POA, CMEA, and CPCEA.

**Recreation & Community Services:**

- Reorganization of department in progress:
  - Building Maintenance moved to Public Works Department at mid-year.
  - Management of leasing operations and Downtown Special Events moved to Redevelopment Division.
- Completed survey of comparable facilities for facility rental rate comparisons.
- Maintained tenant occupancy rate of 99% in down economy.
- Initiated the Ainsley House History Detectives Education Program.
- Collections Specialist funded by Council's special appropriation accessioned 1,000 donated items into the Museum's collection and properly preserved them for storage or display.
- Marketing Specialist funded by Council's special appropriation created two new brochures, designated four new marketing opportunities for the Museum and completed a Marketing Plan for the Museum to use as a guide for future marketing and enhancement of community visibility.
- Participation on the project team for the design and use of Stojanovich Park.
- Initiated the process for the update of the Museum Strategic Plan.
- Exceeded goal (\$60,000) for Season Sponsorships by \$12,000.
- Added new concept of co-promoted shows (Late Night Catechism and Defending the Caveman) resulting in \$22,876 net profit to the City.
- Re-organized accounting so that third-party ticket sales go into a refundable deposit account.
- Conducted the first annual Oktoberfest 5K Run which drew 276 participants and provided a net profit of \$2,800.
- The Valentine 10K Fun Run/5K Walk drew the most participants ever with 790, resulting in \$12,600 net profit to the City.
- Women's Basketball Leagues exceeded target of participants by 116 (766 participants).
- Secured a donation of fitness equipment valued at over \$20,000 for the Weight Room at the Community Center thereby deferring the purchase or replacement equipment.
- Increased (by 25 swimmers) and maintained Campbell Wave Youth Swim Team participants to an average of 150 swimmers per month without significant increase in staffing cost.
- Toddler Programs – Kindergarten Prep classes filled for the first time with 20 participants all school year.
- Teen Programs – An Extreme Teen Camp program for ages 13-15 was implemented as part of the Summer Day Camp program and 200 teens participated.

**Finance:**

- Implemented new Citywide ¼ cent sales tax resulting from the passage of Measure O.
- Completed the implementation of the Government Accounting Standards Board Statement No. 45 for Other Post Employment Benefits (OPEB).
- Initiated and completed the changeover to a new banking services provider for the City's depository accounts.
- Implemented a new 5-year contract for compliance and financial auditing services with a new CPA firm.
- Completed an update of the City's Financial Policies.
- Completed a Technology Assessment of the City's information technology resources in preparation for updating the City's Technology Master Plan.
- Working with the Building Division, implemented necessary changes to issue basic permits over the internet (on-line permitting).
- Working with the Building Division, identified and implemented a solution to digitally scan old Building Permit microfilm records for inclusion in the City's Laserfiche Repository.
- Converted telephone service to CALNET II Contract, resulting in lower annual expenses.
- Created Real Simple Syndication (RSS) Feeds for the Agendas & Minutes of meetings of the City Council, Boards and Commissions.
- Created a Secure Socket Layer Virtual Private Network Solutions for remote access to the City's Data Network, providing alternative work options for employees in the event of a disaster or pandemic.
- Implemented a low-cost solution for electronic storage of older digitized maps & plans.
- Identified, installed, and configured an enhanced level of security for the City's computing infrastructure with no out-of-pocket cost.
- Replaced an outdated Interactive Voice Response Service (IVR) used for scheduling of Building Inspections.
- Researched and identified the feasibility of partnering with Santa Clara County to utilize its existing Geographical Information System.
- Assisted the City Manager's Department with implementation of the AT&T U-Verse service for Channel 26.

**Community Development:**

- Prepared draft Housing Element Update for State review.
- Completed East Campbell Avenue Master Plan (with Public Works).
- Completed Winchester Boulevard Master Plan (with Public Works).
- Updated Historic Preservation Ordinance.

**Community Development - Continued:**

- Amended Zoning Code regarding sexually oriented businesses, smoking establishments and expressive activities.
- Processed the Mixed Use Development application for the redevelopment of the Riverside Shopping Center.
- Participated in Green initiatives.
- Implementation of a new Inspection request system to replace the old Interactive Voice Response system for more efficient customer service.
- Participated in the final testing of the new Tidemark Module that will allow us to issue basic permits on-line.

**Legal:**

- Prepared and/or reviewed amendments to nineteen chapters of the Municipal Code, including regulations of Sexually Oriented Businesses, Smoking Lounges, and City Administration.
- Prepared lien provisions for Deferred Improvement Agreement.
- Prepared or reviewed documents for Measure O.
- Successfully defended Planning Commission decision in writ proceedings.

**Public Safety:**

- Implemented a Graffiti Tracking System that will allow us to share graffiti crime information with other county agencies.
- Initiated shared Court Liaison Services with Los Gatos resulting in significant savings.
- Completed installation of a grant funded radio tower/microwave system and simultaneously upgraded the Public Works and Police Departments' radio networks.
- Implemented a program, following staff research and input from a City Council Study Session, to help alleviate day laborer related issues in the community.
- Investigated several major branches of local and prison gangs resulting in numerous criminal indictments and extensive criminal sentences for gang members.
- Reviewed and presented a report related to alcohol-related problems in the downtown area during special events.

**Public Works:**

- Developed Energy Efficiency and Conservation strategy and submitted grant application for ARRA funding.
- Collaborated with County of Santa Clara on construction of San Tomas Expressway/Hamilton Avenue traffic and landscaping improvements.

**Public Works – Continued:**

- Designed and constructed a new traffic signal at Hamilton/Phoenix.
- Completed Pollard/Abbot Lighted Crosswalk Improvement project in conjunction with Los Gatos.
- Submitted successful grant applications for Campbell Avenue Portals Project; Pollard Road Bicycle Lanes, and Campbell/Leigh Traffic Signal.
- Completed design of Campbell Veterans Memorial.
- Winchester Boulevard Master Plan was completed and approved by the City Council.
- Adopted Winchester Boulevard Underground Utility District.
- Approved Public Art for East Campbell Avenue Improvement Project.
- Approved Orchard City Banquet Hall Final Conceptual Design and Project Scope.
- Presented options for reconstruction of Hacienda Avenue.
- Initiated design process for Stojanovich Family Park.
- Completed Civic Center East Master Plan.
- Prepared Plans and Specifications and awarded contracts for resurfacing of Bascom Avenue (ARRA) and Leigh Avenue (Prop 1B).
- Completed design and installation of 14 sidewalk accessibility ramps.
- Completed a comprehensive update of the City's pavement condition.
- Established new roadway impact fee for construction permits and solid waste collection vehicles.
- Executed construction inspection agreement with West Valley Sanitation District.
- Resurfaced the Campbell Park basketball courts.
- Prepared specifications bid and awarded new custodial contract for City buildings and park restrooms.
- Completed pool repairs and corridor roofing projects at the Campbell Community Center.

**Redevelopment Agency:**

- Developed new banners for the downtown district and City gateway entry points.
- Initiated the AB1290 Implementation Plan update process.
- Due diligence completed for evaluating changing out the Downtown Street Tree Lights to LED.
- Managed the process for the adoption of the Downtown Alcohol Beverage Policy.
- Secured approvals and established conditions for acquiring 511-555 W. Campbell Avenue for future housing site.

**FINANCIAL POLICIES**

**Revenue Policies:** The development and maintenance of balanced and reliable revenue streams will be the primary revenue objective 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 major revenue categories will be projected on a five-year basis. 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 that improves the City's ability to handle fluctuations in individual sources. Revenues from "one-time" or limited duration revenue sources will not be used for ongoing operating expenses. Fees and charges for services will be evaluated and, if necessary, adjusted annually to assure that they generate sufficient revenues to meet service delivery costs. The City will establish user charges at a level generally related to the full cost (operating, direct, indirect, and capital costs) of providing the service, unless Council determines that a subsidy from the General Fund is in the public interest. The City will also consider market rates and charges levied by other municipalities of similar size for like services in establishing rates, fees, and charges. Enterprise and Internal Service Funds will be self-supporting.

**Expenditure and Budget Policies:** Major expenditure categories 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 City will operate on a current funding basis. Expenditures will be budgeted and controlled so as not to exceed current revenues plus the planned use of any accumulated fund balances. The City will take corrective action at mid-year when expenditure and revenue projections are such that an operating deficit is projected at fiscal year end. Corrective action may include the use of contingency reserves. The City will establish a purchasing policy that specifies the thresholds and scope of purchasing authorizations required.

Annual budgeted operating expenditures shall not exceed annual operating revenues, including budgeted use of reserves. At least one budget study session will be held annually prior to the introduction of the budget to the City Council. The City Manager shall prepare and submit to the City Council annually a proposed operating and capital budget by June 1<sup>st</sup> of each year, and the budget will be adopted by June 30 of each year. A mid-year budget status report will be presented to the City Council no later than February of each year. Budget adjustments within the adopted budget of less than \$10,000, or requiring a transfer from reserves of less than \$5,000, may be approved by the City Manager; otherwise, City Council approval is required.

Budget status reports are 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.

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**Reserve Policies:** The City's financial policies mandate the levels at which reserves shall be maintained. The **General Fund 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 **Economic Fluctuations Reserve** shall 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 \$4 million, or the City's five-year financial projections indicate the reserve will fall below this 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 reserves at fiscal year-end, shall be applied to this reserve.

A reserve shall be maintained sufficient to cover 50% of **outstanding 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 Insurance Reserve** will be maintained at a level deemed adequate to meet projected liabilities. This level may be determined by an actuarial evaluation or derived from estimates provided by the City's third party risk pool provider, 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. Lastly, 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.

**Capital Improvement Policies:** A five-year Capital Improvement Plan shall be approved on an annual basis with first year projects adopted in conjunction with the operating budget. 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

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to the approval of any capital improvement project. Equipment replacement and maintenance shall be projected and funded throughout its useful life. The annual capital improvement budget shall only include those projects which funding source is reasonably assured and can be started within the fiscal year indicated.

The capitalization threshold used in determining if a given piece of equipment qualifies for capitalization is \$5,000 per item with a useful life of greater than two years. Groups of items with individual values of less than \$5,000 each will not be capitalized unless the items are purchased by an internal service fund and are anticipated to be replaced in the aggregate. Adequate insurance will be maintained on all capital assets. A periodic replacement cost evaluation will be performed to insure that coverage limits are reasonable. The capitalization threshold used in determining if an improvement, building or other asset acquisition for infrastructure qualifies for capitalization is \$100,000 with a useful life of greater than two years.

**Cash Management Policies:** The City's administrative procedure governing investments shall be updated and approved by the City Council annually. Investments will be made in accordance with the separately adopted investment policy. A complete report on the City's investment portfolio shall be presented to the City Council monthly. 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.

The City will seek local, state and federal grant funding opportunities to secure funding for both operating and capital projects. Any grants provided to other agencies/organizations by the City will contain sufficient control elements to ensure their consistent use within specified guidelines and requirements. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. The City will establish a fraud policy that will aid in the detection and prevention of fraud as it applies to cash management as well as any impropriety in the handling of other financial transactions.

**Accounting Policies:** The City's financial records will be audited annually by a reputable independent certified public accounting firm. An annual financial report shall be prepared each year within six (6) months of the close of the previous fiscal year and reviewed with the City Council Finance Committee and the City Council consistent with the requirements of Statement on Auditing Standards 112 and 114.

Operating budget revenue and expenditure status reports will be prepared monthly and distributed to all department directors so that they may effectively and continuously evaluate their financial performance in a timely manner.

The auditor's annual Written Communication on Internal Control Structure will be reviewed with the City Council Finance Committee by the audit firm for a recommendation to the City Council consistent with the requirements of Statement on Auditing Standards 112. Financial records and reporting will be maintained in accordance with Generally Accepted Accounting Principles (GAAP) and the requirements of the Governmental Accounting Standards Board (GASB) and the GFOA. Full and continuing disclosure will be provided in annual financial statements and in bond representations. 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

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Excellence in Financial Reporting from the Government Finance Officers Association (G.F.O.A.).

The City will solicit an RFP for audit services no less frequently than every five (5) years. Additionally, an audit firm may be retained for a maximum of 2 consecutive five-year terms. The Council Finance Committee, City Manager, and Finance Director will review the qualifications of prospective firms and make a recommendation to the City Council.

**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.

The City will restrict long-term borrowing to the funding of capital improvement projects and equipment. The term of debt shall not exceed the expected useful life of the capital improvement project or equipment. General obligation debt will not exceed 3.75% of the City's assessed value in accordance with State law. Where possible, the City will use special assessment, revenue, or other self-funding debt instead of general obligation bonds.

The City will maintain good communications with bond rating agencies about its financial condition. The City will use refunding techniques where appropriate to allow for the restructuring of its current outstanding debt to remove or change restrictive covenants, and/or to reduce annual debt service in an amount sufficient to justify the costs of refunding/re-issuance. The City may use short-term debt to cover temporary or emergency cash flow shortages. All such short-term borrowing will be subject to Council approval.

The City may issue inter-fund loans in lieu of outside debt instruments to meet short-term cash flow needs. Loans will be permitted only if excess funds are available. The prevailing interest rate on such loans will be established by the Finance Director. All terms of such loan including, but not limited to, the principal amount, interest rate and duration will be subject to Council approval and must be documented by Memorandum.