



# City of Gilroy

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**Thomas J. Haglund**  
CITY ADMINISTRATOR

DATE: May 2, 2011

**Subject: Transmittal of Annual Budget for Fiscal Years 2012 and 2013**

Honorable Mayor Pinheiro, Members of the City Council and Citizens of Gilroy:

I am pleased to present to you the City of Gilroy's biennial budget which is wholly balanced with general fund revenues slightly exceeding expenditures in each fiscal year. The budget also fully achieves the City Council's reserve policy goals by securing an unrestricted general fund reserve of 25% of expenditures as well as an economic stability reserve of 15% of general fund expenditures. Combined the budget achieves a reserve of 40% of general fund expenditures.

As this budget attests, the City is recovering from the Great Recession and the market crash of the fall of 2008 that led to an unprecedented number of foreclosures and plummeting real estate values which equated to less property tax for the City. Due to the reduced access to credit and the uncertainty of the timing of an improvement in economic conditions, residential and commercial development came to a halt in the City causing the City to fall short of its budgeted general fund revenue in planning, building and engineering.

The City took proactive and aggressive steps to reduce its expenditures over the past few years as a result of the decrease in general fund revenue. The reductions to the City's funds included the following: (1) personnel reduction of 48 full-time positions and numerous part-time positions and elimination of 23 vacant positions for a total of 71 position eliminations; (2) employee concessions; (3) elimination of most materials and services and (4) cancellation, deferment or reduction of projects.

During FY 11 the City has rebounded and saw four quarters of consistent sales tax growth during calendar year 2010. By the end of FY 13, the City projects that it will have recovered over 40% of the sales tax loss since FY 07. To the benefit of the City's financial position, during FY 11, the City lost less in property tax than budgeted; however the County is continuing its reassessment of property tax valuations. The City anticipated a drop in property tax revenue but it was not as significant as predicted, helping the City's budget.

As a service organization, the City's primary expenditures are related to the provision of the services that our community expects and deserves. In this way we distinguish ourselves as a municipal corporation to be differentiated from a private corporation. Our City, like all local agencies, continues to face the ongoing challenge of how to provide a consistent level of service with rising costs and limited sources and types of revenue to pay for those costs. One primary factor leading to an increase in cost for the upcoming budget cycle is the City's contribution to its

retirement system, Public Employees' Retirement System (PERS). The City has made significant cost reductions in PERS as a result of employee concession agreements, including the public safety units taking on the employee portion of their retirement cost, consistent with the other employee unit contributions that have occurred since 2002 (miscellaneous/supervisory units, managers and department heads). The City has made great efforts to limit its long term exposure to increased payroll and benefits costs that have been underway since the early part of this new century. The City does nonetheless, pay increased employer contributions to PERS as a result of the previous economic collapse. Since 2010, PERS has earned double digit investment gains, but continues to recover from its significant investments losses during the national economic collapse.

In FY 08 the City began a tremendous reevaluation of its month to month and year to year budget management. The city has exceeded its budget savings goals and has diligently managed each of its cost centers. By limiting expenditures to necessary items, the City has been able to provide a consistent level of services to the community in a financially sustainable manner. This allowed the City to limit its deficit in economically challenging years and accrue a surplus savings in better years that can be carried forward to the next operating year.

The City has been successful in obtaining numerous grants to assist with both operations and capital projects. The amount of the American Recovery and Reinvestment Act (ARRA) or stimulus funds awarded to the City of Gilroy in recent years totaled approximately \$2.3 million, consisting primarily of the COPS grant (\$1.2 million) and the stimulus sidewalk grants (\$600K). The COPS grant provides for the hiring of 3 positions for 3 years. Other grants awarded in recent years totaled approximately \$18.8 million primarily for capital projects (trails and other improvements), home loan and housing assistance, as well as fire and other police personnel support. The SAFER (Staffing for Adequate Fire and Emergency Response) grant awarded the City with funding for six fire personnel, totaling up to \$2.3 million.

The improvement in the City's general fund revenue aligns with the contractual end to furloughs effective July 1, 2011, which will reinstate City Hall hours to Monday through Friday of each week. While the impact to the community of the City Hall closures was temporary and generally minimal, the expanded hours will be beneficial for the citizens and for the business generated by residential and commercial development.

California's and the nation's economy are also in the process of rebounding. The State is working on its budget for the upcoming fiscal year, determining how to approach its shortfall. The passage of Proposition 22, as further discussed below, provides for added protection for revenues at the local level. The State is severely limited in what it can do to raid local revenues. In January, California's jobless rate was 12.4% and the February non-seasonally adjusted unemployment rate in Santa Clara County was 10.3%. The Bay Area's general economy is expected to recover quicker than other regions as a result of its high-tech and electronics industries.

At the Federal level, for all of last year, the economy grew 2.8% percent, the most in five years. The recent Federal Reserve's survey of economic conditions noted that hiring was firming and business in most regions planned to increase hiring. Retailers across all regions experienced better-than-expected sales after a strong holiday shopping season, and factories boosted production, with demand growing for cars and high-tech equipment. In addition, businesses said they no longer fear there will be a double-dip recession. Construction spending at the federal

level fell and unemployment remains high. However, the Federal Reserve's view is that the "economic recovery is on firmer footing and the jobs market is improving gradually."

### **Operating Budget Summary**

Attached you will find the proposed budget for Fiscal Years 2012 and 2013 (FY 12 and FY 13) containing budgeted operational revenues and expenditures for each of the City's funds. The total combined budget for FY 12 and FY 13 is \$112.9 million and \$85.1 million, respectively. These overall budget totals include a general fund budget in FY 12 of \$37.2 million, representing an increase of 10.1% over FY 11. The FY 13 general fund budget of \$37.6 million, represents an increase of 1.0% over FY 12.

### **Capital Improvement Budget Summary**

The CIB provides the roadmap of programs and projects to be undertaken in Gilroy over the coming 6 year period and provides the statutory projection of capital projects for the biennial budget period. The upcoming capital expenditures are minimal and the City is only moving forward with grant-funded or mandatory projects. The CIB has been reviewed by the Planning Commission and was recommended for approval to the City Council on April 7, 2011.

### **South County Regional Water Authority (SCRWA)**

Also included in the Council's packet is the SCRWA budget. The SCRWA is a joint powers authority of the cities of Gilroy and Morgan Hill. Formed in 1992 the Authority serves both cities treating approximately 2.4 - 2.6 billion gallons of wastewater and producing 600-650 million gallons of recycled wastewater each year for use in landscaping, agricultural, industrial and other applications. The budget represents the operating and capital requirements of SCRWA for FY 12 and FY 13. The SCRWA Board reviewed the proposed budget on April 12, 2011 and will consider it for adoption on May 10, 2011.

### **Two Year (Biennial) Budget**

This two year budget offers the City Council the ability to provide for more systematic long range planning over the budget term, achieve efficiencies in the second year of the budget by relieving staff of the budget preparation process to instead focus on validation efforts for the second year of the budget and other worthwhile projects. The two year budget also demonstrates a commitment to operate the City over the long term with the goal of mitigating deficit spending to the greatest extent possible while genuinely pursuing a balanced budget.

Included in the budget are programmatic details including each division's primary goals and objectives with performance and benchmarking measures that help in defining both the scope of operations of the City, but also measuring performance in pursuit of efficiencies and discovery of new and improved methods of operation. The budget document highlights the goals and objectives of the City's divisions including an identification of productivity and benchmarking measures that will test the performance of operations and serve as a guide for future decisions relative to the City's operational and capital needs. Included in the goals and objectives developed for the coming years are efforts to address the City Council's top priorities which are:

1. Provide for public safety through crime prevention, enforcement of laws and life safety services
2. Offer recreation for citizens to celebrate life and community through people, parks and programs
3. Provide quality city services including community development, public works, water and sewer services, finance and administration efficiently for the benefit of the community
4. Maintain sustainable financial structure and promote economic development
5. Ensure building safety and preservation through enforcement of regulations and modern building standards
6. Serve as a model of environmental stewardship
7. Provide transparency in City's operations through open governance

Below is a summary of each of the significant funds that account for the City's operational revenues and expenditures.

**GENERAL FUND**

The General Fund accounts for all resources except for those where a separate fund is necessary for legal or administrative purposes. This fund includes the City's general purpose services that relate to public safety, community services, community development, finance and administration.

**General Fund Balance**

Summary of General Fund (100) projections for FY 12 and FY 13:

	FY 12	FY 13
Revenues	37,198,923	37,442,609
Accumulated Annual Savings	427,981	427,981
Expenditures	(37,247,631)	(37,622,773)
Operating Income	379,273	247,817
Beginning Fund Balance	21,353,959	20,505,251
Less Accumulated Annual Savings	(427,981)	(427,981)
Less Reserves for Capital Outlay	(800,000)	(800,000)
Beginning Fund Balance	20,125,978	19,277,270
Projected Ending Fund Balance	20,505,251	19,525,087
Economic Stability Reserve	5,587,145	5,643,416
Minimum General Fund Reserve	9,311,908	9,405,693
Remaining Unrestricted Fund Balance	5,606,199	4,475,978

**General Fund Reserves**

In May 2010, City Council adopted a new general fund reserve policy of retaining a general fund reserve equal to 25% of annual general fund expenditures, or now approximately \$9.3 million. In

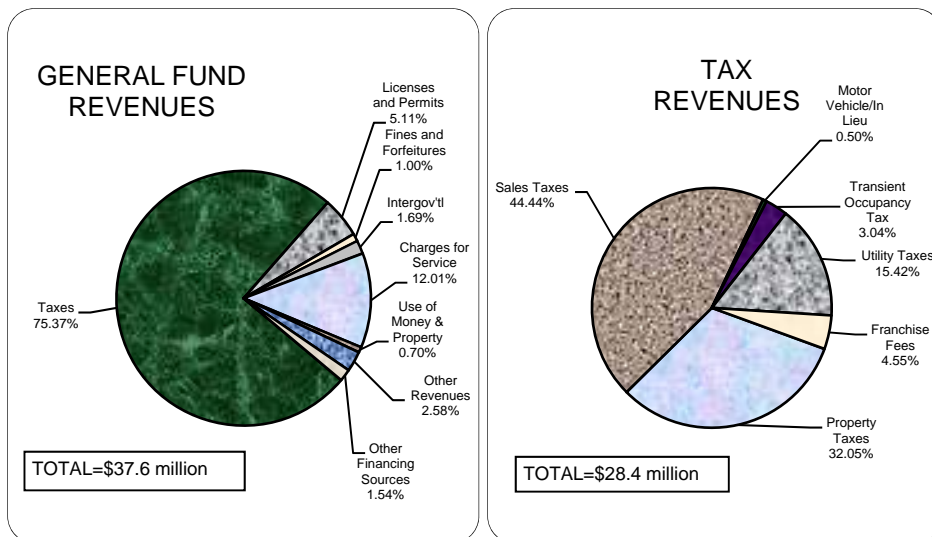
addition, Council adopted the establishment of a separate economic stability reserve that is used only for limited purposes, at 15% of general fund expenditures, or now approximately \$5.5 million. The City also retains a remainder unrestricted fund balance of approximately \$5.9 million, or approximately 40% in addition to the general fund reserve accounts.

The City’s general fund balance is substantial and the City continues to meet and exceed its minimum general fund reserve levels (25% general fund reserve and 15% economic stability reserve).The City’s minimum reserve is established a 25% of annual general fund expenditures. The City can consider establishing a minimum reserve based on dollar value. This dollar value threshold would be relevant if the City’s general fund expenditures reduced over time and the calculated minimum percentage led to a decrease in the minimum reserve (for example \$30 million in annual general fund expenditures would only require a \$7.5 million general fund reserve rather than the \$9.3 million reserve for FY 12).

As the City has more than the required level of reserves, \$1.2 million in each of FY 12 and FY 13, from the unrestricted fund balance or accumulated annual savings, will be used for capital outlay reserve, economic incentives and to provide a hedge against any unanticipated revenue or expense fluctuations in FY 12 and 13. This total amount of approximately \$2.5 million represents the surplus, or accumulated annual savings, from FY 10. In the prior year, economic incentives transfers from the general fund to the impact funds and funding the replacement reserves for its Fleet, Equipment Outlay and Information Technology funds were deferred. In FY 12 and FY 13 such transfers will recommence to make the impact funds whole for the previously granted incentives and to build capital reserves for future projects.

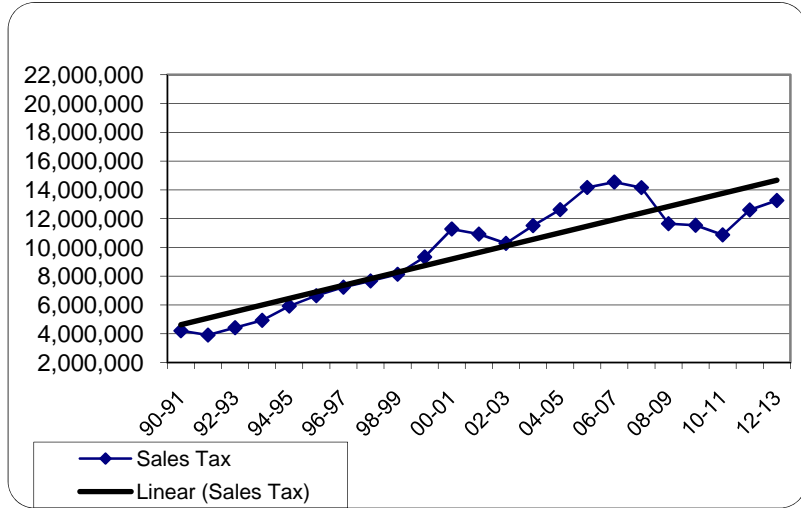
**General Fund Revenues**

The primary revenues in the general fund include sales tax, property tax, utility users’ taxes, charges for services, franchise fees and licenses and permits. Of these revenues, sales tax and property tax were the most adversely impacted by the economic downturn but began rebounding in FY 11. Below is a breakdown of the City’s general fund revenues, as well each tax source within the general fund.



## Sales Tax

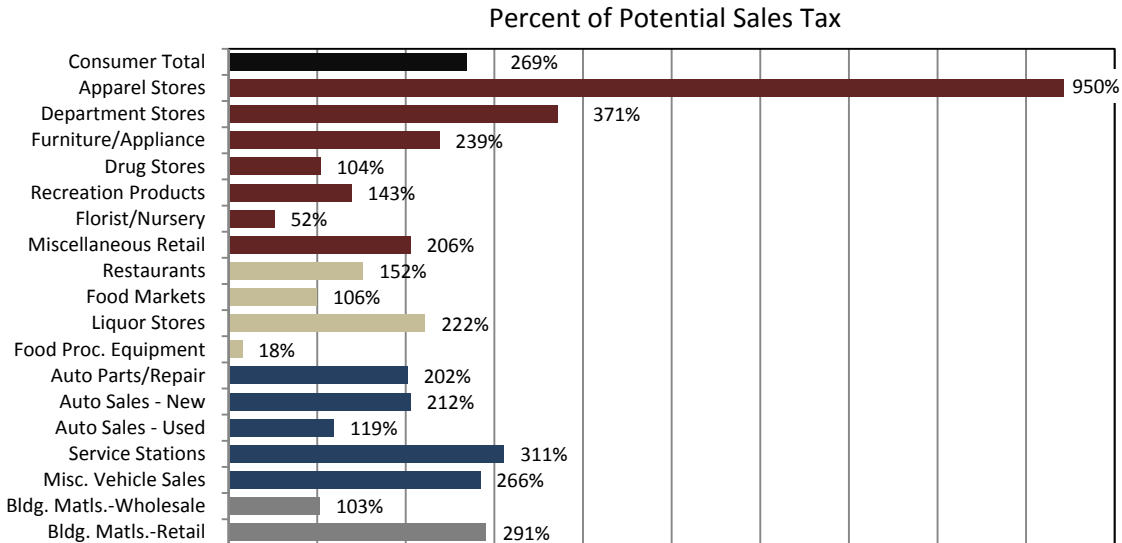
Sales tax receipts for FY 12 are anticipated to total \$12.6 million, up from FY 10 actual receipts of \$11.5 million and an updated projection for FY 11 of \$12.2 million. Actual sales tax receipts in FY 1991 through FY 2010, as well as projections for FY 2011 through 2013 are adjacent.



The favorable FY 10 sales tax receipts compared to budget receipts indicated glimmers of increased consumer confidence that is continuing into FY 11 and

will continue into FY 12 and FY 13. In April 2011, the City received the results of sales tax receipts for the quarter ended December 31, 2010. The sales tax receipts were 7.4% higher than the same quarter of the prior year as compared to the state-wide average of 1.9%. Gilroy’s results indicate the City’s favorable economic rebound as a result of its strong sales tax base.

Gilroy’s sales tax figures infer that the City’s strong retail base as a regional destination for shopping has survived the recession. Indeed, Gilroy has successfully positioned itself as a regional draw for retail shopping and as a sales tax “capture” community in that the City’s sales tax receipts are more than 260% per capita. The chart below demonstrates the strength of Gilroy’s sales tax capture. Percent of Potential Sales Tax: Less than 100% indicates leakage and more than 100% indicates capture based on disposable income in Santa Clara County.



Source: Muni Services 2011, 4<sup>th</sup> Quarter 2010 Results

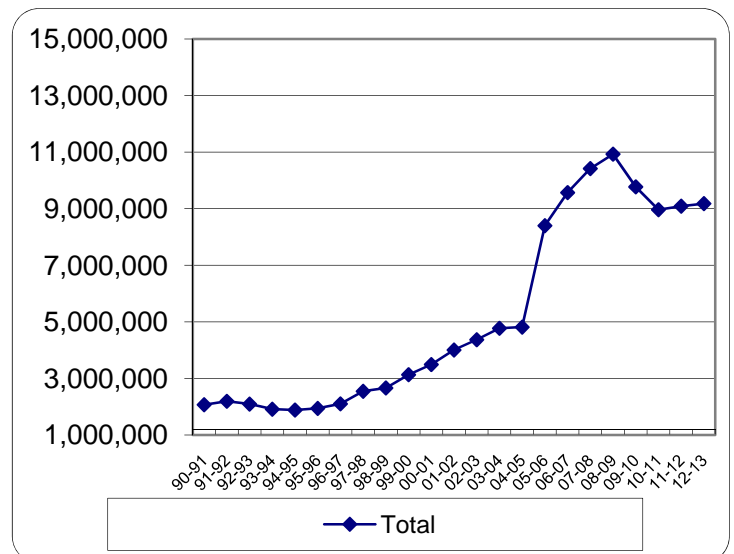
Actual sales tax receipts are received in arrears of the recently concluded quarter. The largest gains for the City of Gilroy included light industry and apparel stores. The largest declines were in business services and wholesale building materials. While service station sales are driving current growth in local sales tax, the industry’s ongoing volatility will continue to affect local sales tax fluctuations. The City anticipates receiving the reconciliation for the sales tax receipts for the quarter ended March 31, 2011 in July 2011.

The City works closely with MuniServices in analyzing historical sales tax data and projecting future tax revenue. For California as a whole, MuniServices expects general retail to grow between 3.5% and 4.5% through FY 2015. While service station sales are driving current growth in local sales tax, the industry’s ongoing volatility will continue to affect local sales tax fluctuations. Construction will continue its drop during FY 2011 by 5.0 to 10.0% before growing by 2.5% per year through FY 2013 and eventually rebounding through FY 2015. Food products, which include restaurants and supermarkets, should grow with core CPI of 2.4% per year with price pressures upward of 3.5% into FY 2014 and FY 2015. Auto sales will remain flat during the first half of FY 2011 until pent up demand causes buyers, who will be seeking lower-priced vehicles, to increase purchases during FY 2012 and 2013 by 3.0% to 5.0%. County Pool receipts will follow the auto sales trends as third-party vehicle sales resume along with overall car sales volume. The above assumptions are built into the City’s sales tax and are adjusted for any new or departing business and any Gilroy specific factors.

Property Tax

Growth in real estate development benefited the City previously by leading to a rapidly increasing assessed property tax valuation, which fell over the last few years as a result of the deteriorated national economic conditions that have contributed to a significant decline in development. For the 2009-2010 and 2010-2011 assessment rolls there were 3,505 and 4,944 properties, respectively, in Gilroy with temporary declines. This represented an assessed value decline of \$863.5 million and \$1.1 billion, respectively. Much of this was a result of the County proactively reducing property values. These temporary declines in values represented a reduction of approximately \$864K and \$1.1 million, respectively, to the City’s property tax revenue in FY 10 and FY 11.

However, in FY 11, the City is seeing a slight increase in receipts and anticipates slight growth in the next two years. The projected property tax revenue for FY 12 and FY 13 of \$9.1 million and \$9.2 million respectively, is consistent with FY 11 budgeted revenue of \$9.0 million. Actual property tax receipts in FY 1991 through FY 2010, as well as projections for FY 2011 through FY 2013 are shown adjacent.



On February 1, 2011 the Santa Clara County Assessor's Office informed local jurisdictions that the California Consumer Price Index (CCPI) that will be applied to property values for the 2011/2012 roll is 0.753%. This is an indication that overall property values are projected to increase slightly in the upcoming fiscal year. The CCPI for the 2010/2011 roll was (0.237) %; this was the first time that the CCPI was negative. Proposition 13 provides that the assessed value of all real property cannot increase by more than two percent annually, unless there is a change of ownership or new construction. Since Proposition 13 passed by the voters in 1978, the CCPI has exceeded the two percent limit in all but six years.

In November 2010, Proposition 22 passed in California. This proposition reduces the State's authority over property taxes and any redistribution or use by the State during financial hardship. Also, Vehicle License fees cannot be used to reimburse local governments for new programs. As a result, the State is messaging that more money will be available to local governments for transportation and redevelopment programs. The resulting impact should be better known after the adoption of the State's FY 12 budget.

### Utility Users' Tax

The City receives utility users' tax from several sources: PG&E, steam, gas and electric, phone, wireless phone and cable television. The City's budgeted utility users' tax for FY 12 and FY 13 of \$4.4 million and \$4.5 million, respectively, is down from the FY 11 budget of \$4.7 million. During the past few years, actual receipts have been lower than budgeted as a result of lower utility rates primarily attributable to a fall in natural gas prices.

### Building, Engineering and Planning Fees

During FY 11, the City had unanticipated development and saw a corresponding increase in fee revenue. Building, engineering, planning and hazmat fees budgeted for FY 12 and FY 13 are \$3.9 million in each of FY 12 and FY 13, up from FY 11 budget of \$1.4 million and revenue through March 31, 2011 of \$1.7 million. The Community Development and Public Works Departments conducted extensive surveys of anticipated developer activity and compared this data against approved projects in establishing the revenue projections for FY 12 and 13. This data squares with the on-the-ground activities the City is witnessing in various sectors of the City. None-the-less, the City is taking a cautious and conservative approach to its forecasts for development activity revenue.

### Interest

In FY 12 and FY 13, City funds are anticipated to continue to receive a reduced allocation of interest compared to the past few prior years as a result of the decrease in interest rates and reserves. The City's investment portfolio consists of Federal agency bonds, as well as deposits in LAIF. The daily return on LAIF funds has quickly decreased over the last several months as the Federal government has lowered interest rates. The rate of return on LAIF as of July 1, 2008 was approximately 2.86% and the rate of return is currently approximately 0.43%. The City's Federal agency bonds have higher stated interest rates, but many are callable by the issuer. As each of the

call dates approach, the issuers call the bonds as the stated interest rates are much higher than market interest rates. The City generally reinvests the called bonds into replacement bonds.

### Proposition 26

In November 2010, Proposition 26 passed in California. This proposition requires that any changes or additions in local fees be approved by a two-thirds vote and is aimed at fees that are actually disguised taxes. As a result, there are many exemptions to this new measure. This includes exemptions for charges for services or products or privileges that are of benefit or granted directly to the payor, regulatory costs, entrance or use or purchase of government property, fees charged for property development, assessments and any other property related fees (so long as costs are reasonable) as well as any fines, penalties or other monetary charges imposed for code violations, late fees, or violations, ordinances, etc. As a result, there is expected to be little or no impact on the City of Gilroy at this time. If the City determines that an increase is needed to one of its taxes, voter approval would be required.

### State Budget Issues

The City continues to monitor the State's proposals for future budgets and report any impacts; the primary areas that may impact the City are discussed herein. One of the programs that may be reduced is the realignment funding, also known as the Regional Auto Theft Task Force funding currently at \$65K annually. Another area of funding that is at risk to the City is the Citizens Option for Public Safety (COPS)/Supplemental Law Enforcement Services Fund (SLEFS) funding of \$100,000 per year, which currently supplements sworn personnel in the ACT team. In addition, if there are no booking fees appropriated by the State, the City would have to pay the County of Santa Clara for its bookings into the County jail again. The financial impact of this item is between \$70,000 and \$80,000 per year. The proposed budget adequately anticipates such possibilities and has built-in adequate funding as a hedge against these potential, yet limited, State actions. Fortunately, the wisdom of California voters in passing Proposition 22, and Proposition 1A before it, has greatly reduced the State's ability to inappropriately divert local funding.

### General Fund Expenditures

The primary uses of general fund expenditures are personnel-related (salaries and benefits) and materials and services.

One of the primary components of the City's personnel expenditures is the contribution to the City's pension program, PERS. PERS is an agent multiple-employer public employee defined benefit pension plan and provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

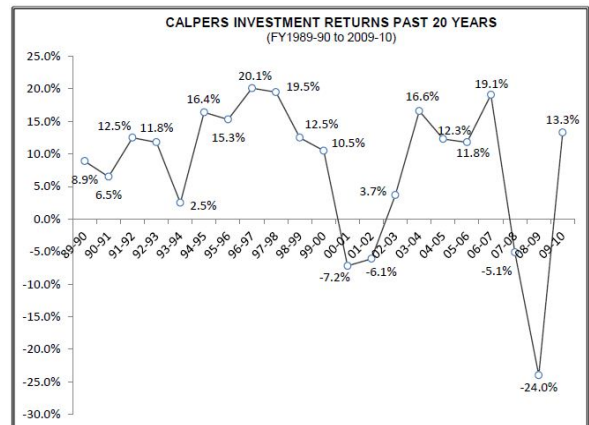
In June 2007, the City completed an analysis of its unfunded pension liability for the Safety and Miscellaneous Plans and calculated the probability of success of pension obligation bonds and determine the optimum size of a bond deal. The estimated actuarial liability for the City's safety units (police and fire) was estimated at \$17.7 million and the actuarial liability for the City's non-

safety employees was estimated at \$7.9 million. Due to the projection that the liability would decrease over time and eventually be fully funded, the City decided to not issue pension obligation bonds, but instead commenced a CalPERS Fresh Start for both of its plans to amortize the liability over thirty years. The current liabilities are approximately \$22.7 million for the Safety Plan and \$12.4 million for the Miscellaneous Plan (based on PERS October 2010 actuarial valuation data as of June 30, 2009).

The current PERS employer contribution rate current and the rates for the next two fiscal years are as follows:

Employee Group	FY 11 Employer Contribution Rate	FY 12 Employer Contribution Rate	FY 13 Estimated Employer Contribution Rate
Safety (Police and Fire)	25.326%	30.109%	31.3%
Non-Safety (miscellaneous ee's)	13.04%	17.546%	18.8%

Due to the economic crisis, the assets of PERS were affected. The resulting investment losses are passed on to PERS agencies through increased employer rates. The employer rates were not impacted by the FY 09 investment losses until FY 12. In an effort to ease the financial burden of future rate increases the PERS Board approved a revised rate smoothing policy given the current economic conditions. The policy smooths the pension fund's losses over a longer period to allow for a recovery and to lessen the impact on public employer rates. The City's unfunded liability has increased as result of the investment losses.



Also impacting the rising cost of providing service is the increasing cost of medical benefits. The budget includes a 5% annual increase cap with employees paying the premium increase cost over that amount. The budgeted expenditures also assume increased gasoline cost over the two-year period. This budget assumes a consistent staffing level from the prior budget cycle, plus the addition of a full-time Planning Manager to meet the needs of the current and projected level of development activity, and the budget also includes the conversion of a recreation supervisor position into two recreation coordinator positions. The recreation positions changes complete the reorganization of these positions.

Below are a highlight of some of certain programs and projects requiring general fund expenditures that are in furtherance of the City Council goals and objectives discussed above.

Police

The City's Police Department will continue its primary goal of providing law enforcement protection to our citizens. In addition, the department will focus its efforts on developing

anti-graffiti strategies, combating graffiti and addressing homeless issues. Proactive and preventative patrol remain a constant goal of the police department as is responsiveness to calls for service. During the next budget cycle the department will focus in on specific areas of council interest including the reorganization of the City's gang task force and the development of broader gang mitigation strategies. The department, in concert with the Public Works Department, will also direct resources to combat graffiti throughout the community and research potential legislation to require a scrap metal registration process. The Police and Community Development Departments will also help to provide guidance to local homelessness advocates working to establish a broader response to homelessness in the community. These are ongoing workload efforts that have been evident for many years, but that still require our participation.

The Police Department budget includes necessary resources for the department to meet its statutory training regimen for sworn and non-sworn personnel. Training is a hallmark of a professional department and is necessary to ensure that personnel have the tools and techniques necessary for response to the varying incidents encountered in the field. The Police Department continues to participate in region wide task forces developing advanced communication capabilities throughout Santa Clara County and the broader Bay Area. These will include the conversion of the department's analog radio frequency network to federally mandated *narrow banded* digital frequencies. The Police Department will also continue to utilize its crime stats software to actively track and respond to crime incidents throughout the community. The department's crime analytics are updated daily allowing the department to brief each work shift regarding recent types and locations of criminal activity and allowing the department to quickly focus on and react to crime trends as they are occurring.

The Police Department budget also includes the conversion of a sergeant position into a captain position. The budgetary expense is minor, but the impact of this conversion is significant. Since the economic downturn, the Police Department has relied on a command staff of just three personnel, down from an active compliment of four and a planned compliment of five. The department needs at least three captains to effectively manage the span of control of the department and provide the proper support and assistance to field personnel. This change was effected in the second half of FY 11 and remains a part of the new biennial budget. The department's budget also maintains the newly staffed traffic unit. The traffic unit was expanded from one officer to three in FY 11 as a result of the department's successful application for an Office of Traffic Safety (OTS) grant that funded one new traffic officer and the required capital equipment (motorcycle, etc.). The new biennial budget absorbs the cost of that personnel increase after the OTS grant concludes. Additionally, the biennial budget appropriately plans for the continuance of three police officer positions added as a result of the department's successful 2009 federal stimulus grant application. The grant terms require the City to continue the grant funded positions for at least one year after the three year term of the grant. The City's financial picture provides for the ability to continue to fund these positions.

## Community Development

The Community Development Department, along with the support of other departments, will prioritize downtown vitality, including exploring an unreinforced masonry (URM) and Façade Financing Program, as well as reviewing the advantages of initiating a National Main Street Program. The City will also develop a streamlined development application process and an economic development strategic plan. The Community Development Department was one of the hardest hit during the economic downturn losing 17 full-time employees. The biennial budget notes the City Council approved changes to the departmental organizational structure in FY 11, in which the engineering division was removed from the Community Development Department and combined with the operations division of the former Community Services Department to recreate the Public Works Department. Under this new structure the Community Development Department consists of the planning; building, life, and environmental safety; housing; and code enforcement divisions. The planning division has consisted of a part-time manager, part-time planner and one full-time planner since March of 2009. Based on increased development activity it is time to hire a full-time planning manager to provide management oversight and workload capacity to the division. The budget includes the reestablishment of this position in the biennial budget. The Community Development Department's various divisions will continue providing planning related services for development applications with the expanded planning manager position, but will also rely on part time planner assistance to stay on top of work load. This is a prudent approach and will provide the management capability to remain flexible and responsive to the desired increase in development activity. The code enforcement division will continue to respond to complaints from the community for enforcement of the City's codes. The department will also continue its efforts to provide hazardous materials inspection services in protection of the South County Regional Wastewater Authority (SCRWA) plant. These inspection services are provided to the cities of Gilroy and Morgan Hill and are paid through the SCRWA.

## Public Works

As noted above, the City realigned the internal organization combining several divisions into a Public Works Department. These actions create a cohesive alignment of similarly situated divisions that work to both design, build and then maintain the City's water, sewer, storm drain, streets, sidewalk, park, landscape, forest and related infrastructure. During the term of the biennial budget the City is focusing resources on the High Speed Rail, including conducting an engagement and planning process for the High Speed Train station, performing reviews of High Speed Rail Authority (HSRA) studies and reports pertaining to Gilroy, making a recommendation regarding the alignment location and continuing its cooperative engagement of Morgan Hill/Gilroy officials with the HSRA. Included in the budget is \$100K and \$75K in FY 12 and FY 13, respectively, of City funded expenditures related to the above. In addition, the City anticipates receiving state, Santa Clara Valley Transportation Authority and federal funding totaling \$475K in FY 12 for station area planning. The Public Works Department substantially prepares and recommends the City's capital budget to the City Council. That budget is discussed later in this message.

## Recreation

The biennial budget envisions the continuation of creative, fun and healthy activities for Gilroy residents. The Recreation Department is separated into its own departmental structure and concentrates on the provision of programs and services to the community. The department will continue to support the City's youth and senior center programming. Additionally, the department embarked on the development of neighborhood based non-traditional recreation programming in FY 11 and will continue those efforts over the next two years. Recreation serves as a central point of our efforts to engage in community building with a focus on extending the reach of our recreation programming in positive ways and on a neighborhood level to enhance the livability of Gilroy. The central notion of community building is to use our combined community resources – those of the City apparatus as well as those of independent organizations – to enhance involvement opportunities for our residents. Doing so creates a stronger community fabric and will assist the community in addressing and solving the less desirable aspects of urban living. Community building is successful if it is approached on a “building block” basis in which the guiding principles of wide spread organizational involvement lead to a progressive, year by year commitment by community partners to become engaged in providing opportunity for resident involvement in defining life activities in our City.

## Fire

The Fire Department serves as the City's emergency management agency establishing the City's coordinated response efforts to emergencies of major significance. The department organizes and conducts monthly training for city-wide personnel responsible for responding to and staffing the City's emergency operations center (EOC). The training is an important step in ensuring preparedness for an eventual City response to a manmade or natural disaster. Federal and State reimbursement for City expense in such instances depends on the proper administration of the EOC functions and actions in an emergency. The department will continue to provide City-wide and inter-jurisdictional training opportunities to prepare City staff for large scale mass casualty events. The Fire Department will also coordinate Gilroy's participation in the citizen emergency response training (CERT) program in which interested residents are recruited to be trained to respond to mass emergency situations. Citizen involvement is an integral part of any community's response to disaster.

The Fire Department also serves as the Santa Clara County-wide integrated first responder to calls for emergency medical services. Santa Clara County policy dictates that fire agencies serve as first responders to medical calls for service prior to arrival of ambulance transportation to area wide hospitals. The biennial budget acknowledges the Fire Department's role in providing life sustaining paramedic services to the Gilroy community. Significant cost reductions have occurred in the Fire Department over the term of the FY 10 and 11 biennial budget. The department secured a two year SAFER grant that funds up to six fire fighters for the two year period, ending December 31, 2012. These positions are not identified to continue at the conclusion of the grant term. Vacancies, if any, in the permanent staffing compliment of the Fire Department will be filled by conversion of the grant funded positions to permanent service in order of hire date. The Fire Department will continue to provide fire inspection services on a

multi-year rotating basis. Such inspections serve as a cornerstone measure of fire and loss prevention.

### Administration

This section broadly highlights the Finance, Human Resources/Risk Management and Administration Departments. The Finance Department provides accounts receivable, accounts payable, general accounting, purchasing, payroll, utility billing, budget analysis, and capital project financial oversight to the entirety of the City operation. The department also serves as the fiscal agent for the South County Regional Wastewater Authority (SCRWA). In concert with the Public Works Department, Finance will conduct a water and sewer rate study for presentation to the City Council. The planned expansion of the SCRWA to accommodate growth within the context of the existing General Plan will necessitate consideration of a rate structure to support that effort. As a result of the city-wide organizational restructuring the Finance Director took on the administrative oversight of the Information Technology division and managing the City's technological infrastructure.

The Human Resources/Risk Management Department provides services to the City's workforce and oversees risk management efforts for both the workforce and City infrastructure generally. Over the course of the past year as the City's economic situation has improved the department has been busy filling vacancies created in police and fire departments as a result of receipt of federal stimulus grant funding as well as in all departments through the creation of vacancies of the current staffing compliment. Recruitment and retention of employees that are well trained and capable of delivering services to the community is important to the quality and continuity of those services. The Human Resources Department oversees labor relations processes for the City and will begin labor negotiations with various of the City's labor units in each of FY 12 and FY 13. The department also administers the City's safety program ensuring that both facilities and work procedures are safe, effective and employees are well trained. A well trained workforce significantly mitigates against both worker and citizen injury. As a result of the city-wide organizational restructuring the Human Resources/Risk Management Director took on two additional divisions, fleet and facilities, and provides overall administrative direction to those areas of the City's operation managing millions in City assets.

The City Clerk's Office provides services within the organizational structure to the City Council, City Administrator, the various departments, and the general public. The City Clerk's office manages the records archiving of the City and also receives and responds to requests for public records, including the establishment of a master index of City-wide records pursuant to the Gilroy Open Government Ordinance. The clerk serves as the local elections official and consolidates the City's election with the election services provided by the Santa Clara County Registrar of Voters.

The City Administrator's office is responsible for the administrative management of the City operation including the preparation of the biennial budget. The administrator works with the City Council to develop goals and objectives for the organization which are then addressed in this budget document. The City focuses on active economic development efforts in cooperation with

local partners to bring increased economic activity and opportunity to the City. The City's public information office coordinates the televised broadcast of City Council meetings, the dissemination of the City's quarterly newsletter to citizens, the development of materials and presentations that provide information relative to and that further the successful implementation of City programs and projects. The budget increases funding to several outside agencies that work with the City. In the previous budget the City contributions to the Gilroy Visitors Bureau (GVB) and Gilroy Economic Development Corporation were reduced by 20% in response to severe economic recession. The proposed budget restores original funding levels to the GVB at \$200,000 in each fiscal year. The proposed budget increases funding to the Gilroy Economic Development Corporation to \$160,000, an increase of \$40,000 (or 33%) beyond the pre-economic downturn contribution of \$120,000.

### **SPECIAL REVENUE FUNDS**

The 200 series of funds are Special Revenue Funds that account for revenue sources that are restricted for specific purposes (other than those resources to be expended solely for the construction of major capital facilities). Below is a discussion of the significant special revenue funds with operational budgeted revenues or expenditures. The capital expenditures for these funds are discussed in the CIB section below.

248- State Block Grant - This is a one-time block grant to acquire equipment and provide education to reduce crime and improve public safety. The City anticipates receiving and spending \$100K in both FY 12 and FY 13 unless the State's budget does not appropriate such funding.

250 - BEGIN Downpayment Assistance Program - The purpose of this program is to assist homebuyers with downpayment assistance consistent with State of California BEGIN program funding guidelines for the purchase of their first home. The City anticipates spending state grant funding of \$1.4 million in FY 12.

252 – Residential Development Loan Program – The purpose of this program is to provide construction loan funding to the South County Housing Alexander Place phase of the Cannery Redevelopment project to encourage the development of affordable housing adjacent to the downtown district to encourage revitalization of the area. The City anticipates lending state grant funding of \$1.5 million in FY 12 possibly twice, assuming repayment of existing outstanding loan funding.

253- Proposition 172 Sales Tax - Funds are received from State sales tax and must be used for public safety activities. In FY 12 and FY 13, \$150K and \$153K, respectively is anticipated to be received.

259- Housing Trust – Funds are used for a variety of housing assistance activities including loans and grants to benefit low income housing. Revenue for each of FY 12 and FY 13 is projected at \$1.0 million and \$1.7 million. Expenditures are projected at \$1.8 million and \$2.0 million for FY 12 and FY 13, respectively.

265- Regional Auto Theft Task Force - State funds are disbursed to the County. The County then disburses the funds to the City (\$65K in FY 12 and FY 13). These funds contribution to a portion of a Gilroy police officer's salary assigned to the Countywide Auto Theft Task Force.

290- Recreation – This fund tracks the activities of the Recreation Department. In FY 12 and FY 13, the City projects a subsidy from the general fund of \$1.7 million and \$1.8 million, respectively.

## **CAPITAL FUNDS**

The 400 series are capital funds and are discussed below in the CIB section.

## **DEBT SERVICE FUNDS**

The 500 series are debt service funds that account for resources accumulated for the payment of debt principal and interest (other than that for proprietary fund debt). The City has funds to track each of its assessment districts. The revenue source for these funds is property tax collections. The City also accounts for the debt service on its public facilities debt (lease revenue bonds and bond anticipation notes) in this series of funds.

## **INTERNAL SERVICE FUNDS**

The 600 series are Internal Service Funds and are a proprietary fund type to account for goods or services provided to other departments of the City where the intent of the City is that the costs of these goods or services are to be recovered through interdepartmental charges at the time that the goods are delivered or the services are rendered to those departments. Since resources are limited, very few purchases will be made over the next few years. Below is an overview of the internal service funds with operational expenditure.

600- Fleet Services - This internal service fund includes all the operations required to maintain the City's vehicles. The costs are recovered through an annual "user fee" which is charged to all departments/funds that have vehicle use. This fund also provides capital funding for replacement of all the City's vehicles on an "as needed" basis. Operational expenditures in this fund include salaries, support services, fuel and maintenance. Since resources are limited, expenditures continue to be reduced over the next few years.

620- Worker's Compensation - This internal service fund accounts for all expenses relating to worker's compensation (i.e., injury claims, insurance premiums, etc.). The costs are recovered through an annual "user fee" which is charged to all departments/funds that have employees.

630- Liability Insurance - This internal service fund accounts for all expenses relating to the City's general liability insurance. The costs are recovered through an annual "user fee" which is charged to all departments and funds.

651- Facility Services - This internal service fund accounts for all expenses relating to the operation and maintenance of City facilities. The costs are recovered through an annual "user fee" which is charged to all departments/funds that have facilities.

690- Information Technology - This internal service fund accounts for all expenses relating to computer hardware, software, maintenance, capital purchasing, and other service charges. The costs are recovered through an annual "user fee" which is charged to all departments/funds that have computer equipment. Since resources are limited, purchases will continue to be minimal over the next few years.

## **ENTERPRISE FUNDS**

The 700 series are Enterprise Funds and are a proprietary fund type and account for operations where the intent of the City is that the costs of providing goods or services to the public are to be recovered primarily through user charges.

700- Sewer - This fund is a sewer enterprise fund which operates and maintains the sewer collection system and treatment infrastructure for the City. Sewer maintenance and operations covers the ongoing maintenance of the existing sewer collection system and treatment infrastructure for the ongoing collection and treatment of sewer from residences and businesses within the City. Monthly sewer use fees collected for maintenance and operations are used to maintain the sewer collection system and treatment infrastructure after it has been constructed and for its useful life. Additionally, these fees may be used to replace the existing sewer collection system and treatment infrastructure when it wears out. These fees are not used to install new sewer collection system and treatment infrastructure related to a brand new development or for an existing development that requires increased capacity because it expands its operations. In the case of new or expanded development the user pays a Sewer Impact Fee equal in the amount necessary to accommodate its new or expanded use. Sewer Impact Fees are collected in a completely different fund, Fund 435, and cannot be used to fund ongoing sewer collection system and treatment infrastructure maintenance and operations.

The City's wastewater is treated at the South County Regional Wastewater Authority (SCRWA) facilities. The proposed budget for the SCRWA operations and capital improvement budget is provided to the City Council for review and approval.

The City completed Proposition 218 elections for a 5% increase in both water and sewer user fees effective January 2009. In the past and as projected in future years, these funds have certain years with surpluses and other years with deficits. The goal has been to smooth out the volatility in these funds for the benefit of residents. The City is currently undertaking water and sewer user rate studies as part of its sewer treatment plant expansion. The budgeted sewer enterprise user fees assume a 5% increase effective January 1, 2012.

720- Water - This fund is a water enterprise fund which operates and maintains the water treatment, storage and delivery system infrastructure for the City. Water maintenance and operations covers the ongoing maintenance of the existing water treatment, storage and delivery system infrastructure for the ongoing treatment, storage and delivery of water to residences and

businesses within the City. Monthly water use fees collected for maintenance and operations are used to maintain the water system after it has been constructed and for its useful life. Additionally, these fees may be used to replace the existing system infrastructure when it wears out. These fees are not used to install new water system infrastructure related to a brand new development or for an existing development that requires increased capacity because it expands its operations. In the case of new or expanded development the user pays a Water Impact Fee equal in the amount necessary to accommodate its new or expanded use. Water Impact Fees are collected in a completely different fund, Fund 436, and cannot be used to fund ongoing water system maintenance and operations.

The water fund is subject to volatility because it is driven by two key cost factors: (1) electricity costs and (2) Santa Clara Valley Water District's (SCVWD) groundwater management fee. To help control electricity costs, the Water Operations division has continued to work diligently over the last several years to take advantage of the lower electricity rates by only pumping during "off peak" hours. The result has been very positive with reduced power costs.

The City has seen less revenue than budgeted for water user fees, primarily due to conservation efforts and milder weather. Other contribution factors include the foreclosed real estate, the lack of household growth and the slight decline in commercial usage. The decrease in consumption is resulting in a decrease in operational expenditures. The budgeted water enterprise user fees assume a 5% increase effective January 1, 2012.

### **Capital Improvement Budget**

As discussed above, the downturn in the economy greatly impacted the City through a substantial decrease in revenues. In response, the City Council took action to protect the City's long-term financial security by significantly reducing capital projects because of a lack of revenue to support expenditures. Accordingly, expenditures in the proposed budget continue to be limited to necessary projects and those funded through grant proceeds that are available to the City from time to time. The capital budget provides a 6-year window of projects to be completed within the CIB horizon, although only the first two years are specifically addressed in this transmittal letter.

The financial health of the capital improvement funds have improved over the last few years as a result of the unanticipated development. Certain of the funds have deficit fund balances that are improving as development fee revenue rises.

#### **Fund 200 (Sidewalk Repair Reserve)**

These funds are used for sidewalk repairs and the interest on the principal balance of the fund is used for the prioritized repairs.

#1, Sidewalk Curb and Gutter – 80/20 Program: This project will repair approximately 10,000 square feet of sidewalk, curb and gutter in each fiscal year by working with property owners to qualify them for participation in the City's 80/20 program.

#2, West Side Chestnut between 8<sup>th</sup> and 9<sup>th</sup> Street: Install new curb, gutter and sidewalk in gap areas where sidewalk currently does not exist in order to facilitate pedestrian access.

#3, Santa Teresa Median Improvement: Extend the center median along the north side of Santa Teresa at First Street to enhance traffic safety and prevent unsafe turning movements.

#4, South Side 9<sup>th</sup> Street East of Church Street: Install new curb, gutter and sidewalk in gap areas where sidewalk currently does not exist in order to facilitate pedestrian access.

#5, Old Gilroy and 8<sup>th</sup> Street Near East Street: Install new curb, gutter and sidewalk in gap areas where sidewalk currently does not exist in order to facilitate pedestrian access.

#6, North Side 9<sup>th</sup> Street West of Egleberry Street: Install new curb, gutter and sidewalk in gap areas where sidewalk currently does not exist in order to facilitate pedestrian access.

#### Fund 201 (Library Reserve Fund)

This fund contains the balance of monies from an extinguished library bond of 1969.

#s 11-13, Furniture, Fixture and Equipment: This fund will be used for a portion of the cost of the furniture, fixture and equipment for the Gilroy Community Library as directed by the City Council in early 2011.

#### Fund 218 – Federal Energy Stimulus Grant

These federal stimulus funds come from the Federal government for traffic synchronization and community wide climate action plan.

#s 14-15, Traffic Signal Synchronization: This project will synchronize the traffic signals along Santa Teresa, 10<sup>th</sup> Street and Camino Arroyo for the purpose of reducing vehicle idle times and thereby reducing emissions and lowering greenhouse gasses.

#### Fund 220 (Pavement Management)

These funds come from County Measure A and Transportation Equity Act (TEA-21) funding and are used to repair and/or rebuild various roads in Gilroy.

#s 16-17, Pavement Management for Wren and Church Street Repaving (VTA Grant and Prop 42): Using grant funding from Proposition 42 and the Valley Transportation Authority this project will conduct a complete street section overlay along Wren Avenue between Uvas Park Drive and Mantelli and Church Street from Welburn to Farrell.

#18, Pavement Management for Portion of 6<sup>th</sup> and 10<sup>th</sup> Streets: This project involves the resurfacing of a portion of Sixth Street between Wren and Miller Avenues. It also includes the resurfacing of Tenth Street between Uvas Park Drive and Princeville Street. Maintenance of these streets will provide for their continued functioning in the capacity of arterial (10<sup>th</sup> Street) and collector (6<sup>th</sup> Street).

Fund 245 (Police Special Grants)

This fund is used to account for miscellaneous one-time grants for the Police Department.

#s 19-21, Police Vest Grants: This items represents the purchase of safety vests.

Funds 254 (Community Development Block Grant), 264 (Federal Stimulus Community Development Block Grant) & 400 (Capital Projects)

The 254 and 264 funds originate with Federal grants, while series 400 funds are intended for major capital projects (other than those financed by proprietary funds) and originate with interest proceeds.

#s 22, 23, 25, 27, San Ysidro Park Improvements: This project will enhance facilities and upgrade the Recreation/Interim Youth Center building at San Ysidro Park. ADA accessibility will also be provided to the existing building, restrooms, and picnic tables. The proposed improvements will enhance the park's usefulness and outreach.

Fund 259 (Housing Trust Fund)

Housing Trust Fund: These monies are used for a variety of housing assistance activities, including loans and grants to benefit low income housing. The Housing Trust Fund is refreshed by proceeds from equity shares, loan repayments, fees and interest payments related to BMR properties.

#24, Below Market Rate Units (3): This item is provided to allow for the purchase and/or renovation of approximately three Below-Market-Rate (BMR) residential units in Fiscal Years 2012 and 2013, in order to maintain their "affordable" status. The purchase of existing affordable units will ensure that housing units that receive public monies or regulatory incentives to create affordability will retain their affordability in the long-term through resale, or rent/income restrictions.

Fund 290 (Recreation Fund)

The 290 funds originate with revenue collected through fees charged for participants of the programs and activities of the Recreation Department. City contributions and program revenues offset the expenses incurred in the operation of these programs.

#26, Lifeguard Chairs: This item includes the replacement of three lifeguard chairs that have exceeded their useful lives at Gilroy High School and South Valley Middle School.

Fund 400 (Capital Projects Fund)

Revenue to the fund is from interest income and transfers from the general fund.

#28, Sidewalk Curb & Gutter 80/20 Program: In addition to Fund 200 funding, this project will repair approximately 10,000 square feet of sidewalk, curb and gutter by working with property owners to qualify them for participation in the city's 80/20 program each fiscal year.

Fund 415 (Gilroy Community Library)

The purpose of this fund is to finance the acquisition, construction and improvement of facilities to be used as a public library within the City of Gilroy. Funding was provided by issuance of general obligation bonds.

#s 30-41, Gilroy Community Library: This project includes construction, construction management, permits, fees, utilities, architecture, engineering, testing and inspection, relocation, land acquisition, move-in and offsite parking lot improvements.

Fund 433 (Traffic Impact Fund)

The Traffic Impact Fund (TIF) is intended to finance the construction of streets, bridges, interchanges and traffic signals.

#42, TDA City Handicap Ramps: This project continues the city's long-term commitment to the city-wide installation of ADA assessable ramps at sidewalk corners where they do not presently exist.

Funds 435 (Sewer Development) and Fund 700 (Sewer Enterprise Fund)

Fund 435 is used for the construction of sewer collection and conveyance systems and Fund 700 is an enterprise fund which operates and maintains the sewer collection system.

#s 52, 315, Sewer Main Trunk: This project consists of the construction of a new 42 inch sewer trunk main which will replace an existing 33 inch trunk main installed in 1960 from Holloway Road to the South County Regional Wastewater Authority Treatment Plant and the extension of a 33 inch trunk main under Highway 152 at Camino Arroyo. This project will both replace aging existing facilities as well as install new, increased capacity.

Fund 440 (Public Facilities Impact Fund)

The Public Facilities Impact Fee supplies this fund in order to finance improvements to Parks, Police, Fire, City Facilities and the Library.

#54, VTA BEP Trails Grant Project: This project involves the construction of multi-use trails for bicycles and pedestrians along stretches of Lions Creek and the western Ronan Channel. The improvements to Lions Creek extend from Christopher High School to Kern Avenue. The improvements to Ronan Channel extend from Leavesley Road adjacent to Highway 101 to Llagas Creek east of Highway 152.

#55, Downtown Plaza/Paseo/Pocket Park: The proposed funds will be used to identify and purchase a location for a downtown Plaza/Paseo/Pocket Park.

#56, Vehicle Emissions Reduction Based at Schools (VERB) Grant: This project consists of improvements in the vicinity of schools in order to encourage the use of safe pedestrian routes as an alternative to vehicle usage. It includes improved signage, high-visibility crossings, bike lane striping and removing gaps in sidewalk networks. These improvements will encourage bicycle riding to school, correct deficiencies in existing sidewalks and provide increased safety to bike lanes and street crossings.

#57, GUSD State Route to Schools Outreach: The city obtains these grant funds for use by the Gilroy Unified School District (GUSD) to encourage parental traffic safety in school zones during vehicle access times to local schools.

#58, Uvas Creek Trail: Using grant funding from the state of California this project involves improvements to the Uvas Creek trail from Christmas Hill Ranch site, alongside Solarsano Middle School and ultimately connects to the Santa Teresa Expressway at the Uvas Creek bridge completing significant portions of the City's trails master plan. The federal wildlife agencies have indicated that this project requires specialized permitting through those agencies which may hinder project completion timelines and grant funding availability.

#59, Lion Creek Trail – Wren to Ferrell: Using grant funding from the state of California this project involves improvements to the Lions Creek trail from Wren Street to Farrell Avenue connecting Del Bono School with several adjacent neighborhoods and completing significant sections of the City's trails master plan.

#60, Lions Creek Safe Route to Schools Trail – Kern to Wren: Using grant funding from the state of California this project involves improvements to the Lions Creek trail system extending those improvements described in the project description immediately above to Kern Avenue (Wren to Kern) and completing another significant section of the city's trails master plan.

#s 61-62, Police Department New Boiler Room Floor and Deck and Wall Leak Repair: This project completes improvements to the police department boiler room floor and deck to correct construction deficiencies and to apply a sealant to the wall of the garage to prevent water intrusion during significant rain events.

#63, Gilroy Arts Center Property Demolition: This project will demolish two unreinforced masonry (URM) buildings and a dilapidated wood constructed building

between the two URM buildings as part of site preparation for the new Center for the Arts as well as for public safety in removing these dangerous buildings. The existing temporary Center for the Arts (former Salvation Army building) will remain.

#64, Aquatics Center Equipment: This item provides picnic tables, shade structures, bilingual signage and other miscellaneous equipment for the aquatic center, a joint use facility currently under construction at Christopher High School. The City will administer the Activity Center consisting of a shallow pool, water slides and play structure, while the GUSD will operate the competitive pool.

#65, Forest Street Property Demolition: This item includes the demolition of an existing dwelling on a foreclosed property purchased by the City at 271 Old Gilroy Street. This property will be incorporated into the adjacent Forest Street Park. The demolition of the existing structure will enable the City to incorporate the newly acquired property into Forest Street Park, expanding the park area and allowing for a broader range of recreational uses.

#### Funds 600, 605, 651 and 690 (Fleet, Equipment Outlay and Information Technology (IT) Funds)

#s 66-309, These CIB items are for the purchase of internal service fund capital, including fleet, equipment, and IT purchases for safety and non-safety operations.

#### Fund 700 (Sewer Enterprise Fund)

#s 311-314, Miscellaneous Equipment: This project will purchase office furniture and portable generator needed for ongoing maintenance and operation of the wastewater collection system.

#### Fund 720 (Water Enterprise Fund)

Fund 720 is an enterprise fund which operates and maintains the water production and distribution system.

#s 316-329, Miscellaneous Equipment: This project will purchase a tapping machine, fire hydrant meters, office furniture, pipe locator, pipe threader, bench meter tester and chlorinators, for ongoing maintenance and operation of the water distribution system.

#333, Meters: This project was approved by the City Council in 2011 and consists of the ongoing installation of radio read water service meters to replace manual read meters.

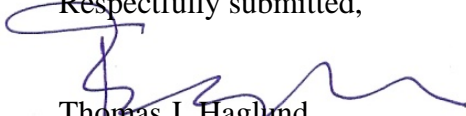
## Summary

As noted above, the City is recovering from the Great Recession, as evidenced by the increase in sales tax receipts and unanticipated residential and commercial/industrial development. In the prior budget cycle, the City limited spending to necessary materials and services, and cancelled, deferred or reduced capital projects. These expenditure reductions allowed the City to remove its structural deficit and right-size the organization for the reduced level of revenue. However, the City continues to operate within the current structure in place to live within its means, with cautious optimism for these recent upturns in revenues.

The City regularly reviews its revenues and expenditures to keep a pulse on its current fiscal health and to ensure the adequate protection of the City's financial resources. The City Staff will continue to work closely and communicate with the development community, State Board of Equalization, State Controller's Office and Santa Clara County to proactively update the City's revenue assumptions.

Staff will be present to answer any questions of the City Council.

Respectfully submitted,



Thomas J. Hagland  
City Administrator