COUNCIL AGENDA: 10/16/07
ITEM: 3.4

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

SUBJECT: **2006-2007 CITY MANAGER'S ANNUAL REPORT**

DATE: October 12, 2007

Approved Chuck Reed Date 10/12/07

RECOMMENDATION

a. Approve the proposed Annual Report actions with the following amendments in the General Fund:

   Eliminate $870,000 of the $1,045,000 City Hall Build-Out Earmarked Reserve recommended to be established in the Annual Report. This $870,000 should be split per the City Council Ending Fund Balance Budget Policy: fifty percent to the 2008-2009 Future Deficit Earmarked Reserve and fifty percent to the street maintenance and repair appropriation. The remaining $175,000 should still be allocated for the employee garage project as recommended by the City Manager.

BACKGROUND

To the extent possible, new funding initiatives should occur during our May/June budget discussion when we have evaluated all of our needs and anticipated revenues.

This policy of limiting expenditures in the annual report has proven beneficial to our fiscal stability. We should set priorities for expenditures in the spring when Council can review and set priorities for all aspects of our City's activities.

Recommendations in the Annual Report should be limited to the following categories:

- Funding necessary to rebudget funds, correct errors, or reflect updated cost information;
- Proposals previously directed by City Council; and
- Critical timing issues or opportunities.

Additional funding for the 4th Street City Hall improvements is a major policy decision that should be discussed in the context of the May/June budget.

Establishment of Reserves for Future Needs/Street Maintenance

The latest February forecast projected a $25 million deficit for next year. The Administration is scheduled to issue an update of this forecast at the end of October. A significant amount of the actions recommended at this time establish and enhance our reserves. Setting aside significant funding is prudent fiscal policy to prepare our City for any unforeseen future needs. This Annual Report proposes adding $6 million in funding to the Economic Uncertainty Reserve to bring the total reserve to $10 million. I support this action, as these funds would help address any volatility in the City's economic performance and is consistent with the 2006-2007 Budget Message.

In June of 2007, I recommended and the Council approved a policy to apply the Ending Fund Balance Policy to commit 50% to Street Maintenance and 50% to our Future Deficit Reserve. This Annual Report includes $13.7 million in addition to the $870,000 to be split among the future deficit reserve and to commit to our street maintenance.