DATE: May 11, 2015

Subject: Transmittal of Annual Budget for Fiscal Years 2016 and 2017

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

The City of Gilroy’s biennial budget presented to you allocates the necessary resources to maintain financial sustainability, while carrying out Council’s vision of being a safe and family-friendly community. This marks the 4th consecutive balanced biennial budget that has been submitted to you with general fund operational expenses lower than operational revenues. The completion of FY 15 will mark the 6th consecutive year with a balanced general fund budget. The budget includes funding to provide high quality services and programs to make Gilroy a great place to live. This proposed budget exceeds the City Council’s reserve policy goals of maintaining a minimum unrestricted general fund reserve of 25% of expenditures as well as an economic stability reserve of 15% of general fund expenditures.

The economic landscape has greatly improved since the economic downtown. For Gilroy that has meant an increase in sales tax and property tax receipts, as well as growth in residential and commercial/industrial development. The City has judiciously increased expenditures to ensure that its spending does not outpace the increase in revenue. Even with the increase in revenue, the City has continued to spend conservatively, leverage grant funding and seek means to reduce expenditures. Through careful budget management, the City has balanced its budget over the last several years and accrued a surplus savings in better years that can be carried forward to the next operating year.

While revenues have increased over the last several years, costs have also increased. This brings the ongoing challenge of how to provide a consistent level of service given rising costs and limited sources and types of revenue to pay those costs. As a service organization, the City’s primary expenditures are related to the provision of the services that our community expects and deserves. 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 proactive cost reductions, however rates continue to rise. CalPERS has adopted changes to its assumptions and policies that will increase employer contribution rates over the next several years, but are intended to result in lower contribution rates in the long term. Health care costs also continue to rise.

The economic outlook is healthy according to the UCLA Anderson Forecast and Beacon Economics, with the U.S. economy growing 3% or more over the next two to three years. The state’s unemployment rate has fallen to 6.5% and is due to genuine improvements in labor markets
rather than more workers giving up on their job search, which is a positive sign. According to the California Department of Finance, California continues to add jobs at a faster pace than the nation. Jobs will increase 2-3% over the next couple years. California personal income growth increased by 4.7% in 2014 compared with 2.8% in 2013.

Though only one of this country’s 50 states, California ranks as the 8th largest economy in the world. The combined remainder of the United States is the only other domestic economy showing a larger profile. No other single state in the Union approaches the breadth and depth of California’s economy. California showed the largest total job growth in the United States in 2014, exceeding that of Florida and Texas by significant margins. Demographic profiles show that California will continue to grow, and that despite the hype surrounding attempts to recruit business out of state, California will remain a global economic powerhouse oscillating between the 7th and 8th largest economy in the world.

California’s current economic revival emanates from Silicon Valley and the greater Bay Area, within which Gilroy is located. As of March, California accounted for 52% of technology sales in the US during the previous 12 months, with New York in 2nd place at 11%. Other states trail. Gilroy’s proximity to the Bay Area, Central Valley, Central Coast and the Interstate 5 and Highway 101 arteries have played key roles in the growth of industrial applications in recent years. United Natural Foods Incorporated (UNFI) scouted, analyzed and selected Gilroy as the location for its first distribution warehouse actually constructed by the company in California. UNFI will construct a total of 850,000 square feet in two phases, employ nearly 400 and contribute to the local economic profile with living wage jobs. This follows previous industrial expansions in recent years and helps Gilroy round out its economic profile which is strongly weighted towards retail.

Building projections are favorable for California. 100,000 housing units are expected to be permitted in California during 2015, a 22% increase over 2014 and the highest level since the Great Recession. This will be followed by 120,000 units in 2016 and 137,000 in 2017.

**Operating Budget Summary**
Attached you will find the proposed budget for Fiscal Years 2016 and 2017 (FY 16 and FY 17) containing budgeted operational revenues and expenditures for each of the City’s funds. The total combined budget for FY 16 and FY 17 is $134.0 million and $116.5 million, respectively. These overall budget totals include a general fund budget in FY 16 of $48.0 million, representing an increase of 5% over FY 15. The FY 17 general fund budget is $48.2 million, a slight increase over FY 16.

**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 CIB has been reviewed by the Planning Commission and was recommended for approval to the City Council as being consistent with the City’s General Plan, on April 2, 2015.
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 2.2 - 2.4 billion gallons of wastewater and producing 700-720 million gallons of recycled wastewater each year for use in landscaping, agricultural, industrial and other applications. The SCRWA recycles the largest percentage of wastewater in Santa Clara County, 25%, and plans to double its storage capacity in coming years underscoring the commitment of Gilroy and its partner, Morgan Hill, to environmental sustainability. The budget represents the operating and capital requirements of SCRWA for FY 16 and FY 17. The SCRWA Board reviewed the proposed budget on April 1, 2015 and will consider it for adoption on May 6, 2015.

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 budgetary goals and objectives developed for the coming years are efforts to address the City Council’s goals for the next 5 years (2015 – 2020) which are to:

1. Maintain a Financially Sustainable, High Performing City
2. Grow the Economy: Business Development and a Vibrant Downtown
3. Upgrade City Infrastructure and Facilities
4. Create a More Livable Gilroy Community for All

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, public works, community development, finance and administration.
**General Fund Balance**

Summary of General Fund (100) projections for FY 16 and FY 17:

<table>
<thead>
<tr>
<th></th>
<th>FY 16</th>
<th>FY 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>47,665,671</td>
<td>47,902,857</td>
</tr>
<tr>
<td>Accumulated Annual Savings</td>
<td>350,000</td>
<td>350,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(47,990,486)</td>
<td>(48,229,377)</td>
</tr>
<tr>
<td>Operating Income</td>
<td>25,185</td>
<td>23,480</td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>20,495,006</td>
<td>20,170,191</td>
</tr>
<tr>
<td>Less Accumulated Annual Savings</td>
<td>(350,000)</td>
<td>(350,000)</td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>20,145,006</td>
<td>19,820,191</td>
</tr>
<tr>
<td>Projected Ending Fund Balance</td>
<td>20,170,191</td>
<td>19,843,671</td>
</tr>
<tr>
<td>Economic Stability Reserve</td>
<td>7,198,573</td>
<td>7,234,407</td>
</tr>
<tr>
<td>Minimum General Fund Reserve</td>
<td>11,997,622</td>
<td>12,057,344</td>
</tr>
<tr>
<td>Remaining Unrestricted Fund Balance</td>
<td>973,996</td>
<td>551,920</td>
</tr>
</tbody>
</table>

**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 approximately $12.0 million for FY 16. 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 approximately $7.2 million for FY 16. The City continues to meet and exceed its minimum general fund reserve levels (25% general fund reserve and 15% economic stability reserve). The City projects a remainder unrestricted general fund reserve balance of approximately $1.0 million for FY 16 in addition to the general fund reserve accounts. All totaled the reserve position of the city provides approximately 5 months of operating funds in the event of a calamitous economic impact or disaster response.

The City will use the anticipated surplus revenue from FY 15 in the upcoming budget cycle to fund certain one-time capital projects, including fleet and equipment purchases and Information Technology projects. This includes required equipment for the City’s communications system for interoperability with other agencies. Any additional surplus will be added to accumulated annual savings, for capital outlay reserve and to provide a hedge against any unanticipated revenue or expense fluctuations in FY 16 and 17. This budget continues the economic incentives transfers from the general fund to the impact funds and funding the replacement reserves for the City’s Fleet, Equipment Outlay and Information Technology funds. In FY 16 and FY 17 such transfers will continue 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, transient occupancy tax and licenses and permits. Below is a breakdown of the City’s general fund revenues, as well as each tax source within the general fund.

**Sales Tax**

Sales tax receipts for FY 16 are anticipated to total $17.3 million, up from projected FY 15 actual receipts of $15.7 million and FY 15 budget of $14.8 million. Sales tax receipts for FY 17 are anticipated to total $16.8 million. This decrease from FY 16 is due to the unwinding of the triple flip as discussed below. Actual sales tax receipts in FY 1993 through FY 2014, as well as projections for FY 2015 through 2017 are adjacent.

The City’s sales tax is continuing to improve, indicating Gilroy’s favorable economic rebound as a result of its strong sales tax base. Sales tax has steadily improved since its low in 2008 and the City has experienced continued sales tax growth each quarter. In this current fiscal year (FY 15), we anticipate rebounding above the high point of approximately $14.5 million experienced in 2007.
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 approximately 250% 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.

The City works closely with MuniServices in analyzing historical sales tax data and projecting future tax revenue. The projected sales tax for FY 16 and FY 17 is adjusted for any new or departing business and any Gilroy specific factors, as well as any growth or reduction anticipated in each sector.

The City will have a one-time increase in sales tax in FY 16 due to the unwinding of the “triple flip.” By way of background, in March 2004, the voters of California approved Proposition 57, the California Economic Recovery Bond Act. The measure authorized the issuance of $15 billion in “Economic Recovery Bonds” to close the state’s operating budget deficit. Under Proposition 57, the bonds are repaid from a dedicated 0.25 percent increase in the state sales and use tax. The city/county portion of the sales and use tax rate imposed Bradley-Burns Uniform Sales Tax law is
reduced by 0.25 percent (from 1 percent to 0.75 percent), such that there is no net impact on the total rate. Cities and counties are reimbursed for the reduced sales and use tax revenue with transfers of local property tax revenues that would otherwise have gone to schools. Schools are made whole from the state general fund and experience no negative impact. This mechanism is known as the “triple flip.”

The state bonds are expected to be fully paid in July 2015. Therefore, the full 1 percent local rate will return on January 1, 2016. Cities and counties will receive one-time additional revenue as the triple flip reimbursements have been effectively three months behind since the beginning of the program. Because of the overlap of the return of the full 1 percent rate and the delayed triple flip compensation, cities and counties will see an increase in net sales tax revenues of about 6% in FY 16, or about $1.2 million for Gilroy.

Property Tax

The City has seen growth in the past several years and expects this growth to continue into the next budget cycle, increasing the City’s property tax revenue. Foreclosures have significantly decreased over the last several years. The chart below shows the number of foreclosures in Gilroy from 2008 through 2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>503</td>
</tr>
<tr>
<td>2009</td>
<td>321</td>
</tr>
<tr>
<td>2010</td>
<td>225</td>
</tr>
<tr>
<td>2011</td>
<td>229</td>
</tr>
<tr>
<td>2012</td>
<td>112</td>
</tr>
<tr>
<td>2013</td>
<td>37</td>
</tr>
<tr>
<td>2014</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Santa Clara County Assessor

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. The California Consumer Price Index (CCPI) factor effective for the current year (2014/2015) assessment roll is 0.454%. The CCPI factor is applied to the assessment rolls for all cities in Santa Clara County. In December 2014, the State Board of Equalization informed the assessors that the CCPI for the 2015/2016 assessment roll will be 1.998%. The City anticipates
that the property tax receipts will increase due to this factor as well as due to the increase in development growth and the lower amount of foreclosures.

The proposed budget for FY 16 and FY 17 is $11.1 million and $11.5 million, respectively, which compares to budgeted FY15 property tax revenue of $10.0 million. FY 15 projected property tax revenue will exceed budget by approximately $0.8 million due to the increased growth in development and a quicker recovery in assessed valuations than anticipated.

**Utility Users’ Tax**

The City receives utility users’ tax from several sources: steam, gas and electric, phone and cable service. The City’s budgeted utility users’ tax for FY 16 and FY 17 of $4.5 million and $4.6 million, respectively, is slightly higher than the FY 15 projection of $4.4 million primarily due to an anticipated modest growth in electric UUT revenues. Over the last several years UUT from land lines (home phones) and wireless providers has decreased as a result of the greater use of smart phones. Many consumers have cancelled service to their land lines and are foregoing telephone calls in favor of texting, tweeting, and e-mailing. Collecting UUT from prepaid wireless phone service has been a challenge in the past. The recent passage of AB 1717 provides a collection mechanism for prepaid wireless services. The new bill becomes effective January 1, 2016 and will have a positive impact on city revenues.

**Building, Engineering and Planning Fees**

The City has seen a significant increase in development since the economic downturn. Building, engineering, planning and hazmat fees budgeted for FY 16 and FY 17 are $6.0 million and $6.5 million, respectively. Certain revenues that had been anticipated for FY 15 will be received in FY 16 due to adjustments in developer building schedules. 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 16 and FY 17. The City is listening to the development community and has worked closely with them in establishing the revenue projections. This budget discounts to a certain extent the projections provided by the development community to be conservative, yet account for the rise in development related activity.

A large portion of the general fund revenues attributable to this development activity typically precede actual construction and are related to advance planning processes, building plan and site related plan reviews undertaken by developers in advance of permit issuance. Inspection related fees are received in conjunction with construction. In order to ensure that the City takes a cautious approach while demonstrating actions to meet demand, it will employ a metered hiring plan. The City will ensure that staff is available based on the demonstrated development activity over the course of each fiscal year so that it can calibrate development growth with sufficient staffing. This will allow the City to balance its revenue with its expenditures and reduce expenditures if the development occurs behind the schedule presently anticipated by the development community. The City will allow for appropriate lead time during the process.
Transient Occupancy Tax and Tourism Business Improvement District

The City receives transient occupancy tax (TOT) from hotels and motels in the City limits. The proposed budget for FY 16 and FY 17 is $1.4 million each year, compared to the projected revenue for FY 15 of $1.3 million. Due to increased marketing efforts and the Tourism Business Improvement District discussed below, TOT revenue has increased over the last several years.

The City of Gilroy Tourism Business Improvement District (GTBID) was established working together with the Welcome Center. The GTBID was effective on January 1, 2013. The assessment revenue is provided to the Gilroy Welcome Center and will provide dedicated funding for a sales and marketing plan with the primary purpose of increasing overnight room sales within the GTBID’s boundaries as a measure of the City’s economic development efforts to further increase tourism and business activity. The Welcome Center will receive approximately $300K in each of FY 16 and FY 17, which is in addition to funding also provided the Welcome Center by the City to promote tourism. The City receives a reimbursement for its administration of the TBID revenue.

Interest

In FY 16 and FY 17, City funds are anticipated to continue to receive a reduced allocation of interest 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 0.28%. 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 reinvests the called bonds into replacement bonds or holds the funds in LAIF.

State Budget Issues

The City continues to monitor the State’s proposals for future budgets and report any impacts. In the last budget cycle the City was monitoring public safety funds potentially at risk. The risks are still present and include 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 the 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. The passage of 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.

Pension Program

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.

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

<table>
<thead>
<tr>
<th>Employee Group</th>
<th>FY 15 Employer Contribution Rate</th>
<th>FY 16 Employer Contribution Rate</th>
<th>FY 17 Estimated Employer Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety (Police &amp; Fire)</td>
<td>31.888%</td>
<td>33.006%</td>
<td>35.700%</td>
</tr>
<tr>
<td>Non-Safety (miscellaneous EE’s)</td>
<td>20.783%</td>
<td>22.239%</td>
<td>23.900%</td>
</tr>
</tbody>
</table>

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. The chart to the left shows the PERS rate of return compared to the DOW. The returns are fairly consistent in many years. Overall, for the years shown, CalPERS has exceeded the DOW. CalPERS exceeded its expected rate of return of 7.5% in many years. For the year ended June 30, 2014, the CalPERS rate of return was 18.4% and for year-end December 31, 2014 was 6.5%.
The City has taken the following several steps in the recent past to reduce its retirement contribution:

**CalPERS Fresh Starts**

In 2007, Council approved City staff to commence CalPERS Fresh Starts for its Safety and Miscellaneous Retirement Plans for FY 09. The decision to move forward with the Fresh Starts involved working with an actuarial expert to perform a complete analysis of the City’s unfunded pension liability for its Safety and Miscellaneous Retirement Plans. The analysis contemplated how to address the City’s pension liability, including whether to issue pension obligation bonds. The Fresh Start considered the unfunded pension liabilities at a point in time and commenced a 30 year amortization period for both the Miscellaneous and Safety Plans to provide savings. However, since the Fresh Starts, market losses and other factors have led to additional liabilities.

**CalPERS Prepayments**

The City has also used the CalPERS prepayment program allowing agencies to prepay the annual employer retirement contribution for certain years at a discounted rate. The estimated annual cash flow savings from prepaying was approximately $60K.

**Gilroy’s Pension Cost Reduction Efforts**

The City has made significant proactive cost reductions in PERS including all employee units now paying the employee portion of retirement cost and establishing lower retirement benefit formulas for new public safety employees (new tiers) and implementation of the Public Employee Pension Reform Act (PEPRA) effective January 2013, which effectively reduces retirement benefit formulas for all new members.

CalPERS has adopted changes to its assumptions and policies that will increase employer contribution rates over the next several years, but are intended to result in lower contribution rates in the long term. In 2013, to improve the funding levels of plans, the CalPERS Board approved a change to its amortization and smoothing policy which spread investment returns over a 15-year period with gains and losses paid for over a rolling 30-year period (i.e. the amortization period remains the same each year, rather than declining). With the new policy changes, gains and losses will be paid for over a fixed 30-year period with increases or decreases in the rate spread directly over a 5-year period. The increases are based on an agency’s asset volatility ratio, or an agency’s assets divided by their annual payroll.

The second change relates to actuarial assumptions used to determine employer contribution rates and unfunded liabilities. In February 2014, the CalPERS Board adopted updated actuarial assumptions regarding the mortality rate for state and local employers, after completing a study focused on recent patterns of termination, death, disability, retirement and salary increases. The findings from national mortality studies show that due to advances in medicine, nutrition, personal fitness and other factors people are living longer than the previously developed mortality rates reflected. In addition, the study showed higher rates of service retirement for certain member groups and lower rates of disability for all groups. These outcomes have a financial impact on
employer related CalPERS rates because plans are not currently funded to cover the payment of retirement benefits for a longer life time.

CalPERS estimates that the new mortality assumptions will increase cost to local agencies up to 9.3% of payroll for safety classifications and up to 6.7% of payroll for miscellaneous classifications by year five of the phase in. For local employers, the cost of the new mortality assumptions will be first reflected in FY 17 rates with the cost spread over twenty years and the increases phased in over the first five years and ramped down over the last five years of the twenty year amortization period. The changes will be effective July 1, 2016.

CalPERS is working on implementing the League of California Cities request for a more aggressive pre-funding option in the form of a three-year phase-in for those local agencies that can afford to pre-pay. In addition, CalPERS has stated that they would work with local agencies to customize different pre-payment plans to accelerate funding of their pension benefits.

As part of its review of actuarial assumptions, CalPERS confirmed its long-term assumed rate of return at 7.5%. They adopted an asset allocation mix that lowers its investment risk but largely keeps its investment strategy unchanged.

Unfunded Liability and Funding Status

The City currently has an unfunded liability for its Safety and Miscellaneous plans with CalPERS, consistent with other agencies. In prior years, the City has experienced a super-funded balance, meaning that the City had excess money on account compared to what it would take to meet pension obligations. The unfunded liability changes over time and fluctuates based on many factors and assumptions. An unfunded liability (UFL) represents the amount by which the accrued liability (amounts to be paid out to current and future retirees) exceeds the value of assets (amounts available to pay the retirees). Funded status is a measure of how well funded a plan is or how “on track” it is with respect to assets vs. accrued liabilities. A funded ratio based on the actuarial value of assets indicates the progress toward fully funding the plan using the actuarial cost methods and assumptions. The UFL amounts based on the actuarial value of assets and funded status as of June 30, 2012 are shown below:

<table>
<thead>
<tr>
<th>UFL (actuarial value of assets)</th>
<th>Safety Plan</th>
<th>Misc. Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded Status</td>
<td>$22.1 million</td>
<td>$15.2 million</td>
</tr>
<tr>
<td></td>
<td>80.1%</td>
<td>80.7%</td>
</tr>
</tbody>
</table>

The market value of assets does not take into account actuarial assumptions or smoothing gains and losses, and is becoming the more widely used asset value to calculate funded status. CalPERS is now only reporting this value in its annual valuation reports. The UFL amounts based on the market value of assets and funded status as of June 30, 2013 are shown below:

<table>
<thead>
<tr>
<th>UFL (market value of assets)</th>
<th>Safety Plan</th>
<th>Misc. Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded Status</td>
<td>$35.0 million</td>
<td>$23.4 million</td>
</tr>
<tr>
<td></td>
<td>70.3%</td>
<td>71.4%</td>
</tr>
</tbody>
</table>
When considering the City’s UFL using the actuarial value of assets, the City exceeded a funded status of 80% for both its safety and miscellaneous plans. Using the market value of assets, the City would need pay down its liability for each unit by approximately $11.4 million and $7.0 million, respectively; to reach an 80% funded status on its safety and miscellaneous plans.

**Impact of Changes**

The CalPERS amortization and smoothing policy changes will impact the FY 16 employer rates and the new actuarial assumptions will increase the City’s employer contribution rates beginning in FY 17. Both changes will increase the City’s unfunded liability for the miscellaneous and safety retirement plans. The City’s budget reflects the standard CalPERS five year phase-in to smooth the impact of the rate increases. A more aggressive prefunding option for the unfunded liability or expediting the increase of the employer contribution rates due to the assumption and policy changes would increase the City’s current pension payments, which would increase expenditures for the general fund and other City funds. CalPERS offers a three-year phase in option or the ability for cities to work with CalPERS on a customized plan to further expedite the increase in rates and paydown of the increased pension liability. Staff will continue to research prepayment options. This is an issue facing most, if not all, CalPERS agencies and staff is also evaluating how other agencies are addressing the issue in an effort to identify all possible options.

**Health Benefits**

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. An additional impact on the budget is the cost of the national Health Care Reform Act passed by congress and approved by the president and that became effective on January 1, 2014. The new law provides that employers, including state and local governments provide health insurance to part-time employees that work an average of 30 hours per week. Part-time employees that work less than an average of 30 hours per week are able to obtain health insurance from the federal health insurance exchange. The City limits its health care cost exposure by keeping part-time hours below 30 hours per week.

Below are a highlight 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. The department is utilizing social media to enhance criminal investigations and public awareness. In addition, the department will continue focusing 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. The budget includes the 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.

During the next budget cycle the department will focus in on specific areas of council priorities including the update of the City’s communication system working with the Silicon Valley Interoperability Authority (SVRIA) Project, allowing for seamless field communication amongst various public safety agencies in mutual aid situations, especially in instances of natural or manmade disasters, occurring throughout the Bay Area region.

Along with the Recreation Department, the Police Department will continue to administer the California Gang Reduction, Intervention and Prevention CalGrip Grants (CalGrip). The program provides grants to cities using a local collaborative effort to reduce gang activity through the use of evidence-based prevention, intervention and suppression activities. The Department will also focus on the implementation of its completed police services and staffing plan. This includes the hiring of two officers, a public safety communicator and a detention services officer. The City will also hire an officer funded in the first year of employment through a grant from the Office of Traffic Safety (OTS).

**Community Development**

One of Council’s goals is to develop a thriving downtown. The Community Development Department, along with the support of other departments, will prioritize downtown vitality, including a city action plan, unreinforced masonry (URM) program, parking management plan and Downtown Façade Improvement Program. The City will also develop an economic development performance report, consider introduction of a color palate ordinance, evaluate and streamline the planning process and update the tree preservation ordinance. Community Development is serving as the primary staff liaison coordinating and managing the City’s General Plan rewrite process, as well as implementing the City’s certified Housing Element and completing the Station Area Plan working with the High Speed Rail Authority.

As discussed above, the City projects significant development growth in FY 16 and FY 17. If the projected development activity is realized, the City will hire a Building Plan Check Engineer and Building Inspector. These positions will help the department in providing planning related services for development applications and stay on top of the work load and providing timely service to the development community. The City wants to continue its prudent approach and will provide the management capability to remain flexible and responsive to the desired increase in development activity, while hiring some additional full time staff, but also using the supplement of temporary staff. The Rancho 101 development is providing resources for staffing. The City will hire a temporary Budget Analyst and Office Assistant to be paid by the developer for part of the first year. If the significant development activity continues, the City can later consider funding for the second year of these positions.

The Housing Community Development (HCD) division will continue to administer the Housing Trust Fund, Community Development Block Grant (CDBG) and the State of California BEGIN program. 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. Community Development will also oversee the city’s environmental programs including grant programs and public education.

Public Works

The Public Works Department will oversee a significant number of projects over the term of the biennial budget, many of which are grant funded. The department will further Council’s prioritized goal of upgrading city infrastructure and facilities while developing a downtown parking management plan and overseeing the capital projects.

The City will continue to focus resources on the High Speed Rail, and is proactive and aggressive in pursuing state and federal grants for significant infrastructure improvements. A number of grant funded projects are identified in the budget and will be undertaken if the city is awarded the grants. The Public Works Department oversees the operation and capital improvement of the SCRWA, as well as substantially prepares and recommends the City’s capital budget to the City Council, which is discussed later in this message. The department will develop a street maintenance program, sidewalk maintenance program, and an Auto Mall Parkway overlay district.

The proposed budget includes the addition of three maintenance workers in FY 16 to serve the water, sewer and streets divisions and three maintenance workers in FY 17 to serve the water, sewer and parks divisions to keep up with the service requirements of a growing population and newly developed areas and to complete the necessary capital improvement projects.

Recreation

The Recreation Department aims to achieve Council’s goal of creating a more livable Gilroy community for all. This 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 will continue its neighborhood based non-traditional recreation programming. 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 widespread 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.
Recreation will work in partnership with the South County Youth Task Force, Gilroy Youth Task Force, Gilroy Unified School District, faith-based organizations, and other community groups to provide program services, activities and events. This includes the administration of the previously received $1.5 million CalGrip grant, which provides funding assistance for a Youth Task Force Coordinator, along with contributions from other agencies. The proposed budget includes an additional Recreation Coordinator to continue programs for at-risk youth. Our efforts at outreach to at-risk youth populations through direct service contacts underscores a larger commitment to “community” and the demonstrable actions that are necessary to change lives. The city council’s direct actions to fund these programs in prior years are continued and expanded in this biennial budget in support of the CalGrip grant and the evidence based programming that is the effort’s gauge of success. The measure of a community is taken by facing difficult issues directly and committing to the necessary actions to turn those situations around. The council’s vision of empowering youth through direct contact programming, and staff’s execution of that vision, is providing at-risk youth with measurable alternatives to their real life struggles.

During the budget term, the Recreation Department will prepare the Cesar E. Chavez Gymnasium for City programming. The department will soon be in its fourth season of operating the Aquatics Center at Christopher High School and maintaining its program at Gilroy High School. The Department will continue to administer the City’s volunteer service program that provides value of in-kind salary savings of approximately $686K.

Fire

The Fire Department is an all hazards department providing fire, emergency medical and hazardous situation response to our community. The Fire Department also 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. 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.
The Department will work with the Police Department on the SVRIA communications upgrade to achieve regional interoperability. During the budget cycle the Fire Department will begin to review the facility needs and funding requirements for the seismic upgrade of two of the fire stations. The department will also coordinate the purchasing and preconstruction process for a type one fire engine achieving approved procurement standards and budget objectives and meeting in-service goal of December 31, 2016.

Finance/IT

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). The Department will coordinate the compilation and implementation of a new fee schedule. The utility billing division will continue its efforts in the rollout of its online payment website. The Department facilitates the budget process and will provide quarterly updates to the City Council.

The Finance Department will continue its administrative oversight of the Information Technology division and managing the City’s technological infrastructure. Projects for this biennial budget include a review of the City’s current general fund reserve policy, exploring new revenue options for services and facilities and addressing the City’s pension liability with the Human Resources Department. The IT division will be implementing the Technology Communications Master Plan, updating website features and upgrading the wireless network service and the city’s phone system.

Human Resources/Risk Management

The Human Resources/Risk Management Department provides recruitment, workers compensation, liability insurance, health and other benefits services to the City’s workforce and oversees risk management efforts for both the workforce and City infrastructure generally. Recruitments have increased over the past few years due to several reasons. The City’s economic situation has improved, the City has been awarded with personnel grants and also vacancies have been created due to normal attrition. For FY 15, the department will conduct approximately 46 individual recruitments involving examination of 1,750 applicants. The pace of recruitments is expected to continue and the extension of timely city services from the various City departments depends on the ability of the City to undertake and complete recruitment processes expeditiously. 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 and 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. The department will work with the Finance Department to address the City’s pension liability. The Department will also keep informed on pension reform and the Affordable Care Act and their applicability to the City.
This department will continue to oversee the fleet and facilities divisions and provide overall administrative direction to those areas of the City’s operation managing millions in City assets. The fleet division will begin the purchasing and preconstruction process for several vehicles, including alternatively fueled vehicles and equipment. The facilities division will commence several deferred maintenance projects, including City Hall improvements.

City Clerk

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 maintains its functional filing system and comprehensive electronic records management system. It maintains city council meeting minutes, videos and agendas, and maintains the city-wide comprehensive index of public records. The office also works with various departments in coordinating records requests. The Clerk will manage the City’s 2016 election in conformance with local and California elections laws and will consolidate the City’s election with the election services provided by the Santa Clara County Registrar of Voters. The Clerk will coordinate the Open Government Ordinance training of all identified staff and policy body members and create a city records management policy.

City Administrator

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 and carried out through programs, projects and services extended to our community through a highly trained and professional staff.

The City will continue to focus on active economic development efforts in cooperation with local partners to bring increased economic activity and opportunity to the City. The budget includes funding to the Gilroy Welcome Center at $300,000 per year and Gilroy Economic Development Corporation at $200,000 per year.

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 public information office will develop informational videos on topics of interest highlighting city projects and programs. The office will also utilize social media and other contemporary online information tools to highlight city programs, projects and activities.

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.

**226 and 243 - CALGRIP (California Gang Reduction Intervention and Prevention) Grant** - These are State funds used to supplement the salary of the South County Youth Task Coordinator and the Gang Reduction Intervention and Prevention initiative. The City of Gilroy has a matching portion as well as other Santa Clara agencies participating in Gang Prevention. The first grant is called Reach and totaled $500K. The second grant, South County One, is for $1.5 million.

**235 - Office of Traffic Safety Grant** - These Federal funds are used for traffic safety and supporting such PD operations as DUI and other types of traffic checkpoints and compliance monitoring operations. Monies are received on a reimbursable basis. Expenditures will total $330K in FY 16 and $185K in FY 17.

**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 16 and FY 17 unless the State’s budget does not appropriate such funding.

**253 - Proposition 172 Sales Tax** - Funds are received from State sales tax and must be used for public safety activities. In FY 16 and FY 17, $228K and $258K, respectively is anticipated to be spent.

**254 - Community Development Block Grant** – The Department of Housing and Urban Development (HUD) provides an annual grant to operate the Community Development Block Grant Program (CDBG). In FY 16 and FY 17, $1.0 million and $597K, respectively is anticipated to be spent.

**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 16 and FY 17 is projected at $302K and $294K. Expenditures are projected at $401K and $405K for FY 16 and FY 17, respectively.

**266 - City Wide Community Facilities District (CFD)** - These funds come from special landscape assessment districts to maintain improvements of a public nature that provide benefits to the property owners. The maintenance costs are assessed to various city wide district property owners because they benefit the individual parcels within various city wide districts rather than the City as a whole. Revenue for each of FY 16 and FY 17 is projected at $141K and $490K. Expenditures are projected at $40K and $253K for FY 16 and FY 17, respectively. The revenue and expenditures increase as more developments are added into the CFD.

**268 - REACT Task Force** - These grant monies come from the State government for the REACT Task Force (Rapid Enforcement Allied Computer Team) position. The grant reimburses the partial salary and benefits of a FT sworn Police Officer. In FY 16 and FY 17, $193K and $201K, respectively, is anticipated to be spent and received.

**290 - Recreation** – This fund tracks the activities of the Recreation Department. In both FY 16 and FY 17, the City projects a subsidy from the general fund of $2.3 million.
**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 debt service for the Gilroy Community Library bonds is accounted for in this series of funds. 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) in this series of funds. In FY 16, the City will begin to repay its California Energy Commission loan for its LED lighting program. Payments are projected to be approximately $71K per year.

**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. Below is an overview of the internal service funds with operational expenditures.

- **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.

- **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.
**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 cover 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 its water and wastewater user rate study and Proposition 218 process for wastewater rate increases initially effective March 1, 2012. The next increase in the wastewater rates (12%) will be effective on July 1, 2015, followed by a 5% increase effective on July 1, 2016. The City is in the process of reviewing its rate structure and does not anticipate any additional rate changes at this time.

**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 cover 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 water user fees have stayed consistent between years.

The City is currently performing a rate study for the water fund in consideration of the following factors: the State’s drought and gubernatorial mandate for conservation, the significant increase in SCVWD’s groundwater management fee related to the increased cost of purchasing water and transporting it to South County for groundwater recharge and increasing operational costs related to water production and delivery to city customers. Because of these factors, the City anticipates a rate increase to be proposed during FY 16 to allow the City to recover its cost in providing service. The City is also reviewing the Fourth Appellate District Court of Appeals San Juan Capistrano case regarding the legality of tiered rate structures. The City will be reviewing its rate structure going forward. The impact of the higher cost of service, along with potentially adjusting the rate structure, may result in a significant increase to monthly bills for consumers, but will be necessary to maintain the financial sustainability of the water enterprise.

**TRUST AND AGENCY FUNDS**

815- Highway 152 Agency Fund - This fund is maintained to collect the special assessments and pay the bonded indebtedness for the Highway 152 Series 2002 improvements.

817- Highway 152 Agency Fund Series 2006 - This fund is maintained to collect the special assessments and pay the bonded indebtedness for the Highway 152 Series 2006 improvements.

**Capital Improvement Budget**

In conformance with state law, the capital budget provides a 6-year window of proposed projects likely to be completed within the CIB horizon. The financial health of the capital improvement funds have improved over the last several years as a result of development.

**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.

#7, 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.

#1 - 6, Sidewalk Repair: This involves maintenance or repair of existing City facilities and/or replacement of existing equipment.
Funds 209-213 (Gas Tax Funds), 224 (Transportation Mobility Grants), 225 (Vehicle Registration Fees), 254 (HCD Grant Funds)

#s 8, 9, 12, 13, 21, 28, 30, 31, 32, 33 Street Projects: These projects will be completed using gas tax funds, transportation/mobility grant funds and vehicle registration fees.

#s 38, 39 HCD Projects: These projects will be completed using HCD grant funds.

# 10, Other Grants and Rehabilitation Projects: Funds have been set aside for project costs that would be spent upon acceptance of grant awards from sources such as One Bay Area Grant, BEP funding or similar opportunities. The specific projects have not yet been identified and will be consistent with the other projects described below within these funds.

# 14, Active Transportation Program (ATP) - Parking Management Plan Improvements: The ATP program grant will develop a new Parking Management Plan that will identify potential measures eligible for future air quality grant funding that will improve downtown parking as well as help Gilroy meet its air quality goals. The ATP grant measures seek to reduce greenhouse gas emissions by encouraging reduced driving, providing wayfinding and parking guidance systems to reduce multiple trips in search of on-street parking, make bicycling, walking, and use of alternate forms of transportation easier (especially within disadvantaged communities). The City of Gilroy, through consultation with the Downtown Business Association, has identified several priorities for a Downtown Parking Management Plan, some of which include:

- Provide access to convenient parking for downtown customers, employees, and visitors;
- Reduce the number of repetitive trips in search of vacant on-street parking;
- Support and encourage continued investment in the downtown core;
- Manage supply efficiently to avoid “unnecessary” investment;
- Identify, plan, or establish potential reserve of parking supply to facilitate future growth in downtown to serve commercial, residential, and public use needs;
- Mitigate spillover parking in residential neighborhoods;
- Evaluate Parking Guidance and Wayfinding sign strategies that reduce vehicle trips into downtown, and
- Establish the basis for a Comprehensive Parking Management Plan consistent with the recently begun Downtown Specific Plan Update associated with the High Speed Rail Station Area Master Plan efforts.

To address the above priorities and assess the parking management measures that should be pursued in the ATP, both an interim and a long term Downtown Management Plan with several parking management options will be developed for further review and discussion.

# 17, Gourmet Alley Pedestrian Enhancements: The project extends along the densest portion of Gourmet Alley in Downtown Gilroy between Fourth and Sixth Streets. It is located half-a-block to the west and parallels Monterey Street. The alley has enormous potential to serve as a major pedestrian corridor, linking downtown businesses to satellite
parking. The project would encourage walking and bicycling and provide an incentive for visitors and employees to use existing but somewhat remote surface parking lots and still be proximate to downtown venues. Another benefit of the project is that the majority of downtown Gilroy restaurants are concentrated between Fourth and Sixth Streets and have convenient rear access to Gourmet Alley.

The project would include providing a more aesthetic walking surface including ADA appropriate brick pavers, additional pedestrian level lighting, demarcation of non-pedestrian zones for restaurant sitting venues, and provision for bicycle parking, sitting bench locations, and opportunities for public art and landscaping. The project would also improve storm drainage systems, grouped recycling collection locations, and provide for safer and more sanitary collection of garbage collection, and trash compaction.

# 29, Auto Mall Parkway: The existing arrangement of Tenth and Chestnut streets requires motorists to negotiate a freeway off-ramp traffic signal and then navigate into a short left turn pocket at the Tenth and Chestnut signal to reach the Auto Dealers along south Chestnut Street. This project includes modifications to the existing traffic signal at Tenth and Chestnut to facilitate dual southbound left turning movements, moderate repaving and restriping to accommodate the installation of new dual left turns from Tenth onto Chestnut and changes to street name signs.

# 23, Fourth Street Streetscape from Monterey to Eigleberry: This is one of the nine side streets in the downtown area. This one-block street segment connects residential areas and the Civic Center to the downtown. It also connects transit patrons to the western portion of downtown along Eigleberry, where historical homes are beginning to transition into a professional office district. The Fourth Street Streetscape project is part of implementing the comprehensive Downtown Gilroy Specific Plan and, therefore, is an essential element in the success of the Specific Plan. The project design elements will be consistent with recently constructed Monterey Street and Sixth Street Streetscape projects.

# 24, Fifth Street Streetscape from Monterey to Eigleberry: This is the same project description as Fourth Street, except the project location is on Fifth Street between Monterey Street and Eigleberry Street.

# 25, Welburn Avenue Safety Project: The Welburn Avenue corridor is classified as an arterial roadway between Monterey Road and Church Street, a collector roadway between Church Street and Wren Avenue, and an arterial west of Wren Avenue to the project limit at Santa Teresa Boulevard. Welburn Avenue experiences relatively high volumes of traffic, especially in the collector roadway section of the corridor.

The purpose of this project is to provide improved safety and access for vehicles, pedestrians, and bicycles. The project proposes to stripe bike lanes or provide shared bike facilities throughout the Welburn Avenue corridor to provide improved access for cyclists as well as reduce vehicle speeds and better delineate narrower travel lanes in the current arterial section of the corridor.
In addition, the project is proposing improved street lighting, throughout the corridor including the replacement of existing luminaire heads with LED heads and the installation of additional luminaires in areas along the corridor currently with no street lighting or at intersections where improved lighting would help with nighttime safety. Pedestrian access will be improved through the installation of new ADA compliant pedestrian ramps at specific intersections as well as refreshed or new crosswalk striping. Overall, the project will improve the access and overall safety of the Welburn Avenue corridor for each of the primary modes of service.

# 19, Santa Clara Valley Water District (SCVWD) Comprehensive Stewardship Grant Project: This project will include funds from the Santa Clara Valley Water District (SCVWD) Stewardship Grant Project to fund maintenance activities sponsored by CHEER in Uvas Creek and Miller Slough.

#s 15, 18, 97, Ronan Channel Trail Construction: This project will include funds from the Santa Clara Valley Water District (SCVWD) Stewardship Grant Project and the One Bay Area Grant (OBAG) program, as well as funding from the City’s public facilities impact fund (Fund 440). The Ronan Channel project will convert an existing unpaved creek-side maintenance road that is closed to the public to a multi-use public trail for use by bicyclists and pedestrians. The maintenance road is currently operated by the SCVWD. The trail will be operated and maintained by the City of Gilroy through a joint use agreement. Proposed project improvements include designing the following elements: paving the existing maintenance road on one side of the creek to trail standards established in the Gilroy Trails Master Plan; fencing between the roadway and the trail per SCVWD/City standards; native planting and water-conserving irrigation adjacent to the trail; standard street crossing and vehicular barriers where the trail intersects with streets; trails signage at all access points, and interpretive signage along the parkway. The trail will be designed in compliance with ADA accessibility guidelines. Interpretive themes and displays will be designed in partnership with SCVWD and the Gilroy Unified School District (GUSD). The Ronan Channel trail will include a new pedestrian bridge over the channel.

#s 16, 98, Bicycle Expenditure Program (BEP) Sports Park Trail Construction: Using grant funding and the City’s public facilities impact fund (Fund 440), this project will connect to and expand the existing Uvas Creek Trail system at the Sports Park and will take pedestrians to Gavilan College. This project consists of asphalt over an aggregate base. A bridge is planned to cross Uvas Creek connecting the open space area with the Gilroy Sport Park. Street crossing improvements are required at Santa Teresa Blvd/Mesa Rd/Gavilan College intersection. The project with include amenities and concrete split rail fencing.

#s 20, 26, 27, 100, 102, 103, Lion’s Creek Trail: This project involves the completion of the multi-use trails for bicycles and pedestrians along stretches of Lions Creek, along with Fund 440 funding. This will complete another significant section of the city’s trails master plan.
# 11, Tenth Street Improvements: The Transportation Agency of Monterey County (TAMC) is the lead agency in a project to add a third rail to the railroad crossing at Tenth Street. The City project will complement this by widening Tenth Street to three lanes in each direction and adding other improvements associated with the installation of the third rail line. This represents the City’s proportional cost for this project with TAMC. The improvements will be consistent with City and railroad standards.

#s 22, 101, Bicycle Expenditure Program Gilroy Gardens Trail: This project will use BEP funding and public facilities impact funds (Fund 440) to connect to and expand the existing Uvas Creek Trail system at Third Street and will take pedestrians to Gilroy Gardens. This trail represents 9,000 linear feet of a 12’ wide bicycle/pedestrian trail with 18”-24” wide aggregate shoulders on each side. Trail materials will be asphalt on top of an aggregate base. Trail amenities will include bench seating, trash receptacles, pet bag dispensing stations, and interpretive signage at interim points and trail signage and bollards at trail end/start points. Concrete split rail fencing is planned in zones adjacent to agricultural uses and landscape improvements will consist of trees, shrubs/grasses and temporary irrigation. Striping will separate two-way trail uses.

**Fund 400 (Capital Projects Fund)**
Revenue to the fund is from interest income and transfers from the general fund.

#58, Sidewalk Curb &Gutter 80/20 Program: In addition to Fund 200 funding, this project will repair 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 433 (Traffic Impact Fund)**
The Traffic Impact Fund (TIF) is intended to finance the construction of streets, bridges, interchanges and traffic signals.

The following projects (roadway segments and extensions, bridges and intersections) are reimbursements to developers for expenditures to construct traffic improvements already budgeted for in this fund. These developers will bear the full initial cost of the required improvement and will be reimbursed according to the City’s reimbursement policy. Item # 76, Las Animas Ave at Monterey Road Traffic Signal, represents a reimbursement to a developer for an improvement that has already been completed and is in place.

**Roadway Segments and Extensions:**
# 86, Extension of Uvas Dr. to Santa Teresa Blvd.
# 59, Extension of East Luchessa from Camino Arroyo to Cameron
# 67, Extension of West Luchessa from Greenfield Dr. to Santa Teresa Blvd
# 90, Widening of West Luchessa from Thomas Rd to Monterey Rd

**Bridges:**
# 88, NW Quad Cohansey at Llagas Crk. Bridge over Llagas Creek as part of a future extension of Cohansey Ave
# 62, Cameron Ave. at Princevalle Channel Bridge over Princevalle Channel as part of a future extension of Cameron Ave
# 69, Tenth St. at Uvas Creek Bridge over Uvas Creek as a part of a future extension of Tenth St.

Intersections:

# 60, Construction of the Tenth St., Luchessa Ave. Intersection  
# 61, Modifications to the Third St., Santa Teresa Blvd. Intersection  
# 63, Modifications to the Miller Ave. (Tenth St.), Santa Teresa Blvd. Intersection  
# 64, Modifications to the Camino Arroyo Ave., Hwy 152 Intersection  
# 65, Modifications to the Camino Arroyo Ave., Holloway Rd. Intersection  
# 66, Construction of the Cameron Ave., Luchessa Ave. Intersection  
# 77, Modifications to the Ballybunion St., Santa Teresa Blvd. Intersection  
# 78, Modifications to the Santa Teresa Blvd., Hwy 152/First St. Intersection  
# 79, Construction of the Tenth St., Uvas Park Intersection  
# 80, Construction of the Cohanseay Ave., Wren Ave. Intersection  
# 81, Construction of the Cohanseay Ave., Church St. Intersection  
# 82, Construction of the Cohanseay Ave., Monterey St. Intersection

The following intersection projects are budgeted in the Traffic Improvement Fund to be carried out by the City. No reimbursement to developers will be required for the following projects:

# 68, Design for Tenth St. at Uvas Creek Bridge: This project provides the design to construct the Uvas Creek Bridge as a part of a future extension of Tenth Street. The design is being performed by the city. The construction (see project # 69 above) will be performed by the Glen Loma development as a requirement of their Development Agreement.

#s 70, 71, 72, 75, 83, 84 and 85, Roundabout Improvements at Mantelli and Church (70), Mantelli and Wren (71), Mantelli and Kern (72), Kern and First (75), Mantelli and Hirasaki (83), Wren and Welburn (84), Kern and Welburn (85): These projects will include improvements, consistent with City of Gilroy streets standards in accordance with the Circulation System Master Plan for the City of Gilroy.

# 87, Luchessa Ave. at Uvas Creek - Pedestrian Bridges: This project will include improvements, consistent with City of Gilroy streets standards in accordance with the Circulation System Master Trails Master Plan for the City of Gilroy.

# 73, 74, 89, Monterey Masten Intersection Improvements, Fitzgerald Avenue Improvements and Santa Teresa Blvd and Fitzgerald Avenue Intersection Improvements: These items represent the City’s proportional cost for these projects to be completed in conjunction with the County of Santa Clara. The improvements will be consistent with City and County standards.

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.
# 91, 533, Twenty Four Inch Sewer Main: This project consists of the construction of a new 24 inch sewer main to replace an existing 18 inch trunk main installed in the 1960s. The project replaces aging existing facilities as well as providing new, increased capacity.

Funds 436 (Water Development)
Fund 436 is used for the construction of water transmission, distribution and storage systems within the City’s water system.

# 92, Miller Avenue Water Main Connection to Reservoir B&G: This project will improve the efficiency of the current connection between the water system and the reservoirs by adding a parallel line adjacent to the existing 18” line from the 24” trunk main from Santa Teresa Blvd to the reservoir sites at Santa Teresa Blvd and Miller Street.

# 93, Santa Teresa Blvd 24” Water Main: This represents a reimbursement to a developer for an improvement that has already been completed and in place. The developer has born the full initial cost of the required improvement and will be reimbursed according to the City’s reimbursement policy.

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. The projects listed below are in addition to those described above that have more than one source of funding.

# 94, New Fire Staff Fit Up: This project fully equips fire personnel that will staff a new fire station in the Glen Loma development. Gilroy Fire Department is an all risk department that requires equipment and personnel to be safely equipped to handle a variety of hazards they respond to. The fire station will be equipped with a new fire engine and fire personnel. Fire personnel routinely wear a Class B uniform to show their identity and present themselves professionally. On special occasions they wear a formal Class A dress uniform. When responding to fire emergencies firefighters wear fire resistant structural or wildland firefighting turnout jacket, pant, boots and helmet. They have a department issued self-contained breathing apparatus mask for respiratory protection and a personal flash light. When responding to an EMS incident, personnel have a department issued EMS safety jacket and safety pack to provide an exposure protection barrier from communicable diseases.

# 96, New Fire Engine: The new engine for the Glen Loma fire station will be a type one, 1500 gallon per minute pumper with a 700 gallon built-in water tank that will be equipped with all of the necessary equipment and hose to protect and fight structure fires.

# 95, New Police Staff Fit Up: This project fully equips new Police personnel for deployment with all required equipment and personnel safety training needed to perform their job. Police personnel equipment includes items such as uniforms, badges, body worn cameras, weapons, and personal protective equipment such as protective vests, ballistic helmets and shields. Officers are issued a car with fully fitted cage, lights as well as radar, video camera, mobile computer terminal and radio. In addition each officer is given special department training prior to deployment.
# 99, Silicon Valley Interoperability Authority Project: The Silicon Valley Regional Interoperability Authority (SVRIA) is a joint powers authority formed with several cities within Santa Clara County. The system will allow public safety providers in our region to communicate with each other typically when dealing with large disasters and mutual aid events. The authority will coordinate and manage the public safety interoperability systems within the region and provide coverage studies, new radio equipment at the police facility and for field public safety personnel. Gilroy’s current radio system has been in place for several decades and has reached the end of its useful life. The new radio upgrade will move Gilroy’s antiquated radio system to the new regionally accessible public safety radio system that will provide for seamless field communication amongst various public safety agencies in mutual aid situations, especially in instances of natural or manmade disasters, occurring throughout the Bay Area region.

# 104, Civic Center Parking: This project provides parking at the civic center consistent with the Civic Center Master Plan.

#s 105, 106, Additional Civic Center Land and Demolition: Consistent with the Civic Center Master Plan, four properties along Dowdy are to be acquired by the City over time. This project sets aside funds for the purchase of those properties when they become listed for sale, and provides for the subsequent removal.

Funds 486 (Downtown Improvements)

# 107, PD Cameras: This project will provide up to three security cameras at various locations in Downtown Gilroy along Monterey Road between Fourth and Sixth Streets with all associated hardware conduit and cabling.

Funds 235, 245 and 290 (Police Traffic Safety Grant, Police Special Grants, and Recreation)

#s 34, 35 - 37, 40 - 57 These items are for Police and Recreation.

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

#s 108 - 528, These CIB items are for the purchase of internal service fund capital, including fleet, equipment, facilities and IT purchases for safety and non-safety operations.

Fund 700 (Sewer Enterprise Fund)

#s 529, 530, 531, 532, Miscellaneous Equipment and Maintenance: This includes equipment for the operation of the wastewater collection system, as well as ongoing maintenance projects.

#s 534, 571, I-net Improvement Project: This project will provide fiber optic cable at designated locations throughout the City for a city fiber optic system.
Main Replacements: These projects will replace sanitary sewer mains at designated locations throughout the City, including Church, Wayland, Fifth, Seventh and Rosanna Streets; Swanston Lane; Forest Avenue; Monterey Road and alleyways and backyards. Sewer mains will be sized to meet current demands.

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

Miscellaneous Equipment and Maintenance: This includes equipment for the operation of the water distribution system, as well as ongoing maintenance projects.

First Street Water and Storm Drain Main: This project includes the removal and replacement of a water pipe that is over 100 years old. The pipe will increase from about 16” to 24”, connecting two existing 24” diameter sections of pipeline. The larger diameter will significantly reduce pumping costs due to friction in the pipe. The existing pipe is of an unusual oval shape, making it very difficult to repair.

Main Replacements: These projects will replace water mains at designated locations throughout the City, including Carmel, Broadway and Casey streets. Water mains will be sized to meet current demands and fire safety flows.

Summary
As noted above, the City is recovering from the economic downturn, as evidenced by the increase in sales tax and property tax receipts and development activity. Staff will continue to present quarterly budget reviews to the City Council, to ensure the City remains true to its goal of financial sustainability and high performance.

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

Respectfully submitted,

Thomas J. Haglund
City Administrator