

May 17, 2011, 5:45 p.m.

City Council Chambers, 333 Civic Center Plaza

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1. Call to Order - Mayor Ives called the special meeting of the Tracy City Council to order at 5:49 p.m.
2. Roll Call - Roll call found Council Members Abercrombie, Elliott, Rickman, Mayor Pro Tem Maciel and Mayor Ives present.
3. Items from the Audience - None.
4. CONDUCT A CITY COUNCIL WORKSHOP TO REVIEW THE PROPOSED FY 11-12 OPERATING BUDGET – Zane Johnston, Director of Finance and Administrative Services, presented the staff report and used a power point in his presentation.

The City's total budget consists of the Operating budget of \$111,782,350, the Capital budget of \$43,698,390, which was reviewed on March 15, 2011, and the Debt budget of \$26,259,100 which comprises debt associated with the assessment districts and Mello Roos. Mr. Johnston concentrated on reviewing the General Fund budget of \$48,456,150 which is part of the Operating budget. Mr. Johnston added no action would be taken at the workshop although any revisions to the budget would be brought back to Council on June 7, 2011 when the FY 11-12 budget will be presented for adoption.

City governments throughout California have been seriously impacted by the recession since most rely heavily on property tax and sales tax which have been the most severely impacted. In Tracy, combined property and sales tax peaked at \$33.4 million in FY 06-07. In FY 10-11 these two tax revenues will total just \$25 million, almost \$9 million less.

The City has responded by reducing expenses primarily through a reduction in employees, and wage and benefit concessions. Despite a reduction in the number of FTEs from 558 in FY 07-08 to 466 FTEs in FY 11-12 the City has managed to maintain service levels.

The General Fund budget has anticipated revenues of \$47 million and expenses of \$48.4 million. The deficit of \$1.4 million from reserves is the smallest in five years. Measure E has anticipated revenue of \$4.6 million in FY 11-12 which will help; however, the City has an existing structural deficit of \$5 million, plus \$1 million in new costs for FY 11-12 for a total of \$6 million. Subtracting \$4.6 million of Measure E tax money results once again in a \$1.4 million deficit.

Property tax and sales tax comprise almost 93% of all General Fund tax revenue and are the primary sources of payment for public safety. This year the City expects a 2.5% decrease in property tax which equates to a decline of \$500,000 since FY 10-11. Property taxes have declined almost 30% in the past four years.

Sales tax peaked at \$13.3 million in FY 06-07. In FY 11-12 sales tax is estimated at just under \$11 million. Sales tax numbers have shown improvement three quarters in a row over the previous years' quarters which indicate a positive trend.

Most labor contracts are currently in negotiation or are close to expiring. The FY 11-12 budget does not include any savings from negotiations. Furloughs are expected to continue for those already in the process, but that will depend on the outcome of the negotiations. There will be some offset savings. Historical data shows not every penny of every line item in the budget is spent resulting in a projected \$1.2 million in savings. Organizational changes will continue with another wave of retirements expected by December 31, 2011. Not all of the vacated positions will be filled.

Mr. Johnston used a graph to show how the gap between revenues and expenditures is narrowing, and stated the ultimate challenge will be to maintain that balance five years from now when Measure E expires.

Mr. Johnston referred to some concerns particularly in regard to state budget actions and added there will be about a \$1 million increase to all funds. Since Redevelopment Agencies have not yet been eliminated by the state, the proposed budget anticipates redevelopment funds continuing. The City has \$690,000 in staff expenses which are funded by the Community Development Agency.

VLF fees are set to expire and, as a result, there will be no revenue source to fund jail booking fees or COPS grants. The City has added \$130,000 to the proposed budget in anticipation of the expiration of VLF fees.

PERS rates will increase due to stock market losses in 2008 and longer life spans for males, and consequently, public safety personnel. In FY 11-12 PERS contributions will increase by 3.20% for public safety and 2.20% for miscellaneous employees. And, while there are concerns with funding public pensions, many of those concerns are not applicable to Tracy. Another cost concern is medical insurance.

Moving forward the economy is slowing coming out of recession. Job growth is slow and there have been fundamental changes in consumer behavior.

With regard to the Fire Department budget, while the City can fund increased labor expenses because of multiple funding sources, Tracy Rural cannot, because all it has is static and/or declining property taxes. Mr. Johnston recommended delaying adoption of the Fire budget until September when the City will have more complete numbers.

Leon Churchill, City Manager, stated that despite the current economic situation there are opportunities to address community needs as they are identified. Consequently, in FY 10-11 and FY 11-12 the City will provide \$7,500 for public education of Fire related items including drowning prevention safety, and \$125,000 for gang related issues. In addition, \$20,000 has been added to the budget to expand the graffiti abatement program. The current program addresses graffiti in the redevelopment area, but the program will be expanded citywide to include paint and vouchers for abatement of private property. The City does a good job in removing graffiti on public property, typically within 1-2 days; however, this program is being expanded so property owners can abate private property as well.

Mr. Churchill commented on the "GREAT" program, an extension of the City's gang related efforts, which will be offered through the Tracy Unified School District. Mr. Churchill indicated funding for this program will be included in the FY 11-12 Police budget. Another \$75,000 is proposed for special events in the downtown area to expand activities over 11 additional weekends. The Downtown Specific Plan is now being discussed at Planning Commission level as to what the mechanisms are for vitalization of the downtown. One theory is to increase the level of activity through special events.

Mr. Churchill concluded by stating that \$10,000 has been included in the budget to cover algebra tuition for middle school students. This is part of the City's economic development effort to encourage students to pursue higher education.

Mr. Johnson stated the City began receiving increased sales tax from Measure E on April 1, 2011. Funds from Measure E are estimated at \$4.6 million for FY 11-12 and will be used proportionally on General Fund tax supported services. Measure E will expire on March 31, 2016, and the Council recently approved a plan to balance the budget when Measure E expires.

Mr. Johnston concluded his presentation by stating that with regard to reserves, the City is now in the fourth year of declining property taxes and the fifth year of having to utilize the City's reserves. However, the City is managing well, even though reserves have been reduced from approximately \$38 million in FY 2008-09 to just less than \$25 million in FY 11-12. The City has a budget of \$48 million with almost \$25 million in reserves. This equals a 50% reserve; the City's policy is for a 20% reserve.

Council Member Rickman enquired if the City attempts to recoup costs for graffiti abatement either from the court, or in the case of minors, from the parents. Mr. Churchill responded the City does go after costs where possible.

Council Member Rickman stated the total operating budget has increased 5.8 percent over last year's budget and inquired where the increase came from. Mr. Johnston stated the increase is mainly from utilities, water and wastewater, possibly water purchases, and the equipment acquisition fund. Council Member Rickman inquired as to the length of the water acquisition contracts. Mr. Johnston stated the City purchases water from several sources of water, one of which is SSJID. Next year the City proposes to purchase more water from SSJID so it can rely less on groundwater. The City also contracts with the federal government for water and with various irrigation districts. The contracts are usually long term although they do vary.

Council Member Abercrombie stated Tracy Rural is providing only two firefighters at their stations because of budget issues, and asked how that would impact the City in the event of a major incident or if Tracy Rural is the second unit on scene. Al Nero, Fire Chief, responded an additional unit would have to be sent in.

In response to a question from Council Member Abercrombie regarding the replacement of Engine 92, Chief Nero stated the Fire Department is in the process of conducting a thorough analysis of the entire fleet and will hold off on any replacements until the analysis has been completed.

Council Member Abercrombie commented on the \$125,000 budgeted for police overtime and asked what mark the patrol has to hit before overtime is authorized, and if five was

the minimum staffing on the street. Captain Espinoza responded the \$125,000 is for overtime to deploy resources for gang suppression. The City has six geographical beats up from the original four, mainly for accountability and to focus on neighborhood issues. Five officers will overlay the City; the minimum staffing level is five, although sometimes there are six and even seven officers, plus a supervisor. Different shifts might have additional gang units, traffic officers and administrative personnel.

Council Member Abercrombie stated the budget calls for staffing to be reduced by one patrol officer and suggested that instead of eliminating the position it remain unfilled. Mr. Churchill responded that is a possibility although it had been agreed the position would be trimmed through attrition. Council Member Abercrombie stated he was concerned the attrition was proposed pre-Measure E which was intended to maintain services, including public safety. Council Member Abercrombie suggested freezing the position and re-evaluating the situation throughout the year.

Mr. Johnston stated the Police Department had submitted a revised organizational structure that was not reflected in tonight's agenda. The Police Department could be moving positions around so that there is one less administrator and one more in patrol. It doesn't affect the overall budget numbers, its still the same Police Department budget but there is a proposal to spend the money slightly differently. Council Member Abercrombie stated he wasn't concerned with how officers were deployed just that the number of officers remains the same. Mr. Johnston added the models previously provided to Council contained an agreement with the TPOA which included the attrition schedule.

Council Member Abercrombie asked for an update on a phone tree for the Police Department. Captain Espinoza stated there had been problems but the issues have been resolved and the project is moving forward.

Council Member Elliott questioned the \$75,000 budgeted for additional events in the downtown. Mr. Churchill stated 11 events have been added throughout the summer on weekends when nothing was planned. The discussions are ongoing and feedback is positive. A measure of success is trying to generate traffic so the shops want to expand their hours. Council Member Elliott suggested public outreach will be the key to success.

Mayor Pro Tem Maciel inquired if funding for the additional downtown events would come from the General Fund. Mr. Churchill stated it would. Mayor Pro Tem Maciel added that as far as maintaining the levels of service during Measure E, the City's commitment does not necessarily equate the number of employees in any department to levels of service. If the Police Department can maintain levels of service by civilianizing a position it would indicate a net reduction in the number of sworn officers, but the City would still be maintaining levels of service. That could apply to other departments as well since the City's goal is to seek efficiencies wherever possible.

Council Member Abercrombie inquired if the City had figured out a process for educating nonprofits and schools regarding waste reduction. Kevin Tobeck, Director of Public Works, responded whenever there is an opportunity the City submits grant applications and continues to work with schools to help them with their programs. The City has a multi-family grant program for larger apartment complexes to give them an opportunity to

recycle. In addition, the City has approximately \$5,000 in grant money schools can apply for to help with programs in some of their classes.

Council Member Abercrombie inquired who would be responsible for providing education to elementary school children on building construction hazards, public nuisance and graffiti. Andrew Malik, Director of Development and Engineering Services, stated Ana Contreras, Code Enforcement Manager, and Kevin Jorgensen, Chief Building Official, will visit schools and educate children on the importance of getting permits.

Council Member Rickman asked if staff is taking steps to reduce costs to the prior year's level and pointed to the increased costs for equipment acquisitions. Council Member Rickman suggested allowing increased mileage on City vehicles before they are replaced. Mr. Johnston responded about 18 months ago the City completed a fleet utilization study and reduced the City's fleet as a result. The Equipment Acquisition fund gets money by charging the various departments for the equipment they have. These charges have been suspended for two years. As a result not as much money comes into the fund so the equipment has to last longer. Although the City has been spending less money from the Equipment Acquisition fund, more will be spent this year even though the City is trying to make the equipment last longer. Council Member Rickman stated the City needs to do the best it can with what it has and added he wanted to be sure that all departments were being reviewed to ensure the City is spending its money wisely.

Mayor Ives asked if information would be available on the Police organizational reconstruct by the time the budget is adopted on June 7. Mr. Johnston stated probably not, but it will not affect the amount for the Police Department included in the budget which Council will be asked to approve on June 7. Mr. Johnston added that the Council also grants the City Manager authority to move money within the department budget if needed. Mayor Ives stated the proposed changes within the budget should keep service levels at the current level or make them better. Mr. Churchill added information on the reorganization would be provided.

Robert Tanner, 1371 Rusher Street, stated it was understood Measure E would save jobs as well as programs. A reduced head count in the Police Department indicates the community voted for something it did not get. Mr. Tanner added there was no expectation of any reductions in police or fire.

Mr. Tanner stated the budget estimate for sales tax revenue for FY 10-11 is approximately \$10.3 million. The budget for FY 11-12 is \$10.9 million and this amount includes a full year of Measure E which is anticipated to be \$4.6 million. Mr. Tanner added that means other sales tax revenue amounts to only \$6.3 million, and inquired why that amount isn't much greater than the estimate of \$10.3 million for FY 10-11. Mr. Johnston stated a new line category has been created for the \$4.6 million from Measure E so it won't be confused with the regular sales tax. The \$10.9 million is the one cent only sales tax, without Measure E. Mr. Tanner asked if the combination of \$10.9 million in regular sales tax and \$4.6 million from Measure E would put the City in the position of not having to use the reserves. Mr. Johnston stated no. After all the organizational changes made in the last few years the City had a \$5 million structural deficit. Measure E plugged almost all of that with \$4.6 million. However, even if the City didn't have \$1 million in new costs it would still have about \$400,000-\$500,000 less revenue than expenses, even with Measure E.

Mr. Tanner stated with regard to property taxes the City was receiving 14% but after 1996 the percentage was reduced to 4.6%. Mr. Tanner asked if the City would eventually receive the difference. Mr. Johnston responded no. The County has the power in property tax relationships. In order for LAFCO to approve an annexation there must be a property tax sharing agreement in place that the County agrees with otherwise the City wouldn't be able to annex land. Starting in 1996 the County began demanding more property tax. The City's share was reduced from 35% of the local share to in some cases 5% of the local share. In the Gateway annexation the County will get 95% of the local property tax and the City will get 5% of the local share which equals approximately 1.7 cents of every property tax dollar paid.

5. Adjournment – Mayor Ives adjourned the meeting at 6:59 p.m.

The above agenda was posted at the Tracy City Hall on May 12, 2011. The above are summary minutes. A recording is available at the office of the City Clerk.

Mayor

ATTEST

City Clerk