

NOTICE OF SPECIAL MEETING

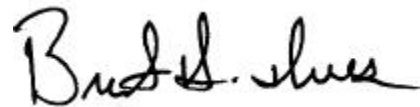
Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

Date/Time: Tuesday, June 3, 2014, 5:30 p.m.
(or as soon thereafter as possible)

Location: Council Chambers, City Hall
333 Civic Center Plaza, Tracy

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

1. Call to Order
2. Roll Call
3. Items from the Audience - *In accordance with Procedures for Preparation, Posting and Distribution of Agendas and the Conduct of Public Meetings, adopted by Resolution 2008-140 any item not on the agenda brought up by the public at a meeting, shall be automatically referred to staff. If staff is not able to resolve the matter satisfactorily, the member of the public may request a Council Member to sponsor the item for discussion at a future meeting.*
4. CONDUCT WORKSHOP TO REVIEW AND DISCUSS THE PROPOSED FY 2014/15 CITY BUDGET, FIVE-YEAR FORECAST, AND GENERAL FUND RESERVES
5. Adjournment



Mayor

May 29, 2014

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6105), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Tracy City Council regarding any item on this agenda will be made available for public inspection in the City Clerk's office located at 333 Civic Center Plaza, Tracy, during normal business hours.

AGENDA ITEM 4

REQUEST

CONDUCT WORKSHOP TO REVIEW AND DISCUSS THE PROPOSED FY 2014/15 CITY BUDGET, FIVE-YEAR FORECAST, AND GENERAL FUND RESERVES

EXECUTIVE SUMMARY

The purpose of the FY 2014/15 City Budget Workshop is to review and discuss the City Budget as proposed by the City Manager, and Five-Year Forecast and General Fund Reserves.

DISCUSSION

This report discusses the City's Proposed FY 2014/15 City Budget, Five-Year Forecast, and General Fund Reserves.

PROPOSED FY 2014/15 CITY BUDGET

A workshop has been scheduled for June 3, 2014 to discuss the proposed FY 2014/15 City Budget (Attachment 1). This workshop will allow the Council and community to review and discuss the operating, capital, and debt service budget. The attached budget document includes the City Manager's Budget Message which provides a detailed overview of the City budget by fund.

In summary, the proposed FY 2014/15 City Budget is as follows for all funds:

PROPOSED FY 2014/15 CITY BUDGET	
<i>Operating Budget</i>	\$126.3
<i>Capital Budget</i>	\$73.1
<i>Debt Service</i>	\$26.9
TOTAL PROPOSED BUDGET	\$226.3M

FY 2014/15 General Fund Budget

The proposed FY 2014/15 General Fund Budget is a balanced budget. As with the prior year, General Fund reserves are not required to balance the FY 2014/15 budget, with an anticipated General Fund net excess amount of \$700,000. Based on current projections, the City's revenue outlook is positive, but continues to be challenged by uncontrollable personnel-related expenses and the anticipated expiration of Measure E.

Below is a summary of the FY 2014/15 General Fund Budget:

GENERAL FUND SOURCES	
<i>Property Tax</i>	\$16.3
<i>Sales Tax</i>	\$16.1
<i>Temporary Taxes – Measure E</i>	\$7.0
<i>Other Revenue</i>	\$18.9
Total Sources	\$58.3M
GENERAL FUND USES	
<i>General Fund Operating Expenses</i>	\$56.4
<i>Debt Service Payments</i>	\$1.2
<i>General Fund Transfers</i>	\$0
TOTAL GENERAL FUND USE	\$57.6M
TOTAL GENERAL FUND NET RESOURCES	\$700K

After receiving Council and community input, staff will present the proposed FY 2014/15 City Budget for Council adoption on June 17, 2014.

FIVE-YEAR FORECAST

The General Fund Five-Year Financial Plan spans FY 2014/15 – FY 2018/19, setting the stage for the FY 2014/15 budget development. The Five-Year Financial Plan is an independent financial tool that is based upon current cost and revenue forecasts, but is designed to be fluid in nature to plan for expected changes in revenues and/or increases in expenditures.

The updated financial plan, which covers FY 2014/15 through FY 2018/19 is based on several key general fund revenue and expenditure assumptions, many of which are determined by established policy, trend analysis from prior years, and/or empirical data provided by consulting and auditing firms.

The five-year financial projections below reflect revenues less expenditures for FY 2014/15 through FY 2018/19.

Five-Year Financial Plan

GENERAL FUND FORECAST	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
REVENUES	\$58.3M	\$57.8M	\$55.3M	\$55.6M	\$58.5M
EXPENDITURES	\$57.6M	\$56M	\$57.9M	\$60M	\$62.4M
REVENUES LESS EXPENDITURES	\$700K	\$1.8M	(\$2.6M)	(\$4.4M)	(\$3.9M)

Excess revenue is anticipated for FY 2014/15 and potentially FY 2015/16. FY 2013/14 year-end projections assume net resources of \$4.7 million. This is due to an improving economy, uptick in development, and strong sales tax growth. Unlike sales tax, property tax has not yet returned to pre-recession levels; however, preliminary trends indicate that assessed value in San Joaquin County may significantly improve over the next couple of years. It is important to remember that the City's portion of property tax revenue is limited for new development – for every dollar, the City only receives roughly 5.25 cents versus the City's regular share, which is 35 cents per dollar. For some developments, the City receives little to no property tax.

Non-discretionary expenditures continue to rise due to changes in employee health care expenses, adjustments to PERS, scheduled employee merit increases, cost of living increases in commodities and maintenance contracts, utilities, and required life and safety expenses. Beyond FY 2014/15, the forecast does not assume any new positions or adjustments to employee salaries. While past reduction strategies will help mitigate the loss of Measure E in the short term, uncontrollable expenditures have grown, contributing to future deficits.

Several revenue opportunities are on the horizon, but cannot be incorporated into the forecast until there is a higher level of certainty as to if and when those projects will occur. In the interim, staff continues to develop revenue enhancement strategies and cost-containment approaches to mitigate assumed future deficits.

GENERAL FUND RESERVES

The City's General Fund Reserve continues to be strong. As of June 30, 2013, the City's total reserves were \$28.9 million; of that amount, approximately \$27.5 million is unassigned, which includes the City's Reserve for Economic Uncertainty (\$9.9 million). The unassigned fund balance of \$27.5 million represents 55% of total General Fund expenditures for FY 2013/14. The City's reserve policy requires a reserve level of 20% of General Fund expenditures. Proposed FY 2014/15 General Fund reserves are estimated to be \$33.6 million.

The effects of Measure E combined with the economic recovery are evident because the City has not had to use its Reserve for Economic Uncertainty to balance its budget since FY 2012/13. Although the FY 2012/13 Adopted Budget was originally balanced with reserves, the fiscal year ended with excess revenue in the amount of \$1.9 million. Similarly, FY 2013/14 is expected to close at year-end with an estimated \$4.7 million in General Fund net resources. Per Council policy, year-end savings/excess revenue is allocated to the Reserve for Economic Uncertainty.

	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
GENERAL FUND ENDING BALANCE	\$19M	\$19M	\$19M	\$19M	\$19M
RESERVE FOR ECONOMIC UNCERTAINTY	\$10.5M	\$8M	\$8M	\$9.9M	\$14.6M
SUBTOTAL	\$29.5M	\$27M	\$27M	\$28.9M	\$33.6M
DEFICIT/EXCESS REVENUE	(\$2.5M)	(\$52K)	\$1.9M	\$4.7M	\$700K
ENDING TOTAL RESERVES	\$27M	\$26.9M	\$28.9M	\$33.6M	\$34.3M

Projected Excess Revenue

The financial projections below reflect excess revenue over expenditures for FY 2013/14 through FY 2015/16. Over the next three years, approximately \$7.2 million is anticipated in excess revenue. The table below reflects projected revenue less expenditures for the current year and the next five years. It should be noted that the projected net resources are due to continued increases in both sales tax and Measure E, which will expire in 2016.

GENERAL FUND FORECAST	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
REVENUES LESS EXPENDITURES	\$4.7MK	\$700K	\$1.8M	(\$2.5M)	(\$4.4M)	(\$3.9M)

General Fund Reserve Policy Considerations

Given limited, anticipated excess revenue, coupled with projected deficits in the near future, the City is in a position to strategically explore reserve designation and excess fund balance allocation options. This also serves as an opportunity to further clarify the purpose and use of reserves and explore alternative reserve designations.

Reserve Designations

Presently, the City only has one reserve designation which is the Reserve for Economic Uncertainty. Historically, this reserve has been used to bridge budget gaps due to revenue. It is recommended that Council consider diversifying its reserve designations. Some options for discussion are discussed below:

- 1. Economic Uncertainty (EU) Reserve.** The City currently has an Economic Uncertainty Reserve that has been previously used to bridge budget shortfalls due to changes in the economy. However, current policy language is not clear with respect to the intent and use of this reserve. For example, in addition to revenue shortfalls, should the EU Reserve also be used for economic incentives to retain a major sales tax generator or one-time uses that result in future efficiencies and/or budgetary savings. Possible “economic triggers” and one-time uses include, but are not limited to:
 - Significant decreases in property or sales tax, or other economically sensitive revenues;
 - Loss of businesses considered to be major sales tax generators;
 - Economic incentives to retain a significant sales tax generator;
 - Reductions in revenue due to actions by the state/federal government;

- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
 - One-time maintenance of service levels due to significant economic budget constraints; and
 - One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.
2. **Measure E Smoothing Reserve.** In preparation for the sunset of Measure E, it is recommended that a Measure E Smoothing Reserve be established; excess revenue would be allocated to the reserve. If necessary, this reserve would be used to balance the City's budget upon the expiration of Measure E.
3. **Emergency Reserve.** A best practice recommended by the Government Finance Officers Association (GFOA) is to establish an emergency reserve. This reserve can be used for a variety of needs, including litigation and/or extreme events, such as unforeseen significant infrastructure repairs or disasters.

Currently, the City is litigating actions by the Department of Finance related to the dissolution of redevelopment and its interpretation of enforceable obligations. On April 22, 2013, the City received a letter from Department of Finance (DOF) stating that the City of Tracy Successor Agency was required to remit an additional \$4.6 million for distribution to other taxing agencies. The DOF has taken the position that a transfer from the former Community Development Agency (CDA) via a Public Improvement Grant and Cooperation Agreement to the City for the design and construction of the Downtown Plaza Improvements (6th Street and Central Avenue) and purchase of the West Side Market Property was not supported by "enforceable obligations," and must be made available for distribution to other taxing entities. If the City is forced to remit these funds back to DOF, and does not do so, it could ultimately result in offsets to the City's sales and use tax allocation or to its property tax allocation.

It is recommended \$4.6 million be allocated to the Emergency Reserve in the event the City does not prevail in its lawsuit.

4. **Capital and Special Projects Reserve.** The City currently does not have a dedicated funding source to support the City's current and future capital project needs. Funds reserved under this category would be designated for infrastructure and capital/special projects identified in the City's Five-Year Capital Improvement Plan (CIP). Allocating a portion of year-end excess revenue could be one method of funding this reserve.
5. **Economic Development Reserve.** The dissolution of redevelopment has placed a significant pressure on city general fund budgets to support economic development. In recent years, the City used remaining funds in the Residential Specific Plan (RSP) Incentive Fund to support economic development and business attraction/retention efforts, such as the creation of a business incubator and improvements to the West Side Market. Now that the fund has been depleted, the City is exploring alternatives, including the establishment an Economic Development Reserve. Setting aside funding for economic development activities, like implementing infrastructure or façade improvements, would provide the City flexibility in attracting significant sales tax generators. Allocating a portion of year-end excess revenue could be one method of funding this reserve.

Upon Council direction to further explore the recommended reserve designations, another reserve workshop will be scheduled (tentatively August 19, 2014) to discuss policy implementation options.

STRATEGIC PLAN

This item is in accordance with Council Governance Strategy, Goal 2: Ensure continued fiscal sustainability through budgetary and financial stewardship and Objectives 1- 3: Update General Fund Reserve Policy, develop revenue growth and expenditure reduction strategies, and enhance fiscal transparency.

FISCAL IMPACT

The attached proposed budget details the fiscal impact on all City funds.

RECOMMENDATION

It is recommended that the Council conduct a budget workshop to review and discuss the Proposed FY 2014/15 City of Tracy Budget, Five-Year Forecast, and General Fund Reserves. No City Council action is required at the workshop.

Prepared by: Jenny Haruyama, Administrative Services Director
Reviewed by: Gary Hampton, Interim Assistant City Manager
Approved by: Maria A. Hurtado, Interim City Manager

Attachment 1:

Proposed FY 2014/15 City of Tracy Budget (Attachment Oversized - available for public inspection in the City Clerk's office, 333 Civic Center Plaza, Tracy, or on the City of Tracy website: <http://www.ci.tracy.ca.us/?navId=80>)