

**June 3, 2014, 5:30 p.m.**

City Council Chambers, 333 Civic Center Plaza

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1. Call to Order – Mayor Ives called the meeting to order at 5:31 p.m.
2. Roll call found Council Members Manne, Rickman, Young, Mayor Pro Tem Maciel and Mayor Ives present.
3. ITEMS FROM THE AUDIENCE – None.
4. CONDUCT WORKSHOP TO REVIEW AND DISCUSS THE PROPOSED FY 2014/15 CITY BUDGET, FIVE-YEAR FORECAST, AND GENERAL FUND RESERVES – Maria Hurtado, Interim City Manager, stated the budget workshop was divided into three sections; an Overview of the FY 2014/15 Budget; the Five-Year Forecast and a policy discussion on General Fund Reserves. Ms. Hurtado used a power point in her presentation.

The City's future holds a great deal of promise due to the resurgence in development activity. The recent annexation of 1,700 acres at Cordes Ranch and anticipated residential developments like Tracy Hills and Ellis indicate that the City is poised for positive growth. In addition, the City has an established plan to balance new residential development with retail, commercial and industrial development. Although property tax revenue has not rebounded as quickly as sales tax it is expected to improve over the next two years due to improvements in assessed value and increases in home prices.

Some challenges remain including the expiration of Measure E's ½ cent sales tax in 2016, which will result in a future deficit, due to the loss of revenue. In addition, although employees will assume the full employee share of pension costs, recent Public Employee Retirement System (PERS) rate adjustments for the employer's share continue to increase due to changes in actuarial assumptions. Over the next five years, the City will pay approximately \$52 million in PERS costs.

The City's recent revenue strategy to attract e-commerce and point of sale companies has been very successful and includes such companies as Amazon, Crate and Barrel and Southwest School and Office Supply. However, policy discussions at the state level regarding the allocation of internet sales may change, potentially impacting City sales tax revenue and ultimately, business attraction efforts.

Restructuring efforts and employee reductions over the last five years have left the organization challenged with doing more with less. To maintain quality service levels and to ensure efficient operations, staffing levels must continue to be carefully evaluated based on available resources, efficiency gains, and benefit to the community. Unmet staffing needs will be evaluated against service delivery prioritization.

Infrastructure maintenance needs coupled with regulatory requirements have increased costs significantly. Funds should be set aside to address future infrastructure maintenance and replacement needs.

Completed milestones from last year include an employee agreement to incrementally pay the employee's share of PERS which resulted in labor contract savings of \$3 million. A reduction of 103 full time employees (FTE's) since FY 2007/08 saved the City \$1.8 million and the consolidation of departments saved \$750,000. The City also received \$1 million as a result of the improved economy.

Ongoing tasks include reprioritizing expenditures and investment in technology.

In 2014 the City has seen growth in sales tax revenue which has surpassed pre-recession levels, improved residential assessed values and an uptick in development activity. Labor contracts will expire this year. Challenges include uncontrollable costs. PERS and healthcare costs are increasing, the sunset of Measure E, balancing service and facility demands with available resources and limited facility/ infrastructure funding. However, the City continues to be fiscally conservative, and cautiously optimistic. Sales tax growth is encouraging, the property tax base is recovering albeit slower than sales tax, and balancing the budget without Measure E will be challenging.

Jenny Haruyama, Director of Administrative Services, provided the FY 2014/15 Budget Overview. Ms. Haruyama stated the City budget for FY 2014/15 is \$226.3 million and is made up of the operating, capital and debt service budgets. The operating budget is made up of multiple funds which include the General Fund \$56.4 million, Special Revenue Funds \$13 million, Enterprise Funds \$46.5 million, Internal Service Funds \$10.1 million, Capital Fund \$73.1 million and debt service \$26.9 million.

The largest portions of the budget are the General Fund and Enterprise Funds which include Water, Wastewater, Transit, Airport and the Capital budget.

General Fund Sources include:

Property tax	\$16.3
Sales Tax	\$16.1
Temporary Taxes – Measure E	\$ 7.0
Other Revenue	<u>\$18.9</u>
Total Sources	\$58.3 million

General Fund Uses:

General Fund Operation Expenses	\$56.4
Debt Service Payments	<u>\$ 1.2</u>
Total Uses	\$57.6 million

Total General Fund Net Resources \$700K

Ms. Haruyama compared the prior year adopted budget to the proposed budget and pointed out that expenses did not include debt service. Revenues increased 12.5% or \$6.5 million while expenses increased 11% or \$5.6 million.

Base Budget Adjustments total \$1.9 million for non-discretionary, uncontrollable expenses which include \$405,000 full year coverage for three firefighters for Station 92, employee group insurance \$579,000 and PERS employee Flex Leave and Other Non-Discretionary Pay of \$1 million. In 2014 employees will be responsible for the full employee cost for PERS. Scheduled merit increases are included, as well as specialty pay which increases the base budget. Proposed ongoing budget augmentations total \$3.7 million, excluding development expenses of \$2 million, less one-time expenses of \$523,000 which leaves a total of \$1.1 million.

Quality of Life Initiatives amount to \$482,070 and include facility rental support, expansion of Senior Center hours, parks and sports field maintenance and the City's Low Income Rate Assistance (LIRA) program. Public Safety Resources total \$106,390 and include school crossing guards, EMS specialist, Fire Public Education/Prevention Training and the Police Reserve Program. Technology initiatives total \$137,690 and include Geographic Information Services, project Computer Aided Dispatch/Records Management System Maintenance and Information Technology Contracts. Miscellaneous augmentations amount to \$261,850 and include Police background investigations, required minimum wage increases for Fire Reserves, sidewalk cleaning, Channel 26 resources, external technology support position reclassifications studies, operational supplies and professional training.

The budget includes \$523,000 in one-time expenses for Police Safety Equipment, Fire Engine and Field Equipment, Labor Negotiation, user fee study Enterprise Resource Planning System Implementation Support and Election Costs.

Proposed FY 2014/15 CIPs total \$73.1 million and include \$64.3 million for three active projects and \$8.8 million for eight new projects. General Fund recommended projects include the Animal Shelter (\$672,000), Fire Station 91 Modifications (\$20,000), ERP System (\$220,000), Remodel Fire Station 96 (\$50,000), New Radio Antenna at Fire Station 96 (\$75,000), ADA Modifications and Automatic Door Replacement (\$62,000), Repainting Civic Center Water Tower (\$75,000), Replacement of Play Structure/Hoyt Park (\$304,000) and Replacement of Downtown Up-Lights (Phased - \$75,000).

Ms. Haruyama closed by offering a breakdown of the \$3.5 million cost of reconstruction for the Joe Wilson pool. Available funding sources include \$1.9 million in the Aquatics Center CIP, \$1.75 million from Cordes Ranch (available September 2015), and \$4.7 million in estimated year-end excess revenue.

In response to a question from Council Member Rickman regarding Fund 301 and the \$75,000 cost to repaint the Civic Center Water Tower, Ms. Haruyama responded the money is being kept in the CIP unless Council directs staff to take it out. Council Member Rickman commented on the LIRA program which will now be part of the General Fund. Ms. Haruyama confirmed the cost is not being offset at this point.

Mayor Pro Tem Maciel asked what percentage of General Fund expenses do salaries and benefits represent. Ms. Haruyama responded 71% or \$40.1 million.

With regard to augmentations, Mayor Pro Tem Maciel stated these amounts have not been included in the budget. Ms. Haruyama stated that is because Council has some

flexibility as to whether or not they want them included. However, Ms. Haruyama recommended they be approved otherwise they could impact operations.

Mayor Pro Tem Maciel commented on the \$1.75 million which will be available for the Joe Wilson Pool in September 2015, and inquired when the full amount would be available. Ms. Haruyama stated it is anticipated that over the next two to three years the full amount will total \$5 million.

In response to a question from Council Member Manne as to why there is a need for additional dollars in Park and Sports Maintenance, Ms. Haruyama stated the City has been inundated with requests for additional use of facilities and is anticipating even more requests. Brian MacDonald, Management Analyst, stated travel teams are creating a bigger demand for facilities. The increase is for additional staffing since current staff can barely support the current demand. Kimball High School has created additional demand due to the drought which has affected their facilities, and in June 2014, Jefferson School District will begin renovating their fields which will also create additional demand. The \$44,000 augmentation includes additional facility attendants.

David Ferguson, Public Works Director, stated the cost includes maintenance and upkeep of the fields which is undertaken by Parks Maintenance staff. There has been an increase in upkeep and maintenance costs because of the increased demand. Ms. Haruyama clarified the augmentation for the City Facility Rental Support is \$44,000, and for the Parks and Sports Field Maintenance the amount is \$38,000.

Mayor Ives commented on the lack of support from the School District regarding playing fields and stated if the School District needs help from the City, then the School District needs to help the City.

Mayor Ives commented on the Joe Wilson Pool and asked how the City can refer to the pool as new development as the development fee can only be used for new development. Allan Borwick, Budget Officer, stated development fees could be used if a new facility is created, but it had expanded capacity over the facility that is being replaced. Dan Sodergren, City Attorney stated Development Impact Fees cannot be used for an existing impact. When the AB 1600 fees were determined the Joe Wilson pool was not included in the formulation of fees.

Michel Bazinet 1005 Mabel Josephine, suggested borrowing money from the General Fund since it is unknown what will happen with the amenities for the swim center in the future.

Ms. Haruyama stated staff could explore whether there is enough information to create a nexus. Ms. Haruyama added if Council wanted to explore alternatives as Mr. Bazinet suggested, because there could be timing sensitivity of when they may want to engage in the reconstruction of the pool, year-end funding could be used and replenished when the community dollars come in.

Mayor Ives stated Council needed a timeline relative to the Joe Wilson Pool renovation project. Ms. Hurtado responded once Council approves the Joe Wilson Pool project as a CIP staff will come back with a timeline and estimated budget.

In response to a question from Council Member Rickman regarding when Legacy Fields would be brought back to Council, Ms. Hurtado responded it would be brought back on August 19, 2014. Council Member Rickman stated he understood Council had not approved funding for repainting the water tower. Ms. Haruyama stated no official action was taken at the workshop so staff needs direction from Council if the project is to be included in the CIP to be brought back on June 17, 2014. The project would still have to be voted on when a contract to start the project is brought back to Council.

Council Member Young asked for a breakdown of funding for the Quality of Life Initiatives. Ms. Haruyama provided a breakdown of the costs.

Regarding Legacy Fields, Council Member Young questioned what the responsibilities would be for City and the Leagues. Mr. Ferguson stated the City maintains the outside infrastructure and streetscape. The Leagues, as part of their agreement, maintain weed control and constructing fields on the site.

Ms. Haruyama gave an overview of the five year forecast and used a power point in her presentation. Revenue in FY 2014/15 is strong, primarily driven by sales tax. City revenue drops slightly in FY 2015/16 as Measure E expires in March 2015. The City will receive about  $\frac{3}{4}$  of Measure E that year, but in the subsequent year (FY 2016/17), revenue decreases significantly, with nearly all Measure E tax gone. The City does start to rebound slightly and shows a large increase in FY 2018/19.

FY 2014/15 expenses are driven by development expenses with offsetting revenue, increased non-discretionary expense in the base budget, and proposed budget augmentations. Expenses drop in FY 2015/16 because the City is no longer paying employee flex leaves, which was a part of the labor agreements for employees to assume the employee share of PERS. While the City will save \$3 million annually, some of this net savings is lost due to increase employer PERS costs.

In FY 2014/15, PERS costs in safety are estimated to be \$4.6 million annually and increase to \$5.5 million by FY 2019/20 (20% increase – \$900K). Safety is estimated to be more expensive because of the higher risk of medical disability retirements and nature of the business. In FY 2014/15, miscellaneous costs are estimated to be \$3.1 million annually and adjust to \$4.1 million by FY 2019/20 - (32% - \$1 million). Another way to look at it is that total annual PERS costs in FY 2014/15 will increase from \$7.7 million to \$9.6 million a year in FY 2019/20.

Council Member Rickman asked if staff had taken into account the possibility of point of sales revenue being taken away by the State. Ms. Haruyama responded the budget takes into consideration that the City will not be receiving a certain amount of income from a particular retailer.

Council Member Young asked if the point of sales revenue cycle has been recognized and if staff was anticipating that auto sales will taper off. Ms. Haruyama responded a sharp decline in auto sales is not anticipated but the levels will maintain and not necessarily rise.

Mayor Pro Tem Maciel asked if PERS employer costs charge for FY 2014/15 was \$7.7 million. Ms. Haruyama responded the FY 2014/15 PERS cost would be \$7.7 million.

Mayor Pro Tem Maciel stated the \$7.7 million comes out of the \$40.1 million personnel costs. Mayor Pro Tem Maciel further stated employees will assume the 9% of PERS contribution which is being offset by the flex time, which is going away in FY 2015/16. Mayor Pro Tem Maciel asked how long it had been since employees had a pay raise. Ms. Haruyama responded depending on the employee, as much as eight years. Ms. Haruyama confirmed expenditure forecasts for the next five years do not include pay increases. Mayor Pro Tem Maciel asked how much the City relies on the sales tax revenue from fuel sales and has staff considered looking at the federal experience to forecast. Ms. Haruyama responded the sales tax revenue is in the top two in terms of generation in transportation segment which is the highest economic segment. Ms. Haruyama stated staff meets with the sales tax consultant quarterly and would provide feedback to Council.

Mayor Ives stated from FY 2015/16 forward the projected expenses rise by approximately \$2 million annually. Mayor Ives suggested a column in the chart indicating what may or may not be in Council's control to be able to start mitigating the \$2 million.

Steve Nicolaou addressed Council regarding labor and related costs such as PERS. Mr. Nicolaou asked if a review of the employment force for possible privatization of any sectors of labor force would be done. Mayor Ives responded that discussion has not occurred.

Ms. Hurtado presented the Policy Discussion on the 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 financial projections 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 projected net resources are due to continued increases in both sales tax and Measure E, which will expire in 2016.

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.

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.

The City is litigating actions by the Department of Finance (DOF) related to the dissolution of redevelopment and its interpretation of enforceable obligations. On April 22, 2013, the City received a letter from the 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.

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.

The dissolution of redevelopment and the States elimination of Enterprise Zones have placed a significant pressure on local jurisdictions to support economic development.

The City has used remaining funds in the 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 of 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.

Ms. Hurtado stated staff wanted to introduce the discussion of reserves for Council’s feedback and introduce the four initial considerations, but will be scheduling a budget policy workshop on August 19, 2014, to continue any categories Council would like to consider in more detail. Additionally the budget will be brought back for adoption on June 17, 2014.

Michel Bazinet, 1005 Mabel Josephine, addressed Council as a member of the Measure E Committee and suggested as part of the CIP to create a category to fund projects that help to reduce operating expenditures levels.

5. ADJOURNMENT – It was moved by Council Member Rickman and seconded by Mayor Pro Tem Maciel to adjourn. Voice vote found all in favor; passed and so ordered. Time: 6:59 p.m.

The above agenda was posted at the Tracy City Hall on May 29, 2014. The above are summary minutes. A recording is available at the office of the City Clerk.

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Mayor

ATTEST:

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City Clerk