

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, May 19, 2015, 6:00 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 2015-052 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 2015/16 CITY BUDGET, FIVE-YEAR FORECAST, GENERAL FUND RESERVES AND THE FY2015/16 CAPITAL BUDGET
5. Adjournment



Mayor

May 14, 2015

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 2015/16 CITY BUDGET, FIVE-YEAR FORECAST, GENERAL FUND RESERVES AND THE FY2015/16 CAPITAL BUDGET

EXECUTIVE SUMMARY

The purpose of the FY 2015/16 City Budget Workshop is to review and discuss the City Budget as proposed by the City Manager, and Five-Year Forecast, General Fund Reserves and the FY 2015/16 Capital Budget

DISCUSSION

This report discusses the City’s Proposed FY 2015/16 City Budget, Five-Year Forecast, General Fund Reserves and the FY2015/16 Capital Budget

PROPOSED FY 2015/16 CITY BUDGET

A workshop has been scheduled for May 19, 2015 to discuss the proposed FY 2015/16 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 2015/16 City Budget is as follows for all funds:

PROPOSED FY 2015/16 CITY BUDGET	
<i>Operating Budget</i>	\$127.5
<i>Capital Budget</i>	\$35.2
<i>Debt Service</i>	\$26.5
TOTAL PROPOSED BUDGET	\$189.2M

FY 2015/16 General Fund Budget

The proposed FY 2015/16 General Fund Budget is a balanced budget. As with the prior year, General Fund reserves are not required to balance the FY 2015/16 budget, with an anticipated General Fund net excess amount of \$2.7M. Based on current projections, the City’s revenue outlook is positive, but continues to be challenged by uncontrollable personnel-related expenses and the expiration of “voter approved” Measure E.

Below is a summary of the FY 2015/16 General Fund Budget:

GENERAL FUND SOURCES	
<i>Property Tax</i>	\$18.2
<i>Sales Tax</i>	\$17.3
<i>Expiring Local Funding Source – Measure E</i>	\$6.3
<i>Other Revenue</i>	\$12.2
Total Sources	\$54.0M
GENERAL FUND USES	
<i>General Fund Operating Expenses</i>	\$48.7
<i>Debt Service Payments</i>	\$1.2
<i>General Fund Transfers</i>	\$1.4
TOTAL GENERAL FUND USE	\$51.3M
TOTAL GENERAL FUND NET RESOURCES	\$2.7M

After receiving Council and community input, staff will present the proposed FY 2015/16 City Budget for Council adoption on June 2, 2015.

IMPLICATIONS OF LOSS OF MEASURE E TO COMMUNITY QUALITY OF LIFE SERVICES

Measure E was adopted by voters in 2010 to address community priorities such as maintaining neighborhood police patrols and fire protection services, 9-1-1 emergency response and crime prevention. The loss of this voter-approved, locally controlled funding - amounting to \$6.3 Million in the FY 2015/16 budget - clearly affects the City's ability to provide these services in the manner the public expects and deserves. Additionally, the City Council and public has identified enhancing youth and community facilities that keep kids safe and healthy, maintaining our city streets and roads, and supporting our local businesses and economy as key priorities that should be addressed in the near term. Doing so will require additional sources of local funding the City does not currently have.

FY 2015/16 GENERAL FUND ON GOING/ONE TIME BUDGET AUGMENTATIONS

Total proposed FY 2015/16 General Fund Budget Augmentations, including one-time costs are approximately \$1.3 million. Taking one-time costs of \$400,000 into consideration, proposed on going augmentations are estimated to be \$900,000 as reflected in the table below.

Proposed FY 2015/16 General Fund Budget Augmentations

Proposed FY 2015/16 Budget Augmentations	\$1.3M
Less One-Time Expenses	(\$.4M)
Total On Going Budget Augmentations	\$.9M

Ongoing General Fund Budget Augmentations

Of the \$.9 million of ongoing augmentations, approximately \$311,000 relates to quality of life initiatives and \$419,000 relate to public safety. The remaining ongoing augmentations are for miscellaneous items, including but not limited to: increased maintenance and special recruitment costs. In regard to the \$400,000 of one time augmentations: \$240,000 is public safety related, \$73,000 is for increased maintenance needs and \$100,000 is for increased technology costs.

GENERAL FUND RESERVES

The City’s General Fund Reserves continues to be strong. As of June 30, 2014, the City’s total reserves were \$35.1 million. The effects of Measure E combined with the economic recovery are evident because the City has not had to use its Reserves since FY 2012/13.

In October of 2014 the City Council adopted a Reserve Policy establishing three Reserve categories:

- General Fund “Measure E” Mitigation Reserve
- General Fund Economic/Budget Stability Reserve
- General Fund Contingency Reserve

Use of the Reserves must be approved by the City Council and repaid over a period to be determined by the City Council at the time of usage approval, with a target repayment period of no more than three years.

General Fund “Measure E” Mitigation Reserve

The “Measure E” Mitigation Reserve is to be used as bridge funding upon the sunset of the Measure E sales tax in FY 2016/17. This temporary reserve is to be used over a multi-year period to mitigate the loss of revenue from the half cent sales tax and allow the City time to transition to the reduced revenue level. The “Measure E” Mitigation

Reserve was established at \$7 million as this was estimated to be the peak revenue prior to the measure's expiration in March 2016.

General Fund Economic/Budget Stability Reserve

The Economic/Budget Stability Reserve is intended to offset revenue/expenditure uncertainty while stabilizing service levels through economic cycles. The Economic/Budget Stability Reserve was established at \$5.8 million with a targeted goal of 10% of the General Fund's adopted annual budget for expenditures and recurring transfers out.

General Fund Contingency Reserve

The Contingency Reserve funds help mitigate the effects of unanticipated situations such as natural disasters and severe, unforeseen events. **This reserve should be used only in extreme situations.** The Contingency Reserve was established at \$11.6 million with a targeted goal of 20% of the General Fund's adopted annual budget for expenditures, including recurring transfers out.

The table below shows the Fund Balance and the Reserve Balances at October FY 2014/15 and the estimated beginning balances for FY 2015/16.

FY 2015/16 Estimated Fund Balance					
Fund Balance & Reserve Balances (Millions)	FY 14/15 Estimated Fund Balance	Additions	(Uses)	FY 2015/16 Estimated Fund Balance	
Fund Balance	\$ 10.7	\$ 5.6	\$ (10.5)	\$ 5.8	
Measure "E" Mitigation Reserve	\$ 7.0	\$ -	\$ -	\$ 7.0	
Economic/Budget Stability Reserve	\$ 5.8	\$ -	\$ -	\$ 5.8	
Contingency/Emergency Reserve	\$ 11.6	\$ -	\$ -	\$ 11.6	
Total Fund Balance & Reserves	\$ 35.1	\$ 5.6	\$ (10.5)	\$ 30.2	

In the table above the \$5.6 million are the estimated year end operational results and the \$10.5 million uses are for Capital projects:

FIVE-YEAR FORECAST

The General Fund Five-Year Forecast spans FY 2015/16 – FY 2020/21, setting the stage for the FY 2015/16 budget development. The Five-Year Forecast 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 forecast, which covers FY 2015/16 through FY 2020/21, 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 projections for FY 2014/15 through FY 2020/21. It should be noted that with the sunset of Measure E in late FY 2015/16 beginning in FY 2016/17 and continuing through the forecast the City is projected to run a deficit in each subsequent year.

Five-Year Forecast

	Estimated	Proposed	Forecast				
GENERAL FUND FORECAST	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
REVENUES	\$60.1M	\$54.0M	\$49.8M	\$49.8M	\$51.1M	\$52.0M	\$51.6M
EXPENDITURES	\$65.0M	\$51.3M	\$52.1M	\$53.9M	\$56.0M	\$57.9M	\$59.8M
REVENUES LESS EXPENDITURES	(\$4.9M)	\$2.7M	(\$2.3M)	(\$4.1M)	(\$4.9M)	(\$5.9M)	(\$8.2M)

In the table above the estimated FY 2014/15 (\$4.9M) deficit is a combination of two factors:

1. \$5.6 million surplus is the estimated year end operational results
2. \$10.5 million were transfer for the following Capital projects:
 - Public Safety Communication System – \$2.5M
 - “Joe Wilson” Swimming Pool -\$1.8M
 - Legacy Fields – \$5.0M
 - LED Street Light Conversion – \$1.2M

Excess revenue is anticipated for FY 2015/16, projections assume net resources of \$2.7 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 on the average 5 cents.

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 2015/16, 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 are expected to grow, 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.

The following table shows the effects of the Five Year Forecast has on the City's reserves:

Projected Impact on Use of Fund Balance & Reserves (By FY 20/21)					
Fund Balance & Reserve Balances (Millions)	FY 15/16 Estimated Fund			FY 2020/21 Estimated Fund	
	Balance	Additions	(Uses)	Balance	
Fund Balance	\$ 5.8	\$ 7.7	\$ (13.5)	\$ -	
Measure "E" Mitigation Reserve	\$ 7.0	\$ -	\$ (7.0)	\$ -	
Economic/Budget Stability Reserve	\$ 5.8	\$ -	\$ (4.9)	\$ 0.9	
Contingency/Emergency Reserve	\$ 11.6	\$ -	\$ -	\$ 11.6	
Total Fund Balance & Reserves	\$ 30.2	\$ 7.7	\$ (25.4)	\$ 12.5	

In the table above the \$7.7 million additions are the estimated \$2.7M year-end results from FY 2015/16 and the \$5.0M repayment to fund balance from the Cordes Ranch development agreement. The uses (\$25.4M) are the amounts needed to cover the projected deficits between FY 2016/17 through FY2020/21.

FY 2015/16 CAPITAL BUDGET

The total proposed FY 2015/16 Capital Budget is approximately \$145 million including carry forward amounts. There are 32 new projects and 24 current with new appropriations which total \$35.2M.

- 139 Active Projects – Funded from FY 14/15 or Prior Years
- 32 New Projects for FY 15/16
- 226 Future Projects (Planning Purposes Only; No Funds Appropriated)
- \$35.2M Proposed New Appropriations for FY15/16 (GF \$0.7M)(Others \$34.5M)
- \$145M Grand Total Proposed FY 15/16 CIP Budget, including Carry-forwards.

This year funding for General Fund (Fund 301) projects is limited, approximately \$700,000 is available.

Available Funds for FY15/16	\$ 693,904
Projects Proposed for FY15/16	\$ 692,500
Unallocated Funds	\$ 1,404

As part of the FY 2015/16 Capital Budget Workshop, Council recommended use of Fund 301 monies to support the following active projects:

- Fire Station #96 – New Radio Tower (\$50K)
- Site Improvements – Tower Site (\$100K)
- Fire Station #91 – Tenant Improvements (\$30K)
- HR/Financial Information System (\$112.5K)
- CC Water Tower Repaint & Retrofit (125K)
- Bleacher Removal at Tracy Ballpark (75K)

Funding was also recommended for a new project

- Mt Diablo/Mt Oso Sidewalks & Street Lights (\$200K)

The proposed **Non** General Fund projects are as follows:

- Traffic Safety -3 Projects - \$2,067,200
- Water Improvements -11 Projects - \$10,700,900
- Streets & Highways -13 Projects - \$12,509,600
- Airport & Transit - 4 Projects - \$1,535,000
- Wastewater Improvements - 9 Projects - \$4,812,940
- Drainage Improvements - 1 Project - \$1,171,000
- Miscellaneous Improvements - 8 Projects - \$1,812,500

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 2015/16 City of Tracy Budget, Five-Year Forecast, General Fund Reserves and the FY 2015/16 Capital Budget. No City Council action is required at the workshop.

Prepared by: Ray Durant, Management Partners Inc.
Allan Borwick, Budget Officer

Reviewed by: Andrew Malik, Interim Assistant City Manager

Approved by: Troy Brown, City Manager

Attachment 1:

Proposed FY 2015/16 City of Tracy Budget **(A copy of the Proposed FY 2015/16 City of Tracy Budget is available for public inspection in the City Clerk's office, 333 Civic Center Plaza, Tracy, and on the City of Tracy website: http://www.ci.tracy.ca.us/documents/2015_2016_Proposed_Budget.pdf)**