

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, March 15, 2016, 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. DISCUSSION AND DIRECTION ON UPDATE ON FISCAL YEAR 2016/2017 AND 2017/2018 BUDGET PREPARATION
5. Adjournment



Mayor

Posted: March 10, 2016

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

**DISCUSSION AND DIRECTION ON UPDATE ON FISCAL YEAR 2016/2017
AND 2017/2018 BUDGET PREPARATION**

EXECUTIVE SUMMARY

In June, 2016, the Fiscal Year 2016/2017 and 2017/2018 budget will be presented to Council for approval. In order to facilitate a strategic discussion with Council, the fiscal environment for FY15/16, the forecast for FY16/17 & FY 17/18, existing financial policies and strategies, budget calendar, and new considerations and activities that are now being included in the preparation of the FY16/17 & FY 17/18 budget will be reviewed. A special budget workshop will be presented to Council in May, 2016.

DISCUSSION

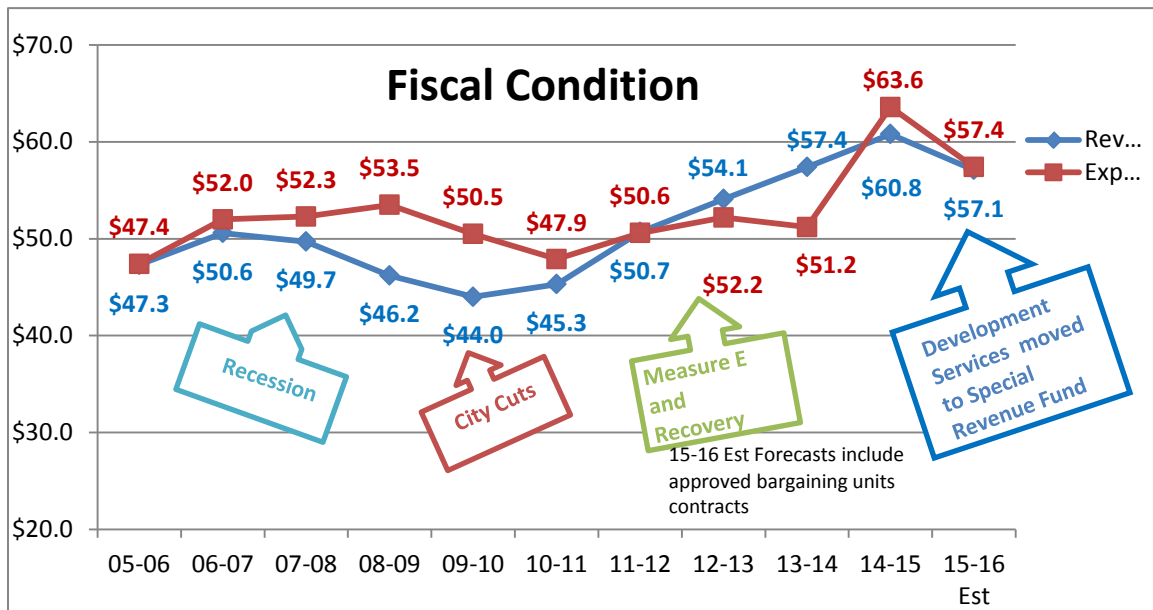
Preparation of the FY16/17 & FY 17/18 budget has commenced per the attached schedule (Attachment "A"). As the City prepares its budget it is important to understand where the City has been and where it is going from a fiscal perspective. As presented to Council on February 16, 2016, projected revenues for FY15/16 (Property, Sales and Special Sales Taxes, Current Charges, Licenses and Permits, "Other Revenue,"¹) are generally anticipated to be on target with which was budgeted through the remainder of the year. Likewise, expenses are averaging as anticipated. This is the first forecast that incorporates our approved labor contracts.

General Fund

In the past few years, Tracy was buoyed by substantial cuts in expenses along with revenue from Measure E which helped the City maintain a balanced budget in years where expenses would have otherwise outpaced revenues as a result of the economic recession.

Substantial expenditure savings were realized with a 20% reduction in staffing, increased employee pension contributions, and various expenditure reductions, saving \$5M in annually. Additionally, Measure E has provided approximately \$6M-\$7M in revenue to the City each year since 2011 which helped in bridging an annual shortfall and allowing Public Safety Departments to be maintained. The elimination of that funding this year will create a structural deficit. In this constrained fiscal environment staff will not be recommending programs and services that add costs but will, instead, "hold the line" from a programmatic perspective and continue to provide the high level of municipal services residents demand.

¹ This is the miscellaneous category for revenues. It includes fines & forfeitures, use of monies & property, the sale of property, contributions, refunds, and other income not classified elsewhere.



Similar to other cities, the City has seen a slow, but steady recovery from the last economic recession. Development is increasing and with development one can expect an increase in sales and property tax revenues, which makes up 34% and 37% Tracy’s revenue respectively. However, these revenues alone are insufficient to sustain existing service levels and thus the City is anticipating new funding mechanisms (Community Facilities Districts) to provide services to new developments; but may experience a challenge in providing continued existing services without a corresponding, timely revenue stream.

Fortunately, the City has been able to establish reserves to help. In FY 14/15, Council authorized the designation of three reserve funds which reallocated the unrestricted into three reserve designations with the remaining going into the ending fund balance:

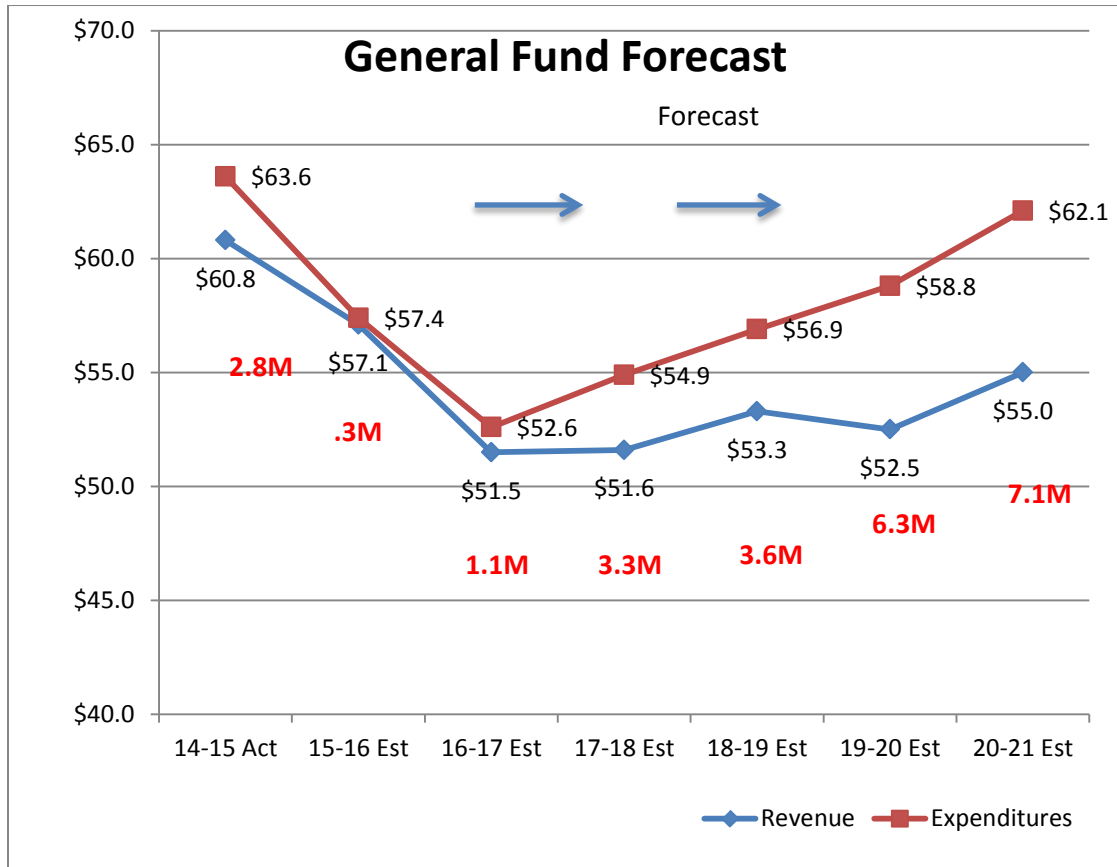
1. Contingency Reserve – Mitigates the effects of unanticipated extreme situations – Targeted Goal of 20%
2. Economic/Budget Stability Reserve –Intended to offset economic cycles - Targeted Goal of 10%.
3. Measure-E Mitigation Reserve – Serves as bridge funding when Measure E sunsets
4. General Fund Balance – Generic Reserve

Estimated Fiscal Year 2015/16 Fund Balance distribution (\$31.9M)

1. Contingency Reserve (Development Services moved to Special Revenue Fund, 20% threshold is lower)	\$11.6M – 20%
2. Economic/Budget Stability (\$4.5M RDA litigation payment)	\$ 1.3M – 2%
3. Measure E	\$ 7.0M – 12%
4. General Fund Balance	\$12.0M – 21%

General Fund Forecast

Moving forward, the City is expected to experience a structural deficit, which will increase as costs continue to rise for employee costs and as uncontrollable costs such as PERS and healthcare continue to increase.



Continuing to challenge the City is a reduced workforce grappling with increased demand and the need for maintenance and replacement of aging infrastructure. Thus the City is continuing to explore revenue-generating strategies in recognition of the challenges facing the City.

FY 2016/17 Council Strategic Priorities

March 1, 2016, the City Council adopted the following Strategic Priorities to serve as a guide in allocating resources.

1. **Public Safety** - To enhance community safety by promoting a responsive public safety system that includes civic engagement and partnerships, community involvement, public education and offering prevention, intervention and suppression services that meet the needs of Tracy residents.
2. **Quality of Life** – To provide an outstanding quality of life by enhancing the City’s amenities, business mix and services and cultivating connections to promote positive change and progress in our community.
3. **Governance** – To retain and attract new talent, enhance fiscal stability, improve the use of technology, and enhance transparency for the betterment of the Tracy community.
4. **Economic Development Strategy** – To enhance the competitiveness of the City while further developing a strong and diverse economic base.

2011 Adopted Budget Principles

In 2011, the City Council adopted a set of principles to address the anticipated structural deficit at that time. The principles are included as attachment B. Staff is providing the principles for information and will return during the budget process to seek Council input on any proposed amendments to the budget principles.

1. General Fund Reserves: Through FY 2015/2016, the City shall maintain a General Fund reserve of at least 20% of the City’s General Fund Operating Budget.
2. Budget: Reserves may be used to balance the General Fund Operating Budget through FY 13/14. The General Fund Operating Budget to be adopted by City Council for FY 14/15 must be balanced without the use of reserves.
3. Economic Uncertainty Fund: When conditions permit begin building up the Economic Uncertainty Fund.
4. Structurally Balanced Budget: The annual budgets for all City funds shall be structurally balanced throughout the budget process. Ongoing revenues shall equal or exceed ongoing expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance.
5. Proposed Budget Revisions: The annual General Fund proposed budget balancing plan shall be presented and discussed in context of the updated five-year forecast. Any revisions to the proposed budget shall include an analysis of the impact on the forecasted years. If a revision creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

6. Use of One-Time Resources: Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, or similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures.
7. Reserves: All City funds shall maintain an adequate reserve level and/or ending fund balance, as determined annually and as appropriate for each fund. For the General Fund, a contingency reserve amount which is a minimum of 20% of the operating budget shall be maintained.
8. Prudent Use of Debt: The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs. All General Fund debt issuance shall identify the method of repayment or have a dedicated revenue source. General obligation debt shall be limited to 8% of the operating budget.
9. Capital Improvement Projects: Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$25,000 without City Council certification that funding will be made available in the applicable year of the cost impact.
10. Fees and Charges: Fee increases shall be utilized, where appropriate, to assure that the program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.
11. Grants: City staff shall seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before the grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs.
12. Personnel Services Costs: Total General Fund personnel services costs shall not exceed 75% of the General Fund operating budget.
13. Performance Measures: All requests for departmental funding shall include performance measurement data so that funding requests can be evaluated and approved based on effective accomplishment of community desired outcomes and priorities.
14. Budget Offsets: City Council approval of a General Fund supplemental appropriation (additional monies after the adoption of the budget for the fiscal year), shall be accompanied by a corresponding action to reduce the General Fund budget in another area.

Budget Preparation Mechanics

The FY16/17 budget preparation process contains two “firsts” for the City of Tracy:

Public Outreach – Penny for your thoughts

Stewardship of taxpayer dollars, provision of basic services, and investment in neighborhoods are some of the most important financial responsibilities of city government. When communities come together to decide how their money will be spent it creates new bonds and new lines of communication that can bring people together. It also creates new relationships with city employees and elected officials that can lead to productive partnerships in the future. This was the goal of City staff when it reached out to the community on January 28, 2016 with “Penny for your thoughts,” a “game” that provided an opportunity for community input regarding the City’s budget as well as providing the community with a glimpse into the difficult decision making process involved in preparing a balanced budget.

The game did not involve discussions regarding internal City Departmental structure or internal support services that are necessary to carry out the standard functions of a municipality. Instead, the game’s goal was to provide an exercise that allowed participants to prioritize *direct* public services and community improvements as well as express the reasons for their funding decisions--this exercise was a way the City Council could gain feedback on community priorities.

Participants engaged in a process where they identified priorities in service delivery. Through this process, we learned that in times of prosperity public safety was ranked the highest priority for the reason given that it impacts quality of life; and “backbone” infrastructure is a high priority because it correlates to how the community looks. In times of fiscal constraint, we learned the majority of participants focused on essential services, such as public safety, maintenance and infrastructure.

Two Year Budget

Another “first” is that City will be preparing a two-year budget. This will focus our efforts on the future and better position us for our financial future. The purpose is to focus the organization to provide greater consideration and contemplation *now* of its future operations and programming so that the City is better prepared to make timely decisions in light of whatever economic forecast is on the horizon. Although the City has not yet ever adopted a two-year cycle, a two-year budget is common amongst other public agencies.

In May, a budget workshop will be presented to Council to review budget principles, Council’s priorities, and a draft of the budget-in-progress.

STRATEGIC PLAN

Although this proposed action supports Goal 2 of the Strategic Plan: “Ensure continued fiscal sustainability through financial and budgetary stewardship” the Finance Division’s work is guided by all of the Council’s Strategic Priorities (*Governance, Quality of Life, Public Safety, and Economic Development Strategy*). These priorities reflect the community’s desire to have a fiscally responsible City organization that is committed to maintaining its fiscal health. With these four strategic priorities in mind, new financing and budgeting strategies are being undertaken.

For instance, an objective for the aforementioned Goal 2 under the “Governance” Strategic Priority (ensure continued fiscal sustainability through financial and budgetary stewardship) includes presenting fiscal updates to Council. The presentation of this report represents just one of five reports² that will be presented to Council over the course of a Fiscal Year to keep the Council and community informed.

Another objective of the “Governance” Priority is to identify new revenue opportunities. On March 15th, Council will be asked to discuss a policy regarding fiscal sustainability in the wake of City growth. A part of that presentation will be an introduction to a City Service CFD—a funding mechanism new to the City of Tracy.

Additionally, this year’s budgeting process included outreach to the community, through “Penny for Your Thoughts.” Not only was valuable information received from those whom this agency serves, but it demonstrates the City’s commitment to Council’s Priority “Quality of Life” by cultivating community engagement.

Council’s Strategic Priorities will be further discussed and presented to Council at the Budget workshop on May 24th.

FISCAL IMPACT

No fiscal impact will occur by Council acceptance of this report.

RECOMMENDATION

Discuss and provide staff with direction for preparation of the 2016/2017 and 2017/2018 budget.

Prepared by: V. Rachelle McQuiston, Administrative Services Department Director

Reviewed by: Stephanie Garrabrant, Assistant City Manager

Approved by: Troy Brown, City Manager

ATTACHMENTS

Attachment “A”: City of Tracy Budget Preparation Schedule for Fiscal Year 2016/2017
Attachment “B”: Budget Principles

² Other reporting opportunities include presentation of the City CAFR, the annual Budget Workshop, Mid-year Budget Report, and Budget approval which compliment other reporting requests from Council.

**CITY OF TRACY - BUDGET PREPARATION SCHEDULE
TWO YEAR BUDGET CYCLE: FY 16/17 – FY 17/18**

November thru December 2015	Finance staff prepares preliminary base budget estimates and budget forms and instructions
December 2015	Request for new Projects
January 28, 2016	Outreach to Community – Penny for your thoughts
February 2, 2016	Internal Budget Kick Off Meeting Distribution of budget instructions and forms
Mid February 2016	Internal CIP Project Prioritization Discussion
February 22, 2016	Proposed CIP Project Review - Senior Leadership Team Meeting
January 24 thru March 21, 2016	Departments prepare budget submittals Phases 1 & 2: Due Feb 26, 2016 Phases 3 & 4: Due Mar 21, 2016
March 15, 2016	FY 15/16 Mid-Year Update
March 15, 2016	Council Budget Kick-Off
February 1 thru March 30, 2016	Finance staff prepares preliminary budget packages
March 22 thru March 28, 2016	Technical review of departmental budget submittals
February 1 thru March 31, 2016	Finance staff prepares preliminary budget packages
April 5, 2016	FY 14/15 CAFR Presentation
April 4 thru April 14, 2016	Management review of departmental submittals and formulation of a proposed budget
April 19, 2016	FY 2016/17 Master Fee Schedule Update
April 26, 2016	FY 2016/17 – FY 2020/21 CIP Council Workshop
April 18 thru May 9, 2016	Finance staff prepares proposed budget document and sends it to the printer
May 10, 2016	Planning Commission Meeting
June 7, 2016	1st Council Budget Approval
June 16, 2016	City Council adoption of budget
June 21, 2016	2nd Council Budget Approval (if necessary)
July 1, 2016	New fiscal year starts; adopted budget goes into effect

Attachment "B"

**CITY OF TRACY
BUDGET PRINCIPLES**

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EXHIBIT "B"

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