

Introduction

Following is the proposed municipal budget for Fiscal Year 2013-14. The proposed budget represents the implementation plan for executing the City Council's goals, policies and objectives for the upcoming year. The past several years have been both complex and fiscally challenging for the City while we navigated through one of the most-severe national recessions since the Great Depression. As a result of the impacts of these economic conditions, the City has realigned goals, priorities and service levels to match declines in our City's revenue base. Through these actions and with the support of Council, the community and our employees, the City has begun to maintain fiscal stability.

As we begin the next fiscal year, we are beginning to see signs of recovery in our local economy as evidenced by increased home sales and retail growth. However, it is important during these initial times of recovery to remain cognizant that the government sector lags behind the gains made in the private sector. The next several years will continue to be a period of measured recovery as the City transitions from severe declines in revenues experienced in the past to those of an improving economy.

Economic Conditions

Two of the key signs of recovery for our local economy are increased sales tax and property tax. While the Nation and other regions in the State have already experienced signs of recovery from the national recession, the turnaround in our region has been slower. Beginning last year, sales tax throughout the region began to show signs of improvement. While sales tax receipts in our region grew by 9% during Fiscal Year 2011-12, the latest information indicates the initial growth in sales tax has slowed to 5.5% over the past 12-month year-to-date benchmark period. In comparison, the City showed gains of 4.5% which is in line with prior year's forecasted trend. The expansion of the City's economic base over the past several years, including Costco, Bass Pro Shops, JC Penney and JM Equipment Company, helped stabilize sales tax in our community. During the past year, our retail base has continued to expand with the addition of Burlington Coat Factory, Banana Republic, the Dollar General and Big Lots. Economic development staff continues to be diligent in attracting new business to our community while working on retention of our current businesses. The Economic Development Manager recently attended the International Council of Shopping Centers Conference in order to partner with the Promenade

Shops at Orchard Valley to continue its expansion and to attract additional retailers to our community. Additionally, economic staff has worked to relocate and retain businesses in our community, including Sears and the majority of businesses impacted by the Lathrop Road Interchange Project. During the next fiscal year, staff will continue to seek unique opportunities to attract retailers and other major businesses to our community. The addition of new business to our community not only assists with job creation and sales tax generation, but aids us in growing our property tax base.

As a result of our expanded property base and recovery in the housing market, initial discussions with the County Assessor's Office regarding projected property tax assessments for Fiscal Year 2013-14 indicate the City is expected to experience a 4-5% increase in secured property tax. The Assessor's Office is continuing to review its initial projections for possible adjustments, and final numbers will be known in the early fall. As the housing market begins to resurge, the City anticipates further gains in property tax in the future. However, it is important to keep in mind that, as a result of Proposition 13, while home values in the new and resale market may see strong gains, the corresponding gains in property tax receipts will not be commensurate.

Budget Overview and Highlights

The General Fund proposed budget for Fiscal Year 2013-14 is \$27,971,465. This represents a 1% increase over the adjusted budget for Fiscal Year 2012-13 of \$27,675,761. The Citywide proposed budget is \$94,184,697. This includes new funding requests for capital improvement projects totaling \$12,824,247.

General Fund

The General Fund budget, as presented, projects an operating structural deficit of \$145,720. The projected structural deficit based on the pro-forma "conservative scenario" presented to Council in January 2011 was \$5.4 million for FY 2013-14. The proposed budget represents over a \$4 million decrease in expenditures. Revenues are anticipated to be mid-way between the "conservative" and the "most-likely" projections.

Several key measures continue to assist the City in reaching fiscal stability, including:

1. The continued implementation of negotiated Memoranda of Understanding for all bargaining units that took effect July 1, 2011 and will continue to be in place through June 30, 2015. Revised salary and benefit

packages include the elimination of cost-of-living adjustments, additional employee contributions to the California Public Employees' Retirement System (PERS), furloughs and layoffs.

2. Discretionary operational expenses for travel, training and supplies have continued to be maintained at prior-year levels, where possible. For Fiscal Year 2013-14, additional contract services are being requested for the Parks Maintenance and the Facilities Maintenance budgets. As the City has taken on additional properties including the Multi-modal Station, Fire Station #4, the new Corporation Yard and expanded landscaped medians, property and maintenance needs have increased. Additionally, the City has recently assumed responsibility for the HVAC system for the Golf Course. In order to address these needs, and in alignment with the suggestions of the original Budget Advisory Committee, staff is recommending the use of contract services rather than the addition of staff at this time.
3. Continued deferral of the General Fund contribution to the Gas Tax Fund. This deferral is based on the

suspension of the Maintenance of Effort requirement for Proposition 42 funding that was eliminated with the passage of ABx8 6 and ABx8 9 – the “Fuel Swap of 2010.”

New and continued additions to the General Fund budget include:

1. Reinstatement of the General Fund subsidy to the Recreation Fund. In Fiscal Year 2011-12, this subsidy was temporarily deferred. The subsidy was reinstated in Fiscal Year 2012-13.
2. Costs associated with the City's housing program. On June 29, 2011, the Governor of California signed AB X1 26, which called for the dissolution of all Redevelopment Agencies. One of the primary functions of the former Manteca Redevelopment Agency was to implement and monitor the City's housing programs. On February 27, 2012, through the adoption of Resolution No. R2012-13, the Council elected to retain the housing assets and functions performed by the Redevelopment Agency, and to become the Successor Housing Authority. The personnel costs required to meet this commitment have been transitioned into the General Fund. To offset this

expense, a corresponding transfer from the Affordable Housing component of the Development Agreement Fee Fund is being recommended.

3. Continuation of additional eight hours per week for the library. Additionally, \$15,000 has been requested for books to be funded via the Library Services Fee component of the Development Agreement Fees Fund.
4. Reinstatement of funding for the Equipment Internal Services Fund. All General Fund non-major equipment needs are purchased through this fund. Annual transfers were made to establish reserves for future purchases. Beginning in 2009, the transfer of funds to this fund was suspended. All needs since that time, including funds to convert fire radio systems to narrowband, purchase of equipment for the parks and streets divisions, and the grant match for the purchase of Self-Contained Breathing Apparatus, have been funded from these reserves. Reserves are now nearing depletion, and critical equipment needs continue to be identified, including recommendations for the purchase of body cameras for the Police Department and the replacement of a critical piece

of equipment for the Parks Department. In order to address these needs and future needs that have already been identified, such as mandatory Taser replacements for the Police Department, staff is recommending the resumption of annual contributions to this fund.

Public Safety Sales Tax Fund

In November 2006, the citizens of Manteca passed a one-half-cent sales tax for public safety. As part of the adoption of this sales tax measure, a Citizen's Oversight Committee was formed to ensure that all expenditures meet the guidelines as set forth in the adopted ordinance. When originally adopted, the five-year expenditure plan projected sales tax revenues of \$5.4 million for Fiscal Year 2013-14. Sales tax projections for the upcoming year are only \$4.6 million. In response to declining revenues experienced during the recession, a revised staffing plan was approved in Fiscal Year 2009-10. As currently adopted, the Public Safety Sales Tax Fund provides funding for 15 Police protection personnel and 12 Fire protection personnel. This includes the addition in Fiscal Year 2012-13 of four additional Police positions that had initially been funded through the COPS Hiring Recover Program (CHRP).

Public Safety Endowment Fund

In response to critical public safety needs identified during last year's budget study session, in addition to the 2 public safety personnel funded from the Endowment Fund, Council authorized the addition of 4 Police personnel to reinstate the City's Gang Prevention Unit, and committed to funding 1 Firefighter position and the additional operating costs of Fire Station #4 for an initial period of 4 years. In January 2012, the City began participation in the Community Corrections Partnership Task Force (CCPTF). The task force provides funding for one officer assigned to the CCPTF. Since this funding is authorized on an annual basis and is subject to discontinuation, Council authorized the use of these funds to offset the cost of the Gang Prevention Unit. This action assists in the continued preservation of the monies initially established as part of the fund.

Golf Course Fund

The Golf Course faces the same challenges of decreased consumer disposable income that is impacting the General Fund. During the past few years, revenues appear to be stabilizing. One of the primary challenges to achieving fiscal stability in the Golf Course Fund

had been the ongoing debt service related to the clubhouse. In prior years, the debt service represented 22% of all expenditures. The final debt service payment for the expansion of the Golf Course and construction of the parking lot and tennis courts will be made in Fiscal Year 2013-2014, thereby eliminating all debt service requirements beginning in Fiscal Year 2014-15.

With the relief from debt service in concert with reductions in personnel costs, the City is at a point in which the Golf Fund is now able to begin to plan for capital purchases and expenditures. Included in the Fiscal Year 2013-14 budget are requests for equipment that is critical to improve staff efficiencies at the Golf Course. Additionally, staff is recommending the repayment of a \$28,000 interfund borrowing that was made in 2008 from the Parks Fee Fund to the Golf Course Fund for an irrigation project.

While the financial position of the Golf Fund is improving, the General Fund continues to assist in the operations of the Golf Fund in two specific ways:

1. General administrative and overhead charges were suspended beginning in Fiscal Year 2007-08. This recommendation is continued for Fiscal Year 2013-14. As staff reviews the cost allocation plan in conjunction

with the Fiscal Year 2014-15 budget, this recommendation will be reviewed.

2. In the past, the City Council has approved a contribution from the General Fund equal to the recreational benefit the Golf Course provides to the citizens of Manteca. The 2013-14 preliminary budget includes a proposed contribution of \$155,000.

Areas of Consideration/Future Concerns

As the City begins to reach fiscal stability, several areas of concern remain. In order to remain on the path of fiscal recovery, the City needs to incorporate the following as part of its long-term planning:

1. Elimination of Redevelopment and the impact on the City's economic development. On June 30, 2011, AB X1 26 and AB X1 27 were passed by the State Legislature. As a result, effective February 1, 2012, all Redevelopment Agencies in the State of California were eliminated.

The City of Manteca has elected to be the Successor Agency to the Manteca Redevelopment Agency, and will oversee the unwinding of the Redevelopment Agency over the next several years. The costs of serving as the Successor Agency are borne

by the General Fund. As funds are available, the Successor Agency can receive a minimum of \$250,000 from the Redevelopment Property Tax Trust Fund to offset these costs. Funds have already been approved for Fiscal Year 2013-14 and have been included in the budget. Staff continues to believe the City's role as the Successor Agency is critical to future economic development in our community. On May 17, 2013, the Successor Agency received its Finding of Completion from the State Department of Finance. With this action and with approval of the Oversight Board to the Successor Agency, the City can begin to program the \$43 million of bond proceeds that were previously "stranded" due to the State's action. These bond proceeds will allow for the completion of much-needed infrastructure that will support future economic growth in our community.

2. CalPERS revised actuarial assumptions. On April 20, 2013, the CalPERS actuarial Board approved revised asset value methods, including revisions to its actuarial assumptions and smoothing policies. Impacts from these changes will begin to be

reflected in the City's 2014-2015 retirement contribution rates. Initial information provided indicates that agencies can expect increases in rates ranging from 2-5% in addition to normal annual increases.

3. Sustainability of the Development Services Fund. With the elimination of the Redevelopment Agency, funds used to offset the costs of economic planning in redevelopment areas was eliminated. As result of this action and the decrease in receipt of planning and building-related fees, sufficient revenues are not received to offset expenditures associated with the Development Services Fund. In Fiscal Year 2012-13, Council authorized the transfer of \$440,685 from Development Agreement Fees to allow continuation of funding for all Development Services position for the period of one year. The transfer included \$90,000 in Air Quality Mitigation Development Agreement Fees to match Smart Growth grant funds to be used to fund personnel working on the grant, \$235,680 in Development Services Fees originally collected to fund

additional support cost for development review services and planning, and \$115,005 in Development Agreement Fees to allow for complete funding of all positions. Additionally in June 2013, Council authorized a loan of \$1.7 million from discretionary Business License Excise Fees set aside for oversizing of PFIP infrastructure to relieve this fund from a corresponding \$1.7 million loan from the former Manteca Redevelopment Agency that was determined as immediately due by the State Department of Finance. The loan is to be repaid in 20 annual payments of \$85,000. Even with these actions, the fund will move into a deficit position as early as Fiscal Year 2014-15. Staff recommends a review of all planning and building-related fees occur during the next fiscal year to address the financial issues currently facing this fund.

4. Effective July 1, 2011, the Vehicle License Fee (VLF) was eliminated per SB89. For the City of Manteca, this totals a reduction to General Fund revenues of \$250,000. The League of California Cities has challenged this action in court as a Constitutional violation.

Litigation is still pending. In the interim, the City will not receive any VLF revenue.

5. Measure K Maintenance of Effort (MOE) requirement. As part of the renewal language for the San Joaquin County additional transportation sales tax known as Measure K, the San Joaquin Council of Governments (COG) is required to set an MOE standard for agencies receiving Measure K sales tax. In the past, the MOE was based on the State's Proposition 42 gas tax receipts. However, as noted above, the State has removed the MOE requirement from local agencies and the City has suspended its annual contribution of \$164,000 from the General Fund to the Gas Tax Fund. Correspondingly, COG also suspended its MOE requirements. However, COG must now set a new MOE to be in compliance with the requirements of the additional sales tax. Staff is currently working with COG to establish new and revised MOE standards. It is unknown at this time what the full impact of the MOE will be on the General Fund, but required contributions of discretionary funds to transportation projects could be in effect as early as 2014-15.

Personnel Revisions

As part of the review of the newly implemented Memoranda of Understanding, and in coordination with the preparation of the Fiscal Year 2013-14 budget, positions were reviewed for consistency and equity. Upon review, several positions were identified for proposed reclassification and several others are recommended for addition. Details of these recommendations can be found in the Personnel Summary Section of the budget with related costs. In recommending these reclassifications and additions to personnel, funding allocations were reviewed to ensure any impact to the General Fund would be negligible.

Conclusion

While the past several years have been challenging for the City, staff has continued to maintain service levels and meet Council goals and priorities, including:

- Construction of new facilities including an Animal Control Facility and a new Vehicle Maintenance Shop. Additional facilities including Fire Station #4 and a new Multimodal Station (Transit Center) are scheduled to be open in calendar year 2013.

- Completion of the Union Ranch East Park Improvements (CIP #12043).
- Continued implementation of the new Enterprise Resource Planning (ERP) software. Applications going “live” during Fiscal Year 2013-14 include Utilities and Licensing (CIP #11105).
- Planned upgrades to the Council Chambers, including both ADA improvements and upgrades to the technology (CIP #11030).
- Continued planning for the Austin Road Interchange Project (CIP #11035). Additional funding of \$2million for completion of this project still needs to be identified.

During the next fiscal year, Economic Development staff and I will work to identify additional opportunities to both stabilize and expand our employment base. Meetings with our top employers will be conducted so we can ensure we are meeting their needs, and to develop successful partnerships between the business community and the City. I will continue to seek ways to maintain service levels, while continuing to lay the foundation for fiscal stability.

Staff has developed a budget that strikes a balance of maintaining service levels within the limits of available resources, and continues

to fund new projects to allow for future development and enhanced community amenities, while protecting our citizens from an uncertain financial outlook.

In preparing the Preliminary Budget, we have made our best efforts to balance these competing, but equally important, goals. Staff wishes to thank the Council for your leadership and support throughout the past year. I also wish to express my gratitude to our Finance Director Suzanne Mallory and her staff, along with staff from the I.T. Division, for their tireless dedication to finalizing this Preliminary Budget. This is the first budget prepared in our new financial software system, and it took this team of dedicated professionals to make it happen.

Karen L. McLaughlin

City Manager

Acknowledgements

Developing the Preliminary Budget is a team effort, involving the time and talents of City employees, department managers and staff members from the Finance Department. This year, the extended budget development was interwoven with the ongoing demands of day-to-day operations.

Without the dedication of these City staff members, this budget would not have been possible. With Council's continued support of long-term planning and willingness to provide leadership in difficult circumstances, together we can develop a plan for the long-term financial stability of our City.