

## **Introduction**

Following is the proposed municipal budget for Fiscal Year 2015-16. The proposed budget represents the implementation plan for executing the City Council's goals, policies and objectives for the upcoming year. Over the past decade, the City has experienced both a robust economic picture with strong housing starts, and one of the most-severe national recessions since the Great Depression. To navigate through these diverse and rapidly changing fiscal conditions, the City had to realign goals, priorities and service levels to match the City's revenue base. With the support of Council, the community and our employees, the City has striven to reach and maintain fiscal stability.

As we begin the next fiscal year, the local economy has begun to stabilize. The housing market in both new and resale homes has increased. Consumer confidence has improved and continues to be strong. The UCLA Anderson Forecast predicts a healthy California and U.S. economic growth pattern between 2015 and 2020. As the City moves into a period of recovery, the focus now moves to developing long-term strategies for economic growth and fiscal resiliency. On April 7, 2015, Council adopted a new Reserve Policy, which will lay the foundation for these strategies. New General Fund Assigned balances include an

Assignment for Economic Revitalization and an Assignment for Economic Emergencies and Uncertainties.

## **Economic Conditions**

Sales tax and property tax continue to be the largest indicators of recovery and the staying power for our local economy. While the Nation and other regions in the State rapidly experienced signs of recovery from the national recession, the turnaround in our region had been restrained. The latest information indicates the initial growth in sales tax in the County has improved, and the past 12-month year-to-date benchmark period shows an increase in San Joaquin County sales tax receipts of 3.7%. In comparison, the City showed gains of 10%, which exceed forecasted trends. The initial expansion of the City's economic base began to expand in 2008 with the opening of Costco, Bass Pro Shops, JC Penney and JM Equipment Company. The retail base continued to expand with the addition of Burlington Coat Factory, Banana Republic, the Dollar General and Big Lots. Additional opportunities to expand our retail base continue to be available at the Promenade Shops at Orchard Valley. Economic Development staff continues to be diligent in attracting new business to our community while working on retention of our current businesses. Creative economic ventures and

partnerships are evidenced by the development of CenterPoint Intermodal Center, anchored by Crothall Laundry, which opened in Summer 2014. In addition, negotiations continued with McWhinney Real Estate Services for a hotel resort/conference center, along with negotiations with the Manteca Development Group, LLC for a Family Entertainment Zone.

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, property tax assessments for Fiscal Year 2014-15 grew by 13% in secured property tax. Part of this growth was a result of Proposition 8 reassessments to home values as of January 1 2014. According to the San Joaquin County Assessor's Office, home values rebounded dramatically, and in some areas, by as much as 40%. This increase in market value allowed for one-time increases to the adjusted Proposition 13 value. For Fiscal Year 2015-16, property tax is projected to increase by 5% as existing home values reach their Proposition 13 limits. It is important to note final numbers for

property tax increases will not be finalized until early Fall.

Through new and diversified partnerships and continued economic development, the City will identify new sources of revenue, which will allow us to shore up our fiscal stability and move us to the necessary financial resiliency to address changing economic conditions.

### **Budget Goal Setting**

On January 27, 2015, a mid-year budget update and budget goal-setting session was held with the City Council. Council confirmed the following 7 goals for the City:

1. Maintain a safe community in which to live and work.
2. Establish/maintain a sound economic base.
3. Maintain fiscal stability to support and maintain vital City services.
4. Provide a well-maintained, balanced and aesthetically pleasing community.
5. Enhance conservation/"green technology" programs.
6. Maintain and improve City infrastructure.
7. Plan for expansion of City facilities.

Encapsulated in these goals were a number of priorities including:

- Increase public safety
- Fully staff Fire Station No. 4

- Enhance preventative maintenance program for public safety
- Complete planning for the Great Wolf Lodge project and the Family Entertainment Zone (FEZ)
- Develop a marketing plan and a vibrant downtown
- Provide a balanced budget without eroding infrastructure and preserving essential services
- Establish a 25% General Fund reserve policy
- Transition 7 public safety positions from the Public Safety Endowment Fund
- Reinstate Internal Service Fund contributions
- Provide adequate resources to support defined City services and service levels including succession planning and increased staffing where possible
- Complete the Parks and Recreation Master Plan
- Implement a “paperless” agenda system
- Continue sidewalk/street ADA inventory
- Analyze development impact fees
- Construct last phase of Council Chambers ADA compliance project

These priorities, as well as others, continued to be in the forefront as departments developed their budgets for adoption by Council. Throughout the budget document, program goals for the upcoming year have been identified. Staff has

further noted those areas when the program goals and past-year achievements have directly supported Council’s goals and priorities.

### **Budget Overview and Highlights**

The General Fund proposed budget for Fiscal Year 2015-16 is \$33,044,575. This represents an 8.3% increase over the adjusted budget for Fiscal Year 2014-15 of \$30,504,991. The Citywide proposed budget is \$143,707,762. This includes new funding requests for capital improvement projects totaling \$47,916,058.

### General Fund

The General Fund budget, as presented, projects an increase to unassigned operating reserves of \$199,460.

The proposed budget includes ongoing expenditures. Some of these are contractual obligations, while others have been included to meet Council’s goals and priorities. These expenditures include:

1. Increases to employee wages as of July 1, 2015 ranging from 2.17 to 3%. The increases were included in the negotiated July 1, 2011-June 30, 2015 Memoranda of Understanding to provide for revenue sharing of increases to combined total property and sales tax.

2. Anticipated increases to employee wages resulting from Council's direction regarding current Memoranda of Understanding (MOU) negotiations. The City's current MOUs are set to expire June 30, 2015. Staff is currently in negotiations, with the anticipation that new contracts will be in place as of July 1 or soon thereafter.
3. Increased contributions to the California Public Employees' Retirement System (PERS) based on current actuarial valuations.
4. Increased costs of fire dispatching services.
5. The transition of one Police Captain from the Public Safety Endowment Fund.
6. The addition of one Police Officer, one Community Service Officer and one Booking Officer.
7. The addition of a Parks/Golf Maintenance Technician.
8. Increase to the City Attorney's contract, as approved by Council.
9. Continuation of the General Fund subsidy to the Recreation Fund.
10. Continuation of additional eight hours per week for the library and a \$15,000 contribution to the purchase of additional books.

Additionally, the budget postpones the following:

1. Deferral of General Fund contributions to the Equipment

and Vehicle Internal Service Funds pending a new fleet and equipment replacement funding policy. Reserves currently exist in the Vehicle Fund to allow for Fiscal Year 2014-15 requested purchases. However, additional funding will be required in future years once a formal policy has been established.

2. 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."

As presented, the proposed budget will have available funds to meet the established 25% of budgeted operating expenditures reserve policy for the Assignment for Fiscal Stability, Cash Flow and Contingencies which represents the City's operating reserves.

#### 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. Sales tax projections for fiscal year-end June 30 are projected to be \$5.2 million,



and \$5.4 million for the upcoming year. 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 13 Fire protection personnel. As part of the budget process, staff evaluated both the reserve balance and future sales tax growth estimates for this fund. Upon review of the current fund balance, and in support of Council's goal to increase public safety staffing levels, I am recommending the addition of 2 Firefighters to allow for the full staffing of Fire Station No. 4.

#### Public Safety Endowment Fund

In response to critical public safety needs identified during the Fiscal Year 2012-13 budget study session, 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 No. 4 for an initial period of 4 years. These positions were added at that time, in addition to the 2 public safety personnel that had previously been funded from the Endowment Fund. 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. One of the City Council's goals was to identify alternative funding for these 7 positions and to transition them to the identified funding sources. Two of these positions were transitioned to the General Fund in Fiscal Year 2014-15. An additional position is proposed for transfer in Fiscal Year 2015-16. With each upcoming budget year, staff will endeavor to transition the 4 remaining personnel to the General Fund.

#### Golf Course Fund

The Golf Course continues to face the same challenges of decreased consumer disposable income that has impacted the General Fund. During the past few years, revenues appeared to be stabilizing. However, the past year revenues have once again declined from the prior year. 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 was made in Fiscal Year 2013-2014, thereby eliminating all debt service

requirements beginning in Fiscal Year 2014-15.

The General Fund continues to assist the operations of the Golf Fund in specific ways:

1. General administrative and overhead charges were suspended beginning in Fiscal Year 2007-08. This recommendation is continued for Fiscal Year 2015-16. As staff reviews the cost allocation plan in conjunction with the Fiscal Year 2016-17 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 2015-16 preliminary budget includes a proposed contribution of \$155,000.
3. As part of the Fiscal Year 2014-15 budget, Council approved the forgiveness of an interfund advance from the General Fund to the Golf Fund in the amount of \$1,412,425

#### 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, 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 oversees the unwinding of the Redevelopment Agency. 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 if funds are available. 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 and the State Department of Finance, the City has begun 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 February 18, 2014, the CalPERS actuarial Board approved revised assumptions regarding mortality, retirement ages, and disability retirements.. Impacts from these changes will begin to be reflected in the City’s 2016-17 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, funding used to offset the costs of economic planning in redevelopment areas was eliminated. As result of this action sufficient revenues are not received to offset expenditures associated with the Development Services Fund. In Fiscal Year 2013-14, Council took action to eliminate the discount for

planning fees for projects with multiple entitlement applications. This allowed for the addition of one Assistant Planner.

To continue to meet Council’s priority of increasing Community Development staffing levels in order to establish a strong economic base and maintain vital City services, in Fiscal Year 2014-15 Council approved personnel requests for a Development Services Technician, a Chief Building Official and the conversion of a Senior Engineer to a City Engineer. These positions will also allow for continued succession planning in this division.

Reserve levels allowed the funding for these additional positions through June 30, 2015. However, beginning July 1, 2015 revenues from building and planning activities are insufficient on a long-term basis to cover necessary expenditures for this fund. Staff has included a proposal for a Building Safety and Fire Prevention Fee Study (CIP #16057) in order to evaluate the City’s current fee structure. Additionally, a General Plan Update (CIP 16023) to include zoning code conformity has been included

in the Capital Improvement Program requests. The last General Plan Update was completed in 2003. The General Plan should be updated every 10 years. As outlined in the Fiscal Year 2014-15 budget, staff is requesting Council identify the property tax received on properties located in the former redevelopment areas that the General Fund receives as an Affected Taxing Entity (ATE) to be used to offset shortfalls in the Development Services Fund.

If revenues continue to fall short of meeting forecasted operating expenditures, additional ongoing revenues will need to be identified, including possible updates and revisions to the current fee schedule.

4. Sustainability of the Solid Waste Fund

In Fiscal Year 2003-04, the City Council approved a Solid Waste Fee Study. Prior to May 2004, the last rate increase had occurred in 1998. As with the water and sewer rates that had previously been adopted, staff's recommendation was for an automatic annual inflation adjustment of 3% or CPI, whichever was greater.

Council elected to authorize rate increases of 3% for three years beginning July 1, 2005. No additional rate increases have been authorized since July 1, 2007. With the need to replace Solid Waste vehicles and equipment in order to meet California Air Resource Board (CARB) requirements, as well as increases to employee retirement costs, existing fund balance reserves have been decreasing. Beginning June 30, 2016, the Solid Waste Fund is estimated to have reserves equal to approximately 17% of operating expenditures. The need to conduct a fee study and update the current fee schedule is critical for the continued fiscal stability of this fund.

Personnel Revisions

In coordination with the preparation of the Fiscal Year 2015-16 budget, positions were reviewed for consistency and equity. Upon review, several positions were identified for proposed reclassification and others are recommended for addition. Several of these positions have been discussed, including those pertaining to Public Safety and Development Services. Details of all of the 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 sustainable.

### **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:

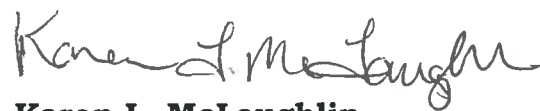
- Completion of the Morenzone Field (CIP #14036).
- Woodward Avenue Utility & Street Improvements (CIP #12026).
- Austin Road Surface Water Pipeline – Phase 2 (CIP 11017)
- Atherton Drive Water Storage Tank (CIP 11023).

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.*