To: The Merced City Council
From: City Manager Steve Carrigan
RE: City Manager's Recommended Budget
May 21, 2018

Building the Foundation for the Future

Last year, we shared that the City of Merced was at long-last rising out of the recession. The budget reflected the need to invest in City services as a result of the arriving economic recovery with a theme of "It's our time now."

That trend is continuing this year. We issued 200 single-family housing permits last year and project 400 single-family housing permits by this June. That's a long way from 2012 when we issued a single permit. We are on track to issue 3,000 building permits, something we haven't seen in more than a decade. This means that construction jobs are on the rise, and sales taxes generated from the purchases of cement, lumber, plumbing fixtures, landscaping, and appliances are steadily increasing.

The face of Merced is changing, we are on our way to transitioning into a university town. In the next two years, people will see big changes in Downtown Merced as the El Capitan Hotel comes online and the Mainzer Theatre brings more people to the City's core. Each subsequent year we will build on that success, drawing more people and new businesses to the community.

A big addition to Downtown is the UC Merced Downtown Campus Center, which consolidated offices and brought more than 300 employees to the building across from City Hall.

We have a number of new businesses opening this year in Merced. They include The Chocolate Dipper, Arco AM/PM, Kentucky Fried Chicken,

Starbucks, and Prime Shine Car Wash. We have a Marriot Town Place Suites that will provide housing for campus visitors and tourists.

We have a new shopping center under way in southeast Merced, and our existing Mall in North Merced is beginning a major renovation that will transform it into an entertainment and retail center.

There are a number of reasons for this good news. The California Department of Finance forecasts our population rising by 2,286 to 86,750 this year. Another big factor is the University of California, Merced is pumping $1.3 billion into its 2020 Project, and that spills over into the local economy with the more than 700 people hired to work on the endeavor. Students at the University spend an estimated $93 million a year, while the faculty and staff payroll amounts to $15.4 million a month. Both those figures will increase as the student, staff, and faculty population continues to grow.

The Finance Department reports that our total revenue is up 6.07 percent from last year to $172,088,803. Our general fund revenue - which pays for most of our police, fire, and parks and recreation services – was up 5.12 percent from the 2017-18 budget to $41,769,717.

Economists who have studied Merced and the surrounding region say the trend will continue through 2019 and into 2020. Just based on the projects underway now, we have two years of solid growth to build on in the City.

Present plans, future payoffs

On Friday, April 27, 2018, crews from our Public Works Department went to Ada Givens School and, with the help of a bunch of eager young students, planted Chinese pistache trees on the adjacent park grounds. Our crews do this every year for Arbor Day. Youngsters at neighborhood schools help them plant trees that will grow tall and shade the youth and many generations to come. Our workers enjoy the opportunity to teach the kids about the value of trees, and the lessons of planning and planting for the future. They teach them how the sapling that was stuck in the ground that

morning will turn into a towering tree in years ahead. The youngsters learn that the investment of time and money in the present pays off in the future.

In this year's budget, we are planning for the future, investing today in our infrastructure and our workforce so that Merced has the essential tools and instruments it needs to handle current growth.

Throughout the country the Great Recession led to deferred maintenance as a common practice. Anything that could be put off until tomorrow – or the next decade – was. It wasn't the best business practice, but it was a matter of economic survival. The City of Merced was no different. We put off buying trucks, computers, telephones, anything that wasn't absolutely essential, or completely broken down. If we could coax another year or two out of a piece of equipment without compromising the safety of our employees or services to our residents, we did it.

We did the same with staff, postponing many needed new positions until last year, when we started hiring additional employees. This didn't come close to making up for the number that were cut during the recession, but it helped augment the services that were needed in our growing community.

A budget focused on infrastructure

This is a budget of infrastructure, much of it long overdue. In the years ahead, residents will see more road and sidewalk reconstruction and repair throughout the City. We will have funding coming in from SB 1, the state gas tax, Measure V, the countywide sales tax, and other funding sources. This year it amounts to $12,623,610 in road-related projects.

We have the following Measure V road projects included in the budget.

- M Street, from 16th to 18th Streets (grind and overlay), $250,000.
- R Street, from Loughborough Drive to Yosemite Avenue (grind and overlay), $480,480.
- 26th Street, from G to H Streets (overlay with ADA ramp upgrade), $300,000.
- 26th Street, from H to M Streets (overlay with ADA ramp upgrade), $320,000.

- Alpine Drive, from G Street to Wainwright Avenue, (wedge grind and overlay), $200,000.
- Canal Street, from 19th Street to railroad crossing (grind and overlay), $350,000.

Eight years ago the first iPad was released on the market, and that seems like ancient history in computing time. In comparison, the software that we use for our Finance Department, and most other City operations, is 29 years old. We have a five-year program in place to replace the software as part of our Enterprise Resource Planning program. Council invested $350,000 in the program last year, and this year we are adding another $750,000 to the plan.

Staffing added only as needed

There are several changes relating to personnel. Right now we have 35 staff members in police and fire who are funded by Measure C, the half-cent sales tax passed by City residents in 2006. Eventually that sales tax revenue will go away, but the need for those police and fire personnel serving the City will remain. We began transitioning staff off of Measure C and onto the general fund last year. This year we will move two Records Clerks off Measure C funding and into the general fund.

This year we added five new positions. These positions are necessary to handle the extra workload generated in our community as we continue growing and adding to the local economy.

We are adding a:

- Dispatcher I in the Police Department to handle the increase emergency call volume we have to improve safety, response time, and efficiency;
- Environmental Control Officer to help us with our Wastewater Treatment Facility because of the City's growth;
- Development Services Technician to help process all of the building permits we have coming in;

- Lead Facilities Maintenance Worker to oversee the maintenance and custodial staff servicing the City's 54 facilities that cover 195,816 square feet of space;
- Personnel Technician to assist with all the new hires, the retirements, vacancies created by people leaving for other jobs, and a host of other human resources issues.

We are upgrading the Assistant Chief Building Official position to Deputy Director of Development Services to allow for enhanced customer service, improved business experience and to run the day-to-day operations and oversee the Planning, Inspection Services, and Housing Divisions.

We plan to upgrade a Police Officer's position to that of a Sergeant to improve span of control, that is, the number of people being supervised. If there are too many people being supervised, the quality of supervision and work suffers.

We have heard from residents about the need to improve the quality of our parks and the experience people have at the 36 parks in the City. We are adding two part-time Park Workers to the staff who will be able to fill in during peak times to provide enhanced service where and when needed.

This budget contains 493 fulltime positions, which is still less than the 569 fulltime positions we had in 2007-2008. Employees remain dedicated to providing the best quality of service possible and are committed to the residents of this City.

The City of Merced invests hundreds of thousands of dollars every year training its employees so that they are current in the skills and knowledge needed to keep the City safe, efficient, and effective. Every time an employee leaves the City to work for another agency or business, we lose the time and money invested in that employee, along with the institutional knowledge that person retains. We are undertaking a compensation study for $80,000 in this budget to evaluate the level of pay offered by the City in order to attract and retain employees; thereby, creating a consistent level of service for the community.

The compensation study is a one-time cost. Other one-time costs included in the budget are as follows.

- The November 6 election has $98,000 in funding to accommodate the election of three additional Council members by District and the funding necessary to allow the Council the flexibility needed to a ballot measure related to public facilities.

- The City has several sign ordinances in effect that are in need of a new look in light of the changing times. The Development Services budget has $100,000 for a sign ordinance study to update the ordinances and establish a consistent standard for signs across the City.

Preparing for the rainy day

When the economy crashed a decade ago, one thing that helped soften the blow locally was that the City had money to cushion the shock. It didn't prevent it, but it kept bad things from getting worse. It has just been recently that we were in a position to begin setting money aside for an inevitable rainy day, and we will maintain that again this year. We will add $288,750 to the Revenue Stabilization Fund for a total of $3,197,000.

There also is a need to have money set aside to draw business investments to Merced, and having money available to keep them here. We will add $115,500 to the Economic Development Opportunity Fund, for a total of $2,271,902.

We also will set aside $173,250 earmarked for establishing a Trust 115. This fund would help us with bringing stability to our California Public Employment Retirement System (CalPERS) account. CalPERS has been having problems with the rate of its returns and has changed its amortization period, which affects the City's long-term financial outlook. The City is currently assessing the impacts of these recent changes. However, we have a clear understanding that financial obligations are growing and we need to be proactive to maintain financial stability as retirement obligations increase in the future. The Trust 115 is yet another tool available to the Council as they plan for the future.

Beyond the budget

When crafting a budget, we factor in the available revenues, what the community wants and needs, what effects outside pressures are having on us, and then there is the element of looking into the crystal ball and forecasting what the future holds.

We don't know what Sacramento will do next, or what affect the next legislation out of Washington D.C. will have on our operations. There was a bill in Sacramento, SB 827, which would have had a major impact on housing in the City, effectively sidestepping the California Environmental Quality Act and muzzling local public input on housing projects. The bill died in committee, but the author pledges to bring it back again. We face those kinds of challenges on losing local control on a daily basis.

The City Council has placed Measure Y on the June 5 ballot, a half-cent sales tax measure that could potentially raise a million dollars from the cannabis growers and sellers in the City, not the residents. If approved by voters, those funds would go to police, fire, parks and recreation services, providing additional dollars to cut response times, improve programs, and hire additional personnel.

This budget is a cumulative process, a long listening session that begins almost as soon as we finish the last budget. It includes the comments we receive from people who attended Town Hall meetings at Rivera Middle School, the MultiCultural Arts Center, and Tenaya Middle School. It includes what people have told us during the public comment section at the City Council meetings. It includes the many meetings staff has held with the public, neighborhood groups, and business organizations where they have given us ideas, comments, and feedback. The budget also includes the priorities provided by the City Council at its meetings and the direction it gives staff. We take all the information, distill it, and incorporate it into the budget presented here.

This year, because we were being more conservative than last year, we focused on building the foundation for the future, putting into place the services and infrastructure that would make our City successful in the years

to come. Knowing that our economy is cyclical, we included plans for a down cycle, even if economists are saying we in Merced may not feel it very much. We want to be better prepared to withstand the fiscal impacts of a recession.

The attached City Manager Recommended Budget of $233,059,750 for Fiscal Year 2018-2019, including a General Fund amount of $42,639,790, is presented to the Merced City Council for your consideration.

I would like to thank all of the employees of the City of Merced for their hard work every day in helping this City run smoothly, effectively, and efficiently. The staff shows up in blazing heat, in pouring rain, working late on their birthdays, missing their children's assemblies, and many working holidays with seldom a 'thank you." Thank you again, and be safe out there.

All of our employees have made contributions in producing this budget, and it came together under the guidance and direction of the Finance Department and Finance Officer Venus Rodriguez.

The people who deserve the most thanks are the residents of Merced, the people who work all day, then volunteer for the PTA, or coach soccer, or help out at church, all because they want to build a better community. Thank you.

Respectfully,

Steve Carrigan,
City Manager