



May 2, 2016

To: Honorable Mayor, Mayor Pro-Tempore and Members of the City Council

From: Steve Carrigan, City Manager

SUBJECT: City Manager Recommended Budget for 2016/2017 Fiscal Year

The attached City Manager Recommended 2016/2017 Budget is presented to you based on the collective efforts of City of Merced (City) citizens, City Council and City employees.

Citizens along with Council members participated in three town hall meetings, a Budget Priority Session and the City Manager held meetings with interested individuals, non-profits and representatives from a wide range of organizations. This budget represents the City's determination to deal with the priorities of Public Safety, Economic Development and Youth Activities and to continue working towards the overall goal of achieving the best for the citizens by providing core services and utilizing all revenues in the most efficient and effective manner possible.

The budget presented is fiscally responsible, while presenting an overall attitude of slowly restoring what was lost in the economic downturn, while at the same time remaining cautiously optimistic about the future.

Citywide Budget

The organization is comprised of three separate entities. They are the City, Public Financing and Economic Development Authority (PFEDA) and Parking Authority.

The City budget includes 169 separate funds which are used to track General, Special Revenue, Debt Service, Capital Projects, Enterprise Activities, Internal Services and Trust Funds.

PFEDA is currently inactive but is an entity that can be used by the City for financing programs in the areas of economic development, affordable housing and infrastructure

improvements. PFEDA is the entity into which former Redevelopment assets were transferred.

The Parking Authority is comprised of one fund and is used for collection and disbursement of in-lieu parking fees and parking lot space leases.

The total expenditure budget for the City and Parking Authority is \$200,186,151, which is funded from projected revenues and carryover balances which are used primarily to fund capital and special projects.

Highlights of Budget Additions to Meet City Council Priorities

At the Budget session held on March 31, 2016 Public Safety, Economic Development and Youth Activities were determined by the City Council to be priorities. These areas are addressed in the recommended budget as follows.

Priority	Description
Public Safety	Three new Police Officers
	One new Community Services Officer
	One new Police Captain-delete Police Lieutenant
	Two new Lead Dispatchers-delete 2 Dispatcher I/II
	One Fire Marshall
	Standards of Coverage Study
	Auto Extrication Equipment Replacements
	Replacement of Duty Weapons
	Replacement of car cameras
	Replacement of PVRS cameras
	Vehicles for new police officers
	Vehicle for new Community Services Officer
Economic Development	10% of Director of Economic Development switched from Housing to Airport
	100% of Development Associate switched from Merced Visitor Services to Economic Development
	Economic Opportunity Fund established
	One new Assistant City Manager
Youth Activities	One new Parks and Community Services Manager
	One new Parks and Community Services Coordinator
	One new Park Worker I/II
	Park equipment refurbishing
	McNamara Park Shelter
	Bike park
	Family friendly events
Mobile recreation	

General Fund

While optimism is key to planning for the future it is essential to remain realistic in the consideration of the challenges ahead.

Revenue projections are made using historical information, data collected from the State, and/or County and consultants. City staff continues to conservatively project revenues as uncertainties remain because of inconsistent development, citizens changing shopping habits from bricks and mortar to on-line and where the economy is in the business cycle.

The table below displays the history of General Fund revenue from fiscal years 2012/13 through 2016/17.

Description	2012/13 (A)	2013/14 (A)	2014/15 (A)	2015/16 (B)	2016/17 (P)
Taxes	\$23,357,045	\$24,070,812	\$26,591,389	\$27,467,875	\$28,963,395
Intergovernmental	\$1,090,215	\$576,624	\$879,227	\$573,083	\$312,508
Licenses and Permits	\$24,329	\$25,376	\$22,631	\$24,430	\$22,970
Use of money and property	\$(49,742)	\$244,167	\$141,132	\$155,878	\$167,055
Service Charges	\$6,224,191	\$6,413,075	\$6,869,603	\$6,320,881	\$6,592,207
Fines, forfeitures and penalties	\$412,553	\$418,647	\$359,058	\$387,000	\$316,000
Sale of Capital Assets	\$5,125	\$2,796	\$436,376	\$0	\$0
Transfers In	\$295,172	\$576,900	\$1,107,732	\$683,180	\$1,862,354
Other	\$564,894	\$149,283	\$400,972	\$480,455	\$636,532
Total	\$31,923,782	\$32,477,680	\$36,808,120	\$36,092,782	\$38,873,021

(A) Actual (B) Original Budget (P) Projected

Community Facility District Funds 156 and 157 have been combined with the General Fund for 2016/17.

Source: Audited financial statements

The recommended General Fund expenditure budget of \$39,616,501 includes the City Council, City Manager, City Attorney, Finance, Fire, Police, Parks Maintenance, Economic Development, Debt Service and Transfers Out.

The table below displays the history of General Fund expenditures from fiscal years 2012/13 through 2016/17.

Description	2012/13 (A)	2013/14 (A)	2014/15 (A)	2015/16 (B)	2016/17 (P)
City Council	\$159,482	\$180,034	\$176,274	\$247,770	\$252,269
City Manager	\$507,078	\$959,426	\$1,000,896	\$1,391,623	\$1,426,957
City Attorney	\$854,777	\$934,537	\$926,514	\$1,183,028	\$983,430
Finance	\$2,576,301	\$2,562,897	\$2,526,591	\$2,640,007	\$2,734,165
Fire	\$8,807,222	\$8,157,818	\$8,368,384	\$8,826,832	\$9,717,474
Police	\$14,828,063	\$15,078,502	\$15,836,868	\$17,353,523	\$19,608,755
Parks Maintenance	\$1,600,867	\$1,536,917	\$1,573,305	\$1,603,644	\$1,765,502
Economic Development	\$601,533	\$579,576	\$641,529	\$650,348	\$660,344
Debt Service	\$624,662	\$651,604	\$677,084	\$709,190	\$738,236
Transfer- Recreation & Parks	\$532,209	\$669,114	\$753,698	\$843,968	\$1,074,435
Transfer- Development Services	\$259,666	\$960,826	\$463,852	\$598,537	\$373,402
Transfer- Airport	\$21,400	\$65,877	\$50,696	\$36,066	\$73,014
Transfer- Streets	\$0	\$0	\$277,205	\$0	\$0
Transfer- Other	\$343,575	\$1,515,766	\$584,889	\$222,609	\$208,618
Total	\$31,716,835	\$33,852,894	\$33,857,785	\$36,307,145	\$39,616,501
Revenue Stabilization Fund	-	-	-	-	\$1,894,725
Economic Opportunity Fund	-	-	-	-	\$812,025
Grand Total	\$31,716,835	\$33,852,894	\$33,857,785	\$36,307,145	\$42,323,251

(A) Actual (B) Original Budget (C) Projected

Community Facility District Funds 156 and 157 have been combined with the General Fund for 2016/17.

Source: Audited financial statements

General Fund Budget Highlights

General Fund salary and benefit numbers include negotiated increases contained in Memorandum of Understanding for the five bargaining groups and the Unrepresented Pay Plan for management employees.

Health Insurance is expected to increase 8% and dental coverage 5%. Other benefits such as vision, disability and life insurance are not expected to increase.

California Public Employees Retirement system (CalPERS) employer rates for Public Safety employees will increase 8.9% and employer rates for Miscellaneous employees will increase 8.3%. It is anticipated there will continue to be increases as CalPERS works on reducing the unfunded portion of pensions.

One Time Expenditures

The Recommended Budget includes non-reoccurring amounts in furtherance of the City Councils priorities and for general administrative costs.

Description	Public Safety	Economic Development	Youth Services	Administration
Park Playground Equipment Replacement			\$100,000	
Standards of Coverage & Auto Extrication	\$77,290			
Duty Weapon and Camera Replacements	\$160,000			
Additional Vehicles for New Positions	\$231,410			
Revenue Stabilization Fund		\$1,894,725		
Economic Opportunity Fund		\$812,025		
Parks & Fire Projects Carryover	\$834		\$82,329	

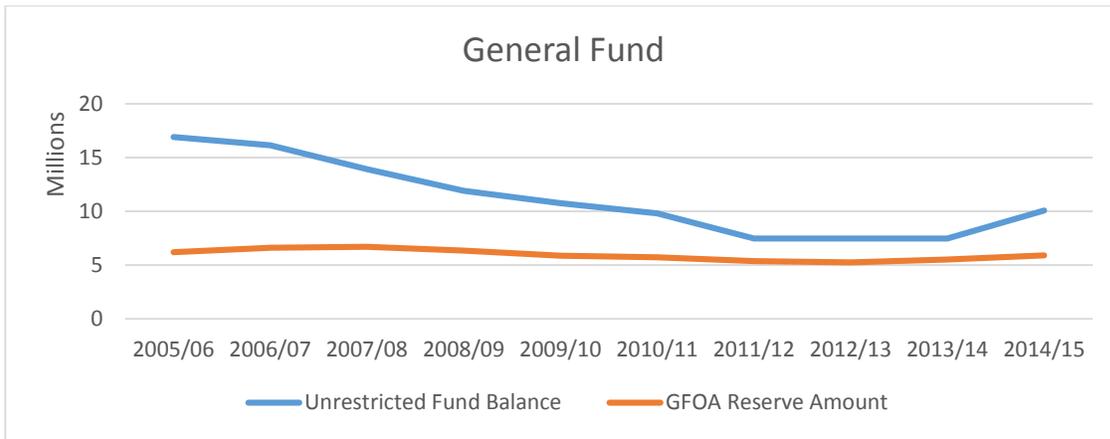
Litigation				\$45,000
November Election				\$80,000
Total	\$469,534	\$2,706,750	\$182,329	\$125,000

New Funds Created From General Fund Unappropriated Reserves

1. Revenue Stabilization Fund – It is recommended this Fund be established in order to have funds available in anticipation of the next economic downturn. Initial funding is proposed to come from a portion of General Fund unappropriated balance in excess of the Government Finance Officers Association recommended minimum reserve balance. Initial funding is \$1,894,725. Funding will be added as available until a Council determined cap amount is reached. Staff recommend amount is \$20,000,000. A policy will need to be developed that will lay out when it is appropriate to use.
2. Economic Opportunity Fund – It is recommended this Fund be established in order to have funds to take advantage of business development/job creation opportunities. Initial funding is proposed to come from a portion of General Fund unappropriated balance (\$812,025) in excess of the Government Finance Officers Association recommended reserve balance and remaining proceeds from the sale of the Pepsi building (\$1,086,577). Initial funding from these two sources is \$1,898,602. Funding will be added as available until a Council determined cap is reached. Staff recommended amount is \$5,000,000. A policy will need to be developed that will lay out when it is appropriate to use.

General Fund Operating Reserve

The City’s policy is to maintain the Government Finance Officers Association (GFOA) recommended minimum operating reserve to deal with localized economic cycles. During the economic recession the City used reserves to help offset a decline in revenues. The graph shows the actual unreserved fund balance compared to the GFOA recommended amount.



Personnel Changes in the General Fund

Position Title	Additions	Deletions	Comments	
			15/16 Budget	16/17 Budget
Police Officer	3	-		
Community Services Officer	1	-		
Lead Dispatcher	2			
Dispatcher I/II		2		
Police Captain	1			
Police Lieutenant		1		
Fire Marshall	1			
Assistant to the City Manager	-	-	60% to Parks & Recreation & 40% to City Manager's Office	0% to Parks and Recreation & 100% to City Manager's Office
Director of Economic Development	-	-	90% to Economic Development & 10% to Housing	90% to Economic Development & 10% to Airport
Development Associate	-	-	100% to Merced Visitor Services	100% to Economic Development
Assistant City Manager	1	-		
Senior/Associate Planner	-	1		
Secretary I/II	-	-	5% to Visitors Center, 5% to Economic Development & 90% Housing	100% to Public Works Administration
Public Works Manager-Tax Services	.25	-	15% Parks Maintenance, 20% Trees, 20% Streets, 40% Street Sweeping & 5% CFD Parks	15% Parks Maintenance, 20% Trees, 20% Streets, 40% Street Sweeping & 5% CFD Parks

Special Revenue Funds

These funds are used to budget and account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The following are highlights from several Special Revenue Funds.

Development Services Fund

Planning, Inspection Services, Engineering and Housing will make up the Development Services budget for 2016/17. Housing currently falls under the Economic Development Department.

Development Services prepares an annual forecast of development that is used to project all building related revenue. The forecasts used are shown below.

Category	2015/16	2016/17
Single Family Units	150	150
Multi-Family Units	125	125
Institutional (Per 1,000 Square Feet)	-	5,000
Retail Commercial <50,000 (Per 1,000 Square Feet)	20,000	20,000
Retail Commercial > 50,000 (Per 1,000 Square Feet)	-	-
Office/Commercial (Per 1,000 Square Feet)	20,000	20,000
Industrial (Per 1,000 Square Feet)	25,000	25,000

Personnel changes affecting Development Services

Position Title	Additions	Deletions	15/16 Budget	16/17 Budget
Director of Development Services	-	-	30% Engineering, 30% Planning, 40% Inspection Services	30% Engineering, 30% Planning, 30% Inspection Services & 10% Housing

Assistant Chief Building Official	Unfunded – Temporary assignment to Fire Department as Fire Marshall
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Streets and Streetlights Fund

Streets, streetlights and traffic signal maintenance and operations are primarily funded from Gas Tax. Unfortunately the revenue stream has not kept up with maintenance needs and additional funding has been provided from Measure C.

At the November 2016 election there will be a ballot measure for a ½ sales tax dedicated to regional road improvements and local road maintenance. Passage of the measure would greatly enhance the road maintenance program. If it does not pass maintenance will continue to be deferred and roads will continue to deteriorate. If it does pass, revenue would not be received until the second quarter of 2017. No estimate is included in the budget for any revenue from this measure.

This budget unit is responsible for maintaining 330 lane miles of streets, 6,728 City owned streetlights, 68 traffic signals and 28 flashing school beacons.

Parks and Community Services Fund

Recreation programs and activities along with facility rentals make up the Parks and Community Services budget and staff time. There are many activities and venues available for all ages.

Description	Adult Sports/Activities	Youth Sports/Activities	Facility Rentals	Community Activities
Zoo				X
Ed-Zoo Cation Center			X	X
Softball	X	X		
Baseball		X		
Ballfields			X	
Basketball	X	X		
Volleyball	X	X		
Football		X		
Soccer		X		
Swimming lessons		X		
Pools			X	
Recreational swimming				X
Scout Hut			X	X

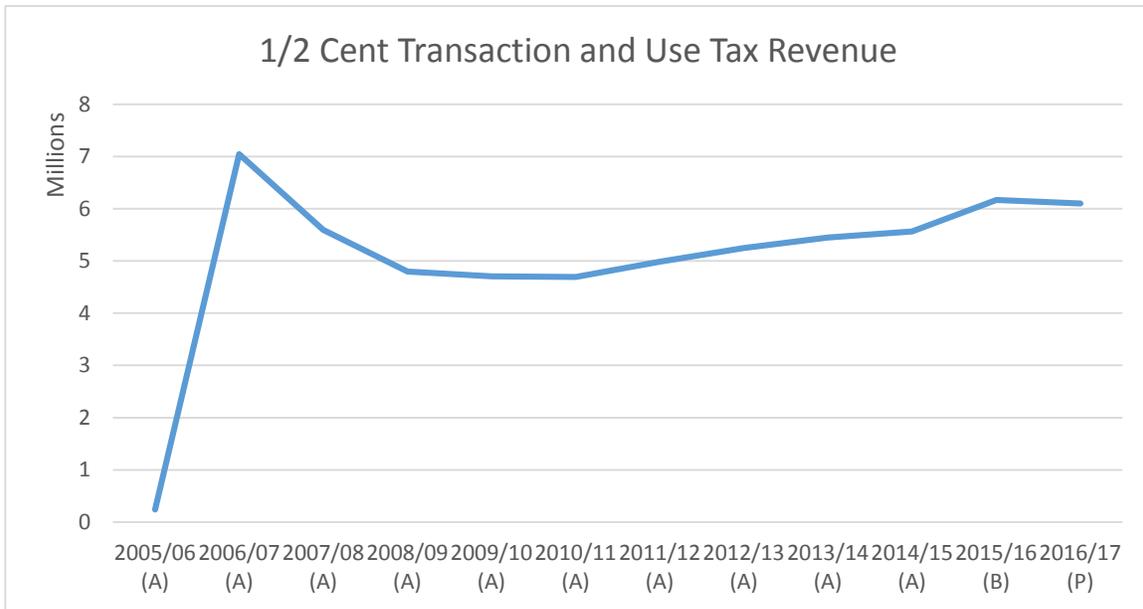
Senior Center	X		X	X
Family Friendly Events (New)				X
Mobile Recreation (New)				X
Picnic Shelters			X	X
MOAT			X	X
Boys and Girls Club		X		X
After School/Summer Recreation		X		
Martial Arts	X	X		
Hunter Safety	X	X		
Fitness				X
Youth Council		X		
Parks Planning				X
Parks & Recreation Commission	X	X	X	X

Personnel Changes Affecting Parks and Community Services

Position Title	Additions	Deletions	Comments	
			15/16 Budget	16/17 Budget
Assistant to the City Manager	-	-	40% City Manager & 60% to Recreation and Parks	100 % City Manager
Recreation Manager	1	-		
Recreation Supervisor	-	-	Eliminated if Recreation Manager filled with internal candidate	
Recreation Coordinator	1	-	Not added if Recreation Manager is not filled with internal candidate	
Park Worker I/II	1	-		

Measure “C”

In November 2005 voters approved a ½ cent sales tax as a general tax. The tax sunsets in 2026. Revenue has been used primarily for Public Safety personnel and also for street projects and maintenance. Although 2026 seems a long way off consideration should be given to having a ballot measure in 2021 to see if there is an interest in renewing. If there is not sufficient interest a plan should be developed on how to handle almost 37 Public Safety personnel currently funded through this revenue source.



(A) Actual (B) Approved Budget (P) Projected

Debt Service Funds

These funds are used to budget, account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest.

The City administers the debt service for six Assessment/Community Facility Districts. All the debt service is current and reserve accounts, where required, are properly funded.

Last year the City Council approved refinancing two of the Districts in order to take advantage of the low interest rate environment. This was to be completed by March 2016. Certain disclosures and current assessment payments are necessary for the disclosure counsel to prepare a complete Official Statement. Unfortunately several large property owners have not complied to-date so the refinancing is currently on hold.

Enterprise Funds

These funds are used to budget, account for and report financial resources for which a fee is charged to external users for goods or services.

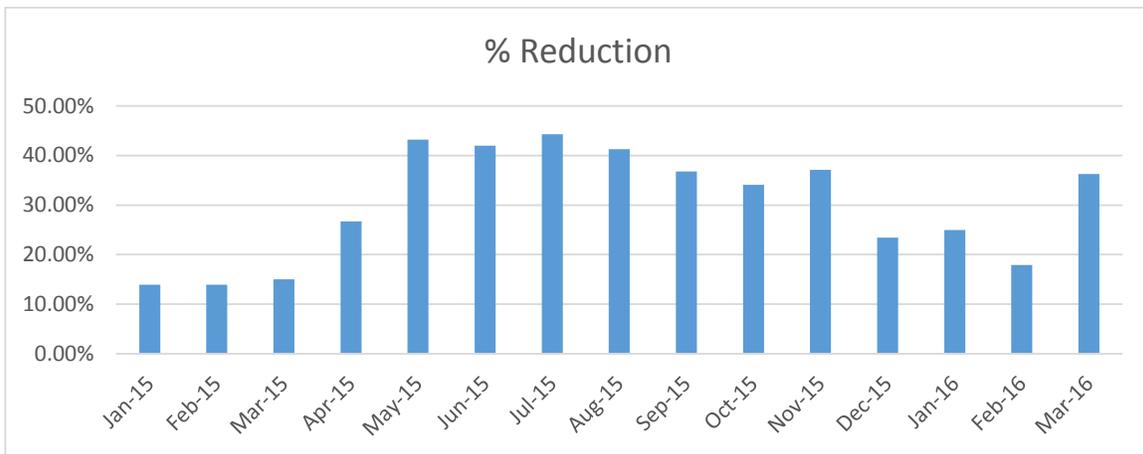
Water, Wastewater and Refuse provide service to about 22 square miles and over 23,000 parcels.

Water

The water system consists of 22 wells and over 20,000 service connections. Water meters have now been installed on all services and billing for those newly installed meters will start once the process is put in place to read them.

Because of the severe drought California has experienced the Governor mandated as of June 1, 2015 that water usage in the City be reduced by 36% based on 2013 usage. The reduction has now been changed to 34%.

The attached graph shows how the citizens of the City have done an excellent job in reducing water usage not only when the mandate was issued but even before.

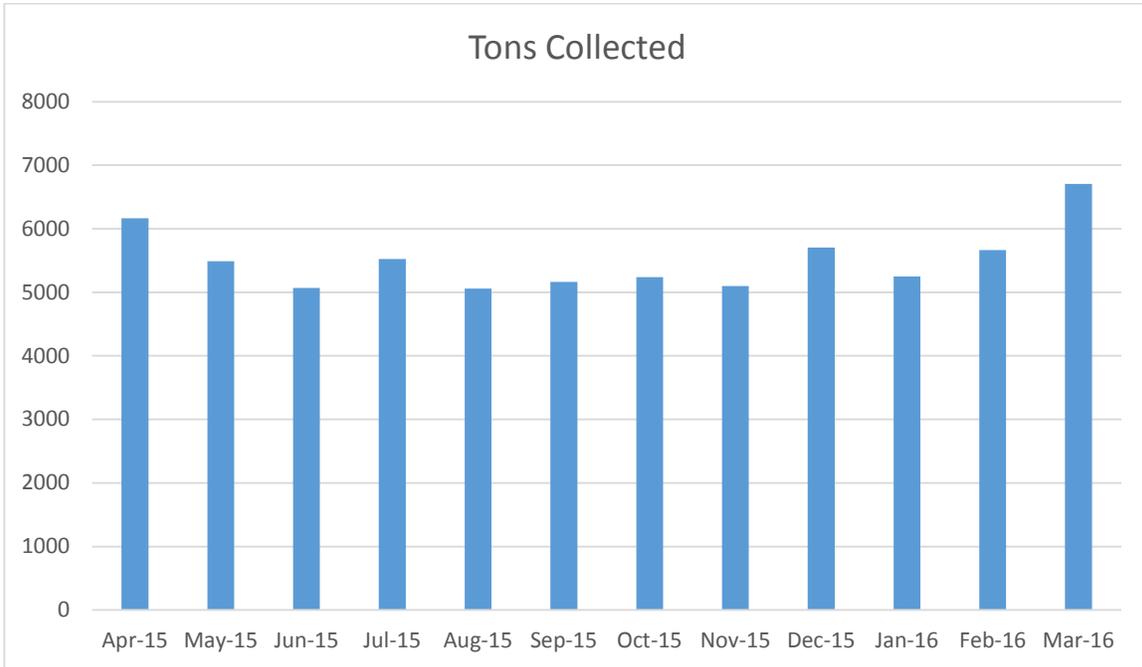


Wastewater

The wastewater treatment plant has a capacity of 12 million gallons per day (MGD) capacity. The average capacity used is 6.74 MGD. Wastewater flows to the plant through 258 miles of pipes. Storm water, after its capture in 58 storm drain pump stations, 41 storm drain basins and 2,451 storm drain catch basins, flows through 141 miles of storm drain lines. In addition treated effluent is applied to crops on 720 acres.

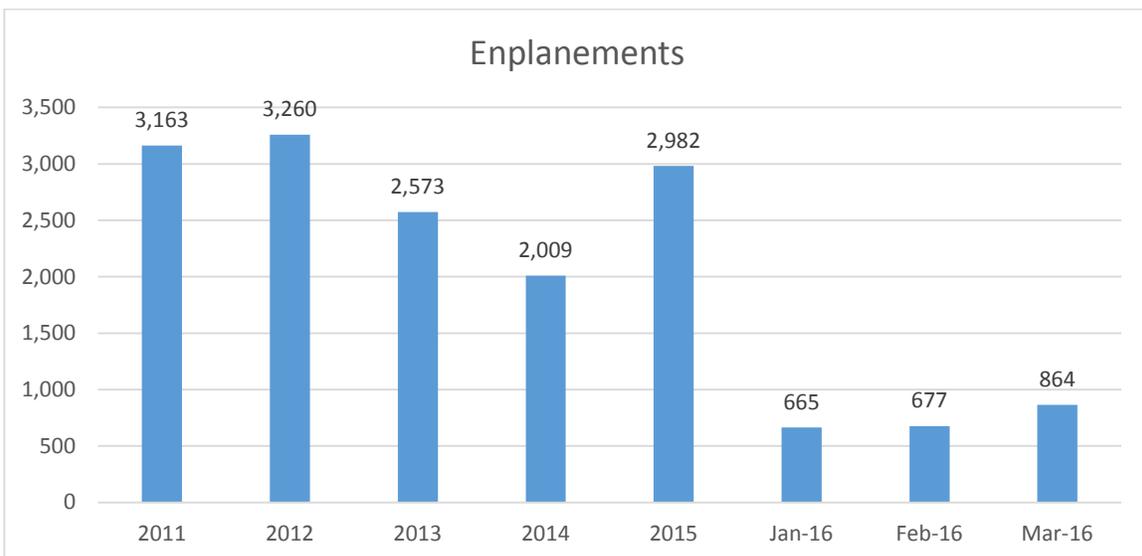
Refuse

Refuse collection, recycling, green waste, street trees and street sweeping make up the services provided by this fund. The City maintains 95,000 park and street trees. Total tons of refuse taken to the landfill over the last year are shown on the graph below.



Airport

The number of enplanements at the Airport is on track to reach 9,000 – 9,500 this calendar year. Once the number of 10,000 is reached \$1,000,000 becomes available for airport improvements.



Personnel Changes Affecting Enterprise Funds

Position Title	Additions	Deletions	Comments	
			15/16 Budget	16/17 Budget
Director of Public Works	-	-	90% Public Works Administration & 10% Airport	100% Public Works Administration
Secretary I/II	-	-	5% Visitors Center, 5% Economic Development & 90% Housing	100% Public Works Administration
Secretary I/II	-	-	100% Public Works Administration	70% Public Works Administration & 30% Airport
GIS Coordinator	.25	-		
Public Works Supervisor-Solid Waste	.25	-		
Lead Refuse Equipment Operator	1	-		
Refuse Equipment Operator/Trainee	1	-		
Public Works Manager-Tax Services	.15	-		

Internal Service Funds

These funds are used to budget and account for an activity that provides goods or services to other funds, departments or agencies of the primary government.

The City uses Internal Service Funds for fleet maintenance, facilities maintenance, human resources, risk management, information technology, employee benefits, vehicle replacement and information technology replacement. The costs for these services are spread to all user departments.

Fleet Maintenance oversees and maintains over 550 pieces of rolling stock, trailers and small motorized equipment such as chain saws and leaf blowers.

Facilities Maintenance oversees and maintains 118 structures which covers about 409,000 square feet.

Information Technology oversees, maintains and updates over 1,000 desktop computers, laptop computers, mobile devices, telephones, network devices, cameras, internet connections, mainframe and all the software applications needed to run the devices.

In order to accurately assess the organization and its staffing needs, the human resources division of the Support Services Department will be overseeing a project to review and update all of the job descriptions within the City of Merced. This will be accomplished by using the services of an outside vendor. It is anticipated the project will begin in January 2017 and all job descriptions will be reviewed. This is a vital step in ensuring the accuracy of the job descriptions and the proper placement of the City employees in those positions.

Many of the City's job descriptions have not been updated since the 1980's and therefore do not reflect modern technology and practices in the respective professions. As a result, the reclassifications requested by Department Heads will continue to be on hold until the project is completed. This will allow a fair, accurate, and systematic process to evaluate all positions.

Funding from General Fund sources into the Vehicle Replacement and Technology Replacement Funds were suspended at the start of the economic recession. Based on the five year forecast this funding stream will start again in the 2020/21 fiscal year. The Fleet Replacement Fund is currently underfunded by about \$5.5 million and the Technology Replacement Fund is underfunded by about \$600,000.

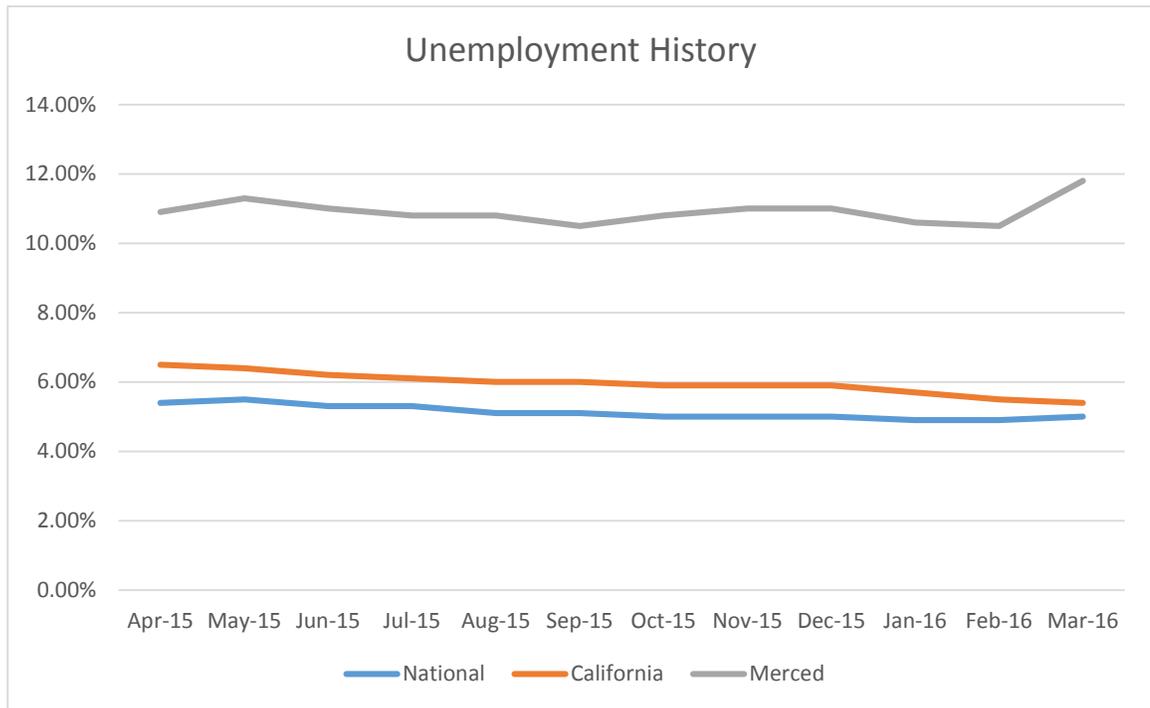
Personnel Changes Affecting Internal Service Funds

Position Title	Additions	Deletions
Equipment service Worker	1	-
Building Maintenance Worker I/II or Custodian I/II	1	-

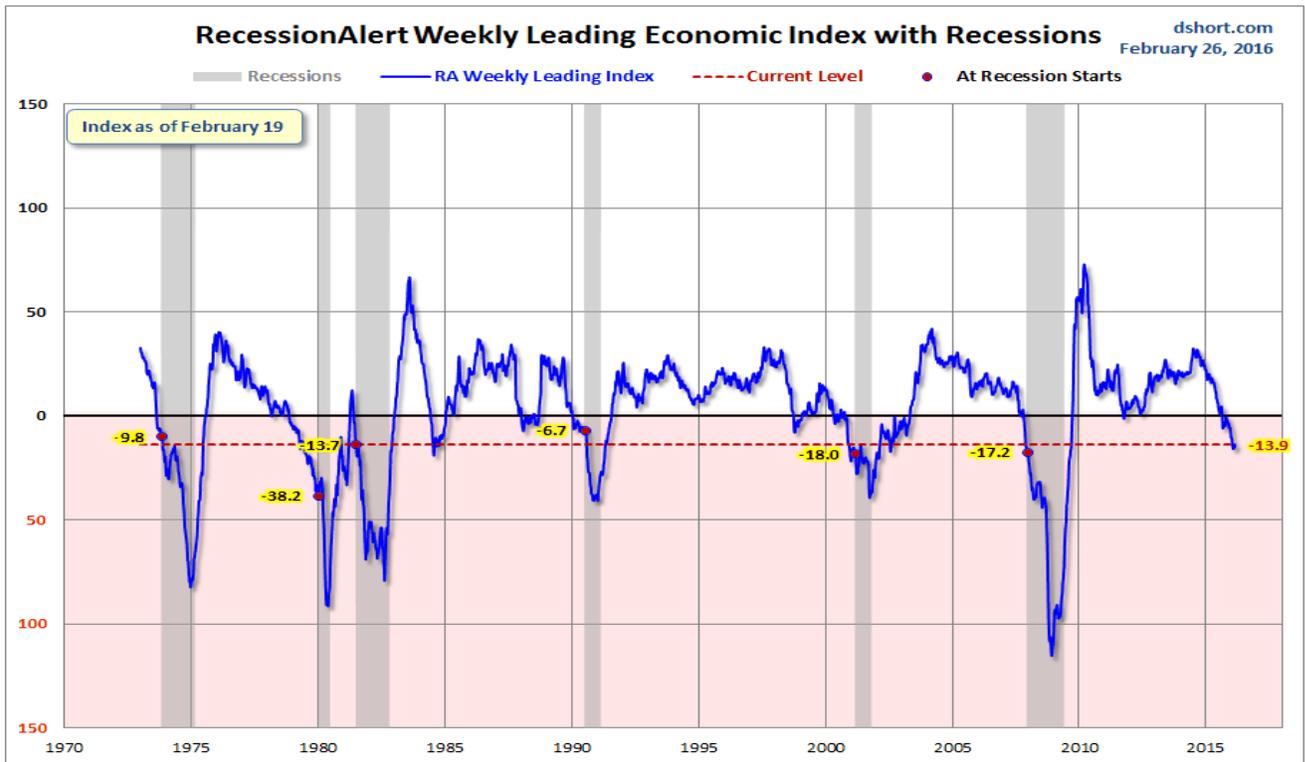
The Economy

Critical to any budget planning are the current economic conditions and outlook for the future.

Employment trends are an important sign of how the economy is doing. The trends for the last year show California and nationally slowly improving but Merced remaining at about the same range.



One question that seems to be asked these days is when will the next recession occur? The predictors cover the range from “soon” to “maybe” to “probably not at all”. Who knows whether it will or won’t happen but the reality is the economy is cyclical and based on past trends one will more than likely occur sooner rather than later. The latest five year forecast accounts for some revenue decline in sales tax starting in 2017/18.



The Weekly Leading Economic Index (WLEI) uses fifty different time series from these categories: Corporate Bond Composite, Treasury Bond Composite, Stock Market Composite, Labor Market Composite, Credit Market Composite.

Now that Phase 1 of the Merced/Atwater Expressway has been completed retail and commercial development will start at some point. Because of freeway access this will be a desired location for developers. This is not in the City of Merced so to the extent business locates there instead of in the City, tax and license revenues will go elsewhere.

UC Merced has embarked on the 2020 Plan which will provide for student capacity of 10,000 by 2020 which is an increase of about 3,300 students. With a direct investment of more than 1 billion dollars to accomplish this goal Merced will no doubt benefit from this effort even though UC Merced is not currently part of the City.

Integral to the UC Merced's 2020 project is a new administration building to be located directly across from City Hall. The proposed plan calls for a structure with 67,400 square feet at a cost of \$45 million.

Because of the relative new interchange at Mission Healy opportunities exist for retail and commercial development within the City.

Overall the City is cautiously optimistic about the economy for the next several years.

Items Requiring Additional Discussion and Information

Several issues need to be addressed relating to the Fire Department. The first issue has to do with providing coverage when aircraft land or depart. When an airport is certified under Section 139 of the Federal Aviation Administration rules, which the City of Merced Airport is, fire suppression/rescue must be available within 3 minutes of the center of the runway 15 minutes before landing and 15 minutes after departure. With the new Essential Air Service carrier and the schedule they are flying it is estimated this could cost as much as \$350,000 in staffing. This is not covered in this budget. One possible solution that is being discussed is to have the Airport decertified which would then make any response to an airport incident a call for service through the 911 system.

One of the two ladder trucks the Fire Service uses is in need of replacement. It is estimated the cost to replace is about \$1,400,000. This is not covered in the budget.

At the March 21, 2016 City Council meeting a Fire Fee Study was presented. This needs to be returned so a final decision can be made on how staff should proceed.

Several Information Technology issues will need to be addressed beyond the 2016/17 budget year. The first is the current desktop hardware used by the City will no longer meet several regulatory compliance mandates by January 14, 2020. (Department Of Justice, Health Insurance Portability and Accountability Act, Personally Identifiable Information, Payment Card Industry Security Standards Council, etc.). New equipment will be required to run compliant software. The equipment cost is \$600,000 and must be in place before the deadline.

The second is the current software used for all financial applications is written in Report Program Generator (RPG) code, which is an IBM proprietary programming language. The software works very well but no one is being trained anymore to write this code and there are fewer and fewer programmers who understand it. A replacement system will cost in the range of \$750,000. It is estimated this replacement will need to happen sometime within the next five years.

Conclusion

The City has faced challenging budgets in the past but with the City's leadership and resourceful staff the City has been able to be poised to capitalize on future opportunities.

I would like to thank the City Council for providing effective policy direction and support and to the employees of the City of Merced for their hard work and dedication to get the job done. Continuing to work together we will ensure public resources are managed efficiently to provide a City we can all be proud of.

Respectfully,

A handwritten signature in black ink, appearing to read "Steve Carrigan", with a long horizontal flourish extending to the right.

Steve Carrigan
City Manager