



May 9, 2019

Merced City Council
678 W 18th Street
Merced, CA 95340

Honorable Mayor and City Council,

I hereby submit the Fiscal Year 2019-20 City Manager's Recommended Budget for your review and consideration, in accordance with the City of Merced Charter Section 501(b). The cooperation and efforts of department heads and their staff during the development of the Budget is greatly appreciated. The budget before you was compiled within the following guiding principles: fully fund current City operations within projected revenues; continue capital project and infrastructure investments within the City; set aside Revenue Stabilization, Economic Opportunity and Trust 115 funds; and continuing the transition of employees away Measure C funding.

In evaluating the overall fiscal state of the City, our local economy has reached some promising milestones with steady development and housing starts and lower than average unemployment rates. These indicators are reflected in the budget and result in modest increases in sales and property tax estimates and increases in Community Facilities Districts funding.

Although the outlook for the future is positive, the Budget presents significant challenges in managing historical liabilities and increasing operational expenses. These challenges include the pending Redevelopment Agency settlement, negotiated salary impacts, escalating CalPERS obligations, growth in Workers Compensation claims, and the need to address deferred maintenance costs.

Despite these challenges, the budget allows the Council an opportunity to continue efforts on all of the FY 2019-20 Goals and Priorities. However, it is recommended that a fiscally prudent approach be taken this fiscal year, and over the next three years, to effectively manage the short-term outlook, allow for the completion of projects already set in motion, and maintain and further the City Council's overall goal of a sustainable budget.

FY 2019-20 City Budget

The total Fiscal Year 2019-20 City Manager's Recommended Budget is \$255 million, which is an increase of \$22 million from the previous year of \$233 million. This increase is primarily due to the programming of Measure V and SB 1 funding for street and sidewalk projects and the continuation of sewer and water infrastructure improvements throughout the City. The General Fund budget remains relatively level at \$42 million, with the primary focus on meeting the increased needs of CalPERS payments. Overall, staffing levels are recommended to stay the same, with proposed deletion and addition of eight positions across all departments.

Key Budget Issues

RDA Dissolution – The City is in discussions with the California Department of Finance to work through a potential settlement related to the dissolution of Redevelopment, with assets transferred PFEDA. Currently, the City is awaiting an order to potentially repay \$9.5 million. A repayment of this magnitude would decimate any General Fund balance identified in the FY 2019-20 Budget or potentially tie up a significant portion of revenue in a long-term repayment plan. The decision was made to take a more conservative approach to the FY 2019-20 Budget to allow the City Council as much flexibility as possible as staff work to identify solutions to this staggering obligation.

CalPERS Contributions – CalPERS Board policy decisions of lowering the assumed discount rate from 7.5% to 7% and decreasing the amortization of unfunded liability over 20 year from 30 years present significant challenges to the City's fiscal stability. Overall, annual contributions saw an increase of \$1.5 million in FY 2019-20, with projected increases of approximately \$1 million annually over the next three fiscal years. The rise in contributions result in a total increase of \$13.1 million of annual payments, \$6.7 million above the FY 2016-17 level of \$6.4 million. With costs projected to rise more than 100% related to existing staffing patterns, careful consideration should be given when adding new positions.

Operational Increases – In addition to the RDA repayment and CalPERS obligations, other operational factors play a significant role in the overall increase to the FY 2019-20 Budget. Over the past four years, workers compensation expenses have seen an increase of more than 70%. Vehicle maintenance and fuel costs have also increased approximately 43% over the same period. These areas, combined with deferred maintenance leave the General Fund facing the challenge of doing more with fewer resources. To stay within the Council's policies for a sustainable budget, one-time funding was allocated to address the necessary upgrades to technology infrastructure and make a second investment in the Enterprise Resource Planning or ERP system.

Special Revenue – Voter approved revenue sources also provide an area of concern in the FY 2019-20 Budget. Measure C is scheduled to sunset in 2026, with approximately 20.99 Police and 12.80 Fire full-time equivalent (FTE) are still supported by a short-term revenue source. As part of the recommended budget, increased CFD funding allows for the transition of 1.0 FTE out of the Measure C budget. The voters of the City of Merced approved Measure Y in November of 2019 as a special tax on the cannabis industry to be allocated between police, fire and parks. However, because the sale of cannabis related products within the City has yet to take place, programming revenue within the budget has been delayed. Staff anticipate that receipts will be received by the City within 18-24 months.

On-Going Projects

Over the last three years, the City Council has taken strategic steps in planning for the future of the City. Because of these efforts, staff continue to work towards the completion of several projects that demonstrate positive momentum. Downtown revitalization efforts will see the first three major projects completed later this year, with the opening of the El Capitan Hotel, the Tioga and the Mainzer. In addition to the visible construction in downtown, the Merced Mall was environmentally cleared, allowing for a multi-million dollar renovation project to begin. In addition, plans for the Gateway Shopping Center are underway and a new Campus Parkway development is in progress, expanding multi-family housing and retail opportunities. In April, LAFCo approved the first City annexation since the recession, allow for the future development at Santa Fe Ave. and HWY 59.

With the goal of enhancing medical care in the City, Valley Children's Hospital has purchased property in north Merced to construct a specialty care facility and Golden Valley Health Center's new facility is currently under construction. Gateway Terrace II, an affordable housing project, will begin construction this summer. The City Council has approved approximately 1,000 multi-family units and single-family homes are under construction in every corner of the city. The first of five cannabis dispensaries are scheduled to open in the fall, with other cannabis-related business following shortly thereafter.

In addition to the projects currently in progress, the City Council continues to invest in future planning efforts that will act as the foundation for a sustainable future. The following efforts are on track to be completed this fiscal year: the Sewer Master Plan EIR, North Merced Annexation Study, Police Headquarters Needs Assessment, Industrial Park planning and the Quiet Zone Study.

The Recession of 2009 placed the City of Merced in a critical position to address fiscal sustainability. Since then, the City Council tempered difficult financial climates with calculated investments in budget and planning efforts to restore the foundation of City services. As we look to the future, we recognize that several issues still present a budgetary challenge. Even so, your staff stand ready to meet these issues with budget solutions that ensure the long-term fiscal success of the City of Merced.

Sincerely,

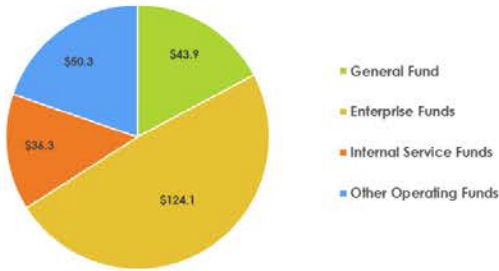


Steven S. Carrigan
City Manager



2018-2019 CITY OF MERCED BUDGET

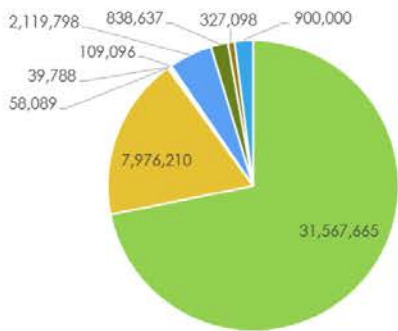
TOTAL CITY BUDGET \$255 MILLION



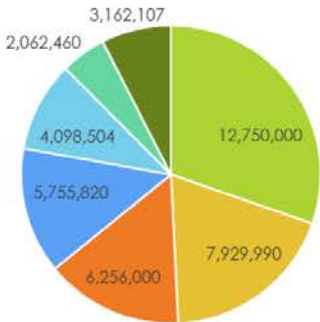
GENERAL FUND SUMMARY
(in millions)



GENERAL FUND REVENUES \$42M

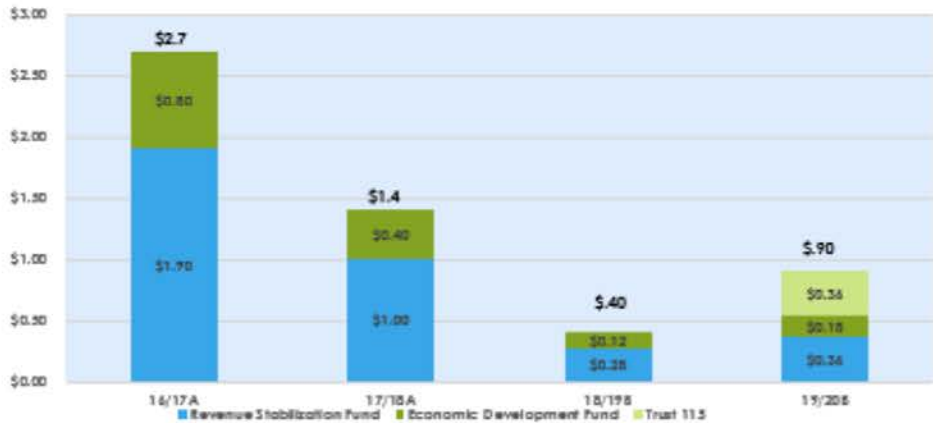


GENERAL FUND BALANCE \$43.9 M



- Personnel
- M.S. & S.
- Property
- Administration
- Direct Svc Chgs
- Sales Tax
- Property Tax
- Vehicle In Lieu
- Other Taxes
- Transfers
- Debt
- Capital
- Future Planning
- Administration
- Direct Svc Chgs
- Other

FUTURE PLANNING



FY 2019/20 Council Goals & Priorities

1 Staffing (General Fund)

- * Measure C Transition - Sunsets in 2026
- * Code Enforcement/Dispatchers/Police Officers
- * Parks Maintenance Workers
- * Employee Compensation

2 Youth Programs (General Fund)

- * Youth/Recreation Programs
- * Community Outreach - Mobilize Volunteers
- * Additional Programs with Partnerships/Voucher Program (new)
- * 27th & K
Support for the Zoo
Fahren's Park Bike Project

3 City Beautification (One-time/General Fund)

- * Parks Maintenance & Equipment
- * Public Art
- * Blighted Property/Refuse Collection
- * Welcome Signs/Entry Points
Public Spaces

4 Local Streets (Measure V/STP/Local Transportation)

- * Overall Streets, Sidewalks, and Street Lights
- * Safe Routes to School - Childs Ave.
- * Parsons Ave.
Regional Projects - Hwy 59
Regular Updates to community on projects
Traffic/Pedestrian Safety

5 Future Planning

- * Police Station/Fire Stations/Public Works Yard/Park Restrooms
- * Future Annexations/Growth of City/Sewer Master Plan
- * Economic Development/Industrial Park/Yosemite Travel
- * Quiet Zones/Rail Safety
Growing General Fund Reserves
- * Infill Development
City Outskirts Services/County Islands

6 Downtown

- * Code Enforcement/Store Fronts
Housing
Bob Hart Square Extension
Consistent foot patrols
Enhanced Infrastructure Financing District (EIFD)

7 Regional Transportation

- * High Speed Rail
- * ACE Train
- * Amtrak
Campus Parkway/Merced Loop

6 Water

- SGMA/IRWM Implementation
Flood Prevention
Groundwater Recharge
Sub-Committee
Surface Water Projects

8 Homelessness

- Childs & B Street Project (119 units)
Gateway Terrace II Apartments (50)
Single-family/Tri-plex opportunities
First-time Home Buyer Education Program

9 Charter Review Committee

- Remove Charter Cash-basis Fund (\$4 mil)
Mayor Term

10 Community Wellness

- 16th Street/Motel Drive Issues
Neighborhood Watch
Expanded Citizen's Police Academy

11 Agency Partnerships

- Homeless Court
County Navigation Center
UC Merced Internships
Regional Plan for Services - Continuum of Care
Drug Prevention (County)
Public Health (County)
Youth Programs (County & Schools)
Job Training (Merced College & County)