

CITY OF MERCED

"Gateway to Yosemite"



CITY MANAGER BUDGET MESSAGE

TO: The Honorable Mayor and City Council
FROM: John M. Bramble, City Manager
RE: 2009-2010 Budget
CC: Department Directors and City Attorney
Date: July 30, 2009

INTRODUCTION

The City has experienced a two-year downturn in the local economy that has severely impacted retail businesses, employers and the residents of the community through a loss of confidence in the national economy and loss of employment. These national economic factors have reverberated into a local unemployment rate of just under 20 percent, seven straight quarters of declining sales tax revenues from the previous year, a decrease in property tax revenues of over 20% over the past two years and revenues from growth cut almost to nothing. To address this financial picture, the City has developed a five-year financial plan that will address the immediate revenue shortfalls and to steer the City's budget through the next four years of economic recovery. The five-year plan utilizes some prior year revenues, a portion of the City's General Fund reserve balance and expenditure cuts that will allow the City Council the opportunity to scale back City services minimally until the economy fully rebounds to place the City in a position to operate within the revenues that are generated each fiscal year, thus not using one time revenues for regular operational and personnel expenses.

City Council Goals

The City Council conducted their Annual Budget Planning Session in February to provide the staff policy directions on programs and projects that were a high priority for the City in 2009-2010. As the City Council budget priorities were developed the recognition that the City would have a reduced work force was given consideration as we proceeded into the new budget year. Specifically, the City Council established the following guidance as the policy direction for the management team:

- Engage staff and seek input
- Layoffs should be considered as a last resort
- Public safety is top service priority, with clean and safe community as a second priority.

- If considered, evaluate the golden handshake for real savings
- If considered, evaluate furloughs for implications on overtime and other effects on savings
- Be prepared to apply for stimulus or other funding when the “shoebox opens”
- Identify and focus on core services and critical positions
- Identify duplications and streamline
- Look for new ways to deliver services

The executive staff utilized these nine guiding principles in the development of the budget. The last two guiding principles need further evaluation and analysis and will continue into the next budget year.

City's Business Plan

The City started a business plan to reduce expenditures with the adoption of the 2008-2009 Budget. The 2008-2009 Budget was approved with the freezing of 19.75 positions and over the course of the year an additional 22.25 positions were held open to reduce the major expense of the City, which is personnel. Other efforts include the restructuring of the employee health benefit plan (saving 3+ positions), providing two early retirement plans to all employees that 20 employees are availing themselves of the opportunity and elimination of 14 full time positions to reduce expenditures. Other budget cutting measures included suspension of merit increases next budget year and the reduction of professional services, training and operating supply expenditures substantially in order to minimize the reduction of positions.

Budget Preparation Process

The basic goal for the development of the Budget for 2009-2010 was to establish a collaborative process for the preparation of the departmental budgets. The Directors were provided a target number for their budget with either a 12% or 15% reduction in revenues. The organization was provided three basic objectives for the development of their budget:

1. Public safety services are a primary service.
2. Maintenance of the City's existing visual aesthetic amenities.
3. Maintain youth services.

The Department's prepared their budgets based upon those three directives and the needs of the operation to maintain the core City services they provide to the residents of the community.

Other Factors

As with any budget there are expenditure items that are outside the City's control that do have a direct impact on the cost of conducting City business. Two of the more significant areas are the cost of gasoline/petroleum products and energy costs. Although gasoline prices seem to be stabilized this is an area that we must maintain control. Energy costs are expected to increase about 3.5 percent next budget year. The State has included Proposition 1A as part of the State Budget, which borrows 8 percent of the City's property tax revenues in 2009-2010. As a brief explanation of Proposition 1A, the activation of Proposition 1A places the State in the position to borrow local government

revenues twice in a 10 year period requiring the state to reimburse local governments within 3 years of the date it borrowed the funds. The State's implementation of Proposition 1A will result in the state borrowing \$1.2 million from the City. As approved by the City Council, the City will borrow the funds internally to operate the City for the year without necessitating additional reductions in the services to the citizens. This action will require that the staff re-evaluate the five-year financial plan to take this loan of City funds into account as the 2010-2011 Budget is developed.

OPERATIONAL FUNDS

The General Fund has the greatest flexibility for use of the revenues and is the most vulnerable to the changes in the economy. The General Fund revenues are estimated to be \$33,910,363 a 12% decrease from the 2008-2009 Budget. Over \$2,122,846 million in reserves are proposed to be used to bolster this decrease.

General Fund expenditures are proposed at \$36,033,209 to cover the costs for core City services. This is an 17 percent reduction in the General Fund expenditures from 2008-2009. The personnel reductions and reductions in operational expenditures will have some impact on "core" City services.

Another Fund that is directly subject to the local economy is the Development Services Fund. Development Services derives the majority of its income from new planning applications, building permits and engineering activities. The Development Services Budget is based upon a flat expectation for new building activity during 2009-2010. Development Services estimated expenditures will total \$6,252,933

The Measure C Fund is also impacted directly by the change in consumer spending habits and will see a 12% decrease in total funding for 2009-2010. The overall shortfall of \$659,754 will be supplemented from prior year funds in order to fund a total of 21 police positions and 16 fire positions.

The lack of development in new subdivisions has had a significant impact on the Community Facility District revenues. The revenues generated from the 51 Community Facility Districts are designed to cover the cost of providing police, fire, street lighting, storm drainage and landscape maintenance services to new areas in the community. The fees were established based upon the full development of each subdivision. Since in many cases the Districts have not reached even 25% development the amount of the revenues are nowhere sufficient to cover all of the expenses the City must incur to provide core levels of service that was originally anticipated when the Districts were formed. Plans are being prepared to evaluate the costs for each District related to landscape and drainage maintenance to determine what the revenue shortfall and develop a plan to supplant the direct revenues to keep the landscaping alive. The Districts are down from funding 11 public safety positions in 2007-2008 to three police officer and two firefighter positions in 2009-2010.

The Streets & Streetlights Fund revenues are generated through Local Transportation Fund, Gas Tax, Traffic Congestion Relief and Proposition 1B dollars and are estimated to total \$3,143,832 for 2009-2010. The expenditures will equal revenues, which depletes the Fund reserves entirely. The Proposition 1B funds allocated to the Streets and Streetlight Fund are estimated to be \$900,000 for the maintenance and resurfacing of streets. In addition, a new allocation of Refuse Fund revenues are allocated to the street tree maintenance account this year in recognition of the direct relationship of this service to disposal of excess green waste that comes from the public right-of-way.

The Enterprise Funds (water, sewer, refuse and storm drainage) will be impacted partially from the number of business and residential foreclosures; however, all of these Funds are in reasonably good shape and will not suffer substantially from the economic downturn. The Enterprise Funds are in good financial shape and anticipate a total of \$39,768,601 to be collected in 2009-2010 to cover the expenses to provide the same level of services that were provided in 2008-2009.

FISCAL YEAR 2009-2010 GROWTH ASSUMPTIONS

The City staff has utilized a very conservative approach to new growth in the community for 2009-2010. Given the low expected growth in the City the budgets that will be impacted the greatest are in the Community Facility District budgets, General Fund and Development Services. Since it is new growth that drives most of the capital investment projects and supports several operational budgets the process of establishing the development activity in the community is an important element in projecting City revenues in the upcoming budget year.

The projected growth plans for next budget year are:

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| Single Family Homes-New Units | 25 |
| Multi Family Homes-New Units | 0 |
| Office-New Square Footage | 0 |
| Commercial Construction-New Square Footage | 0* |
| High Traffic Volume Businesses | 0 |
| Less than 50,000 square foot facilities | 0 |
| Greater than 50,000 square foot facilities | 0 |
| Light Industrial/Business Park-New Square Footage | 0 |
| Institutional-New Square Footage | 0 |

- This does not include the addition of Kohl's in the Merced Mall.

Although these assumptions seem to be on the extreme low end of the scale, considering that the City in 2008 issued 21 Single Family Home and 12 Commercial building permits and has issued two new Single Family building permits and two commercial building permits in 2009 the forecast seems realistic. The City has a reasonably large supply of vacant buildings that could be utilized for commercial or office projects thus to expect new green field commercial construction seems unrealistic.

SERVICE DELIVERY CHANGES

Each Department developed their budget for 2009-2010 with a plan to provide the core services for the residents of the community. Since this is an unusual year what is outlined below is a summary of reductions and the implications of those cuts to City services.

City Council: The City Council budget is funded from the General Fund, Direct Service Charges and Administrative charges. The City Council budget was reduced somewhat based upon less funding for travel and conferences, however, there were no other cuts in the budget. The One Voice and Townsend Public Group contracts remain in the budget to take advantage of the American Recovery and Reinvestment Act funding that will be released in the later part of 2009 for capital projects and the Police COPS grant.

City Manager: The City Manager budget is similar to the Council budget in that the primary sources of funding are General Fund, Direct Service Charges and Administrative Charges. The proposed budget reduces the total staffing by one position; the Assistant to the City Manager is responsible for program research, budgeting and the supervision of the GIS Coordinator. The loss of this position will slow the response to special projects and the budget preparation plus other duties that the Assistant to the City Manager has assumed.

City Attorney: Similar to the City Council and City Manager this department is funded from the three same sources. The City Attorney Office has reduced their budget by one Deputy City Attorney II position. The loss of this position will substantially reduce the number of municipal prosecutions for business license, animal at large and nuisance abatement violations. The criminal prosecutions will be replaced by an administrative citation process that will allow for compliance with City Ordinances and could increase the city's share of the fines that the City receives from prosecuting through the municipal criminal system.

Finance: The Finance Department has lost two full-time positions and .6 of a part time position. The loss of these two positions will cause longer wait times for customers trying to obtain information regarding utility and business license information over the telephone and longer wait times to pay bills at the counter. The part time position assisted with recording of fixed assets, budget preparation and other financial reporting monitoring that leads to the City's application for the Government Finance Officers Association Certification of Achievement for Excellence in Financial Reporting.

Another area that has been cut is the professional services related to the sales tax and property tax monitoring services.

Fire: The Fire Department is in the final year of the federal SAFER grant allocations and will maintain its service levels for fire suppression and medical assistance. The Department will lose a Fire Inspector II and six firefighter positions through the overall downsizing the City has implemented over the past 12 months. The loss of this position will reduce the number of safety inspections throughout the community and prolong abatement enforcement. This Department had five individuals that elected to accept one of the voluntary separation plans, thus reducing the staffing to the committed level of 69 fire protection positions. The reduction of the total workforce will have some impacts on training schedules and community programs, but in general fire suppression and medical assistance services will remain the same.

Police: The Police Department is primarily funded by the General Fund and has experienced a loss of eighteen (18) positions over the past twelve months with position freezes and not replacing vacant positions. In addition, the Department has five positions that are taking advantage of the voluntary separation plan. The City has received notice that the COPS Grant funding five police officer positions will be secured by September through the American Reinvestment and Recovery Act. Positions that were cut are an Animal Control Officer, seven part-time Officers, two Dispatcher positions and two Community Services Officers. Although the Chief and command staff have developed a plan to absorb the reductions in patrol, gang violence suppression, dispatch and investigations without a substantial cut in services, there will be longer response times to non-serious crimes and crimes not in progress.

Parks: The Parks and Community Services Department is funded by charges for services and the General Fund. The General Fund contribution to Parks and Community Services is slated to be \$1,268,078 or 73% of the total revenues for programming. The one position that has been eliminated from the budget is a zookeeper. Other budget reductions include part-time positions that operate youth and adult recreational programs. This Department is responsible for many of the City's special events and will cut four of those events. There will be other program changes including the elimination of a fall youth volleyball program, youth high school basketball and there will not be the movies in the park this summer. There will be a limitation on the number of teams allowed to register for adult sports programming, specifically softball, basketball and volleyball. The other significant modification of programs is the reduction in hours of the Senior Center. The Senior Center will be open five days a week for a total of 28 hours per week. Friday will be a full eight hour day 8:00 AM to 5:00 PM.

Development Services: Development Services normally is funded from planning, building and engineering services fees with some General Fund dollars to cover long range planning and other general planning projects. The Development Services budget will receive \$812,036 of the \$6,252,933 budget from the General Fund for fiscal year 2009-2010. This is a substantial increase over the 2008-2009 General Fund contribution of \$692,749. Part of this increase is the change of the MCAN contract from Parks and

Community Services to Development Services. The administration of the contract is within the purview of the code enforcement program and should be administered by the staff that coordinates with MCAN directly. The graffiti removal budget for MCAN does not include the three (3) percent increase negotiated two years ago. The remainder of the increase is needed to allow the Department the opportunity to complete the General Plan and staffing for two CALTRANS community-planning grants that are anticipated to be approved this budget year. The Development Services Department has reduced the total staffing from fiscal year 2007-2008 from 45.48 positions to 38.97 positions in 2009-2010. The greatest impact from the cuts in this department is the processing time for building, planning and subdivision applications. Although there are very few projects that are hitting the permitting stages, there is activity related to the preparation work needed to be reviewed prior to the economic recovery so that developments will be in "pipeline" ready to go when the construction industry is ready to push their projects forward. One other area that will be impacted is code enforcement, where there will be one less position. The enforcement service areas will be adjusted to accommodate the loss in personnel.

Streets: The Streets Division is funded from a variety of revenue sources. Proposition 1B funds will be utilized for the first time in 2009-2010 for street maintenance in the amount of \$900,000. In addition to the Proposition 1B funding the other major funding sources include:

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|--------------------------------|-----------|
| Local Transportation Funds | \$114,580 |
| 2105 Gas Tax | \$425,620 |
| 2106 Gas Tax | \$227,300 |
| 2107 Gas Tax | \$498,154 |
| Traffic Congestion Relief Fund | \$792,309 |

The largest challenge for the Streets and Street Lights Division will be to keep the existing streets surfaces in reasonable shape pending the economic rebound. The Olive Avenue resurfacing project will be completed during the first quarter of the 2009-2010 Fiscal Year and utilizes prior year Measure C and Proposition 1B funding to cover the cost of the project. This division will have one less position entering into fiscal year 2009-2010.

Park & Street Tree Maintenance: This Division of Public Works will have 3.5 less Park Maintenance Workers in 2009-2010. Two of the positions were lost to layoffs and one position was frozen in the 2008-2009 budget. Street Tree Maintenance Division will also lose the Urban Forestry Supervisor position as part of the layoffs. One of the budget modifications made this year is covering a portion of the street tree maintenance budget by the Refuse Fund. After researching it was recognized that the street tree maintenance program is related to refuse and disposal of green waste. Since there is a direct correlation between the services and the cost of disposing public property into the waste stream refuse funding was added to keep our service levels consistent with previous years.

Community Facility Districts: The previous section of this Budget Message discussed the serious reduction in funding of the Districts by the developers and banks that own the vacant properties within these Facility Districts. The greatest challenge that the staff will face is maintaining the landscaping, which is the visible part of the purpose of a Community Facility District. However, there will also be a strain on each District's budget in keeping sufficient funding to cover the cost of utilities for the landscaping and streetlights as well.

Wastewater Treatment/Sewer Collection System: The wastewater system is fully supported by the user charges applied to all structures within the City. The rates were determined based on a study that considered construction costs, growth assumptions and other project related costs in 2007. Because these rates when evaluated were not based upon receiving such a favorable bid for the construction of the Wastewater Treatment Plant expansion plus the assistance that the City has received from the American Recovery and Reinvestment Act loan write-down of the interest rate by 1% and loan forgiveness of \$2.0 million a new study on the rates will be conducted during the Fiscal Year. The Wastewater Treatment Plant project overcame a number of obstacles in the planning and financing of the project through the State Revolving Loan Fund. Construction on the 12 million gallon per day plant has started and will be completed by June 2011

Water System: The established water rates are based upon the cost of providing the services directly to the residential and commercial users. Well 19 is nearing completion and could be in service as early as August 2009. The one area that still needs research is the implementation of the state mandate that all water services must have a water meter by 2025. The City is reviewing methods to allow existing households to be metered at a minimal cost. Once the City is fully metered it will allow the City to reassess the need for new water resources and wells to support the growth that will occur over the next twenty-five years.

Refuse, Recycling and Green Waste: The City has been actively participating in plastics, green waste and construction waste recycling for the past five years. One of the trends related to the declining economy is less need for recycled materials for manufacturing. This has decreased the prices for plastics, newspaper and metal recycled material will increase the City's cost for the disposal of recycled materials. The recent rate study anticipated the continued positive revenue stream for recyclables and may need to be revisited if this trend continues into next year.

Airport: The City's airport has had a resurgence in commercial air service with the addition of Great Lakes Air. In recognition of the importance of the airport to the City's business attraction and retention program a name change seemed appropriate. The Merced Regional Airport serves the general public, tourist and business industries in the area. The Airport receives \$149,144 from the General Fund and the remainder of the revenues is generated from the rental of hangers and space at the airport.

Internal Service Funds: Fleet Maintenance, Information Technology, Support Services and Building Maintenance are funded through internal service charges to the other City operations. Each of these operations reduced their budgets by 15% was absorbed with operational and position reductions. A total of four positions were cut from these four operations. The Information Technology Department has lost one position over the last twelve months, the web master position that supported the City's Web Page.

Fleet Maintenance and Building Maintenance reduced their budgets by one position in each Division. These reductions in staffing will have some impacts on the response to vehicle maintenance and building upkeep.

Redevelopment/Economic Development: The Economic Development Division instituted the 15% reductions in their operational budgets without the need for a reduction in personnel. The Economic Development Division did reduce some outreach activities and did decrease the MERCEDCO funding down to \$20,000 for the this Fiscal Year. The Redevelopment Agency was not required to cut their budget based on the revenues generated from the two project areas. The Redevelopment Agency is continuing their work on developing additional housing in the downtown core and assisting businesses locate within the project areas. One of the major efforts of the RDA is the financing of the G Street underpass project.

The State Budget contemplates taking \$1.7 billion from Redevelopment Agencies throughout the State. The Merced Redevelopment Agency would lose \$2.8 million in tax increment revenues in 2009-2010 if these takings are allowed to proceed. The loss of \$2.8 million in tax increment revenues will have an impact on the number of capital projects and assistance the Agency could provide to new employers to Merced. Although the State Redevelopment Agencies have successfully prevailed in a lawsuit in 2008-2009, it is anticipated that another lawsuit will be considered by the Association to stop this devastating loss of revenues.

CITY CAPITAL INVESTMENTS

The City annually invests in the construction and maintenance of the City's infrastructure, which has a positive impact on the local economy by supporting local contractors and assisting the job market. The 2009-2010 Proposed Budget includes over \$20 million for capital investments in streets, water, sewer, parks and redevelopment housing. In addition to the \$20 million the wastewater treatment plant project will add another \$30 million into the City's economy. Some of the major projects slated for completion in fiscal year 2009-2010 include:

- Reconstruction of Olive Street from Highway 59 to G Street.
- Flanagan Park improvements.
- Applegate Park expansion and improvements.
- Bernasconi Park restrooms.
- Fire Station #54 and #56 designs.

- Highway 59 at Cooper Street reconstruction.
- G Street overlay
- Gerard Avenue sewer line improvements.
- Well #19 water main improvements.
- Bradley Overpass construction (water line relocation).
- Merced Theatre improvements.
- East 16th Beautification Project.

Some of the projects include State Proposition 1B funding to supplement local funding. What is not included are the projects that will receive American Reinvestment and Recovery Act financing. At this point the transportation projects that have been authorized for construction are the resurfacing of 18th and 16th Streets from G to N Streets. The other two projects that are funded through the competitive Proposition 1B funds are the Highway 59 at Cooper street reconstruction and the Parsons Avenue construction projects.

CONCLUSIONS

There is little doubt that the 2009-2010 Budget is a picture the entire City Organization working collaboratively to institute innovative and creative ways to minimize the number of position reductions required to balance the Budget. It was the five-year budget plan that will allow the City to provide core services to the public and continue to invest in the community infrastructure with local funds plus state and federal assistance. We should not forget the main mission of the City, which is to serve the public with quality public services. Just as important is the challenge to keep the City Organization healthy. One of the ways to maintain our Organization's health is to set a course of action and to stay on course until the local economy has rebounded and allowed the City the financial ability to address new services effectively, efficiently with accountability.

The preparation of the annual Budget is a dynamic process. It would not have been possible to prepare a quality budget with the number of reductions in services and personnel included in this Budget without the commitment of the Department Directors to work toward a budget target that they felt they could work within. Additionally, there were six individuals that were instrumental in providing general guidance for the organization, planning and preparation of the 2009-2010 Budget. I want to thank the group of Brad Grant, Bill Cahill, Deneen Proctor, Greg Diaz, Russ Thomas and Kathy Childress for their help and support in the preparation of the Budget.