

CITY OF MERCED, CALIFORNIA

TO: The Honorable Mayor and City Council Members
FROM: John M. Bramble, City Manager
RE: Adopted 2011-2012 Budget Message
DATE: July 14, 2011



INTRODUCTION

Merced is entering the fourth consecutive year of an economic downturn, which has forced the City to use the available fund balance to maintain services and programs at reasonable levels in response to the expressed needs of the residents. Nationally, the recession has been declared over; however, in the San Joaquin Valley the effects of the high unemployment, home foreclosures and business closures are still having a significant impact on the City's finances. In addition to the soft economy locally, the implications of the State budget plans will impact on the City's budget. The State has approved AB 1x26 and AB 1x27, which will redirect Redevelopment Agency funds to school districts thus creating a substantial change in the projects that can be implemented over the next two fiscal years. In addition, the State funded the Citizens Option for Public Safety (COPS) programs, public safety grants and booking fee remediation by utilizing a portion of the City share of Vehicle License Fees. The Vehicle License Fee "take" will reduce the City's General Fund revenues by approximately \$273,000.

The City Council's adoption of the 2011-2012 Budget reflects the policy direction the City Council has given to the administration to emphasize public safety services with other City services to be provided that maintains the City's quality of life standards. The City Council authorized two public surveys and conducted a series of public meetings which accommodated public comments on the priorities the public felt should be funded. This document has allocated the revenues received by the 185 Funds that comprise the City's annual budget. The City Budget for Fiscal Year 2011-2012 as adopted by the City Council totals \$279,615,379.

Beginning in fiscal year 2009-2010 a five year financial smoothing plan was implemented, which anticipated the San Joaquin Valley economy would start to rebound by middle of 2011 and that growth would start to gain momentum by the first quarter of 2012 allowing the City to reduce the amount of fund balance and one-time reserves to operate City services. There are some faint signs that the local economy is starting to move in a positive direction. Merced has experienced four quarters of increased sales taxes revenues and the Triple Flip revenues should reflect signs of improvement. What has off-set those increases in revenues are a further deterioration of property tax revenues and Vehicle License In-Lieu Fees plus the State's raid of the Vehicle License Fees. What was clearly apparent was that even with the increase in some revenues it was not sufficient to erase the \$5.5 million structural deficit the City was facing in the General Fund.

Organizational Sustainability:

The City started working on an Organizational Sustainability Plan in August 2010 with the purpose of establishing a strategy that will allow the City to provide consistent City services over the next decade without utilizing fund balance and/or one time revenues to cover the costs of City services. The Organizational Sustainability Plan is designed to reach financial sustainability over a two year period.

The goals of the plan were three fold and provided all of the participants a guideline to follow in reviewing and researching services and programs. Those three goals are:

- Provide the highest level of public service which is sustainable on a long-term basis.
- Balance the services to be delivered with the resources available, both in terms of money and people.
- Maintain the City as an employer of choice, able to attract and retain high-quality employees.

The staff will identify three or four of the Organizational Sustainability suggestions to evaluate for possible implementation for the Fiscal Year 2012-2013 Budget. The purpose is to review suggestions that can establish new revenues or reassesses processes, practices and procedures for efficiency and effectiveness of the City operations.

Preparation of the Proposed Budget:

The City staff started the budget preparation process with two plans. The first option was to present a ½ cent sales tax measure to the voters for 10 years to supplement the General Fund and minimize the reduction of public services and a 3 percent reduction in expenditures. The second option was to reduce the budget 15 percent in an effort to operate the City within the funding that is generated annually. The first option has not come to fruition, thus necessitating the preparation of 15 percent budget reduction plan.

The fifteen (15%) percent budget reduction continues the structural deficit in the fact that Other Pension Employee Benefits contributions are covering only the annual cost of retiree benefits. The present cost is approximately \$1.6 million, which will continue to increase over the next decade. The decision was made two years ago to suspend the General Fund contributions for vehicle replacement and computer replacements. This was an acceptable practice for two or three years, however; the “holiday” on funding computer and vehicle replacements will need to be seriously evaluated prior to the preparation of the FY 2012-2013 Budget.

In addition there are other expenditures that are outside the control of the City that have increased the cost of conducting City business. Gasoline prices have increased but appear to be stabilizing in the \$4.00 range, CalPERS contributions have increased by 20.5 percent for public safety and 29 percent for miscellaneous employees increasing the City’s contribution rate by almost \$500,000 next fiscal year. Furthermore, other employee benefit costs continue to increase and the utility rates are increasing as well.

A part of the City Council's goals was to negotiate with the bargaining units with open labor agreements and obtain concessions in the areas of health and welfare benefits, and CalPERS contributions. Direction was also provided to modify the City's definition of overtime, which was more generous than the requirements in the Fair Labor Standards Act. The City and the two bargaining units reached agreement on these issues at the table and the unrepresented employee's compensation plan included similar concessions that will help reduce expenditures.

In addition to the Organizational Sustainability ideas included in the budget, the Departments sought innovative ways to provide City services while reducing the cost of providing these services.

Although operating the City based upon the revenues received is a sound business practice, a decision was made to use fund balance based on the fact that revenues are starting to show some signs of improvement and the genuine likelihood that the State Legislature and Governor will reinstate the 0.15% Vehicle License Fee Program for the Citizens Option for Public Safety (COPS), the revenue and expenditure reduction for booking fees were placed into the budget, thus reducing the total number of lay-offs in public safety.

City Council Budget Guidelines:

The staff developed the 2011-2012 Budget utilizing the City Council guidelines established during the City Council Planning Sessions in February 2010. The City Council guidelines are:

- Minimize/avoid impacts on staffing
- Maintain reserves in compliance with the Government Finance Officers Association Guidelines
- Maintain Public Safety as a top funding priority
- Use voluntary separation as needed
- Engage staff to identify opportunities to save money
- Look for areas of duplication and/or reorganize for efficiencies
- Seek/identify new revenue sources
- Identify opportunities for shared service delivery with other agencies
- Evaluate impact of alternate work schedules (not furloughs)
- Review facilities utilization for opportunities
- Consider areas to contract out services that have a minimal impact on existing staffing

Although the first two guidelines place the Administration in a difficult position to balance avoiding impacts on staffing with the maintenance of reserves, the budget utilized each of these guidelines to develop and present the proposed budget.

City Council Adopted Budget:

The City Council held six public work sessions to review the City's Budget related to the policies and guidelines established for the staff to follow. At each session there was citizen input on which programs and services were of the greatest importance to the residents. The City Council adopted the 2011-2012 Budget on June 20, 2011 and included additional funding for the Police and Fire Departments. The City Council added 11 positions plus two temporary positions in the Police Department to continue the City's community liaison program with the Hmong and Hispanic communities.

The City Council approved the budget using available fund balance to cover the cost of the additional police and fire positions. The Adopted Budget totals \$279,615,379. City staffing was reduced by 53 positions, with 16 being vacant positions and the balance were cut from the budget. The City Council added four police positions using Measure C revenues to finance four School Resource Officers with the assistance of the Merced Union High School District and Merced County Office of Education contributions. The City Council utilized General Fund reserves to cover the cost of 6 police officers to raise the total sworn officer count to 85. The Fire Department received one added firefighter position using the fund balance of the General Fund to have two of the three shifts staffed to allow for vacations, sick and injury leave without the necessity of expending additional overtime dollars to maintain the staffing for the five stations. The other programmatic move by the City Council was to reduce the community liaison program from two full time positions to two temporary positions. The City Council utilized an additional \$800,000 of fund balance from the General Fund to cover the cost of these additions to the Adopted Budget. The adopted budget for FY 2011-2012 anticipates utilizing \$2,272,531 of the fund balance from the General Fund.

OPERATIONAL FUND REVENUES

The General Fund is the only City Fund that has the flexibility of use for any City service that is provided and is the most vulnerable to shifts in the economy. The General Fund revenues for 2011-2012 are estimated to be \$31,062,558, a decrease from 2010-2011 Budget revenues of about \$253,963. The 2010-2011 Budget was supplemented with \$4,068,261 of the General Fund reserves and one time funds reducing the fund balance to approximately \$8.1 million to start the 2011-2012 Fiscal Year.

The General Fund expenditures are proposed to be \$33,335,089 to cover the costs of "essential City services". The total General Fund expenditures are reduced by \$2,049,693 or a 5.7% reduction from 2010-2011. The number of positions slated for deletion from the 2011-2012 Budget is 53 positions. The staff has consistently kept vacant positions unfilled during the 2010-2011 Fiscal Year to reduce the amount of fund balance utilized to operate the City and to avoid additional lay-offs beyond the 15% reduction needed to balance the City's budget. Going into Fiscal Year 2011-2012 there are a total of 16 vacant positions that were not included in the Proposed Budget further reducing the staffing in several key areas

Although operating the City based upon the revenues received is a sound business practice, and has been the goal of Organizational Sustainability, \$2,272,531 of reserves was included in the Adopted Budget to cover the costs of public safety services.

The Development Services Fund directly reflects the local economic climate as it relates to growth and development. Development Services receives the majority of its funding from building permits, planning activities such as new subdivision plans and/or annexations, capital improvement projects and engineering services. The Development Services Department revenues are forecast based upon conservative numbers related to new construction activity. There are four grants from the State and other agencies that will supplement the Development Services revenues. The four studies are related to “formed based codes”, the Belleview Avenue Corridor Study, the Highway 59 Corridor Study and the Climate Action Plan. The General Fund contribution to Development Services was reduced by 15 percent or to \$580,458 for 2011-2012.

The plan for the Measure C Fund was to adjust the budget in order to eliminate the structural deficit in fiscal year 2011-2012 now that the additional revenues from previous years have been utilized. Measure C sales tax revenues are forecast to be approximately \$4.8 million or two percent higher than in fiscal year 2010-2011. This funding plus a carry-over of \$20,714 for street capital projects will fund \$191,606 for street improvements and will fund 17.53 police positions and 12 fire positions in Fiscal Year 2011-2012. As indicated above, Measure C funds were utilized to match the Merced Office of Education and Merced Union High School District contributions for the retention of the School Resource Officer program. An additional four positions were added to maintain the school resources program as a result of the School Districts contributing to the cost of the school resource program.

Community Facility Districts provide additional revenues for the operation of the City in newly annexed area. Given the lack of new residential development the Community Facility Districts will only receive the 1.037% increase from the change in the consumer price index. Community Facility Districts are designed to cover the cost of landscape maintenance and irrigation, street lighting, storm drainage plus police and fire protection. The fees set for the 31 Community Facility Districts will not be sufficient to fully maintain the landscaping and irrigation costs plus the other related expenses for the Districts. The financial settlements that were reached in 2009/2010 added some funds for several of the Districts that allowed for additional funds for maintenance services and to fund one and one-half police positions and one fire position. The funding will allow for three police positions and one fire position in the 2011-2012 Budget.

The Streets and Street Lighting Fund revenues are generated through Gas Tax, Local Transportation Fund and Traffic Congestion Fund dollars. The City has used Proposition 1B funds over the past two fiscal years to supplement the Streets and Street Lighting Division operations. The Proposition 1B funds have been fully utilized by the City for street resurfacing and the City will not receive Local Transportation Funds in 2011-2012. One of the Organizational Sustainability suggestions was to pursue contracting traffic signal maintenance as a cost saving measure. The City Council made the decision not to contract for traffic signal maintenance services. As part of the reduced revenues in this Fund, there will be five positions lost in Fiscal Year 2011-2012. Street maintenance will be reduced substantially to responses to

pothole patching, sidewalk ramping and repair of severely deteriorated asphalt based upon the amount funded for materials.

The Enterprise Funds (sewer, water and refuse) are in reasonable shape and continue to see the revenues cover the costs associated with the operation and maintenance of each system. The funding for each service area is developed through five year master plans that set the rates for service. The sewer fees were re-evaluated and with the adoption of the sewer master fee plan sewer rates will increase one percent in January 2011. The water fee and refuse fee master plans are slated to be completed during this fiscal year.

FISCAL YEAR 2011-2012 GROWTH ASSUMPTIONS

Each year the staff conducts a session to determine assumptions for growth during the next year for the purpose of developing budgets and to determine what services related to new development will be needed in the future. The group reviews local economic indicators and national trends that could have an influence on the Valley economy. The three positive economic opportunities the City continues to realize is that Merced College enrollments continue to increase, University of California Merced should top 5,000 students this fall and Mercy Hospital has continued to expand operations and staffing. The forecast for new growth is outlined below:

Single Family Homes	25 units
Multi-Family Homes	75 units
Commercial:	
Office	25,000 square feet
High Traffic < 50,000 sq. ft.	0
High Traffic > 50,000 sq. ft.	0
Industrial	
Manufacturing	0
Light Industrial	0
Institutional	El Capitan High School

The forecasting is conducted either late December or early January of each year. Since the staff met in early January this year there has been additional activity that could adjust some of the growth assumptions for the 2011-2012 Fiscal Year. Both Commercial Office and Manufacturing opportunities have arisen over the past two months that could result in additional building within the City during this fiscal year. In addition, there has been more activity in the commercial retail space that could lead to filling much of the large vacant retail space within the community.

SERVICE DELIVERY CHANGES

As it was outlined in the Approach to the Budget each Department that receives General Fund, Measure C, Gas Tax and Community Facility District funding were directed to reduce their budgets by 15 percent to eliminate the financial structural deficit the City is facing. The Directors have utilized this plan to work cooperatively together to place the City into a long-term

sustainable position. Although police and fire were requested to reduce their budgets by 15 percent it is in recognition that in Fiscal Year 2009-2010 and Fiscal Year 2010-2011 police had a target of 12% and 12% for the two fiscal years and fire was presented a 12% and 12% reduction in the two previous fiscal years. The General Fund contribution to the Parks and Community Services Fund was reduced 1 percent in Fiscal Year 2010-2011.

City Council: The City Council budget is funded through the General Fund, direct service charges and administrative charges to other City Funds. The City Council budget was reduced 15 percent in the areas of travel, training and operational expenditures. Some of the significant memberships paid through the City Council budget are: Local Agency Formation Commission (a reduced request from 2010/2011), Merced County Association of Governments/One Voice (cost reduced 25%) and the League of California Cities. The City Council budget also covers Townsend Public Affairs group that assists the City in securing federal and state grants. Townsend Public Affairs has also represented the City in hearings regarding redevelopment and essential air services over the past six months. The City Council reduced several of the membership dues to reflect the reductions in the LAFCO and MCAG assessments.

City Manager: The City Manager budget is funded from the General Fund and through direct and administrative service charges to other City Funds based upon time expended, number of employees and percent of budget. The City Manager budget was reduced by the 15% with the elimination of the Assistant City Manager position. Over the past three budgets this is the second position lost to staff reductions bringing the total positions in the City Manager's Office to four in 2011-2012. In addition to the City Charter requirements for the City Manager other responsibilities of the City Manager's Office are legislative monitoring, public information, and coordination of special projects, high speed rail planning, intergovernmental coordination and Geographic Information Systems. Based upon the loss of the Assistant City Manager and the projects that need to remain in the City Manager's Office, the Public Information Officer position is slated to be reclassified to an Assistant to the City Manager to fulfill the administrative hearing duties, legislative monitoring and responses and for assistance on other citizen and City Council related research.

City Attorney: The City Attorney's Office receives funding similar to the City Manager's Office. The proposed budget reduces most of the operational expenditures to balance the 15 percent budget reduction. The City Attorney's Office has lost two positions over the past two years reducing the staff to five for fiscal year 2011-2012. The implementation of the administrative citation process for code and business license violations will be implemented by July 2011 allowing the City Attorney's Office to concentrate on other legal issues.

Finance: The Finance Department is also funded similar to the City Council and City Manager's Office. The Finance Department is responsible for all financial transactions, utility billing and payments and purchasing. Initially to meet the 15% budget reduction there were two Clerks and the Deputy Finance Director slated for lay off. In evaluating the role of the Deputy Finance Officer and the need for financial transparency and accurate financial reporting and providing responses to state and federal agencies regarding City grants the position was

reinserted into the 2011-2012 Proposed Budget. The Finance Department has reduced staffing in prior years and has reduced the total staffing from 23 to 21 for Fiscal Year 2011-2012.

Internal Services: The Departments of Support Services, Information Technology, Fleet Maintenance and Building Maintenance are funded through internal service charges to all Departments for the services they provide. Each of the Internal Service Departments has reduced staffing based upon the 15 percent reduction in the budget. Support Services has reduced the staffing by two positions, one in Human Resources and one in the Records Division. Human Resources will continue to utilize a contract with an outside law firm to assist in labor negotiations in 2011-2012. Due to the fact that all five bargaining unit labor contracts will expire on December 31, 2011, which will require the City to be in negotiations with all five units at one time. The Support Services Department maintains an informational counter on the first floor of City Hall that is open during City business hours. An additional burden will be placed on remaining staff to assist support services customers, along with directing customers/citizens to the appropriate department to resolve their issues and requests.

The Information Technology Department eliminated one management position in the 2010-2011 Budget and will cut one computer technician position as part of the 2011-2012 Proposed Budget. The City is still pursuing the change of software for all departments through a contract with Innoprise. The change of the system to Innoprise will allow the City to migrate off the A/S 400 to a PC web-based system. The long term savings was one of the first Organizational Sustainability ideas that were implemented by staff in 2010. Some projects that will be implemented during Fiscal Year 2011-2012 are the building of communications infrastructure to support public safety, extension of fiber from the Airport to Wastewater Treatment Plant, City Hall and the Parsons water tower. IT is also involved with the Central Valley Independent Network Project that will install fiber through the community for traffic signal timing management and Secure Our Schools grant support for the Merced City School District to be located at Rivera and Cruikshank Middle Schools.

The Fleet Maintenance Division will have 26 fewer vehicles to maintain as a part of the reductions in services by the other departments. There will be 510 pieces of equipment remaining in 2011 with a staff of 11.35 positions. The price of fuel is still an issue for the City, however, the reduction of vehicles and park mowers from the fleet will allow the staff to maintain services.

The Facilities Division will have two fewer employees going into Fiscal Year 2011-2012. With the closing of the North Police Station and moving the Traffic Unit back into Central Station and the move of Parks and Community Services into City Hall it will reduce the total square footage that the Facilities Division must maintain. Further reductions in this staffing will reduce the service levels below an acceptable level.

Fire: The Fire Department receives the majority of its funding from the General Fund with additional funding from Measure C and Community Facility District revenues. All three Funds are seeing reduced funding based upon the local economic conditions. Initially, the Fire

Department was requested to reduce their operations by 15 percent resulting in a reduction of 12 positions. After further review of the operational budget and staffing at the five stations, seven positions were included in the Proposed Budget in order to have the three shifts filled with 18, 18 and 19 personnel respectively. The addition of the four firefighter positions allowed for a reduction in the total overtime budget by \$70,000, which would be necessary to cover vacations, sick leave and injury situations. The Fire Department will reduce the three Division Chief positions to one in Fiscal Year 2011-2012. The City Council added one additional position for the Fire Department in an effort to minimize the amount of overtime needed to cover the three shifts to allow for vacations, injury leave and sick leave.

Police: The Police Department receives funding from the General Fund, Measure C and the Community Facility Districts. The major part of the Police Department budget comes from the General Fund. The initial 15 percent reduction called for a loss of 30 positions in the Department. The City Council indicated their goal was to maintain a staffing of one sworn officer per 1,000 population and added an additional 8 officers into the Adopted Budget to exceed this staffing standard. The additional officers will fulfill the need for the patrol division to maintain patrol assignments of 11 officers, 2 Sergeants and one Lieutenant for two shifts, to keep the Gang Unit at seven personnel and to keep the Detective Bureau at its current staffing. This raises the total sworn officer total to 85 personnel. The Chief has eliminated all the Commander positions from the budget which will add to the duties for the six Lieutenants.

Animal Control will be back down to one position for field duties. However, to keep the position in the field 8 hours a day five days per week, the licensing duties will be transferred to the Community Services Officer position. The Community Services Officer is responsible for coordination of POST training plus a number of other coordination duties. The Detective Bureau will maintain 9 detectives, two property and evidence positions plus the Sergeant and Lieutenant.

Parks and Community Services: The Parks and Community Services Department receives funding from park fees and charges and the General Fund. All recreation and park fees were reviewed for potential increases to cover 100 percent of the direct costs for adult recreation programs and 50% of youth recreation programs. The General Fund contribution to the recreation and community services programs was reduced 23 percent from \$1,197,553 in Fiscal Year 2010-2011 to \$922,423 for 2011-2012. There are two position reductions in this Fund, the Director of Parks and Community Services and a Recreation Supervisor. The 2011-2012 Budget includes support for the Boys and Girls Club building maintenance account in the amount of \$60,000. In addition staff is working closely with the Boys and Girls Club on an idea of increasing the contribution to \$75,000 to operate the drop-in program, which will save the City a like amount and reduce the number of temporary positions the Department must hire. This could also reduce the unemployment expenses for this Department over time. The Senior Center did not receive any changes in services and will remain open for 28 hours a week similar to the service levels in 2010-2011.

The City will continue to offer non-competitive youth basketball and flag football with three divisions in each sport (pee wee/junior varsity/varsity). The only change in this program is that all officiating will be a contract service and not performed by part-time staff. The Parks and

Community Services will continue to support the YSO programs with funding and coordination of schedules. However, to balance the Parks and Community Services Budget programs that the City will not be able to offer in 2011-2012 are open swimming, Adult Volley Ball and the bounce houses will be eliminated as a service that the City provides.

Development Services: Funding for the Development Services Department comes primarily from fees charged for planning and zoning fees, subdivision development charges, building permit fees, planning grants, community Development Block Grant funds and \$510,548 from the General Fund in recognition of the coordination of several boards and commissions plus long range planning that occurs within the City. This Department has reduced its staffing from 55 in 2007-2008 to 35.15 in Fiscal Year 2011-2012. The Development Services Department is reducing staffing by 4.85 positions as a part of the 2011-2012 Proposed Budget reductions.

The Development Services Department has been impacted significantly from the lack of building and new development planning. As outlined in the Fiscal Year 2011-2012 Growth Assumptions section of this report there is some anticipated growth that will occur in terms of multi-family housing, commercial tenant improvements and possibly one or two manufacturing businesses that are viewing Merced as a good market to locate. The fees and charges that are anticipated are forecast in a conservative vein considering that most of the commercial construction is not fully committed to the City.

Development Services Code Enforcement Section has the responsibility to oversee the graffiti removal contract and the code enforcement section will start the Administrative Citation Program to improve compliance on code violations. The Building Division processes building permits, conducts plan check services and inspects public construction projects and building. The Building Division has introduced a new streamlined process for the approval of tenant improvements and with the introduction of electronic plan check processes it will reduce the processing time and reduce the amount of travel that has been required in the past for the submittal and retrieving of plans. The Planning Division will continue to process the General Plan for adoption during the fall. In addition, the Division will complete the South Highway 59 Corridor Study and the Climate Action Plan this fiscal year. Projects that will be started are the Form Based Zoning Code through the Smart Valley Places grant, the Belleview Corridor Planning Study and planning staff will participate in the High Speed Rail Station Planning study. The Engineering Division has several capital improvement projects that will be coordinated through the budget year. Significant projects include Phase V of the Wastewater Treatment Plant Solids Handling Facility, completion of the G Street Underpass, construction of Highway 59 and Cooper Avenue traffic signal and the Yosemite Street widening from G Street to Mansionette Drive.

Streets: The Streets Division utilized the available Proposition 1B funds during the 2010-2011 Budget Year to maintain streets and to keep the staffing levels for traffic signal and street maintenance duties. Entering the 2011-2012 budget year the Streets Division has \$478,450 less in revenues to operate the Streets Division. This reduction in revenues has necessitated a fifteen percent reduction in expenditures to off-set the loss of the one-time funds used in Fiscal Year 2010-2011.

The traffic signal maintenance operation and streets division will reduce the staffing by five positions to reflect the reduced revenues available for these operations.

Street Trees and Park Maintenance: This Division is responsible for all street trees and park maintenance. These two functions are funded by the General and Refuse Funds. Staff will evaluate the potential savings the City could realize by contracting the park mowing services and keeping some staff for maintaining planting areas, shrubs, bushes and trees within the parks. One of the savings that will be realized in this operation is the transfer of eight parks to an irrigation control system that will track usage and timing for irrigating the park turf areas. In order to effectuate a 15% savings it will be necessary to reduce the staffing by eight park workers and one tree trimmer. The remaining staff will also maintain park restrooms and maintain the City's certification for park equipment inspections.

Community Facility Districts: The lack of growth continues to stress the 31 Community Facility Districts financially to perform the basic duties the districts were formed to provide. Community Facility Districts (CFD) are responsible for landscape/park irrigation and maintenance, street lights, storm drainage and public safety services. The Community Facility Districts are financed from property assessments and were structured to fully fund the services with the subdivisions. The fact is a majority of the CFD's do not generate sufficient revenues to cover the cost of the street lights, landscape/park maintenance and irrigation and storm drainage because they are not fully developed. Although the 31 Community Facility Districts will generate a minimal increase in Fiscal Year 2011-2012, it will not be sufficient to maintain the public safety positions that were funded in 2010-2011. The funds are sufficient to cover 3 Police Department positions and one fire position.

Wastewater Treatment/Sewer Collection System: The wastewater system is fully funded from monthly user charges. The Phase IV Wastewater Treatment Plant is completed and will be fully operational at the beginning of the 2011-2012 Fiscal Year. The majority of the new staffing occurred during the 2010-2011 Budget Year in order to have the staff fully trained once the facility is in full operation. The 2011-2012 Proposed Budget adds one additional Engineering Technician position to maintain the facility. The next phase has started construction and will be completed by early fall 2012. The Phase V Solids Handling Facility construction is required to complete the tertiary treatment system. A part of Phase V is the addition of a third clarifier to cover the operational compliance with the Clean Water Act.

Water System: The Water System is entirely funded through user charges based upon the amount of water consumed. One additional position is to be added in the 2011-2012 Proposed Budget to comply with the water conservation provisions of state statutes. The Regional Urban Water Master Plan is getting started and based upon the results of that study it will establish a long-term plan for future water supplies. The City will conduct a water master plan this year to determine water infrastructure needs and new growth impact fees and monthly water charges to support the Water Resource System.

Refuse, Recycling and Green Waste: Over the past six years the City of Merced is only one of three jurisdictions in Merced County that has actively participated in recycling household materials and green waste. The City continues an education program to improve customer use of the recycling and green waste container. The City has had an informational campaign that has had some success this year and the intention of the Public Works staff is to increase the advertising budget and enforcement by the drivers to keep non-recyclables out of the green waste and recycling containers. As of January 2012 a new state mandated program will begin with all commercial and multifamily residential complexes will be required to start a recycling program. One of the administrative efforts that will occur is the preparation of a five year rate study for the refuse division during Fiscal Year 2011-2012.

The Refuse Collection System is 100% funded from user charges.

Airport: The Airport is partially funded by the General Fund with the balance of the Airport budget funded from landing fees, hanger fees, fuel flowage fees and building rental income. The General Fund contribution to the Airport has been reduced from the \$104,159 in Fiscal Year 2010-2011 to \$63,252 in the Proposed 2011/2012 Budget.

The City receives commercial air service from Great Lakes Airline through an essential air service grant from the Federal Department of Transportation. In April 2009 Great Lakes Air expanded its service by introducing two daily flights to Las Vegas, Nevada. On May 15, 2011 Great Lakes Air added two flights to Los Angeles International Airport to improve the quality of air travel in the Valley. The Merced Regional Airport attracts passengers from the north Valley and with the added services could further reduce the Airport reliance on General Fund taxes to operate.

Redevelopment/Economic Development: Until the loss of the Assistant City Manager position the Economic Development and Redevelopment staff reported directly to the Assistant City Manager position. These two operations (Economic Development and Redevelopment) plus the Recreation and Community Services Division, Airport and Housing will be merged into one Department. This reorganization for efficiency of like services has necessitated the creation of the Director position, a Development Manager position that will supervise the Housing and Redevelopment Divisions and the reclassification of the Redevelopment and Economic Development Technicians to Development Associates to reflect the expanded duties of each position. These are not added positions, but an effort to organize the Department for maximum use of personnel.

The Economic Development Division receives 14 percent of its budget from the General Fund and 85% from the Redevelopment Fund and includes some funding from the Downtown District and Downtown Parking District and Bell Station Funds. The City Council ranked economic development as a top priority for the City and with that ranking a refocus of funding has been considered for the Division. The Budget has been reduced by 13% and with that reduction the Merced County Economic Development Corporation membership has been cut from the budget.

The Redevelopment Authority is funded from tax increment financing generated from the two redevelopment areas. Redevelopment Agencies are still under attack from the Governor and Legislature with the threat of abolishing redevelopment laws rendering Redevelopment Agencies defunct. If this were to occur, although the City has formed a new Joint Powers Authority to assume the duties of the Redevelopment Agency; it would require added reductions in City budgets to absorb the loss of Redevelopment Agency support of those operations.

The Redevelopment Agency has set the financing in place for the construction of 75 multifamily units on Highway 59 and Cooper, started the planning for a downtown entertainment facility and will match redevelopment funds with State Proposition 1A bond funds and American redevelopment and Recovery Act funding to plan for a downtown High Speed Rail Station. Although actions taken in previous years, based upon the ruling by Superior Court Judge Lloyd Connelly the state prevailed regarding AB X4-26 which dictated the taking of \$2.05 billion of local redevelopment funds over a two year period. On May 10, 2011 the City made the second installment of the Supplemental Education Revenue Augmentation payment of \$577,894. This payment plus the \$2.8 million that was paid in 2010 has had an impact on the Redevelopment Agencies ability to complete additional projects contained in the Five Year Implementation Plan.

CONCLUSIONS

The City's budget plan is to provide municipal services within the resources that are available both in terms of money and personnel. The Adopted Budget for 2011-2012 totals just over \$279 million which covers the three enterprise funds, the Community Facility Districts, Maintenance Districts, Housing Programs, Street Maintenance, capital improvement projects and the Public Finance and Economic Development Authority. The importance of the General Fund and Measure C Fund is they are the two primary resources that provide funding for public safety services. The General and Measure C Funds account for roughly 17% of the total revenues the City receive annually.

The Adopted Budget will utilize just over \$2.2 million of the fund balance from the General Fund. The purpose of using the City's reserve funds was to minimize the impact on both the Police and Fire Departments and to seek methods to use other departments to cover some of the public programs that have been conducted by the Police Department in the past.

One of the City Council budget policy guidelines is to seek opportunities for shared service delivery with other agencies. Through the efforts of the Merced County Association of Governments (MCAG) the MCAG Board and City Managers are starting to review five different areas for joint services for possible implementation in Fiscal Year 2012-2013.

City staff has actively developed ways to maintain City services with fewer resources for the past four years. Each year the Directors have been asked to expand those ideas in light of the decreasing revenues. The Directors have risen to the occasion and have found innovative approaches to maintain the organization's professional responsiveness to the needs of the community. To the "outside world" it may appear that very little innovation and creativity was utilized in the preparation of this budget. That may be the appearance, but with the help of all

the employees this year cost saving ideas, which has been central to the development of the 2011-2012 Budget there is nothing further from the truth.

What is clear is that the decrease in personnel and supporting resources that has hit every department will have an impact on the responsiveness of services. Each Department will need to assess how services can be provided and within what time frame. The Organization will need the next six months to determine what the new service levels can be achieved and how to prioritize requests for service within a reasonable time frame.