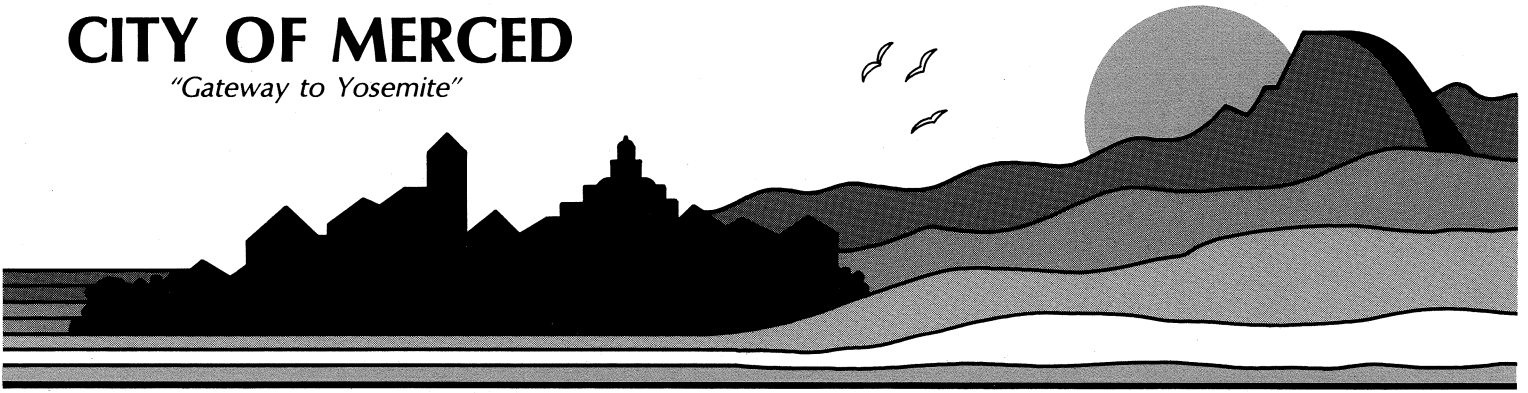


# CITY OF MERCED

"Gateway to Yosemite"



TO: The Honorable Mayor and City Council  
FROM: John M. Bramble, City Manager  
RE: 2012-2013 Adopted Budget  
Date: June 28, 2012

A handwritten signature in black ink that reads "John Bramble".

## INTRODUCTION

The City's annual budget was developed with three primary values. Those values are to provide our citizens with efficient and effective services at a reasonable cost, to provide the City Council clear, concise, accurate and unbiased professional staff work and to serve our organization by establishing goals, objectives and measurable standards for performance. The City's annual budget was developed to achieve these three values.

The City's total budget for Fiscal Year 2012-2013 is approximately \$191 million and is divided into 186 different accounting divisions that the City's Basic Financial Statements refers to as separate Funds. These 186 Funds are divided to provide proper accounting for all the taxes, fees and charges the City receives to provide City services, repair and construct capital improvements and to cover the debt service for bonds that will pay for major capital facilities that are being utilized to provide our citizens services.

The City has been put in a position to reduce many City services even though the population and City infrastructure has remained fairly constant since 2008. Over the past four years the City has used General Fund reserves that were amassed during the positive growth years in an attempt to maintain all City services in anticipation of a rebound in the local economy. Based upon the latest economic reports it appears that the Valley economy, although improving, is not forecast to rebound for another 2 to 3 years.

The City Council provided policy direction at the January 2012 Policy and Priority Sessions guiding the principle services that were of the greatest priority. The Directors prepared the 2012-2013 General Fund, Parks and Recreation, Development Services and Streets and Parks Maintenance Budgets so they could be sustained through the next 3 to 5 years either using no fund balance reserves or minimizing it to a sustainable amount that can be carried forward. There is a reduction of five positions from the FY 2011-2012 Budget. The positions that were cut are Code Enforcement Officer, Police Lieutenant, Parks and Recreation Secretary, Engineering Technician, Lead Dispatcher and a Development Associate. Although the General Fund and the Funds reliant upon the General Fund for assistance had to reduce positions, two of the Enterprise Funds added positions to comply with State mandates on Clean Water and Refuse Recycling. There will be two positions added at the Wastewater Treatment Plant to handle the

addition of the Solids Handling Facility requirements. The third position is a Recycling Coordinator to assist in reaching the state refuse recycling mandates of AB 3204 that are imposed upon multi-family and commercial businesses.

The uncertainty of the outcome of the police and fire labor negotiations did not allow the City Administration to present a Proposed General Fund Budget for 2012-2013 that achieved the City Council's policy direction of having a sustainable budget with no further reductions in personnel through the next five years.

### **City Council Priorities:**

The City Council established 10 guidelines for the City Manager to be used in the preparation of the 2012-2013 Budget. The guidelines in priority order are:

1. Maintain Public Safety Services.
2. Enhance Economic Development Efforts.
3. Maintain the General Fund Reserve in Accordance with Government Finance Officers Association Standards.
4. Look for Areas to Reduce Duplication and Increase Efficiencies.
5. Minimize Impacts on All Staffing to Preserve City Services.
6. Seek and Identify New Revenue Sources.
7. Seek Opportunities for Shared Service Delivery.
8. Seek Opportunities for Facility Utilization.
9. Contract-Out Services if it Saves Dollars.
10. Continue to Provide Services with Volunteer/Non-Profit Organizations (especially value added services, as an example would be opening a swimming pool).

The Departments utilized the 10 guidelines in the preparation of their budgets and summarized below are responses to the City Council's guidelines:

1. **Maintain Public Safety Services** As outlined above, the options available to maintain public safety services is to gain concessions from the Bargaining Units, utilize fund balance from Measure C and the General Fund or a combination of both options.
2. **Enhance Economic Development Efforts** Economic Development has been increased in funding from the General Fund to meet the City Council goals identified during the economic development study session. In addition, some Organizational modifications were implemented to reduce the added responsibilities of the Economic Development Director. The Airport will be transferred to Public Works Water and Reclamation and the Parks and Community Services will be transferred to the City Manager's Office.
3. **Maintain the General Fund Reserve in Accordance with Government Finance Officers Association Standards.** The budget as adopted will continue the use of General Fund reserves until labor negotiations are completed; therefore, the adopted budget does not comply with the Government Finance Officers Association reserve standard.
4. **Look for Areas to Reduce Duplication and Increase Efficiencies.** The Fire and Development Services Departments are working on the streamlining permit issuance

and inspections. One of the added efforts by the Fire, Police and Public Works Departments is to develop one infection control program for the City. The City employee sustainability study identified several areas for efficiencies and reduction of duplication, which have been evaluated further for possible implementation.

5. **Minimize Impacts on All Staffing to Preserve City Services** In an effort to minimize staff reductions three approaches were utilized this year. First, to assign staff where the majority of the work is being performed such as the GIS Coordinator was moved to Public Works, Development Services split a Planning Technician position between Planning and Engineering. Second, we have made some reassignment of responsibilities in the Economic Development Department by changing the duties of one of the Development Associates between the Visitor Center, Downtown District, Bell Station and the Parking Authority. This change of duties was instituted to meet City Council goals for the downtown to become the center for events and entertainment by allocating the Visitor Center Development Associate into three separate funding sources. The other position that has been split between the General Fund and the Community Facility District is a parks maintenance worker.
6. **Seek and Identify New Revenue Sources** Although there are not many new revenue sources for the City to pursue there were two possible programs the City Council could consider:
  - a. While primarily for safety Red Light Signal Enforcement (cameras) have incidental revenue and personnel allocation impacts as well.
  - b. Establish a City controlled Tow Yard.The City Council chose not to pursue either revenue plan for inclusion as part of the 2012-2013 budget plan.
7. **Seek Opportunities for Shared Service Delivery** City staff is participating in three studies through the Merced County Association of Governments that could result in shared service delivery with other governmental jurisdictions. The three studies are police/fire dispatch services, animal control licensing and selected areas of fleet maintenance services.
8. **Seek Opportunities for Facility Utilization** Based on the terms of the lease, the Pepsi Building reverted to the City at the termination of the Agreement. Initially efforts focused on moving the police evidence storage and fleet maintenance to occupy this facility, which would have opened space at the Public Works Corporation Yard for other City operations. The City has been approached by a potential private employer to lease or purchase the former Pepsi Building, which will take precedent to a City use of the building.
9. **Contract Out Services if it Saves Dollars** One of the contract services that will be tested in 2012-2013 year is to contract planning and building permit counter services. This approach will allow flexibility in how the front counter is staffed, improve delivery of some services and allow more fluid changes to economic conditions. One service that will be contracted is for Hmong interpretation services for the Police, Public Works and Development Services Departments.
10. **Continue to Provide Services with Volunteer/Non-Profit Organizations (especially value added services).** The City Council set a priority to have volunteers provide value added services. The City has several areas that volunteers have been

able to provide value added services. The Police Department has both the Volunteers In Police Service (VIPS) and Explorer Scouts to assist with special projects and staffing community events. The Zoological Society and Youth Sports Organizations have been instrumental in keeping the City's cost for the zoo and youth sports affordable for the City and the public. Areas where the City is planning to add in 2012-2013 are at the Senior Center reception area, which will be handled primarily with senior volunteers to allow the Center to remain open five days a week. The City with the assistance of the community was able to open the McNamara Park swimming pool. Through the efforts of Merced Ahead, United Way, Los Amigos de los Ninos of California, Merced Organizing Project and the County Board of Supervisors sufficient funds were donated to the City to open the pool for the 2012 season. Merced Ahead is also organizing volunteers to assist in the improvement of the downtown landscaping. Local churches and service clubs have assisted in creek clean-ups, graffiti paint-outs and park clean-up projects as well.

### **Budget Preparation Approach:**

In preparing the City's Proposed Budget for 2012-2013 there were several financial challenges that placed limitations on the General Fund to continue to fund existing service levels. The financial challenges are the loss of the Vehicle License Fees to the State, the elimination of Redevelopment Agencies, the lack of growth in property taxes, the increase in retirement rates, the loss in October of the existing Community Oriented Policing grant, the increase in health insurance premiums and finally the increase of gasoline and utility rates.

These financial challenges have overshadowed the positive increases in revenues to the General Fund and Measure C Fund in 2012-2013. Sales taxes have shown a few signs of improving and the General Fund forecast is for a 5.5% increase for the 2012-2013 Fiscal Year. Another change in General Fund revenues is the anticipated \$400,000 increase in property taxes for the City as a result of the demise of the Redevelopment Agency.

The approach used in the preparation of the City's 2012-2013 Proposed Budget was a three step approach: First, General Fund contributions to the Airport, Development Services and Parks and Recreation were reduced by fifty percent. Second, all other Departments funded by the General Fund were asked to reduce their operational budgets by three percent. The only Departments not asked for the three percent reduction were the City Attorney Office and Economic Development in an effort to achieve the City Council's economic goal of additional jobs for the community. Third, the labor negotiations were geared to seek concessions that will cover a portion of the structural deficit for Fiscal Year 2012-2013. Where departments could not reduce maintenance and operation budgets any further, it required cutting positions to meet the 3% budget reduction.

Other Funds that had challenges are the Community Facility Districts, Street Tree and Park Maintenance and the Airport Fund. These Funds were provided target budget numbers that resulted in some reductions of expenses to match the anticipated revenues. The three Enterprise Funds were also balanced to the revenues anticipated from the monthly user charges.

### **Growth Assumptions:**

Annually the staff has conducted a session to assess the potential for new growth within the community for the new fiscal year. The group reviews economic indicators and state/national trends to determine what influences they will have on the San Joaquin Valley economy. The four positive indicators for the local economy for Fiscal Year 2012-2013 is another increase in students to 5,600 at the University of California, Merced, and the expansion of the Mercy Hospital operations, an uptick in automobile sales and the diminishing supply of single family housing stock that is on the market for sale. The forecast for new growth for the 2012-2013 Fiscal Year is outlined below:

Single Family Homes	10
Multi-Family Homes	75
Commercial	
Office	25,000 square feet
High Traffic < 50,000 sq. ft.	3,000 sq. ft.
Low Traffic < 50,000 sq. ft.	20,000 sq. ft.
Retail	20,000 sq. ft.
Industrial	
Manufacturing	0
Light Industrial	25,000 sq. ft.
Institutional	5,000 sq. ft.

The estimates for new growth in the community appear to be realistic given some of the new economic indicators for the Valley and the recent number of inquiries the Economic Development Department has received over the first four months of this calendar year. Finally, the number of vacant retail space has been filled with new businesses both in the downtown and in the shopping centers throughout the City is increasing. This could stimulate demolition of existing buildings and construction of a new building on the same site to meet the needs of new retailers/businesses.

## **SUMMARY OF OPERATION FUNDS**

The General Fund has the only revenue sources that have the flexibility to be used for all City services. However, the General Fund is also the most vulnerable to economic shifts and has decreased substantially during the economic recession. The General Fund revenues for Fiscal Year 2012-2013 are projected to be \$31,264,092. This represents a slight increase (less than one percent) in General Fund revenues over the 2011-2012 Budget. The revenues that are anticipated to grow are sales taxes by 5.5% and all property tax related revenues (Triple Flip and Vehicle License In-Lieu) are to remain flat during the coming fiscal year. The City's property tax revenues should increase about \$400,000 with the demise of the Redevelopment Agency and the redistribution of tax revenues to the various taxing entities of the County.

The General Fund expenditures are forecasted to be \$32,944,437 without the benefit of the options outlined previously. One of the priority areas for the City Council is economic development. In order to meet the City Council's two goals of increasing the recreation services budget and enhancing the economic development program it is proposed that the City utilize

\$165,786 of the General Fund reserves. In order to avoid the necessity of issuing lay-off notices to police and fire positions prior to the completion of bargaining the Proposed Budget utilizes \$1,514,599 of the General Fund reserves to accommodate the uncertainty of negotiations and the award of COPS funding to maintain the present staffing for the Police and Fire Departments. The Merced County Office of Education and Merced Union High School District have made conceptual commitments that they will cover a major portion of the four School Resource Officers expenses included in the Budget. The balance of funding for the four positions is matched with General Fund revenues.

The Development Services Department's revenues are a reflection of the local economic building climate and are steadily increasing. Most of the revenue is generated by applications for new development/subdivisions, annexations, building permits. The Engineering Division expenditures are covered by the charges to the capital project accounts. The community growth projections are utilized to determine the fee related revenues generated from new construction activities. The General Fund contribution to Development Services was reduced 63% to \$188,346 to cover the review and monitoring of the general plan and other general City planning activities. One other major source of revenue to the Development Services Department is from state and federal grants for revision of the zoning code, preparation of the Bellevue Corridor Specific Plan and completion of the Climate Action Plan, which will help our community become more competitive with neighboring communities.

Measure C is a general tax that has focused its funding for police and fire services and street improvements within the community. The 20 year ½ cent sales tax that was approved in 2005 and will sunset March 31, 2026. The sales tax revenues for Measure C are anticipated to increase 5.5% in Fiscal Year 2012-2013. Total revenues forecast for Measure C are \$5,144,529. Given the need to maintain the staffing in the Fire Department the total number of positions to be funded with Measure C dollars will be increased to fourteen. The two additional positions will be covered with the \$191,606 allocated for several street resurfacing projects in the 2011-2012 Budget. This proposed use of prior year funding will be reviewed with the Measure C Citizen's Oversight Committee in May for their recommendation to the City Council. Expenditures are estimated to be \$5,149,203 with the addition of the two firefighter positions.

The Community Facility Districts were created to provide the additional revenues needed to cover the cost of City services (parks, police, fire and general government services) over the level of services previously provided by the County for newly annexed subdivisions. In addition this special tax is in lieu of maintenance district fees paid in other areas of the City landscape maintenance, street lights and storm drainage within the Districts. The special taxes that are set for the 31 Community Facility Districts were sufficient to add one-half the cost of a parks maintenance worker to maintain the three community facility district parks. The Community Facility Districts have sufficient funds to cover one firefighter, three police officers again in FY 2012-2013 and one parks maintenance worker.

The majority of Streets and Street Lighting Fund revenues are generated through Gas Tax dollars. The City has used Proposition 1B funds over the past three years to supplement the Streets and Street Lighting Division operations. The Proposition 1B funds are now completely depleted and Local Transportation Fund dollars are no longer available based upon the cost of

transit operations. Based upon the initial State of California Department of Revenue estimates, it appears the Gas Tax dollars will remain fairly constant. The one project that has saved these two funds is the conversion of the street lights to conductive lighting allowing the City to maintain these City services without any cuts.

All three Enterprise Funds (water, sewer and refuse) are in a good financial position and even with no growth are covering the cost of operations and the schedule for capital projects to renovate existing infrastructure. Two of the three Enterprise Funds (wastewater and refuse) will be evaluated this fiscal year to determine the rates for the next five fiscal years. Sewer Fees were evaluated in 2011.

## **SERVICE DELIVERY PROGRAMS**

The goal of the City Council has been to establish a budget that will be sustainable for three to five years with the revenues that are being generated annually and to avoid the use of fund reserves from the General Fund and Measure C. The Administration has moved that goal forward in the preparation of the Proposed Budget for Fiscal Year 2012-2013. Each Department funded with General Fund and Measure C Fund dollars was requested to reduce their budgets by 3% or to a targeted amount. The Departments that receive transfers of General Fund dollars were asked to reduce the transfer by 50 percent. Budget reductions were achieved by all departments. The Economic Development Department was not reduced by the three percent and until the Public Finance and Economic Development Authority is reorganized, the Economic Development Department will use some of the fund balance from the General Fund to achieve the City Council goals of an increased effort.

**City Council:** The City Council budget is funded primarily through the General Fund, direct service charges and administrative charges to other departments and programs. The City Council budget was reduced with the elimination of the Townsend Public Affairs contract for advocacy services at the state and federal levels. The firm has been instrumental in obtaining grants for police, fire, parks and the Theatre over the past four years. The other memberships have decreased as well including the Merced County Association of Governments and the Local Agency Formation Commission budgets allowing a reduction in expenditures by \$3,160 from the 2011-2012 Budget.

**City Manager:** The City Manager's Office is funded from the General Fund with allocations from the direct service charges and administrative charges based upon the time expended, number of employees and the percentage of the budget. The City Manager budget was reduced by \$136,110 (approximately 25%) and the Geographic Information Systems Coordinator was transferred to the Public Works Department to reflect the majority of the positions responsibilities. In an effort to reduce the duties of the Economic Development Director the Recreation and Community Services Department will report to the Assistant to the City Manager for direction and management.

**City Attorney:** The City Attorney's Office is primarily charged to the General Fund of which the majority is charged back to specific funds reflecting the provision of services. In the proposed budget, the unreimbursed General Fund support is 7.5%. The City Attorney's Office

also receives funding from other operation funds and internal service funds (workers compensation and liability insurance) to reflect the projects that the City Attorney's Office coordinates for the City. After losing a third of its support staff and one-quarter of its professional staff in prior budget reductions it was my proposal that the City Attorney's Office not be cut any further this Fiscal Year. This decision was based upon of anticipated revenue from litigation-related developer deposits and to complete the high priority City Council projects established for the next two years. The implementation of the administrative citation process for code enforcement and business licensing violations in July 2011 has helped the office focus on the more technical cases and issues that are coming before the City in 2012.

**Finance:** The Finance Department is funded similarly to the City Manager and City Attorney's Offices. The Finance Department receives administrative service contributions from the Enterprise Funds for the utility billing and accounting services the Department provides. The Finance Department is responsible for purchasing, investments of all City funds, accounting and payroll services. The Finance Department reduced its budget by three percent through the reduction of operational expenditures. There were no position reductions proposed in the Finance Department.

**Fire:** The Fire Department receives funding from the General Fund, Measure C Fund and approximately 3 percent of its funding from the Community Facilities District for personnel, equipment and operational expenses. The Proposed Budget for Fiscal Year 2012-2013 utilizes a portion of the capital improvement funding in Measure C to cover two firefighter positions in order to maintain the total Department staffing at 64.5 positions with 61 sworn positions. The only remaining question that is facing the Fire Department budget is final outcome of the labor negotiations, which could necessitate additional budget and staffing reductions. The overtime budget was increased in 2012-2013 budget to cover reduced staffing due to injury, vacation and sick leave.

**Police:** The Police Department receives its funding from the General Fund, Measure C Fund and approximately 3% from the Community Facilities Districts. The Department budget has a total staffing of 116 full time equivalent positions, with 84 being sworn officers. This staffing level reflects a decrease of one Dispatcher position. The previous City Council indicated that the City should attempt to maintain one sworn officer per thousand population. At 84 sworn officers, the present staffing equals 1.06 officers per thousand population. There are several positions that will be held vacant during the budget year to reach the 3% savings, plus the delay in the hiring of a Lieutenant position to cover the increase in the Recreation and Community Services budget. The Police Department has been able to negotiate agreements with the Merced Union High School District and Merced County of Education to cover a large portion of the cost of four police officers that will work in the City's High Schools. The final staffing and Police budget for 2012-2013 is dependent upon the completion of the negotiations regarding pension and wages, which could necessitate additional budget and staffing revisions. One additional action that the City has pursued is an application for four police officer positions to be funded by the COPS program based upon the expiration of the American Recovery and Rehabilitation Act funding to cover the cost of police services.



The Animal Control Division will have 1.5 full-time equivalent positions with the aid of a Justice Assistance Grant the City received to maintain community safety. This is an area that the City is pursuing in terms of contract services in order to free the Community Services Officer from processing animal licenses. Two security projects are proposed that will be implemented this year are use of the New World Systems GIS feature that will allow dispatch to find the location of a police unit if necessary and the purchase of eye cameras for all Officers to record the activities of all citizen contacts.

**Parks and Community Services:** The Parks and Community Services Department is funded from the General Fund, park fees, participation/activity fees and from the Community Facilities District fees. Once again the recreation program fee structure was reviewed to maintain the City Council policy directive of adult recreation programs covering 100% of the direct costs and youth programs covering 50% of the cost of the recreation activity. The staff has been creative with fundraisers to keep the youth recreation fees low, yet maintain the City Council's policy guideline relating to youth and adult recreation fee coverage. In an effort to add revenues and to support the overall operations staff will increase the advertising for the rental of the two City facilities (Senior Center, Rossetti Building) and will prepare a plan to increase field rental charges. The General Fund contribution to the Parks and Community Services Department was increased \$135,815 to a total of \$578,108 for FY 2012-2013. In addition to the General Fund contribution increase another \$35,000 was added from donations received for the opening and operation of the McNamara Park swimming pool.

The Department will continue to provide non-competitive youth basketball and flag football; and the Youth Sports Organizations offer baseball, softball, football, soccer and the soccer academy for the youth of the City. The Department supports the Youth Sports Organizations with field preparation and contract score keeping. The Department will also operate adult basketball and two adult softball leagues. The only youth program that was cut was the drop in after school program, which is a duplication of existing City Elementary School District Youth Enrichment Program and After School Student Education Teamwork for Success (ASSETS) Program at the elementary and middle schools.

The Senior Center will continue to be open 28 hours/five days a week, the Zoological Society is being asked to contribute 55% of the operating costs of the zoo and the City will provide the Boys and Girls Club \$35,000 annually for the operation and maintenance of the McCombs Sports Facility.

The City Council added to the Recreation and Community Services budget as part of the adopted budget which included \$9,000 for opening McNamara Park swimming pool in June 2013, added the third Recreation Supervisor, placed \$6,850 for senior center and recreation front counter staffing, \$15,000 for the 2013 Camp Mc Combs Summer camp and an additional \$5,342 for administrative and operational expenses.

**Development Services:** Funding for the Development Services Department is generated from fees charged for planning and zoning, subdivision fees, building permit fees, planning grants, an allocation of Community Development Block Grant dollars, the General Fund and capital improvement funding. The General Fund allocation to the Development Services Department

was cut by 63% to \$188,346. Other funding that the Development Services Department will lose this year is Redevelopment Funding in the amount of \$32,500, Community Development Block Grant funding reduced by \$207,000 and HOME funding was cut by \$30,000. To balance the funding to services it was necessary for the Department to cut a vacant Code Enforcement Officer position and a vacant Engineering Technician position plus re-assign 50% of a Planning Technician position from the Planning Division to the Engineering Division.

The number of changes and reduction in staffing in the Development Services Department over the past three years in the Development Services Department will necessitate an evaluation of the responsibilities of the remaining positions during this next fiscal year. Another change will be to test the use of a private contractor to operate the front counter permit customer service work. One of the other areas that has been developed between the Development Services and Fire Departments is the sharing of a plans examiner to streamline fire and building inspections.

As outlined in the Fiscal Year 2012-2013 Growth Assumptions the expectation is that building activity will increase this next Fiscal Year. Although still a conservative growth projection, the added commercial and industrial building should help this Department maintain staffing and services through the year.

The Development Services Department was able to complete several projects in 2011-2012 including the revision of the General Plan, the Housing Element, the draft Climate Action Plan and completion of the South Highway 59 Corridor Study. Capital projects that were completed in 2011 were the G Street Underpass, the widening of Parsons between Highway 140 and Childs, the Childs and Highway 59 crosswalk, the Merced Theatre renovation. Capital project that will be completed during 2012 are the Parsons Avenue gap project, North Highway 59 at Cooper widening and traffic signal and the Yosemite Avenue widening project at G Street and the resurfacing of G Street north of the Underpass to Park Avenue. This budget year the Department will rely on \$342,701 in state and federal grants for three planning reports. The projects that will be completed in FY 2012-2013 with these federal and state funds are the Smart Valley Places zoning code revision and the Climate Action Plan with significant progress on the Bellevue Corridor Planning Study. The Engineering Division will also be responsible for the oversight of Phase V of the Solids Handling Facility project. The Engineering Division will be designing and managing several water, sewer and storm drainage capital projects this year as well.

**Streets:** The Streets Division is funded primarily from Gas Tax funds. Gas tax revenues have not changed much from last year. One of the benefits the City has received from the Siemens Corporation energy program was the reduction of street light utility costs by \$195,331, which covers the cost of the debt service plus added savings for the operation of the street lights. This Staff is responsible for the maintenance of streets and traffic signal maintenance.

**Street Trees and Park Maintenance:** This Division of the Public Works Operation Department is responsible for the 80,000 City owned street trees and for park maintenance services. The City contracted with a private service to maintain all park turf and right-of-way landscaping in 2011. The contracts allowed the remaining park workers to maintain park restrooms, certify playground equipment safety, and maintain planting areas, shrubs, bushes and trees within the City's parks. There are eight parks that are being transferred to a remote

irrigation control system that will allow the City to track water usage and the timing for irrigating turf areas. This new system will allow the City to reduce water use thus reducing the cost of water in FY 2012-2013. One other cost saving measure that will be evaluated in 2012 is to provide non-potable water to those park facilities that are near Merced Irrigation District canals.

The funding for the Street Trees and Park Maintenance Division includes the General Fund and Refuse Funds. This Division of Public Works needed to reduce their expenditures to the revenues anticipated for next fiscal year, which necessitated the re-assignment of one park maintenance worker into the Community Facility District funding to provide adequate staffing to maintain the three parks covered by the CFD funding.

**Economic Development Department:** The Economic Development Department has been restructured to include Housing, Visitor Center, Downtown and Economic Development. The Airport and Recreation and Community Services will be moved to the Public Works Department and the City Manager Office respectively. This change will allow the Economic Development staff to focus on the tasks of retaining and attracting jobs to the community. With the loss of Redevelopment funds the Department was required to reduce the total staffing by two positions, a Development Associate and a Secretary. Job responsibilities for the remaining two Development Associates will be divided between the Parking Authority, Bell Station, Downtown Fund and the General Fund to reflect the various job duties of both positions.

The Economic Development Department receives funding from the General Fund, Parking Authority, Downtown District Fund, Bell Station revenues/leases and the Enterprise Funds.

**Internal Services:** The Departments of Support Services and Information Technology plus the Fleet Maintenance and Building Maintenance Divisions are funded through internal service charges to the other departments. Each Internal Service Fund operation was requested to reduce their operating expenditures by three percent.

The Support Services Department is responsible for the City Clerk, Records, Human Resources and Insurance operations. Although it has not been determined if labor negotiations will continue into next fiscal year, the department is planning on funding the cost of a contract labor negotiations firm if needed.

The Information Technology Department is responsible for all telecommunications, the City web site and computer equipment. The City continues to pursue the changing of the present software to migrate off the A/S 400 to a PC web-based system. The Information Technology Executive Committee has developed a list of projects that need to be implemented during the next fiscal year. The IT Department will continue to work with the Central Valley Independent Network for the installation of fiber through the community. Major projects for the Information Technology Department will be the upgrade of the Voice over Internet service (at the end of its service life), introduction of web streaming of City Council meetings, the addition of cameras in the community for security and the introduction of I-Pads in five Departments (Economic Development, Development Services, Public Works, Police and Fire) in an effort to continue the staff's efforts to improve employee efficiency.

The Fleet Maintenance Division has made significant strides in applying for grants to incorporate hybrid vehicles into the City's fleet. The City presently has 7 hybrid vehicles in the fleet plus 5 Compressed Natural Gas (CNG) trash trucks and 7 CNG pick-ups in the City's fleet of 510 pieces of equipment. The City will add 22 hybrid vehicles during the next budget year. The goal is to reduce the City's reliance upon gasoline and to maintain or lower fuel costs over the next decade.

The Facilities Division has been impacted over the past three years in terms of reduced employees and the reliance on part-time workers to handle many of the City's smaller facilities. In 2011-2012 the North Police Station was closed and the City reduced the labor force by two positions. There are no proposed changes in personnel for the FY 2012-2013 Budget. One of the reasons the City can maintain this staffing is based upon the utility savings we will realize from the energy efficiency program implemented with the Siemens Corporation. The staff will continue to seek opportunities to consolidate various operations into the three larger facilities (Civic Center, Police and Public Works) during next fiscal year.

**Community Facility Districts:** The lack of growth in the thirty-one Community Facility Districts has been a substantial constraint on the Districts ability to maintain all the landscaping, street lighting and storm drainage expenses. The Community Facility Districts were able to absorb half of the cost of a parks maintenance worker this year raising the total workforce in the CFD Fund to one full-time position. One of the savings the CFD's will experience this year is a reduction in utility costs with the implementation of the Siemens energy conservation project implemented by the City Council. The Community Facility Districts are financed from special taxes and are structured to cover the cost of street lights, landscape maintenance, irrigation and storm drain maintenance. In addition the Districts were created to cover a portion of the public safety related costs that are needed by the urban residential areas over the previous rural nature of the property before annexation. Funding is sufficient to cover the cost of three police officers, one firefighter position and one parks maintenance worker.

**Water System:** The Water system is funded entirely by user charges based upon the amount of water consumed. The major project in the Water Division is to complete the water rate study prior to December 1, 2012 to allow time for the City Council to set water consumption and new development connection charges for the next five years. The new position that was added during the 2011-2012 Fiscal Year will continue to focus on water conservation education and monitoring.

**Wastewater Treatment/Sewer Collection System:** The Wastewater System is funded entirely from user charges. The Phase IV Wastewater Treatment Plant expansion was completed during FY 2011-2012, increasing the City's wastewater treatment capacity to 12 million gallons per day and the effluent meets the new federal Clean Water standards. The Phase V Solids Handling Facility project will be completed by the end of June 2013. These mandated improvements will require additional operations positions to comply with the State and Federal water quality standards that are being applied to all cities in the state. Two new positions will be added during the 2012-2013 fiscal year. The positions to be added are a Maintenance Worker and WWTP Operator. The City completed the Sewer Rate Study in 2011 which allowed for a rate decrease from \$45.93 per month to \$40.29 per month for the average residential unit for sewer user

charges in 2011 and 2012. The Rate Study also reduced the connection charge for residential units from \$10,959 to \$4,769 in the City's effort to reflect the cost of development on the Wastewater Treatment Plant.

**Refuse, Recycling and Green Waste:** Over the past seven years Merced has been the one of the few communities in Merced County that has a full recycling and green waste recycling program. The City will continue to emphasis recycling by homeowners and will add the need for multi-family units and commercial businesses to recycle their waste stream as was mandated by AB 3402. The City has been working closely with the Greater Merced Chamber of Commerce Green Team to assist multi-family units of four or more and commercial businesses that generate more than 4 cubic yards of trash per week with their recycling programs. The City has been notified there will be an increase in the Highway Landfill tipping fee by 5 percent effective July 2012. In addition, based on the mandated requirements by the San Joaquin Valley Air Pollution Management District the cost to dispose and recycle green waste will increase substantially. This study will not be completed until the end of this summer.

The City will conduct a Refuse Master Plan this year to set the collection rates for the community over the next five years. Finally, the City will add one position in the Refuse Division that will coordinate and advertise all recycling programs in the community. One additional action will be to formally establish a Manager position over Refuse and Internal Services this year. The Public Works Department was re-organized in 2010 and one of the positions left vacant was the Refuse Manager position. The Internal Services Manager position will be assigned the responsibility to supervise the Refuse Divisions as well creating a position reclassification. This change in duties continues to result in one less management position in the Public Works Operations Department since the organization in 2010.

**Airport:** The Airport generates the majority of its funding from landing fees, hanger leases, building rentals and fuel flowage fees assessed to the users at the Airport. The Airport is scheduled to receive \$29,249 from the General Fund, which is a 54% reduction in General Fund support from 2011-2012.

The City has commercial air service with two flights per day to Las Vegas, Nevada and two flights per day to Los Angeles. The addition of the Los Angeles flights on May 15, 2011 has helped increased the passenger count and has drawn customers from the Central San Joaquin Valley and Merced. The City continues to work with the Airport Hanger Café tenant for the addition of space and service for the southern Merced and the users at the Airport.

The two changes the Airport staff will experience this year is the transfer of the Division to the Public Works Water and Water Reclamation Department from Economic Development and transferring 50% of the cost for the Secretary to the Public Works Administration office to assist with customer services contacts in the three Enterprise Funds.

## **CONCLUSIONS**

The City has had a goal of establishing sustainability over the last three years and the staff prepared a Sustainability Report in 2010 that identified methods to create cost savings, increase

revenues and to streamline the operations of the City. A vast majority of the 92 ideas presented by the City staff have been implemented by the Departments to save time, improve efficiency or in some cases reduce non-critical services. There are a few suggestions presented in the Sustainability Report that will be on the Administrative Priorities for Fiscal year 2012-2013. Given the shrinking of the City staff over the past three fiscal years, it is time to review the Organization Structure to make sure that like functions are clustered in the same department for efficiency and effective operations. In addition to the major studies on New Development Impact Fees, the organization will continue to evaluate city processes and procedures to assure the citizens and businesses that our systems are streamlined to meet the needs of the business community yet are sufficient to protect the general public's interests.

**Items That Need Further Review:**

- A. An alternative to save the General Fund about \$100,000 per year in rent is to construct a building on Airport property for the Police Evidence and Storage facility.
- B. The funding for several water "splash" features in City parks that minimize the cost of operations and staffing.
- C. Finally, it is recognized that negotiations will not be resolved by July 1. In the event that negotiations are prolonged into the 2012-2013 Fiscal Year it will necessitate a further review of lay-offs and/or the full use of the General Fund reserves included in the adopted budget.

The preparation of the annual budget is a collaborative effort by all the Department Directors with assistance from the Finance Officer and staff. The Finance Officer, Department Directors and Finance staff deserves a tremendous amount of the credit for their concerted effort to prepare the Proposed Budget in a shortened time frame this year and to be available to provide accurate calculations for the City Council and the various options that were requested during the budget review process.