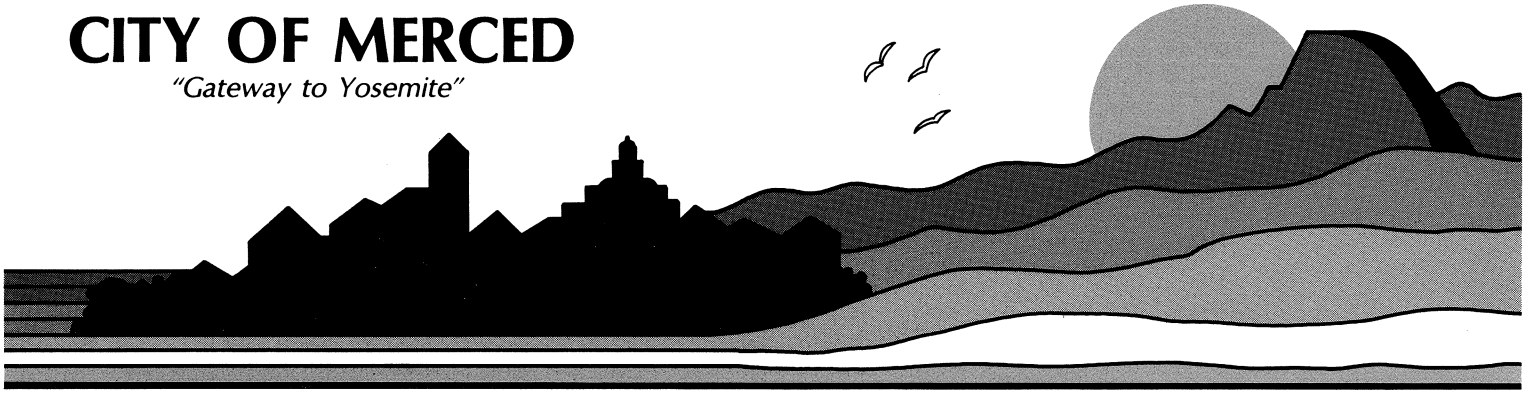


CITY OF MERCED

"Gateway to Yosemite"



June 21, 2013

TO: The Honorable Mayor and City Council

FROM: John M. Bramble, City Manager

RE: 2013-2014 Adopted Budget

A handwritten signature in black ink, appearing to read "John Bramble", is written over the printed name of the City Manager.

INTRODUCTION

It is a pleasure to present the adopted Budget for Fiscal Year 2013-2014 that meets the City Council's goal of balancing revenues to expenditures for FY 2013-2014. The proposed budget was developed to respond to the City Council's priorities and incorporates citizen requests for programming as part of the "Core-Budget" within estimated funding. It combines the delivery of quality City services for the residents of the community with our highly productive workforce plus adding six new full-time proposed positions.

The City of Merced's General Fund and Measure C financial position has required several challenges over the past five years, yet the City has maintained its fiscal stability by reducing services through a variety of efforts, including the assistance of the employee bargaining groups. We are entering next fiscal year with increased prospects for new development to occur and the addition of new businesses that will bring jobs to help the local economy.

City Council Planning:

In January 2013 the Finance Officer presented a Five-Year Financial Forecast outlining the anticipated revenues and expenditures for the General Fund and six other operational Funds. The presentation outlined that revenues were starting to show a stronger picture for the City; however, the City will need to consider new and innovative methods of providing the City's core services in the future. The City Council established eight overall priorities that provided guidance for the Departments to prepare their operational budgets.

The eight priorities are:

- Public Safety
- Financial/Budget Sustainability
- Economic Development
- UC Merced – City Relationship
- High Speed Rail Station Area Planning
- Road Maintenance
- Community Conversations

➤ Youth Involvement

The City Council utilized the Five-Year Financial Forecast as the foundation to establish the Council's budget preparation guidelines for the development of the Budget for FY 2013-2014. The City Council budget guidelines are:

1. Maintain all Core Services by all Departments with an emphasis on public safety (police and fire).
2. Maintain a General Fund Reserve in accordance with Government Finance Officers Association standards.
3. Seek opportunities for Shared Service Delivery.
4. Preparation of the FY 2013-2014 Budget that does not utilize any General Fund reserves.
5. Evaluate all new programs to meet the following standards:
 - a. Does the program maintain the City's present core standards?
 - b. Can the program be sustained for a minimum of five years?
 - c. Can the work identified be provided through a Shared Service Delivery or through a contract at a lesser cost?

These budget priorities and guidelines were utilized by the executive staff in the preparation of the proposed Budget for Fiscal Year 2013-2014.

Budget Challenges:

In preparing the Budget there were issues that added uncertainty to General Fund revenue picture. The State Department of Finance's methodical review of the unwinding of the Redevelopment Agency and whether the Designated Local Authority has appropriately paid the liabilities of the Agency has delayed the re-distribution of the former Redevelopment Agencies property taxes to the taxing entities; which includes the City of Merced. It is estimated this amount could be around \$400,000 annually but is not included in the Adopted Budget. The City has yet to receive any distribution for the second half of 2011-2012 or any of 2012-2013 redistributed revenues.

The Department of Housing and Urban Development had not finalized the federal budget for the Community Development Block Grant (CDBG) allocation during the time the City was preparing the initial City Budget. In order to move the City's application forward, the City staff used an 8% reduction in funding as the guideline. The estimated reduction of CDBG funding and the determination that similar projects and programs cannot be funded for more than three years had a substantial impact both the General Fund and Development Services budgets. The HUD decision on new guidelines resulted in a reduction to the General Fund of \$159,112 for the Police Department's gang intervention program and \$100,000 to Development Services for the code enforcement program.

The other revenue challenge was to provide a reasonable prediction as to when residential and commercial construction will resume, which will add to the Development Services Fund, General Fund and the connection and impact fee revenue streams.

Finally, with all budgeting, there are several expenditures that are outside the control of the City that increases the cost of providing City services. This fiscal year budget reflects substantial increases in the cost of worker compensation insurance and health insurance. The one good sign is it appears that gasoline prices have stabilized near \$4.00 per gallon. One area that normally adds to budget preparation uncertainty is electricity prices. This increase will be partially off-set with the full implementation of the Energy Conservation Project electricity prices have decreased substantially especially for street lights and heating and cooling City facilities.

Growth Assumptions:

Annually the staff participates in a session to assess the potential for new growth within the community for the next twelve to eighteen months. The group used economic indicators and state/ national trends to evaluate how those issues will impact the Central San Joaquin Valley economy. There are six positive indicators that show promise for an improvement in the local economy for the next 12 to 18 months.

The six positive indicators include: 1) University of California Merced activation of the Urban Land Institute study to aggressively reach the goal of a 10,000 student population by 2020, 2) A major reduction of the City’s development impact fees for all new development, 3) A renewed interest in industrial and commercial properties for business expansion and attraction of new industries, 4) A diminishing supply of single family housing stock that is on the market for sale, 5) the reduction of the number of foreclosed homes and 6) the prospect for Wal-Mart to start planning and building a 1.2 million square foot distribution center in the University Industrial Park. The forecast for new growth for the 2013-2014 Fiscal Year is outlined below:

Single Family Homes	15 Units
Multi-Family Units	75 Units
Commercial Projects	20,000 Square Feet
Industrial	25,000 Square Feet
Institutional	5,000 Square Feet

The new growth estimates are relatively conservative for the level of discussions in the building community. However, each of the positive indicators reflected above will occur over a period of two to five years and will not hit the local economy entirely during the next fiscal year. One additional positive aspect for the City is that retail space is starting to be leased for new or expanded businesses. Once the inventory of retail space becomes limited, there will be added pressures to construct both freeway and non-freeway retail space for new businesses.

2012-2013 ACCOMPLISHMENTS

During the 2012 Goal Planning Session the City Council established several projects they were interested in having the staff complete relating to job creation, the public’s safety and a focus upon the downtown as an entertainment zone. The Executive Staff was able to make progress on each of the three primary goals the City Council established. In addition to the primary goals there were other projects that were accomplished by the City that will improve the quality of life for the residents of the community. The accomplishments are:

- Completed a citizen committee review of the City's Public Facilities Financing Plan and implemented a 50% reduction of the fees for all new development.
- Attracted White Oak Food to locate in the Western Industrial Park that will add 40 new jobs in the community.
- Opened McNamara Pool for open swim during the summer of 2012 through City savings of energy costs and donations for capital improvements to the pool.
- Completed the construction of Yosemite Avenue at G Street to improve safety and traffic flow plus accommodation of bicycles.
- Successfully applied for Congestion Mitigation Air Quality funding for the traffic signal synchronization design work for G Street and 16th Street projects.
- The Housing Division contracted with 18 local contractors totaling \$357,074 to rehabilitate 18 homes so they could be put back into the market for home ownership.
- Completed the construction of Highway 59 and Cooper Avenue to improve traffic flow into the Western Industrial Park and improve safety.
- Development Services purchased property for the extension of Yosemite Avenue between San Augustine and Highway 59 for a future street improvement project.
- The Fire Department coordinated with Merced County to implement a new County Emergency Notification System.
- Work continued on a building software system that will be integrated into the new PC web-based computer system.
- Adopted an Economic Development strategy for implementation to generate additional jobs.
- Completed the construction of Parsons Avenue near Ada Given School for traffic circulation.
- Assisted Central Valley Coalition for Affordable Housing issue tax credits to construct 66 affordable housing units.
- Assisted a local developer issue tax credits for the construction of the Woodbridge Apartments adding 75 affordable housing units.
- Completed the energy efficiency projects on City facilities, park irrigation and replacement of street lights saving the City substantially on utility costs and reducing the green house gas emissions.
- Fleet purchased 22 hybrid vehicles to replace high gas consumption vehicles reducing the City's gasoline consumption and taking another step in reducing green house gas emissions.
- Finance restructured the Fahren's Park bond issue saving the assessment district residents over \$81.00 per year.
- Re-structured water and sewer bond issue that will save the rate payers \$2.3 million over the next twelve years in June 2012.
- Information Technology expanded the CCTV surveillance system to two well sites and instituted a new camera program and upgraded the computer aided dispatch system with GPS location capabilities and mapping.
- The Police Department started a downtown walking patrol program to enhance safety.
- Operation Life Line/Cease Fire started their neighborhood walks in April.
- The Climate Action Plan was approved.

- Completed a water connection fee and water rate study lowering fees and rates for the next three years.
- Recreation and Community Services successfully implemented a community volunteer program at the Senior Center and Zoo.

SUMMARY OF OPERATIONAL FUNDS

The City has seen a reasonable increase in several of the revenue areas, but primarily in taxes allocated to the General and Measure C Funds. The General and Measure C Funds are the only revenue sources that are discretionary dollars and that can be used for all City services. However, based upon commitments during the Measure C election, the City Council has used the Measure C dollars for police, fire and streets projects. The General Fund revenues for Fiscal Year 2013-2014 are forecast to be \$32,582,577 or 4.2 percent more than FY 2012-2013. The leading revenues will be a 6% increase in sales taxes, property taxes will be level, business license fees will increase 5.2%, franchise taxes will increase about 3% and the Cost Revenue Impact Service fee will increase with the added residential development that is forecast.

Measure C is a general tax that has been focused on police, fire and public works street improvement projects. The twenty year ½ cent transaction tax was approved by the voters in 2005 and will expire March 31, 2026. The transaction taxes are estimated to increase 6.4% in Fiscal Year 2013-2014. Measure C revenues are anticipated to be a total of \$6.2 million, with transaction and use taxes constituting 89 percent of the total Measure C revenues. Measure C dollars will cover 13.8 positions in the Fire Department. The Measure C funds will cover 18.9 positions in the Police Department and will provide the City's match to the Community Oriented Policing grant to cover the cost of the four additional police officers. In accordance with the City Council's guideline Measure C does meet the Government Finance Officers Association reserve guideline.

The Development Services Fund revenues are pegged to the anticipated growth projections that are outlined above. Although the local economy is starting to turn the corner many of the commercial and industrial projects are for the renovations of existing structures, which do not equate to substantial increases in revenues for Development Services.

The General Fund contribution to Development Services will increase to \$679,326 because of the completion of three grant funded projects that have been covering the cost of staff salaries and operational expenses, the use of one-time impact fees (Public Facility Finance Fees) to fund the revision to impact fees and reduction of \$150,000 for Code Enforcement to inspect for lead based paint in residential units. The completion of the Smart Valley Places zoning code project, the FEMA Hazard Mitigation project, the Climate Action Plan and the impact fee study frees the staff to work on new projects, but will result in the need for a larger contribution from the General Fund.

The Engineering Division will generate sufficient revenues from capital projects from the water and sewer department and street and sidewalk projects to cover the budget.

Community Facility Districts were created to provide the additional revenues needed to cover the cost of basic City services (parks, police, fire and general government services) over the amount the City receives from property taxes for newly annexed subdivisions. The Community Facility District revenues are sufficient to fund 0.65 park workers, 2.64 fire positions and 3.21 police positions.

The other District fee system is in the form of Maintenance Districts that charge fees to cover the cost of City landscape maintenance, street lights and storm drainage and funds 1.5 park worker positions.

Gas taxes are the primary source of revenue that pays for the Streets and Street Lighting Fund. Gas taxes have increased this year which has added the flexibility to add a major street improvement project funded with Measure C funds, Gas Tax funds and an allocation through the Merced County Association of Government's State Transportation Improvement Program funding. Combined these three funds will allow for a \$1.5 million road improvement project. The energy efficiency project that the City started in 2012 will substantially decrease the cost of street lighting costs thus freeing up funds to focus staff time on street repair and maintenance projects.

The three Enterprise Funds are in good financial shape and even with the reductions in the monthly fees in water and wastewater are able to appropriately service the community in an efficient and effective manner. Metered water rates decreased about four (4%) percent for calendar year 2013 and will remain constant for the next four years. Unmetered water rates will increase in 2014 about four (4%) percent and will remain constant for the next three years. Wastewater rates were reduced in 2010 and will remain constant through 2015. The Refuse Fund rate study is very near completion and will be presented to the City Council this summer to finalize the rates for the next five years beginning in calendar year 2014.

SERVICE DELIVERY PROGRAMS

One of the City Council's primary goals for this Fiscal Year was to approve a budget that did not utilize any General Fund reserves and could be sustainable for a five year period. Given this policy direction the Departments were asked to evaluate all of the programs provided to make sure they met the sustainability goal.

City Council: The City Council budget is funded from a portion of discretionary dollars, direct service and administrative charges. The City Council's budget is primarily a status quo budget with decreases in dues and subscriptions for the Merced County Association of Governments and League of California Cities and no change for Local Agency Formation Commission contribution, which will review and approve the City's General Plan this year.

City Manager: The City Manager's Office is funded from a portion of discretionary dollars with allocations of charges to other Funds in the form of direct service charges and administrative charges. There is a 15% increase in the amount of time the Assistant to the City Manager (total 40%) will allocate to continue the role of managing the Recreation and

Community Services Department. A new source of revenue for FY 2013-2014 will be the inclusion of the High Speed Rail Station Planning Grant funds totaling \$300,000. These funds will be utilized to add an additional temporary position that will coordinate the hiring of consultants to perform the seven deliverables required by the California High Speed Rail Authority and Federal Railroad Administration

In order to promote efficiency and appropriate reporting the Records Division of Support Services will report to the City Manager's Office. The Records Division budget has budgeted \$130,000 to cover the cost of the November City Council election, which will include a Charter modification that would change the City's election date to even number years.

City Attorney: The City Attorney's Office is another Department that is funded from a portion of the discretionary dollars. Given the role of the City Attorney's Office, there are direct charges to other departments and some funding from the Insurance Accounts for handling workers compensation and liability insurance cases. The two cases that are no longer active (Wal-Mart Distribution Center Environmental Impact Report challenge and the past flood insurance cases) has allowed for the reduction in Professional Services. One of the projects that will need the attention of the City Attorney's Office this fiscal year is the dissolution of the Redevelopment Agency related to the assets that were transferred to the Designated Local Authority. Other major projects that the City Attorney's Office will focus their attention are the forming of a Joint Powers Authority to address storm water liability issues, personnel matters and worker compensation cases.

Finance: The Finance Department is funded similar to the City Manager and City Attorney's Office. The Finance Department receives administrative service contributions from the three Enterprise Funds and other operational funds to cover costs related to utility billing, treasury and accounting services. One of the projects the Finance Department will be working on is changing business licensing from quarterly to an annual issuance for implementation at the start of 2014-2015. This will save both businesses and the City by the reduction of paperwork, yet will not change the revenues received. Another project that the Finance staff will devote time will be the preparation and implementation of the Utility Billing, Payroll and Human Resources systems that need to be updated for integration into the City's information systems.

Police: The Police Department receives funding from the General Fund, Measure C and from the Community Facilities Districts. The Department currently has a total of 116 full time equivalent positions, with 84 being sworn officers. The City has the opportunity to take advantage of a federal Community Oriented Policing Program grant to fund an additional four (4) police officers. These four positions will provide staffing needed to cover many of the community issues that we have faced over the past four years as staffing has decreased. Another area that will continue to request coverage is the High School District and Merced County Office of Education. They will pay a minimum of 70% of the cost of the school resource officer positions. At this writing the School Districts have indicated they are prepared to maintain School Resource Officers in Merced, Golden Valley and Valley High Schools. Merced Union High School District will be opening El Capitan High School in August for the 2013-2014 school years.

A new request by the Merced Union High School District is for the City to add a School Resource Officer for El Capitan High School. This request will require approval by the City Council to add one police officer position, a supplemental budget request to fund the position and an Agreement with the High School District for their funding of the position. The City has worked with Merced Union High School District to apply for a Secure Our Schools grant to place cameras at El Capitan High School. Merced Union High School District is responsible for the match to the Department of Justice grant. The City is required to comply with a Department of Justice mandate that all mobile computers have additional security to prevent “hacking” into the system.

Fire: The Fire Department is funded through the General Fund, Measure C and a small percentage from the Community Facility Districts. The Fire budget is essentially a status quo budget for Fiscal Year 2013-2014. Total staffing for the Fire Department for FY 2013-2014 is slated to be 63.5 positions with 60 sworn personnel. The total staffing will be reduced by one sworn position (2013 retirement) and the funds from this position will be added to the overtime budget in an effort toward eliminating the necessity to “brown out” Engine 51. It is important to note that the proposed increase in overtime will not entirely eliminate the need to “brown out” the engine in 2013-2014. The alternative was to add five (5) additional positions in order to have 20 fire personnel on each shift. The addition of the five positions and retaining the vacant position in the budget would reduce the need for overtime dollars, but the “overstaffing” would cost the City on the order of \$650,000.

One of the “Beyond the Core” budget proposals is to utilize a portion of the Administrative Fee settlement the City will receive from Merced County to replace a 1990 vintage pumper fire engine. The proposal is to allocate \$400,000 for the fire engine from the property tax Administrative Fee payment and to use \$200,000 from the Vehicle Replacement Fund to fully cover the cost of the equipment.

Parks and Community Services: The Parks and Community Services Department is funded from General Fund, park fees, building rentals, participation/activity fees and a small portion from the Community Facilities Districts. The General Fund contribution to Parks and Community Services was increased by 20 percent from \$578,108 to \$693,542. The increased funding from the General Fund will help to add swim lesson classes at McNamara Pool and allow for the expansion of City’s youth basketball, flag football and soccer. One of the proposed “Beyond the Core” projects is the funding of a youth advisory committee study that will incorporate a viable structure for the committee that can be sustained over the long-term to allow for more youth involvement in government.

The Merced Boys and Girls Club contract for the operation of the McCombs Youth Center is part of the budget at \$35,000 and the City will contract with the Boys and Girls Club to operate the summer youth camp program. The Youth Sports Organizations will continue to receive coordination and scheduling, score keeping and field preparation support from the City staff to run the competitive baseball, softball, football, soccer and soccer academy for the youth of the community.

One of the factors for the increase in the General Fund contribution is that the Zoological Society was not able to fully commit to contributing 55% of the costs related to the operation and maintenance of the City's Zoo. The Zoological Society will be able to pay \$82,449 based upon gate receipts and sales from the concession stand and is about 42% of the zoo operating budget.

One of the goals set by the City Council during the 2012-2013 Budget was to increase the use of volunteers at all City facilities when feasible. The Parks and Community Facilities Department has been able to have a steady group of volunteers that work at the Senior Center and the Zoo, along with AARP workers. One of the results from the added volunteer services is the Senior Center will be open at least one additional hour for senior programming during this fiscal year.

The completion of the McNamara Park improvement project will add a valuable resource for the soccer programs in 2014.

Development Services: The Development Services Department generates its funding from planning and zoning fees, building permits, plan checking, subdivision fees plus additional funding from the General Fund to cover those general planning services that are not related to a specific project. The General Fund contribution for Development Services will increase \$188,346 to \$679,326 in Fiscal Year 2013-2014.

As indicated in the Growth Assumptions there is the expectation that residential construction will start slowly and that there will be a moderate increase in commercial, retail and industrial construction during FY 13-14 which will be sufficient to maintain the present staffing. Included in the revenue estimates is a portion of the Wal-Mart Distribution Center plan check fees. Staff continues to wait for specific plans from Wal-Mart related to when they are beginning the construction project. A safe guard that has been planned is when development and new construction does start to increase, there are three contract service agreements to conduct plan checks and building permit reviews as needed. Although the contracts are not fully funded in the budget as new development starts the fees paid by the building permits will allow for the funding of the three contracts.

The Engineering Division successfully completed the water rate study and has made substantial progress on the Gerard Avenue Sewer project this past year. Projects that the Engineering Division will coordinate in FY 2013-2014 are the Water and Sewer Master Plans, completion of the safe routes to schools projects, the bike lane project, the G Street and 16th Street traffic signal synchronization designs and the McNamara Park improvement project. In addition to the projects above there are \$8.0 million in water and sewer projects that will be designed and constructed.

Streets: The Streets Division is funded by Gas Taxes. The revenue forecasts for FY 2013-2014 indicate that gas taxes will increase by as much as \$392,000. It is proposed that \$300,000 of the Gas Tax funds will be transferred to Fund 450 to be combined with Measure C funds and State Transportation Improvement Program funds for a street resurfacing project. The remainder of the gas tax funds will be retained in the Street Maintenance budget for operational materials and

supplies for street repair projects. One of the positives that the City continues to experience is the benefits from the conversion of the street lights, which has decreased the street light utility costs.

Street Trees and Park Maintenance: This Division of Public Works is responsible for the 80,000 City owned street trees, park maintenance, oversight of the park and street median maintenance contract and playground equipment safety. Funding for Street Trees and Park Maintenance is a combination of General Fund and Refuse Fund dollars.

During 2011 the City contracted for park turf and street right-of-way maintenance services. The contracting of the mowing services has allowed the City parks staff to maintain park restrooms, certify playground equipment safety and maintain the planted areas of the parks. There are eight parks that have been transferred to a remote irrigation control system that allows the staff to track water use and the timing for irrigation of the turf areas. Ray Flanagan Park was added to the park maintenance contract this year increasing the contract services cost by \$7,200 per year. One of the added programs for this next fiscal year is the purchase of 233 replacement trees for City parks and right-of-way. This Division will absorb 0.5 of a position from the Community Facility Districts to allow for a more efficient use of personnel in the City's parks. Finally, the Water Department's study of the use of non-potable water for parks is near completion, which would utilize Merced Irrigation District canals for non-potable irrigation water. This study could provide additional savings for the Division and free City potable water for growth-related development.

Economic Development: The Economic Development Department is funded from the General Fund, Bell Station leases, Downtown Business District fees and Parking Authority rental fees. The Economic Development Department includes Housing, which is funded with Community Development Block Grant funds and State and Federal Housing Grants. The major focus for 2013-2014 will be to continue an aggressive business recruitment program that has picked up momentum over the past three months. The Economic Development Department is assisting three existing businesses with expansion plans and in the last two months is experiencing a large increase in retail and industrial inquiries for sites in Merced. The City Council approved a Business Incentive Program for the downtown as a part of the 2013-2014 Budget. The 2013-2014 strategy is to promote the business incentive program and continue visiting the existing businesses and to add to the business training program through the Small Business Development Center, to add the Opportunity Merced Program, add signage at City parking lots and directional signage plus add a camera at 18th and Canal for public safety purposes. The Visitor Center will investigate the benefits of creating a Tourism Business Improvement District to enhance the tourist attraction programs for visitors to the City and Yosemite National Park.

Internal Services: The Departments of Support Services, Information Technology, Fleet Maintenance and Building Maintenance are funded through internal service charges to the other Departments.

The Information Technology Department is responsible for telecommunications, the City Web Site and computer software and hardware. The Department is continuing the effort to change the

present software in order to migrate off the A/S 400 to a PC web-based system by May 2014. One of the issues the City is facing is the current software will not be supported after May 2014 and the A/S 400 manufacturer plans to discontinue support of this hardware by May 2015. The Information Technology Executive Committee has developed the priorities for the City relating to improved software implementation. Software projects that are a part of the Department's Core work plan are the upgrade to Windows Desktop 2007, Microsoft Office and Microsoft Excel Spreadsheet 2010 and implementing the expansion of the E Mail archiving system to accommodate the additional documentation that is stored in Departmental computers. Given the status of the A/S 400 there are three priority projects for this next fiscal year that are implementation of a utility billing system, financial accounting system and human resources system. These three projects will require the assistance of part-time staff to post the information into the new software systems. The proposed budget contains one time funding for seven positions to provide temporary staffing for the implementation: three in the General Fund for \$63,843, two split between Refuse, Wastewater and Water for \$30,548, one in Public Works Administration for \$16,127 and one in Support Services for \$2,980. The Information Technology Department will add one Systems Engineer to assist the Sewer, Water and Refuse Enterprise Funds to integrate their new computer systems and maintain their software systems.

The Support Services Department oversees Insurance and Human Resources functions. A new program the Insurance Division has included is an Employee Wellness Program that will assist in maintaining medical insurance costs. The Insurance Division will be required to work closely with the City's Health Insurance provider on the implementation of the Affordable Care Act and a substantial number of outstanding worker compensation claims this year. The Personnel Division has added funds to conduct recruitment and selection processes to fill vacant and new positions that have been included in the FY 2013-2014 Budget. A project that the Personnel staff will need to provide oversight and staff time to is the conversion of the Human Resources software system implementation.

The Support Services Department has several "Beyond the Core" requests including the need for a professional labor negotiation firm to assist with the negotiations with three bargaining units and to discuss any changes in the City's financial picture with two other bargaining units. The other "Beyond the Core" budget proposal is to utilize up to \$940,000 of the General Fund reserve to cover the disposition of these Public Safety worker compensation cases. The disposition of cases will save the City money in the long-term.

Fleet Maintenance Division is responsible for the maintenance of 510 pieces of equipment. Over the past two years there has been a concerted effort to incorporate hybrid and alternative fueled vehicles into the fleet. The plan is to replace another 32 units to reduce the costs of maintenance and improve the quality of City services. The thirty-two units scheduled for replacement include:

- 20 patrol units
- 2 refuse trucks
- 2 wastewater collection trucks
- 3 pickups in wastewater

- A street tree chipper
- Parking enforcement scooter
- 2 land application vehicles
- Fire Truck

Facilities Maintenance Division maintains six city buildings and all the City restrooms and the Zoo. With the expansion of the Wastewater Treatment Plant and Public Works Administration building the Division will add one custodian position. The Division relies upon part-time positions primarily to cover the smaller facilities such as Purchasing, McNamara Pool, Zoo-education building, Visitor Center and Transpo Center spaces. This Division recognized a savings from the Siemens energy efficiency project as well, which has helped keep expenses for utilities at a minimum. The savings that were realized early in the energy conservation project allowed the City to re-line McNamara Pool last year so it could be opened for community use.

Community Facilities Districts: The lack of residential growth in the thirty-one Community Facility Districts continues to place a strain on the District's ability to maintain street medians and islands effectively. Community Facility Districts are financed from special taxes and are structured to cover the costs of the landscape maintenance, irrigation costs (water and utilities), street light utilities, storm drain maintenance and police and fire services.

The Community Facility Districts were able to realize some of the cost savings from the conversion of the street lights to a more energy efficient system which has helped cover some of the maintenance costs that continue to increase. In addition, the thirty-one Community Facility Districts will be able to cover the cost of 0.65 park workers, 2.64 fire positions and 3.21 police positions this fiscal year. The Parks Maintenance Division transferred half of a park maintenance worker to the General Fund to enhance the utilization of the position on other City parks.

Water and Wastewater: Both divisions are funded through month service charges. Both Water and Wastewater have new monthly rates, Water rates are in effect until 2017 and Wastewater rates are in effect until 2015. This fiscal year the Department will work closely with Engineering Services to prepare and have adopted Water and Wastewater Master Plans for the planning for capital improvements that will be needed over the next five years. Both the Water and Wastewater Divisions will focus on water conservation education and monitoring this year

The Water Division will add two wells into the City's water resource system at a cost of \$5.0 million in anticipation of growth both on the northern and southern parts of the City. Well #21 will be located in the Bellevue West subdivision and well #20 will be located on the CP-42 park property. The Water Division will expend \$4.5 million to construct three wellhead treatment systems on Wells #2, #3 and #7 to protect the system from added contaminants and minerals.

The Wastewater Division has finalized Phase V Solids Handling Facility work on the Wastewater Treatment Plan which expands the Plant to a full 12 million gallons per day treatment capacity. The Wastewater Division will focus attention on the FOG (fats, oils and greases) program with additional advertising to avoid inappropriate use of the sewer and storm

drain systems by the public. In addition, this Division will add two temporary workers to assist with storm drain and collection line maintenance.

Refuse, Recycling and Green Waste: The City of Merced continues to be the only Merced County jurisdiction that has trash, recycling and green waste services with the Merced Regional Solid Waste Authority. The City will continue to emphasize the importance of recycling recyclable materials and green waste and add education and enforcement this year. Fiscal Year 2012-2013 was the first full year of implementation of AB341 that requires commercial enterprises to comply with recycling laws. The City has established a very good working relationship with the Greater Merced Chamber of Commerce Green Team in the education of multi-family and commercial businesses on the savings they can realize with recycling.

The Merced Regional Solid Waste Authority is completing an evaluation of their operations and what will be required to process green waste in compliance with the Regional Water Quality District and Regional Air Pollution Control District regulations. Once the City's consultant receives the information from the Merced Regional Solid Waste Authority the staff will be ready to present the proposed collection rates for the next five years. It is anticipated that new rates will go into effect January 2014.

Airport: The Merced Regional Airport generates the majority of its funding from landing fees, hanger leases, building rentals and fuel flowage fees. The Airport is scheduled to receive \$57,785 which is a \$28,536 increase over the FY 2012-2013 General Fund contribution. One of the reasons for the increased contribution for this next fiscal year is the Airport had a carry-over balance from FY 11-12 that reduced the need for additional dollars from the General Fund. The remainder of the increase funding from the General Fund is a result of increases in worker compensation insurance premiums, utility costs and a decrease in anticipated revenues from hanger leases and landing fees.

ADDITIONS TO THE BUDGET

The benefit of an improving local economy was a welcomed change for the City staff in planning and preparing their Department budgets to fill the gaps of City services. There are several additions to the budget related to staffing as well as expanding existing programs with the added funds that were available in the General and Measure C Funds. There is an expansion of recreation programming and the addition of swimming lessons at McNamara pool and Merced High School pool. A private foundation provided \$6,000 to the City to reduce the lesson fees to \$10.00 for this summer's program. Obtaining additional volunteers has allowed for expanded hours for the Senior Center to address some of the concerns the community presented in 2012. The addition of the four police officers is another opportunity to address some of the community issues through the creation of a special unit that will have the flexibility to respond to particular areas of the City or reaching out to businesses and neighborhoods as needed. There is \$1.5 million allocated for a street resurfacing program. There are several Economic Development programs included in the Adopted Budget that will help small business development and expands public outreach that will assist the business climate in the City. There are several

capital improvements planned for the water system that will assist the City maintain a high level of water quality for the community. The improvements to the City's information system are critical to staff efficiency and will add citizen access to City information for greater transparency. A program that is very important to the City is the start of the City's Employee Wellness Program that has both short-term and long-term goals of facilitating for a healthy workforce and can help manage increases in the City's health care costs.

BEYOND THE CORE:

There were several Department requests that could not be funded within the City's Core-Budget. Based upon the need for an efficient operation of the City and the City Council's interest in addressing Economic Development and Youth Involvement the following one-time expenses were added to the General Fund as a part of the Fiscal Year 2013-2014 Budget:

- | | |
|---|-----------|
| • Funding for a Youth Committee Formation Plan | \$ 25,000 |
| • Election expenses for November 2013 election | \$100,000 |
| • Financing the worker compensation account | \$940,000 |
| • Purchase of a Fire Truck (cost \$600,000) | \$400,000 |
| • Implementation of the information technology software | \$ 63,843 |
| • Business Incentive Program | \$ 22,500 |

One of the benefits the City will have this year is the refunding of the property tax administrative fees from the County to help fund some of these one-time expenditures. The City will receive the first payment of \$600,000 from the County during fiscal year 2012-2013 as part of the administrative fee settlement. This \$600,000 payment will be added to the City's General Fund reserves.

FINANCIAL POLICIES:

In looking forward, the improvement in the local economy has allowed the staff to discuss several financial policies with the City Council that must be considered in preparation for next three to five fiscal years. The issues that need some attention during the first quarter of the fiscal year are:

1. What percentage of the General Fund should be allocated to current programs and services (police, fire; economic development and youth services) in order to allow for an increase in the City's financial reserves?
2. If the City Council chooses to not allocate 100% of the funds for programs and services, what percentage should be set-aside and for what purpose?
 - a. Building the General Fund reserves for use in future downturns in the City's finances?
 - b. Allocated for street improvements, park improvement and facilities that will need attention over the next decade?
 - c. Used for the attraction of primary jobs.
 - d. A combination of the above and/or other one-time expenses?

3. Establishing a policy for restoration of funding for vehicle and computer replacement equipment.
4. Is the annual budgeting for OPEB obligations reasonable or should there be additional funding set-aside in years where the General Fund exceeds revenue forecasts by a certain percentage?
5. How will the City finance major capital equipment and improvements, such as Fire Trucks and the Police Facility or other new City facilities and/or infrastructure?
6. How will the City maintain public safety services as a priority and what will be the measurement to determine that priority? FOOTNOTE: the City had 236 public safety employees in 2006-2007 and it is proposed that the staffing for public safety be 183.5 positions in FY 2013-2014.
7. Establish a plan to maintain the City's competitive position as the employer of choice that is able to attract and retain high quality employees.
8. Establish a strategy to absorb the increases in retirement costs in light of the CALPERS announcement regarding the new actuarial assumptions for the retirement system.

These are some of the questions that staff will need City Council policy direction to start the preparation of the City's future budgets.

Finally, there are always factors that are outside the City's ability to control, but must be incorporated into the City's financial planning process. One of the most significant developments occurred in late April. The cities were informed by Cal PERS that retirement charges to public employers will increase substantially over a ten year period beginning in FY 2015-2016. The California Public Employee Retirement System anticipates that the initial increase for retirement costs will be as much as 37% and then gradually increase to 50%+ over the next ten years. This is a financial issue that will need further discussion before entering into the planning for the FY 2014-2015 budget preparation process.

CONCLUSIONS:

The FY 2013-2014 Budget has allowed the staff to partially fill some of the gaps in City services. What we need to keep in mind is there are still large gaps in City services and there are significant financial obligations that need to be included in the City's five year financial plan. The City Council's goal was that all City services be sustainable for five fiscal years or more. Sustainability of City services must continue to be the goal for all budget decisions.

In conclusion I want to thank the Department Directors for preparing their Goals, Objectives and Performance Measures that can be measured and will allow the Organization to recognize when we should celebrate our successes. These performance measures will put the Departments and Organization in a position to keep the citizens informed on how the Organization is performing and the quality of the City's services.

The preparation of this budget was a collaborative effort and I want to thank Brad Grant, Teri Albrecht, Venus Rodriguez, Joni Vierra and Dawn Ingraham for the extra efforts they put into making this budget a quality document.