

# CITY OF MERCED

"Gateway to Yosemite"



To: The Honorable Mayor and City Council  
From: John M. Bramble, City Manager  
Re: Adopted FY 2015-2016 Budget Summary  
Date: June 30, 2015

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

## GENERAL OVERVIEW

The City's new fiscal picture allowed the City Administration to present a balanced budget for the City Council to consider for Fiscal Year 2015-2016. One of the City Council's top budgetary goals has been to adopt a balanced budget to maintain the City's financial sustainability over a five-year period. The balanced budget has been achieved through maintaining expenditures in accordance with the Five-Year Financial Forecast for the City of Merced and revenue forecasts based upon reasonable growth in the City's taxes and fees for services. The revenue forecast does not anticipate the addition of the property taxes that will be passed through from the elimination of the Merced Redevelopment Agency by the State in 2012. The City is waiting for the State Department of Finance to complete their final review of the City's Redevelopment Agency in order for the City to have some reliance upon the amount of property taxes that the City can anticipate in future years.

The Fiscal Year 2015-2016 revenue picture has been sufficient for the Administration to fulfill some of the City Council top public services priorities: 1) public safety, 2) economic development and 3) recreation services. In addition the City has been able to enter into multi-year agreements with the various bargaining units to provide an increase in wages for the employees. The increase of almost five (4%) percent in the General Fund revenues has allowed for the Proposed Budget to add additional positions in the Police Department, Fire Department and Recreation and Community Services Department as part of the Core Budget. In addition, Economic Development will receive the benefit of a reassignment of duties from an existing position and added funding for an outside consultant for the purpose of economic recruitment outreach.

On the positive side, the City is experiencing new interests in residential development, which will assist in the expansion of additional retail opportunities, thus adding jobs and revenue resources for the General Fund and Measure C in future years. The prospects for new residential, commercial and industrial development have allowed the Administration to reduce the amount of General Fund assistance to the Development Services Department this fiscal year thus allowing an opportunity to meet most of the City Council Budget Goals for public safety.

There continue to be expenses that are outside the City's control that were incorporated into the Adopted Budget. Some of the expenditures that increased City expenditures are in the City's general liability expenses, health care, retirement, utility rates and inclusion of 13 retirements during this fiscal year.

Although there is much speculation regarding the impacts of the drought in California the news of the state's drought is raising questions from potential retail and industrial leads questioning the reliability of the City's water resources. The City's water resources were stabilized in 2014 with the water conservation measures that were enacted by the City Council in April 2014. However, with the Governor's requirement for the City of Merced to reduce water utilization by as much as thirty-six (36%) percent the prospects of food processing companies and other high water users may choose to suspend relocation efforts until the drought measures are relaxed or we can provide data that reflects what the City can receive in terms of large water users.

#### Priorities from City Council Budget Planning Sessions:

The City Council reviewed the list of budget ideas that were presented by the residents at the two Town Hall meetings, Council ideas and requests from the Departments regarding staffing and program needs to maintain the City as a safe and desirable place to reside. At the two budget planning sessions the City Council stated the areas they had the greatest concerns which are:

1. Additional police officers and police technology.
2. Additional fire personnel to reduce or end "the "brown-out" of Engine 51.
3. Establish Family Friendly Events.
4. Add staffing and/or consultant services for economic development recruitment.
5. Enhance the communications and neighborhood watch efforts.
6. Prepare for the implementation of a capital improvement plan for the University Industrial Park.

There were other ideas presented by the City Council including more recreational activities, police liaisons at the schools, added dispatchers, placing donation boxes in the downtown related to donations for the homeless, senior (adult) swim nights and a new filtration system for McNamara Pool. Many of the above projects are included in the budget such as the adult swim night, the McNamara pool filtration system and expansion of the recreational sports programs.

#### New Programs and Positions:

The Proposed Budget includes several new programs and with the additional revenues the City anticipates receiving next fiscal year. All of the new services reflect the priorities of the City Council from the Work Sessions in February 2015. Outlined below are those new services that are included in the Proposed FY Budget for 2015-2016.

- Recycling of Organic Waste – starting in April 2016.
- Storm Water Management Program Phase II.
- Three Police Officers (Traffic Unit)
- Two Firefighters (total staffing of 19 per shift) to substantially reduce brown-outs.

- A Zookeeper to maintain the City's zoo and comply with state and federal requirements for animal care and maintaining the one of the City's family friendly assets.
- A Recreation Coordinator for ½ a year to allow the City to gear up recreation and senior citizen programming during the summer of 2016.
- A Dispatcher for the Police Department
- A Community Services Officer for code and animal enforcement.
- Prepare a plan for capital improvements for a portion of the University Industrial Park utility infrastructure.
- Technology purchases for the Police Department.
- Information Technology funding for enhanced community communications.
- Funding for a classification study and completion of the personnel rules and regulations for greater Organizational efficiency.

City Council Budget Policy Guidelines:

The City Council confirmed the Budget Preparation Guidelines at the February 23, 2015 Council Budget Policy Session. In the preparation of the Proposed Budget for FY 2015-2016 these guidelines were utilized to provide a balanced budget that can be sustained for a period of five years. Outlined below are the Budget Preparation Guidelines:

- Prepare the Fiscal Year 2015-2016 Proposed Operational Budget without using General Fund Reserves.
- Maintain all 2014-2015 Services by all Departments with an emphasis of public safety (police and fire), economic development and recreation for all enhanced services or expanded services in FY 2015-2016.
- Evaluate all enhanced and expanded services from the perspective that the services can be sustained for a minimum of five years.
- The use of General Fund reserves shall be utilized for one-time expenditures and prioritized for public safety, economic development job creation programs and recreation.
- Maintain the General Fund Reserves in accordance with the standards established by the Government Finance Officer Association.

Growth Assumptions:

Growth is an important factor in the preparation of the annual budget. This year the staff reviewed the recent increases in residential development and the activity that is occurring with the 2,500 residential lots that are ready for construction. Retail growth should start to pick up with the added residential developments that are planned for on the southern and northern portions of the City. Retail prospects are still seeking existing buildings in order to enter the market in the shortest period of time and at the least cost; however, there will be a time when some retailers will be attracted to vacant commercial parcels to take advantage of the proximity of the new residential growth. These prospects will be welcomed news for the City's sales tax revenues and will assist the Development Services Department with additional revenues related to planning and building permits.

There are several positive indicators that show promise for new growth in the City next fiscal year and beyond. Those indicators are: 1) the start of more than 75 single-family building permits issued in FY 2014-2015, 2) the University's purchase of the property in the downtown that will bring over 350 jobs into the downtown, 3) the prospect of a substantial increase in building activity at the University to achieve the goals of the 2020 Plan, 3) the continued decrease in the unemployment rate, and 4) the continued positive impact of the City's reduced development fees. The forecast for new growth is outlined below and provides the foundation for the revenue forecasts primarily for the Development Services Department and Development Impact Fee Funds.

Single-Family Homes	150 units
Multi-Family Complexes	125 units
Commercial Projects	
Institutional	5,000 square feet
Retail	20,000 square feet
Office	20,000 square feet
Industrial	25,000 square feet

As with any forecast there will be variations from what is anticipated; however, the trends are far more positive than the past five years related to the prospects for new growth over the next three to five years.

**SUMMARY OF OPERATIONAL FUND REVENUES**

The City's total budget for Fiscal Year 2015-2016 is estimated to be \$203 million or up about 4% over the Fiscal Year 2014-2015. Staff is anticipating increases in property tax revenues, and sales taxes which generate just over 53% of the total General Fund revenues and roughly 90% of the Measure C revenues. It is clear that based upon the State's estimates that Gas Tax revenues will decrease about 15% next fiscal year based upon lower consumption and the number of alternative vehicles that are now on the road. In 2011 the State implemented the excise tax distribution from the cities and counties to the State for the reduction of the State's bonded debt related to transportation projects, which will have a significant impact on all cities and counties revenues from gas tax funds.

The General Fund is one of two Funds that consist of discretionary revenues that can be utilized to fund all other operations within the City. General Fund revenues for FY 2015-2016 are forecasted to be \$36,092,782 or about a 4% increase over FY 2014-2015. This forecast in the General Fund revenues are based on a 8% increase in property taxes, a 1% increase in sales taxes, an 40% increase in Transient Occupancy Taxes, a 17% increase in the Vehicle In Lieu Back Fill revenues and a significant increase in the Cost Revenue Tax (new residential development) and Property Transfer taxes that are charged with the change of ownership of existing residential properties.

Measure C is a general tax that will focus its funding on police, fire and street services and street capital projects. The twenty year ½ cent sales transaction tax was approved by the voters in 2005 and expires March 31, 2026. Total Measure C transactional taxes are anticipated to

increase to \$6,167,000 or a 10.7% increase over Fiscal Year 2014-2015. Measure C will continue to fund the four police officer positions that were funded through the COPS grant (\$407,830) plus 18.99 added police positions for a total of 22.99 positions. The Fire Department has 13.8 positions funded through Measure C which is consistent with last fiscal year. Two factors are figured into the long-term funding of positions with Measure C funds which are the expiration of the COPS Grant in Fiscal Year 2016-2017 and the substantial increase in retirement funding predicted by the California Public Employees Retirement System in Fiscal Year 2017-2018. The Measure C Budget includes funding for the Streets Division in the amount of \$374,689 in order to continue the maintenance of City's streets. There is also funding for police technology in the amount of \$30,000, \$135,000 for a license plate reader camera system and the allocation of \$300,000 for street resurfacing projects.

The Development Services Fund will see an increase in revenues based upon the new growth that is anticipated during this fiscal year. Total revenues for FY 2015-2016 are estimated to be \$4,121,702 a 1% increase over the forecasted revenues of FY 2014-2015. The total revenue is impacted by the loss of grant revenues for the preparation of the Bellevue Corridor Plan and Zoning Code projects.

Development Services generates the majority of its revenues from direct services to builders and residents from the issuance of building permits, charges for professional services, construction permits and plan check fees. Revenues generated from building permits, plan check fees and planning fees and other revenues are estimated at \$1,241,335 or 30% of the total Development Services Department budget. The only grant funding remaining is the Programmatic Climate Action Plan which is budgeted at \$55,859 for next fiscal year. The General Fund contribution has decreased by 17.4% or a total of \$598,537 that will cover the costs of non-development related services.

The thirty one Community Facility Districts were created to provide the additional revenues needed to cover the costs of basic City services (police, parks, fire; and general government services) over the amount of property taxes the City receives from areas that were annexed after 1997. The assessments of the CFD's vary between the 31 Improvement Districts that have been created based on the size and amenities of the District. It is anticipated that the Community Facility Districts will generate approximately the same revenues as in the past three fiscal years. The revenues are anticipated to cover the cost of 0.65 park workers, 1.52 fire positions and 4.2 police positions.

Maintenance Districts were created to cover the costs of storm drainage, landscaping and street lighting in the 40 Districts in the City. The fees that are generated from those 40 Districts are sufficient to fund 1.5 park workers.

The City's Street and Street Tree Division is funded primarily from Gas Taxes and covers the cost of street lighting and street maintenance services. Total Gas Tax funding is down over 15% from last fiscal year. In order to keep the operations at Core Services level it is necessary to transfer \$374,689 of Measure C funds to keep the City's street lights and maintenance staff at FY 2014-2015 levels. The other source of revenues for the Streets Division is from fees charged for work within the public right-of-way by utility and private developers of \$145,000 to cover the

costs associated with the utility cuts. The Streets and Street Light Fund continues to benefit from the energy efficiency program that replaced all City owned street lights with induction lighting.

The three Enterprise Funds remain in good financial shape and are in compliance with the individual rate studies for each Enterprise (water, sewer and refuse). Wastewater will conduct a rate study this year for implementation in calendar year 2016. This rate study follows the 2010 Rate Study that froze wastewater rates at the 2010 levels. The Water Fund will enter the fourth year of the five year rate study. The 2013 Water Rate Study instituted a four percent decrease in monthly metered water rates and will remain at zero increase through 2017. The Refuse Fund has just completed a rate study that will increase refuse rates by 3.5% for residential and 1 percent annually for commercial businesses for the next five years.

## **SERVICE DELIVERY**

During the City Council Budget Policy Planning Session emphasis was placed on increasing public safety, economic development and recreation services yet maintain all other Core Services provided by the other operational departments. In accordance with the policy discussion the Adopted Budget has met that objective. The Budget for Fiscal Year 2015-2016 includes the authorization for 450.17 positions. Additional positions were included for the Police Department, Fire Department, Recreation and Public Works. There is a reassignment of duties for one authorized position to spend about 42% of the position time in Economic Development to enhance the services that can be provided by the two positions in the Department. Finally, there was the reduction of one position in the Information Technology Department in recognition of the change in software services for the City's mainframe software.

In the General Fund operational departments in preparation of budgets the requests totaled \$36,015,761. Unfortunately, in order to meet the goals of the City Council and balance the budget the Departments were asked to reduce all operation and maintenance expenditures to a maximum of 4% in order to allow for the Proposed Budget to meet the primary City Council goal of not using fund balance to cover operational expenses.

**City Council:** The City Council budget is funded from a portion of discretionary dollars plus funding from direct service and administrative service charges to the non-General Fund operations. The City Council's budget is primarily charges for regional and state memberships such as the Merced County Association of Governments, the Local Agency Formation Commission and the League of California Cities. During the formation of the City's Youth Council the City Council established a separate account for the Youth Council which is funded at \$12,500 for next fiscal year.

**City Manager/City Clerk:** The City Manager's Office is funded from discretionary dollars and funding through direct and administrative service charges to non-General Fund operations based upon the allocation of time by the personnel for coordination, agenda preparation and management. The City Manager's Office is split into two operational accounts: City Manager and City Clerk and has the responsibility for the management of the High Speed Rail Station Area planning. The California High Speed Rail Authority Grant allocated for FY 2015-2016

planning is \$275,215. These funds cover a portion of the salary for the Program Coordinator and to fund a consultant to prepare the HSR Station Area Plan. The Program Coordinator will be assigned to the Economic Development Department to assist with preparation of material for recruitment and retention of businesses in the community. The Assistant to the City Manager's time has been adjusted to properly reflect the amount of time expended in managing the Recreation and Community Services Department, which is 60% of the position's duties.

The City Clerk's Office will continue to work with the League of Women Voters and consultant for the presentation and implementation of the proposed six City Council Districts that are to be implemented for the 2016 City Council election. The other effort by the City Clerk's Office will be full implementation of the new Agenda Management System.

**City Attorney:** The City Attorney's Office is partially funded with discretionary dollars. Other funding sources are the liability insurance and worker compensation accounts plus the allocation of services time to the non-General Fund operations in the form of administrative and direct service charges for the legal work performed for those Departments. The City Attorney's Office will also serve an advisory role in the preparation and implementation of the new District election system.

**Finance:** The Finance Department is funded very similar to the City Manager and City Council Office budgets. The Finance Department receives both direct service charges and administrative service fees from all non-General Fund operations. The majority of the direct and administrative service charges are for the three Enterprise Funds based upon the utility billing services the Finance Department provides. The conversion of the software services project will be fully implemented by the start of this new fiscal year.

**Police:** The Police Department is funded with General Fund, Measure C transactional taxes and Community Facility District revenues. The Department absorbed the Code Enforcement activities in FY 2015-2016, which will expand into weekend coverage for animal control and code enforcement with the addition of the fourth position in the Division of Animal and Code Enforcement. The Police Department has taken on a greater role in the community communications, Neighborhood Watch and "Feet Changing Lives" activities with the transfer of a Recreation staff member for greater efficiency and coordination purposes.

The Adopted Budget adds 3 new police officer positions, a twelfth dispatcher, a community service officer plus the Recreation position to bring the total staffing to 128 positions with 91 sworn officers. The three new officers will allow the Department to implement a permanent Traffic Unit to respond to the increase in traffic accidents and violations. One of the other programs that the Chief is in the process of negotiating is a school resource officer program in the middle schools. This project is not proposed to be funded with City funds at this point in the discussions, but fully funded by the Merced City Elementary School District. Two other School Districts are discussing School Resource Officers with the Chief but have not indicated the approach or staffing they are interested in pursuing. The City has an agreement with the Merced Union High School District to fund School Resource Officers in the four high schools in the City of Merced. These positions are funded 70% by the High School District and the balance by the City's General Fund.



The implementation of the Disruptive Area Response Team has had a very positive impact in responding to particular problems and issues throughout the City, but especially in the downtown and on 16<sup>th</sup> Street. The Police Department has negotiated the graffiti removal contract at the same rate as 2014 which is \$175,000. In addition the Department has \$4,500 budgeted for three neighborhood community sessions for “feet changing lives and neighborhood watch organizational sessions. Finally, the Proposed Budget has funding for new Gang and Traffic helmets, gas mask replacements, the first phase of the replacement of in-car cameras and the software for a predictive policing software funded by the Measure C Fund.

**Fire:** The Fire Department is funded through General Fund, Measure C and the Community Facilities District revenues. One of the major issues for the Fire Department over the last several years is the frequency of “Brown-Outs” of Engine 51. This occurs when staffing falls below 17 fire personnel on-duty per shift. Providing a resolution to the “Brown-Outs” has been a City Council objective for the past two fiscal years. The Budget is requesting an additional two firefighters to bring all three shifts to a total staffing of 19 positions plus a fairly substantial increase in overtime funding.

The Adopted Budget includes funding for the purchase of a replacement to Fire Engine 253. The funding is a combination of prior year Redevelopment Property Tax revenues, vehicle replacement funds and reimbursements from the Office of Emergency Services to the calls for personnel and equipment assistance to Cal Fire for wild land fires.

**Recreation and Community Services:** The Recreation and Community Services Department is funded partially from park fees, building rentals, participation and activity fees, Community Facility District funds and the General Fund. The General Fund contribution to the Recreation and Community Services is increased 8.5% to a total of \$843,968 for Fiscal Year 2015-2016. Much of the added funding will cover two positions and the costs related to the expansion and new youth recreation programs.

The Zoological Society annually commits to funding of about 43% of the cost to operate the City’s zoo. The Zoological Society operates the concession stand and gift store and collects the entrance fees to assist in the operation of the zoo. The Zoo Society contributed \$85,000 last fiscal year. One of the City Council’s objectives for this next fiscal year is to continue to have “family friendly events” for the residents of the City. In order to assure that the zoo continues to be one of those Family Friendly events it is necessary to fund the cost of another position in the zoo to respond to the State Fish and Game Department and Federal Fish and Wildlife Department regarding the consistent care of the animals. Although part time positions have filled in to assist the Zookeeper with animal care; however, the reliability of assistance has come into question on several occasions when the Zookeeper is off for vacation or sick leave. The goal for this position is to assist with animal care services and to expand the educational programs hosted by the zoo. The educational programs could increase the revenues from the Rossotti Center and zoo attendance thus off-setting a part of the cost of the position.

A Recreation Coordinator position has also been added to the budget for half of the year to plan and start the preparations for the spring and summer programs that will occur in calendar year 2016.



The added General Fund contribution will cover the costs of expanding existing programs such as flag football, youth soccer and basketball. New programs that will be added are, Science in the Park in coordination with UC Merced, Adult Swim Night at McNamara and Merced High pools, additional open swim on the weekends at Golden Valley High School pool and Movies in the Park.

This will be the third season for the Learn-to-Swim program with sponsorships from the Swim 4 Jaylin Foundation and First 5 allowing the reduction in swim lessons costs from \$35.00 to \$10.00 per participant. This collaborative effort will allow the City to offer three sessions of swim lessons at McNamara and two High School pools. Over 1,000 young people learned to swim last year given this first concerted effort.

The opening of McNamara Community Center during in December 2014 by four non-profit organizations has expanded the opportunities for youth to have a safe place to congregate after school for recreation and educational assistance. This Fiscal Year the plan is to have Stephen Leonard Park Community Center operated by another non-profit to expand upon that same model for a safe location for youth after school and during the summer. The City's role is to cover the utility costs and to make the minor repairs to the buildings. The City also assists the Boys and Girls Club with the maintenance of the McCombs Youth Center in the amount of \$35,000 and contributes an additional \$20,000 for the Summer Youth Camp program.

This year the Senior Center will be open from 8:00 AM to 5:00 PM Monday through Friday for senior activity programming by using senior volunteers to staff the counter. The Youth Sports Organizations continue to receive assistance from the City recreation staff on scheduling, score keeping and field preparation for the baseball, softball and soccer programs. The City will fund 100% of the field lighting for the YSO programs plus \$36,000 for the materials cost of a shade structure at the Youth Sports Complex.

**Development Services:** The Development Services Department generates a majority of its funding from planning, building and zoning permits. The General Fund will contribute \$598,537 to cover expenses that are not directly related to new development or charges for services activity. This represents an 17.4% decrease in the General Fund assistance for Development Services. The decrease is a result of a substantial increase in residential and moderate growth in the commercial and industrial projects as reflected in the Growth Assumptions in this report.

Residential development is anticipated to double in the number of houses and units constructed next fiscal year. As the vacant retail and industrial space is occupied there will be added pressures for the construction of new industrial and retail space, which could happen next fiscal year.

The plan for next fiscal year is to utilize more plan check and building inspection services in order to maintain pace with the increase in building and tenant improvement activity.

**Engineering:** Engineering is funded by charging each of the capital projects for the administrative, engineering and inspection services costs to complete the projects environmental

reports. The Water and Sewer Master Plans will be two of the major long-range projects the Department will expend efforts in completing the plans and the environmental reports. Other capital projects that will support the Engineering Department are:

- 200 Year Flood Map Study
  - July 2015 amendment to the General Plan
  - July 2016 Zoning amendment regarding construction requirements
- Rule 21 Project (utility undergrounding) Parsons from Yosemite Parkway to Childs
- Gerard Avenue Sewer Relining – Tyler to Highway 99
- Fats, Oils and Grease Study and Co-Generation System
- Pre-Treatment Studies by Stantec and Symbiont
- Wells 20 and 21 construction
- Wellhead Treatment Systems on Well #3 and #20
- Recycled Water Pump Station
- Storm Debris Recycling Station (street sweeper dumps)
- Design and Construction contract for Head works Corrosion Control at WWTP
- CDBG Sidewalk Reconstruction Project

There are several projects that will continue into FY 2015-2016 including the Traffic Signal Synchronization projects on G and 16<sup>th</sup> Streets, the evaluation of a traffic signal and widening of Highway 59 at 16<sup>th</sup> Street and the construction of the Laboratory building at the Wastewater Treatment Plant. The only change in this Department is the reclassification of an Engineering Technician to Assistant Engineer for the efficiency of the operations.

**Public Works Streets and Park Maintenance:** The Streets Division is funded primarily with Gas Tax funds and based upon the severe decrease in gas tax revenues again this year \$374,689 is proposed to be budgeted with Measure C funds to keep the Streets Division operating at Core Services Level. The Street Lighting and Street Trees are funded as it is for FY 2014-2015. The Streets Division will continue the maintenance of streets, sidewalks, pot-hole repairs, street lights and traffic signal maintenance. The Street Tree Division is being funded by the Refuse Enterprise Fund based upon the impact of maintenance of trees in the public right-of-ways. The drought will make quick responses to tree damage and maintenance even more important for public safety. The Streets Division will maintain the 67 Traffic Signals and 6,790 street lights. One of the federally mandated projects is to replace another quarter of the street name signs with reflectivity lettering and enlarge the lettering for greater visibility during evening hours.

The Parks Maintenance Division is funded by the General Fund and there are some minimal funding of positions through the Community Facilities Districts and Maintenance Districts. The Parks Maintenance Division is responsible for the oversight of the landscaping contracts for parkway maintenance and the mowing of turf in the City Parks. The City staff work on maintaining the planted areas of parks, park restroom repairs and playground equipment safety. The Parks Maintenance budget is a status quo budget with adjustments for utilities and two extra help positions to monitor the trees and bushes that are within the City's parks for maintenance against loss from the drought.

**Economic Development:** Fiscal Year 2015-2016 will be an active year for the Economic Development staff. In addition to attending the various retail and industrial trade shows the Department will work with the property owner of the University Industrial Park on expanding the water, sewer and storm drainage infrastructure. The land-owner is being encouraged to participate in building one or more “spec” buildings and preparing a virtual building plan for one or more sites to attract new businesses into the area. The staff is working with a Valley development company to list and build a spec building at the Airport Industrial Park as additional incentives for new businesses to move to Merced. One of the other programs that will get started next fiscal year is the Accelerator Center which is a collaborative effort by the City, University of California Merced and the Small Business Development Center of Stanislaus County. The Accelerator Center is designed to help new entrepreneurs develop their product and gain knowledge on how to market their products or ideas. In order to keep pace with the workload the HSR Program Coordinator will be assigned to the Economic Development Department approximately 42% of the positions time next fiscal year.

The Economic Development Department is responsible for economic attraction and retention and consists of Housing, the Bell Station, Visitors Bureau and the Downtown Parking Authority activities. The Economic Development Department staff is funded by the General Fund, Community Development Block Grant and Bell Station rental fees. The Economic Development Department is responsible for the Downtown Fund. The Downtown Fund will be divided between the two major community events (Christmas Parade and Mercy Gulch Days) and the \$60,000 contract with the Merced Downtown Association contract.

The Visitors Center has seen a large increase in tourist numbers based upon visits to the Center and the occupancy rates at all the hotels in the City. The Visitor Center markets the Merced Area as well as Yosemite National Park as places to visit. The Visitor Center is primarily funded by the General Fund and generates approximately \$25,000 in sales of local area merchandise. The Bell Station is an historic facility that the City agreed to maintain and is fully occupied by the Post Office and six businesses. The Bell Station is self-supporting with the proceeds of the rents that are charged to the seven occupants of the building.

The Housing Division administers the City’s Community Development Block Grant programs (\$923,257), HOME program (\$305,810) and CAL Home program that are aimed at first-time home buyers. The plan is to rehabilitate 10 to 12 homes with HUD funding and to build a two unit home for returning veteran families as they transition into full time employment. The other two projects are assistance to the Central Valley Affordable Housing Coalition to construct 28 units of the transitional housing for homeless veterans and funding for a single-family unit to be constructed by Habitat for Humanity.

**Internal Services:** The Departments of Support Services, Information Technology and Public Works Divisions of Facility Maintenance and Fleet Maintenance are funded entirely through service charges to the other Departments of the City.

The Information Technology Department is responsible for telecommunications, City Web Site, coordination of the Public Education and Government Channel, computer hardware and software development and management. The Department will complete the implementation of software

for the AS/ 400 for finance, building, public works and personnel and develop the appropriate protocols for maintaining data in the cloud as we transition to the new version of software. The Information Technology Department will have one less position based upon the software contract to maintain City data in the Cloud, reducing the City's need for one Systems Engineer position. The Information Technology Department budget will decrease by \$21,457 from the amount budgeted in FY 2014-2015. As part of the new systems that will be installed and available during the Fiscal Year will be the re-design of the City's Web Site (started in 2014-2015), creation of a Citizen Engagement Service to respond to citizen requests for repairs and creation of an email archiving system.

The Information Technology Department will re-negotiate the City's contract with the Merced County Office of Education for access and use of Me TV (Comcast PEG Channel 98) and will develop guidelines in conjunction with the Public Information Officer to establish a Call In to City Hall program. The majority of the projects that the Information Technology Department is implementing are in response to the City Council's goal to add new channels of communications with our residents.

The Support Services Department oversees the risk management, employee insurance, liability insurance, workers compensation, general liability and personnel services for the City. The Insurance Division is entering a second year of the employee wellness program which has about 10% of the City employees participating in the program. One of the large increases in the cost of insurance will be the general liability insurance that is projected to increase by 31% this next year. Group medical is forecast to increase by 8.5% next year, which is included in the City's budget for next fiscal year.

In 2014 the Personnel Division implemented a web-based recruitment system that has proven to be very successful in the generating applicants for the majority of positions in the City. Personnel will continue the contract with Neogov.com for all recruitments to fill vacant City positions. Personnel is planning to finalize the City's Personnel Rules and Regulations during FY 2015-2016 and will add the projects of Performance Software and will implement a Classification Report to update the position descriptions that have not been updated since the late 1980's. The Labor Relations contract will be reduced to \$63,000 to reflect the multi-year contracts that have been negotiated with three of the five bargaining units.

Fleet Maintenance Division is responsible for the maintenance of 530 pieces of equipment. Presently much of the City's automobile fleet has been purchased in the past three years which has reduced maintenance costs and fuel requirements with the new alternative vehicle units that have been added to the fleet. It is proposed to replace 17 pieces of equipment and add two pieces of equipment at the Airport during this fiscal year. The list includes:

- Three K-9 patrol units
- Two Pick-ups (Streets and Water Quality Control)
- An Aerial Truck for Streets
- Three Utility Trucks for Parks
- A Vacuum Leaf Truck for Streets and Storm Drainage
- An Utility Truck for Fire
- Three Refuse Trucks (two for refuse and one recycling truck)

- A Fork Lift for Water
- A 1 ton Utility Truck for Water
- Two pieces of equipment for the Airport (a foreign object debris sweeper and Paint Striper)
- Fire Engine Replacement

The total cost for the 19 pieces of equipment is \$2,241,000 and will be expended from the Vehicle Replacement and Account.

The Facility Maintenance Division maintains six City buildings, all City restrooms and the Zoo. The Division has 8 full-time positions to maintain the above City facilities. In addition, the Division has part time positions to maintain the smaller facilities at Applegate Park (Purchasing and the Rossotti Buildings) McNamara Pool and the Visitor Center. Two projects that the Facilities Maintenance Division will handle this year are the replacement of the pool filter at McNamara Pool and will paint the interior of the Police Station.

**Community Facility Districts:** The City established Community Facility Districts (CFD) to partially bridge the gap between the amount of property tax revenues the City receives from areas annexed since 1997 and the cost of providing some of the basic services to the community. Although there is some added residential development occurring it appears to be concentrated in one District which will help that district cover more of the costs of City services, but the majority of the CFD's are not experiencing development at this time. This lack of residential development continues to place a strain on the 31 District budgets to maintain the street lights and landscaping in accordance with best management practices. Two factors that may assist in keeping the Community Facility Districts stabilized is the reduced irrigation of ornamental turf and the continuing savings the City has realized from the energy efficiency contract with Siemens in the conversion of the Street Lights four years ago. The Community Facilities Districts pay for the costs of street lighting, landscape maintenance, irrigation, storm drainage, police, fire and park maintenance. The CFD's will be able to fund the cost of 0.65 park workers, 1.52 fire personnel and 4.2 police positions during Fiscal Year 2015-2016.

**Water and Wastewater:** Water and Wastewater are funded by charging monthly service charges for about 28,000 connections that receive water and wastewater services from the City's utility systems. The water rates will be in effect until 2017 and the wastewater rates will be re-evaluated this fiscal year for implementation in 2016. The water conservation restrictions that are part of the drought will not have much of an impact on water revenues based upon the water billing system this next year. In order to meet the 36% reduction in the amount of water use in the City the City Council authorized the installation of water meters at the 10,800 households. In response to the fourth year of the State's drought the Water Coordinator has increased the funding for public education and outreach to keep the residents informed on how the City is doing to meet the State Water Board's water restrictions for Merced. The Department will have extra help to survey the City for violations of the City's water conservation ordinance. The Water Division is planning two new wells to maintain system reliability and will install two well head treatment systems on Wells #3 and #20 to meet the state water regulations. The Merced Irrigation District groundwater study will continue into next fiscal year with the City's contribution at \$100,000.

The Wastewater Division will fund a 2016 Rate Study (\$155,000 for the study and 218 protest vote process) and will plan for inclusion of a co-generation system to reduce the cost of utilities to operate the Wastewater Treatment Plant. Several capital improvement projects are required to be constructed at the wastewater treatment plant. The list includes a Recycled Water Pump Station that will clean water sufficiently to be used to irrigate the wildlife preservation area. A Storm Debris Recycling Station will also be constructed to handle debris from street sweeping and storm clean-up activities rather than dump the debris on other city property. Although the majority of the Plant is new, the head works is in need of repairs to avoid additional corrosion at the Plant.

The Storm Water Division will continue to meet the Phase II water quality control system regulations to avoid spills of debris and the dumping of toxic substances into the storm water system. There are two new storm drainage pumps on G Street that the Division will assume responsibility for the maintenance this year.

**Refuse, Recycling and Green Waste:** The City's recycling program has increased in its activities since the addition of the Recycling Coordinator position. The City has joined with the Greater Merced Chamber of Commerce green team to encourage businesses to increase their recycling of materials and green waste. The Refuse Division is responsible for the annual Spring Clean-Up which helps clean properties and reduces the amount of illegally dumped large household items. The Refuse Division has implemented a Drive Cam system that has reduced the number of accidents and saved in fuel consumption by the Refuse Fleet.

A new green waste program that is mandated to start as of April 2016 is the inclusion of organic waste from the restaurants, grocery stores and food processing facilities that generate more than 8 cubic yards of organic waste per month. This is a program that will be phased in over several years, but will eventually extend to residential organic waste as well.

**Regional Airport:** the Regional Airport generates the majority of its funding from landing fees, hanger leases, building rentals and fuel flowage fees. The Regional Airport will need General Fund assistance in the amount of \$36,006 which is a reduction of \$12,717 from FY 2014-2015. The Essential Air Service contract has been approved by the Federal Aviation Administration awarding Boutique Air the services through July 31, 2017. Boutique Air will provide 12 round trips per week to Los Angeles, 12 round trips per week to Oakland and 7 round trips per week to Las Vegas. The expanded services will enhance the activity at the Airport and make Merced a regional draw for airline passengers traveling south and to Las Vegas.

## **BUDGET POLICY ISSUES FOR FURTHER CONSIDERATION**

The City Council had several issues that could not be included or finalized during the regular budget planning and adoption process for this fiscal year. The decision was to plan for a mid-year budget planning process in November to provide the staff an opportunity to prepare additional information related to a number of projects and City Council Financial Policy Issues.



1. The Fire Department will investigate the implementation of an Emergency Response Squad which would respond to emergency medical calls with a staffing of two positions, which would allow the Fire Department to operate within the proposed overtime budget. This proposal would manage the overtime budget, reduce the wear and tear on the larger Engine Companies that are fire response vehicles and provide a similar level of personnel as are on an ambulance while having the capability to extinguish small nuisance fires.
2. The consideration of establishing a passenger landing fee at the Airport to fund the capital improvements needed at the City's Regional Airport. There has been some discussion that a \$3.50 passenger fee would support several of the smaller capital project match requirements, thus freeing the Airport Industrial Park funds for other economic incentives.
3. The City Council has briefly discussed revising the City's Sign Code. The potential cost of this activity would be on the order of \$250,000 to \$300,000.
4. The inclusion of Technology and Vehicle Replacement funding from the General Fund and the process to reinstate the contribution system.
5. The creation of a General Fund and Measure C Fund reserve policy and the methodologies to achieve that financial goal.
6. The continued increase in new development will necessitate the evaluation of the staffing in the Development Services Department to efficiently and effectively handle the processing of all applications and especially for expediting commercial and industrial planning and building permits.
7. Possible funding of positions (Assistant City Manager and Director of Parks and Recreation).
8. The use of redevelopment property taxes as part of the budget, staffing or capital improvement projects.

The policy issues listed above is not meant to exclude other issues that arise between now and the City Council Policy Setting Session, but illustrative of the issues that remain outstanding for City Council discussion on financial policies.

## **CONCLUSIONS**

The added revenues provided the City an opportunity to restore some of the services that were reduced drastically during the recession that impacted the San Joaquin Valley and the nation. Based upon the City's Five-Year Financial forecast report all indications are that the economy will continue to grow. The City needs to be judicious in the approach to adding programs and services to the annual budget to be assured that those services are of critical importance to the citizens of the community.

The preparation of the Fiscal Year 2015-2016 Budget has allowed the Administration to address some critical issues that has not been possible over the past five budget cycles. The Executive Team is presented a balanced budget that also includes the first salary adjustment since 2008 for most bargaining units that have entered an agreement with the City. The entire Executive Staff has worked diligently to trim the budget where they could yet still provide the basic Core Services we have provided the public in past fiscal years.