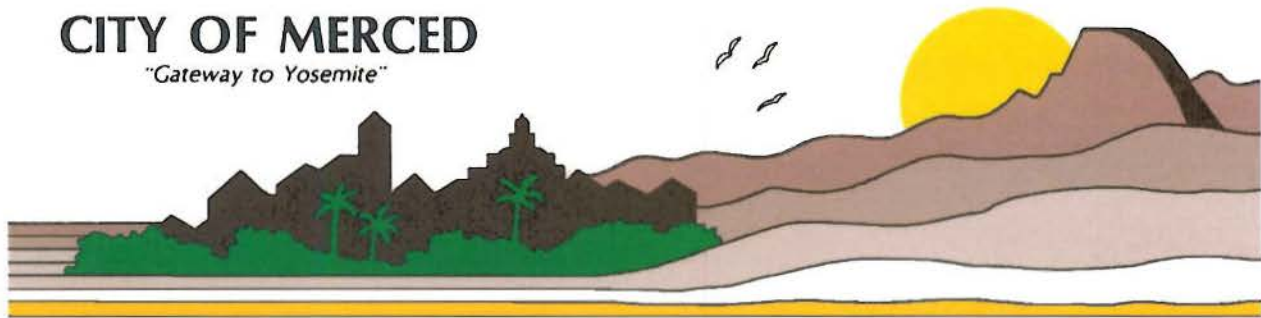


CITY OF MERCED

"Gateway to Yosemite"



To: The Merced City Council
From: City Manager Steve Carrigan
RE: City Manager's Recommended Budget
May 15, 2017

It's our time now

Merced had to wait while the rest of the state rebounded from the recession, but it's our time now. The pounding hammers, the grinding gears and the construction trucks crisscrossing our community are some of the signs of recovery. The lines in the stores, filled seats at restaurants and our busy parks show that things are going our way. There was solid economic growth in virtually all sectors of our economy during Fiscal Year 2016-17, and FY 2017-18 should be at least the same, if not even better.

We have 10 home builders active in the housing market, with five national home builders working and invested in Merced. By mid-April there were 181 home permits pulled compared to 118 permits last year. The housing market is tight in the City, with only a 1.7 month supply on the market, even with a median sales price of \$226,000.

Things are also picking up for the average resident. A recent study said Merced's personal income rose 13.7 percent over a three-year period, placing us in the top personal income growth of any region.

We did three things this year that will positively affect growth for years to come:

1. We reached a revenue sharing agreement with Merced County that will allow us to annex new areas into the City and serve developing areas such as the Bellevue Corridor and Yosemite Avenue.

2. We overhauled our Zoning Ordinance in October, making it more user-friendly and allowing for a more streamlined development review process.
3. We changed our permitting process to a master plan process so instead of reviewing individual lots we are reviewing whole subdivisions, speeding up the building process.

There is more going on in the City and just outside our boundaries that will have big impacts on us in the future.

In FY 2016-17 we saw the University of California Merced launch their 2020 Project, a \$1.3 billion investment in the campus and community. It will expand the campus to accommodate 10,000 students, add faculty and staff, and create 8,400 new jobs as a result of the project. In addition, the 2020 Project is having a major effect on the Downtown. Right across the street from the Civic Center the \$45 million UC Merced Downtown Center is under construction, bringing another 370 jobs to the core of the City when completed. Staff members will work here, eat here, and some will live here in the Downtown.

Right around the corner from City Hall, the El Capitan Hotel is getting ready for a major facelift and expansion to turn it into a boutique hotel. That multi-million dollar project will preserve the celebrated 33-room hotel and add another 77 rooms, plus a restaurant and meeting rooms. Down the block, the Mainzer Theatre is going to be renovated to include a theatre, show room and bowling alley.

The owners of the Tioga Hotel have placed the building on the market and developers have expressed interest in buying the historic landmark and restoring the structure to its former glory.

There are other businesses set to open in this fiscal year or next, revitalizing the Downtown and continuing with the vision to turn this into the City's Entertainment Center. Rockin' Jump and an enhanced Starbucks are coming and we've added Dickie's BBQ Downtown. When people visit Merced they need a place to stay. We have an 88-room Marriott TownPlace Suites that is under construction near the Steak 'n' Shake that's on the way.

It's not just the Downtown that is growing. Look around town and you will see more new additions. Five Guys Burgers, Cozy Fox, Quickly, Bob Cat Diner, Pizza Factory, Stanton Optical, Premiere Car Wash and Les Schwab Tires are among the businesses that opened up this year. Opening soon are Fitness Evolution, Arco and a KFC, among others.

We have two major retail projects underway. The Merced Mall will be adding 90,000 square feet of new retail, food and entertainment space, plus a theatre as a second level. The goal is to turn the Mall into an entertainment destination. Across town at Highway 99 and Mission Avenue, the Merced Gateway Retail Center is moving closer to

breaking ground. The center proposes more than 600,000 square feet of retail commercial development, 178 apartments, and a fire station on 71 acres.

The Mission Avenue Interchange is another positive anchor in Merced because we are on the receiving end of \$100 million from SB 1 – the State Transportation Bill -- for the Campus Parkway. With the new money, the Parkway will now go from the interchange to Yosemite Avenue, connecting UC Merced to Highway 99. It will give North and Central Merced residents a direct route to the freeway, eliminating crosstown traffic. The Parkway will open up new commercial opportunities and new possibilities for technology centers and business parks.

SB 1 will also be bringing the ACE train -- the Altamont Commuter Express -- to Merced. Currently running from Stockton to San Jose, extending the line to Merced is a \$400 million project. We may not have many workers riding to San Jose now, but once the ACE train arrives we will have the opportunity for more jobs and more connectivity to the Silicon Valley. That train also will link Merced residents to all the jobs between here and San Jose, along with the Stanford Medical Center, BART connections and three major airports.

SB 1 funding will also have a direct benefit to Merced residents, one they will see before the end of the fiscal year. The funds from the Transportation Bill will stabilize the City's Road Division, where funding had been declining due to decreases in gas tax revenues. Now the Road Division will be able to fix more potholes and aggressively resurface our aging streets because of an additional \$580,000 per year.

The SB 1 funding will be in addition to the Measure V funds, the half-cent transportation sales tax that Merced County voters approved Nov. 8, 2016. Measure V will add another \$1.5 million per year to the Roads Division, which will allow the City to do even more road resurfacing and repairs to improve transportation. In addition, Measure V can be used for sidewalks, bike lanes, traffic signals and other projects.

Another major transportation project that could transform Merced is the High Speed Rail. The state continues to build the rail line in the Central Valley to connect the first phase to the Bay Area. Merced's Downtown Station is part of Phase I and we have a planning grant to study the impacts of the rail on the Downtown.

We heard you, Merced

The City Council held Town Hall meetings at Rivera Middle School, the MultiCultural Arts Center and Tenaya Middle School. Hundreds of residents came out to share their thoughts about what the City needs, what direction they would like to see the City go and what improvements were wanted.

The City Council held a Special Priority Setting Session on March 29 to hear from the City Council and the public on what their priorities were regarding the FY 2017-18 budget. We met with City Council members, we met with community members, we listened to community groups, civic organizations and people in coffee shops and schools. We heard you, Merced.

Staff took comments from the Town Hall meetings, the priority discussions, and all the other dialogues, and added in the on-going needs of the City to develop this budget. The goal of the budget was to be sustainable, balanced and to reinvest in the community.

One message that was echoed at the Town Halls and by Council was that the City needs to look at the noise created by the more than two dozen trains that go through our community every day. The budget includes \$60,000 to hire a consultant for a Quiet Zone Study for both the Burlington/Northern Santa Fe Railroad line in Central Merced and the Union Pacific Railroad line in Southern Merced.

We've heard about the problems created by absentee landlords and blighted housing in our City. There is \$50,000 set aside for the City Attorney to create a Substandard Housing Pilot Program to address that problem with the intended goal of getting the blighted housing cleaned up.

People enjoy the 36 parks in our City every day. They play in them, picnic in them, celebrate birthdays in them, even take wedding photos in them. But our well-loved parks need more maintenance. One problem we are having at all of our public facilities is sprinkler maintenance and repairs. In addition to them breaking or getting out of alignment, they are subject to vandalism. This budget includes the addition of 2 irrigation specialists to deal with those problems and 2 tree trimmers who will enhance park maintenance.

Downtown merchants have wanted a larger presence from public safety on the premise that more uniforms helps keep the bad elements away. We are adding more uniforms to the Downtown by moving the offices of Code Enforcement and the Fire Marshal and Fire Inspector to the Bell Station, the site of the Downtown Post Office. The increased City presence in the heart of the Downtown will help with nuisance abatement on all levels.

Crime is down in Merced in almost every category, but the residents and the Council would like to see it continue to drop. This budget contains two additional police officer positions to continue the fight against crime. We've also added patrol vehicles for the new officers in the budget. There is a police lieutenant funded by Merced College in the budget.

The Parks and Recreation Department has been without a fulltime director for more than seven years. Since the economic downturn, the Department has started an aquatics program at three sites and offered lessons to 1,000 youths, opened two youth

centers, expanded its partnership with the Boys and Girls Club, created Family Fun activities such as Movies in the Park, supervised a Youth Council, started a Summer Playground Program, expanded sports leagues and raised Zoo attendance. However, as the City grows it is time to add a fulltime Director of Parks and Recreation to the budget to lead the Department as it further expands programs, services and partnerships in our growing community.

At the Town Halls, in phone calls to Public Works and through the app, Merced Connect, we have learned that not everyone in the City is a good neighbor. Unfortunately, there are people who have no problem throwing old mattresses in alleyways, piling trash on empty lots or chucking old tires on street corners. We are going to add two refuse equipment trainees to patrol the streets responding to the calls and reports on Merced Connect of the trash dumped in the City. In addition, we have a pilot program that we will start by using the City property at Highway 59 and Yosemite Avenue (the Boulders Unlimited site) to turn it into a satellite site where City residents can drop off old mattresses, tires and other trash. The hope is it will become a regular collection site. We want to eliminate the Spring Cleanup and use that savings to fund this program.

Every year thousands of boys and girls head out to Merced's parks to play soccer, baseball and softball. Our youth, along with men and women, plus high school and college teams use the ball fields at Joe Herb Park almost all-year long. While players give the fields heavy use, our Youth Sports Organizations have told us the fields are also getting heavily invaded by gophers and squirrels. The budget contains \$20,000 in funds to get the Sports Complex and Joe Herb and other park ball fields under control, with parks personnel establishing a maintenance program in subsequent years.

There is an ongoing interest in our youth and programming for them. The budget contains \$20,000 to continue the pilot program to keep open the Boys and Girls Club on Saturdays. It also contains \$8,500 to fund summer programs offered through the Merced MultiCultural Arts Center. The Parks and Recreation Department is starting a new Summer at City Hall program to teach teens about local government, and a tennis program to expose our youth to a new sport at a low cost, or no cost if they are young enough. The Department has also expanded its Movies in the Park program to include a Movie in the Pool.

Investing in ourselves

During the recession the City cut back on positions, deferred maintenance and stopped anything but mission critical purchases. However, that took its toll on personnel and equipment. Now, as Merced is growing, the City is having to rebuild its resources in order to provide the services expected by its residents.

There is \$350,000 included in the budget for Phase I of the Enterprise Resource Planning System. This will update a prior study to replace the AS 400 computer system, and the related software systems. The funds will evaluate what the City needs to handle everything from payroll to recreation sign ups to Code Enforcement citations, and how to integrate all of it together. The funds also will allow for the hiring of a consultant to write the request for proposal for the vendor to replace the AS 400.

The Public Works Department is growing, adding refuse routes, sewer customers, water wells, and there is a need for additional support staff to help handle the increased workload. This budget includes a Public Works Lead in the Sewers Division, a mechanic to help in Fleet, and a Finance Liaison, a customer service position that handles water turnoffs and billing issues. There also is the need for an additional custodian for building maintenance, 2 storm drain workers and 2 sewer collection system workers. A new position is a fabrication technician/storekeeper to make all of the specialty parts and custom welding that the Water Division needs. Another new position is a Cross Connection Control Specialist in the Water Division to bring the City into compliance with backflow device regulations for multifamily and commercial structures. The addition of 2 more refuse equipment trainees will mean current staff won't have to routinely put in 12-hour days to fill vacant routes and it will reduce overtime.

Measure C, the half-cent sales tax voted on in 2006, has been very beneficial to the City, providing 23 police officers, 14 firefighters and funding for streets and roads. However, the ballot measure only had a 20-year life and there is no guarantee that Merced residents will re-approve it. Nothing has been done to move public safety officers currently funded by Measure C into General Fund positions. This budget starts moving 1 police officer and 1 firefighter out of Measure C funding and into the General Fund. This will begin the process to transition Measure C-funded personnel into the General Fund until the voters decide whether to re-approve the tax measure.

The Fire Department has a need for a fulltime Fire Marshal position and it will pay for itself through the fees generated. City firefighters face exposure to a number of hazards during their work, plus it is an extremely physical job. This budget adds in an enhanced annual physical exam pilot to give them a higher level of preventative health care. The Department also has its training budget boosted because it needs to continue to be the premiere firefighting agency in the County.

The state Legislature has bills that would do everything from burdening the City with more paperwork to taking away public comment on neighborhood planning matters. Federal funds are needed to move our public safety communication systems to more efficient digital modes. There are hundreds of examples like this in Sacramento and Washington D.C. This budget contains a Legislative Director who will advocate on the City's behalf, pursue grants, monitor legislation and help develop policies and legislation to further the City's goals and objectives. It also contains \$20,000 to hire a firm to assist in state and federal advocacy.

As the City grows, the workload for the Finance Department increases because there are more bills to pay, more accounts to track, and more payroll. There is a need for an additional Account Technician, so one position is added in this budget.

For many years the position of Chief Building Official was also filled by the Director of Development Services. With the increase in permits being issued and the expansion within that Department, the position is being separated and added to the budget. The workload of the Engineering Department is increasing and the need to add a separate surveyor position in the Department is easily justified.

This budget allows us to add \$427,500 to the Economic Opportunity Fund, raising it to \$2.2 million so that we can use it to attract businesses and industries to Merced, or use it to retain businesses who are here. Staff will be developing a formal policy on the use of this fund for Council's approval.

This budget also includes an additional \$997,500 for the Revenue Stabilization Fund, bringing the fund balance up to \$2.9 million. This fund is intended to help ride out any future economic downturn that the City may face. Staff will be developing a formal policy on how to augment this fund and its uses for Council's approval.

Going forward

There are some factors that will affect the City in the future. State and federal legislation can limit our growth, take our funding or put additional burdens on us. Whenever there is a new administration elected in Washington, it takes time to learn what it will do and how its policies will trickle down to affect Merced.

The economy is cyclical, and another downturn is inevitable, but we have designed the budget to be sustainable within limits. Whatever the politics of climate change, we know our groundwater supply is limited, another drought is inevitable, and we as a City must be prepared to deal with both.

The City faces a number of challenges in the future. Homelessness is a problem facing our City that may have some good news in the months and years ahead at Childs Avenue and B Street. There may be permanent, supportive housing for a large number of our homeless population at that site, but the challenge continues to be the homeless that have mental health issues and those that don't want to come in off of the streets.

Marijuana is legal in California, both medically and recreationally. The City has already adopted an ordinance to open four medicinal marijuana dispensaries, and now the Council will have the opportunity to consider whether it wants to use the sales of recreational cannabis to become a revenue generator for the City.

The CalPERS funding issue is a major problem facing most government agencies in the state. CalPERS (California Public Employees' Retirement System) is underfunded and its investments have been performing poorly. Our long-range budget planning has taken into account that poor performance and factored it in to this year's budget and for future years.

This budget reflects that the City of Merced is growing and moving forward. We have responded to the needs of the community, answered their requests and taken care of the requirements of the organization. This budget includes funds for the additional staff essential to meet the challenges faced by the City in the years ahead. Funding in this budget addresses concerns for our youth, concerns for public safety, concerns about safer streets and concerns about better service.

The attached City Manager Recommended Budget of \$218,424,029 for Fiscal Year 2017-2018, including a General Fund amount of \$41,869,459, is presented to the Merced City Council for your consideration. I would like to thank all of the employees of the City of Merced for their hard work in producing this budget, and especially the Finance Department and Interim Finance Officer Stephanie Dietz and Interim Deputy Finance Officer Venus Rodriguez.

Respectfully,

A handwritten signature in black ink, appearing to read 'Steve Carrigan', written over a horizontal line.

Steve Carrigan,

City Manager