

## **Introduction**

Following is the proposed municipal budget for Fiscal Year 2012-2013. The proposed budget represents the implementation plan for executing the City Council's goals, policies and objectives for the upcoming year. The past several years have been both complex and fiscally challenging for the City while we navigated through one of the most-severe national recessions since the Great Depression. The impacts of the recession have been far reaching and have lasted longer than most anticipated. These economic conditions have forced the City to realign goals, priorities and service levels to match declines in our City's revenue base.

As we begin the next fiscal year, we are beginning to see signs of recovery in the national, state and local economy. However, it is important to keep in mind that the government sector lags behind the gains made in the private sector. This is evident both on the state and local government levels. The next several years will be a period of measured recovery as the City transitions from severe declines in revenues to those of a slowly improving economy.

## **Economic Conditions**

While the Nation and other regions in the State are beginning to show increasing signs of recovery from the national recession, the turnaround in our region is moving more slowly.

Sales tax throughout the region is beginning to show signs of improvement. The latest information indicates that sales tax receipts in our region grew by 9%. In comparison, because the expansion of the City's economic base, including Costco, Bass Pro Shops, Best Buy, JC Penney and JM Equipment Company resulted in stabilizing sales tax in our community during Fiscal Year 2010-11, Manteca is only projected to experience modest gains in sales tax of 4%. Sales tax comprises 33% of General Fund revenues. This now slightly exceeds property tax, which makes up 32% of General Fund revenues. While the City has lost several major retailers in the past year, including Best Buy and the Manteca Auto Plaza, new retailers will be opening during the next year, including Burlington Coat Factory, the Dollar General and Big Lots. Economic development staff continues to be diligent in attracting new business to our community while working on retention of our current businesses. The addition of new business to our community not only assists with sales tax generation, but aids us in growing our property tax base.

Initial discussions with the County Assessor's Office regarding projected property tax assessments for Fiscal Year 2012-13 indicate the City is expected to experience a 4% decrease in secured property tax. The Assessor's Office is continuing to review its initial projections for

possible adjustments, and final numbers will be known in the early fall. Upon further review, the City is hopeful the actual reduction will only be 2-3% for Fiscal Year 2012-13, with slight gains thereafter.

### **Budget Overview and Highlights**

The General Fund proposed budget for Fiscal Year 2012-13 is \$27,433,766. This represents a 1% increase over the adjusted budget for Fiscal Year 2011-12 of \$27,137,075. The Citywide proposed budget is \$95,735,994. This includes new funding requests for capital improvement projects totaling \$13,649,800.

#### General Fund

The General Fund budget, as presented, projects an operating structural deficit of \$1.43 million. The projected structural deficit based on the pro-forma “conservative scenario” presented to Council in January 2011 was \$5.4 million for FY 2012-13. The proposed budget represents over a \$4 million decrease in expenditures. Revenues are anticipated to be in line with the “conservative” projection. Reductions to the budget imbalance have been achieved through several measures, including:

1. Implementation of negotiated decreases to employee salary and benefit packages. New Memoranda of Understanding for all bargaining units are in

place from July 1, 2011 – June 30, 2015. Revised salary and benefit packages include the elimination of cost-of-living adjustments, additional employee contributions to the California Public Employees’ Retirement System (PERS), furloughs and layoffs.

2. Discretionary operational expenses for travel, training and supplies were maintained at prior-year levels, where possible.
3. Continued deferral of the General Fund contribution to the Gas Tax Fund. This deferral is based on the suspension of the Maintenance of Effort requirement for Proposition 42 funding that was eliminated with the passage of ABx8 6 and ABx8 9 – the “Fuel Swap of 2010.”

New additions to the General Fund budget include:

1. Reinstatement of the General Fund subsidy to the Recreation Fund. In Fiscal Year 2011-12, this subsidy was temporarily deferred due to an accumulation of available reserve funds from prior subsidies. The subsidy has been increased for Fiscal Year 2012-13 from \$200,000 to \$225,000 to reflect additional funding required to support the 2013

Independence Day Celebration.

2. Personnel costs associated with the City's housing program. On June 29, 2011, the Governor of California signed AB X1 26, which called for the dissolution of all redevelopment agencies. One of the primary functions of the former Manteca Redevelopment Agency was to implement and monitor the City's housing programs. On February 27, 2012, through the adoption of Resolution No. R2012-13, the Council elected to retain the housing assets and functions performed by the Redevelopment Agency, and to become the Successor Housing Authority. The personnel costs required to meet this commitment have been transitioned into the General Fund. To offset this expense, a corresponding transfer of \$125,370 from the Affordable Housing component of the Development Agreement Fee Fund is being recommended.
3. Transfer of personnel costs associated with the Code Enforcement Supervisor. This position was originally funded via the Redevelopment Agency. At the time the position was approved, it was difficult to determine the impact the position would have on the generation of revenues associated with code

enforcement. Fiscal Year 2010-11 was the first year the new code enforcement program was implemented. Revenues for the first year totaled \$16,370. Projections for Fiscal Year 2011-12 and all five-year pro-formas assumed a comparable level of revenue generation. However, now that the program has been fully implemented, revenues to date for Fiscal Year 2011-12 total just under \$200,000. The revenues generated more than offset the cost of this position. Additionally, the code enforcement program has been actively assisting with the collection of past-due fees and penalties for the Enterprise Funds. As such, the position is proposed to be funded 79% from the General Fund and 21% from the Enterprise Funds. Costs for the position will be offset by the increase in associated revenues.

4. Continuation of additional eight hours per week for the library. Additionally, \$13,000 has been requested for books to be funded via the Library Services Fee component of the Development Agreement Fees Fund.
5. \$400,000 in revenues associated with the lease agreement with Big League Dreams. This will be the first year the General Fund will

receive these lease revenues. Prior receipts were used to repay the Parks Fee Fund for its contribution to building the sports complex.

#### Public Safety Sales Tax Fund

In November 2006, the citizens of Manteca passed a one-half-cent sales tax for public safety. As part of the adoption of this sales tax measure, a Citizen's Oversight Committee was formed to ensure that all expenditures meet the guidelines as set forth in the adopted ordinance. When originally adopted, the five-year expenditure plan projected sales tax revenues of \$5.1 million for Fiscal Year 2012-13. Due to changes in the economy over the past several years, sales tax projections for the upcoming year are only \$4.3 million. In response to declining revenues, a revised staffing plan was approved in Fiscal Year 2009-10. As currently adopted, the Public Safety Sales Tax Fund provides funding for 11 Police protection personnel and 12 Fire protection personnel.

Beginning in Fiscal Year 2012-13, four additional Police positions have been recommended for funding via the Public Safety Sales Tax Fund. In October 2009, the City received authorization to use the COPS Hiring Recover Program (CHRP) to hire back four Police Officers who had been previously laid off from the City. The City received a grant

totaling \$1,473,340 in federal funds to be used over a three-year grant period. As a condition of the grant, the City must continue to fund the Officers for a minimum of 12 months. The end of the grant period is June 30, 2012. When accepting the grant, it was the intention of the City to continue to fund the four positions using the Public Safety Sales Tax Fund.

#### Golf Course Fund

The Golf Course faces the same challenges of decreased consumer disposable income that is impacting the General Fund. During the past few years, revenues appear to be stabilizing. One of the primary challenges to achieving fiscal stability in the Golf Course Fund had been the ongoing debt service related to the clubhouse. In prior years, the debt service represented 22% of all expenditures. As of June 30, 2010, the \$2.2 million lease associated with the clubhouse expansion was fully defeased. The remaining debt service payment for the expansion of the Golf Course and construction of the parking lot and tennis courts will be paid off in 2013. With the retirement of the 1994 Capital Lease, debt service now comprises only 4.9% of all expenditures.

Due to negotiated reductions in employee salaries and benefits, combined with the review of personnel allocated to the Golf Fund, expenditures have been reduced to a point in which the Golf

Fund is able to begin to plan for capital purchases and expenditures. Included in the Fiscal Year 2012-13 budget are requests for equipment that is critical to improve staff efficiencies at the Golf Course, as well as requests to address issues with the netting surrounding the course.

While the financial position of the Golf Fund is improving, the General Fund continues to assist in the operations of the Golf Fund in two specific ways:

1. General administrative and overhead charges were suspended beginning in Fiscal Year 2007-08. This recommendation is continued for Fiscal Year 2012-13. As staff reviews the cost allocation plan in conjunction with the Fiscal Year 2013-14 budget, this recommendation will be reviewed.
2. In the past, the City Council has approved a contribution from the General Fund equal to the recreational benefit the Golf Course provides to the citizens of Manteca. The 2012-13 preliminary budget includes a proposed contribution of \$155,000.

**Areas of Consideration/Future Concerns**

On June 30, 2011, AB X1 26 and AB X1 27 were passed by the State Legislature. Action was filed in the State Supreme Court by the League

of California Cities and the California Redevelopment Association, challenging the constitutional validity of the assembly bills. On December 29, 2011, the Supreme Court found that AB X1 27 was unconstitutional; however, it upheld the State's position on AB X1 26. As a result, effective February 1, 2012, all Redevelopment Agencies in the State of California have been eliminated.

The City of Manteca has elected to be the Successor Agency to the Manteca Redevelopment Agency, and will oversee the unwinding of the Redevelopment Agency over the next several years. As part of preparing the Fiscal Year 2012-2013 budget, the impact of the elimination of the Redevelopment Agency on the General Fund and the Development Services Fund was evaluated. In Fiscal Year 2011-12, the Redevelopment Agency contributed \$966,730 to the Development Services Fund, and \$555,735 to the General Fund to reimburse the City for staff contributions to the Redevelopment Agency. To address the shortfall in revenues, the following is proposed:

1. Soft freeze of the following open positions that were funded 100% by redevelopment revenues. Positions are currently unfilled due to staff retirements or anticipated vacancies:
  - a. Economic Development Specialist

- b. Fire Inspector I
- c. Community Outreach Coordinator
- 2. Transfer of \$440,685 from Development Agreement Fees to allow continuation of funding for all Development Services position for the period of one year. Without this funding, staffing levels will need to be reduced. The requested transfer includes:
  - a. \$90,000 in Air Mitigation Development Agreement Fees to match Smart Growth grant funds to be used to fund personnel working on the grant.
  - b. \$235,680 in Development Services Fees originally collected to fund additional support cost for development review services and planning.
  - c. \$115,005 in Development Agreement Fees to allow for complete funding of all positions.
- 3. Creation of the Economic Development Manager position to allow the continued staff support required to conduct business retention and attraction opportunities necessary to sustain and enhance economic growth opportunities. This position will also support housing opportunities within our

community. These responsibilities have been provided over the past two years by staff working as a consultant or retired annuitant. Suggesting funding for this position includes both General Fund and Public Facilities Implementation Plan Fund (PFIP) sources. The General Fund portion is requested to be offset by transfers from the Affordable Housing In-Lieu component and the Economic Development component of the Development Agreement Fees Fund. Continued funding for this position will be evaluated on annual basis.

Effective July 1, 2011, the Vehicle License Fee (VLF) was eliminated per SB89. For the City of Manteca, this totals a reduction to General Fund revenues of \$250,000. The League of California Cities has challenged this action in court as a Constitutional violation. Litigation is still pending. In the interim, the City will not receive any VLF revenue.

In November 2010, California voters passed Proposition 22 – the Local Taxpayer, Public Safety and Transportation Act of 2010 – drafted to prevent the State from further taking, diverting or borrowing local government, transportation and public transit funds. It is our hope that, through Proposition 22, no further reductions in City revenues will be realized through subventions

of the State. However, the budget for the State has not been finalized, and the State is trying to mitigate an anticipated \$15.7 billion budget gap.

### **Personnel Revisions**

As part of the review of the newly implemented Memoranda of Understanding and in coordination with the preparation of the Fiscal Year 2012-13, positions were reviewed for consistency and equity. Upon review, several positions were identified for proposed reclassification. These positions include:

1. Reclassification of the vacant Animal Services Officer position to Animal Services Supervisor.
2. Realignment of most of the Superintendent positions to allow for equity.
3. Realignment of Deputy Director positions to allow for equity among all positions.

In recommending these reclassifications, funding allocations were reviewed to ensure there would not be an overall impact to the General Fund.

### **Conclusion**

While the past several years have been challenging for the City, staff has continued to maintain service levels and meet Council goals and priorities, including:

- Construction of a new Animal Control Facility and continued

construction on a new Vehicle Maintenance Shop.

- Groundbreaking in June 2012 for a new Multimodal Station, with an anticipated opening date in spring 2013.
- Dedication of the completed Library Park Expansion on September 26, 2011.

Major initiatives during the next twelve months include:

- Continued implementation of the new Enterprise Resource Planning (ERP) software. Applications going “live” during Fiscal Year 2012-13 include Fiscal Management and Payroll (CIP #11105).
- Continuation of the planning for Phase 3 of the Corporation Yard Consolidation project (CIP #11077).
- Planned upgrades to the Council Chamber, including both ADA improvements and upgrades to the technology (CIP #11030).
- The Louise Avenue Prop 1B Rehabilitation project (CIP # 12040), which is anticipated to include upgrades to pavement and sidewalks.
- Continued planning for the Austin Road Interchange Project (CIP #11035).
- Completion of the Union Ranch East Park Improvements (CIP #12043).

During the next fiscal year, Economic Development staff and I

will work to identify additional opportunities to both stabilize and expand our employment base. Meetings with our top employers will be conducted so we can ensure we are meeting their needs, and to develop successful partnerships between the business community and the City. I will continue to seek ways to maintain service levels, while continuing to lay the foundation for fiscal stability.

Staff has developed a budget that strikes a balance of maintaining service levels within the limits of available resources, and continues to fund new projects to allow for future development and enhanced community amenities, while protecting our citizens from an uncertain financial outlook.

In preparing the Preliminary Budget, we have made our best efforts to balance these competing, but equally important, goals. Staff wishes to thank the Council for your leadership and support throughout the past year.



**Karen L. McLaughlin**

**City Manager**

## **Acknowledgements**

*Developing the Preliminary Budget is a team effort, involving the time and talents of City employees, department managers and staff members from the Finance Department. This year, the extended budget development was interwoven with the ongoing demands of day-to-day operations.*

*Without the dedication of these City staff members, this budget would not have been possible. With Council's continued support of long-term planning and willingness to provide leadership in difficult circumstances, together we can develop a plan for the long-term financial stability of our City.*