

Introduction

Following is the proposed municipal budget for Fiscal Year 2014-15. The proposed budget represents the implementation plan for executing the City Council's goals, policies and objectives for the upcoming year.

Over the past decade, the City has experienced both a robust economic picture with strong housing starts and one of the most severe national recessions since the Great Depression. To navigate through these diverse and rapidly changing fiscal conditions, the City had to realign goals, priorities and service levels to match the City's revenue base. With the support of Council, the community and our employees, the City has striven to reach and maintain fiscal stability.

As we begin the next fiscal year, the signs of economic recovery are evident yet cautious nationally, Statewide, and within our local economy. The housing market in both new and resale homes has increased. Consumer confidence has begun to improve; however, it dropped unexpectedly in May. In May, the Consumer Confidence Board reported the percentage of consumers expecting their incomes to grow over the next six months rose to the highest level since December 2007; however, there is still concern about new job opportunities and job creation. As evidenced by these mixed economic indicators, it continues to be

important during these initial times of recovery to use measured restraint combined with long-term strategies for economic growth and development to ensure the City remains on the path of continued fiscal stability.

Economic Conditions

Sales tax and property tax continue to be the largest indicators of recovery and the staying power for our local economy. While the Nation and other regions in the State rapidly experienced signs of recovery from the national recession, the turnaround in our region has been restrained. The latest information indicates the initial growth in sales tax in the County has slowed to 4.9% over the past 12-month year-to-date benchmark period. In comparison, the City showed gains of 4.3%, which is in line with forecasted trends. The initial expansion of the City's economic base included Costco, Bass Pro Shops, JC Penney and JM Equipment Company. The retail base continued to expand with the addition of Burlington Coat Factory, Banana Republic, Dollar General and Big Lots. Additional opportunities to expand our retail base continue to be available at the Promenade Shops at Orchard Valley. Economic development staff continues to be diligent in attracting new business to our community, while working on retention of our current businesses. Creative

economic ventures and partnerships are evidenced by the development of CenterPoint, anchored by Crothall Laundry, anticipated to open in Summer 2014, current negotiations with McWhinney Real Estate Services for a hotel resort/conference center, and negotiations with the Manteca Development Group, LLC for a Family Entertainment Zone.

During the next fiscal year, staff will continue to seek unique opportunities to attract retailers and other major businesses to our community. The addition of new business to our community not only assists with job creation and sales tax generation, but aids us in growing our property tax base.

As a result of our expanded property base and recovery in the housing market, property tax assessments for Fiscal Year 2013-14 grew by 10% in secured property tax. For Fiscal Year 2014-15, the Assessor's Office is projecting a 4% Countywide increase in assessed valuations, but will continue to review its initial projections for possible adjustments, and final numbers will be known in the early Fall. As the housing market begins to resurge, the City anticipates further gains in property tax in the future. However, it is important to keep in mind that, as a result of Proposition 13, while home values in the new and resale market may see strong gains, the

corresponding gains in property tax receipts will not be commensurate.

Through new and diversified partnerships and continued economic development, the City will identify new sources of revenue that will allow us to shore up our fiscal stability and move us to the necessary financial sustainability to address changing economic conditions.

Budget Goal Setting

On March 26, 2014, a budget goal setting session was held with the City Council. A total of 7 goals were identified:

1. Maintain a safe community in which to live and work.
2. Establish/maintain a sound economic base.
3. Maintain fiscal stability to support and maintain vital City services.
4. Provide a well-maintained, balanced and aesthetically pleasing community.
5. Enhance conservation/"green technology" programs.
6. Maintain and improve City infrastructure.
7. Plan for expansion of City facilities.

Encapsulated in these goals were a number of priorities including:

- Increase public safety
- Fully staff Fire Station 4

- Enhance preventative maintenance program for public safety
- Complete planning for the Great Wolf Lodge project and the Family Entertainment Zone (FEZ)
- Develop a marketing plan and a vibrant downtown
- Provide a balanced budget without eroding infrastructure and preserving essential services
- Establish a 25% General Fund reserve policy
- Transition 7 public safety positions from the Public Safety Endowment Fund
- Reinstate Internal Service Fund contributions
- Provide adequate resources to support defined City services and service levels including succession planning and increased staffing where possible
- Complete the Parks and Recreation Master Plan
- Implement a “paperless” agenda system
- Continue sidewalk/street ADA inventory
- Analyze development impact fees
- Construct last phase of Council Chambers ADA compliance project

These priorities, as well as others, were paramount as departments developed their budgets for adoption by Council. Throughout the budget document, program goals for the upcoming year have been identified. Staff has further noted when the

program goals have been established to directly support Council’s goals and priorities.

Budget Overview and Highlights

The General Fund proposed budget for Fiscal Year 2014-15 is \$30,504,991. This represents an 8% increase over the adjusted budget for Fiscal Year 2013-14 of \$28,209,333. The Citywide proposed budget is \$113,039,432. This includes new funding requests for capital improvement projects totaling \$24,095,039.

General Fund

The General Fund budget, as presented, projects an operating structural deficit of \$506,315. However, this deficit includes several one-time expenditures including:

1. Election (including possible special election)	\$183,000
2. Leadership training for succession planning	23,500
3. Council leadership training/team building	33,650
4. Downtown Improvements Financing Strategies	10,000
5. Economic Development Consultation	20,000

6. Property services associated with Successor Agency property disposition	35,000
7. Cost Allocation Plan Services	25,000
8. Labor negotiation support services	62,750
Total	\$392,900

The proposed budget additionally includes several ongoing expenditures. Some of these are contractual obligations, while others have been included to meet Council's goals and priorities. These expenditures include:

1. Increases to employee wages ranging from 2.7 to 5%. The increases were included in the negotiated Memoranda of Understanding to provide for revenue sharing of increases to combined total property and sales tax.
2. Increased contributions to the California Public Employees' Retirement System (PERS) based on current actuarial valuations.
3. Increased costs of fire dispatching services.
4. The transition of one Police Officer and one Firefighter from the Public Safety Endowment Fund to the General Fund.
5. The addition of one Police Officer and one Public Safety Dispatcher.

6. The addition of one Public Safety Applications Specialist.
7. Proposed increase to the City Attorney's contract.
8. Continued funding for the Equipment Internal Service Fund and re-instated funding for the Vehicle Internal Service Fund.
9. Continuation of the General Fund subsidy to the Recreation Fund.
10. Continuation of the General Fund subsidy to the Development Services Fund.
11. Costs associated with the City's housing program.
12. Continuation of additional eight hours per week for the library. Additionally, \$15,000 has been requested for books to be funded via the Library Services Fee component of the Development Agreement Fees Fund.

To allow for these additions, several key measures continue to assist the City in reaching fiscal stability, including:

1. The continued implementation of negotiated Memoranda of Understanding for all bargaining units that took effect July 1, 2011 and will continue to be in place through June 30, 2015. Revised salary and benefit packages included additional employee contributions to the California Public Employees' Retirement System (PERS), furloughs and layoffs.

2. Discretionary operational expenses for travel, training and supplies have continued to be maintained at prior-year levels, where possible. For Fiscal Year 2014-15, additional contract services continue to be requested for the Parks Maintenance and the Facilities Maintenance budgets. As the City has taken on additional properties including the Multimodal Station (Transit Center), Fire Station #4, the new Corporation Yard and expanded landscaped medians, property and maintenance needs have increased.
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.”

With these additions, both one time and ongoing, the General Fund is projected to have operating reserves of \$7.4 million as of June 30, 2015. This reserve balance is 24.5% of operating expenditures, just short of Council’s goal of a 25% operating reserve.

Public Safety Sales Tax Fund

In November 2006, the voters 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 \$5.7 million for Fiscal Year 2014-15. Sales tax projections for fiscal year end are projected to be \$4.9 and \$5.1 for the upcoming year, a shortfall of approximately \$600,000 from original projections. In response to declining revenues experienced during the recession, a revised staffing plan was approved in Fiscal Year 2009-10. As currently adopted, the Public Safety Sales Tax Fund provides funding for 15 Police protection personnel and 12 Fire protection personnel. As part of the budget process, staff evaluated both the reserve balance and future sales tax growth for this fund. Upon review of the current fund balance and in support of Council’s goal to increase public safety staffing levels, I am recommending the addition of 1 Firefighter and \$60,000 of overtime to begin a phased-implementation to fully staff Fire Station #4. As revenues increase and as fund balance reserves stabilize, consideration of the inclusion of additional Firefighters to the fund will be evaluated.

Public Safety Endowment Fund

In response to critical public safety needs identified during the Fiscal Year 2012-13 budget study session, Council authorized the addition of 4 Police personnel to reinstate the City's Gang Prevention Unit, and committed to funding 1 Firefighter position and the additional operating costs of Fire Station #4 for an initial period of 4 years. These positions were added in addition to the 2 public safety personnel that had previously been funded from the Endowment Fund. In January 2012, the City began participation in the Community Corrections Partnership Task Force (CCPTF). The task force provides funding for one officer assigned to the CCPTF. Since this funding is authorized on an annual basis and is subject to discontinuation, Council authorized the use of these funds to offset the cost of the Gang Prevention Unit. One of the City Council's goals was to identify alternative funding for these 7 positions and to transition them to the identified funding sources. As previously noted, two of these positions have been transitioned to the General Fund. With each upcoming budget year, staff will endeavor to transition the 5 remaining personnel to the General Fund.

Golf Course Fund

The Golf Course continues to face the same challenges of decreased

consumer disposable income that has impacted 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. The final debt service payment for the expansion of the Golf Course and construction of the parking lot and tennis courts was made in Fiscal Year 2013-2014, thereby eliminating all debt service requirements beginning in Fiscal Year 2014-15.

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

1. General administrative and overhead charges were suspended beginning in Fiscal Year 2007-08. This recommendation is continued for Fiscal Year 2014-15. As staff reviews the cost allocation plan in conjunction with the Fiscal Year 2015-16 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 2014-15

preliminary budget includes a proposed contribution of \$155,000.

3. An interfund advance from the General Fund to the Golf Fund in the amount of \$1,412,425 remains outstanding. In order to secure the financial stability of the Golf Fund, staff will be asking Council to take formal action to consider forgiving this advance.

Areas of Consideration/Future Concerns

As the City begins to reach fiscal stability, several areas of concern remain. In order to remain on the path of fiscal recovery, the City needs to incorporate the following as part of its long-term planning:

1. Elimination of Redevelopment and the impact on the City's economic development.

On June 30, 2011, AB X1 26 and AB X1 27 were passed by the State Legislature. As a result, all Redevelopment Agencies in the State of California were eliminated.

The City of Manteca has elected to be the Successor Agency to the Manteca Redevelopment Agency, and oversees the unwinding of the Redevelopment Agency. The costs of serving as the Successor Agency are borne by the General Fund. As

funds are available, the Successor Agency can receive a minimum of \$250,000 from the Redevelopment Property Tax Trust Fund to offset these costs if funds are available. In Fiscal Year 2013-14, the City was only able to recover \$78,000 due to funding constraints.

Staff continues to believe the City's role as the Successor Agency is critical to future economic development in our community. On May 17, 2013, the Successor Agency received its Finding of Completion from the State Department of Finance. With this action and with approval of the Oversight Board to the Successor Agency and the State Department of Finance, the City has begun to program the \$43 million of bond proceeds that were previously "stranded" due to the State's action. These bond proceeds will allow for the completion of much-needed infrastructure that will support future economic growth in our community.

2. CalPERS revised actuarial assumptions.

On February 18, 2014, the CalPERS actuarial Board approved revised assumptions regarding mortality,

retirement ages, and disability retirements. Impacts from these changes will begin to be reflected in the City's 2016-17 retirement contribution rates. Initial information provided indicates that agencies can expect increases in rates ranging from 2-5% in addition to normal annual increases.

3. Sustainability of the Development Services Fund.

With the elimination of the Redevelopment Agency, funding used to offset the costs of economic planning in redevelopment areas was eliminated. As result of this action sufficient revenues are not received to offset expenditures associated with the Development Services Fund. In Fiscal Year 2013-14, Council took action to eliminate the discount for planning fees for projects with multiple entitlement applications. This allowed for the addition of one Assistant Planner.

To continue to meet Council's priority of increasing Community Development staffing levels in order to establish a strong economic base and maintain vital City services, personnel requests for a Development Services

Technician, a Chief Building Official and the conversion of a Senior Engineer to a City Engineer have been included in the Fiscal Year 2014-15 budget. These positions will also allow for continued succession planning in this division.

In order to fund the position of City Engineer, staff is proposing to change the methodology of assessing Subdivision Plan Check fees from set rate fees to 4% of estimated valuation.

Along with adoption of new Subdivision Plan Check fees, current reserves will allow funding for these additional positions through June 30, 2015. Beginning July 1, 2015, if revenues from building and planning activities continue to be insufficient to cover necessary expenditures for this fund, staff will be asking that Council identify revenues received on properties located in the former redevelopment areas that the General Fund receives as an Affected Taxing Entity (ATE) to be used to offset shortfalls in the Development Services Fund.

Additionally in June 2013, Council authorized a loan of \$1.7 million from

discretionary Business License Excise Fees set aside for oversizing of PFIP infrastructure to relieve this fund from a corresponding \$1.7 million loan from the former Manteca Redevelopment Agency that was determined as immediately due by the State Department of Finance. Council further authorized the use of one-time funds received by the City in association with the Successor Agency to the Manteca Redevelopment Agency be used to reduce this loan. The current outstanding loan balance is \$206,526. During the current fiscal year, the City received \$264,600 as an ATE. Staff is recommending that these funds be used to meet the remaining obligation of the Development Services Fund and that the outstanding loan be forgiven.

Staff will continue to evaluate other revenue-enhancement opportunities, where appropriate. One such area is a proposed increase in Park Fees, which have not been adjusted in 11 years. Once the Parks and Recreation Master Plan is completed, a more-comprehensive fee structure and list of projects will be

presented to Council for approval. However, in the interim, staff will be bringing forward a proposed increase in the Park Fees charged to new development, to keep them in line with inflationary increases since their last adjustment.

Personnel Revisions

As part of the review of the newly implemented Memoranda of Understanding, and in coordination with the preparation of the Fiscal Year 2014-15 budget, positions were reviewed for consistency and equity. Upon review, several positions were identified for proposed reclassification and others are recommended for addition. Several of these positions have been discussed, including those pertaining to Public Safety and Development Services. Details of all of the recommendations can be found in the Personnel Summary Section of the budget with related costs. In recommending these reclassifications and additions to personnel, funding allocations were reviewed to ensure any impact to the General Fund would be sustainable.

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:

- Upgrades to the Council Chambers, including both ADA improvements and upgrades to the technology (CIP #11030).
- Construction of a new Multimodal Station/Transit Center (CIP #10003).
- Completion of the Woodward Park Bridewell Parking Lot (CIP #11087)
- Continued implementation of the new Enterprise Resource Planning (ERP) software. Applications going “live” during Fiscal Year 2013-14 included Utilities and Licensing. The last phase of the implementation to be completed during Fiscal Year 2014-15 is Building and Planning (CIP #11105).
- Replacement of Self-Contained Breathing Apparatus (SCBA) for fire personnel (CIP #13016).
- Construction of improvements along Louise Avenue using Proposition 1B funding (CIP #12040).
- Continued planning for the Austin Road Interchange Project (CIP #11035). Additional funding of \$2million for completion of this project still needs to be identified.

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. I also wish to express my gratitude to our Finance Director Suzanne Mallory and her staff, along with staff from the I.T. Division, for their tireless dedication to finalizing this Preliminary Budget. It took this team of dedicated professionals to make it happen.



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.