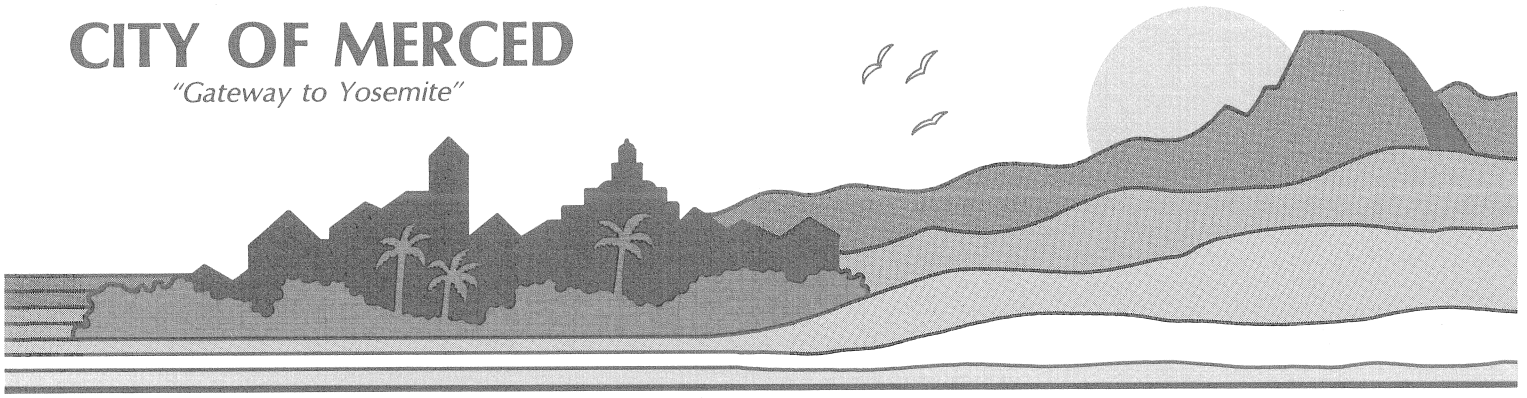


CITY OF MERCED

"Gateway to Yosemite"



TO: The Honorable Mayor and City Council
FROM: John M. Bramble, City Manager
RE: 2014-2015 Fiscal Year Budget
DATE: June 30, 2014

INTRODUCTION

It is with pleasure that we present the Adopted Budget for Fiscal Year 2014-2015 as a balanced budget for the second straight year in accordance with the City Council's budget policy guideline using only current revenues to operate the City of Merced. As with the past five budgets presenting a balanced budget has had many challenges as it relates to the "predictability" of the revenue sources the City receives in the General, Development Services, Housing and Gas Tax Funds. There were challenges in achieving a balanced budget which includes the slow build-up of new construction activity, the elimination of Community Development Block Grant funds to cover operational expenses in Development Services (\$113,740), Economic Development (\$150,000) and for graffiti removal (\$74,000) in the General Fund and the close out of two of the Neighborhood Stabilization programs.

On the positive side, the City is starting to experience new interest in commercial retail industrial and residential development that will generate additional jobs in the community and revenues for the City's General and Measure C Funds over the next five years. However, the increases in revenues are increasing at a rate of roughly the same as the cost of expenditure increases that will keep Core Services at the same levels as the prior year. On the expenditure side of the ledger for the City there are some of the larger expenditures as it relates to employee health insurance, retirement contributions and the potential for large increases in utility costs in the event the State drought continues for an extended period of time that are creating the uncertainty as to future expenses.

City Council Budget Policy Guidelines

In the preparation of the Proposed Budget we utilized the guiding principles that the City Council directed as part of the 2014 Council Policy Setting Session on February 1st. The City Council Budget Guidelines are:

- Prepare the Fiscal Year 2014-2015 Budget without using General Fund reserves, except for one-time special projects.

- Maintain all Core Services by all Departments with emphasis on Public Safety (police and fire).
- Maintain the General Fund reserves in accordance with the standards established by the Government Finance Officer Association.
 - During the February Policy Setting Session the City Council provided a general direction that the City Manager and Finance Officer provide a plan for building the General Fund reserves.
- Investigate alternative delivery of the City's Core Services that cannot be met within the revenue forecasts.
- Evaluate all new programs to meet the following standards:
 - Does the program maintain the City's core services as presently provided?
 - Can the program be sustained for a minimum of five years?
 - Can the work identified be provided through shared service delivery or through a contract at a lesser cost?

The four new positions (three in the Water Fund and a Systems Technician) included in the Proposed Budget were reviewed to make sure that all four of the evaluation steps were completed prior to recommending the adoption of the Budget.

CITY COUNCIL DELIBERATION PROCESS

The City Council conducted five public budget review sessions that provided any person attending the meetings an opportunity to present their ideas, views and proposals for programs and projects for the Fiscal Year 2014-2105 Budget. One of the issues that arose during the late stages of the Budget Preparation process was the threatened litigation by the Mexican American Legal Defense and Education Fund that pushed the City Council's consideration of placing a City Charter amendment on the November 4, 2014 election to create City Council districts. In addition, the City Council funded the research and demographic information that will be necessary to implement six City Council districts for the November 2016 City Council election.

The other amendment the City Council implemented was to allocate \$25,210 for the repairs and maintenance of the McNamara Community Center plus fund the cost of the utilities in order that a non-profit group(s) could utilize the Center for youth development, education and recreation.

GROWTH ASSUMPTIONS

In the preparation of the growth predictions for the community over the next twelve to eighteen months staff lowered the expectations for new growth in retail and industrial. Although there has been a new surge in commercial retail interest in the City, most of the retail interests are seeking existing buildings rather than build a new building. Industrial clients generally are seeking an existing building as well to avoid the costs between the planning for a new site and the time when the building will be ready to start production. This is positive news for generating new sales taxes, but does not have the same impact on the Development Services planning and building permit revenues.

There are several positive indicators that show promise for new growth in the City. Those indicators are: 1) The University of California Merced implementation of the 2020 Project to reach an enrollment of 10,000 students by the 2020 academic year. 2) The reduction in City new development fees is having a positive result in business attraction. 3) The start of residential construction. 4) The continued reduction in the unemployment rates. The forecast for new growth is outlined below and provides the foundation for the revenue forecasts for the Development Services Fund and the Development Impact Fee Funds:

Single-Family Homes	50 units
Multi-Family	75 units
Commercial Projects	5,000 square feet (institutional)
	20,000 square feet (retail)
Industrial Projects	25,000 square feet (office)
	25,000 square feet (industrial)

The growth from these positive indicators will occur gradually over the next three to five years providing a reasonable expectation that the City's revenue growth will be impacted positively over that same time period. As the number of vacant industrial and retail buildings continue to diminish the prospect for additional new construction will increase thus helping the Development Services Fund revenue stream.

SUMMARY OF OPERATIONAL FUND REVENUES

The City's total budget for Fiscal Year 2014-2015 is estimated at \$195 million or up 1% over Fiscal Year 2013-2014. Staff has forecasted increases in the property taxes and sales taxes that generate approximately 40% of the General Fund revenues and approximately 90% of Measure C revenues. Other major revenue sources are reflecting signs of moderate growth except for 2103 Gas Tax revenues that have decreased almost \$230,000 based upon the formula that the state implemented in 2011 changing the excise tax distribution from cities and counties to the State for the reduction of the State's bonded debt related to their transportation projects.

The General Fund is one of two Funds that consist of discretionary revenues that can be utilized to support other operations within the City. The General Fund revenues for FY 2014-2015 are forecasted to be \$34,528,322 or a 5.9% increase over FY 2013-2014. This forecast in the revenue increases are based upon a 10.7% increase in property taxes. There are several major revenue sources that are forecasted to increase including Sales Taxes (3.5%) Triple Flip (7.8%) increase. The Transit Occupancy Tax revenues are anticipated to decrease by a little more than 1% based upon the State drought and the impact that may have on the number of visitors to the Yosemite National Park. Two revenue sources that are starting to gain ground in the General Fund are the Cost-Revenue-Impact Service fee (\$116,025) that is charged on all new residential construction and the Real Property Transfer Fee (\$155,802) which is charged with the change of ownership of a residential property.

Measure C is a general tax that is focused on police, fire and street services. The twenty year ½ cent transaction tax was approved by the voters in 2005 and will expire March 31, 2026. Total Measure C revenues are estimated to be \$6,216,038, which is a slight decrease from Fiscal Year

2013-2014. Measure C funds will be used to cover the cost of 13.8 positions in Fire, 22.99 positions in the Police Department and \$223,675 for street maintenance operations, which is a replacement of the \$475,000 budgeted for street resurfacing in FY 2013-2014. The position allocations are the same as last fiscal year.

The Development Services Fund will see a reduction in total revenues in FY 2014-2015 totaling \$4,086,476 or a 6.2% decrease. The Development Services Department generates a majority of its revenues from direct services such as building permits, charges for professional services (CFD formation), construction permits and plan check fees. The various sources of revenues have been adjusted to account for the development that is starting to take place. Charges for services (environment reviews, general plan revisions, etc.) is budgeted at \$1,335,928 or a 12.9% decrease for FY 2014-2015. Based upon the renewed interest in construction project the construction/encroachment permit revenues are budgeted at \$629,000 or a 13.1% increase. The balance of funding between department services generated revenues and the total budget comes from the General Fund in recognition of work that the planning division provides to City operations. The growth assumptions will allow the Development Services Department to avoid the lay-off personnel but will result in a reduction in the number of authorized positions by one. The other change in Development Services is the relocation of the two Code Enforcement Officers to the Police Department for the purpose consolidating Animal Control and Code Enforcement into one operational unit to allow for greater efficiency in responses to service requests.

One of the largest decreases in funding is for State and Federal Grants which will decrease by \$106,569 this year based upon the completion of the reports/studies. The three grant funded projects that are in the final stages of completion including the adoption of the zoning code, approval of the Bellevue Corridor Concept Plan and the start of the Programmatic Climate Action Plan. Funding for the two projects scheduled for approval during FY 2014-2015 will carry planning staff through the first three months of the fiscal year.

Community Facility Districts were created to provide the additional revenues needed to cover the cost of basic City services (parks, police, fire and general government services) over the amount the City receives in property taxes from areas annexed into the City after 1997. Community Facility District assessments vary between the 31 Improvement Districts that have been created over the past 20 years and will generate about the same amount of funds as last fiscal year. The revenues will be sufficient for Fiscal Year 2014-2015 to fund 0.65 park workers, 1.52 fire positions and 4.2 police positions.

There are 40 Maintenance Districts that provide funding for storm drainage, landscaping and street lighting in the designated areas of the City. The fees that are generated from those Maintenance Districts provide sufficient funding for 1.5 park worker positions.

Gas taxes are the primary source of revenue that covers the cost of incurred in the Streets and Street Lighting Fund. Gas Tax dollars are down almost \$500,000 from last fiscal year. If this reduction of funding continues it will place a greater burden on the Streets and Street Light Division for other methods of providing basic Core Services. In order to cover a portion of the short-fall in Gas Tax funds it is proposed to use \$223,675 of Measure C funds to cover street

maintenance operations. The other source of funding for Streets and Street Lights is the fees charged for work by the private companies that cut into the streets for utility maintenance and improvements. The Streets and Street Light Fund continues to benefit from the energy efficiency program that replaced City owned street lights with conductive lighting.

The three Enterprise Funds are in good financial shape and are in compliance with the five year rate studies in terms of revenues and expenditures. The Water Fund will enter the third year of the rate study in 2015. In 2013 the Water Rate Study reflected a four (4%) percent decrease in the monthly metered water rate and will remain at zero increase through 2017. The Wastewater Rate Study was completed in 2010 and wastewater rates have not increased over the past five years. A new Wastewater Rate Study is needed with the adoption of this Fiscal Year budget to re-evaluate the costs related to the new tertiary treatment plant practices. The Refuse Rate Study will be presented to the City Council this summer and the rate study anticipates an increase in refuse rates as of January 2015. The Water and Wastewater Funds carry sufficient fund balances to cover the costs of improving existing lines and facilities. One of the future issues for the Wastewater Fund is the necessity to recover the initial costs for the construction of the Wastewater Treatment Facility construction from the Facility Impact Fees that are charged to all new development projects.

SERVICE DELIVERY PROGRAMS

One of the City Council budget policies for Fiscal Year 2014-2015 is to maintain all departments Core Services with priority on police and fire services. The Proposed Budget as it was presented met this policy goal. The Fiscal Year 2014-2015 Budget authorizes 441 positions. This is not a change in total positions which included the reduction of four positions (three in Housing and one in Development Services) and three of the positions are added in the Water Fund and one position in the Information Technology Account.

City Council: The City Council budget is funded from a portion of discretionary dollars plus direct service charges and administrative charges to non-General Fund operations. The City Council's budget has full funding for membership dues for Merced County Association of Governments, League of California Cities and the Local Agency Formation Commission. The other items that are included in the Council's budget are for interpretation services for all City Council meetings, funding for the Youth Council and allocation for financial/budget information software system to be placed on the City's website. The City Council's budget was reduced based upon the City Council's desire to open the McNamara Community Center for use by a non-for-profit group.

City Manager: The City Manager's Office is funded from discretionary dollars and based upon the allocation of time expended by the City Manager's Office providing oversight and management of non-General Fund operations in the form of direct service charges and administrative charges. The City Manager's budget has been split into two operational accounts; the City Manager's Office and City Clerk's Office. The Core Services budget retains the Assistant to the City Manager managing the Recreation and Community Services Department. The funding for the High Speed Rail Station Area Planning Study is grant funded at \$311,157 in this year's budget. This program will fund consultant services to prepare the analysis of the

station plans and to add a temporary position to assist in the coordination of the consultant contracts. There are two Beyond the Core submissions by the City Manager's Office related to increasing the size of community communications and hiring university interns to assist with research projects.

The City Clerk's Office budget is a status quo budget with funding for the interpretation services for each City Council meeting. The cost to conduct an election in November 2014 has not been included in the Core Budget and will need to be considered as part of the use of the fund balance once the final decision is made on the Charter amendment election.

Both the City Manager's Office and City Clerk's Office reduced several line-items to generate sufficient funding for the McNamara Community Center opening this year.

City Attorney: The City Attorney's Office is partially funded with discretionary money. Given the role of the City Attorney's Office there are administrative charges and direct charges to other departments and some funding from the Insurance Accounts in recognition of the work performed on worker compensation claims and liability insurance cases. The City Attorney's Office will focus most of its efforts on the proposed Council District Elections and on the City Council priorities. The City Attorney's Office reduced their training budget for this fiscal year to provide some added funding for the McNamara Community Center.

Finance: The Finance Department is funded very similar to the City Manager and City Attorney's Office. The Finance Department receives both direct service charges and administrative service contributions from the three Enterprise Funds to cover the costs of treasury, utility billing, purchasing and accounting services. A project that will continue through 2014-2015 is the implementation of the software for utility billing, human resources and payroll. The Department was able to cover the cost of the temporary personnel in the Core Budget to assist in the implementation of the software data programs. The Department's implementation of the annual business licensing will require some added time for full implementation of the new Ordinance. The Finance Department has requests for two full-time positions and part time Clerk position.

Police: The Police Department is funded with General Fund, Measure C and Community Facility District revenues. The Department has absorbed the Code Enforcement Division to be combined with the Animal Control Division to bolster the enforcement of animal and code violations within the community. The purpose of the organizational change is to provide services to the community as previously provided but allow for a concentration of efforts to address a need for increased services in animal control or code violations as they occur.

The Department has 122 full-time staff with 88 sworn positions. One of the programs that will be fully implemented this fiscal year is the Disruptive Area Response Team (DART) as the Department returns to full staffing. The Police Department has developed a solid working relationship with the schools and will continue to provide the High School District and Merced County Office of Education (MCOE) with school resource officers. The District and MCOE provide 70% of the cost of the community resource officers with officers assigned to Golden Valley, Merced, El Capitan and Valley High Schools.

New programs that will be instituted by the Police Department is to provide SART exams for rape victims locally and to expand the training efforts to provide the officers with the mandated training required to minimize the City's liability exposure. The City has received added funding from the AB 109 program to cover some of the costs incurred with the diversion of prisoners and parolees from the state to counties. This has allowed for the funding of a Sergeant to oversee the DART team. Although the predictability of the AB 109 Redistricting funding is not assured to continue, it was sufficient to fund the Sergeant position for a minimum of four years. Other cost increases are related to the Dispatch operations to cover the cost of implementing a Windows 7 solution for the electronic citation system and replacing a HVAC system to keep the computer systems at an even temperature.

The Police Department requested two additional police officers as a Beyond the Core budget request for 2014-2015.

Fire: The Fire Department is funded through the General Fund, Measure C and from the Community Facility District revenues. The Fire Department budget is generally a status quo budget. One area that has been increased substantially is overtime to attempt to reduce the number of "brown-outs" to Engine 51 that occurs about 30% of the time. Total staffing for the Fire Department for Fiscal Year 2014-2015 is 63.5 positions with 60 sworn personnel. In evaluating methods to eliminate "brown-outs" two alternatives were assessed. One would be to add five additional sworn personnel to have 20 per shift at a cost of \$571,577 or to increase the overtime budget another \$242,827, both of which would be considered Beyond the Core budget requests. There is a partial option that would further reduce the frequency of "brown-outs" would be to add two additional firefighter positions at a cost of \$216,847. The Department has added 16 other Beyond the Core requests including added personnel, reclassification of existing positions, training, and facility improvements and for the nuisance abatement program.

Parks and Community Services: The Parks and Community Services Department is funded from park fees, building rentals, participation/activity fees, the Community Facility District and General Fund providing the largest allocation of revenues to operate recreation services. One of the changes for next year is an increase in the rental income from the Senior Center facility that is proposed to increase the total rental income by \$1,700. The General Fund increased its contribution to the Parks and Community Services Fund 21% in FY 2013-2014 and with the added \$25,210 transfer for McNamara Park Community Center which increased the contribution to \$790,175 or 12.9% increase in FY 2014-2015. The majority of the funding covers the expansion of existing programs (youth soccer, basketball and flag football) operated by the Recreation staff. The additional funding will have the City paying for 50% of field lighting for the Youth Sports Organization activities, funding the extra hour of operation of the Senior Center and to cover the added cost for summer staffing based on the minimum wage increase from \$8.00 to \$9.00 per hour. Four new programs pending are two fitness classes, a Hoover School open gym program and an intermural sports programming at El Capitan High School.

The Recreation staff has worked closely with the Merced Union High School District, the Swim 4 Jaylin Foundation and First 5 to reduce the cost of swim lessons from \$35.00 per person to \$10.00. This collaborative effort will allow the City to offer three swimming lesson sessions.

The High School District has offered the Merced High swimming pool and volunteer student lifeguards and the Jaylin 4 Swim Foundation and First Five has donated \$9,000 to allow the reduction in the pricing of the lessons.

The Merced County Boys and Girls Club are under contract with the City to operate the McCombs Youth Center with the City providing funding for the maintenance and operation of the building in the amount of \$35,000. In addition the Boys and Girls Club provides a summer camp for youth which is funded by the City in the amount of \$20,000. The Boys and Girls Club retains all participant fees to operate the summer camp program. The City has received a proposal from the Merced County Boys and Girls Club for the City to increase the funding for programming, facility maintenance and materials by another \$125,000.

The staff is working with the Salvation Army to operate the Stephen Leonard Community Center. The initial plan is to open the Center this summer with the City's participation to cover the utility costs of the operating the Center.

The Youth Sports Organizations will continue to receive assistance from the Recreation staff on field scheduling, score keeping, field preparation for the baseball, softball, soccer and soccer academy programs. In addition the City will cover 50% of the field lighting as an increase in participation with these organizations. The Parks and Community Services Department has requested additional funding for staffing and increase funding for one added swim lesson session.

The Zoological Society has committed to funding approximately 43% of the cost for the operation of the Zoo. This will help in the maintenance of the Zoo and reduces the need for General Fund contributions. The Zoological Society operated the concession stand, gift store and collects entrance fees from the public that visits the zoo. The Society contributed \$85,000 in FY 2013-2014 from the revenues they generated from the concession stand, gift store, donations and entrance fees.

One of the other goals of the City Council for FY 2013-2014 was to have volunteers staff the front counter of the Senior Center. This program has worked well and is planned to continue for this fiscal year, which will allow for the additional hour of operations again this fiscal year.

Development Services: The Development Services Department generates a majority of its funding from planning and zoning fees, building permits, plan check fees, subdivision fees. The General Fund will contribute \$713,292 to operate the planning and building functions of the Department. The Department reduced the staffing by one vacant position to reach the funding levels as proposed. Once development does start at steady pace the Department intends to utilize plan check and building permit fees to cover the cost of contract plan checking and building inspection services. The Department will work with four different companies to make sure that plan checks and inspections are scheduled to meet the demands of the building community. As discussed in the Growth Assumptions section of the Budget Message, most of the retail and industrial businesses that are considering Merced are utilizing existing facilities rather than building a new structure. This trend will help fill the empty buildings adding to the City's

employment and property tax base, but will not pull the Development Services Department up sufficiently to reduce the General Fund allocations for this fiscal year.

The Engineering Department will continue their work on the Water and Sewer Master Plans during the first quarter of the fiscal year. Other capital projects that will support the engineering staffing in Fiscal Year 2014-2015 are:

- The Lab Building Construction at the Wastewater Treatment Plant
- Two sewer line projects (Gerard Avenue and Highway 99)
- Stephen Leonard Park improvements
- The Black Rascal bike trail and the Congestion Management Air Quality sidewalk, bike shelter design projects.
- Traffic Signal Synchronization projects on G Street and 16th Street
- Several short water line replacement projects
- Design of Well 20 at park site 42
- Installation of wellhead treatment systems on Wells #3 and #7

The Engineering Department is the lead for the coordination of the Traffic Committee and is also responsible for all design reviews of new subdivision plats related to drainage and water and sewer commitments.

Public Works Streets and Park Maintenance: The Streets Division is funded primarily by the Gas Taxes the City receives. The revenue increase that the City realized in FY 2013-2014 for street resurfacing revenues have decreased by \$420,000 for FY 2014-2015. The Street and Street Light budget is a status quo budget with the majority of effort on maintenance projects in 2014-2015. Staff is proposing that the Streets and Street Light Division be funded in the amount of \$223,675 with Measure C funds this year to provide the staff sufficient time to determine whether this is a one-time deduction or if the decrease in revenues will be permanent. The Streets and Street Light operation will continue with the maintenance of streets, fixing pot-holes and maintaining the street lights and traffic signals. The Streets Division has a Beyond the Core request for extra help in the amount of \$44,453 to cover the cost of street patching, pothole repairs, sidewalk repairs and street light maintenance.

The Street Tree Division is being funded by the Refuse Fund. The Street Tree funding is proposed to be moved entirely into the Refuse Fund to reflect the basis for the operations. The Street Tree Division maintains the 80,000 street trees.

The Parks Maintenance Division is funded by the General Fund and some funding from the Community Facility Districts and Maintenance District fees. The Parks Maintenance Division is responsible for the oversight of the park and street landscape maintenance contract, maintaining park restrooms, planted areas, the irrigation system maintenance in parks and playground equipment safety inspections. In 2011 the City contracted for the maintenance of all park turf and street right-of-way landscaping maintenance. The move to contracting all park mowing has allowed the reduced park maintenance staff to concentrate on the planted areas of parks, park cleanliness and restroom maintenance. In addition it has allowed the park maintenance staff to focus on playground equipment safety inspections. The Parks Maintenance budget is a status

quo budget as well with added funding for rose garden improvements and for added flexibility in replacing playground parts. The Parks Maintenance Division has a Beyond the Core request for two additional positions to work on irrigation maintenance.

Economic Development: The Economic Development Department is funded from the General Fund, Bell Station leases, Parking Authority rental fees. The Housing Division is a part of the Economic Development Department which includes Community Development Block Grant and California State Housing grant funds. The major focus of the Economic Development Department is to work on the planning and entitlements for the Mission Avenue interchange retail project. Economic Development staff will also continue to work with local industrial businesses for their expansion plans and to continue to recruit employers to the community. The small business incentive program will be expanded to a city-wide program in order to assist local businesses get started and become successful. One other major effort for the Economic Development Department will be to facilitate the implementation of an innovation center with the Small Business Development Center and University of California Merced. The Visitor Center will continue the evaluation of a tourism business improvement district to enhance tourist attraction projects for visitors to the City and Yosemite National Park. The Downtown Business Association District will be transitioned from staffing by the City to a contract for service to coordinate events and communicate with the businesses on needs within the downtown business area.

The Housing Division will have three fewer positions at the start of FY 2014-2015. All three positions have been re-assigned to other Departments that have had vacancies eliminating the need to lay-off the three employees. The reason for the dramatic reduction in staffing is the loss of funding from Redevelopment and the closure of Neighborhood Stabilization Programs 1 and 3. The Housing Division has the Cal Home and Begin programs for home buyers and the plan is to rehabilitate 10 to 12 homes with Community Development Block Grant/HOME funds.

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

The Information Technology Department is responsible for telecommunications, the City Web Site, the Public Education and Government Channel and computer software and hardware management. The Department is continuing the oversight and management of the transition from the A/S 400 to a PC web based system for implementation by May 2015. One of the issues for the City is the A/S 400 will cease to be supported after May 2015. Based upon the efforts in Finance the accounting and budget systems are very near completion and will be fully implemented by July. This leaves the utility billing, payroll and human resources software for implementation during this next fiscal year. The Information Technology Department will have one additional staff position to assist with computer desk top assistance. The City has contracted this work to private firms for past three years with varying degrees of success. This would reduce the contract services line and add one full time position to assist the Departments with computer problems and incorporation of new software. The difference in cost is just under \$7,000 per year. One of the projects that will be completed during FY 2014-2015 is the replacement of the network access, wireless control and storage systems with Computer

Replacement Account funds. All three systems have been in place for more than five years and are starting to show signs of obsolescence.

The Department manages the Public Education and Government Channel through the use of PEG fees that are paid by subscribers to the cable system. The plan is to extend fiber to Stephen Leonard Park for security camera and fiber on G and Olive Streets to continue the opportunity for synchronized traffic signaling on Olive Avenue in the future. The Information Technology Department has a \$30,000 request in Beyond the Core to replace the Web Site provider to achieve the goal that the City Council discussed related to improving the City's communications.

The Support Services Department oversees the risk management, employee insurance and personnel operations of the City. The Insurance Division is coordinating with the League of California Cities in a plan to promote employee wellness and to continue to implement the Affordable Care Act with the City's health insurance provider. One of the responsibilities of the human resources operation is additional recruitments for staff and management positions based upon planned retirements and resignations. A new recruitment advertising service is being tested for its effectiveness and to save the cost of ineffective methods of recruitments. The FY 2014-2015 budget includes \$11,500 for employee service and recognition awards. Employee health benefits are anticipated to increase a total of 8.5% for calendar year 2015 (budgeted at \$9,231,860). The human resources have included funding for labor relations, the revision of the personnel rules and for internal investigations. It is clear that the City needs to budget for a classification study for the entire organization, but it is planned for the 2015-2016 budget year. The Liability Insurance program has seen a decrease in the City's premium which has helped reduce the total administrative service charges for this Department

Fleet Maintenance Division is responsible for the maintenance of 510 pieces of equipment. One of the cost savings this division has had is the reduced maintenance requirements for the new vehicles the City has purchased through grants for alternative fueled vehicles. Fleet will continue to incorporate the new police vehicles into the fleet during the first three months of the fiscal year. It is proposed to replace 17 vehicles and trucks during FY 2014-2015. The list includes:

- Three police patrol units
- One Police Detective unit
- 7 pick-ups for Fleet, Water, Airport and Parks
- One street sweeper
- One chipper truck for Refuse
- 3 Refuse trucks

The total cost for the 17 vehicles and trucks is \$1,879,200 and will be expended from the Vehicle Replacement Account. Fleet Maintenance has one Beyond the Core request which is the construction of a building that will handle the large equipment within the confines of a building rather than maintaining heavy equipment outside the fleet maintenance building. Cost approximately \$3 million.

The Facilities Maintenance Division maintains six City buildings, all City restrooms and the Zoo. In FY 2013-2014 a position was added to cover the expansion of the Wastewater Treatment Plant and Public Administration Building spaces. There are no additional positions to be added to this budget this fiscal year. This Division also manages the part-time positions that are assigned to the smaller facilities such as Purchasing, McNamara Pool, EdZoo-cation building, Visitor Center and Transportation Center spaces. This division has a status quo budget for this fiscal year. A request for Beyond the Core budget items for the Facility Maintenance Division include security doors for Stephen Leonard Hall, Plexiglas for Personnel, HVAC systems for Information Technology and a new access card system for City Hall and the Police Building totaling \$121,260.

Community Facilities Districts: Community Facility Districts were created to partially bridge the gap between the amount of property taxes the City receives from newly annexed areas and the cost of providing basic governmental services. The lack of residential development continues to place a strain on the 31 Districts to maintain the street landscaping in accordance with best management practices. One of the continuing benefits is the cost savings that was created from the energy efficiency contract for street lighting. The Community Facility Districts cover the cost for street lighting, landscape maintenance, irrigation, storm drainage, police and fire services and park maintenance. The Community Facility Districts will cover the cost of 0.65 park maintenance workers (status quo), 1.52 fire personnel (a reduction of 1.12 positions) and 4.2 police personnel (an increase of 0.99 positions).

Water and Wastewater: Both water and wastewater are funded through the monthly service charges to the 27,100 customers that receive water and wastewater services from the City's system. The Water rates will be in effect until 2017. Wastewater rates will be evaluated this year for adjustment in 2015. The Engineering Department will assist in the planning and review of the Water and Wastewater Master Plans. The Master Plans will then provide direction for the implementation of water and wastewater connection charges for new facilities. The City Council has just adopted a water conservation ordinance that is aimed at reducing the use of water by a minimum of 10% during this latest drought year. The Water Division will make a concerted effort to notify the public regarding conservation and the reduced irrigation schedules. In addition, the Water Division will be forwarding a report to the City Council regarding the implementation of water meters for the entire City during this next fiscal year.

The Water Division is adding two new wells to accommodate the growth that is anticipated in the southern and northern portions of the City. Well #21 will be located in Bellevue Ranch West and Well #20 will be in the City Park located at Mission Avenue. The other capital projects include two wellhead protection projects. The Division will add a second Water Vacuum Truck for greater efficiency in the maintenance of the water system.

The Storm Water Division will be transferred from Refuse to the Water Division in recognition of the necessity of returning the storm water to the rivers and streams and not allowing the infiltration of storm water into the water resource aquifers. This Division will add three maintenance worker positions to maintain the ponds and pumps.

The Wastewater Division has several capital projects that will assist in improving the efficiency and effectiveness of the Wastewater Treatment Plant and sewer lines. The capital projects that will be started this fiscal year are the Laboratory Building at \$4.0 million, the Fats-Oils-Grease receiving station and co-generation facility at \$5.0 million, replacement of a sewer main from the Airport to the Plant and a pole barn to store the solids rather than use the drying facilities to store the solids for future use as fertilizer on the land application area. The other project that is funded in the Proposed Budget is a wastewater rate study that will assist in determining the monthly service charges for the next five years.

Refuse, Recycling and Green Waste: The City of Merced has been an active participant in the Chamber of Commerce effort to improve recycling by the businesses of the community and instituting recycling of materials and green waste by multi-family complexes. The City has a full-time position that advertises the importance of recycling through community events, the County Fair and other media advertising. The Refuse Division is responsible for the annual Community Clean-up Event that allows for the disposal and recycling of trash and green waste so the materials are not stored on properties creating additional hazards related to mosquito breeding grounds and fire hazards. One of the benefits related to Refuse Rates is the re-evaluation of the landfill operations by the Merced County Regional Solid Waste Authority. The result was a savings by the Authority which in turn allows the City to maintain rates for recycling of materials and green waste at the landfill. The Refuse Rate Study will be presented to the City Council at the outset of the fiscal year for implementation by January 2015.

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 financial assistance in the amount of \$46,500 which is a reduction of \$11,285 from FY 2013-2014. One of the issues that will be faced this year is whether Merced will be able to retain the Essential Air Service assistance based upon the number of passenger served that is required to continue the subsidy program to an airline carrier. The Regional Airport continues to benefit from the inclusion in the Public Works Department operations to divide employee expenses for necessary personnel. A Beyond the Core request is to cover the cost for the Terminal Expansion project at \$260,000.

OUTSIDE AGENCY REQUESTS

The City has received requests from non-profit agencies for City Council consideration. The groups that have presented proposals for services are:

The Boys and Girls Club	\$180,600
Salvation Army (Stephen Leonard Community Facility)	Utility Costs only
Invest in Our Youth Campaign	
Youth Employment Program (MCOE)	\$232,200
Youth Programming at McNamara & Stephen Leonard)	\$100,000
Symple Equazion (Jr. Chief Executive Officer Program)	\$ 6,195
Save Our Youth the Next Generation	\$ 75,000

CONCLUSIONS

In developing the City's Fiscal Year 2014-2015 Proposed Budget the revenue estimates were prepared based upon the Financial Analysis that was completed by Beacon Economics using the basic foundation of the predictability of the revenue sources for this Fiscal Year forecasts. The Proposed Budget was presented as a balanced budget and did not request the use of reserve funds for one-time special expenditures. The Adopted Budget is a balanced budget as well which included two additional programs that are funded with current revenue receipts: 1) the research and preparation of City Council districts in compliance with a threatened litigation; and 2) funding for opening the McNamara Community Center by a non-profit organization.

One of the future sources of income for the City will be the redistribution of the property taxes related to the dissolution of the Redevelopment Authority. The State Department of Finance has not completed their review of the Designated Local Authority ROPS report, which is one of the final steps in providing the County authority to distribute the property taxes to the eligible taxing entities.

The City has several large expenditures that will be implemented in future budget years. The largest is the retirement contribution, which is anticipated in FY 16-17. The drought could also have an impact on several aspects of the City including reduced tourism causing a reduction in several of the General Fund revenues, reduction of water revenues and adding stress to City parks and landscaping.

Although there were plenty of challenges for every Department in developing their 2014-2015 budgets to meet the community needs for services, each Director prioritized their request for funding that will keep their Departments ready to respond to citizen requests for services. In many cases the funds will not be sufficient to meet all the citizen's and business demands for services. The areas that are still very light on funding are Development Services building inspections and Planning, Finance in processing the financial reports and response to citizen utility billing inquiries, Fire's ability to completely eliminate "brown-outs" and the Police Department's ability to maintain full shifts (11 officers, two sergeants and a lieutenant) on duty daily to respond to the calls for services within the time frames established by the City.

As with any budget there are many staff members that deserve a thank you for their assistance in the preparation of the Budget. This year is no exception and the responsiveness of the Finance Department staff to every data request generated by citizens, City Council and City Manager were always accurate, complete and answered the questions that were presented.