

**REGULAR MEETING MINUTES**  
**MEASURE E RESIDENTS' OVERSIGHT COMMITTEE**

April 15th, 2013, 5:30 p.m. – 6:40 p.m.

City Hall Conference Room 109, 333 Civic Center Plaza

City Website: <http://www.ci.tracy.ca.us>

1. CALL TO ORDER: Arch Bakerink called the meeting to order at 5:30 p.m.

2. ROLL CALL:

Present: Arch Bakerink, Robert Tanner, Michel Bazinet, Veronica Vargas; George Riddle arrived at 5:40 p.m.

Staff Present: Anne Bell, Mgt. Analyst II, Administrative Services Dept.

Citizens Present: None

Recorded by: Anne Bell

Those in attendance were provided with agenda packet

3. ITEMS FROM THE AUDIENCE: None

4. APPROVAL OF MINUTES:

March 25, 2013: Motion to approve Minutes: Robert Tanner

Second motion: George Riddle

All in favor: Robert Tanner, George Riddle, Michel Bazinet, Veronica Vargas,

All opposed: None

Abstain: Arch Bakerink

5. AD HOC COMMITTEE DISSOLUTION – Committee discussed need for Ad Hoc Committee in order to accomplish goals.

Motion to dissolve Ad Hoc Committee: Michel Bazinet

Second motion: George Riddle

All in favor: Arch Bakerink, Robert Tanner, Michel Bazinet, Veronica Vargas,

All opposed: None

6. REVIEW AND DISCUSS FIRST DRAFT OF ANNUAL REPORT

a. Draft report from Michel Bazinet and George Riddle reviewed and discussed by Committee and City Staff

b. Arch requested data on what is standard percentage of reserves in other cities

c. Veronica Vargas to work on power point for presentation to Council with Annual Report

- d. Considerations discussed in meeting to be incorporated into draft report which will be brought before Committee for review during next Committee meeting
  - e. Report and Power Point to be completed prior to May 23<sup>rd</sup> for June 18<sup>th</sup>, 2013 City Council meeting
  - f. Anne Bell distributed staff report pertaining to Corporal positions in Tracy Police Department in response to enquiry Committee as to whether new classifications equate to additional funding being spent.
7. CONFIRM NEXT MEETING DATE: Monday, May 29th, 2013 at 5:30 p.m. in City Hall, Room 203
8. ITEMS FROM THE AUDIENCE: None
9. ADJOURNMENT  
Motion to adjourn: George Riddle  
Second: Veronica Vargas  
All in favor: Arch Bakerink, Robert Tanner, George Riddle, Michel Bazinet, Veronica Vargas

The above agenda was posted at the Tracy City Hall in accordance with *In accordance with Procedures for Preparation, Posting, and Distribution of Agendas and the Conduct of Public Meetings, adopted by Resolution 2008-140. These are the summary minutes.*

Attest:

  
\_\_\_\_\_  
Anne Bell, Staff Liaison



# MEASURE E RESIDENTS OVERSIGHT COMMITTEE

## 2013 Annual Report

Authors: Michel Bazinet, George Riddle (or Measure E ROC?)  
Creation Date: Mar 31, 2013  
Last Updated: April 15, 2013  
Document Version : 0.1  
Status: IN DRAFT

## Document Control

### Contributors

| Name            | Role | Content Contribution |
|-----------------|------|----------------------|
| Archie Bakerink |      |                      |
| George Riddle   |      |                      |
| Michel Bazinet  |      |                      |
| Robert Tanner   |      |                      |
| Veronica Vargas |      |                      |

### Change Record

| Date    | Name                          | Version | Change Reference |
|---------|-------------------------------|---------|------------------|
| 3/31/13 | Michel Bazinet, George Riddle | 0.1     | Initial draft    |
|         |                               |         |                  |
|         |                               |         |                  |
|         |                               |         |                  |

### Document References

| Title   | Date        | Source   |
|---|-------------|--|
| City of Tracy Governmental Funds, Statement of Revenue, Expenditures, and Changes in Fund Balances, Auditor Report for FY ending Jun 30, 2012 | Mar 3, 2103 | Measure E Resident's Oversight Committee Meeting, agenda item 5c |
| Fiscal Year 2012/13 General Fund Mid-Year Budget Performance Report and Five Year Financial Plan Update                                       | Mar 5, 2013 | Tracy city council agenda item #6                                |
| FY 12/13 General Fund Mid-Year Budget Review, Budget Performance and Status Report (For Q2 Ending Dec 31, 2012)                               | Mar 5, 2013 | Presentation by Jenny Haruyama to Tracy city council             |
|   |             |  |
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## 1. Overview

### 1.1 Introduction

Measure E is a temporary (5 year) sales tax increase approved by voters in the City of Tracy in November 2010 which added sales tax revenue to the City's General Fund. The additional Measure E sales tax revenue is intended to give the City time to eliminate the financial deficit in its General Fund by aligning expenditures with non-Measure E sources of revenue.

Implementation of the incremental Measure E sales tax rate became effective April 2011 and it expires in March 2016. Terms of the Measure E ballot initiative calls for a Measure E Residents Oversight Committee (MEROC) composed of five members appointed by city council from applicants who reside within the boundaries of Tracy's city limits.

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#### 1.1.1 MEROC Roles and Responsibilities

As specified in the ballot measure, the role of the MEROC is:

- To serve in an advisory-only capacity to the City Council;
- To provide oversight of the revenues and expenses pertaining to the portion of the sales tax generated by Measure E;
- To review the annual independent financial audit of the City performed by an independent auditor on sections pertaining to the revenue and expenses related to the portion of the sales tax generated by Measure E;
- To review other City financial reports pertaining to the revenue generated by and expenses related to the portion of the sales tax generated by Measure E revenue and expenses;
- To provide Council with an annual written report;
- To provide additional reports to Council at the committee and/or Council's discretion (in writing and agendaized pursuant to the Brown Act)

This 2013 report is the second annual MEROC report covering the City's 2012/13 fiscal year and its 5 year financial forecast ending in the 2016/17 fiscal year.

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#### 1.1.2 Prior Year Activities

In accordance with the guidelines provided in the Notice of Council-Appointed Committee Vacancy dated January 19, 2011 and as set forth in the Measure E Residents' Oversight Committee Bylaws adopted by Resolution 2013-019 of the Tracy City Council dated January 18, 2011 and amended on February 19, 2013 (Resolution 2013-023), the Measure E Oversight Committee has reviewed the following:

- Independent financial audit report of Moss, Levy, and Hartzheim, LLP, Certified Public Accountants.
- City of Tracy sales and use tax forecasts
- City of Tracy General Fund adopted budgets and 5 year forecasts
- Miscellaneous reports, worksheets, and analysis related to fiscal issues of the City .

On the basis of the documents presented above, the Measure E Oversight Committee reports the receipt of \$5,910,308 in Measure E revenues. This amount was deposited in the City's General fund.

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#### 1.1.3 Future Year Activities

As advisors to the City Council, the MEROC has been engaged in lengthy discussions with City staff related to the potential/recommended uses of revenues generated by Measure E. While

More data is currently available this year due to the gathering of information over a complete fiscal year since Measure E has been in effect, these discussions continue to be largely exploratory. However, it is the Committee's understanding that Measure E is expected to provide approximately \$6 million in additional revenue per year to the City's General Fund. Over time, in conjunction with other cost savings initiatives independent of this Committee's oversight, these additional revenues will help the City achieve a balanced budget with prudent reserve balances.

Accordingly since Measure E will end in 2016, the Committee is examining the magnitude and timing of debt accrual with the objective of providing the City Council with recommendations to plan General Fund Expenses beyond Fiscal Year 2016 without Measure E additional revenue.,

The Committee recognizes that, while Measure E is a General Tax, there are many interpretations related to the intended purpose of Measure E revenues. Our objective is to carefully understand and integrate multiple points of view, the creative inputs from Measure E Commissioners, City Staff and other stakeholders, within the scope of the Bylaws of the Oversight Committee. The results are an advisory recommendation which is presented in a later section of this report.

## 2. Financial Analysis

### 2.1 General Fund FY 2013/14 Income Statement & 5 Year Forecast

#### 2.1.1 Income statements with and without Measure E revenues

|                                  | General Fund<br>FY 2011/12 Actuals and 5 Year Forecast<br>(in millions) |          |         |          |         |          |         |          |         |          |         |          |
|----------------------------------|---|----------|---------|----------|---------|----------|---------|----------|---------|----------|---------|----------|
|                                  | 2011/12   |          | 2012/13 |          | 2013/14 |          | 2014/15 |          | 2015/16 |          | 2016/17 |          |
|                                  | Actual  | Restated | Plan    | Restated |
| Revenues                         | 50.63   | 44.72    | 49.98   | 43.88    | 50.30   | 44.08    | 52.00   | 45.66    | 52.70   | 47.34    | 47.50   | 47.50    |
| Expenditures                     | (49.26)   | (49.26)  | (50.89) | (50.89)  | (49.80) | (49.80)  | (50.70) | (50.70)  | (49.90) | (49.90)  | (51.10) | (51.10)  |
| Surplus (Deficit)                | 1.37  | (4.54)   | (0.91)  | (7.01)   | 0.50    | (5.72)   | 1.30    | (5.04)   | 2.80    | (2.56)   | (3.6)   | (3.6)    |
| Transfers Out                    | (1.42)  | (1.42)   |         |          |         |          |         |          |         |          |         |          |
| Change find balance              | (0.05)  | (5.96)   | (0.91)  | (7.01)   | 0.50    | (5.72)   | 1.30    | (5.04)   | 2.80    | (2.56)   | (3.6)   | (3.6)    |
| Amount of Measure E tax revenues | 5.91  |          | 6.1     |          | 6.22    |          | 6.34    |          | 5.36    |          | 0       |          |

\* Each fiscal year is restated to exclude the amount of Measure E revenues reported in City of Tracy financial statements and forecasts

##### 2.1.1.1 Income statements with Measure E tax revenues

The current and projected City of Tracy financial income statements show the existing and projected General Fund surplus (deficit) by fiscal year inclusive of Measure E tax revenues. As reported in the City's financial statements and as shown in the above table, the current and projected surpluses and deficits from FY 2011/12 to FY 2016/17 are as follows;

- 2011/12 – surplus: \$0.05M
- 2012/13 – deficit: \$0.91M
- 2013/14 – surplus: \$0.50
- 2014/15 – surplus: \$1.30M
- 2015/16 – surplus: \$2.80M
- 2016/17 – deficit: \$3.6M

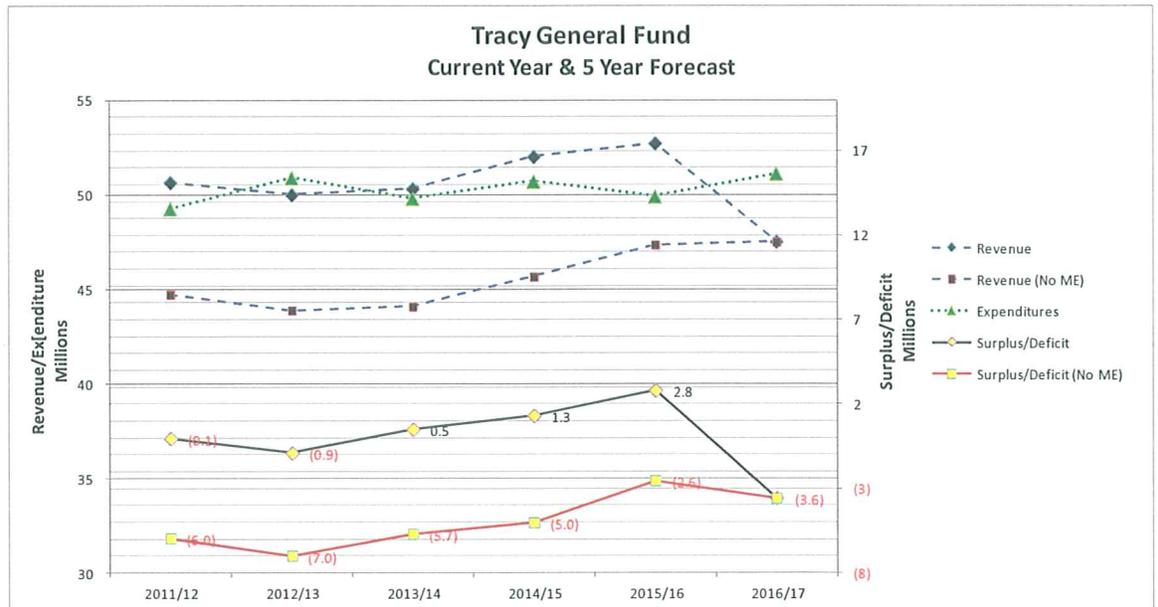
One issue we wish to point out is that the official City income statements serve to mask the extent of the City's structural deficit in its General Fund which is bolstered on average by \$6M annually in Measure E tax revenues. The City income statements do not clearly show to what extent the City is succeeding in its efforts to decrease its reliance on Measure E funds before the programmed expiry of Measure E.

##### 2.1.1.2 Income statements without Measure E tax revenue

The General Fund's structural deficit level is brought into clear focus when income statements are restated to exclude Measure E tax revenues. Excluding these revenues from the income statements and forecasts, we can clearly see a different picture in the General Fund:

- 2011/12 – deficit: \$5.96M
- 2012/13 – deficit: \$7.01M
- 2013/14 – deficit: \$5.72M
- 2014/15 – deficit: \$5.04M
- 2015/16 – deficit: \$2.56M
- 2016/17 – deficit: \$3.6M

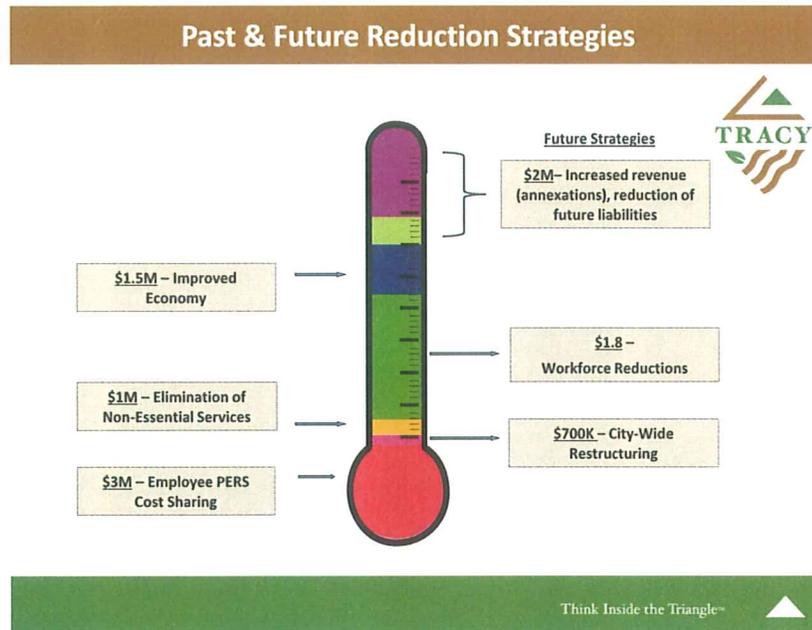
Plotting the revenue and expenditure trends over the next several years, expenditures show a seesaw pattern, showing no discernible downward trend over the period. Interestingly (non-Measure E) revenues show declines in FY 2012/13 and 2013/14 compared to FY 2011/12. Whether these declines are based on actual economic factors or are due to obsolete forecasts is something that the City should explore.



## 2.1.2 Current Expenditure Reduction Initiatives

Over the past several years, the City has taken proactive steps to implement several reduction measures, known as the “8-Point Plan”. These efforts have placed the City in a position to maintain service levels and keep reserves far above required levels. More importantly, the 8-point plan has helped to partially mitigate the impacts of the expiration of Measure E.

The thermometer represents the City’s reduction strategies, many of which have been fully implemented and collectively equal \$8M.



### 2.1.2.1 Current strategies

- Employee PERS Cost Sharing has successfully been negotiated in employee contracts – saving \$3 million over 3 years – starting in the current year through – 15/16. By FY 15/16, employees will be paying for their full share of employee PERS costs.
- Restructuring efforts - Consolidation of departments (including the merger of Finance, HR, & IT; Parks, Public Works, and Transit; CMO and Recreation Division) and reduction of executive management – (reduction of 3 department head positions) - \$700K
- Elimination of non-essential services – an inventory of programs, events, activities that could be reduced or discontinued with minimal disruption to the community - \$1M
- Workforce reductions, including vacancy and position eliminations - \$1.8M
- Since the recession, the workforce has been reduced by 22%, or roughly 90 positions through retirements and vacancy eliminations.
- Improved Economy - \$1.5M

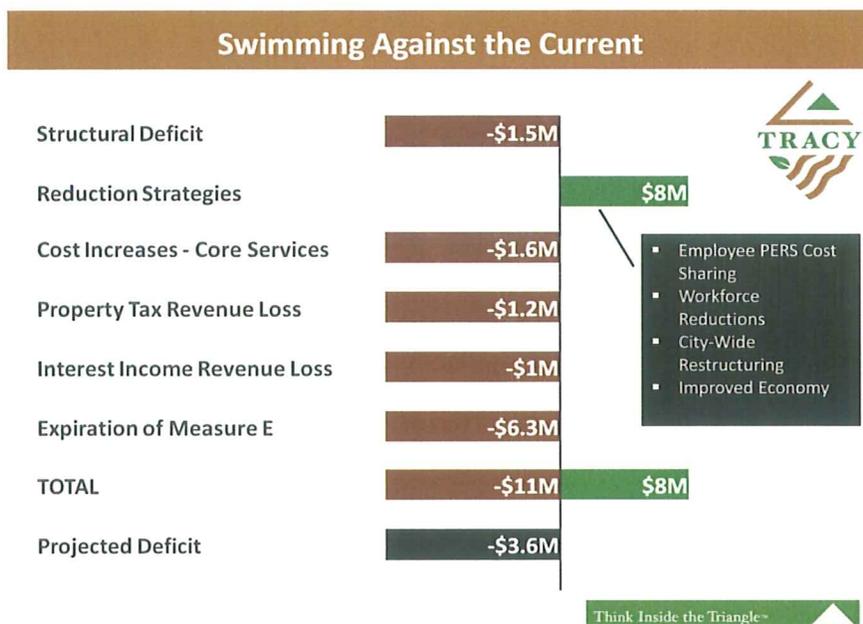
### 2.1.2.2 Future strategies

The City knows the job doesn’t end here – stating it needs to continue to raise the temperature and identify additional future strategies to address projected deficits.

- The City is actively pursuing the future annexation of Cordes Ranch and Patterson Pass - which should happen in FY 13/14 and generate nearly \$1M in property tax and sales tax
- The City is also exploring ways to reduce its future liabilities, specifically future PERS costs, which could save an additional \$1M

### 2.1.2.3 Swimming against the current

With all these reductions, one may wonder why the City has a projected deficit of \$3.6M in FY 16/17 and beyond? According to the City, it is swimming against the economic current in a number of areas:



- When Measure E was approved, the City had a structural deficit, but revenue received the first year did not cover the entire shortfall to balance the budget – leaving a small, lingering deficit of \$1.5M.
- Uncontrollable core service costs, driven by increases employer PERS rates due to investment losses have been a challenge and continued revenue losses – property tax (which is recovering, albeit slow, but we are not back to pre-recession levels - \$15M 08/09; \$13.8 – projected for FY 13/14)
- Interest income is also lagging given low interest rates

All this, coupled w/the expiration of Measure E, makes it difficult to close the gap.

### 2.1.3 Aligning Expenditures with Revenues

Despite the City’s best efforts to date, a deficit of \$3.6M is forecasted in fiscal year 2016/17. To align its expenditures with anticipated revenues over the next several years, the City will need to implement further reductions in expenditures.

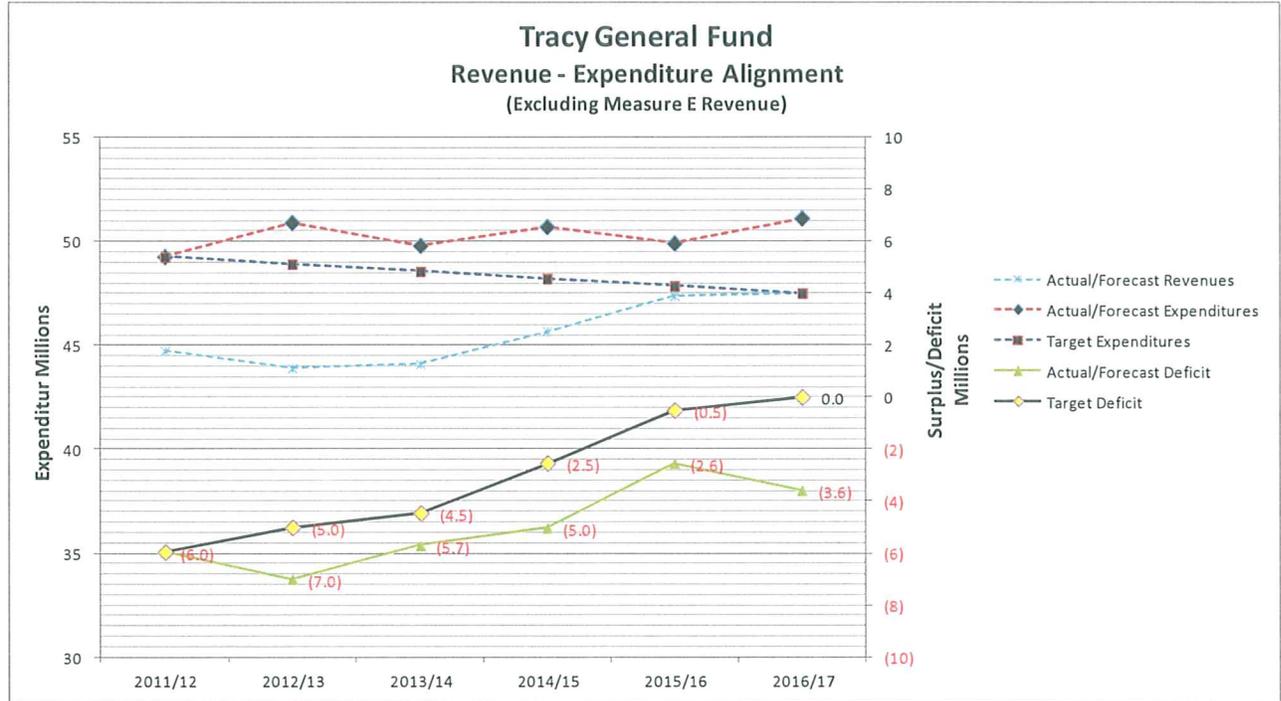
Current FY general fund expenditures are \$49.26M while revenues (exclusive of Measure E tax revenues) are forecasted to be \$47.50M in FY 2016/17. In order to align general fund expenditures and revenues by FY 2016/17, expenditures need to be reduced from \$49.26M in FY 2012/13 to \$47.50M in FY 2016/17 to balance the general fund by FY 2016/17.

**Note:** Alternately an increase in revenues or a mix of revenue increases and expenditure reductions would achieve the same goal. However given the high degree of uncertainty of any General Fund revenue increases that are beyond the amounts forecasted by the City, the alternate scenarios are not explored.

The following table and chart illustrates how a year over year annual expenditure reductions would align them with City revenues, resulting in a balanced General Fund budget by the 2016/17 fiscal year, one year after the expiry of Measure E.

**General Fund  
Revenue – Expenditure Alignment  
(in millions)**

|                   | 2011/12 |         | 2012/13 |         | 2013/14 |         | 2014/15 |         | 2015/16 |         | 2016/17 |         |
|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                   | Actual  | Target  | Plan    | Target  |
| Revenues          | 44.72   | 44.72   | 43.88   | 43.88   | 44.08   | 44.08   | 45.66   | 45.66   | 47.34   | 47.34   | 47.50   | 47.50   |
| Expenditures      | (49.26) | (49.26) | (50.89) | (48.90) | (49.80) | (48.55) | (50.70) | (48.20) | (49.90) | (47.85) | (51.10) | (47.50) |
| Surplus (Deficit) | (5.96)  | (5.96)  | (7.01)  | (5.02)  | (5.72)  | (4.47)  | (5.04)  | (2.54)  | (2.56)  | (0.51)  | (3.6)   | 0       |



**2.1.4 The \$2.3 million problem**

| Getting to a Balanced Budget in 5 Years<br>(in millions) |                         |        |          |
|--|-------------------------|--------|----------|
| Fiscal Year  | Plan                    | Target | Variance |
| 2011/12 (actual)   | -49.26                  | -49.26 | 0        |
| 2012/13  | -50.89                  | -48.90 | (1.99)   |
| 2013/14  | -49.80                  | -48.55 | (1.25)   |
| 2014/15  | -50.70                  | -48.20 | (2.50)   |
| 2015/16  | -49.90                  | -47.85 | (2.05)   |
| 2016/17  | -51.1                   | -47.50 | (3.6)    |
|  | Total Variance          |        | (11.39)  |
|  | Average Annual Variance |        | (2.28)   |

In order to align its expenditures with revenues, and to achieve the goal of a structurally balanced General Fund budget by fiscal year 2016/17, the City needs to reduce its annual expenditures by an average of \$2.3M in each fiscal year beyond what the City is forecasting in its five year plan. These reductions would gradually bring expenditures to \$47.5M in 2016/17 which is also the forecasted revenue for that year.

This target projection assumes that General Fund revenues will not increase beyond the amounts forecasted by the City in its five year plan. This is a very conservative assumption and will likely not come to pass as economic conditions are improving in Bay area counties and in the Tracy area.

Using a less pessimistic conservative projection, if City revenues were to increase by \$1M per year beyond the amounts projected by the City in its 5 year forecast, then the required annual expenditure reductions to meet a structurally balanced budget would fall to \$1.3M, an amount that is nonetheless significant.

**2.1.4.1 A continuing structural deficit**

Based on a review of the audited financial statements, the City's five year forecast and the Measure E Resident Committee's analysis of said documents, the Committee has quantified the General Fund structural budget deficit will be in the order of an average of \$2.3M per year from FY 2012/13 to FY 2016/17, the latter year being the first year that the General Fund does not benefit from Measure E revenues.

The City has initiated a number of cost containment strategies that have helped reduce the rate of increase in General Fund expenditures. Other factors however have served to negate the financial benefits of these strategies and to keep the General Fund mired in a persistent structural deficit position.

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## 3. Measure E Committee Conclusions and Recommendations

### 3.1 Conclusions

As shown in the previous tables and charts, the city's annual spending in its General Fund is showing no signs of a significant downward trend despite the City's good efforts at reducing its cost structure through collective bargaining, budgeted headcount reductions and other initiatives.

The City's General Fund forecasts show rises and falls in expenditures from one fiscal year to another instead of a clear downward trend that would eventually align expenditures with revenues. Excluding Measure E funds from financial forecasts, the General Fund is projected to have a structural deficit that averages \$2.3M from FY 2012/13 to FY 2-16/17. The City is currently projecting a General Fund deficit of \$3.6 M in fiscal year 2016/17, the first year the City will operate without the benefit of Measure E funds.

Given that the Tracy electorate voted for the Measure E sales tax increase based on a firm assurance that it would expire in 2016 and that the City would not seek to extend it past that year, it is clear that the City must identify and implement additional cost reduction strategies that will align its projected General Fund expenditure levels to anticipated revenues.

### 3.2 Recommendations

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#### 3.2.1 Reservation and use of Measure E surplus funds

To the extent that General Fund revenues (inclusive of Measure E tax revenue) exceed General Fund expenditures in any given fiscal year, it is the recommendation of the Committee that the resulting "Measure E" surplus be reserved to a special fund. This special fund would be used to finance one-time operating or capital projects that serve to reduce General Fund operating expenses. The Measure E surplus would not be used to fund ongoing operations or to shore up the Economic Uncertainty Fund beyond planned funding levels.

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#### 3.2.2 Deficit reduction plan

The Committee is concerned that the City is not on a path to close the projected structural budget deficits by 2016. The Committee strongly recommends that the City Council document an actionable deficit reduction plan by the time the next budget is adopted in May/June 2014 so that the public can be assured that the City Council is in fact committed to ending its reliance on Measure E funds when the measure expires in March 2016.

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#### 3.2.3 Drafting of contingency plans

In the event that the City anticipates that it is not able to align General Fund revenue and spending levels after Measure E funding expires, the Committee recommends that contingency plans be put in place. Such contingency plans would be a last option, activated when economic conditions are not improving General Fund revenues and/or when currently planned initiatives are not containing or reducing General Fund expenditure levels.

It is not the place of the Committee to recommend specific contingency plan measures as this is outside the scope of the Committee's delegated role. The Committee does however strongly recommend that such action plans be drafted and held in reserve in the unfortunate event that they are needed.

Adopted by a unanimous vote of the Measure E Residents Oversight Committee on 5/23/2013.

## 4. Appendix A:

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