

SPECIAL MEETING MINUTES
MEASURE E RESIDENTS' OVERSIGHT COMMITTEE

April 29th, 2013, 5:30 p.m. – 6:30 p.m.

City Hall Conference Room 203, 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

Staff Present: Leon Churchill, City Manager; Anne Bell, Mgt. Analyst II, Administrative Services Dept.

Citizens Present: None

Recorded by: Anne Bell

Those in attendance were provided with agenda packet containing the agenda, minutes, draft II of the written Annual Report, a red-lined comparison of the two drafts of the Annual Report, and a list of reserve percentages for various California cities.

3. ITEMS FROM THE AUDIENCE: None

4. APPROVAL OF MINUTES:

April 15, 2013: Motion to approve Minutes: George Riddle

Second motion: Robert Tanner

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

5. PRESENT DATA REQUESTED BY ARCH BAKERINK, PERTAINING TO WHAT OTHER CITIES ALLOCATE FOR RESERVE FUNDS

Committee reviewed the list of California cities' General Fund reserve percentages from the agenda packet. The Committee agreed that the City of Tracy's reserve policy is consistent with other cities, on average.

6. REVIEW AND APPROVE SECOND DRAFT OF ANNUAL REPORT AND ACCOMPANYING POWER POINT PRESENTATION

a. Veronica Vargas prepared and distributed copies of the proposed Power Point presentation that is to accompany the Annual Report ("the Report") that will be presented to Council on June 18, 2013.

b. The Committee reviewed the second draft of the Report, prepared by Michel Bazinet.

- c. Leon Churchill addressed concerns of the Committee which included:
 - i. Whether there is City intent to “extend” Measure E for operational or capital purposes;
 - ii. Whether the City has a plan or strategy to reduce City structural deficits (the City Manager also addressed the need to be sensitive to competing interests within the City--from those that do not want to wait for amenities or public improvements, to those who do not support proposed cost reduction efforts that would enable quicker improvements to be performed);
 - iii. The scope of Committee oversight.
 - d. The Committee noted that it would clarify the intent of the Report’s comparisons “with Measure E” and “without Measure E”; and modify the Report’s conclusion.
7. CONFIRM NEXT MEETING DATE: a Special Meeting will be held on Wednesday, May 15th, 2013 at 5:30 p.m. in City Hall (location to be announced)
8. ITEMS FROM THE AUDIENCE: None
9. ADJOURNMENT
- Motion to adjourn: George Riddle
Second: Robert Tanner
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.*

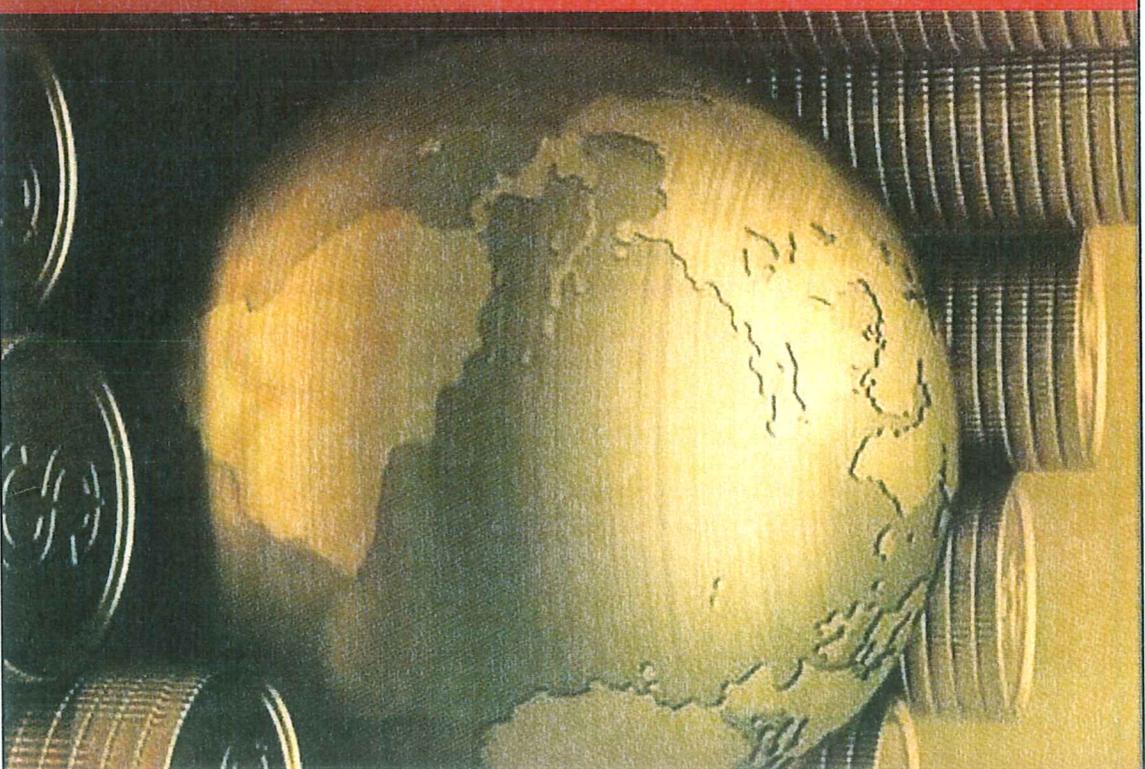
Attest:

Anne H. Bell
Anne Bell, Staff Liaison

City	Population	General Fund Reserve Percentage
Alameda	74,405	25%
Yountville	3,257	22.50%
Brisbane	3,700	50%
Carmel-by-the-Sea	4,102	10%
Foresthill Public Utility District	5,000	50%
Calistoga	5,200	30%
Villa Park	6,230	Set Figure
Capitola	10,000	15%
Morro Bay	10,500	27.50%
Half Moon Bay	12,739	20%
Fillmore	15,182	40%
Hermosa Beach	19,435	15%
Soledad	28,075	25%
Foster City	29,000	Set Amount
Santa Paula	29,800	10%
Pleasant Hill	33,000	\$8.3M
Stanton	38,000	75%
El Centro	40,100	10%
Rancho Palos Verdes	43,000	50%
Dublin	46,110	
Colton	52,000	15%
Santee	54,709	25%
San Ramon	55,000	50%
Yuba	60,507	10%
La Habra	62,000	25%
Davis	64,000	15%
San Clemente	65,400	8%
Laguna Niguel	66,178	Set Amount
Pleasanton	70,418	10%
Tustin	71,767	15%
Redwood City	76,000	15%-20%
Livermore	81,121	25%
Citrus Heights	83,301	Set Amt-1 yr Exp.
Tracy	83,900	20%
Redding	89,861	5%
Alhambra	90,000	10%
Santa Barbara	90,500	25%
Westminster	92,270	5%
Vacaville	92,428	15%
Murrieta	92,933	25%
Vista	94,440	10%
El Cajon	97,000	20%
Carson	98,123	20%
Richmond	103,000	Set Amount
Burbank	105,000	20%
Santa Clara	109,106	25%
Berkeley	110,000	6%
Thousand Oaks	127,000	20%
Orange	137,000	25%
Palmdale	141,012	5%-10%
Santa Rosa	157,500	15%-17%
Modesto	201,541	Set Amount = Appx 7%
Riverside	288,203	15%

2013 Annual Report
Measure E Residents Oversight
Committee

Presentation to Tracy City Council
June 18, 2013



Agenda

- Roles and Responsibilities
- Financial Analysis
- Measure E Committee Conclusions and Recommendations

MEROC Roles and Responsibilities

- Roles and Responsibilities
 - To serve in an advisory-only capacity to the City Council
 - To provide oversight of 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, related to the portion of the sales tax generated by Measure E
 - To review other City financial reports pertaining to the revenue generated by expenses related to the share of the sales tax generated by Measure E
 - To provide Council with an annual written report
 - To provide additional reports to Council at the committee and/or Council's discretion

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

- Prior Year Activities
 - 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.

- Future Year Activities
 - 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 expenditures beyond Fiscal Year 2016 without Measure E's 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

FY 2011/12 Actuals & 5 Year Forecast

With and without Measure E revenues

General Fund (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	

* Restated to exclude amount of Measure E revenues reported in City of Tracy financial statements and forecasts

Income Statement

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**

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:

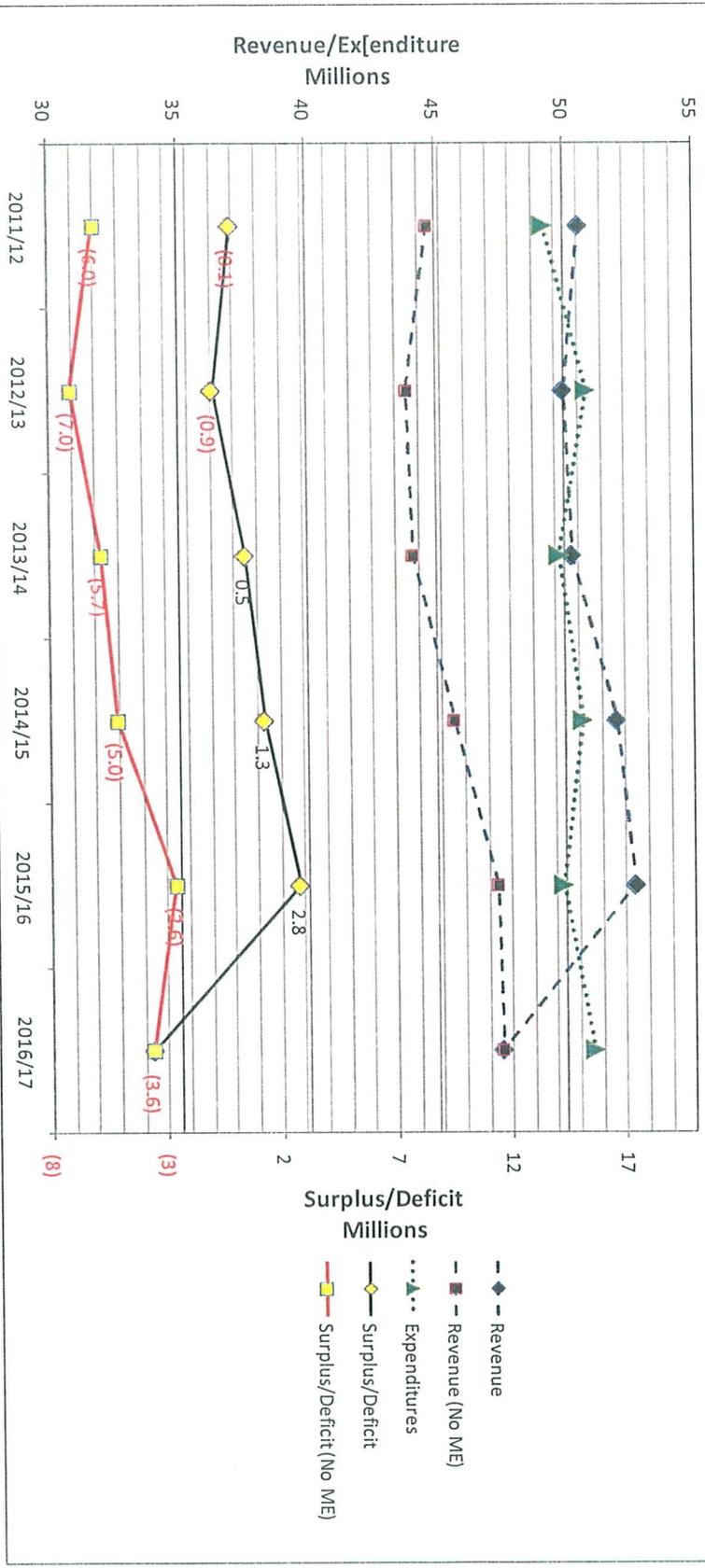
- 2011/12 – deficit: \$5.96M
- 2012/13 – deficit: \$7.01M
- 2013/14 – deficit: \$5.72M
- 2014/15 – deficit: \$5.04M
- 2015/16 – deficit: \$2.56M
- 2016/17 – deficit: \$3.6M

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.**

FY 2011/12 Actuals & 5 Year Forecast

With and without Measure E revenues

Tracy General Fund
Current Year & 5 Year Forecast



Revenue – Expenditure Alignment

Getting to a balanced budget

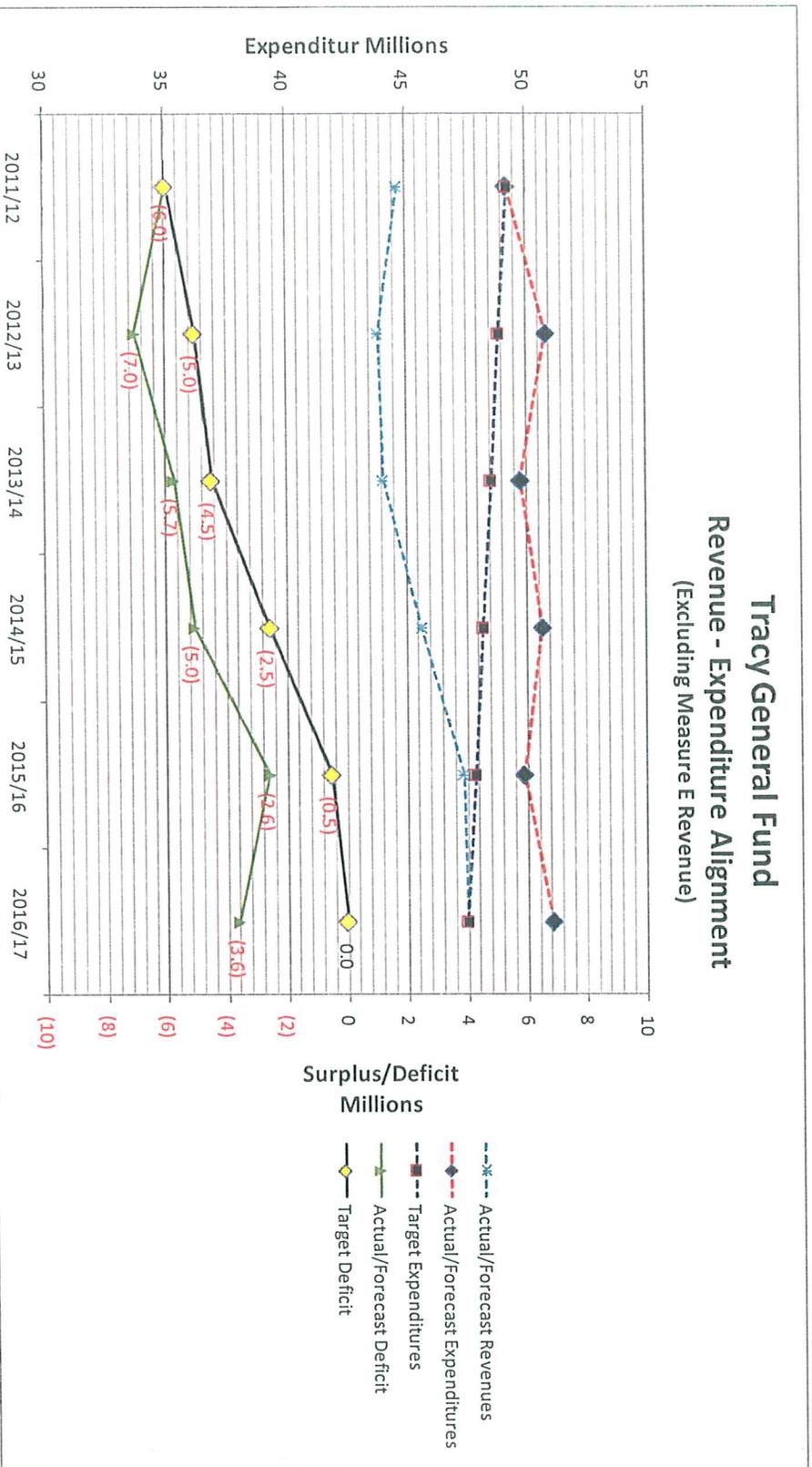
General Fund (in millions)

	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

The table shown above and the chart the follows 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.

Revenue – Expenditure Alignment

Getting to a balanced budget



Revenue – Expenditure Alignment

Getting to a balanced budget

Getting to a Balanced Budget in 4 Years (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.

Conclusions and Recommendations

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

Recommendations

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.

Non Measure E financial statements and forecasts

- The Committee recommends that staff supplement the official General Fund income statements and forecast with documents that restate results excluding Measure E sales tax revenues. These restated financial documents (as used in this report) serve to highlight the real progress that the City is making towards the alignment of General Fund expenditures and non-Measure E revenues

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.

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.



MEASURE E RESIDENTS OVERSIGHT COMMITTEE 2013 Annual Report

Authors: ~~Michel Bazinet, George Riddle~~ (or Measure E ROC?) Residents Oversight Committee
Creation Date: Mar 31, 2013
Last Updated: ~~April 15, 2013~~ May 1, 2013
Document Version : 2.0+
Status: ~~_____~~ IN DRAFT

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Document Control

Contributors

Name	Role	Content Contribution
Archie Bakerink	Measure E Residents Oversight Committee	
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Michel Bazinet		
Robert Tanner		
Veronica Vargas		

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Change Record

Date	Name	Version	Change Reference
3/31/13	Michel Bazinet, George Riddle	0.1	Initial draft
4/15/13	Michel Bazinet, George Riddle	1.0	Version reviewed in Apr 15 committee meeting
4/29/13	Michel Bazinet, George Riddle	2.0	Version reviewed in Apr 29 meeting. Added recommendation for supplemental financial statements; added Appendices

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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 ballot proposition~~ approved by voters in the City of Tracy in November 2010 ~~which added, passing with 58.3% of the vote. The measure adds 0.50% to the sales tax rate charged on goods and services sold within the geographic boundaries of the City of Tracy for a 5 year period. This sales tax rate increment serves to add~~ sales tax revenue to the City's General Fund. ~~The additional Measure E sales tax revenue is intended to give, giving~~ the City time to eliminate the ~~structural~~ financial deficit in its General Fund by aligning expenditures with non-Measure E sources of revenue ~~before the expiry of Measure E.~~

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.

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.

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.

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 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~~ expenditures beyond Fiscal Year 2016 without Measure E's additional revenue.

The Committee recognizes that, while Measure E is a ~~General Tax~~ 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~~ commissioners, City ~~Staff~~ 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 FY 2011/12 Actuals and 5 Year Forecast (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 fund 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	

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

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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
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- 2014/15 – surplus: \$1.30M
- 2015/16 – surplus: \$2.80M
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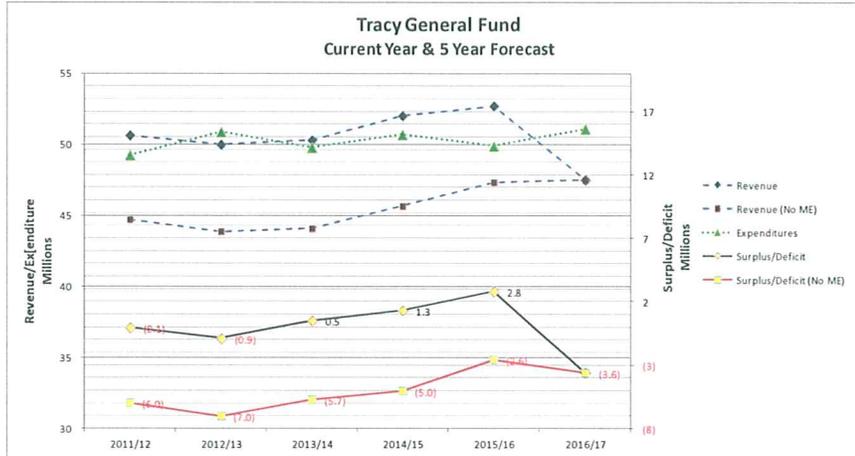
One issue we wish to point out is that the official City income statements serve to mask the extent of the City's structural deficit in its General Fund which is bolstered on average by \$6M annually in Measure E tax revenues. The City income statements do not clearly show to what extent the City is 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

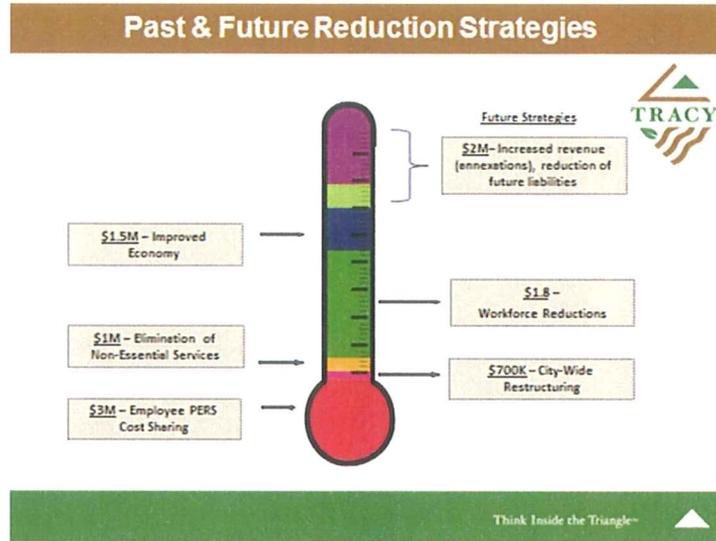
Plotting the revenue and expenditure trends over the next several years, expenditures show a seesaw pattern, showing no discernible downward trend over the period. Interestingly (non-Measure E) revenues show declines in FY 2012/13 and 2013/14 compared to FY 2011/12. Whether these declines are based on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



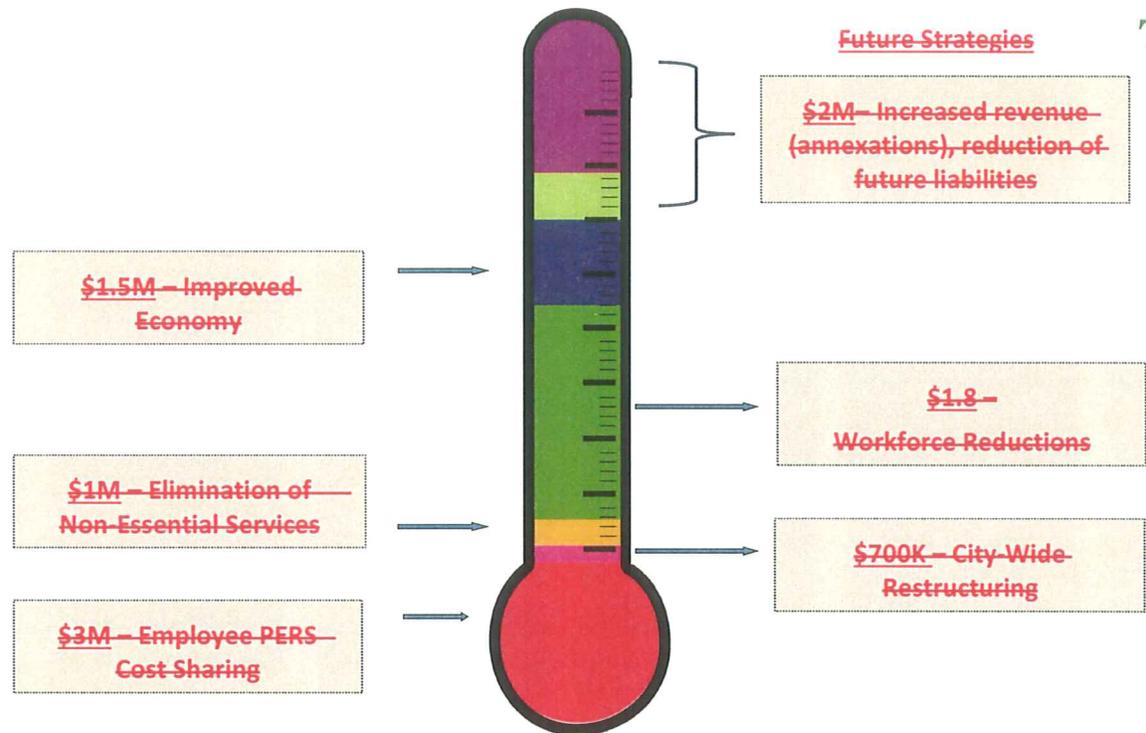
2.1.2 Current Expenditure Reduction Initiatives

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.



Past & Future Reduction Strategies



Think Inside the Triangle™

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

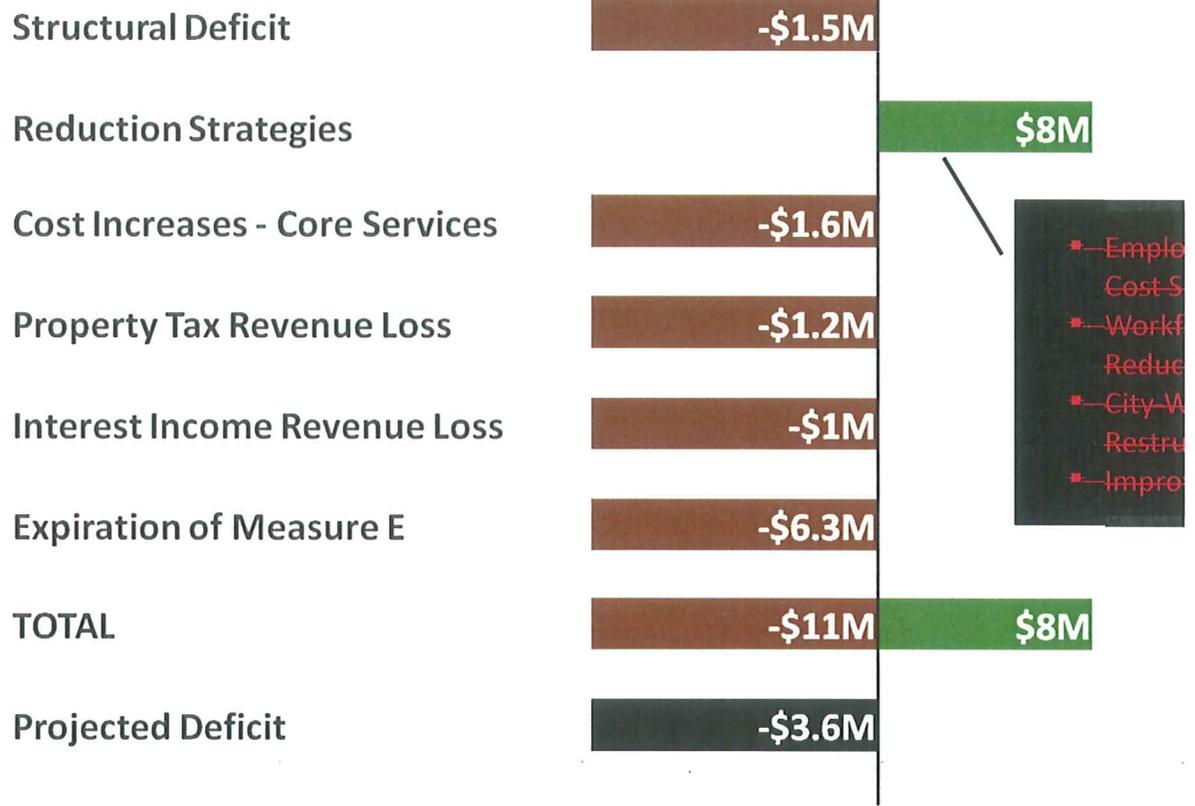
The City knows the job doesn't end here – stating it needs to continue to raise the temperature and identify additional future strategies to address projected deficits.

- 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

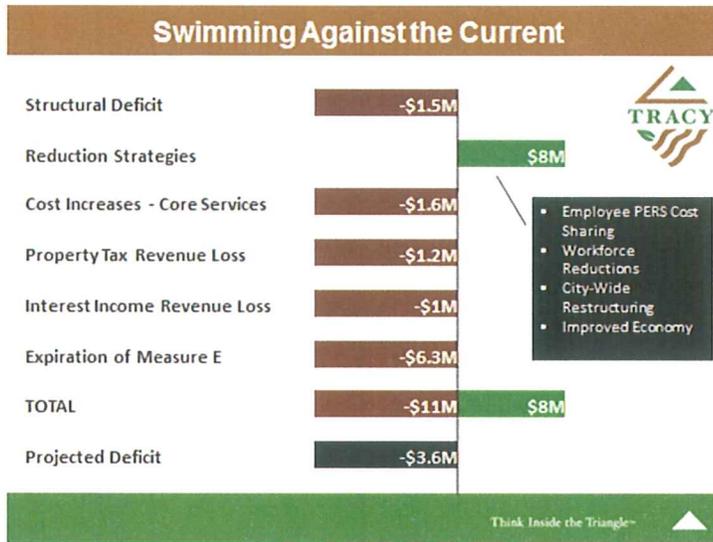
2.1.2.3 Swimming against the current

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:

Swimming Against the Current



Think Inside the Triang



- 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.

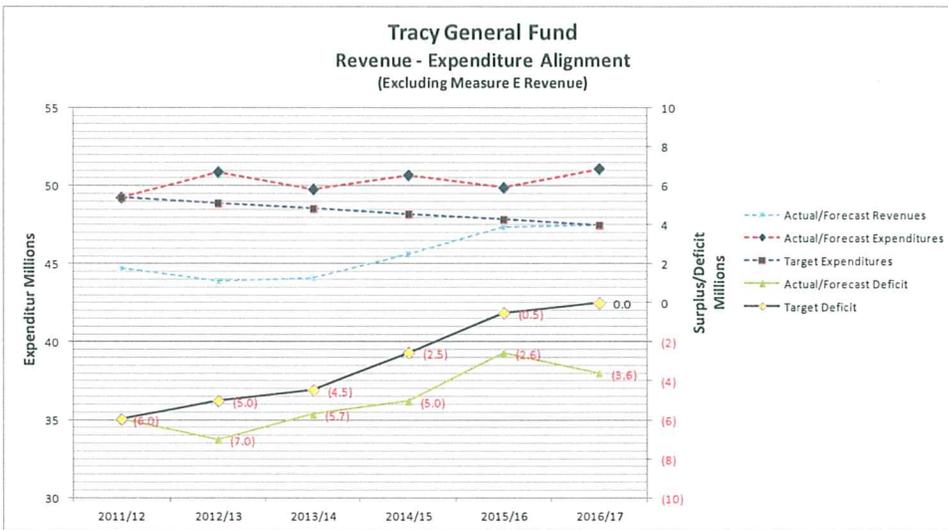
Current FY general fund expenditures are \$49.26M while revenues (exclusive of Measure E tax revenues) are forecasted to be \$47.50M in FY 2016/17. In order to align general fund expenditures and revenues by FY 2016/17, expenditures need to be reduced from \$49.26M in FY 2012/13 to \$47.50M in FY 2016/17 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 54 Years (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.

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

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.

3.2.2 Supplemental (non Measure E) financial statements and forecasts

The Committee recommends that staff supplement the official General Fund income statements and forecast with documents that restate results excluding Measure E sales tax revenues. These restated financial documents (as used in this report) serve to highlight the real progress that the City is making towards the alignment of General Fund expenditures and non-Measure E revenues.

3.2.2.3 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.

3.2.2.3.4 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 when Measure E expires in March 2016.

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

4. Appendix A: – Projected General Fund Balance

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At the end of the 2011/12 fiscal year, the City of Tracy general fund had an actual audited balance of \$26.93million. Inclusive of Measure E tax revenue, the annual general fund surplus/deficit is projected to be \$27.02 million in FY 2016/17, a slight increase of \$0.09million over the 2011/12 fiscal year.

Forecast of General Fund Balance 2013 – 2017
(in \$ millions)

<u>Fiscal Year</u>	<u>Annual Deficit/Surplus</u>	<u>General Fund Balance</u>
<u>2011/12 (actual)</u>	<u>(0.05)</u>	<u>26.93</u>
<u>2012/13</u>	<u>(0.91)</u>	<u>26.02</u>
<u>2013/14</u>	<u>0.50</u>	<u>26.52</u>
<u>2014/15</u>	<u>1.30</u>	<u>27.82</u>
<u>2015/16</u>	<u>2.80</u>	<u>30.62</u>
<u>2016/17</u>	<u>(3.60)</u>	<u>27.02</u>

5. Appendix B – Measure A Question on Voter Ballot

To help prevent additional budget cuts and maintain City services, including: police (patrol, 911, command, gang/narcotics enforcement, crime investigations, other police services); fire protection, emergency services, and other fire services; park/sports field maintenance; support services; senior, teen, and youth services; art programs; and other general services, shall the City of Tracy enact a ½ cent sales tax, expiring in five years, with resident oversight, annual independent audits, and all funds used for City of Tracy services only?

6. Appendix C – Impartial Analysis of Measure E

ONE-HALF CENT TRANSACTIONS AND USE (SALES) TAX

The Tracy City Council has placed Measure E on the ballot to ask the voters of Tracy if the City should enact a one-half cent sales tax for five years. The sales tax is also referred to as a transactions and use tax. If approved by a majority of the voters, the one-half cent sales tax would become operative on April 1, 2011. The proposed increased City of Tracy sales tax would be collected at the same time and in the same manner as existing sales taxes.

If Measure E is approved, the proposed increased sales tax will expire five years after it starts being collected. This one-half cent sales tax would be a general tax, meaning that the revenue raised from the tax would go into the City's general fund and could be used for any municipal governmental purpose. Municipal governmental purposes include: police (patrol, 911, command, gang and narcotics enforcement, crime investigations, other police services); fire protection, emergency services, and other fire services; park and sports field maintenance; support services; senior, teen, and youth services; art programs; and other general functions and services.

If Measure E is approved, the City's independent auditors will be required to complete a financial audit report, by no later than December 31st of each year, which will include the revenue raised and expended by this tax. Also, if Measure E is approved, the Tracy City Council will establish a Residents' Oversight Committee to review the expenditure of the revenue from this tax prior to any collection of the tax. The Committee will consist of five members to be appointed by the Mayor and approved by the City Council. The terms of the Committee members and their specific duties will be established by resolution of the City Council.

Submitted by: Daniel G. Sodergren, Tracy City Attorney: "The above statement is an Impartial Analysis of Measure E."

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MEASURE E RESIDENTS OVERSIGHT COMMITTEE

2013 Annual Report

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3/31/13	Michel Bazinet, George Riddle	0.1	Initial draft
4/15/13	Michel Bazinet, George Riddle	1.0	Version reviewed in Apr 15 committee meeting
4/29/13	Michel Bazinet, George Riddle	2.0	Version reviewed in Apr 29 meeting. Added recommendation for supplemental financial statements; added Appendices

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 ballot proposition approved by voters in the City of Tracy in November 2010, passing with 58.3% of the vote. The measure adds 0.50% to the sales tax rate charged on goods and services sold within the geographic boundaries of the City of Tracy for a 5 year period. This sales tax rate increment serves to add sales tax revenue to the City's General Fund, giving the City time to eliminate the structural financial deficit in its General Fund by aligning expenditures with non-Measure E sources of revenue before the expiry of Measure E.

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

1.1.1 MERO Roles and Responsibilities

As specified in the ballot measure, the role of the MERO 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 MERO report covering the City's 2012/13 fiscal year and its 5 year financial forecast ending in the 2016/17 fiscal year.

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.

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 expenditures beyond Fiscal Year 2016 without Measure E's 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 FY 2011/12 Actuals and 5 Year Forecast (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 fund 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

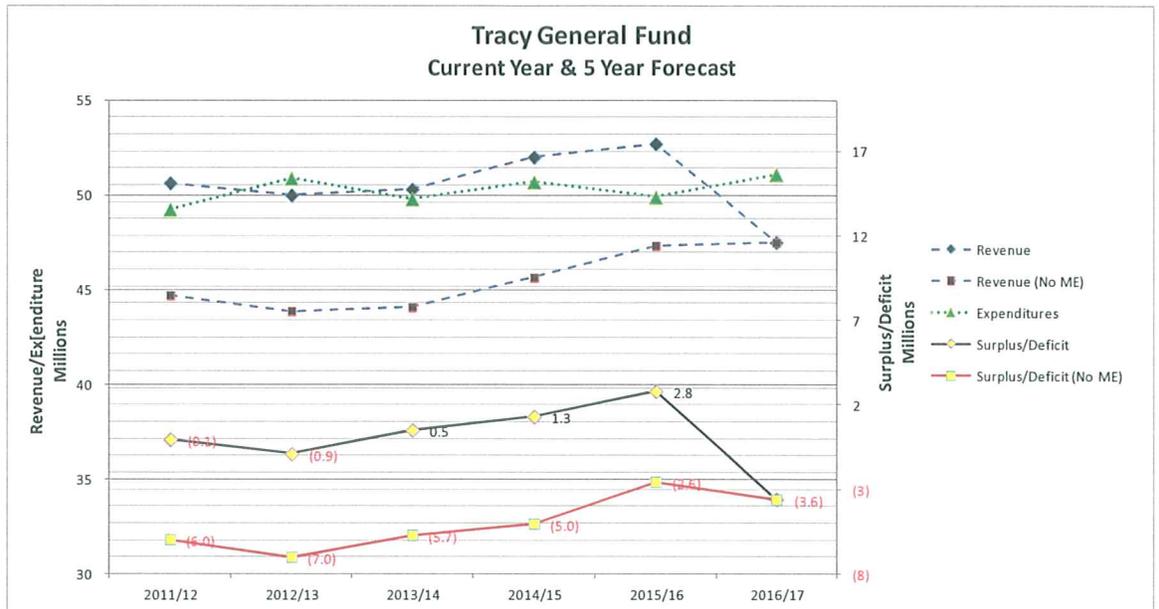
One issue we wish to point out is that the official City income statements serve to mask the extent of the City's structural deficit in its General Fund which is bolstered on average by \$6M annually in Measure E tax revenues. The City income statements do not clearly show to what extent the City is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

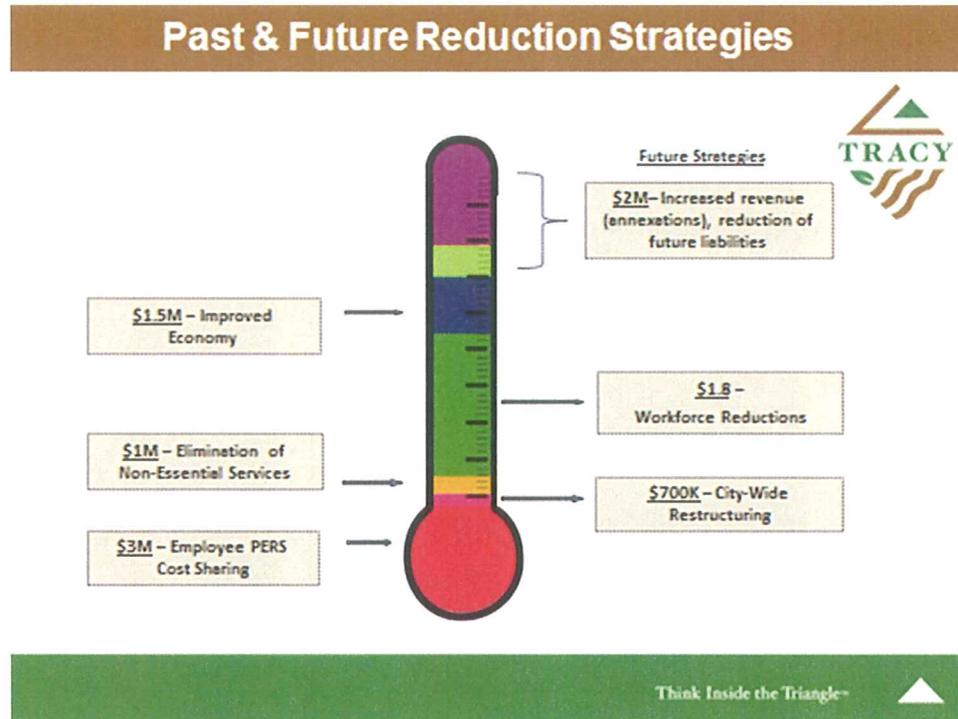
Plotting the revenue and expenditure trends over the next several years, expenditures show a seesaw pattern, showing no discernible downward trend over the period. Interestingly (non-Measure E) revenues show declines in FY 2012/13 and 2013/14 compared to FY 2011/12. Whether these declines are based on 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

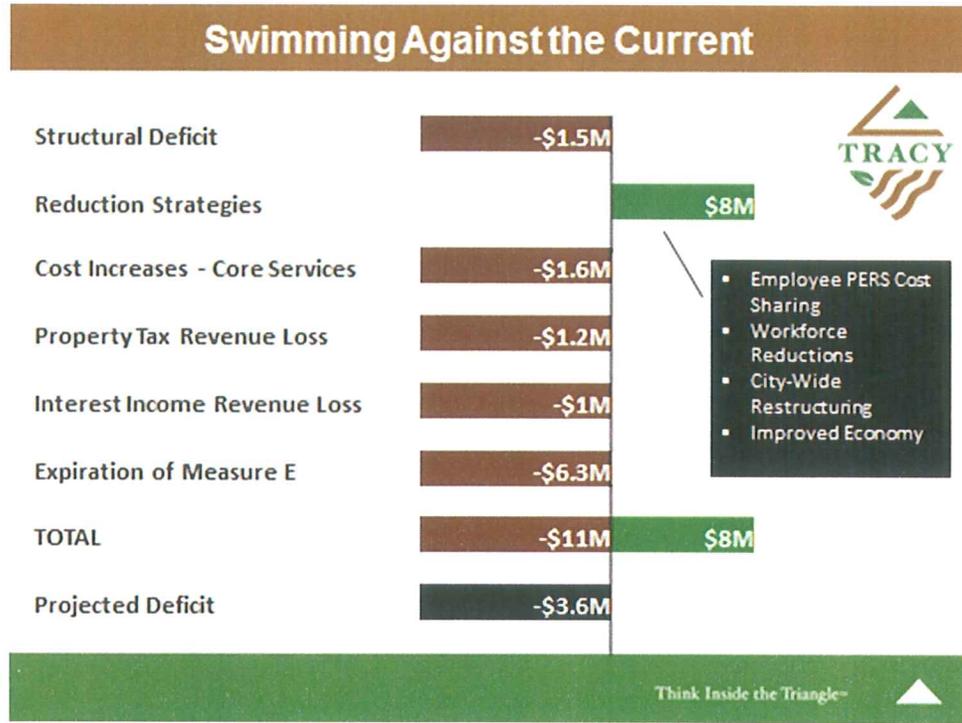
The City knows the job doesn’t end here – stating it needs to continue to raise the temperature and identify additional future strategies to address projected deficits.

- 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

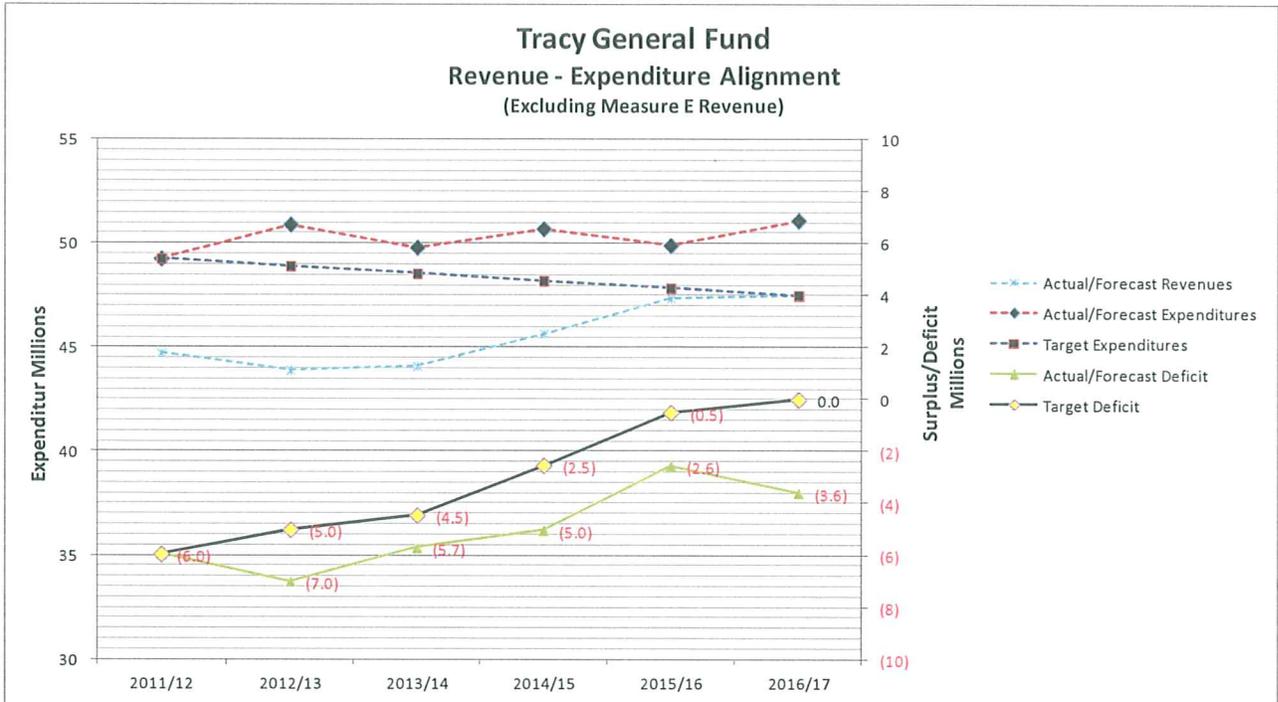
Despite the City's best efforts to date, a deficit of \$3.6M is forecasted in fiscal year 2016/17. To align its expenditures with anticipated revenues over the next several years, the City will need to implement further reductions in expenditures.

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 4 Years (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.

3. 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

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.

3.2.2 Supplemental (non Measure E) financial statements and forecasts

The Committee recommends that staff supplement the official General Fund income statements and forecast with documents that restate results excluding Measure E sales tax revenues. These restated financial documents (as used in this report) serve to highlight the real progress that the City is making towards the alignment of General Fund expenditures and non-Measure E revenues.

3.2.3 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.

3.2.4 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 when Measure E expires in March 2016.

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

4. Appendix A – Projected General Fund Balance

At the end of the 2011/12 fiscal year, the City of Tracy general fund had an actual audited balance of \$26.93million. Inclusive of Measure E tax revenue, the annual general fund surplus/deficit is projected to be \$27.02 million in FY 2016/17, a slight increase of \$0.09million over the 2011/12 fiscal year.

Forecast of General Fund Balance 2013 – 2017
(in \$ millions)

Fiscal Year	Annual Deficit/Surplus	General Fund Balance
2011/12 (actual)	(0.05)	26.93
2012/13	(0.91)	26.02
2013/14	0.50	26.52
2014/15	1.30	27.82
2015/16	2.80	30.62
2016/17	(3.60)	27.02

5. Appendix B – Measure A Question on Voter Ballot

To help prevent additional budget cuts and maintain City services, including: police (patrol, 911, command, gang/narcotics enforcement, crime investigations, other police services); fire protection, emergency services, and other fire services; park/sports field maintenance; support services; senior, teen, and youth services; art programs; and other general services, shall the City of Tracy enact a ½ cent sales tax, expiring in five years, with resident oversight, annual independent audits, and all funds used for City of Tracy services only?

6. Appendix C – Impartial Analysis of Measure E

ONE-HALF CENT TRANSACTIONS AND USE (SALES) TAX

The Tracy City Council has placed Measure E on the ballot to ask the voters of Tracy if the City should enact a one-half cent sales tax for five years. The sales tax is also referred to as a transactions and use tax. If approved by a majority of the voters, the one-half cent sales tax would become operative on April 1, 2011. The proposed increased City of Tracy sales tax would be collected at the same time and in the same manner as existing sales taxes.

If Measure E is approved, the proposed increased sales tax will expire five years after it starts being collected. This one-half cent sales tax would be a general tax, meaning that the revenue raised from the tax would go into the City's general fund and could be used for any municipal governmental purpose. Municipal governmental purposes include: police (patrol, 911, command, gang and narcotics enforcement, crime investigations, other police services); fire protection, emergency services, and other fire services; park and sports field maintenance; support services; senior, teen, and youth services; art programs; and other general functions and services.

If Measure E is approved, the City's independent auditors will be required to complete a financial audit report, by no later than December 31st of each year, which will include the revenue raised and expended by this tax. Also, if Measure E is approved, the Tracy City Council will establish a Residents' Oversight Committee to review the expenditure of the revenue from this tax prior to any collection of the tax. The Committee will consist of five members to be appointed by the Mayor and approved by the City Council. The terms of the Committee members and their specific duties will be established by resolution of the City Council.

Submitted by: Daniel G. Sodergren, Tracy City Attorney "The above statement is an Impartial Analysis of Measure E.