

REGULAR MEETING MINUTES
MEASURE E RESIDENTS' OVERSIGHT COMMITTEE

May 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

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:

April 29, 2013: Motion to approve Minutes: George Riddle

Second motion: Veronica Vargas

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

All opposed: None

5. REVIEW AND APPROVE THIRD DRAFT OF ANNUAL REPORT AND ACCOMPANYING POWER POINT PRESENTATION

a. Committee reviewed and discussed modifications to the Annual Report.

b. Arch performed "dry run" of the PowerPoint presentation.

6. CONFIRM ROLES AND RESPONSIBILITIES OF COMMITTEE MEMBERS DURING PRESENTATION OF ANNUAL REPORT AT JUNE 18, 2013 CITY COUNCIL MEETING

a. Anne Bell to submit the written Annual Report to Council with staff report; and confirm if hard copy of the PowerPoint presentation to Council is necessary.

b. Anne Bell will confirm logistics of the Council meeting.

c. Arch Bakerink will present the report in the form of the PPT presentation.

d. Veronica Vargas will assist Arch Bakerink with the PPT

e. Michel Bazinet and Robert Tanner may not be able to attend due to other commitments; George Riddle plans on attending the Council meeting.

7. CONFIRM NEXT MEETING DATE: Friday, May 24, 2013; 5:30 p.m., Room 109

8. ITEMS FROM THE AUDIENCE: None

9. ADJOURNMENT

Motion to adjourn: George Riddle

Second: Michel Bazinet

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



**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
 - Serve in an advisory-only capacity to City Council
 - Provide oversight of sales tax revenues generated by Measure E
 - Review audited financial statements of City
 - Review other City financial reports pertaining to Measure E revenues
 - Provide Council with annual written report
 - Provide additional reports to Council at committee and/or Council discretion

This 2013 report is the second annual MEROC report covering City's 2012/13 fiscal year.

Prior Year Activities

- Review of financial audit report
 - Prepared by 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 documents presented above, Measure E Residents Oversight Committee reports receipt of \$5,910,308 in Measure E revenues in fiscal year ending June 30, 2012. This amount was deposited in the City's General fund.

Current Year Activities

- Engaged in lengthy discussions with City staff
 - Related to recommended uses of revenues generated by Measure E.
 - Measure E expected to add \$6+ million in tax revenue per year to City's General Fund.
 - Additional revenues help City achieve balanced budget with prudent reserve balances

- Committee examining recommendations to plan General Fund expenditures beyond FY 2016 without Measure E additional revenue

- Many interpretations related to the intended purpose of Measure E revenues
 - Objective to carefully understand and integrate multiple points of view
 - Receive creative inputs from Measure E commissioners, City staff and other stakeholders
 - Within scope of Committee bylaws
 - Results of process are advisory recommendations presented later in this report.

FY 2011/12 Actuals & 5 Year Forecast

With and without Measure E revenues

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	Actual	Restated*	Plan	Restated*	Plan	Restated*	Plan	Restated*	Plan	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	

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

Income Statement

With Measure E tax revenues

Current and projected City of Tracy financial income statements show existing and projected General Fund surplus (deficit) by fiscal year inclusive of Measure E tax revenues. As reported in City's financial statements and shown in previous, 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

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

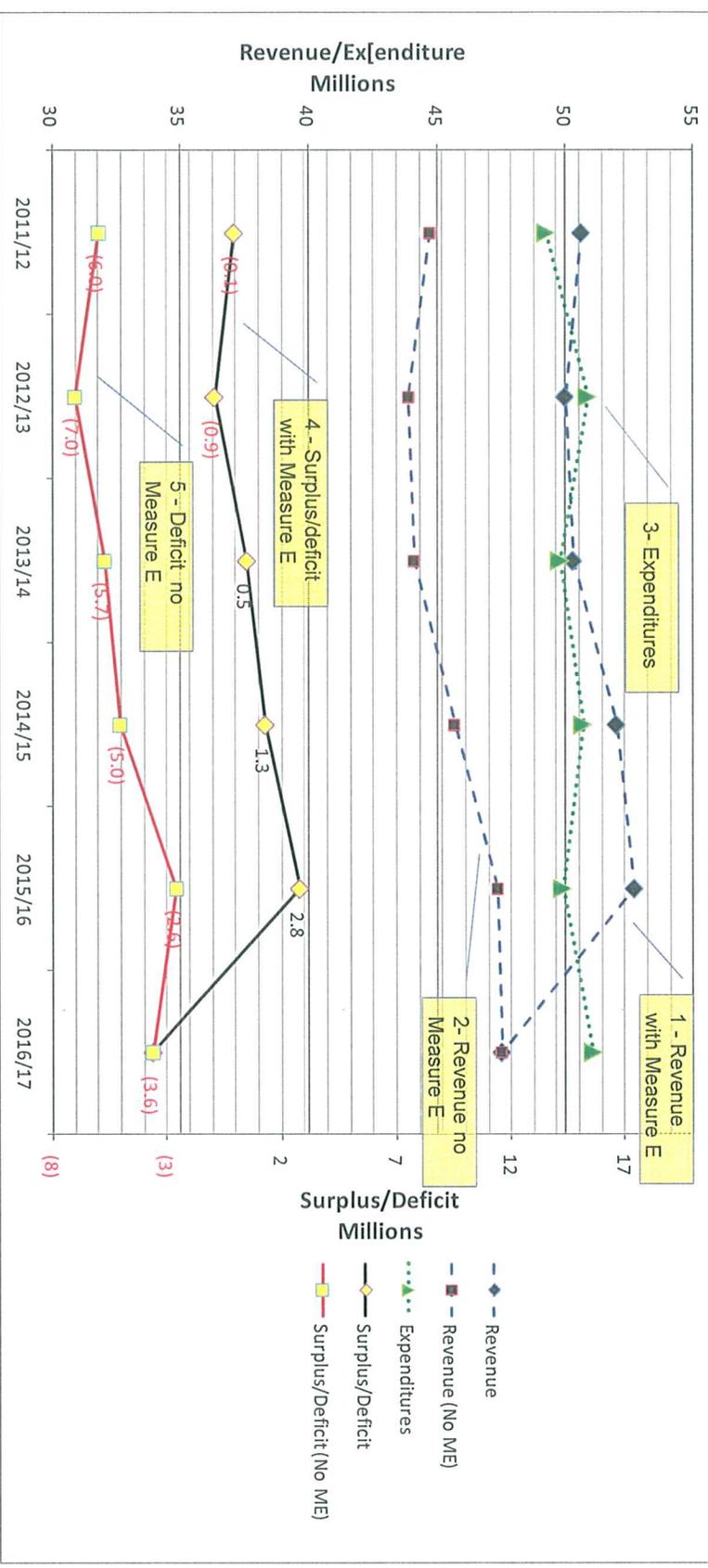
- **2011/12 – deficit: \$5.96M**
- **2012/13 – deficit: \$7.01M**
- **2013/14 – deficit: \$5.72M**
- **2014/15 – deficit: \$5.04M**
- **2015/16 – deficit: \$2.56M**
- **2016/17 – deficit: \$3.6M**

One issue we wish to point out is that official City income statements serve to mask extent of City's General Fund structural deficit which is bolstered by average \$6M annually in Measure E tax revenues. **City income statements do not clearly illustrate General Fund operating results exclusive of Measure E's temporary tax revenues.**

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

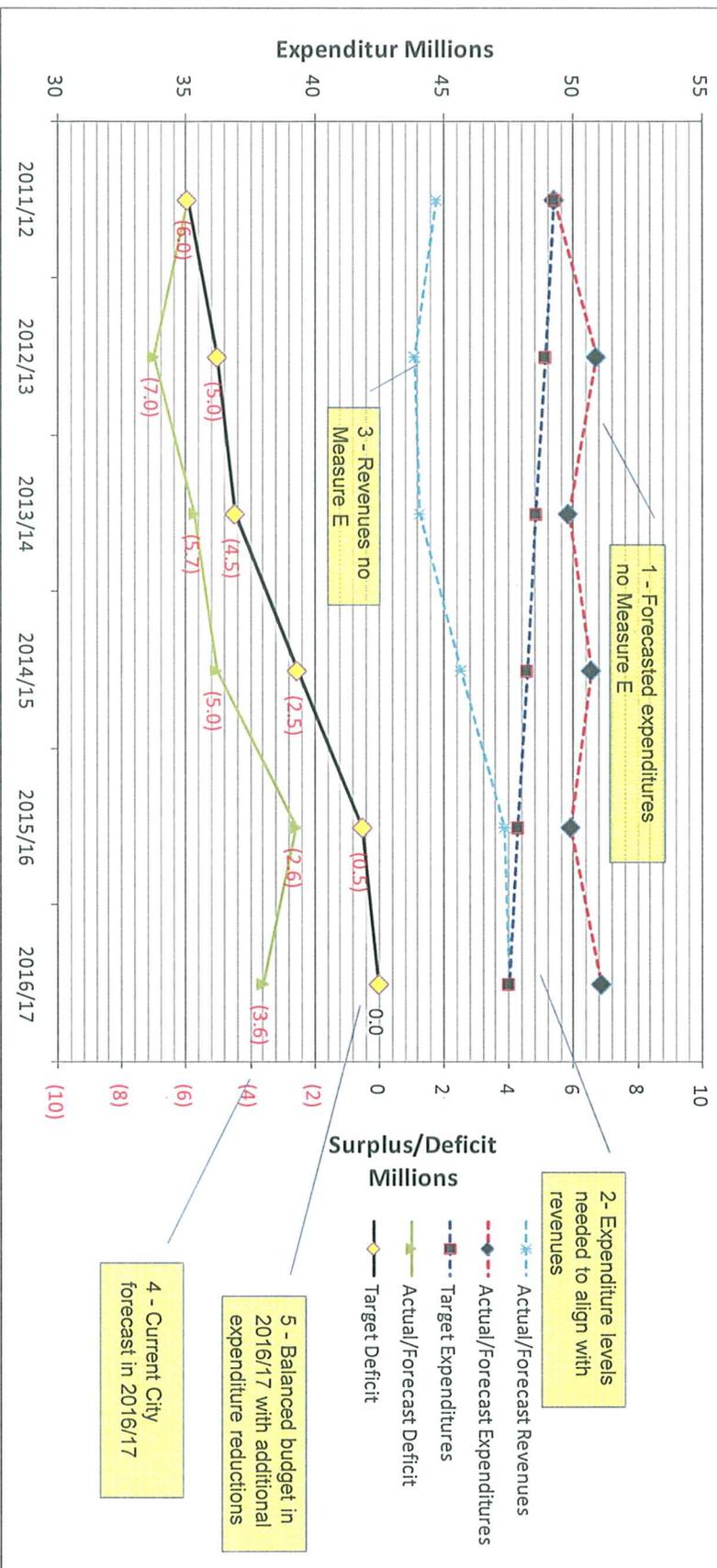
		General Fund (in millions)											
		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	Actual	Target	Plan	Target	Plan	Target	Plan	Target	Plan	Target	Plan	Target	Plan
Revenues	44.72	44.72	43.88	43.88	44.08	44.08	45.66	45.66	47.34	47.34	47.50	47.50	47.50
Expenditures	(49.26)	(49.26)	(50.89)	(48.90)	(49.80)	(48.55)	(50.70)	(48.20)	(49.90)	(47.85)	(51.10)	(47.50)	(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	0

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

Revenue – Expenditure Alignment

Getting to a balanced budget

Tracy General Fund Revenue - Expenditure Alignment (Excluding Measure E Revenue)



Revenue – Expenditure Alignment

Getting to a balanced budget (a theoretical scenario)

Getting to a Balanced Budget in 4 Years Expenditures (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)

To align expenditures with revenues and achieve goal of structurally balanced General Fund budget by fiscal year 2016/17, the City needs to additionally reduce annual expenditures by average of \$2.3M.

Target projection assumes General Fund revenues will not increase beyond amounts forecasted by City in 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.

Continuing Structural Deficit

- Current city forecast
 - Based on review of audited financial statements, City 5 year forecast and Measure E Resident Committee's analysis
 - General Fund structural budget deficit projected on average \$2.3M per year from FY 2012/13 to FY 2016/17
 - 2016/17 first year that General Fund does not benefit from Measure E revenues
- Cost containment
 - City has initiated number of cost containment strategies helping reduce rate of increase in General Fund expenditures
 - Other factors however serve to negate financial benefits of these strategies and keep General Fund mired in a persistent structural deficit position

Committee Conclusions

- City's General Fund forecasts show seesaw rises and falls in expenditures
- For FY 2012/13, City projecting revenues \$49.98M and expenditures \$50.89M resulting in a projected deficit of \$0.91M
- Excluding Measure E tax revenues from FY 2012/13 projections, non-Measure E revenues \$43.88M and expenditures \$50.89M resulting in projected structural deficit of \$7.01M
- City currently projecting General Fund deficit of \$3.6M in FY 2016/17 after expiry of Measure E
- Tracy electorate voted for Measure E sales tax increase based on assurance it would expire in 2016 and that City would not seek to renew it
- City must continue to identify and implement additional cost reduction strategies

Committee Recommendations

1. Reservation and use of Measure E surplus funds
 - In years of General Fund surplus, reserve surplus in special fund
 - Special fund used to finance one-time operating or capital projects that reduce General Fund expenditures.
 - Measure E surplus would not be used to fund ongoing operations or to shore up General Fund reserves

Committee Recommendations

2. Non Measure E financial statements and forecasts

- Prepare supplemental income statements and forecasts showing results excluding Measure E sales tax revenues.
- Restated financial documents highlight progress City is making towards alignment of General Fund expenditures and non-Measure E revenues

Committee Recommendations

3. Implementation of additional cost reduction opportunities
 - Committee concerned that City not yet on path to close projected structural General Fund budget deficits by 2016
 - Committee strongly recommends that City council and staff continue to explore additional cost reduction opportunities to align General Fund revenue and expenditure levels in anticipation of the expiry of Measure E in the year 2016.

Projected General Fund Balance

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

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



MEASURE E RESIDENTS OVERSIGHT COMMITTEE 2013 Annual Report

Authors: Measure E Residents Oversight Committee
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Document Control

Contributors

Name	Role	Content Contribution
Archie Bakerink	Measure E Residents Oversight Committee	
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
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
4/29/13	Michel Bazinet, George Riddle	3.0	Changes discussed in Apr 29 meeting. Revisions in conclusions and recommendations

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, 2013	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

Adopted by a unanimous vote of the Measure E Residents Oversight Committee on 5/15/2013.

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 (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 [in the fiscal year ending June 30, 2012](#). 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: \$0.50M
- 2014/15 – surplus: \$1.30M
- 2015/16 – surplus: \$2.80M
- 2016/17 – deficit: \$3.6M

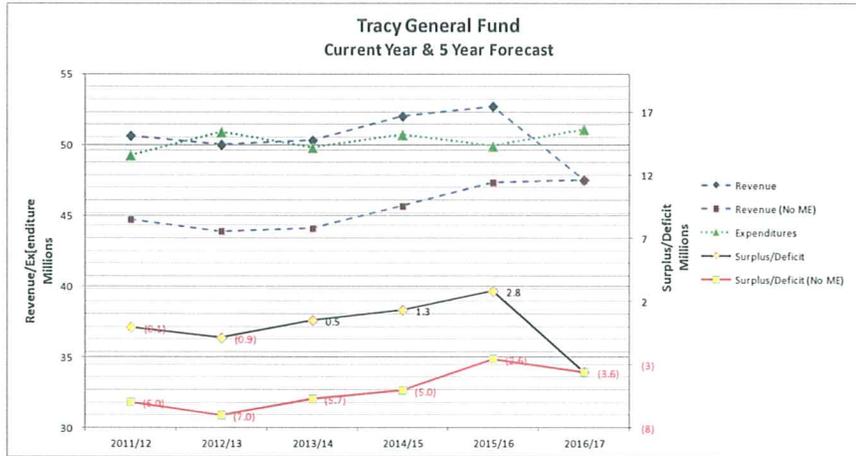
One issue we wish to point out is that the official City income statements serve to mask the extent of the City's structural deficit in its General Fund which is bolstered on average by \$6M annually in Measure E tax revenues. The City income statements do not clearly show to what extent the City is succeeding in its efforts to decrease its reliance on Measure E funds before the programmed expiry of Measure E in 2016.

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.

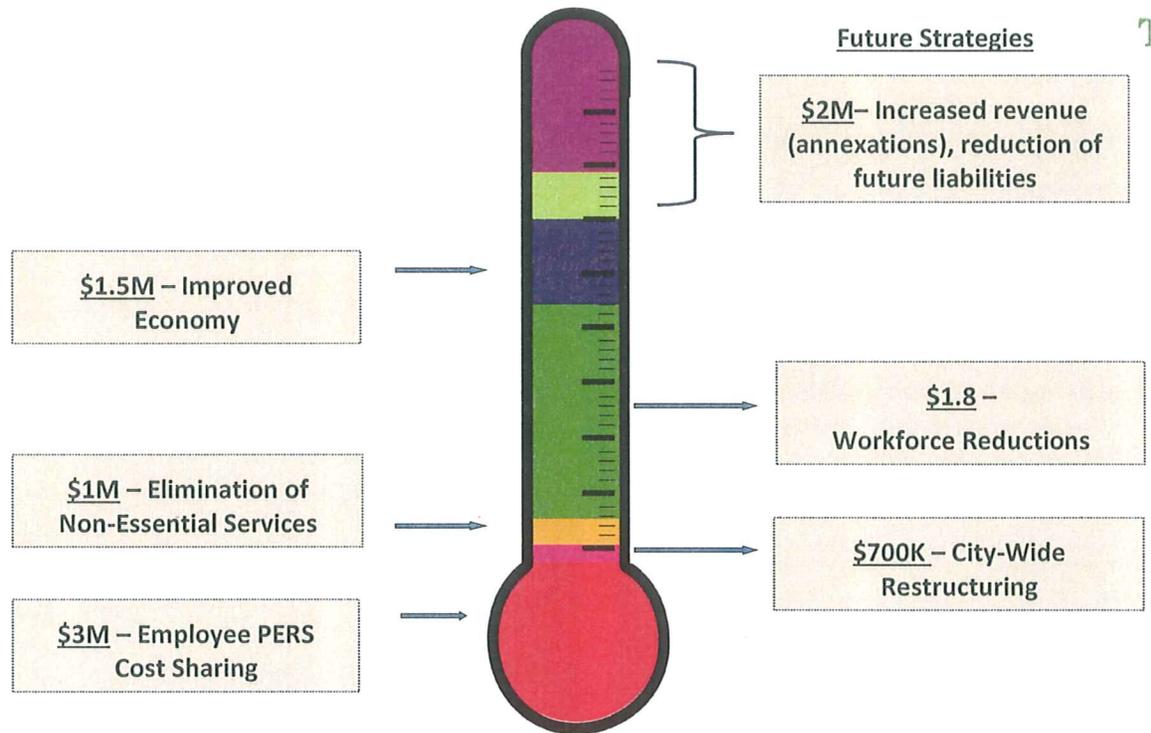


2.1.2 Current Expenditure Reduction Initiatives

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

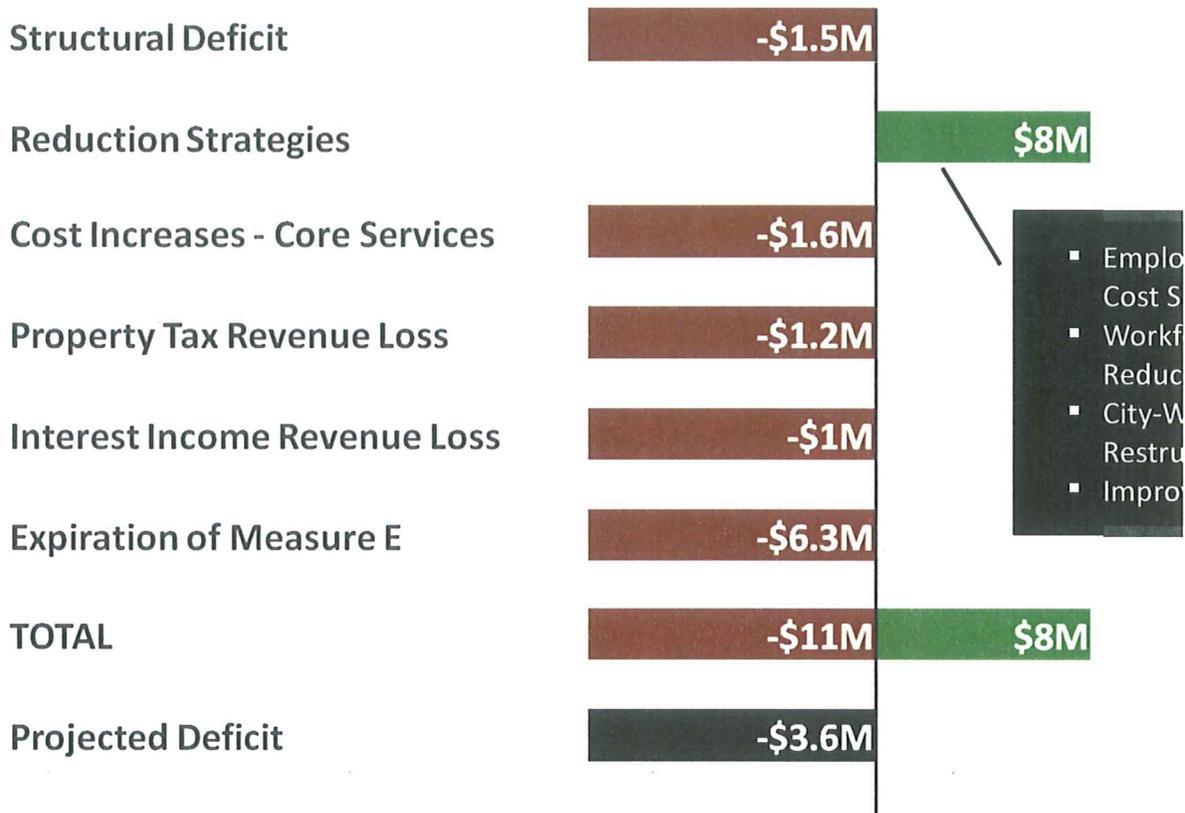
The City knows the job doesn't end here – stating it needs to continue to raise the temperature and identify additional future strategies to address projected deficits.

- 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 – a hypothetical scenario

Note: the table described in this section depicts a purely hypothetical scenario in which the City's expenditures are reduced in such a way that Planned expenditures equal Planned revenues in fiscal year 2016/17, effectively creating a balanced budget in that year.

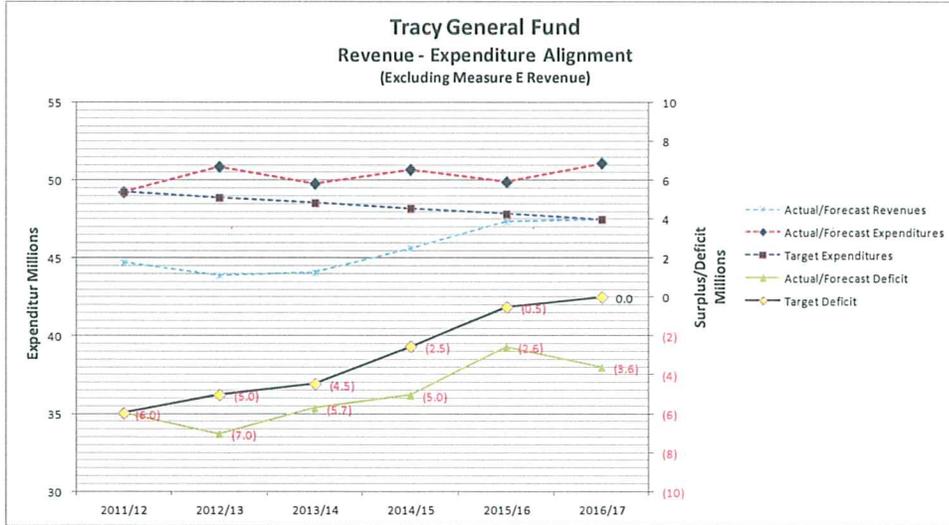
Despite the City's best efforts to date, a deficit of \$3.6M is forecasted in fiscal year 2016/17. To align its expenditures with anticipated revenues over the next several years, the City will need to implement further reductions in expenditures.

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.~~

~~For the fiscal year 2012/13, the City is projecting revenues of \$49.98M and expenditures of \$50.89M with a resulting projected deficit of \$0.91M. The projected revenues include \$6.1M of Measure E tax revenues which were used on General Fund expenditures in compliance with the provisions of Measure E.~~

~~Excluding Measure E tax revenues from fiscal year 2012/13 projections, non-Measure E revenues are \$43.88M and expenditures are \$50.89M resulting in a projected structural deficit of \$7.01M.~~

~~The City is currently projecting a General Fund deficit of \$3.6M in fiscal year 2016/17, the first year the City will operate without the benefit of Measure E tax revenues.~~

~~Given that the Tracy electorate voted for the Measure E sales tax increase based on the 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 continue to identify and implement additional cost reduction strategies that will align its projected General Fund expenditure levels to anticipated future 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.~~ General Fund reserves.

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~~ Identification of additional cost reduction opportunities

The Committee is concerned that the City is not on a path to close the projected structural General Fund budget deficits by 2016. The Committee strongly recommends that ~~the City council and staff continue to explore additional cost reduction opportunities in order to align General Fund revenue and expenditure levels in anticipation of the expiry of Measure E in the year 2016.~~ 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.

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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 \$26.93Mmillion. Inclusive of Measure E tax revenue, the ~~annual~~ general fund ~~balance~~ ~~surplus/deficit~~ is projected to be \$27.02 million in FY 2016/17, a slight increase of \$0.09Mmillion over the 2011/12 fiscal year.

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 E 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 1/2 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 1/2 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 1/2 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.

7. Appendix D – Auditor Report – FY Ending June 30, 2012



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Honorable Mayor and City Council
City of Tracy
Tracy, California

Re: Measure E (one half cent sales tax)

We have audited the financial records of the City of Tracy for the fiscal year ending June 30, 2012 reported in our Independent Auditor's Report which accompanies the City's Comprehensive Annual Financial Report. Included in this audit was the examination of tax proceeds from the City's Measure E – one half cent sales tax approved by Tracy voters in November 2010 and commencing for a 5 year period on April 1, 2011. The amount of Measure E tax proceeds received and recorded during the fiscal year ending June 30, 2012 was \$5,913,308. Measure E is a general tax of the City of Tracy and as such, said amount was deposited into the City's General Fund. Expenditures for a variety of City functions were subsequently made from the City's General Fund. A listing of expenses utilizing Measure E revenue and other revenue of the City can be found on page 26 of the City's Comprehensive Annual Financial Report.

Moss, Levy & Hartzheim
Moss, Levy & Hartzheim, LLP
Culver City, California
December 13, 2012

OFFICES: BEVERLY HILLS • CULVER CITY • SANTA MARIA

MEMBER AMERICAN INSTITUTE OF C.P.A.'S • CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS • CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

CITY OF TRACY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2012

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	General	Community Development Agency Housing	Housing Successor	North East Industrial Plan Area #1	Community Development Agency Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 34,079,771	\$ -			\$ 4,359,166	\$ 2,954,194	\$ 41,393,131
Licenses, permits, and fees	2,997,556					175,856	3,173,412
Fines and penalties	1,528,402					25,900	1,554,302
Use of money and property	993,509	(11,209)	39,199	(269)	16,815	421,808	1,459,653
Intergovernmental	1,199,722	7,230			44,415	10,740,871	11,992,238
Charges for services	8,213,167					174,585	8,387,752
Special assessments	352,344					3,742,119	4,094,463
Contributions	4,651			603,571		4,795,884	5,404,106
Other revenues	1,262,786					31,649	1,294,435
Total Revenues	50,629,608	(3,979)	39,199	603,302	4,420,396	23,062,668	78,751,482
EXPENDITURES							
Current:							
General government							
Economic development	288,055	193,074	96,081			237,259	614,469
General government	3,210,150					51,838	3,261,988
Finance	2,264,705						2,264,705
Non-departmental	222,398	24,500					630,697
Public safety						383,799	
Police	21,888,618					6,650	21,895,268
Fire	8,738,516					6,498,601	15,205,119
Public works							
Development and engineering	5,966,717					401,202	6,367,919
Public works	3,081,959					4,448,523	7,530,482
Culture and leisure							
Cultural arts	1,233,076						1,233,076
Parks and community services	2,230,294						2,230,294
Intergovernmental							
Capital outlay	132,668			547,764		19,077,677	19,758,129
Debt service:							
Principal payments						195,000	195,000
Interest and fiscal charges					1,262,289	1,360,491	2,622,780
Total Expenditures	49,255,481	217,574	96,081	547,764	1,262,289	32,631,040	84,010,229
Excess of Revenues over (under) Expenditures	1,374,127	(221,553)	(56,882)	55,538	3,158,107	(9,568,374)	(6,258,737)
OTHER FINANCING SOURCES (USES)							
Transfers in		871,833				1,627,405	2,699,238
Transfers out	(1,427,405)				(1,271,833)		(2,699,238)
Total Other Financing Sources (Uses)	(1,427,405)	871,833			(1,271,833)	1,627,405	
Net Change in Fund Balances before Extraordinary Items	(52,978)	650,280	(56,882)	55,538	1,886,274	(7,740,969)	(5,258,737)
EXTRAORDINARY ITEM							
Gain(Loss) on Transfer of Assets and Liabilities to RDA Successor Trust Funds		(6,293,202)	2,884,525		(4,915,439)	(1,876,539)	(10,190,655)
Net Changes in Fund Balances	(52,978)	(5,642,922)	2,837,643	55,538	(3,029,165)	(9,517,506)	(15,449,392)
Fund Balances, July 1, 2011	26,987,114	5,642,022		126,460	3,029,165	118,019,559	151,804,220
Fund Balances, June 30, 2012	\$ 26,934,136	\$ -	\$ 2,837,643	\$ 180,998	\$ -	\$ 108,402,051	\$ 136,354,828

The notes to the basic financial statements are an integral part of this statement
26



MEASURE E RESIDENTS OVERSIGHT COMMITTEE

2013 Annual Report

Authors: Measure E Residents Oversight Committee
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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
4/29/13	Michel Bazinet, George Riddle	3.0	Changes discussed in Apr 29 meeting. Revisions in conclusions and recommendations

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

Adopted by a unanimous vote of the Measure E Residents Oversight Committee on 5/15/2013.

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 (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 in the fiscal year ending June 30, 2012.. 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 or 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

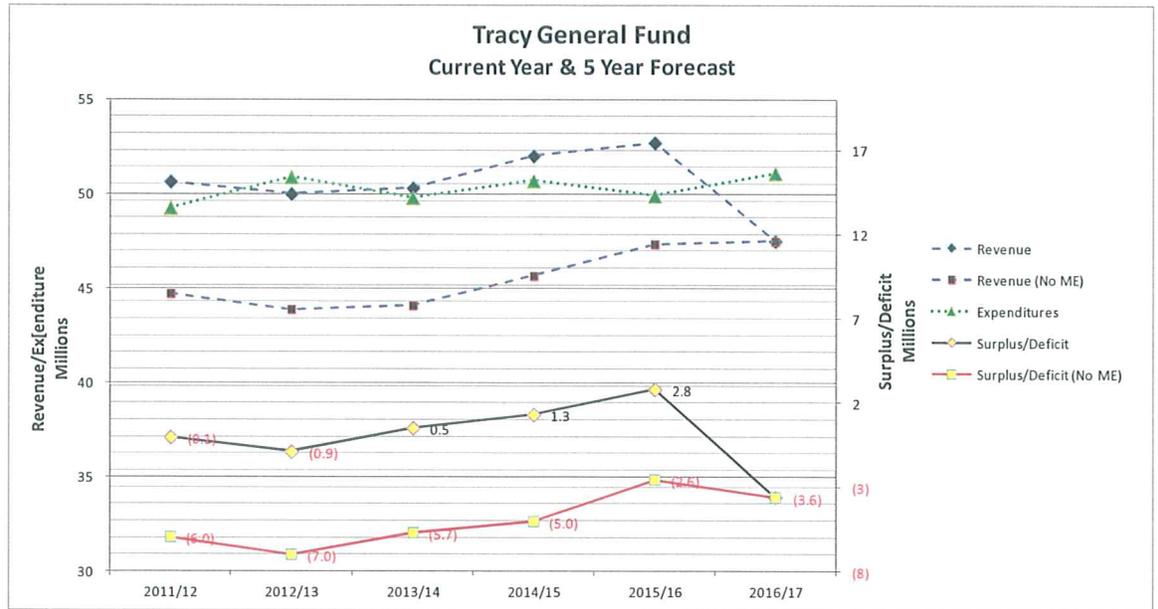
One issue we wish to point out is that the official City income statements serve to mask the extent of the City's structural deficit in its General Fund which is bolstered on average by \$6M annually in Measure E tax revenues. The City income statements do not clearly show to what extent the City is succeeding in its efforts to decrease its reliance on Measure E funds before the programmed expiry of Measure E in 2016.

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 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

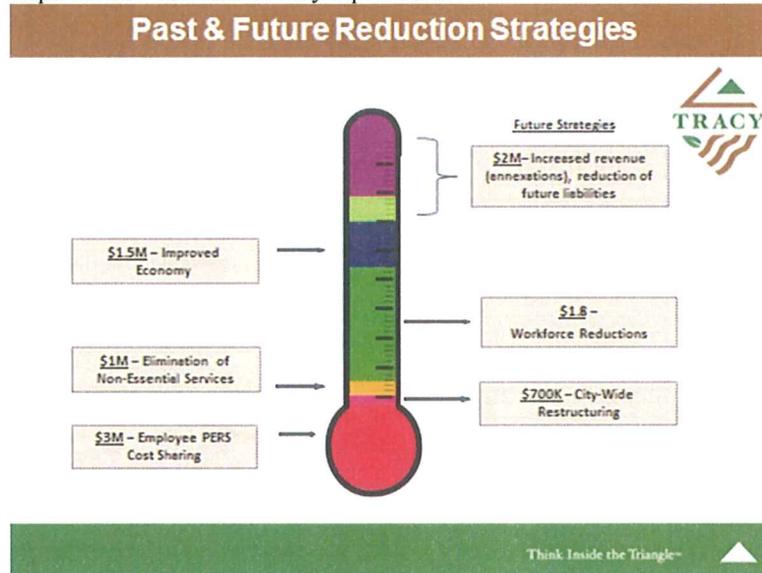
Plotting the revenue and expenditure trends over the next several years, expenditures show a seesaw pattern, showing no discernible downward trend over the period. Interestingly (non-Measure E) revenues show declines in FY 2012/13 and 2013/14 compared to FY 2011/12. Whether these declines are based on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

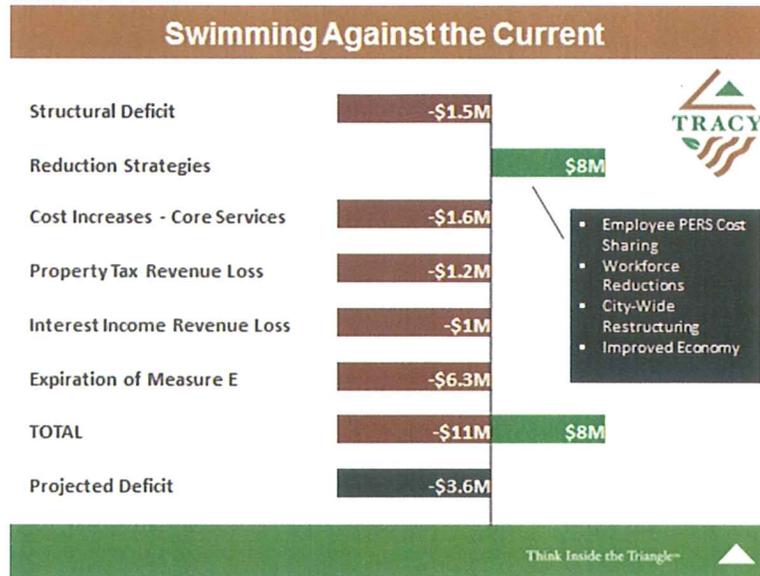
2.1.2.2 Future strategies

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 – a hypothetical scenario

Note: the table described in this section depicts a purely hypothetical scenario in which the City's expenditures are reduced in such a way that Planned expenditures equal Planned revenues in fiscal year 2016/17, effectively creating a balanced budget in that year.

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.

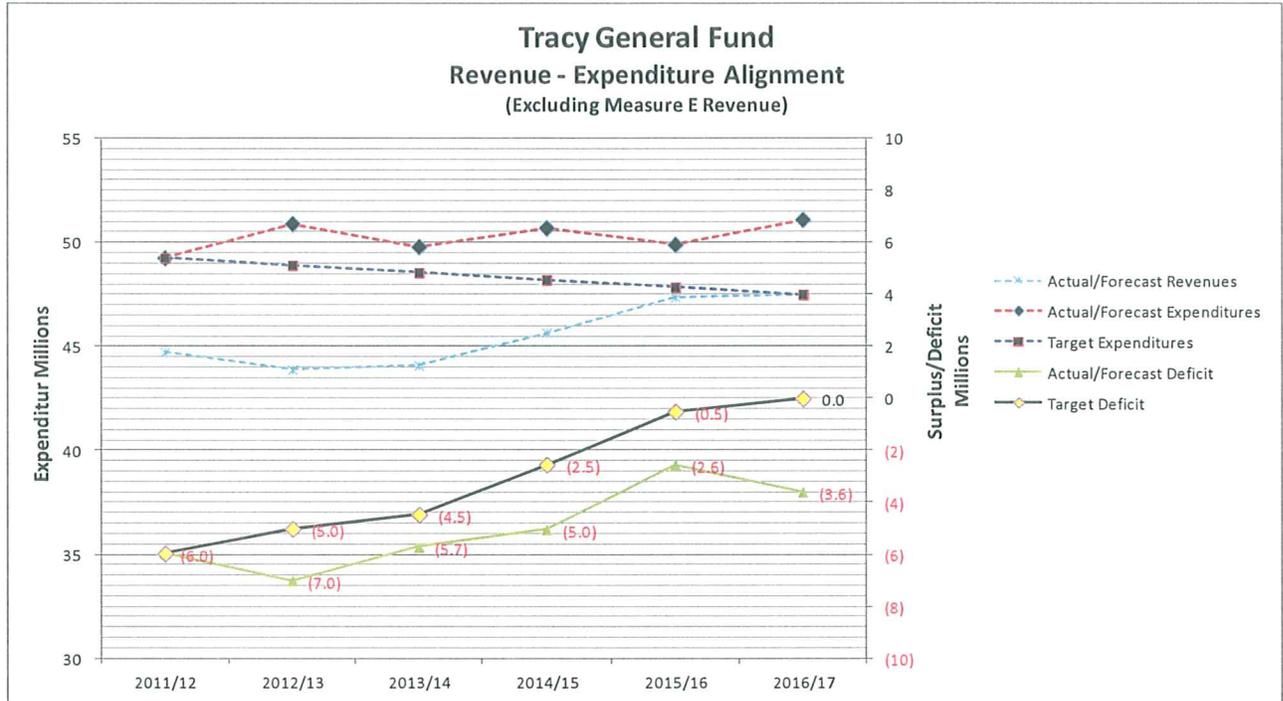
Current FY general fund expenditures are \$49.26M while revenues (exclusive of Measure E tax revenues) are forecasted to be \$47.50M in FY 2016/17. In order to align general fund expenditures and revenues by FY 2016/17, expenditures need to be reduced from \$49.26M in FY 2012/13 to \$47.50M in FY 2016/17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

For the fiscal year 2012/13, the City is projecting revenues of \$49.98M and expenditures of \$50.89M with a resulting projected deficit of \$0.91M. The projected revenues include \$6.1M of Measure E tax revenues which were used on General Fund expenditures in compliance with the provisions of Measure E.

Excluding Measure E tax revenues from fiscal year 2012/13 projections, non-Measure E revenues are \$43.88M and expenditures are \$50.89M resulting in a projected structural deficit of \$7.01M .

The City is currently projecting a General Fund deficit of \$3.6M in fiscal year 2016/17, the first year the City will operate without the benefit of Measure E tax revenues.

Given that the Tracy electorate voted for the Measure E sales tax increase based on the 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 continue to identify and implement additional cost reduction strategies that will align its projected General Fund expenditure levels to anticipated future 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 General Fund reserves.

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 progress that the City is making towards the alignment of General Fund expenditures and non-Measure E revenues.

3.2.3 Identification of additional cost reduction opportunities

The Committee is concerned that the City is not on a path to close the projected structural General Fund budget deficits by 2016. The Committee strongly recommends that City council and staff continue to explore additional cost reduction opportunities in order to align General Fund revenue and expenditure levels in anticipation of the expiry of Measure E in the year 2016.

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 \$26.93M. Inclusive of Measure E tax revenue, the general fund balance is projected to be \$27.02 million in FY 2016/17, a slight increase of \$0.09M 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 E 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 1/2 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 1/2 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 1/2 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.

7. Appendix D – Auditor Report – FY Ending June 30, 2012



MOSS, LEVY & HARTZHEIM LLP

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Honorable Mayor and City Council
City of Tracy
Tracy, California

Re: Measure E (one half cent sales tax)

We have audited the financial records of the City of Tracy for the fiscal year ending June 30, 2012 reported in our Independent Auditor's Report which accompanies the City's Comprehensive Annual Financial Report. Included in this audit was the examination of tax proceeds from the City's Measure E – one half cent sales tax approved by Tracy voters in November 2010 and commencing for a 5 year period on April 1, 2011. The amount of Measure E tax proceeds received and recorded during the fiscal year ending June 30, 2012 was \$5,913,308. Measure E is a general tax of the City of Tracy and as such, said amount was deposited into the City's General Fund. Expenditures for a variety of City functions were subsequently made from the City's General Fund. A listing of expenses utilizing Measure E revenue and other revenue of the City can be found on page 26 of the City's Comprehensive Annual Financial Report.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 13, 2012

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CITY OF TRACY
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 For the Fiscal Year Ended June 30, 2012

	General	Community Development Agency Housing	Housing Successor	North East Industrial Plan Area #1	Community Development Agency Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 34,079,771	\$ -		\$ -	\$ 4,359,166	\$ 2,954,194	\$ 41,393,131
Licenses, permits, and fees	2,997,556					175,856	3,173,412
Fines and penalties	1,526,402					25,900	1,552,302
Use of money and property	993,509	(11,209)	39,199	(269)	16,815	421,608	1,459,653
Intergovernmental	1,199,722	7,230			44,415	10,740,871	11,992,238
Charges for services	8,213,167					174,585	8,387,752
Special assessments	352,344					3,742,119	4,094,463
Contributions	4,651			603,571		4,795,884	5,404,106
Other revenues	1,262,786					31,649	1,294,435
Total Revenues	50,629,908	(3,979)	39,199	603,302	4,420,396	23,062,666	78,751,492
EXPENDITURES							
Current:							
General government							
Economic development	288,055	193,074	96,081			237,259	814,469
General government	3,210,150					51,838	3,261,988
Finance	2,264,708						2,264,708
Non-departmental	222,398	24,500				383,799	630,697
Public safety							
Police	21,888,918					6,650	21,895,568
Fire	8,736,518					6,468,601	15,205,119
Public works							
Development and engineering	5,966,717					401,202	6,367,919
Public works	3,081,959					4,448,523	7,530,482
Culture and leisure							
Cultural arts	1,233,076						1,233,076
Parks and community services	2,230,294						2,230,294
Intergovernmental							
Capital outlay	132,688			547,764		19,077,677	19,758,129
Debt service:							
Principal payments						195,000	195,000
Interest and fiscal charges					1,262,289	1,360,491	2,622,780
Total Expenditures	49,255,481	217,574	96,081	547,764	1,262,289	32,631,040	84,010,229
Excess of Revenues over (under) Expenditures	1,374,427	(221,553)	(56,882)	55,538	3,158,107	(9,568,374)	(5,258,737)
OTHER FINANCING SOURCES (USES)							
Transfers in		871,833				1,827,405	2,699,238
Transfers out	(1,427,405)				(1,271,833)		(2,699,238)
Total Other Financing Sources (Uses)	(1,427,405)	871,833			(1,271,833)	1,827,405	
Net Change in Fund Balances before Extraordinary Items	(52,978)	650,280	(56,882)	55,538	1,886,274	(7,740,969)	(5,258,737)
EXTRAORDINARY ITEM							
Gain/(Loss) on Transfer of Assets and Liabilities to RDA Successor Trust Funds		(6,293,202)	2,894,525		(4,915,439)	(1,876,539)	(10,190,655)
Net Changes in Fund Balances	(52,978)	(5,642,922)	2,837,643	55,538	(3,029,165)	(9,617,508)	(15,449,392)
Fund Balances, July 1, 2011	26,987,114	5,642,922		125,460	3,029,165	116,019,559	151,804,220
Fund Balances, June 30, 2012	\$ 26,934,136	\$ -	\$ 2,837,643	\$ 180,998	\$ -	\$ 106,402,051	\$ 136,354,828

The notes to the basic financial statements are an integral part of this statement

