

CITY OF TRACY ADOPTED BUDGET



FISCAL YEAR 2014-2015



City of Tracy, California

**PROGRAM BUDGET
FISCAL YEAR 2014-2015**

Prepared by

Administrative Services Department

June 2014

City Council

Brent Ives

Mayor

Michael Maciel

Mayor Pro Tem

Robert Rickman

Council Member

Nancy Young

Council Member

Charles Manne

Council Member

Other Elected Officials

Raymond McCray

City Treasurer

City of Tracy, California

PROGRAM BUDGET
FISCAL YEAR 2014-2015

Maria A. Hurtado
Interim City Manager

Gary Hampton
Interim Assistant City Manager

Dan Sodergren
City Attorney

Jenny Haruyama
*Administrative Services
Director*

Other Department Heads

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Police Chief

Alford Nero
Fire Chief

Andrew Malik
Development Services Director

David Ferguson
Public Works Director

Kul Sharma
Utilities Director

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
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California**

For the Fiscal Year Beginning

July 1, 2013

Executive Director

The Government Finance Officers Association of the United State and Canada (GFOA) presented a Distinguished Budget Presentation Award to City of Tracy, California for its annual budget for fiscal year beginning July 1, 2013.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Budget Message





Think Inside the Triangle™

CITY OF TRACY

City Manager's Office
333 Civic Center Plaza
Tracy, CA 95376

Telephone (209) 831-6000
FAX (209) 831-6120

July 1, 2014

Honorable Mayor and City Council:

I am pleased to provide you with the adopted Fiscal Year (FY) 2014/15 annual budget and capital improvement program for the City of Tracy. This spending plan reflects our commitment to provide a high level of service to our residents, while preserving the City's long-term financial viability.

SUMMARY:

The FY 2014/15 totals reflect \$221.3 million in revenues and \$226.3 million in expenditures. Revenues and expenditures increased 15.5% and 15.2% respectively, compared to the prior year budget. Expenditures are greater than revenues as some expenditures (e.g. capital projects) are approved in a prior year and expensed in the current year budget. The proposed FY 2014/15 General Fund budget totals \$56.4 million, excluding debt service and is 11% higher than prior year. The City's Capital budget totals \$73.1 million; of that amount, \$64.3 million is for current projects and \$8.8 million is for new projects. Proposed FY 2014/15 General Fund reserves are estimated to be \$33.6 million.

This budget year is best described in two ways. On one hand, the future is exciting and holds a great deal of promise due to the resurgence in development activity reflective of the City's economic recovery. The recent annexation of 1,700 acres at Cordes Ranch and anticipated residential developments like Tracy Hills, Ellis and others demonstrate steps toward a healthy recovery. The City is poised for positive growth with an established plan to balance new residential development with retail, commercial, and industrial development. Although property tax revenue has not rebounded as quickly, it is expected to improve over the next two years due to improvements in assessed value and increases in home prices. Additionally, the influx of companies like Amazon has created a spin off affect that has, and will continue to result in ancillary companies locating in Tracy.

On the other hand, while the City's revenue outlook appears promising, there are five challenges on the horizon that will require the City's continued diligence in managing service demands while developing revenue strategies.

1. The expiration of Measure E's ½ cent sales tax in 2016 will result in a future deficit, due to the loss of revenue. In FY 2014/15, Measure E is expected to peak at \$7 million. Although the loss of Measure E revenue could be reduced through additional sales tax growth by anticipated new industrial and commercial, the City's reliance on this revenue must be monitored carefully.
2. Although employees will assume the full employee share of pension costs, recent PERS rate adjustments for the employer share continue to increase due to changes in actuarial assumptions. Over the next five years, the City will have paid \$52 million in PERS costs.

3. The City's recent revenue strategy to attract e-commerce and point of sale companies has been very successful (e.g. Amazon, Crate and Barrel and Southwest School and Office Supply). However, policy discussions at the state level regarding the allocation of internet sales may change, potentially impacting City sales tax revenue and ultimately, business attraction efforts. For these reasons, the City should strategically diversify its sales tax portfolio.
4. Restructuring efforts and employee reductions over the last five years have left the organization challenged with doing more with less. To maintain quality service levels and ensure efficient operations, staffing levels must continue to be carefully evaluated based on available resources, efficiency gains, and benefit to the community. Unmet staffing needs will be evaluated against service delivery prioritization.
5. As the life cycle of the City's existing assets decline, the need to maintain City infrastructure remains. Infrastructure maintenance needs coupled with regulatory requirements have increased costs significantly. Funds should be set aside to address future infrastructure maintenance and replacement needs.

The proposed FY 2014/15 budget reflects ongoing and one time augmentations. Proposed augmentations are approximately \$3.7 million; of which \$2 million are cost neutral development expenses (e.g. building and engineering plan check and inspections) that are covered through fees; \$523,000 are one-time expenses, and \$1.1 million are ongoing operational expenses.

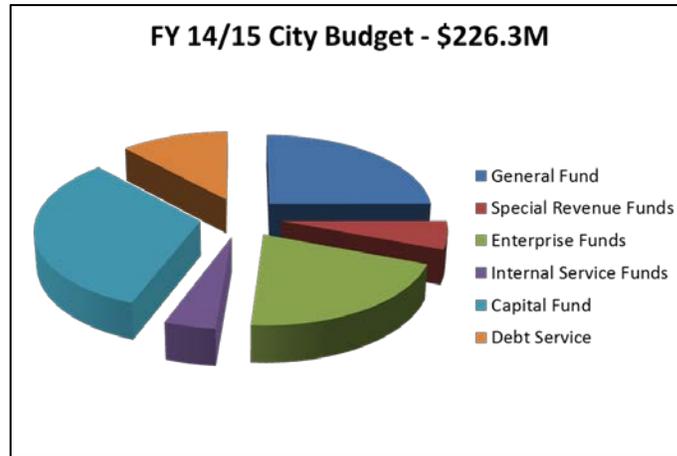
Of the \$1.1 million of ongoing augmentations, approximately \$482,070 relate to quality of life initiatives; \$106,390 relate to public safety; \$137,690 relate to technology; and \$112,000 relate to organizational restructuring and efficiency efforts. The remaining augmentations are approximately \$261,850, and are for miscellaneous items, including but not limited to: police background investigations, required minimum wage adjustment for fire reserves, sidewalk cleaning, Channel 26 resources, and external technology support services.

FY 2014/15 CITY BUDGET OVERVIEW

The FY 2014/15 City budget is approximately \$226.3 million and is comprised of three components: the Operating Budget (General Fund, Enterprise, Internal Service, and Special Revenue Funds) Capital Budget, and Debt Service Budget.

Total FY 2014/15 City revenues are \$221.3 million and total expenditures are \$226.3 million. Revenues and expenditures have both increased compared to the prior year budget; 15.5% and 15.2% respectively. Expenditures are greater than revenues as some expenditures (e.g. capital projects) are approved in a prior year and expensed in the current year budget.

The chart below reflects the FY 2014/15 total City budget of \$226.3 million:



FY 2014/15 GENERAL FUND BUDGET

The proposed FY 2014/15 General Fund Budget is a balanced budget. As with the prior year, general fund reserves are not required to balance the FY 2014/15 budget, with an anticipated General Fund net excess amount of \$700,000. Based on current projections, the City's revenue outlook is positive, but continues to be challenged by uncontrollable personnel-related expenses and the anticipated expiration of Measure E.

FY 2014/15 General Fund Budget Summary

GENERAL FUND SOURCES	
<i>Property Tax</i>	\$16.3
<i>Sales Tax</i>	\$16.1
<i>Temporary Taxes – Measure E</i>	\$7.0
<i>Other Revenue</i>	\$18.9
Total Sources	\$58.3M
GENERAL FUND USES	
<i>General Fund Operating Expenses</i>	\$56.4
<i>Debt Service Payments</i>	\$1.2
<i>General Fund Transfers</i>	\$0
Total General Fund Uses	\$57.6M
Total General Fund Net Resources	\$700K

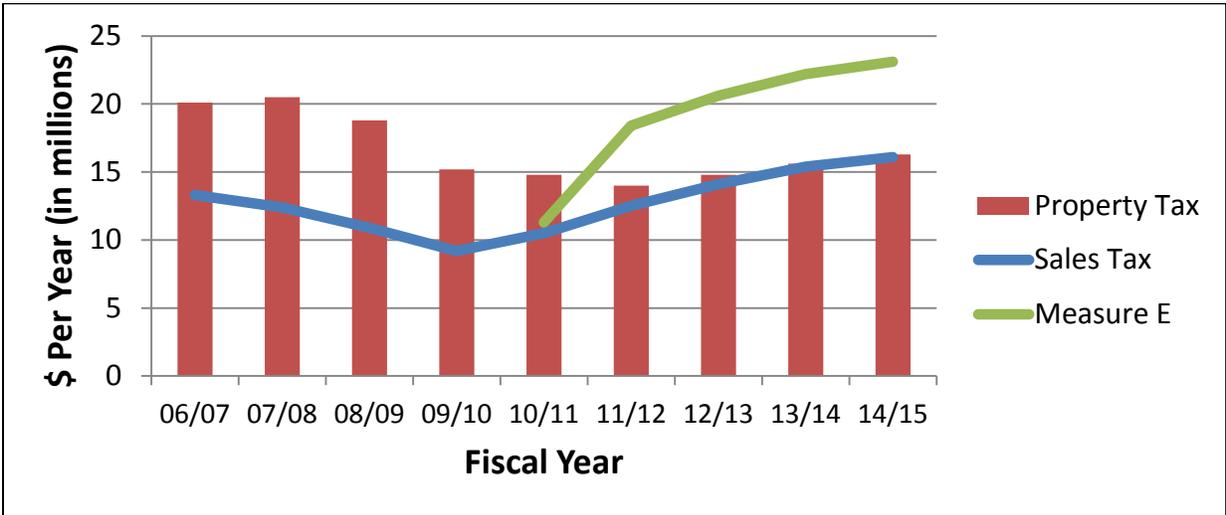
General Fund Revenues

Total FY 2014/15 General Fund revenues are projected to be \$58.3 million, which is a 13% increase over the prior year adopted budget. The revenue outlook is optimistic due to the economic recovery in the region and improvement in economically sensitive revenue, particularly sales tax. Diversification continues to be an important objective so the City can better weather effects of economic cycles and/or legislative changes while still maintaining service levels.

Property tax continues to recover, albeit at a much slower rate than sales tax. Property tax growth over the past two years has been positive and is expected to reach pre-recession levels within the next three to five years. Several new residential developments are also underway and many others are planned for the future. Future development will also help expand the property tax base; however, property tax revenue for new development is limited due to existing Master Tax Sharing Agreements with the County.

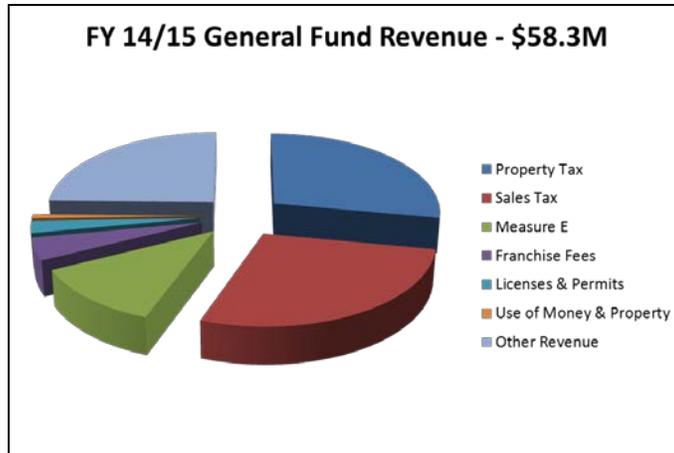
As you can see from the table below, property tax remains significantly lower than pre-recession levels, while sales tax has surpassed peak levels in FY 2006/07. Measure E continues to close the revenue gap while the economy recovers; however, it is still uncertain when the City's revenue situation will stabilize.

General Fund Revenue History



Property tax, sales tax, and Measure E make up a majority of the City's revenue sources. These three revenues are expected to increase, along with permit and development fee revenue. It should be noted that while permit revenue is expected to increase, it will be offset by expenses related to building inspections and planning and engineering services.

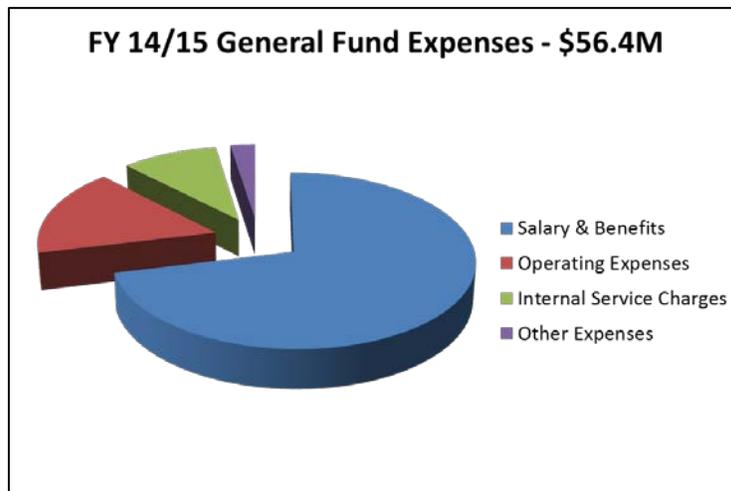
The chart below reflects the City's key revenue sources. Approximately 68% of General Fund revenue comes from property tax and sales tax (including Measure E).



General Fund Expenditures

Total FY 2014/15 General Fund expenditures are \$56.4 million and have increased by 11% compared to the previous year’s budget (excluding transfers and debt service). These expenses are comprised of four major categories: salaries and benefits, internal service charges, debt service, and other operating expenses for supplies and services, which have been adjusted for inflation.

As reflected in the chart below, salaries and benefits continue to be the largest driver of expenditures (71%) of the City’s General Fund operating costs; the budget reflects non-discretionary increases in health care, PERS, and post retirement expenses (conversion of sick leave to reimburse health care premiums). The proposed FY 2014/15 budget also includes employee flex leave per City labor contracts. Flex leave (additional employee hours that can be used as vacation or cashed out) was provided to employees in exchange for paying the employee share portion of the City’s PERS premiums. The provision of flex leave expires at the end of FY 2014/15.



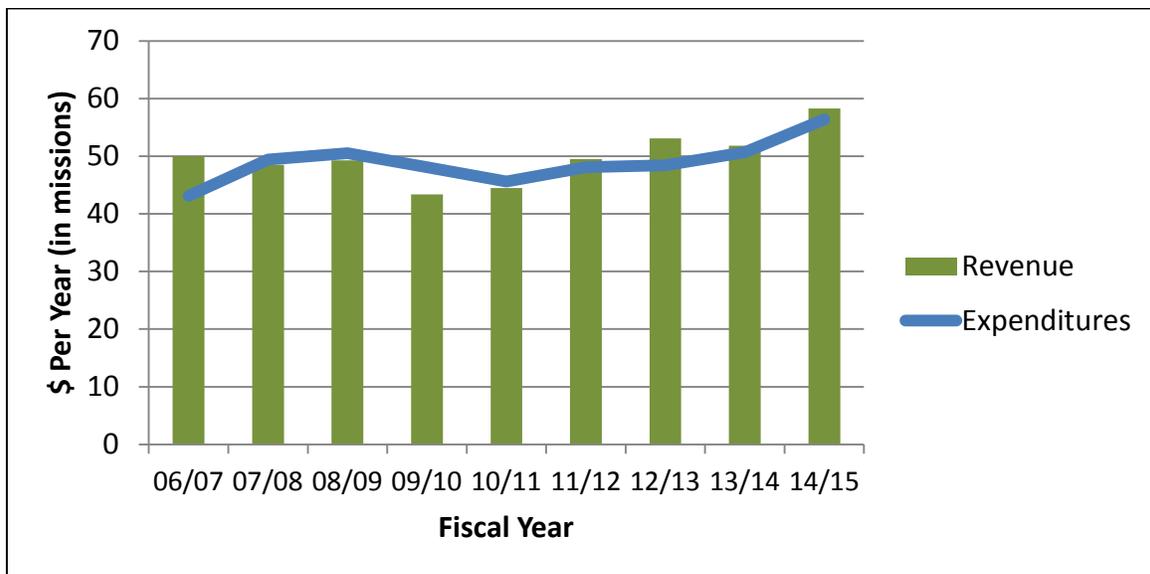
It is important to acknowledge that the cooperation of employee organizations was instrumental in weathering the recession. The City will experience an annual savings of approximately \$3 million in FY 2015/16, prior to the expiration of Measure E.

However, PERS recently adopted a 5-year plan to address changes in mortality and to ensure that the retirement plan is 100% funded in 30 years. Under the old method, plans for the state, local governments and non-teaching school employees were projected to be 79% to 86% funded in 30 years. While this change will provide some rate predictability and mitigate future rate spikes should there be heavy investment losses, it will significantly impact the City's General Fund budget expenditures. PERS increases, coupled with escalations in health care costs will be a budget challenge over the next several years. The table below reflects current and projected PERS costs over the next 6 years:

EMPLOYER SHARE COST	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
<i>Public Safety</i>	\$4.6M	\$4.7M	\$4.9M	\$5.1M	\$5.3M	\$5.4M
<i>Miscellaneous</i>	\$3.1M	\$3.3M	\$3.4M	\$3.6M	\$3.7M	\$4.1M
TOTAL	\$7.7M	\$8.0M	\$8.3M	\$8.7M	\$9.0M	\$9.5M

Since the implementation of Measure E, the City has captured nearly \$8 million from additional revenue and budget savings. While several budget strategies were successfully implemented, the City remains challenged by uncontrollable expenses as noted in the table below. Despite maintaining a 20% staffing reduction since FY 2007/08, the City's expenses continue to increase as reflected on the chart below.

General Fund Expenditure History



FY 2014/15 CAPITAL BUDGET OVERVIEW

The total proposed FY 2014/15 CIP is approximately \$73.1 million. Of that amount, \$64.3 million is for current projects and \$8.8 million is for new projects. Approximately \$1.5 million is available for General Fund projects (Fund 301). As part of the FY 2014/15 CIP Workshop, Council recommended use of Fund 301 monies to support three active projects, including the

Animal Shelter, Fire Station Modifications, and a new financial/human resources system. Funding was also recommended for eight new projects, including:

1. Remodel of Fire Station 96
2. Installation of New Radio Tower at Fire Station 96
3. Modification of City Hall Doors – ADA Compliance
4. Modification of Support Services Building - ADA Compliance
5. Replacement of Automatic Doors at City of Tracy Public Library
6. Repainting of Civic Center Water Tower
7. Replacement of Play Structure at Hoyt Park
8. Replacement of Downtown Up Lights (Phased)

Several new or continuing non-general fund projects are also worth outlining:

- **Water Meter Replacement.** Approximately 23,000 water meters are in the City; many are more than 10 years old and as meters age, they become inaccurate. In FY 2014/15, the City will replace 1,400 meters at no cost to residents and businesses. The new meters will improve the City’s aging infrastructure and ensure accurate water readings, which is critical given the current water situation.
- **11th Street Bridge Replacement.** This project will begin in 2014/15 and involves the demolition of the existing bridge and replacement with a new bridge with two travel lanes in each direction, including a median and bike lanes and sidewalk. A temporary bridge will be constructed and serve as a detour. It will be located on the south side of the existing bridge.
- **Airport Pavement Rehabilitation – Phase 1.** This project will include the resurfacing of paved areas based on the results of a pavement study.

GENERAL FUND FIVE-YEAR FINANCIAL PLAN

The General Fund Five-Year Financial Plan spans FY 2014/15 through FY 2018/19 and is based on several key general fund revenue and expenditures assumptions, many of which are determined by established policy, trend analysis from prior years, and/or empirical data provided by consulting and auditing firms.

The five-year financial projections below reflect revenues less expenditures for FY 2014/15 through FY 2018/19.

FIVE-YEAR FINANCIAL PLAN

GENERAL FUND FORECAST	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
REVENUES	\$58.3M	\$57.8M	\$55.3M	\$55.6M	\$58.5M
EXPENDITURES	\$57.6M	\$56M	\$57.9M	\$60M	\$62.4M
REVENUES LESS EXPENDITURES	\$700K	\$1.8M	(\$2.6M)	(\$4.4M)	(\$3.9M)

Excess revenue is anticipated for FY 2014/15 and potentially FY 2015/16. FY 2013/14 year-end projections assume net resources of \$4.7 million. This is due to an improving economy, uptick in development, and strong sales tax growth. As mentioned previously, unlike sales tax, property tax has not yet returned to pre-recession levels; however, preliminary trends indicate that assessed value in San Joaquin County may significantly improve over the next couple of years. It is important to remember that the City's portion of property tax revenue is limited for new development – for every dollar, the City only receives roughly 5.25 cents versus the City's regular share, which is 35 cents per dollar. For some developments, the City receives little to no property tax.

Non-discretionary expenditures continue to rise due to changes in employee health care expenses, adjustments to PERS, scheduled employee merit increases, cost of living increases in commodities and maintenance contracts, utilities, and required life and safety expenses. The Five-Year Financial Plan does not assume any new positions or adjustments to employee salaries. While past reduction strategies will help mitigate the loss of Measure E in the short term, uncontrollable expenditures have grown, contributing to future deficits.

Several revenue opportunities are on the horizon, but cannot be incorporated into the forecast until there is a higher level of certainty as to if and when those projects will occur. In the interim, staff continues to develop revenue enhancement strategies and cost-containment approaches to mitigate assumed future deficits.

GENERAL FUND RESERVES

The City's General Fund Reserve continues to be strong. As of June 30, 2013, the City's total reserves were \$28.9 million; of that amount, approximately \$27.5 million is unassigned, which includes the City's Reserve for Economic Uncertainty (\$9.9 million). The unassigned fund balance of \$27.5 million represents 55% of total General Fund expenditures for FY 2013/14. The City's reserve policy requires a reserve level of 20% of General Fund expenditures. Proposed FY 2014/15 General Fund reserves are estimated to be \$33.6 million.

The effects of Measure E combined with the economic recovery are evident because the City has not had to use its Reserve for Economic Uncertainty to balance its budget since FY 2012/13. Although the FY 2012/13 Adopted Budget was originally balanced with reserves, the fiscal year ended with excess revenue in the amount of \$1.9 million. Similarly, FY 2013/14 is expected to close at year-end with an estimated \$4.7 million in General Fund net resources. Per Council policy, year-end savings/excess revenue is allocated to the Reserve for Economic Uncertainty.

	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
<i>GENERAL FUND ENDING BALANCE</i>	\$19M	\$19M	\$19M	\$19M	\$19M
<i>RESERVE FOR ECONOMIC UNCERTAINTY</i>	\$10.5M	\$8M	\$8M	\$9.9M	\$14.6M
SUBTOTAL	\$29.5M	\$27M	\$27M	\$28.9M	\$33.6M
<i>DEFICIT/EXCESS REVENUE</i>	<i>(\$2.5M)</i>	<i>(\$52K)</i>	\$1.9M	\$4.7M	\$700K
ENDING TOTAL RESERVES	\$27M	\$26.9M	\$28.9M	\$33.6M	\$34.3M

Options for General Fund Reserves:

The Council will be reviewing its General Fund Reserve Policy and exploring reserve diversification options for future financial planning purposes. Options for consideration when addressing the use of revenues in excess of expenditures or non-recurring one-time revenue may include, but are not limited to the following:

- Establishing a Capital Projects Reserve for infrastructure, facilities, sports fields, or other amenities;
- Establishing an Economic Development Reserve Fund to support economic development activities; and
- Establishing a Measure E Smoothing Fund by setting aside excess revenue in a special fund for smoothing purposes if the City cannot balance its General Fund budget without Measure E in FY 2016/17.

PROPOSED FY 2014/15 GENERAL FUND BUDGET AUGMENTATIONS

Total proposed FY 2014/15 General Fund Budget Augmentations, including one-time costs are approximately \$3.7 million, which is a 7% increase over the FY 2014/15 base budget of \$52.7 million. A significant majority of the augmentations are due to projected development related expenses, including building and engineering plan check and inspections, which have offset revenue. Taking development expenses and estimated one-time costs (\$523,000) into consideration, proposed augmentations are estimated to be \$1.1 million as reflected in the table below.

Proposed FY 2014/15 General Fund Budget Augmentations

Proposed FY 2014/15 Budget Augmentations	\$3.7M
Less Development Expenses*	(\$2.0M)
Less One-Time Expenses	(\$523K)
Total Budget Augmentations	\$1.1M

*Anticipated development revenue for these services make this expense cost neutral.

Ongoing General Fund Budget Augmentations

Of the \$1.1 million of ongoing augmentations, approximately \$482,070 relate to quality of life initiatives; \$106,390 relates to public safety; \$137,690 relates to technology; and \$112,000 relates to organizational restructuring and efficiency efforts. The remaining augmentations are approximately \$261,850, and are for miscellaneous items, including but not limited to: police background investigations, required minimum wage adjustment for fire reserves, sidewalk cleaning, Channel 26 resources, and external technology support services. The proposed augmentations are listed below.

- **Quality of Life Initiatives: \$482,070**

- *City Facility Rentals: \$44,490.* Funding has been included in the budget to maintain existing City facility and sports field rental service levels and address future demand. In particular, Sports facility use has increased by 33% due to an increase in local travel teams. Limited access to local school district sports fields is also expected to increase demand.
- *Expansion of Senior Center Hours: \$38,400.* To better serve the senior community, Senior Center hours will be expanded from 30 to 37.5 hours per week as well as recreational classes, educational programs and special events. The Senior Center serves an average of 300 participants per day in various recreation programs.
- *Parks and Sport Field Operations and Maintenance Costs: \$38,730.* Funding has been included in the budget to: (1) maintain Legacy Fields, including developed and non-developed park areas, gravel parking lots, fence lines, irrigation systems, booster pump stations, and irrigation ponds; (2) adjust tree maintenance contract due an increase in the number and size of park trees; (3) purchase additional custodial supplies, equipment, and tools to respond to higher volume in park and sports field rentals; and (4) address mandated Federal Communications Commission (FCC) requirements that will require an upgrade of the City's irrigation central control system.
- *City LIRA program: \$360,000.* LIRA, a low-income utilities discount program had been inadvertently funded from the City Water, Wastewater, and Solid Waste Funds, which is not an allowable use of enterprise funds. Enterprise revenues may only be used to support enterprise expenditures. Funding for this program should be provided through the General Fund. Approximately 1,684 households in Tracy participate in the LIRA program.

- **City Wide Restructuring and Efficiency Efforts: \$112,000**

- *Risk Management Services: \$100,000.* Currently, the City does not have dedicated risk management personnel to manage workers' compensation and general liability cases, and coordinate the City's safety program. Having a dedicated resource could reduce the City's annual insurance premium, which is approximately \$2.7 million. A Risk Coordinator position has been included in the budget to contain and/or reduce risk/liability costs.
- *Counter Customer Service: \$12,000.* Due to prior service reductions, the City has been challenged with providing consistent counter coverage to assist City Hall visitors and customers, and telephone inquiries. Additional part time hours have been included in the budget to ensure continuity in service delivery to the community.

- **Public Safety Resources: \$106,390**

- *School Crossing Guards: \$10,000.* Due to the State of California minimum wage mandate, school crossing guard hourly rates will be adjusted.

- *Emergency Management System (EMS) Specialist: \$68,220.* An EMS Specialist position is required condition of the City's ALS agreement with San Joaquin County. This position will administer pre-hospital emergency medical services including Advanced Life Support (Paramedic) Service, train and evaluate EMS performance, and ensure compliance with mandates established by Federal, State and County regulations specific to EMS.
- *Fire Public Education/Prevention Training: \$1,670.* Funding has been included to sustain public education programs within the Fire Department, including but not limited to: Learn Not to Burn fire safety awareness, Water Watchers drowning prevention, S.A.F.E Homes smoke alarm project, Senior Citizen Safety, and general public education.
- *Police Reserve Officers Program: \$26,500.* Funding has been included to reinstate a Police Reserve Officer program and purchase uniforms and safety equipment.
- **Technology Initiatives: \$137,690**
 - *Geographic Information Services (GIS): \$57,690.* In 2007, an operational analysis was completed of the Public Works Department, which demonstrated the need for a comprehensive city-wide GIS system. Subsequently, a series of Council goal setting workshops were held and direction was given to implement a 3-year GIS project. Approximately \$3.1 million was invested in the project, including data maintenance through June 2013. The City continues to pay ongoing GIS software license costs of \$57,000, yet there are no dedicated resources to update and maintain the existing system. A GIS Technician has been included in the budget to ensure the accuracy of information related to emergency responses, crime prevention, fire hazards, planning, development, utility (storm drain, water, wastewater, and electric), and CIP projects. The cost of this service will be split between the General Fund and Enterprise Fund(s).
 - *Computer Aided Dispatch (CAD)/Records Management System (RMS) Support: \$50,000.* Funding is required for the Police Department's new CAD/RMS system which automates field reporting, interfaces with other safety systems, and provides predictive data collection. Previously budgeted annual maintenance fees were increased as a result of the new system.
 - *Information Technology Contract and Hardware Support: \$30,000.* Funding has been included in the budget for annual adjustments for 25 active information technology support contracts with various vendors (Cisco, Microsoft, ESRI).
- **Miscellaneous Augmentations: \$261,850**
 - The remaining augmentations are for miscellaneous items, including but not limited to: police background investigations, required minimum wage adjustment for fire reserves, sidewalk cleaning, Channel 26 resources, and external technology support services, position reclassification studies, operational supplies, and professional training.

One-Time General Fund Budget Augmentations

Proposed FY 2014/15 one-time budget augmentations are approximately \$523,000 and do not have ongoing operational impacts. Key proposed one-time expenses, include but are not limited to:

- **Ballistic Vests, Tasers, and Portable Radios: \$72,600**
Provides funding to replace ballistic vests for full-time Police Officers and Reserve Officers. Includes the purchase of portable radios for Reserve Officers, and assignment of new tasers to sworn staff.

- **New Fire Engine and SCBA Field Equipment: \$66,000**
Provides funding to equip one fire engine with tools and supplies necessary to respond to emergencies. The City is purchasing two new fire engines (FY 2013/14) which are expected to be delivered during FY 2014/15. The department will replace one existing fire engine and move the existing equipment to the new unit; the department will retain one unit and place it in reserve status which means it will retain its existing equipment. This equipment will allow the department to retain a reliable reserve or “back-up” apparatus to be used when front-line equipment is in for maintenance without interrupting service to the community.

The Fire Department will also purchase new Self-Contained Breathing Apparatus (SCBA) field equipment to replace existing equipment.

- **Labor Negotiations: \$107,400**
Provides funding for labor negotiations (legal consulting services) for five represented bargaining groups. Labor contracts will expire in June 2015.

- **Fee Study: \$45,000**
Provides funding to begin a phased study of the City’s fees to assess recovery levels, and determine if the amount charged for existing fees is appropriate.

- **Enterprise Resource Planning (ERP) System Staff Overtime: \$70,000.**
Provides funding to support necessary overtime as a result of implementing the City’s new financial/human resources system. It is anticipated that the system will be fully implemented within two years.

- **Election Costs: \$102,000**
Provides funding for associated election costs due to the County as a result of the November 2014 Gubernatorial Election.

FUTURE CHALLENGES

As discussed earlier, this budget is presented with cautious optimism. Several issues are on the horizon that will require strategic attention as the City continues to grow and pursue its goal of building an economically robust and fiscally sustainable community.

Expiration of Measure E

When Measure E was approved by the voters in 2006, its purpose was to serve as temporary bridge funding to allow the City to make expenditure adjustments while the economy recovered. Although the revenue picture has improved and the City has been able to balance its budget without reserves, it has only been able to do so because of Measure E. Measure E is expected to generate \$7 million in FY 2014/15. Given this, the City must examine its reliance on Measure E and realign its budget and operational needs and base them on permanent resources. This process will require Council and the community to explore and prioritize its service expectations and needs.

PERS Rate Increases

Due to changes in actuarial assumptions related to mortality coupled with past investment losses, PERS will adjust rates to absorb the costs of retired workers living longer. While the implementation of the rate increases will be phased in over a 5-year period and is effective FY 16/17, it comes on the heels of rate increases already scheduled for FY 14/15 – FY 15/16. It is anticipated that over the next 5 years, the City will have paid approximately \$52 million in PERS expenses.

Future E-Commerce

The future of e-commerce and allocation of internet sales tax continues to be unclear. In June 2012, the League of California Cities Revenue and Taxation Committee adopted a policy position that tax proceeds collected from internet sales should be allocated to the location where the product is received by the purchaser. This is contrary to the past practice of the Board of Equalization (BOE), which has allocated internet sales tax based on the location of the sales order desk.

While it is difficult to determine how this may affect revenue generated by the City's future fulfillment centers, the City will continue its efforts to diversify its sales tax portfolio and protect local resources by actively using lobbyist and sales tax consultant resources.

Unmet Staffing Needs

Since the Great Recession, the City has maintained a 20% reduction in its workforce, but not without its challenges. While this strategy was helpful in lowering expenses, the City continues to struggle in doing more with less as service levels were not adjusted to reflect available resources. Staffing reductions without corresponding service reductions contributes to poor customer service and operational inefficiencies. Given this, the City must explore alternative service delivery options and the restoration of select city-wide positions. The decision of restoring staffing will be strategically and carefully evaluated based on the overall benefit to the community and/or efficiencies that may result in immediate or future budget savings.

Facility (Non-Safety) and Infrastructure Funding

One significant challenge facing the City is the increasing cost of maintaining its infrastructure. This is due to the following three factors: (1) as Tracy ages, so does its public infrastructure; (2) increased growth results in additional infrastructure maintenance, which further stretches

City's resources; and (3) maintenance requirements, which are regulatory in nature, have increased and add significant costs. Addressing this concern becomes even more challenging given competing priorities for City resources.

CONCLUSION

The City of Tracy is proud of its prudent use of resources, which has enabled it to successfully navigate through the prolonged recession. The impacts of any additional economic downturn will require the City to reevaluate its service goals and priorities. However, past fiscal discipline and wise stewardship has made it possible for the City to take a balanced approach as we begin to strategically plan for the future.

I would like to thank the City Council and City staff for their continued partnership that has allowed us to effectively meet the challenges we face and take advantage of new opportunities as we move forward.

A handwritten signature in black ink, appearing to read "M. Hurtado". The signature is fluid and cursive, with the first letter of each word being capitalized and prominent.

Maria Hurtado
Interim City Manager

Appendices:

1. City of Tracy 2-Year Strategic Business Plan
2. City of Tracy Performance Measurement - International City/County Management Association (ICMA) for Performance Measure
3. City Profile
4. City of Tracy Statistics
5. Addendum to Section A



ECONOMIC DEVELOPMENT STRATEGY

Purpose: Enhance the competitiveness of the City while further developing a strong and diverse economic base.

Goal 1

Create head-of-household jobs reflective of the City's target industries and those that best match the skill sets of the local labor force.

Objectives

- Focus business recruitment efforts on our identified Target Industries: Medical Equipment & Supplies, Food Processing, Renewable Resources & Technology, Manufacturing, Backroom Office & IT.
- Foster relationships with existing businesses to support the overall upgrade and expansion of employment opportunities.
- Continuously review and improve the streamline permit process and ensure quality infrastructure to meet future development needs.

Performance Measures

- Increase overall job growth by 5% citywide annually.
- Target 30% of new jobs annually to be head-of-household positions.
- Approve 4 Grow Tracy Fund Loans to new/existing businesses.

Goal 2

Attract retail and entertainment uses that offer residents quality dining, shopping and entertainment experiences.

Objectives

- Focus retail recruitment efforts on quality retailers and restaurants that meet the desires of the community.
- Increase the entertainment and recreational opportunities and events that draw people into Tracy.
- Collaborate with and support the Tracy City Center Association in an effort to increase the drawing power of the downtown.

Performance Measures

- Attract 5 'unique' retailers that are not currently in the trade area.
- Increase sales tax revenue by 8% annually.
- Increase TOT revenue by 5% annually.
- Decrease downtown vacancy rate by 5% annually.

Goal 3

Support a higher education presence in Tracy.

Objectives

- Research and collect supportive data to demonstrate the regional demand for higher education.
- Identify potential higher education partners and begin marketing and outreach efforts to encourage the development of programming in Tracy.
- Partner with current university recruitment group in educating the Tracy community on the assessment and possible benefits of higher education in Tracy.

Performance Measures

- Distribute marketing and outreach materials to a dozen higher education institutions.
- Meet with and tour 4 higher education institutions in Tracy.

Goal 4

Position Tracy as the preferred location for start-up companies and entrepreneurial investment.

Objectives

- Explore opportunities for the development of existing incubator and entrepreneur programs in the region, including: San Joaquin Angel Network, Allamont Cowork, Tracy Chamber Entrepreneurs Group, etc.
- Attract start-up companies and entrepreneurs from the Silicon Valley and Bay Area region.

Performance Measures

- Identify 2 office locations and associated funding to aid in the attraction of start-ups and entrepreneurs.
- Foster relationships with 5 start-up companies and/or entrepreneurs.
- Secure \$50,000 of sponsorship funding to further develop the initiative of attracting start-ups entrepreneurs to Tracy.



PUBLIC SAFETY STRATEGY

Purpose: To enhance community safety by promoting a responsive public safety system that includes civic engagement and partnerships, community involvement, public education and offering prevention, intervention and suppression services that meet the needs of Tracy residents

Goal 1

Partner with and engage residents to address public safety concerns

Objectives

- Increase two-way communication regarding Part II crime information and prevention.
- Increase visibility of public safety in the community.
- Increase community volunteer opportunities to maximize engagement.

Performance Measures

- Increase visibility & usage of GO Request smart phone app o internal and external customers by 5%.
- Re-establish an Adopt a Park program with the adoption of 4 parks during years 2013/14 and an additional 4 during year 2014/15.
- Increase VIP participants 10% annually.
- Increase Drown Without a Sound presentations by 10% annually
- Increase neighborhood Watch program by 5% annually.

Goal 2

Promote public health, safety, and community welfare by responding and addressing unsafe, unhealthy or blighted conditions in homes, neighborhoods and the entire community.

Objectives

- Reduce the number of blighted property conditions.
- Streamline enforcement processes regarding citywide violations that cross departments.
- Establish an awareness campaign to the community and schools on common code violations.

Performance Measures

- Reduce blight related complaints by 5% annually.
- Broaden education component to include annual outreach to students in K-8 grades.
- Create an implement an annual training presentation to City departments to streamline the enforcement process for more prompt resolution.

Goal 3

Enhance citywide disaster preparedness

Objectives

- Develop and implement a community education program for internal and external customers to better prepare and respond to man-made and natural disasters.
- Develop a City-wide emergency safety and evacuation plan in the event of power outage, technological failure or natural or man-made disasters to as not to impact public safety.

Performance Measures

- Increase CERT graduates by 10% annually.
- Participate in the annual Statewide "Great Shake Out" Earth Quake Preparedness Drill.
- Implement a City Hall Emergency Evacuation and Safety Plan for City Hall employees.

Goal 4

Reduce the number of major injury collisions

Objectives

- Increase public awareness of traffic safety issues specific to Tracy.
- Increase traffic related enforcement by 5%.

Performance Measures

- Conduct presentations to all local high schools regarding distracted driving and texting while driving statistics.
- Develop and distribute literature at a citywide level on current trends relating to distracted driving and don't text while driving initiatives.



GOVERNANCE STRATEGY

Purpose: To retain and attract new talent, enhance fiscal stability, improve the use of technology, and enhance transparency for the betterment of the community of Tracy.

Goal 1

Further develop an organization that attracts, motivates, develops and retains a high quality, engaged, informed and high-performing workforce

Objectives

- Identify outreach opportunities to promote Tracy as a desirable place to work.
- Affirm organizational values.
- Evaluate and promote Tracy W.I.N.S.

Performance Measures

- List of methods for outreach and promotion of Tracy is created.
- Analysis of interdepartmental sampling of organizational values, and revise if necessary.
- Maintain 95% enrollment capacity in each TPI class.
- 80% of all TPI course evaluations rates 4 or above.
- Analysis of curriculum

Goal 2

Ensure continued fiscal sustainability through financial and budgetary stewardship

Objectives

- Update General Fund reserve policy.
- Development of revenue growth and expenditure reduction strategies.
- Enhance fiscal transparency.

Performance Measures

- Updated General Fund reserve policy that is part of the annual budget book
- Comprehensive fee study of development fees with proposed fees and rates
- Council approved one-time revenue policy
- Council approved long term liability strategy

Goal 3

Identify technological resources to promote communication and civic engagement, enhance city services, and promote organizational productivity.

Objectives

- Develop IT policy guidelines to coordinate and streamline the implementation of new software/hardware.
- Implement productivity initiatives to improve organizational effectiveness.

Performance Measures

- Policy for software/hardware standardization throughout the City developed
- Areas identified where technology can be used to make improvements along with associated costs
- Prioritized technology resource list along with associated costs



QUALITY OF LIFE STRATEGY

Purpose: The purpose of the Quality of Life Strategy is to provide an outstanding quality of life by enhancing the City's amenities, business mix and services and cultivating connections to promote positive change and progress in our community.

Goal 1

Improve current recreation and entertainment programming & services to reflect the community and match trending demands

Objectives

- Analyze current programming participation trends and submitted evaluations.
- Interpret city and school district demographic shifts and recommend service improvements accordingly.
- Align recreation and cultural arts services & programs to match demographics, evaluation feedback and trends.

Performance Measures

- Review at least 80% of submitted evaluations from classes between the summer of 2012 and summer of 2013.
- Generate a quarterly report from class to view participation trends.
- Pilot at least 3 new recreation & cultural arts classes/programs per season.
- Present at least 6 presentations to city departments, including council on the demographic changes affecting programming and recreational services.
- Increase resident enrollment by 10% in city classes.

Goal 2

Address city amenities and facility usage with an emphasis on accessibility and streamlined services.

Objectives

- Update facility use policies to protect and preserve our current inventory of amenities.
- Explore public-private facility initiatives geared towards a multi-use facility.
- Implement facility and class software improvement recommendations to sync facility rentals, class enrollments and cultural arts needs.

Performance Measures

- Conduct at least 3 community conversations with facility users to discuss policy.
- Provide management with a semi-annual inventory of current partnerships.
- Launch new class software.
- Increase software registrants by at least 10%.
- Train at least 10 staff members on the new class software.

Goal 3

Cultivate Community Engagement through digital and traditional means

Objectives

- Develop a value based marketing and communications plan bridging the gap between residents, businesses and the city.
- Implement an on-line citizen engagement plug-in to the website that allows residents to share ideas, and digitally interact with Council meetings.
- Explore media partnerships with local news agencies to feature or provide column space for city news, editorials and information.

Performance Measures

- Circulate 4 marketing pieces to strategic locations throughout the city.
- Increase digital users of current city tools by 20%.
- Increase website "new" visitor hits by 15%.
- Produce at least 6 articles/info pieces for media publication.
- Host at least 2 media receptions at City Hall.

Goal 4

Coordinate community outreach with all strategic priority teams

Objectives

- Implementation of an electronic communication strategy to enhance communication, transparency and engagement.
- Assist Public Safety strategy team with goal 1, objective 2 and the Economic Development team with goal 2, objective 2.

Performance Measures

- Increase visibility and usage of email subscription service to internal and external customers by 20%.
- Collaborate with strategy teams on at least four public education and marketing events.
- Identify at least 6 community outreach opportunities.
- Create 4 email distribution templates for City departments.

City of Tracy Performance Measurement
Program Participating in the
ICMA Center for Performance Measurement

The City's Strategic Priorities program presented on the preceding pages is a strategy planning effort at the policy and management level by the City Council and the City's top management. It has its own goals, objectives, and performance measurements. However, there is also a need to have performance objectives and measurements at the operational and day-to-day service level.

In 2009, the City became a participating agency in the ICMA-CPM comprehensive program. The International City Management Association's Center for Performance Measurement (ICMA-CPM) was established in 1984. It was created to help cities and counties obtain accurate, fair, and comparable data about the quality and efficiency of service delivery to their citizens. It is grounded in the belief that elected officials, appointed managers, department heads, staff and citizens all need a way to assess how well government services are being delivered and to establish priorities for the future.

The benefits of participating in CPM are:

- ◆ Assistance with year-to-year internal and cross jurisdiction comparisons
- ◆ Low-cost, high-tech approach to performance measurement
- ◆ Reliable data comparisons
- ◆ Move beyond simple collecting and reporting and encourage incorporation of measures into budgets
- ◆ Linkage to strategic plans and goal setting
- ◆ Used to communicate to citizens
- ◆ On-site training and technical support
- ◆ Easy to use interactive web resources including: online templates, downloadable data sets

City staff has started participation in the program. Data templates and preliminary training on them were received in 2009. In August of 2009, data for FY08-09 was submitted to ICMA. City of Tracy data was included in the 2009 and 2010

Comparative Performance Measurement data reports issued by the ICMA-CPM. Since then, data has been submitted for 2011 and 2012. Data for FY12-13 will be submitted in September 2013.

ICMA-CPM data templates are available for the following service areas:

- ◆ Police Services
- ◆ Fire/EMS
- ◆ Highway and Road Maintenance
- ◆ Refuse and Recycling
- ◆ Housing
- ◆ Human Resources
- ◆ Fleet Management
- ◆ Facilities Maintenance
- ◆ Parks and Recreation
- ◆ Code Enforcement
- ◆ Information Technology
- ◆ Risk Management

For each area, there are a number of core measures in the data templates. These measures attempt to focus on service efforts and accomplishments, highlighting service efficiency and effectiveness. However, to compute these core measures a series of questions must be answered to provide supporting base program data in terms of demand, workload, output, expenditures, and staffing. The data templates provided by ICMA-CPM are pre-designed spreadsheets which are used to report the base data collected, and they calculate of the various core measures.

For a number of years now, City staff has been collecting and reporting base data in various service areas. This data has been included as key indicators for various departments in the City's budget document. In the future, the intent is to replace the key indicators with the core measures. The first effort for such presentations is included in this budget document.

City Profile TRACY, CALIFORNIA

Located in Northern California, 60 miles east of San Francisco, 70 miles south of Sacramento, 20 miles south of Stockton, and 343 miles north of Los Angeles

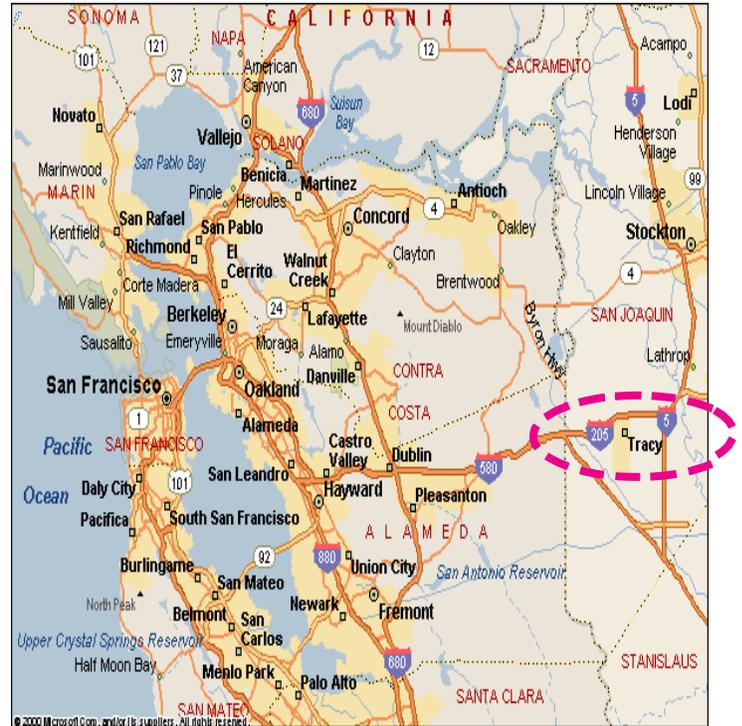
Located within a triangle formed by I-5, I-205, and I-580

The community was founded in 1878 as a railroad center. It was incorporated as a city in 1910. For many decades, it served both as a railroad center and farm market town. Since World War II, it has been the location of a defense supply center. By 1960, the City's employment base included a few food processing plants and small related manufacturing operations within the town and its vicinity. A state correctional facility and both a federal and a state water project facility are located nearby.

However, due to Measure A, the housing boom in Tracy started deflating, going from 1,345 permits for new homes in 2002, down to 1,081 in 2004, and then down to 382 and 172 in 2005 and 2006. Of course, with the nationwide housing mortgage default and foreclosure crisis, only 27 and 18 permits were issued in 2007 and 2008 respectively. So, the boom era is over; and with Measure A, a local restart is not anticipated before 2013.



In 1985, the City's population was 25,400. Since then, Tracy has experienced a period of major growth influenced by the East Bay area of the San Francisco region, where considerable office and industrial development has been occurring. With this development and the problem of affordable housing, Tracy, with more affordable housing than the Bay area, has become an attractive residential location for many Bay area workers. Tracy has become more of an outer suburb of the Bay area, rather than a small agricultural and industrial town. Also, Tracy has been experiencing industrial growth with new trucking, warehousing, and distribution facilities, as a number of firms seek to relocate from the Bay area.



The State Department of Finance population estimate for Tracy, as of January 1, 2014, was 85,146. City staff estimate that 86,400 will be reached by January 2015.

City of Tracy Statistics



Demographics

	85,146 ^{*1} 84,682 ^{*2}		Area 29.1 Miles	
	2010 Data	2012 Data	Tracy Percent	U.S. Percent
Total Population				
Male	41,107	43,188	51.0%	49.2%
Female	41,815	41,494	49.0%	50.8%
Median Age	32	35		37.4%
Less than 18 years	26,668	24,896	29.4%	23.5%
18-64 years	50,504	51,689	61.0%	62.8%
65 years and over	5,750	8,107	9.6%	13.7%
White	43,724	60,039	70.9%	73.9%
Asian	12,229	13,041	15.4%	5.0%
Black	5,953	6,435	7.6%	12.6%
Mixed or other races	21,016	5,167	6.1%	8.5%
Labor Force	39,837	42,694		
% of population over 16	64.4%	73.6%		63.8%
Unemployment	10.8%	12.7%		9.4%

Major Area Employers ^{*3}	Employees
Safeway Distribution Center	2,000
Tracy Depot, Defense Logistics Agency	1,375
Tracy Unified School District	1,600
Duel Vocational Institution	1,300
City of Tracy	460
Sutter Tracy Community Hospital	568

Other Employment	Firms	Employees
Distribution/Transportation	10	1760
Manufacturing	5	1100
Food Processing	4	1130

Data Source:

^{*1}California Department of Finance, January 1, 2014 estimate

^{*2}U.S. Bureau of Census/2012

^{*3}City of Tracy, Economic Development Department

Housing

	Housing Units 25,963 ^{*2}			
	2010 Data	2012 Data	Tracy Percent	U.S. Percent
Occupied Units	24,331	23,332	94.5%	87.6%
Owner Occupied	16,163	15,259	61.8%	55.9%
Median Value	\$386,800	\$ 236,000		\$171,900
Rentals	8,168	8,073	32.7%	44.1%
Vacant Units	1,632	1,357	5.5%	12.4%
Average Household Size	3.4	3.63		2.64
Income (2010 inflation adjusted)				
Median Household Income	\$ 76,753	\$ 69,514	\$ 69,514	\$ 51,371
Median Family Income	\$ 82,385	\$ 75,895	\$ 75,895	\$ 62,527
Per Capita Income	\$ 26,956	\$ 25,364	\$ 25,364	\$ 27,319
Families below poverty level	7.4%	5.0%	5.0%	11.8%

Major Retail Outlets

JCPenney	Macy's
Best Buy	Sears
Staples	Wal-Mart
Costco	Target
Petco	Home Depot
Petsmart	Bed, Bath & Beyond

Supermarkets

Safeway	Winco
Mi Pueblo	Save Mart (3)
Raley's	

Hospitality

Hotels/Motels (12), 755 rooms
Major Restaurants

**FY 2014/15 ADOPTED BUDGET
ADDENDUM OF BUDGET ACTIONS**

The proposed FY 2014/15 budget was released on May 29, 2014. It was presented to the City Council at a budget workshop on June 3, 2014. A public hearing on the proposed budget was held on June 17, 2014. After the public hearing, the City Council adopted and approved the proposed budget as modified for FY 2014/15.

The following shows a summary of the changes between the Proposed FY 2014/15 Budget and the Adopted FY 2014/15 Budget.

	PROPOSED	CHANGE	ADOPTED
<i>General Fund</i>	\$ 56,402,850	\$ 19,800	\$ 56,422,650
<i>Other Funds</i>	69,867,710	(19,800)	69,847,910
<i>Capital Budget</i>	73,116,210	1,614,000	74,730,210
<i>Debt Service</i>	26,937,630		26,937,630
TOTAL:	\$226,324,400	\$1,614,000	\$227,938,400

The following changes were made to the FY 2014/15 Proposed Operating Budget:

- 1) A new Executive Assistant position proposed for the Utilities Department was reallocated to the Development Services Department, while an Administrative Assistant II position assigned to the Development Services Department was reallocated to the Utilities Department.

This change increased the Development Services Department budget by \$19,800, while the Utilities Department budget funded by the Water and Wastewater funds decreased by \$19,800.

- 2) A Capital Improvement Program (CIP) project for \$3,523,000 was added to the Capital Budget to replace Joe Wilson Pool located at Dr. Powers Park. This project will be funded through the General Projects Fund 301 by a transfer of \$1,909,000 from the Aquatics Center CIP 78054 and a transfer of \$1,614,000 from Year-End excess revenue.