

## SPECIAL MEETING AGENDA

Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Measure E Residents' Oversight Committee** is hereby called for:

**Date/Time:** Monday, June 29, 2015; 5:30 p.m.  
(or as soon thereafter as possible)

**Location:** City Hall Conference Room 109  
333 Civic Center Plaza, Tracy, CA 95376

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Measure E Residents' Oversight Committee on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

1. Call to Order
2. Roll Call
3. Items from the Audience – *In accordance with Procedures for Preparation, Posting, and Distribution of Agendas and the Conduct of Public Meetings, adopted by Resolution 2015-052, any item not on the agenda brought up by the public at a meeting, shall be automatically referred to staff. If staff is not able to resolve the matter satisfactorily, the member of the public may request a Measure E Residents' Oversight Committee Member to sponsor the item for discussion at a future meeting*
4. Approve Minutes: June 1, 2015
5. Receive final Committee-approved Annual Report
6. Review and Approve Measure E Annual Report PowerPoint Presentation
7. Confirm Next Meeting Date
8. Adjournment

**Posting Date: June 18, 2015- Web; June 17, Library and City Hall**

The City of Tracy complies with the Americans and Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6000), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Measure E Residents' Oversight Committee regarding any item on this agenda will be made available for public inspection in the Finance Department located at 333 Civic Center Plaza, Tracy, CA during normal business hours.

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

June 1, 2015 5:30 p.m.

City Hall Conference Room 109, 333 Civic Center Plaza

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

1. CALL TO ORDER: Michel Bazinet called the meeting to order at 5:30 p.m.
  
2. ROLL CALL:
  - Present: Kevin Tobeck, Michel Bazinet, John Ferguson, Larry Fragoso
  - Absent: Eleassia Davis
  - Staff Present: Anne Bell, Mgt. Analyst II, Administrative Services Dept.,  
Finance Division
  - 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 FROM APRIL 20, 2015:
  - Motion to approve Minutes: Larry Fragoso
  - Second motion: John Ferguson
  - All in favor: John Ferguson, Michel Bazinet, Kevin Tobeck, Larry Fragoso
  
5. REVIEW AND APPROVE MEASURE E ANNUAL REPORT
  - Chairman Bazinet reviewed the first draft of the Committee's proposed Annual Report (see attached).
  
  - Motion to approve Measure E Annual Report with minor corrections: John Ferguson
  - Second: Larry Fragoso
  - All in Favor: Michel Bazinet, Kevin Tobeck, John Ferguson, Larry Fragoso
  - All Opposed: None
  
6. CONFIRM NEXT MEETING DATE: June 29, 2015 is the confirmed Special Meeting Date.
  
7. ADJOURNMENT
  - Motion to adjourn: Kevin Tobeck
  - Second: John Ferguson
  - All in favor: Kevin Tobeck, John Ferguson, Michel Bazinet, Larry Fragoso
  - All Opposed: None

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 2015-052. These are the summary and action minutes.*

*Attest:*

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*Anne Bell, Staff Liaison*

MEASURE E RESIDENTS OVERSIGHT  
COMMITTEE  
2015 Annual Report

Authors: [Measure E Residents Oversight Committee](#)  
Creation Date: May 7, 2015  
Last Updated: June 18, 2015  
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Status: DRAFT

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## Document Control

### Contributors

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Elessia Davis	Measure E Residents Oversight Committee	
John Ferguson		
Kevin Tobeck		
Larry Fragoso		
Michel Bazinet		

### Change Record

Date	Name	Version	Change Reference
6/1/15	Michel Bazinet	1.0	Initial draft

### Document References

Title	Date	Source
Auditor's certification of Measure E revenue for FY ending Jun 30, 2014	Dec 11, 2013	Moss, Levy & Hartzheim, LLP
Acceptance of the City of Tracy's Comprehensive Annual Financial Report (CAFR) for FY Ending Jun 30, 2014	Jan 7, 2014	Tracy city council meeting, agenda item 1.C
Fiscal Year 2013/14 General Fund Mid-Year Budget Performance Report and Five Year Financial Plan Update – not yet available	Feb 18, 2014	Tracy city council meeting, agenda item #4
FY 13/14 General Fund Mid-Year Budget Review, Budget Performance and Status Report (For Q2 Ending Dec 31, 2013)	Feb 18, 2014	Presentation by Jenny Haruyama to Tracy city council
Workshop to review and the proposed FY2014/15 city budget, five year forecast and general fund reserves	Jun 3, 2014	Tracy city council meeting, agenda item 4

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## 1. Overview

*This report was approved and adopted by a unanimous vote of the Measure E Residents Oversight Committee on 6/9/2014.*

### 1.1 Introduction

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

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

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#### 1.1.1 MERO Roles and Responsibilities

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

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

This 2014 report is the third annual MERO report covering the City's 2013/14 fiscal year and its 4 year financial forecast ending in the 2016/17 fiscal year.

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#### 1.1.2 Prior Year Activities

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

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

On the basis of the documents presented above, the Measure E Oversight Committee reports the receipt of \$7,194,407 in Measure E revenues in the fiscal year ending June 30, 2013. This amount was deposited in the City's General fund.

## 2. Measure E Residents Oversight Committee Certification of Results

Based on the reported results in the City of Tracy audited financial statements, the Measure E Residents' Oversight Committee attests that Measure E funds received in the fiscal year ending June 30, 2014 in the amount of \$7,194,407 was deposited in the City's General Fund in accordance with the terms of Measure E.

As shown in the table below, the General Fund operating surplus for FY 13/14 was \$7,386,474. Portions of this surplus in the amount of \$2,693,468 were transferred out to fund debt service. The remaining amount of \$6,177,765 increased the General Fund ending balance to \$35,071,347.

<b>Statement of Revenues, Expenditures &amp; Change in General Fund Balances FY Ending Jun 30, 2014 (Measure E Committee Summary)</b>	
	<b>Amount (\$)</b>
Non-Measure E Revenues	50,200,647
Measure E Revenue	7,194,407
<b>Total Revenue</b>	<b>57,395,054</b>
Expenditures	50,008,580
<b>Operating Surplus (Deficit)</b>	<b>7,386,474</b>
Transfers Out	
- Debt service	1,208,709
- To capital projects	0
<b>Total Transfers Out</b>	<b>1,208,709</b>
Change fund balance	6,177,765
Fund Balance Jul 1, 2013	28,893,582
Fund balance Jun 30, 2014	35,071,347

The City of Tracy's auditor certified these results in a letter to the City as shown in Appendix D – Auditor Report – FY Ending June 30, 2014 at the end of this document.

### 3. Financial Analysis

#### 3.1 General Fund Actual Financial Results, Budget and Two Year Forecast

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

General Fund FY 11/12 to FY 13/14 Actual, FY 14/15 Projection and 2 Year Forecast (in \$ millions)											
	FY 11/12		FY 12/13		FY 13/14		FY 14/15		FY 15/16		2017 After Measure E
	Actual	No ME	Actual	No ME	Actual	No ME	Budget	No ME	Forecast	No ME	Forecast
Revenues	50.63	44.72	54.12	47.65	57.39	50.20	60.10	52.88	54.00	47.70	49.80
Expenditures	(49.26)	(49.26)	(49.47)	(49.47)	(50.00)	(50.00)	(54.50)	(54.50)	51.30	51.30	53.90
Op Surplus (Deficit)	1.37	(4.54)	4.65	(1.82)	7.39	0.20	5.60	(1.62)	2.70	(3.60)	(4.10)
Transfers Out	(1.42)		(2.69)		(1.21)		(10.50)		--		--
Change fund balance	(0.05)		1.96		6.18		(4.90)		2.70		(4.10)
Measure E tax revenues	5.91	--	6.47	--	7.19	--	7.22	--	6.30	--	--

\* Source: City of Tracy financial reports

##### 3.1.1.1 Prior year income statements with/without Measure E tax revenues

In the three years since Measure E was approved by voters in an electoral ballot in Nov 2010, it has brought in an average of \$6.5M in additional sales tax revenue to the City of Tracy general fund. This includes \$5.91M in FY 11/12, \$6.47 in FY 12/13 and \$7.19M in FY 13/14.

As shown in the above table, Measure E revenues have allowed the City to report operating surpluses in each year that Measure E has been effective. This financial picture in the general fund is however not as bright when Measure E revenues are removed from the financial results to show the level of structural deficits that would have been reported had Measure E not been implemented.

One very encouraging sign is last year's FY 13/14 financial results where the City reported an operating surplus of \$7.39M including Measure E tax revenues. The operating surplus excluding Measure E revenues was \$0.20M, evidence that City of Tracy finances are showing signs of significant recovery from the Great Recession.

### 3.1.1.2 Budget out of sync with actual expenditure levels?

After examination of actual expenditures in the general fund over the past three years, the Measure E oversight committee noted that budgeted general fund expenditures for FY 2014/15 are significantly higher than the actual general fund expenditures for prior years.

Fiscal Year	Measure E Years									
	FY 2011/12	FY 2012/13	FY 2013/14		FY 2014/15		FY 2015/16			
	Actual	Actual	% +/-	Actual	% +/-	Budget	% +/-	Forecast	% +/-	
<b>Revenues</b>										
Taxes	34,079,771	37,134,728		40,282,107						
Charges for Services	8,213,167	8,930,270		8,588,914						
Licenses, permits and fees	2,997,556	3,375,983		3,813,645						
Other revenues	5,339,414	4,674,298		4,710,388						
<b>Total revenues</b>	<b>50,629,908</b>	<b>54,115,279</b>	<b>6.9</b>	<b>57,395,054</b>	<b>6.1</b>	<b>60,100,000</b>	<b>4.7</b>	<b>54,000,000</b>	<b>-10.1</b>	
<b>Expenditures</b>										
General government	5,985,311	5,715,236		6,076,961						
Public safety	30,625,436	30,232,518		30,814,096						
Public works	9,048,676	9,872,480		9,949,617						
Culture and leisure	3,463,370	3,329,534		3,112,681						
Capital outlay	132,688	312,597		55,225						
<b>Total expenditures</b>	<b>49,255,481</b>	<b>49,462,365</b>	<b>0.4</b>	<b>50,008,580</b>	<b>1.1</b>	<b>54,500,000</b>	<b>9.0</b>	<b>48,700,000</b>	<b>-10.6</b>	

As shown in the above table, budgeted expenditures for FY 14/15 are \$54.5M compared to the actual expenditure level of \$50.0M in FY 13/14 and \$49.5M in FY 12/13. This budgeted amount is \$4.5M or 9% over FY 13/14 actual expenditures which is a very material and significant increase in the level of expenditures in FY 14/15.

The City's budget documents and financial statements do not provide a breakdown of the specific expenditures that are contributing to the large increase in budgeted expenditures for FY 14/15. Such a breakdown would provide more transparency in the budget setting process, reassuring stakeholders that budgeted expenditure levels are reasonable. It would also help City Council in its decision regarding prioritization of general fund expenditures.

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## 4. Conclusions and Recommendations

### 4.1 Conclusions

As shown in the previous tables and chart, the city's financial position is showing definitive signs of improvement due to a combination of recoveries in sales tax revenues and due to the positive impacts of past City cost containment policies and programs.

#### **4.1.1 Operating surplus/deficit last year (FY 13/14)**

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For FY 13/14, the City received revenues of \$57.4M and reported expenditures of \$50.0M with a resulting operating surplus of \$7.4M. After transfers out of the General Fund of \$1.2M due to debt service payments, the General Fund balance increased by \$6.2M to \$35.0M. The revenues include \$7.2M of Measure E sales tax revenues which were used to pay General Fund expenditures in compliance with the provisions of Measure E.

Excluding Measure E sales tax revenues, the budgeted FY 14/15 revenues are \$50.2M and reported expenditures are \$50.0M with a resulting operating surplus of \$0.2M. It is encouraging that the City had a structural surplus last fiscal year.

### 4.2 Recommendations

Given that the Tracy electorate voted for the Measure E sales tax increase based on the stipulation that it would expire in 2016 and that the City would not seek to extend or renew it past that year, the City must continue to implement additional revenue enhancement and cost reduction strategies so as to align its anticipated General Fund expenditure levels to revenues.

#### **4.2.1 Reservation and use of Measure E surplus funds**

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To the extent that General Fund revenues (inclusive of Measure E tax revenue) exceed General Fund expenditures in any given fiscal year, it is again this year the recommendation of the Committee that a portion of the resulting "Measure E" surplus be reserved to a special fund. This special fund would be used to finance one-time operating measures or capital projects that serve to reduce General Fund operating expenses.

#### **4.2.2 Supplemental (exclusive of Measure E) financial statements and forecasts**

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

#### **4.2.3 Identification of additional revenue enhancement and cost reduction opportunities**

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The Committee is pleased that the City was able to cover all of its operating expenditures in FY 13/14, where its revenues exclusive of Measure E sales tax revenue exceeded its operating expenditures by \$200,000. The fact that the City can report a structural operating surplus in its General Fund account is encouraging and hopefully a sign that we are witnessing a recovery in sales and property tax revenues in the years ahead.

The Committee however strongly recommends that City council and staff continue to explore additional revenue enhancement and cost reduction opportunities in order to better align General Fund revenue and expenditure levels in anticipation of the expiry of Measure E in the year 2016.

##### **4.2.3.1 Diversifying sources of tax revenues**

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As part of its economic development strategy and its need to diversify its revenue sources beyond retail sales and property taxes, the city should explore the feasibility of utilizing

existing and future physical assets to develop event-based revenue sources that generate additional revenue streams for local businesses.

Local, regional and national sports league competitions and events when hosted in Tracy have the potential of adding significant hospitality revenues to the local economy. As the city gets to keep ALL of the Transient Occupancy Tax (TOT) received within city limits, even moderate levels of increased hotel stays and restaurant visits by event participants would have a material positive effect on local businesses and city occupancy tax revenues.

By increasing the paid usage of city-owned recreational and performing arts facilities organized events would proportionately increase their level of cost recovery.

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## 5. Appendix A – Projected General Fund Balance

At the end of FY 13/14, the City of Tracy general fund had an actual audited balance of \$35.07M. Inclusive of Measure E tax revenue, the general fund balance is projected to be \$28.77M by FY 16/17.

Forecast of General Fund Balance 2012 – 2017 (in \$ millions)			
Fiscal Year Ending	Surplus (Deficit)	Transfers Out	General Fund Balance
2012 (actual)	1.37	(1.43)	26.94
2013 (actual)	4.65	(2.69)	28.90
2014 (actual)	7.38	(1.21)	35.07
2015 (budget)	5.60	(10.50)	30.17
2016 (forecast)	2.70		32.87
2017 (forecast)	(4.10)		28.77

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## **6. 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?

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## 7. 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"*

## 8. Appendix D – Auditor Report – FY Ending June 30, 2014

Based on the reported results in the City of Tracy audited financial statements, the Measure E Residents' Oversight Committee attests that Measure E funds received in the fiscal year ending June 30, 2013 in the amount of \$7,194,407 was deposited in the City's General Fund in accordance with the terms of Measure E.



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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, 2014 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, 2014 was \$7,194,407. 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 28 of the City's Comprehensive Annual Financial Report.

*Moss, Levy & Hartzheim*  
Moss, Levy & Hartzheim, LLP  
Culver City, California  
March 24, 2015

**CITY OF TRACY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Fiscal Year Ended June 30, 2014**

	General	Housing Successor	North East Industrial Plan Area #1	Other Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 40,282,107	\$ -	\$ -	\$ 3,522,295
Licenses, permits, and fees	3,813,645			194,256
Fines and penalties	790,326			72,663
Use of money and property	832,258	61,768	59,289	745,637
Intergovernmental	1,533,055			11,394,536
Charges for services	8,588,914			305,208
Special assessments	370,643			6,810,604
Contributions			300,000	4,046,394
Other revenues	1,184,106			582,545
<b>Total Revenues</b>	<b>57,395,054</b>	<b>61,768</b>	<b>359,289</b>	<b>27,674,138</b>
<b>EXPENDITURES</b>				
Current:				
General government				
Economic development	436,893			513,967
General government	3,165,940			82,956
Finance	2,102,067			
Non-departmental	372,061			377,065
Public safety				
Police	21,582,841			9,397
Fire	9,231,255			6,638,018
Public works				
Development and engineering	6,301,000			165,574
Public works	3,648,617			4,822,535
Culture and leisure				
Cultural arts	1,310,025			
Parks and community services	1,802,656			
Capital outlay	55,225		9,776,754	17,346,716
Debt service:				
Principal payments				245,000
Interest and fiscal charges				1,344,592
<b>Total Expenditures</b>	<b>50,008,580</b>		<b>9,776,754</b>	<b>31,545,820</b>
Excess of Revenues over (under) Expenditures	7,386,474	61,768	(9,417,465)	(3,871,682)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in				1,213,671
Transfers out	(1,208,709)			(26,962)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,208,709)</b>			<b>1,186,709</b>
<b>Net Changes in Fund Balances</b>	<b>6,177,765</b>	<b>61,768</b>	<b>(9,417,465)</b>	<b>(2,684,973)</b>
Fund Balances, July 1, 2013	28,893,582	2,942,011	13,219,708	92,060,437
Fund Balances, June 30, 2014	<u>\$ 35,071,347</u>	<u>\$ 3,003,779</u>	<u>\$ 3,802,243</u>	<u>\$ 89,375,464</u>

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

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6-29-15 Measure E Oversight Committee Meeting,  
Agenda Item 5

MEASURE E RESIDENTS OVERSIGHT  
COMMITTEE  
2015 Annual Report

Authors: [Measure E Residents Oversight Committee](#)  
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## Document Control

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### Change Record

Date	Name	Version	Change Reference
6/1/15	Michel Bazinet	1.0	Initial draft
6/11/15	Michel Bazinet	2.0	Incorporated oversight committee comments from Jun 1, 2015 meeting

### Document References

Title	Date	Source
Auditor's certification of Measure E revenue for FY ending Jun 30, 2014	Mar 24, 2015	Moss, Levy & Hartzheim, LLP
Acceptance of the City of Tracy's Comprehensive Annual Financial Report (CAFR) for FY Ending Jun 30, 2014	Mar 3, 2015	Tracy city council meeting, agenda item 3
Workshop to review and the proposed FY2014/15 city budget, five year forecast and general fund reserves	May 19, 2015	Tracy city council special meeting, agenda item 4

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## 9. Overview

*This report was approved and adopted by a unanimous vote of the Measure E Residents Oversight Committee on 6/9/2014.*

### 9.1 Introduction

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

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

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#### 9.1.1 MERO Roles and Responsibilities

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

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

This 2014 report is the third annual MERO report covering the City's 2013/14 fiscal year and its 4 year financial forecast ending in the 2016/17 fiscal year.

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#### 9.1.2 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 \$7,194,407 in Measure E revenues in the fiscal year ending June 30, 2014. This amount was deposited in the City's General fund.

## 10. Measure E Residents Oversight Committee Certification of Results

Based on the reported results in the City of Tracy audited financial statements, the Measure E Residents' Oversight Committee attests that Measure E funds received in the fiscal year ending June 30, 2014 in the amount of \$7,194,407 was deposited in the City's General Fund in accordance with the terms of Measure E.

As shown in the table below, the General Fund operating surplus for FY 13/14 was \$7,386,474. Portions of this surplus in the amount of \$2,693,468 were transferred out to fund debt service. The remaining amount of \$6,177,765 increased the General Fund ending balance to \$35,071,347.

<b>Statement of Revenues, Expenditures &amp; Change in General Fund Balances FY Ending Jun 30, 2014 (Measure E Committee Summary)</b>	
	<b>Amount (\$)</b>
Non-Measure E Revenues	50,200,647
Measure E Revenue	7,194,407
<b>Total Revenue</b>	<b>57,395,054</b>
Expenditures	50,008,580
<b>Operating Surplus (Deficit)</b>	<b>7,386,474</b>
Transfers Out	
- Debt service	1,208,709
- To capital projects	0
<b>Total Transfers Out</b>	<b>1,208,709</b>
Change fund balance	6,177,765
Fund Balance Jul 1, 2013	28,893,582
Fund balance Jun 30, 2014	35,071,347

The City of Tracy's auditor certified these results in a letter to the City dated Mar 24, 2105 as shown in Appendix D – Auditor Report – FY Ending June 30, 2014 at the end of this document.

# 11. Financial Analysis

## 11.1 General Fund Actual Financial Results, Budget and Two Year Forecast

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

General Fund FY 11/12 to FY 13/14 Actual, FY 14/15 Projection and 2 Year Forecast (in \$ millions)											
	FY 11/12		FY 12/13		FY 13/14		FY 14/15		FY 15/16		2017 After Measure E
	Actual	No ME	Actual	No ME	Actual	No ME	Budget	No ME	Forecast	No ME	Forecast
Revenues	50.63	44.72	54.12	47.65	57.39	50.20	60.10	52.88	54.00	47.70	49.80
Expenditures	(49.26)	(49.26)	(49.47)	(49.47)	(50.00)	(50.00)	(54.50)	(54.50)	51.30	51.30	53.90
Op Surplus (Deficit)	1.37	(4.54)	4.65	(1.82)	7.39	0.20	5.60	(1.62)	2.70	(3.60)	(4.10)
Transfers Out	(1.42)		(2.69)		(1.21)		(10.50)		--		--
Change fund balance	(0.05)		1.96		6.18		(4.90)		2.70		(4.10)
Measure E tax revenues	5.91	--	6.47	--	7.19	--	7.22	--	6.30	--	--

\* Source: City of Tracy financial reports

#### 11.1.1.1 Prior year income statements with/without Measure E tax revenues

In the three years since Measure E was approved by voters in an electoral ballot in Nov 2010, it has brought in an average of \$6.5M in additional sales tax revenue to the City of Tracy general fund. This includes \$5.91M in FY 11/12, \$6.47 in FY 12/13 and \$7.19M in FY 13/14.

As shown in the above table, Measure E revenues have allowed the City to report operating surpluses in each year that Measure E has been effective. This financial picture in the general fund is however not as bright when Measure E revenues are removed from the financial results to show the level of structural deficits that would have been reported had Measure E not been implemented.

One very encouraging sign is last year's FY 13/14 financial results where the City reported an operating surplus of \$7.39M including Measure E tax revenues. The operating surplus excluding Measure E revenues was \$0.20M, evidence that City of Tracy finances are showing signs of significant recovery from the Great Recession.

### 11.1.1.2 2015 Budget out of sync with historical expenditure levels?

After examination of actual expenditures in the general fund over the past three years, the Measure E oversight committee noted that budgeted general fund expenditures for FY 2014/15 are significantly higher than the actual general fund expenditures for prior years.

Fiscal Year	Measure E Years									
	FY 2011/12 Actual	FY 2012/13 Actual	% +/-	FY 2013/14 Actual	% +/-	FY 2014/15 Budget	% +/-	FY 2015/16 Forecast	% +/-	
<b>Revenues</b>										
Taxes	34,079,771	37,134,728		40,282,107						
Charges for Services	8,213,167	8,930,270		8,588,914						
Licenses, permits and fees	2,997,556	3,375,983		3,813,645						
Other revenues	5,339,414	4,674,298		4,710,388						
<b>Total revenues</b>	<b>50,629,908</b>	<b>54,115,279</b>	<b>6.9</b>	<b>57,395,054</b>	<b>6.1</b>	<b>60,100,000</b>	<b>4.7</b>	<b>54,000,000</b>	<b>-10.1</b>	
<b>Expenditures</b>										
General government	5,985,311	5,715,236		6,076,961						
Public safety	30,625,436	30,232,518		30,814,096						
Public works	9,048,676	9,872,480		9,949,617						
Culture and leisure	3,463,370	3,329,534		3,112,681						
Capital outlay	132,688	312,597		55,225						
<b>Total expenditures</b>	<b>49,255,481</b>	<b>49,462,365</b>	<b>0.4</b>	<b>50,008,580</b>	<b>1.1</b>	<b>54,500,000</b>	<b>9.0</b>	<b>48,700,000</b>	<b>-10.6</b>	

As shown in the above table, budgeted expenditures for FY 14/15 are \$54.5M compared to the actual expenditure level of \$50.0M in FY 13/14 and \$49.5M in FY 12/13. This budgeted amount is \$4.5M or 9% over FY 13/14 actual expenditures which is a very material and significant increase in the level of expenditures in FY 14/15.

The City's budget documents and financial statements do not provide a breakdown of the specific expenditures that are contributing to the large increase in budgeted expenditures for FY 14/15. Such a breakdown would provide more transparency in the budget setting process, reassuring stakeholders that budgeted expenditure levels are reasonable. It would also help City Council in its decision regarding prioritization of general fund expenditures.

### 11.1.1.3 Significant accounting change – Development services

As mentioned by staff in the May 19 budget workshop, revenues and expenses related to development services will be transferred out of the General Fund in FY 2015/16. Further to an information request from the Oversight committee, the city's financial consultant indicated that \$7.2M in revenues and \$8.6M in expenditures related to engineering, planning and buildings are being transferred from the General Fund to special revenue fund. This significant accounting change makes year to year financial comparisons impossible.

Fiscal Year	Measure E Years									
	FY 2011/12 Actual	FY 2012/13 Actual	% +/-	FY 2013/14 Actual	% +/-	FY 2014/15 Forecast	% +/-	FY 2015/16 Forecast	% +/-	
<b>Revenues</b>										
Taxes	34,079,771	37,134,728		40,282,107						
Charges for Services	8,213,167	8,930,270		8,588,914						
Licenses, permits and fees	2,997,556	3,375,983		3,813,645						
Other revenues	5,339,414	4,674,298		4,710,388						
<b>Total revenues</b>	<b>50,629,908</b>	<b>54,115,279</b>	<b>6.9</b>	<b>57,395,054</b>	<b>6.1</b>	<b>60,100,000</b>	<b>4.7</b>	<b>54,000,000</b>	<b>-10.1</b>	
<b>Expenditures</b>										
General government	5,985,311	5,715,236		6,076,961						
Public safety	30,625,436	30,232,518		30,814,096						
Public works	9,048,676	9,872,480		9,949,617						
Culture and leisure	3,463,370	3,329,534		3,112,681						
Capital outlay	132,688	312,597		55,225						
<b>Total expenditures</b>	<b>49,255,481</b>	<b>49,462,365</b>	<b>0.4</b>	<b>50,008,580</b>	<b>1.1</b>	<b>54,500,000</b>	<b>9.0</b>	<b>48,700,000</b>	<b>-10.6</b>	
<b>Operating surplus (deficit)</b>	<b>1,374,427</b>	<b>4,652,914</b>		<b>7,386,474</b>		<b>5,600,000</b>		<b>5,300,000</b>		
Transfers out	1,427,405	2,693,468		1,208,709		10,500,000		2,600,000		
<b>Net change in fund balance</b>	<b>(52,978)</b>	<b>1,959,446</b>		<b>6,177,765</b>		<b>(4,900,000)</b>		<b>2,700,000</b>		
<b>Beginning fund balances</b>	<b>26,987,114</b>	<b>26,934,136</b>		<b>28,893,582</b>						
<b>Ending fund balances</b>	<b>26,934,136</b>	<b>28,893,582</b>		<b>35,071,347</b>						
<b>Measure E sales tax in taxes</b>	<b>5,913,308</b>	<b>6,469,067</b>		<b>7,194,407</b>		<b>7,220,250</b>		<b>6,300,000</b>		

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## **12. Conclusions and Recommendations**

### **12.1 Conclusions**

As shown in the previous tables and chart, the city's financial position is showing definitive signs of improvement due to a combination of recoveries in sales tax revenues and due to the positive impacts of past City cost containment policies and programs.

#### **12.1.1 Operating surplus/deficit last year (FY 13/14)**

---

For FY 13/14, the City received revenues of \$57.4M and reported expenditures of \$50.0M with a resulting operating surplus of \$7.4M. After transfers out of the General Fund of \$1.2M due to debt service payments, the General Fund balance increased by \$6.2M to \$35.0M. The revenues include \$7.2M of Measure E sales tax revenues which were used to pay General Fund expenditures in compliance with the provisions of Measure E.

Excluding Measure E sales tax revenues, the budgeted FY 13/14 revenues are \$50.2M and reported expenditures are \$50.0M with a resulting operating surplus of \$0.2M. It is encouraging that the City had a structural surplus last fiscal year.

### **12.2 Recommendations**

Given that the Tracy electorate voted for the Measure E sales tax increase based on the stipulation that it would expire in 2016 and that the City would not seek to extend or renew it past that year, the City must continue to implement additional revenue enhancement and cost reduction strategies so as to align its anticipated General Fund expenditure levels to revenues.

#### **12.2.1 Reservation and use of Measure E surplus funds**

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To the extent that General Fund revenues (inclusive of Measure E tax revenue) exceed General Fund expenditures in any given fiscal year, it is again this year the recommendation of the Committee that a portion of the resulting "Measure E" surplus be reserved to a special fund. This special fund would be used to finance one-time operating measures or capital projects that serve to reduce General Fund operating expenses.

#### **12.2.2 Supplemental (exclusive of Measure E) financial statements and forecasts**

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

#### **12.2.3 Improvements in General Fund financial reporting**

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The Oversight Committee is concerned that the City's financial statements are not as informative and transparent as they could be and do not provide the city council, as policy makers, the information they need to make long term strategic decisions.

There are two factors that contribute to these concerns.

##### **12.2.3.1 Large differences between budgeted and actual spending levels**

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The City has historically spent no more than \$50M in the General Fund in the past several years yet this year's FY 2015/16 budget has been set at \$54.5M. This suggests that the City is carrying a large "reserve" of unspent funds in its budget of at least \$4M.

Based on discussions with staff, it is our understanding that many cities provide their city councils with an annual managerial summary that provides a reconciliation or "true-up" between actual and budgeted expenditure levels from one fiscal year to the next.

It is the Committee's recommendation that the City supplement its current financial reporting with information that details the differences between actual and budgeted spending levels.

#### **12.2.3.2 Very significant FY 2015/16 General Fund accounting change**

In next year's FY 2015/16 budget, staff is implementing a very significant financial accounting change where development service revenues and expenditures will be transferred from the General Fund to a special development services fund. This change makes comparisons of FY 2015/15 General Fund revenues and expenditures to prior year General Fund revenue and expenditure meaningless – a true apples to oranges comparison.

In order to provide more meaningful information to city council and to the community, the Oversight Committee recommends that staff provide supplementary information regarding this accounting change. This supplementary information would restate prior year General Fund financial summaries removing development service revenues and expenditures so that prior year financial results and FY 2015/16 results can be compared on an apples to apples basis.

#### **12.2.4 Identification of additional revenue enhancement and cost reduction opportunities**

The Committee is pleased that the City was able to cover all of its operating expenditures in FY 13/14, where its revenues exclusive of Measure E sales tax revenue exceeded its operating expenditures by \$200,000. The fact that the City can report a structural operating surplus in its General Fund account is encouraging and hopefully a sign that we are witnessing a recovery in sales and property tax revenues in the years ahead.

The Committee however strongly recommends that City council and staff continue to explore additional revenue enhancement and cost reduction opportunities in order to better align General Fund revenue and expenditure levels in anticipation of the expiry of Measure E in the year 2016.

##### **12.2.4.1 Diversifying sources of tax revenues**

As part of its economic development strategy and its need to diversify its revenue sources beyond retail sales and property taxes, the city should explore the feasibility of utilizing existing and future physical assets to develop event-based revenue sources that generate additional revenue streams for local businesses.

Local, regional and national sports league competitions and events when hosted in Tracy have the potential of adding significant hospitality revenues to the local economy. As the city gets to keep ALL of the Transient Occupancy Tax (TOT) received within city limits, even moderate levels of increased hotel stays and restaurant visits by event participants would have a material positive effect on local businesses and city occupancy tax revenues.

By increasing the paid usage of city-owned recreational and performing arts facilities organized events would proportionately increase their level of cost recovery.

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### 13. Appendix A – Projected General Fund Balance

At the end of FY 13/14, the City of Tracy general fund had an actual audited balance of \$35.07M. Inclusive of Measure E tax revenue, the general fund balance is projected to be \$28.77M by FY 16/17.

<b>Forecast of General Fund Balance 2012 – 2017</b>			
<b>(in \$ millions)</b>			
<b>Fiscal Year Ending</b>	<b>Surplus (Deficit)</b>	<b>Transfers Out</b>	<b>General Fund Balance</b>
2012 (actual)	1.37	(1.43)	26.94
2013 (actual)	4.65	(2.69)	28.90
2014 (actual)	7.38	(1.21)	35.07
2015 (budget)	5.60	(10.50)	30.17
2016 (forecast)	2.70		32.87
2017 (forecast)	(4.10)		28.77

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## **14. 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?

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## 15. 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"*

## 16. Appendix D – Auditor Report – FY Ending June 30, 2014

Based on the reported results in the City of Tracy audited financial statements, the Measure E Residents' Oversight Committee attests that Measure E funds received in the fiscal year ending June 30, 2013 in the amount of \$7,194,407 was deposited in the City's General Fund in accordance with the terms of Measure E.



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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, 2014 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, 2014 was \$7,194,407. 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 28 of the City's Comprehensive Annual Financial Report.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
March 24, 2015