March 5, 2013

AGENDA ITEM 6

REQUEST

FY 12/13 GENERAL FUND MID-YEAR BUDGET PERFORMANCE REPORT AND FIVE-YEAR FINANCIAL PLAN UPDATE

A. Accept the FY 12/13 General Fund Mid-Year Performance Report and update of the Five-Year Financial Plan
B. Authorize a FY 12/13 Budget Adjustment, increasing Sales Tax Revenue by $900,000
C. Direct Staff to Explore General Fund Reserve Policy Options, including the Designation/Allocation of Excess Revenue and Development of New Reserves

EXECUTIVE SUMMARY

Overall, second quarter General Fund revenues are trending positively, particularly property and general sales tax. Property tax is demonstrating mild growth and revenues should exceed the adopted budget amount. Sales tax revenue is projected to increase significantly due to steep fuel prices and a rise in new auto and retail purchases. Other economically sensitive revenue, including franchise fees, licenses and permits, transient occupancy tax, and interest income are stable.

Department expenditures for the second quarter are trending as expected. While year-end expenses are anticipated to be slightly higher, the FY 12/13 deficit, which was projected to be $2.18 million, is anticipated to be approximately $907,510 due to increases in revenue.

PURPOSE:

The purpose of this report is to provide the City Council with a status of the FY 12/13 adopted operating budget at the mid-year point, including an overview of revenue and expenditure trends and financial projections for the current fiscal year. This report also includes a brief discussion about the status of the General Fund Reserve and an update of the Five-Year Financial Plan (FY 13/14 – FY 17/18) to provide a context for the FY 13/14 budget development process and recommended budget approach.

DISCUSSION

FY 12/13 MID-YEAR BUDGET PERFORMANCE REPORT

FY 12/13 General Fund Budget

The FY 12/13 adopted budget assumed $47.7 million in General Fund revenue. Of that amount, approximately $5.8 million was temporary taxes (Measure E sales tax). Total adopted expenditures equaled $49.9 million, which included an assumed budget savings of $1 million as the City typically spends about 98% of its General Fund operating budget. The remaining 2% equals approximately $1 million. The budget deficit anticipated for FY 12/13 was $2.2 million.

The FY 12/13 General Fund Operating Revenues and Expenditures Chart as depicted on page 2 of this report, reflects the adopted budget, year-to-date actuals through December 2012, and year-end projections. Mid-year trends indicate that General Fund operating revenue and expenditures will exceed adopted budget levels. Projected increases in FY 12/13 revenue are based on continued economic growth and recovery. Current operating expense projections anticipate that the City will expend 100% of its adopted expenditure budget rather than the assumed 98% as discussed earlier in this report. Taking in consideration of the changes in revenues and expenditures, the projected deficit is expected to be approximately $907,510, which is $1.3 million lower than the adopted deficit of $2.2 million.

FY 12/13 General Fund Operating Revenues and Expenditures

GENERAL SUMMARY	FY 12/13 ADOPTED BUDGET	FY 12/13 ACTUALS THRU DECEMBER 2012	FY 12/13 YEAR-END PROJECTIONS
REVENUE			
Property Taxes	$13,638,300	$5,110,718	$13,872,450
Sales Taxes - General	$12,511,000	$3,521,191	$13,411,200
Temporary Taxes (Measure E)	$5,759,300	$2,089,772	$6,100,000
Franchise Fees	$2,501,000	$974,341	$2,472,800
Other Taxes	$1,610,000	$1,113,546	$1,600,000
Use of Money & Property	$645,000	$299,754	$965,000
Subtotal	$36,664,600	$13,109,322	$38,421,450
Other General Revenue	$11,034,120	$6,152,232	$11,562,870
Total Revenues	**$47,698,720**	**$19,261,554**	**$49,984,320**
EXPENDITURES			
Total Expenditures	**$49,878,820**	**$23,224,219**	**$50,891,830**
BUDGET DEFICIT	**($2,180,100)**		**($907,510)**

FY 12/13 General Fund Revenue Trends

The following section discusses revenue trends, with particular emphasis on key economically sensitive revenue, including Property Tax, Sales Tax, Temporary Taxes

(Measure E), Franchise Fees, Other Taxes (Transient Occupancy Tax, Business Licenses), and Use of Money and Property (Interest Income).

Property Tax

Based on projections from the County Assessor's Office, the FY 12/13 adopted budget assumed another year of decreased assessed value, resulting in less property tax revenue. This was projected to be a decline of 1.2% compared to the prior year. However, property tax trends for FY 12/13 are beginning to show signs of mild recovery. For the City of Tracy, property tax revenue is transitioning from a negative decline to flat to mild growth. This is due to a reduction in foreclosures and turnover in homes and/or property reassessments. Property tax revenue projections for year-end anticipate .1% growth compared to FY 12/13 adopted levels.

Sales Tax (General)

Like property tax, general sales tax is showing signs of economic recovery, albeit at a much faster rate. The FY 12/13 adopted budget for sales tax was $12.5 million; however, based on 2012 third quarter projections from the City's sales tax consultant, Muni-Services, FY 12/13 year-end sales tax revenue is expected to be approximately $900,000 higher than adopted levels.

This significant increase in sales tax is due to changes in the City's top three key economic categories: Transportation, General Retail, and Food Products. According to Muni-Services' 2012 Third Quarter Sales Tax Report, the transportation category currently generates approximately 36% of the City's sales tax revenue; recent revenue spikes in this category are due to high fuel prices and increases in new auto sales. The general retail category, which produces 34% of sales tax, is comprised of department stores, apparel, furniture, recreation products, drug stores, and miscellaneous retail. Department stores and miscellaneous retail, which includes wireless telephone providers and fulfillment centers (e.g. Crate & Barrel) are doing very well and generating a significant amount of sales tax this year. With the addition of Amazon in FY 13/14 (Fall 2013), it is anticipated that general retail sales will become the City's strongest economic category. Last, the food product category generates 15% of sales tax, and includes restaurants, food markets, and liquor stores. Restaurants are currently the strongest food product sales tax generator.

Temporary Taxes (Measure E)

In November 2010, Tracy voters approved Measure E, a new half-cent temporary sales tax applicable to physical purchases made in the City of Tracy and online sales to Tracy customers. The tax began in April 2011 and will expire in March 2016. The new, half-cent temporary sales tax, after its first year of full implementation in FY 11/12, generated approximately $4.6 million in general fund revenue. While the FY 12/13 adopted budget assumed $5.7 million in Measure E taxes, current projections indicate that the amount will be near $6.1 million.

Franchise Fees

Franchise fees are collected by the City as a privilege of operating a utility service in Tracy, and as a fee in lieu of a business license tax. Franchise fees are currently received from gas and electric, cable television, and solid waste collection service providers. Franchise fees are economically sensitive revenue and fluctuate based on the fiscal health of the nation, state, and/or local region. Franchise fee revenue currently represents approximately 5% of the General Fund budget.

Historically, franchise fee payments are not remitted equally throughout the year; therefore, second quarter receipts are not necessarily predictive. The FY 12/13 adopted budget assumed $2.5 million in franchise fee revenue based on the prior year's estimated year-end figures. Conservative projections anticipate that revenue collected for FY 12/13 will be $2.47 million, or $30,000 less than the adopted budget.

<u>Other Taxes</u>

The Other Taxes revenue category includes several tax sources, the most significant of which are Transient Occupancy Tax (TOT) and Business License Tax. The City levies TOT tax on all hotel and motel rooms within Tracy city limits. The current TOT rate is 10%. The City also requires all businesses located within the City of Tracy, or those that operate within Tracy to obtain a business license. The amount of business license tax paid by each business is typically based on the number of employees.

Revenue received from the Other Taxes category is on target and is expected to be in alignment with adopted levels of $1.6 million at the end of FY 12/13.

<u>Use of Money/Property</u>

Revenue received from the Use of Money & Property category includes investment earnings and rental income from City property. The City earns interest income by investing monies not immediately required for daily operations in a number of money market instruments. Interest income revenue is dependent on two factors: first, the cash balance in the City's investment portfolio; and second, the yield on those funds. Given that general fund reserve and capital fund balances are not declining as fast as originally anticipated, FY 12/13 year-end projections are estimated to be approximately $965,000, or $320,000 higher than adopted levels.

FY 12/13 General Fund Expenditure Trends

Department expenditures are trending below the expected 50% budget level; approximately 45.8% of the general fund budget has been expended. However, operating expense projections anticipate that the City may expend 100% of its adopted expenditure budget rather than the assumed 98%, which was expected to generate approximately $1 million in savings. Given the conservative nature and timing of these projections, there is still an opportunity to capture some or a significant portion of the anticipated budget savings.

STATE BUDGET IMPACTS

On January 10, 2013, the Governor released his FY 13/14 budget package. The Governor's budget reflects a significant improvement in the state's finances due to the economic recovery, prior budgetary reductions, and voter approval of temporary tax increases. Specifically, the Governor proposes $138.6 billion in General Fund and special fund spending in FY 13/14, which is up 4.5 percent from FY 12/13. The administration forecasts that the state's General Fund budgetary balance to be $1 billion at the end of FY 13/14 under the Governor's plan.

However, according to the Legislative Analyst's Office (LAO) November 2012 forecast publication, "*The FY 2013/14 Budget: California's Fiscal Outlook*," the Legislature and Governor would need to address a $1.9 billion budget problem by June 2013. The Governor's budget, on the other hand, produces a $1 billion reserve at the end of FY 13/14. The $2.9 billion difference is explained by higher tax revenues and estimates of savings by the state administration, lower repayments of special fund loans, and additional revenues from health taxes and fees. While the LAO differs about the budget situation for FY 13/14, it supports a forecast of future surpluses, albeit smaller than projected by the Governor's administration.

The Governor's FY 13/14 budget does not propose any fiscal or legislative changes that would impact local government or local control.

Redevelopment Dissolution

On February 1, 2012, the State of California dissolved redevelopment agencies through the passage of ABX1 26 and replaced them with Successor Agencies. The City of Tracy City Council elected to serve as the Successor Agency for the former City of Tracy Community Development Agency (CDA). The State also established Oversight Boards to assist in the winding-down of redevelopment activities. In June 2012, the State legislature adopted Assembly Bill 1484 to facilitate the dissolution of the many redevelopment agencies across the state. One provision of AB1484 requires the Successor Agency to obtain Due Diligence Reviews (DDR) of the all Successor Agency accounts as of June 30, 2012. The purpose of which is to determine the available cash that can be transferred to other taxing entities.

Two DDRs were required in the past six months; both have been completed, approved, and sent to the state. Following the first DDR, the Successor Agency remitted $3.4 million in low and moderate income housing funds to the County for disbursement to other taxing agencies. The second DDR has been completed and submitted to the state. The Successor Agency is awaiting state approval and instructions for remitting $2.28 million in non-housing funds to the County. Approval is expected by April 1, 2013. The total of $5.68 million in former CDA cash was previously restricted for certain approved uses. The remittance of the funds to the County has no general fund impact.

As discussed earlier, funding remitted to the County as a result of the DDR process will be redistributed to other taxing entities. The City of Tracy is considered one of those taxing entities and is scheduled to receive one-time funding. To date, the City has received $570,510 and will receive another one-time payment of $380,000 in FY 12/13. While the dissolution of redevelopment will increase the City's property tax revenue, it will be substantially less than the share of increment formally received through redevelopment. It is anticipated that the City's will receive an additional $237,084 in property tax revenue for FY 12/13. These funds, however, have not been budgeted in the current fiscal year.

The CDA's bond obligations are being met through the Recognized Obligation Payment Schedule (ROPS) process created by the state. The Successor Agency submits a list of obligations due in six-month increments to the Oversight Board and State Department of Finance. Once approved, the County releases the funds held in the Redevelopment Property Tax Trust Fund (RPTTF). To date, all requested bond payments have been approved by the state and funded by the County in a timely manner.

The unwinding of the CDA has been time intensive and staff continues to work diligently on this process. The state has approved an annual administrative allowance of $250,000 to cover these staffing costs, thus eliminating the need for any general fund subsidy.

GENERAL FUND RESERVE STATUS

General Fund reserves closed at a balance of $26.9 million as of June 30, 2012. Of that amount, approximately $25.6 million is designated as unrestricted. The total unrestricted fund balance represented over 52% of total general fund expenditures for FY 11/12. Of the $25.6 million in reserves, approximately $7.95 million is allocated to the Reserve for Economic Uncertainty.

FY 13/14 BUDGET DEVELOPMENT PROCESS

In January 2013, staff began strategic budget development discussions anticipating the need to maintain service levels and minimize ongoing expenditure increases given the anticipated expiration of Measure E in FY 15/16. To date, the City has implemented nearly $5 million in budget reductions due to targeted early retirements, vacancy eliminations, and consolidation of departments and executive management positions. Another $3 million in savings will occur incrementally over the next 3 fiscal years (starting in FY 12/13) as employees begin to pay their share of PERS costs. Employees will pay their full share of employee PERS by FY 15/16.

Also included in the FY 13/14 budget development process is the Capital Improvement Program (CIP) budget. A workshop is scheduled for April 2, 2013 to review recommended capital projects for FY 13/14.

The FY 13/14 proposed operating budget will be presented to Council in May 2013.

FIVE-YEAR GENERAL FUND FINANCIAL PLAN UPDATE

The Five-Year Financial Plan is an independent financial tool used to forecast general fund current and future revenue and expenses. This tool is designed to be fluid in nature to build various funding scenarios, providing a range of budget strategies for consideration.

Forecast Assumptions

The updated financial plan, which covers FY 13/14 through FY 17/18 is based on several key general fund revenue and expenditures assumptions, many of which are determined by established policy, trend analysis, and/or empirical data provided by consulting and auditing firms. Attached for Council information is a detailed explanation of the forecast assumptions in the Five-Year Financial Plan. The following is a summary of key general fund revenue and expenditure assumptions:

<u>Revenues</u>

General Fund revenue is comprised of several economically sensitive revenue sources, including Property Tax, Sales Tax, Temporary Taxes (Measure E), Franchise Fees, Other Taxes (Transient Occupancy Tax and Business Licenses), and Use of Money/Property (Interest and Rental Income). Nearly 65% of general fund revenue is derived from Property Tax, Sales Tax, and Temporary Taxes. The assumptions for these key revenues are described in further detail below:

- *Property Tax* – Slow, but positive property tax revenue trends are anticipated for FY 13/14. An increase of less than 1% is assumed in FY 13/14 with mild growth projected for future years. Preliminary discussions with the County Property Tax Assessor's Office suggest stronger county-wide valuation trends for FY 13/14; however, data confirming how this will impact the City of Tracy will not be available until late Spring. Although not reflected in the forecast at this time, the City will receive additional property tax revenue due to the dissolution of redevelopment, but it will be substantially less than the share of increment formally received by the CDA.

- *Sales Tax* – The City's sales tax consultant, Muni-Services projects increased revenue over the next five years as the economic continues to recover. The forecast also reflects additional revenue from Amazon, which is expected to generate sales tax beginning late Fall 2013.

- *Temporary Taxes (Measure E)* – Muni-Services also provides projections for Measure E, a temporary half-cent sales tax on purchases made within the City of Tracy, with some notable exceptions. These include Tracy auto sales where the vehicle registration is not in the City of Tracy, and internet sales made to customers outside of the City of Tracy. Like general sales tax, Measure E revenue is expected to grow moderately over the next several fiscal years. Measure E will sunset in March 2016; therefore, the forecast reflects anticipated revenue up to that point with assumed declines in FY 15/16 and the elimination of the revenue altogether in FY 16/17.

<u>Operating Expenses</u>

General Fund expenses are primarily associated with the cost of providing services. These expenses are mostly labor (personnel) costs, which typically range between 70-80% of the General Fund expenditures. Below is a summary of forecast assumptions for operating expenses. These include salary and benefits and operational expenses.

- *Salary and Benefits* – The forecast reflects no changes in salaries, other than for annual merit increases and the inclusion of temporary personnel costs for two additional firefighters for the new Fire Station No. 92 until the Tracy Rural prepayment agreement begins in FY 15/16. Specifically, 3 months of personnel expenses have been included for FY 13/14 and a full year for FY 14/15. The forecast also reflects savings assumed from the net loss of 7 full-time equivalents (FTE) due to retirements and full implementation of the elimination of the Master Officer Pay (in exchange for the Police Corporal Program) and city-wide organizational restructuring, which included the consolidation of departments and reduction in executive management.

The forecast also reflects annual adjustments in health benefits and projected employer-paid Public Employees Retirement System (PERS) rate increases. However, savings are assumed as employees agreed to incrementally pay their share of employee PERS costs effective FY 12/13 in exchange for additional flex-leave hours. Full payment of employee PERS costs will occur in FY 15/16. The net savings over a 3-year period is anticipated to be $3 million.

- *Operating Expenses* - Overall, operating expenses, including costs for contractual services and commodities are anticipated to adjust modestly for necessary increases and inflation. However, FY 13/14 assumes a slight reduction in operating expenses due to the elimination of redevelopment and discontinuation of election funding which was a part of the prior year's base budget. The forecast also reflects moderate adjustments for internal service charges (e.g. information technology, risk management, building maintenance) with the exception of significant increases in FY 13/14 to restore equipment/vehicle cost reductions made 3 years ago as a budget savings measure.

SUMMARY OF FIVE-YEAR FINANCIAL PROJECTIONS

Due to projected increases in revenues and minimal expenditure adjustments, the five-year financial projections below reflect excess revenue over expenditures for FY 13/14 through FY 15/16. If these projections continue after the FY 13/14 budget development process is complete, the Council's direction to have a balanced budget without the use of reserves by FY 14/15 may be realized in FY 13/14.

Five-Year Financial Plan

GENERAL FUND FORECAST	FY 13/14	FY 14/15	FY15/16	FY16/17	FY17/18
REVENUES	$50.3M	$52M	$52.7M	47.5M	48.4M
EXPENDITURES	$49.8M	$50.7M	$49.9M	51.1M	$52.0M
REVENUES LESS EXPENDITURES	$500k	$1.3M	$2.8M	($3.6M)	($3.6M)

For FY 16/17 and beyond, deficits are projected to be $3.6 million given the expiration of Measure E. When Measure E took effect in April 2011, the City developed plans to identify reductions and/or revenue enhancements that equaled or exceeded the revenue produced by Measure E. Current projections anticipate that peak revenue generated by Measure E will be approximately $6.3 million. Due to revenue shifts and strategic operating expenditure reductions implemented over the past 2 years, the anticipated deficit has been reduced by nearly one-half. Staff will continue to develop additional cost-containment approaches to eliminate the deficit by FY 16/17.

Forecast Vulnerabilities

As with any financial projection, there are vulnerabilities. The forecast does not take in consideration hypothetical situations that could impact the City's revenues or expenditures, such as potential legislation or changes in key sales tax generators' business models. For instance, informal discussions are taking place at the State Legislature regarding the reallocation of either all California sales tax revenue or online sales tax on a per capita basis. While no specific legislation has been introduced at this time, the City's sales tax consultant, Muni-Services through its state lobbyist, is closely monitoring this issue.

Another potential vulnerability is related to Amazon sales tax revenue. Under the current law, online sales tax is allocated based on one of two scenarios:

1. Physical location of the sales order desk – if a sales order desk that receives online sales orders is located in the City of Tracy and the product is shipped to the California customer from a location inside the state, then Tracy will receive the sales tax revenue, as in the case of Crate & Barrel. If the order is placed in Tracy but the product is shipped from out of state then the local tax would be allocated to the countywide pool based on customer destination.

2. Location of where the product is distributed or shipped from – If the sales order desk that receives online sales orders is located outside of California, then the sales tax revenue is allocated to the City where the product is distributed or shipped from. This scenario currently applies to anticipated revenue from Amazon.

Should Amazon choose to relocate its sales order desk to California, it must be located in City of Tracy in order to capture the sales tax revenue. This vulnerability could be addressed through the negotiation of a sales tax agreement with Amazon. While Amazon has indicated that it is interested in negotiating an agreement, neither of the cities where their California fulfillment centers are located (San Bernardino and Patterson) have sales tax agreements in place.

With respect to expenditure vulnerabilities, the City is swimming against the current when it comes to uncontrollable costs, including employer PERS rates, health care, utilities, fuel, and general inflation expenses. Another challenge is limited property tax revenue from future annexations to fund additional public safety services.

Staff continues to plan for these contingencies and is currently developing mitigation measures to reduce future expenditure increases.

Policy Considerations

The forecast raises several policy issues for Council consideration given the likelihood of excess revenue over expenditures for FY 13/14 – FY 15/16 coupled with projected deficits upon the expiration of Measure E. While the Council's budget principles adopted in FY 10/11 provide general policy guidance about general fund reserve levels and use of one-time resources, additional direction will be needed regarding reserve designation/allocation to existing reserves or funds (e.g. Economic Uncertainty Reserve, Capital Projects Fund 301) and the potential development of new reserves for specific future uses.

Upon Council direction, staff will develop policy options for Council consideration by early Summer 2013. Staff recommends that the policy development process include obtaining feedback from the Measure E Committee.

CONCLUSION

The mid-year budget analysis indicates that overall, assumptions for revenues and expenditures have not changed significantly, with exception of sales tax revenue. Due to the anticipated increase in sales tax revenue, it is recommended that Council authorize a budget adjustment in the amount of $900,000. It is expected that the change in sales tax revenue coupled with smaller revenue increases will reduce the FY 12/13 adopted deficit of $2.2 million to approximately $907,510.

The update of the Five-Year Financial Plan reflects excess revenue over expenditures for FY 13/14 – FY 15/16 and deficits in FY 16/17 and beyond due to the expiration of Measure E. This forecast situation raises several policy issues with respect to reserve utilization, designation, and development.

STRATEGIC PLAN

Acceptance of this report is a routing matter and does not relate to one of the City Council's Strategic Plans.

FISCAL IMPACT

The FY 12/13 adopted budget reflects $12,511,000 in general sales tax revenue. Based on current economic trends and projections provided by the City's sales tax advisor, Muni-Services, sales tax revenue is expected to be approximately $900,000 higher than the FY 12/13 adopted amount. Authorization of a budget adjustment in the amount of $900,000 would increase the FY 12/13 adopted sales tax revenue from $12,511,000 to $13,411,000.

RECOMMENDATION

It is recommended that the City Council:

- Accept the FY 12/13 General Fund Mid-Year Performance Report
- Authorize a FY 12/13 Budget Adjustment, increasing Sales Tax Revenue by $900,000
- Direct Staff to Explore General Fund Reserve Policy Options, including the Designation/Allocation of Excess Revenue and Development of New Reserves

Prepared by: Jenny Haruyama, Administrative Services Director
Approved by: Leon Churchill, Jr., City Manager

Attachment – Revenue and expenditure assumptions

REVENUE ASSUMPTIONS

Property Tax: The City anticipates a slight increase in property tax revenue in FY13-14, and then modest increases over the next five years assuming continued economic recovery and growth in residential/commercial development. Preliminary discussions with the County Assessor's Office indicates a rise in county-wide valuations; details confirming this will be available in Spring 2013. The forecast will be adjusted accordingly based on information provided by the County.

Although not reflected in the forecast at this time, the City will receive additional property tax revenue due to the dissolution of redevelopment, but it will be substantially less than the share of increment formally received by the City of Tracy Community Development Agency (CDA).

Conservatively, the 5-year forecast of the annual growth rate for property tax revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
0.1%	1.1%	2.0%	2.0%	2.0%

Sales Tax: The City anticipates moderate increases in sales tax revenue over the next five years due to slight improvements in the economy. Forecast revenue for FY 13/14 reflects *a portion* of Amazon sales tax. FY 14/15 and beyond includes the first full projected annual amount of Amazon sales tax. FY 15/16 declines slightly due to the discontinuation of a practice in state sales tax revenue distribution known as the "Triple Flip." The state borrows local sales tax from cities to finance State Economic Recovery Bonds and provides the reimbursement in the next fiscal year. Since this practice is schedule to end in FY 15/16, the subsequent fiscal year will show a slight decline and return to a steady, but moderate sales tax growth in future years.

The 5-year forecast of the annual growth rate for Sales Tax revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
4.3%	8.6%	7.6%	-3.2%	2.3%

Measure E Sales Tax: The City anticipates a slight increase in Measure E tax revenue in the next year. As the economy improves, tax revenue is expected to grow moderately. FY15/16 reflects a decline in Measure E revenue due to the tax sun-setting nine months into the fiscal year, with the complete elimination occurring in FY16/17. Peak Measure E revenue is anticipated to be approximately $6.3 million in FY 14/15.

The forecast of the annual growth rate for Measure E tax revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
1.9%	2.0%	-15.5%	-100%	N/A

Franchise Fees: Franchise fees are collected by the City as a privilege of operating a utility service in Tracy, and as a fee in lieu of a business license tax. Franchise fees are currently received from gas and electric, cable television, and solid waste collection service providers. The City levies a .5% rate for electricity, 1% rate for natural gas, 5% rate on cable television, and 10% rate on solid waste. Franchise fees tend to fluctuate based on the economy and population growth.

The forecast for the annual growth rate for Franchise Fee revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
1.5%	1.8%	1.8%	1.7%	2.1%

Other Taxes: Other Taxes include economically sensitive revenue, such as Transient Occupancy Tax (TOT) and business license taxes. The other taxes revenue category also includes documentary transfer and intergovernmental taxes. The forecast reflects slight increases for FY 13/14 and FY 14/15, and a conservative leveling-off in subsequent years.

The 5-year forecast of the annual growth rate for Other Tax revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
1.9%	1.8%	1.5%	1.5%	1.5%

License & Permit Fees: License and Permit revenue are comprised of building and construction permit fees, and animal and bicycle license fees. FY 13/14 reflects a decline due to significant permit revenue received from the Amazon project in FY 12/13. Growth is expected in the 2%-3% range for subsequent years, assuming there is no dramatic change in development.

The 5-year forecast of the annual growth rate for License & Permit Fee revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
-12.1%	2.9%	2.9%	2.9%	3.0%

Current Charges: Current Charges are fees collected in exchange for a particular service of a limited and specific benefit, such as a development application and plan review. FY 13/14 reflects a decrease due to significant revenue collected in FY 12/13 to process the Amazon project. Subsequent years anticipate conservative growth. Future increases are expected as the economy continues to recover.

The 5-year forecast annual growth rate for Current Charges revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
-6.6%	2.2%	2.3%	2.3%	2.3%

Fines and Forfeitures: Fine and Forfeiture revenue is comprised of punitive assessments levied by courts or government agencies as a result of violating laws/regulations. FY 13/14 reflects increases in fines and forfeitures due to uncollectable fines and forfeitures being written off in FY 12/13, lowering the prior year's revenue base.

The forecast of the annual growth rate for Fine and Forfeiture revenue is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
51.4%	1.3%	1.3%	1.4%	1.4%

Other Grants: The Other Grants category is comprised of federal, state, county, and other local agency grants received by the City. The receipt of grant revenue has declined over the past several years and is heavily dependent on demand and the State's financial situation. However, given that the State projects future surpluses, the City may experience some growth in this area.

Conservatively, the forecast of the annual growth rate for Other Grants is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
24.1%	-21.5%	2.6%	2.6%	2.5%

Use of Money & Property: The Use of Money and Property category is comprised of investment earnings and rental income. Historically, the largest portion of this revenue is from interest earned. As reserves and funds are drawn down, there is less cash available to earn interest, albeit rates are currently at an all-time low. Based on the anticipated use of reserves and capital funds for FY 12/13, the forecast reflects a decline in interest earnings for FY 13/14. Conservative growth is projected for future years, assuming reserve levels increase, with an assumed decline in FY 17/18 should reserves be drawn down.

The forecast of the annual growth rate is:

FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
-20.2%	1.9%	1.9%	5.6%	-11.2%

EXPENDITURE ASSUMPTIONS

Salary & Benefits: The forecast reflects no changes in salaries, other than for annual merit increases and the inclusion of temporary personnel costs for two additional firefighters for the new Fire Station No. 92 until the Tracy Rural prepayment agreement begins in FY 15/16. Specifically, 3 months of personnel expenses have been included for FY 13/14 and a full year for FY 14/15. The forecast also reflects savings assumed from the net loss of 7 full-time equivalents (FTE) due to retirements and full implementation of the elimination of the Master Officer Pay (in exchange for the Police Corporal Program) and City-wide organizational restructuring, which included the consolidation of departments and reduction in executive management.

Additionally, the forecast reflects annual adjustments in health benefits, approximately a 6.6%-7.4% increase in FY 13/14 and a 10% increase for subsequent years. Also included in the forecast are projected employer-paid Public Employees Retirement System (PERS) rate increases, which are based on total payroll. However, savings are assumed as employees agreed to incrementally pay their share of employee PERS costs effective FY 12/13 in exchange for additional flex-leave hours. Full payment of employee PERS costs will occur in FY 15/16. The net savings over a 3-year period is anticipated to be $3 million.

The 5-year projections for the PERS rates are:

PERS Rates	FY 13/14	Projected FY 14/15	Projected FY 15/16	Projected FY 16/17	Projected FY 17/18
PERS Safety	27.7	28.7	29.2	29.5	29.8
PERS Miscellaneous	15.3	16	16.3	16.6	16.9

The 5-year projections for personnel expenses are:

Personnel Expenses	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
Personnel – Police	-0.013%	1.54%	-2.0%	2.1%	2.2%
Personnel – Fire	-0.21%	1.5%	-0.94%	2.1%	2.2%
Personnel – Others	0.62%	1.6%	-2.0%	2.0%	2.0%

Non-Personnel Operating Expenses: Overall, operating expenses, including costs for contractual services and commodities are anticipated to be modestly adjusted for necessary increases and inflation. However, FY 13/14 assumes a slight reduction in operating expenses due to the elimination of redevelopment and discontinuation of election funding which was a part of the prior year's base budget.

The 5-year projections for non-personnel operating expenses are:

Non-Personnel Operating Expenses	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
Contracted Services	-0.4%	2.0%	2.0%	2.0%	2.0%
Commodities	-0.1%	2.0%	2.0%	2.0%	2.0%

Internal Service Charges: The forecast also reflects moderate adjustments for internal service charges, with the exception of significant increases in FY 13/14. This adjustment restores equipment/vehicle cost reductions made 3 years ago as a budget savings measure. Internal Service Charges include: Workers Compensation, General Liability, Information Technology, Building Maintenance, Vehicle Maintenance, Vehicle Fuel, Equipment Replacement, and Vehicle Replacement.

The 5-year projection for Internal Service Charges is:

Service Charges	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
Internal Service Charges	14.3%	2.0%	2.0%	2.0%	2.0%

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FY 12/13 GENERAL FUND MID-YEAR BUDGET REVIEW

Budget Performance and Status Report

(For 2nd Quarter Ending December 31, 2012)

Think Inside the Triangle™

Discussion Outline

1. FY 12/13 General Fund Mid-Year Status
2. FY 12/13 Year-End Projections
3. A Look Ahead – Five Year Financial Plan Update
4. Policy Considerations
5. Conclusion
6. Action Items

FY 12/13 Mid-Year Status

Purpose

- 6-Month Check-In
- Status of Fiscal Position
- Limited Scope

Background

GENERAL FUND	FY 12/13 ADOPTED BUDGET
REVENUES	$47.6M
EXPENDITURES	$49.8M
BUDGET DEFICIT	**($2.2M)**

FY 12/13 Mid-Year Revenue Trends

- Trends based on economically sensitive revenue:
  - ✓ Property Tax
  - ✓ Sales Tax & Measure E
  - ✓ Franchise Fees
  - ✓ TOT (Hotel/Motel Tax)
  - ✓ Business Licenses
  - ✓ Interest Income

- Revenue projections will exceed adopted levels
  - ✓ Sales Tax - $900K higher
  - ✓ Drivers: Fuel, retail, and new auto sales

FY 12/13 Mid-Year Expenditure Trends

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- Expenditures trending below 50% of budgeted level
- Current year-end projections show City may expend 99%-100% of expenditure budget
- FY 12/13 Adopted Budget assumed 98%

FY 12/13 Year-End Projections

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GENERAL FUND	FY 12/13 ADOPTED BUDGET	FY 12/13 YEAR-END PROJECTIONS
REVENUES	$47.6M	$49.9M
EXPENDITURES	$49.8M	$50.8M
BUDGET DEFICIT	**($2.2M)**	**($900K)**

Five-Year Financial Plan Update

Purpose

- Serves as a fiscal policy planning tool
- Provides a future fiscal roadmap
- Fluid in nature, subject to change

Five-Year Financial Plan Update

REVENUE	ASSUMPTIONS				
	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
Property Tax	Very Mild Growth	1.1% Increase	2% Increase	2% Increase	2% Increase
Sales Tax	4.3% Increase	8.6% Increase	7.6% Increase	-3.2% Decline	2.3% Increase
Measure E	1.9% Increase	2% Increase	-15.5% Decline	-100% Decline	N/A

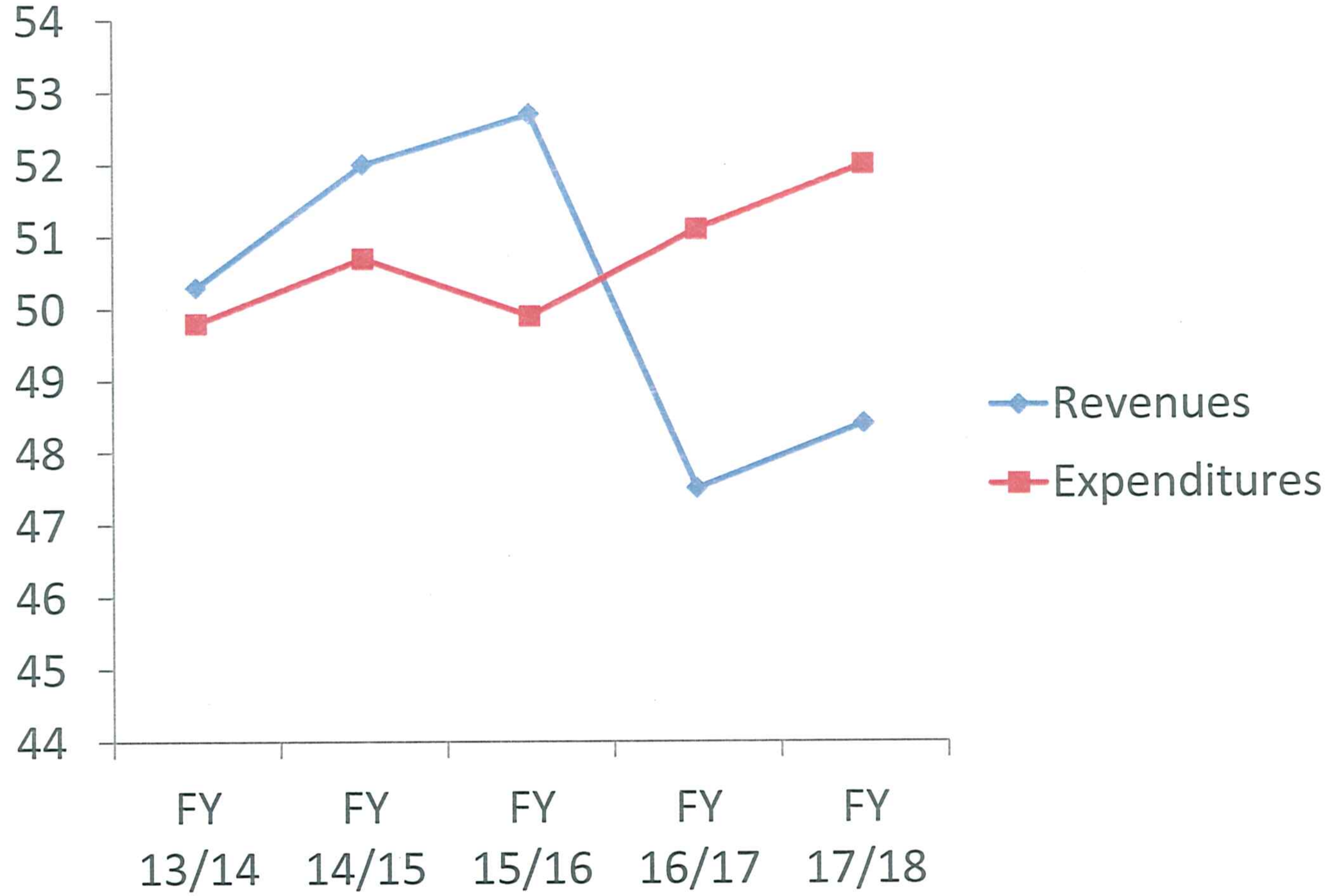
Five-Year Financial Plan Update

TRACY

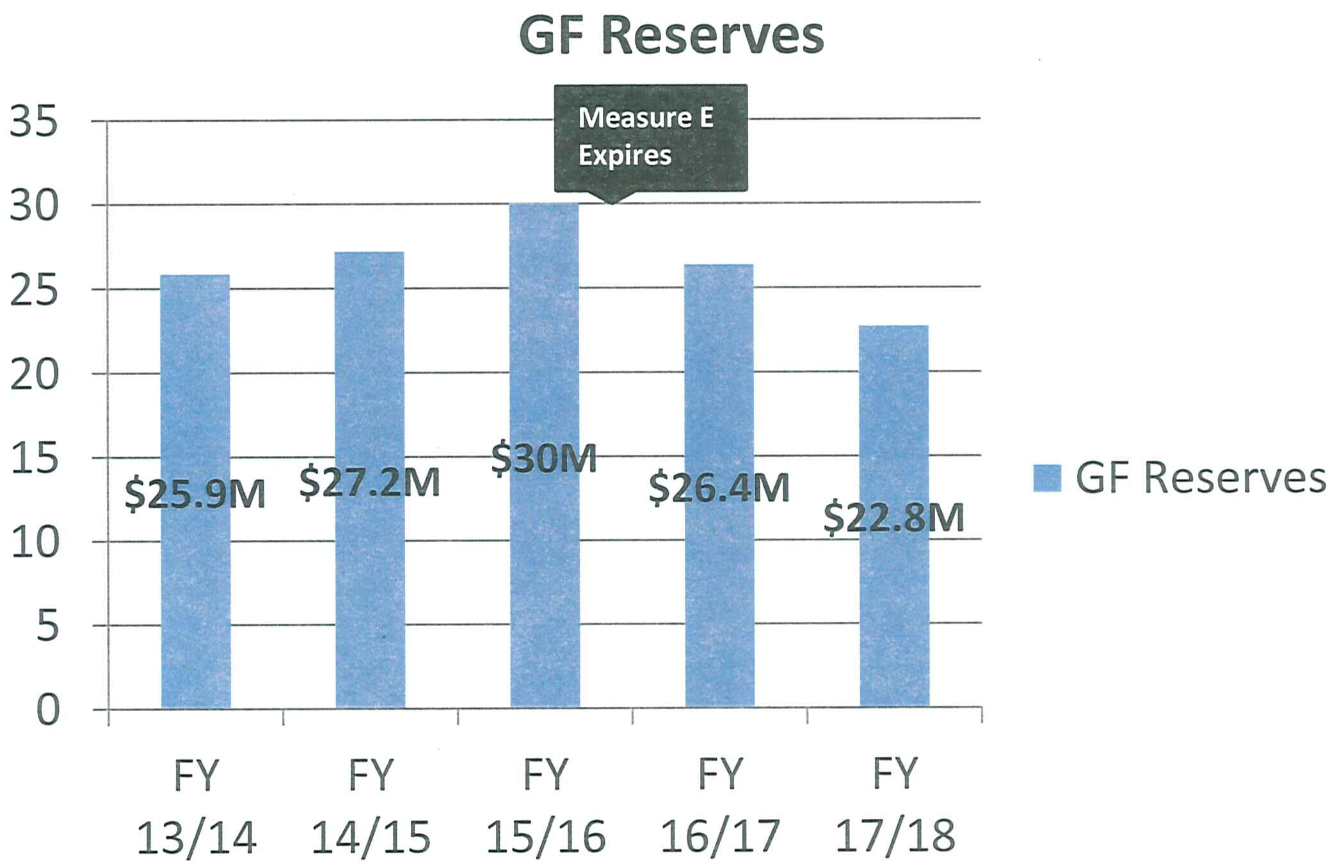
Expense Assumptions

- Assumptions include City-wide wide restructuring efforts, including a reduction in executive management and other positions.
- Employee PERS Cost Sharing – Effective FY 12/13, employees have begun to pay their portion of employee PERS costs. Full payment will occur in FY 15/16.
- Employer PERS rates are expected to increase between .5% - 1% each year. While not reflected in the forecast, additional PERS adjustments in the range of 2-4% are expected to occur in FY 15/16 and FY 17/18.
- Healthcare increases are estimated to be between 6-7% for FY 13/14 and 10% for future years.
- Modest adjustments for inflation are assumed – about 2% annually.
- No cost of living adjustments are included.

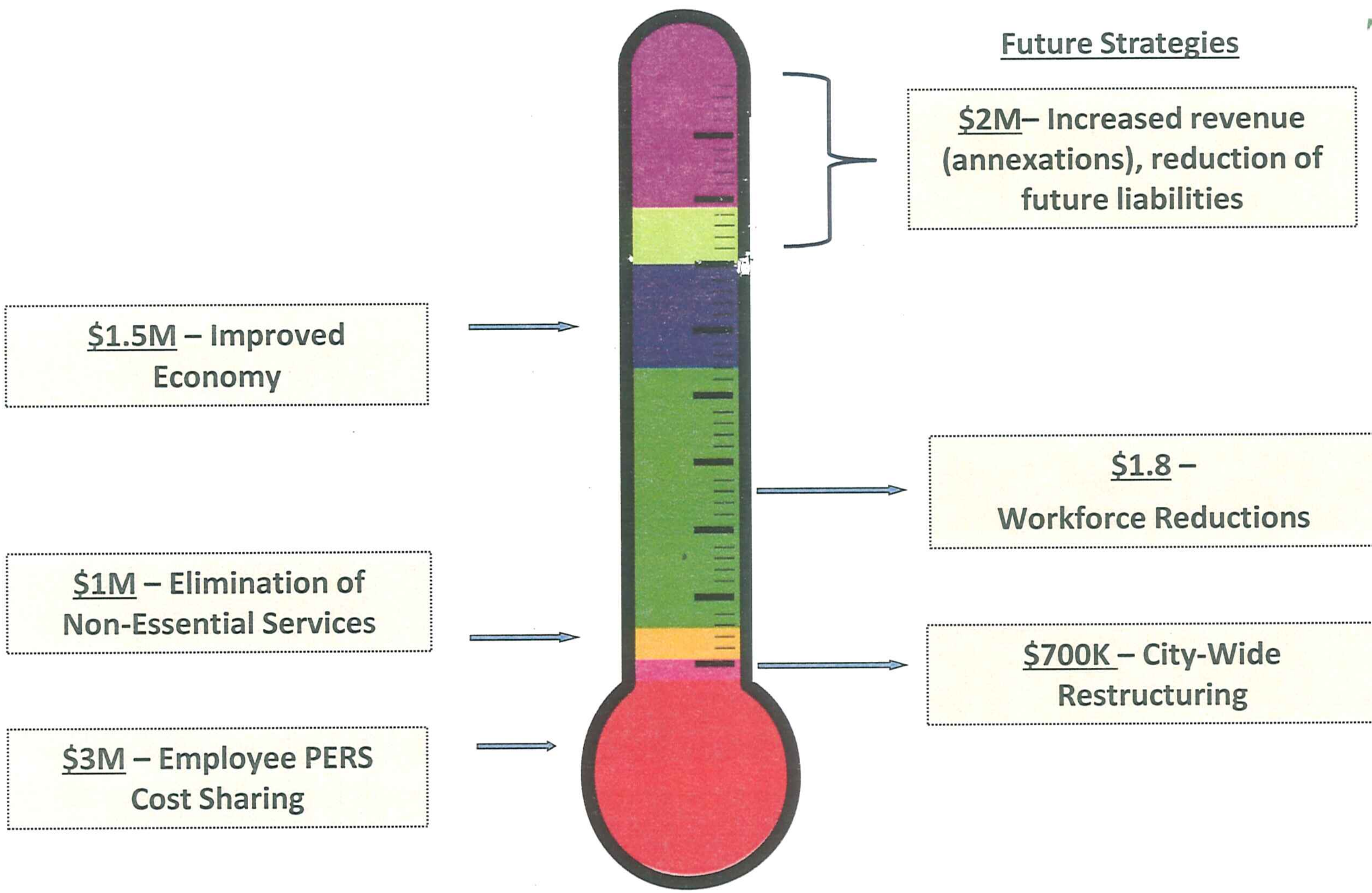
Summary of Five-Year Financial Projections



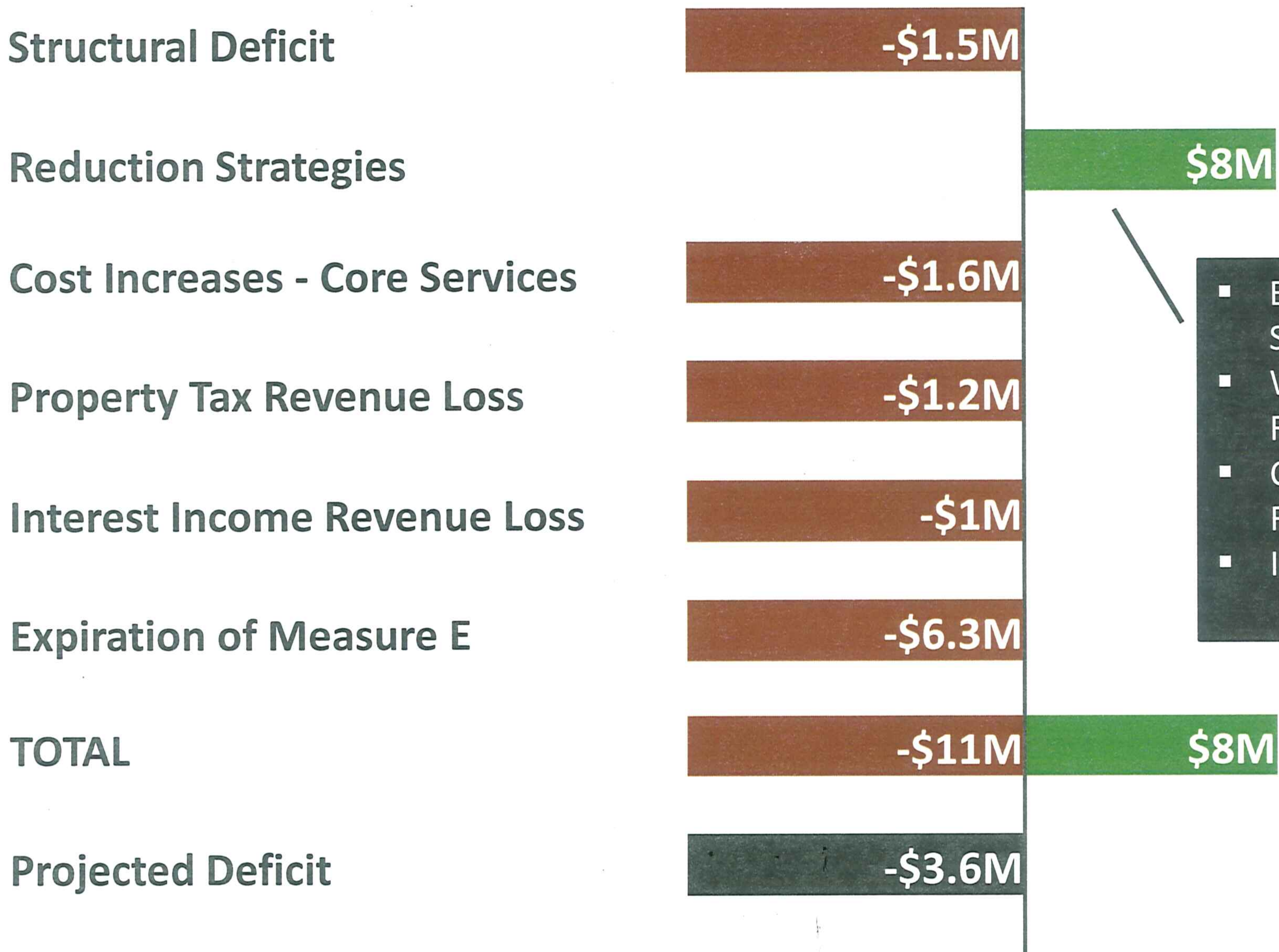
General Fund Reserves



Past & Future Reduction Strategies



Swimming Against the Current



- Employee PERS Cost Sharing
- Workforce Reductions
- City-Wide Restructuring
- Improved Economy

Policy Considerations

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- Development of the next wave of financial strategies
- Reserve designation for excess revenue
  - ✓ How much to allocate to existing reserves
  - ✓ Evaluation of current reserve level requirements
  - ✓ Creation of new reserves
- Preparation for future vulnerabilities

Conclusion

- Mid-year analysis – budget is on track as expected
- FY 12/13 projected revenue gains is helping to offset other revenue losses
- FY 12/13 budget deficit is estimated to be $1.3M less, or $907K
- Projected deficit could be lower if other revenue improves
- Five-Year Financial Plan has several policy implications
  - ✓ Development of next wave of financial strategies
  - ✓ Attention to legislative vulnerabilities

Council Action Items

TRACY

1. Accept FY 12/13 Mid-Year General Fund Report
2. Adopt Resolution Authorizing a FY 12/13 Budget Adjustment Increasing Sales Tax Revenue by $900,000
3. Direct Staff to Develop General Fund Reserve Designation and Allocation Policy Options