



City of Stockton

Legislation Text

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PUBLIC HEARING ADOPTING THE PROPOSED FISCAL YEAR 2014-2015 ANNUAL BUDGET (WITH REVISIONS); APPROVING THE 2014-2019 CAPITAL IMPROVEMENT PLAN; APPROVING THE FY 2014-2015 FEE SCHEDULE; APPROVING THE FY 2014-2015 CALIFORNIA CONSTITUTIONAL APPROPRIATIONS LIMIT; AND ADOPTING THE FY 2014-2015 ANNUAL BUDGET FOR THE SUCCESSOR AGENCY TO THE FORMER STOCKTON REDEVELOPMENT AGENCY

RECOMMENDATION

It is recommended that the City Council approve a resolution that:

- Adopts the Fiscal Year 2014-2015 Annual Budget as part of the City's Pendency Plan (while under protection of bankruptcy), and also adopts the Proposed 2014-2019 Capital Improvement Plan, the Proposed FY 2014-2015 Fee Schedule and the FY 2014-2015 California Constitutional (Gann) Appropriations Limit.

It is also recommended that the Successor Agency to the former Stockton Redevelopment Agency (Successor Agency) approve a resolution that:

- Adopts the Fiscal Year 2014-2015 Annual Budget for the Successor Agency to the former Stockton Redevelopment Agency (Exhibit 1 to the resolution).

Summary

This staff report recommends that the City Council approve a resolution to adopt the City's budget that represents the City's financial plan for Fiscal Year 2014-2015. The City's Proposed Budget submitted to Council by the City Manager on May 16, 2014, included a plan for all of the City's funds and continues the Pendency Plan which is the City's General Fund budget while it is under the protection of Chapter 9 of the federal bankruptcy code.

The key elements of this budget are summarized below, but are described in much greater detail in the Proposed Budget, Capital Improvement Plan and Fee Schedule documents, all of which were released in mid-May. In addition to the adoption of the General Fund Pendency Plan, a number of other actions are proposed as part of this resolution. This includes adopting the proposed budgets for the solvent funds (those not affected by insolvency). The other actions proposed in this staff report include approval of the 2014-2019 Capital Improvement Plan, the FY 2014-2015 Fee Schedule, the FY 2014-2015 State Constitutional (Gann) Appropriation limit, and the FY 2014-2015 Successor Agency Annual Budget.

During the City Council Study Sessions held May 27 and 28, 2014, some specific amendments to the City Manager's Proposed Budget were discussed. Staff have incorporated revisions to the Proposed

Budget to accommodate the appropriation changes to increase Police Department by \$100,000, Non-departmental by \$150,000 and reduce City Council by \$250,000. There is no overall impact on the City's total budget from these revisions which include offsetting changes to expenditures that net to zero and no change to revenues. Details of the revisions are described under "Present Situation" in this report.

The Successor Agency is responsible for ensuring obligations of the former Redevelopment Agency are met. The annual budget includes debt service payments and administrative, legal, and maintenance costs of the Successor Agency. A continued subsidy from the City's general fund for administrative and operating costs in the amount of \$450,000 is needed.

DISCUSSION

Background

Over the past several years the City of Stockton experienced painful service reductions and has gone through a very arduous effort to repair the damages to its finances caused by prior poor fiscal management, previous City decisions based on a belief that the extraordinary growth in the region was endless, and the severe impacts of the "Great Recession", which together exhausted the City's general financial reserves and burdened it with obligations it could not afford. Those growing obligations exceeded General Fund resources by \$26 million in FY 2012-13, \$23.8 million in FY 2013-14 and \$24.5 million in FY 2014-15. If left unchecked and without substantial intervention these would have continued to grow in future years.

After a complete process of self-examination, verification of the severity of our financial status by outside experts, and participation in the new State mandated arbitration process (AB 506), two years ago, the City proved to be insolvent and the City Council made the painful but necessary decision to seek bankruptcy protection under Chapter 9 of the federal bankruptcy code. The City filed for bankruptcy on June 28, 2012 and eligibility for bankruptcy protection was confirmed by the court on April 1, 2013. Under that protection, the City was able to adopt "Pendency" Plans for both FY 2012-13 and FY 2013-14 that balanced the General Fund budget by excluding \$26.0 million in obligations in FY 2012-13 and \$23.8 million in FY 2013-14. Now for FY 2014-15, the shortfall would be approximately \$24.5 million. Without bankruptcy protection the expenditure reductions necessary to match revenues would not have been possible. The reduced expenses consisted of reductions to debt payments, salary and benefit reductions, a two year phase-out of Retiree Medical Insurance, and other measures.

The Successor Agency to the former Stockton Redevelopment Agency

Assembly Bills x1 26 and 1484 dissolved all California Redevelopment Agencies and provided the opportunity to replace them with Successor Agencies effective February 1, 2012. In August 2011, the City elected to become the Successor Agency. The Successor Agency is responsible for unwinding the affairs of the former Redevelopment Agency and ensuring obligations are met. Under redevelopment law, when a project area was formed the assessed value of the project area was determined and became the base year valuation. As properties values grew, property taxes increased. The increase in property tax revenues between the base year and current year was known as property tax increment. Tax increment continues to be the primary source of revenue for the Successor Agency. To receive tax increment, the Successor Agency must submit a Recognized

Obligation Payment Schedule (“ROPS”) every six months detailing its payment obligations and source of funds. The ROPS must be approved by the Oversight Board and the State Department of Finance. The Successor Agency is allowed to request tax increment for debt payments, reserve for debt payments, asset-related maintenance and legal costs, as well as an administrative cost allowance up to three percent (3%) of its obligations. Any excess tax increment is retained by the County Auditor Controller and distributed to local taxing entities. After adoption of the Successor Agency’s annual budget, staff will present the budget to the Oversight Board for approval and submission to the State Department of Finance, County Auditor Controller, and County Administrator.

Present Situation

FY 2014-2015 Annual Budget

The Proposed Budget for the Fiscal Year 2014-2015, along with the 2014-2019 CIP and the FY 2014 -2015 Fee Schedule were delivered to Council and public study sessions were held on May 27th and 28th .

The City’s annual operating budget presents proposed appropriations for all funds of the City. The proposed budget appropriations included in this document are for operating, capital, debt, transfers, and internal service fund operations for all programs of the City.

Proposed Adjustments to the Published FY2014-15 Proposed Budget

During Council’s Study Sessions of the proposed budget, the City Council recommended modifying the Proposed Budget as follows: in the Police Department funding the continuation of the ShotSpotter program (previously donated by the vendor for a six month trial period) and for addressing Council’s strategic priorities such as youth programs and for potential increases to Library hours to help restore services in underserved locations. Two proposed budget appropriations were identified as funding sources for these priorities: \$160,000 in funding in the City Council budget for special projects and approximately \$90,000 added to the City Council budget for an additional position to assist the Mayor.

Following the Council’s direction to reallocate the use of \$250,000 in appropriations, to other areas that improve services to public safety and addresses strategic priorities, staff proposes the following modifications to the FY 2014-15 Proposed Budget:

- 1) Increase Police Department budget by \$100,000 to continue the ShotSpotter Program for one additional year. The pilot program conducted this fiscal year has proven to be very effective in pinpointing the location of gunfire within a targeted area. The technology and monitoring provided by an outside vendor at an annual cost of \$100,000 provides coverage for a 2 square mile radius. Each additional square mile location would cost approximately \$50,000. The Stockton Police Foundation has pledged to pursue additional funding and grant opportunities that could be used to extend the life of the program or expand the targeted area.
- 2) Increase Strategic Priorities appropriated in the City-wide Non-Departmental budget by approximately \$150,000. The City Manager will develop a plan for this funding as part of the overall strategic priorities process that will be approved by Council.
- 3) Decrease the City Council budget by \$250,000 and eliminate the proposed new position.

The revised Proposed FY 2014-15 Annual Budget book pages have been attached to the accompanying resolution as Exhibits 1 and 2 to reflect the above changes (Pages B-1, B-4 through B-32, C-1, C-2 and C-5).

City-wide FY 2014-15 Proposed Budget

The proposed FY 2014-15 citywide annual budget totals \$632.6 million, of which \$182.9 million is for the General Fund. This represents an increase of \$104.9 million for all funds, and \$20.4 million for the General Fund. The increase in the General Fund is primarily due to the inclusion of implementation of the Marshall Plan public safety spending from the new Measure A sales tax revenue. The increase in Other Fund budgets primarily reflects growth in the budgets for Utilities, Capital/Street Maintenance, Other Community Programs and Internal Service Funds. The components of these increases are described in the Proposed Budget and CIP documents.

City-wide Expenditure Budget	2013-14	2014-15	
All Funds	Approved	Proposed	Difference
General Fund*	\$ 162,512,438	\$ 182,929,670	\$ 20,417,232
Utilities	114,510,812	138,024,738	23,513,926
Capital/Street Maintenance	33,796,093	70,456,971	36,660,878
Other Community Programs	64,616,599	72,925,555	8,308,956
Debt Service	28,350,320	28,120,489	(229,831)
Redev. Low/Mod Housing	2,222,347	3,121,583	899,236
HUD/Housing Programs	10,909,115	11,931,636	1,022,521
Internal Services	110,789,195	125,054,232	14,265,037
	<u>\$ 527,706,919</u>	<u>\$ 632,564,874</u>	<u>\$ 104,857,955</u>

*The 2013-14 General Fund expenditure budget is presented as amended to provide a more appropriate comparison between fiscal years.

Strategic Plans

The annual budget for FY 2014-2015 was developed with an emphasis on the Mayor's proposed budget priorities and City Council's post-bankruptcy strategic goals and targeted areas. The Mayor identified three priorities in his Proposed Budget Direction memo dated January 15, 2014. The Council held a strategic planning session in April 2014 which identified seven target areas expanding upon the Mayor's overall direction. These target areas are: Public Safety, Fiscal Sustainability, Organizational Development, Economic Development, Youth, Infrastructure, and Public Relations/Image. These goals and target areas renew and expand upon Council's previous Strategic Priorities. Specific objectives have been developed within the target areas, and detailed work plans for each are under development by the City Manager and the Departments. This budget allows the City to take meaningful steps towards addressing the many needs represented by these goals and priorities.

Bankruptcy

The Proposed FY 2014-15 Budget is presented under protection of Chapter 9 of the federal bankruptcy code. This budget continues the Pendency Plan, which is balanced with \$24.5 million as

compared to \$23.8 million in FY 2013-14 in reductions to creditors and retirees, and is consistent with the expenditure priorities pending confirmation of a plan of adjustment to exit Chapter 9 which has not yet occurred as of this printing. During the period the City operates under the Pendency Plan in bankruptcy, the differences between payments required by contracts and the amount actually paid become claims in bankruptcy and are resolved through negotiations and, ultimately, the Plan of Adjustment submitted to the creditors for approval and to the bankruptcy court for confirmation. The Plan of Adjustment is intended to bring the City's debts in line with our resources, both now and over time. The City has established a Bankruptcy Fund that will continue to be used to track costs for Chapter 9 project management, litigation and negotiations with our creditors, with remaining funds being available to pay our creditors as settlements for claims and to pay for the move to 400 E. Main. The Bankruptcy Fund is anticipated to begin the FY 2014-15 with approximately \$10.9 million which has been accumulated from prior years' General Fund Pendency Plan budget savings.

The Proposed FY 2014-15 Annual Budget does not include any changes that may be the result of the pending agreement with the City's creditors or confirmation of the Plan of Adjustment by the U.S. Bankruptcy Court. Once an order is entered with the Court, those changes will be presented as part of a separate staff report to City Council to implement the provisions of the plan and amend the budget as necessary.

General Fund Operating Budget

As illustrated below, General Fund total revenues budgeted for FY 2014-15 are projected at \$193.8 million and expenditures are projected at \$182.9 million. The combination of the carry-over of FY 2013-14 ending fund balance of 9.8 million and the revenue and expenditure budgets for FY 2014-15 result in a projected ending available balance of \$20.7 million. This projected fund balance amount is consistent with the long-term financial planning model. The change in expenditures, as shown in the table below, between the FY 2013-14 Current Budget and FY 2014-15 Proposed Budget (as adjusted by Council direction), is an increase of approximately \$20.4 million, which results almost entirely from the impact of the full year collections the new Measure A sales tax revenue.

<u>General Fund Budget</u>	<u>2013-14 Current</u>	<u>2014-15 Proposed</u>	<u>Proposed vs. 13-14 Current</u>
Beginning Available Balance	\$ 3,093,428	\$ 9,781,222	\$ 6,687,794
Revenues	167,593,067	193,821,893	26,228,826
Expenditures			
Police	85,330,420	95,644,951	10,314,531
Fire	36,000,911	38,492,749	2,491,838
Other Programs	41,181,107	48,791,970	7,610,863
	<u>162,512,438</u>	<u>182,929,670</u>	<u>20,417,232</u>
Prior Year Commitments*	<u>1,607,165</u>	<u>-</u>	<u>(1,607,165)</u>
Ending Available Balance	\$ <u>9,781,222</u>	\$ <u>20,673,445</u>	\$ <u>10,892,223</u>

*Adjustments include encumbrance carryover from prior year.

Measures A and B

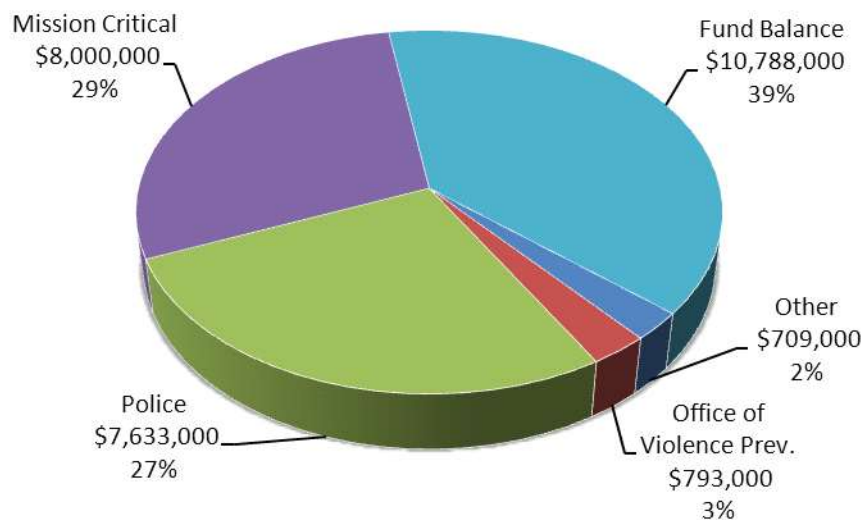
A significant change to this budget is the inclusion of funding from Measure A, a voter approved Transaction and Use tax increase of ¾ cent effective April 1, 2014, along with the associated uses, most significantly the Marshall Plan on Crime (Marshall Plan). This budget reflects an increase of \$27.9 million to the General Fund for the first full year of Measure A sales tax proceeds. These funds will be used to implement Phase 1 of the Marshall Plan, to emerge from bankruptcy, and to sustain other City services as outlined in the Ordinance.

On February 25, 2014, the City Council supported the accompanying voter approved advisory Measure B by approving the first phase of the implementation of the Marshall Plan on Crime and approving specific budgets to utilize Measure A funding. This occurred after the passage of Measure A but prior to any related revenue collection and was expedited by the City Council based on the City's commitment to improving public safety. The funding from Measure A is proposed in FY 2014-15 to be allocated consistent with the Long Range Financial Plan.

The budgeted appropriations are shown below and are \$7.6 million for additional staffing and equipment for the Police Department, \$793,000 for staffing and equipment for the establishment of a new Office of Violence Prevention; (the existing Peacekeeper Program will be expanded as part of this new Program); \$709,000 for other City services support, \$8.0 million for a variety of mission critical projects, and, \$10.8 million for the General Fund balance to be kept uncommitted. The \$8.0 million in "mission critical projects" are in support of the City Council's targets and goals as follows:

- a. Implementation of Strategic Priorities \$ 200,000
- b. Public Safety Radios \$1,000,000
- c. Fiscal Sustainability - Purchasing and LED Light \$1,364,000
- d. Organizational Development - Technology Infrastructure \$5,236,000
- e. Economic Development - ULI and Marketing Plan \$ 200,000

FY 2014-15 Measure A Budget Appropriations



Other City Funds

Included in the Proposed FY 2014-15 Budget document are balanced pro forma schedules for all other City funds and a brief bulleted summary of the history, current year issues and significant developments, and comments about significant elements of the 2014-15 budget being proposed. Other City Funds include funds for Police, Fire, Economic Development and Public Works; Community Services funds; Community Development; Municipal Utilities, Internal Service Funds, Debt and Capital. Highlights for each of these other city funds are described in more detail in the document. The funds are grouped by the departments that retain responsibilities for each fund. The pro forma schedule for each fund includes actual expenditures and revenues for the two prior fiscal years, a year-end projection for the current fiscal year, and a proposed 2014-15 budget.

Successor Agency to the former Stockton Redevelopment Agency

The Successor Agency's budget consists of four sections: Administration, Project Areas, Debt Service, and Strong Neighborhood Initiative. The administrative budget revenues include an administrative cost allowance of \$250,000 that will be paid from tax increment and a \$450,000 general fund subsidy. The requested subsidy is significantly less than prior years. The approved subsidy for the Successor Agency in FY 2012-13 was \$1 million. By FY 2013-14 it had declined to \$750,000 and for the coming fiscal year the subsidy is down again to \$450,000. The initial dramatic declines are simply a result of trying to develop a budget for a complex, new, and fluid situation created by State law. After more than a year of experience and improved property tax increments, the subsidy budget was reduced significantly. As property values increase and more tax increment is available, the need for a general fund subsidy should further diminish or disappear altogether.

The budget in the Project Areas primarily consists of transfers for debt service payments. The Successor Agency's Proposed Budget for FY 2014-15 is attached as Exhibit 1 to the Successor Agency Budget Resolution included in this Council agenda item. The FY 2014-15 Proposed Budget estimates tax increment receipts of \$10.0 million and appropriations of \$8.7 million for debt service payments and \$700,000 for administration. In FY 2014-15 the Successor Agency will prepare a Long Range Management Plan to propose the disposition of Agency-owned properties which may include transfer, sale, or future development. If the plan is approved by the Oversight Board and State Department of Finance, any proceeds received from the sale of properties will be used to pay enforceable obligations and may decrease the subsidy amount from the General Fund. No other impact to General Fund is expected.

Debt service payments are appropriated and made from the City and Successor Agency's Debt Service Funds. There is no activity budgeted in the Strong Neighborhood Initiative fund as these project funds cannot be spent due to provisions under dissolution. The administrative budget consists of \$221,000 for ongoing litigation and legal expenses, \$448,000 in staff, operating and overhead costs, and \$30,900 in property taxes.

2014-2019 Capital Improvement Plan (CIP)

The City's Capital Improvement Plan (CIP) is a five year plan that addresses facility and infrastructure needs for the City. Total project costs for the five years are estimated at \$738 million. Included in the five year CIP are projects totaling \$347 million which have identified funding sources

and \$391 million in projects without identified funding sources. The first year of the five year CIP is appropriated as part of the approval of the FY 2014-15 Annual Budget and totals \$81.5 million, and is appropriated throughout multiple City funds. The FY 2014-15 CIP is predominantly for transportation and utility improvements, as is the remaining four years of the Plan. The large increase in projects budgeted in the Transportation category in the last year of the CIP (FY 2018-19) reflect the accumulated backlog expected by that time. Almost all of these projects are unfunded at this point but are listed to illustrate priorities and the magnitude of funding needed to fund replacement of the aging infrastructure. In the 2014-2019 CIP, 97% of the funding designated for capital projects comes from restricted, or non-discretionary, funding sources, such as grants which can only be spent on specific types of projects.

**Summary by Program
Five Year Capital Improvement Program
2014-2019
(dollars in thousands)**

	2014-15					
	Proposed	2015-16	2016-17	2017-18	2018-19	Total
	Budget	Projected	Projected	Projected	Projected	Five Year
General Fund	\$ 2,775					
General Government Other	743	\$ 5,919	\$ 16,438	\$ 12,763	\$ 52,004	\$ 52,004
Transportation	50,363	10,726	32,504	67,658	232,862	232,862
Utilities	27,612	63,611	110,891	17,462	33,241	33,241
Total CIP Program	<u>81,493</u>	<u>80,256</u>	<u>159,833</u>	<u>97,883</u>	<u>318,107</u>	<u>737,572</u>
Funded	81,493	66,946	121,924	23,555	52,543	52,543
Unfunded		13,310	37,909	74,328	265,564	265,564
Total	<u>\$ 81,493</u>	<u>\$ 80,256</u>	<u>\$ 159,833</u>	<u>\$ 97,883</u>	<u>\$ 318,107</u>	<u>\$ 318,107</u>

As shown in the chart above, the General Fund is only committed towards the first year of the plan, which for FY 2014-15 Proposed Budget is \$2,775,000. This is an increase from \$1,290,000 included in the FY 2013-14 Budget. This level is still far below amounts needed to address existing deficiencies and ongoing needs for maintenance and replacement of capital assets essential to functions funded through the General Fund. Highlights of the Capital Improvement Plan are discussed in the CIP transmittal letter and on pages 3-8 of the 2014-2019 Capital Improvement Plan.

FY 2014-2015 Fee Schedule

The FY 2014-15 Proposed Fee Schedule reflects little change in fees from the prior year. The Schedule does include new fees for the Community Centers and Tournament Field reservations to provide inclusive rates for commonly requested uses. Fee changes are proposed to facilitate property rentals throughout the City which are the result of a review that resulted in more simplified fee structure and to establish consistency with other facility rental rates. Two small changes to the Fire Department-Emergency Communications fees are proposed to conform to existing agreements, and one fee previously listed under Fire Inspection Permits is proposed to be moved to the Municipal Utility Water District Water Fees section to align with the department oversight of the fee. Increases to the Municipal Utilities Department Wastewater and Water fees are proposed to reflect prior City

Council action; this is the final year of a five year tiered rate increase that provides funding for bond covenant compliance and capital improvement projects. Finally, an increase to a per day meter fee in the Parking -Central Parking District is proposed to reflect an action approved by the Central Parking District Advisory Board in March 2014.

FY 2014-15 Gann Appropriation Limit

An amendment to the California Constitution intended to limit the growth in local government spending requires establishment of a maximum limit for expenditures from general taxes. The law requires that the limit be calculated and approved annually by the City Council at the beginning of each fiscal year. Generally known as the Gann Limit, it is indexed to specified growth factors approved by the Legislature applied to the revenue appropriations. The total FY 2014-15 revenue appropriations that are subject to the limit has been calculated at \$160,081,006. The City's annual appropriation limit has been calculated in the amount of \$274,534,108 for FY 2014-15 pursuant to the requirements of the California Government Code. The Proposed FY 2014-15 Budget of \$182,929,670 is well below the State Constitutional appropriations limit.

FY 2014-15 Annual Budget Adoption - Stockton's Next Chapter

The City remains focused on its recovery efforts and on long-term sustainability. The two most critical areas that will have the greatest impact on our recovery are: exiting bankruptcy with a plan of adjustment approved by the U.S. Bankruptcy Court and implementing the Marshall Plan on Crime.

Over the past few years the City has acknowledged its problems and implemented comprehensive and well-constructed solutions that were painful but necessary for its overall long-term health. We owe much gratitude to the support of our citizens and those responsible for the passage of Measure A, which has provided much needed revenues to help expedite the City's recovery and to move Stockton forward. Today, with the benefit of those recent actions along with a new management team, new philosophy, new Long Range Financial Plan, and lessons learned from the past, the City is poised to move to the next phase which will be a period of renewal and restoration for the City. The FY 2014-15 Proposed Budget focuses on that restoration by providing funding for our core services with added attention in each of the priorities identified by the Mayor and Council: Fiscal Sustainability, Public Safety, Economic Development, Organizational Development, Youth, Infrastructure, and Public Relations/Image.

FINANCIAL SUMMARY

This report recommends for adoption the City's Fiscal Year 2014-15 Annual Budget totaling \$632,564,874 including all City funds. This budget continues the General Fund Pendency Plan under Chapter 9 protection of the federal bankruptcy code and reflects expenditure priorities pending confirmation of a Plan of Adjustment to exit Chapter 9.

Included in the City's FY 2014-15 Annual Budget is the Successor Agency FY 2014-15 Annual Budget and subsidy from the General Fund of \$450,000. The Successor Agency will fund the remaining expenditures with property tax revenues received in June and January of each year. Funds from the June 1, 2014 payment of property tax revenues have been set aside for the September 2014 debt service payments. Property tax revenues may not be sufficient to cover all debt service payments and enforceable obligations. The Successor Agency filed a notice of

insufficient funds for the ROPS covering FY 2013-14 and the first half of FY 2014-15. In FY 2014-15, the Successor Agency may meet debt service payments if property tax revenues and interest earnings on the bond reserve funds are sufficient. Any other revenues received by the Successor Agency will be used to pay debt service and enforceable obligations. If revenues are not sufficient to make the full debt service payments, bond issuances backed by the General Fund which include the 2004 Arena Revenue Bonds and the 2003 Housing COPS have been addressed through the City's plan of adjustment. The 2006 Strong Neighborhood Initiative Bonds will likely draw on bond reserves until those are exhausted or until property taxes increase to cover the shortfalls. Staff will continue to work with the County Auditor-Controller's Office, the Department of Finance, and legal counsel to make every effort to meet the obligations of the former Stockton Redevelopment Agency.

The electronic copy of the City's Proposed FY 2014-15 Annual Budget, the Proposed 2014-2019 Capital Improvement Plan, and the Proposed FY 2014-15 Fee Schedule are posted on the City's website, www.stocktongov.com <<http://www.stocktongov.com>> or in the City Clerk's office.