

# City of Stockton

## Fiscal Year 2017-18

### Adopted Annual Budget

### Introduction

The following are the documents that make up the Adopted Fiscal Year (FY) 2017-18 Annual Budget. This is a balanced budget that reflects prudent financial practices under the Plan of Adjustment, Council strategic spending, and approved labor contracts.

The Introduction section of the Annual Budget reflects the development process from the proposed budget released May 15, 2017, through the budget adoption on June 20, 2017. The steps in the development and changes to the budget are summarized as follows:

- The Budget Message for the FY 2017-18 proposed budget released May 15, 2017, describes the City Manager's proposed plan for City operations and related budget of \$625,603,982.
- The City Council held a budget study session on June 6, 2017. A public hearing on the budget was opened on June 6, 2017, and continued to June 20, 2017. The budget adoption staff report includes an increase of \$750,000 for City Council Strategic Priority Spending as discussed at the budget study session.
- On June 20, 2017, the City Council approving the revised FY 2017-18 Annual Budget of \$626,353,982. The City Council resolution 2017-06-20-1501 is incorporated into this document along with the revised budget schedules.

The details of the adopted budget are reflected in the FY 2017-18 Annual Budget pages that follow beginning with Citywide Budget, B-1.

Respectfully submitted,



KURT O. WILSON  
CITY MANAGER



Resolution No. 2017-06-20-1501

## STOCKTON CITY COUNCIL

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**RESOLUTION OF THE CITY OF STOCKTON APPROVING THE FISCAL YEAR 2017-18 ANNUAL BUDGET; APPROVING THE 2017-22 CAPITAL IMPROVEMENT PLAN; APPROVING THE FISCAL YEAR 2017-18 FEE SCHEDULE; AUTHORIZING VARIOUS FUND TRANSFERS AND ADMINISTRATIVE ACTIONS**

On May 15, 2017, in accordance with City Charter, Article XIX, Section 1905, the City Manager provided City Council the Proposed Fiscal Year (FY) 2017-18 Annual Budget, Proposed 2017-22 Capital Improvement Plan, and Proposed FY 2017-18 Fee Schedule; and

On April 27, 2017, the Planning Commission determined that the 2017-22 Capital Improvement Plan conforms to the 2035 General Plan; and

The City Council scheduled and conducted a budget study session on June 6, 2017, to review projections, allow for public discussion, and provide direction in the preparation of the annual budget. This study session included the proposed documents: FY 2017-18 Annual Budget, 2017-22 Capital Improvement Plan, and FY 2017-18 Fee Schedule; and

On June 6, 2017, the City Council conducted a duly noticed public hearing on the Proposed FY 2017-18 Annual Budget, the Proposed FY 2017-22 Capital Improvement Plan, and the Proposed FY 2017-18 Fee Schedule; now, therefore,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF STOCKTON, AS FOLLOWS:

1. The FY 2017-18 Annual Budget with expenditure appropriations of \$625,603,982, as submitted by the City Manager and with modifications by the City Council during the budget study sessions and Public Hearing, is adopted as shown in Exhibit 1 of this resolution.
2. The number of full-time positions authorized under the FY 2017-18 Annual Budget is 1,691.
3. The 2017-22 Capital Improvement Plan with a 5-year CIP project total of \$720,369,000 is adopted, which includes \$36,692,639 appropriations for the FY 2017-18 capital projects.
4. The 2017-22 Capital Improvement Plan conforms to the City of Stockton 2035 General Plan.

5. The effective date of the FY 2017-18 Fee Schedule is July 1, 2017. Any fee changes that are not effective July 1, 2017, are noted in the document.
6. The fees on development projects will take effect 60 days following the final action on the increases in the FY 2017-18 Fee Schedule, where Government Code section 66017(a) applies.
7. The Parking Bail Schedule be amended with adjustments to maintain consistency with parking meter/street violation fees; effective July 1, 2017.
8. An appropriation limit is established in the amount of \$339,151,468 for FY 2017-18 pursuant to the requirements of the California Government Code. The City of Stockton selected the "change in California per capita personal income" for the "change in cost of living" component and the change in annual population for the County of San Joaquin as of January 1, 2017, component in the calculation of the appropriation limit.
9. The City Manager or his designee is authorized to adjust appropriations from the General Fund Contingency account to General Fund Departments, subsidized programs, and Internal Service Funds as needed for unexpected expenditures or emergencies that are unanticipated at the time of the budget adoption. The City Manager or his designee will report Contingency uses with each quarterly budget status report.
10. The City Attorney is authorized to enter into contracts for services and supplies where the total cost is: below the expenditure limit established in Section 3.68.040 of the Stockton Municipal Code, within existing budget appropriation, and consistent with established administrative processes.
11. Authorize the continuation of FY 2016-17 appropriation balances for one-time expenses to FY 2017-18 to complete the delivery of specific programs as listed in the following table:

Description	Department	Fund	Not to Exceed Amount
Homeless	Non-Departmental	General Fund	150,000
Youth Employment	Non-Departmental	General Fund	100,000
Marketing Communication Plan	Non-Departmental	General Fund	25,000
City Facility Re-keying	Public Works	General Fund	55,000
Community Center Gym Equipment	Community Services	Recreation Fund	40,000
Pixie Woods PA System	Community Services	Recreation Fund	7,000

12. The remaining balances of all capital projects and grant funds are authorized to continue beyond the fiscal year in which they are originally appropriated until project cancellation or completion, grant expiration, or funds are fully expended, at which time appropriations will be reduced or eliminated.
13. The following administrative actions required to implement the FY 2017-18 Annual Budget are authorized:
  - a) Level of Budgetary Control – Budgetary control is established at the following levels: a) General Fund - Department Level; b) Other Funds - Fund level; and c) Capital Fund - Project level. The City Manager or his designee may authorize line item budget transfers within a General Fund department, or within a fund other than the General Fund.
  - b) The City Manager or his designee is authorized to make administrative or technical corrections to the FY 2017-18 Annual Budget with a subsequent report to City Council on any corrections greater than \$75,000.
  - c) The City Manager or his designee is authorized to establish and amend revenue estimates and expenditure appropriations corresponding to receipt or award of grant funding, donations, and reimbursements where these special funds and any matching City funds are under the expenditure limit of \$75,000 as established by Ordinance 2015-01-27-1501-01, which amended Section 3.68.040 of the Stockton Municipal Code.
  - d) The City Manager or his designee is authorized to establish revenue estimates and corresponding budget appropriations in General Fund Fire Department as needed during FY 2017-18 to recognize the costs and the associated reimbursement revenue for providing wild-land firefighting and other disaster response services requested by state or federal governments.
  - e) The City Manager or his designee is authorized to abolish positions and/or reduce and reorganize personnel, programs, services, departments, offices, or agencies and take such other action as is necessary to maintain a balanced budget.
  - f) The City Manager is authorized to make adjustments in classifications, including salary and benefit adjustments, to ensure comparability with similar classifications to maintain equity in the City's salary schedules as recommended by the Human Resources


Department classification studies and reviews, and to incorporate changes into the Salary Schedule, as appropriate.

- g) The City Manager or his designee is authorized to fill additional Special Revenue Fund positions, such as grant-funded, Measure W, and contract reimbursement positions, if additional funding becomes available.
- h) The indirect cost rate, as detailed in the City of Stockton Full Cost Allocation Plan and Cost Recovery Allocation Plan, shall be charged to departments and capital projects as project funding and regulations permit. The City Manager or his designee is authorized to modify appropriations for changes that result from an independently prepared indirect cost allocation plan.
- i) The City Manager or his designee is authorized to prepay the City's annual CalPERS payments in a lump sum consistent with FY 2017-18 budget.
- j) The City Manager or his designee is authorized to approve temporary interfund borrowing within the fiscal year, and at the June 30 fiscal year end, to finance the collection period for tax, grant, and other accounts receivable. Any new interfund loans extending beyond these terms must be approved by the City Council. The City Manager is authorized to repay interfund loans when funding becomes available.
- k) The City Council delegates investment authority to the Chief Financial Officer, acting in capacity of Treasurer, for the period of July 1, 2017 through June 30, 2018, pursuant to Section 53601 and 53607 of the California Government Code.
- l) The City Manager or his designee is authorized to move appropriations and transfer between funds within a single budget unit, such as the water utility, Federal grant funds, and other funds where multiple funds have been established in the general ledger for purposes other than legal restrictions and the fund relationship has been identified in the FY 2017-18 Annual Budget, or established by subsequent City Council action.
- m) The City Manager or his designee is authorized to make the Contingent General Fund Payment to Assured Guaranty per the terms of the Reimbursement Agreement. Should the amount exceed the FY 2017-18 budget estimate, the City Manager or designee is

authorized to increase the budget appropriation and transfer from the General Fund.

- n) The City Manager or his designee is authorized to close out non-active assessment and special district redemption and project accounts and transfer all residual account balances to City funds in FY 2017-18 per legislation pertaining to the use of assessment and special district surplus funds and Section 3.76.141 of the Stockton Municipal Code.
- o) With the consolidation of telephone and computer equipment and services, the City Manager is authorized to transfer the ending fund balance of the Telephone Internal Service Fund 504 to the Computer Internal Service Fund 502, without limitation of the estimates in the FY 2017-18 Annual Budget.
- p) The City Manager or his designee is authorized and directed to take such other actions as are necessary and appropriate to carry out the purpose and intent of this resolution including adjusting appropriations from the General Fund Non-Departmental accounts to General Fund Departments, subsidized programs, and Internal Service Funds as needed to implement budget revisions authorized by Council.

PASSED, APPROVED, and ADOPTED June 20, 2017.

  
MICHAEL D. TUBBS,  
Mayor of the City of Stockton

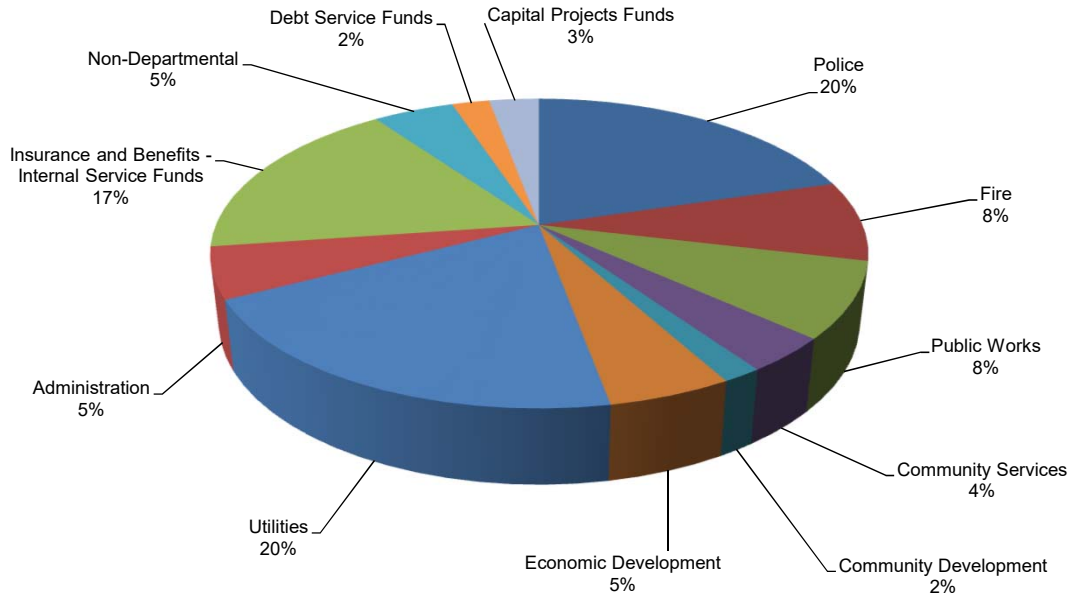
ATTEST:

  
BONNIE PAIGE  
City Clerk of the City of Stockton



**City of Stockton**  
**Citywide Expenditures**  
**FY 2017-18 Proposed Budget with Revisions**

**\$626,353,982**



	Operating Budget	Debt Service Budget	Capital Budget	Total	% of Total
<b>Program Appropriations</b>					
Police	\$ 127,387,861	\$ -	\$ 4,000	\$ 127,391,861	20%
Fire	51,955,365	-	401,180	52,356,545	8%
Public Works	42,864,952	782,937	5,948,192	49,596,081	8%
Community Services	22,965,766	-	-	22,965,766	4%
Community Development	10,286,148	-	-	10,286,148	2%
Economic Development	27,842,540	3,335,265	1,160,000	32,337,805	5%
Utilities	83,851,709	27,994,764	15,484,235	127,330,708	20%
Administration	29,530,215	-	3,991,419	33,521,634	5%
Insurance and Benefits - Internal Service Funds	108,716,878	-	-	108,716,878	17%
<b>Non-Departmental Funds</b>					
Non-Departmental	29,225,070	-	550,000	29,775,070	5%
Debt Service Funds	-	13,798,456	-	13,798,456	2%
Capital Projects Funds	116,818	-	18,160,212	18,277,030	3%
	<u>\$ 534,743,322</u>	<u>\$ 45,911,422</u>	<u>\$ 45,699,238</u>	<u>\$ 626,353,982</u>	<u>100%</u>

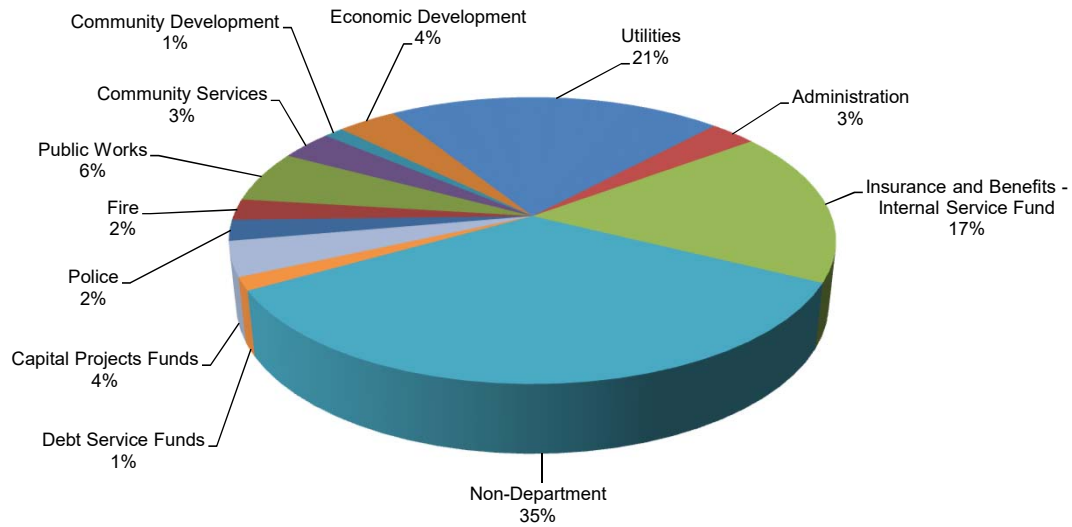
**Net Budgeted Expenditures**

Internal Service Charges	\$ (118,025,479)
Interfund Transfers	(24,410,765)
	<u>\$ 483,917,738</u>



**City of Stockton**  
**Citywide Revenues**  
**FY 2017-18 Proposed Budget with Revisions**

**\$605,423,250**



	Taxes	Program Revenues	Enterprise Revenues	Total	% of Total
<b>Revenues by Department*</b>					
Police	\$ 5,144,000	\$ 9,070,175	\$ -	\$ 14,214,175	2%
Fire	5,144,000	9,277,492	-	14,421,492	2%
Public Works	-	35,083,912	-	35,083,912	6%
Community Services	10,228,000	8,184,723	1,624,327	20,037,050	3%
Community Development	-	7,539,962	-	7,539,962	1%
Economic Development	-	15,793,956	6,706,106	22,500,062	4%
Utilities	-	343,779	126,686,489	127,030,268	21%
Administration	-	17,811,979	-	17,811,979	3%
Insurance and Benefits - Internal	-	105,187,361	-	105,187,361	17%
<b>Non-Departmental Funds</b>					
Non-Department	198,332,177	10,683,334	-	209,015,511	35%
Debt Service Funds	-	8,897,290	-	8,897,290	1%
Capital Projects Funds	-	23,684,188	-	23,684,188	4%
	<u>\$ 218,848,177</u>	<u>\$ 251,558,151</u>	<u>\$ 135,016,922</u>	<u>\$ 605,423,250</u>	<u>100%</u>

**Net Budget**

Internal Service Charges

\$ (118,025,479)

\$ 487,397,771

\*Excludes interfund transfers

**General Fund - 010**  
**Fund Balance Summary**  
**FY 2017-18 Proposed Budget with Revisions**

	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
	<b>Actual</b>	<b>Actual</b>	<b>Current Budget <sup>(1)</sup></b>	<b>Projected</b>	<b>Proposed Budget</b>
<b>Beginning Available Balance</b>	<b>\$ 9,751,000</b>	<b>\$ 33,601,588</b>	<b>\$ 33,898,626</b>	<b>\$ 33,898,626</b>	<b>\$ 47,379,150</b>
<b>Revenues</b>	202,224,368	213,755,012	214,956,204	215,477,856	221,120,697
	<b>202,224,368</b>	<b>213,755,012</b>	<b>214,956,204</b>	<b>215,477,856</b>	<b>221,120,697</b>
<b>Expenditures</b>					
Employee Services	109,017,206	119,504,488	142,346,116	136,388,715	145,223,885
Other Services	30,643,872	33,120,564	44,629,693	43,534,949	42,703,967
Materials & Supplies	4,472,364	3,985,995	5,506,377	5,612,301	4,286,582
Other Expenses	1,547,555	2,060,161	4,655,899	4,024,461	5,059,624
Capital Outlay	1,306,781	3,266,166	2,867,150	2,774,571	147,000
Loan Repayment	1,407,946	1,420,238	1,443,873	1,443,873	4,906,848
Transfer Out	21,323,918	23,338,212	16,317,000	16,117,000	14,726,497
	<b>169,719,642</b>	<b>186,695,824</b>	<b>217,766,108</b>	<b>209,895,870</b>	<b>217,054,403</b>
<b>Net Annual Activity</b>	<b>32,504,726</b>	<b>27,059,188</b>	<b>(2,809,904)</b>	<b>5,581,986</b>	<b>4,066,294</b>
<b>Reserves</b>					
Reserve for future appropriation	(8,842,261)	(4,817,739)	3,951,000	3,951,000	-
Reserve Policy Contributions	-	(19,821,066)	-	-	-
Change in Fund Balance restrictions	188,123	(2,123,345)	3,947,538	3,947,538	-
	<b>(8,654,138)</b>	<b>(26,762,150)</b>	<b>7,898,538</b>	<b>7,898,538</b>	<b>-</b>
<b>Ending Available Balance</b>	<b>\$ 33,601,588</b>	<b>\$ 33,898,626</b>	<b>\$ 38,987,260</b>	<b>\$ 47,379,150</b>	<b>\$ 51,445,444</b>
<b>Available Balance Calculation</b>					
Cash		\$ 65,396,997			
Accounts Receivable		36,056,320			
Prepaid Items/Inventory		829,499			
Accounts Payable		(9,595,637)			
Non-Spendable		(9,652,154)			
Encumbrances		(4,193,399)			
Other Commitments & Reserves		(44,943,000)			
Ending Available Balance		<b>\$ 33,898,626</b>			
<b>General Fund Total Fund Balance with Reserves</b>					
Working Capital Reserve - 16.67%		\$ 33,898,626		\$ 34,989,642	\$ 36,182,969
Uncommitted Fund Balance		-		12,389,508	15,262,475
<b>Ending Available Balance</b>		<b>33,898,626</b>		<b>47,379,150</b>	<b>51,445,444</b>
Known Contingency Reserves at 6/30/16		31,300,000		31,300,000	31,300,000
Risk-Based Reserves at 6/30/16		4,983,000		4,983,000	4,983,000
<b>Total</b>		<b>\$ 70,181,626</b>		<b>\$ 83,662,150</b>	<b>\$ 87,728,444</b>

The Working Capital Reserve is included in the FY 2016-17 beginning available balance. Known Contingencies held in reserves are removed from available fund balance and Risk Based Reserves are held in Fiscal Sustainability and Reserve Fund (012).

(1) Current Budget includes employee labor agreement appropriations approved after adoption of the FY 2016-17 Annual Budget, rollover of encumbrance balances as of June 30, 2016, and all other budget adjustments approved by Council during the fiscal year.

**General Fund - 010**  
**Expenditures by Program**  
**FY 2017-18 Proposed Budget with Revisions**

	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
	<b>Actual</b>	<b>Actual</b>	<b>Current Budget</b>	<b>Projected</b>	<b>Proposed Budget</b>
<b>Expenditures</b>					
<u>Programs</u>					
Police	\$ 88,870,616	\$ 97,514,838	\$ 118,123,891	\$ 111,590,288	\$ 119,872,529
Fire	37,044,688	39,108,922	42,880,563	42,839,345	42,105,239
Public Works	7,800,884	9,183,435	13,189,247	13,191,924	11,800,711
Economic Development	987,623	1,141,227	3,455,730	3,339,181	2,519,661
Office of Violence Prevention	632,867	1,242,652	1,594,226	1,475,510	1,486,484
Arts Commission	-	-	-	-	-
	<u>135,336,678</u>	<u>148,191,074</u>	<u>179,243,657</u>	<u>172,436,248</u>	<u>177,784,624</u>
<u>Program Support for Other Funds</u>					
Recreation	3,105,000	3,585,112	3,915,000	3,915,000	3,407,000
Library	4,275,000	5,312,525	4,504,000	4,504,000	3,984,500
Entertainment Venues	3,100,000	3,445,000	3,445,000	3,445,000	3,445,000
Development Services	1,000,000	1,000,000	1,000,000	1,000,000	925,000
Capital Improvement	2,775,000	7,135,000	1,933,000	1,933,000	868,600
Golf Courses	450,000	550,000	850,000	850,000	700,000
Radio ISF	1,000,000	-	-	-	700,000
Grant Match	167,918	60,575	300,000	300,000	300,000
Downtown Marina	215,000	215,000	170,000	170,000	212,000
Low & Moderate Income Housing	-	-	-	-	184,397
RDA Successor Agency	-	-	200,000	-	-
Information Technology ISF	5,236,000	1,035,000	-	-	-
Retirement ISF	-	500,000	-	-	-
Workers Comp ISF	-	500,000	-	-	-
Compensated Absences	-	-	-	-	-
	<u>21,323,918</u>	<u>23,338,212</u>	<u>16,317,000</u>	<u>16,117,000</u>	<u>14,726,497</u>
<u>Administration</u>					
City Council	453,578	406,960	668,693	667,727	681,325
City Manager	1,156,278	1,333,846	1,418,188	1,408,949	1,456,904
City Attorney	838,622	1,137,610	1,339,948	1,381,702	1,374,113
City Clerk	670,045	759,168	853,419	835,355	910,301
City Auditor	644,743	604,453	1,340,043	1,102,238	560,004
Administrative Services	3,713,742	4,006,914	5,107,558	4,710,231	5,379,646
Human Resources	1,630,723	1,721,574	2,590,190	2,428,389	2,339,061
Tax Collection & Election	2,368,539	2,781,096	3,759,451	3,605,057	3,078,000
Other Administration	(140,888)	609,710	1,551,003	1,736,016	1,357,080
Labor Litigation	315,718	384,969	500,000	390,000	500,000
	<u>11,651,100</u>	<u>13,746,300</u>	<u>19,128,493</u>	<u>18,265,664</u>	<u>17,636,434</u>
Debt Service	<u>1,407,946</u>	<u>1,420,238</u>	<u>1,443,873</u>	<u>1,443,873</u>	<u>4,906,848</u>
Contingency	<u>-</u>	<u>-</u>	<u>1,633,085</u>	<u>1,633,085</u>	<u>2,000,000</u>
<b>Total</b>	<b><u>\$ 169,719,642</u></b>	<b><u>\$ 186,695,824</u></b>	<b><u>\$ 217,766,108</u></b>	<b><u>\$ 209,895,870</u></b>	<b><u>\$ 217,054,403</u></b>





# City of Stockton

## Legislation Text

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**File #: 17-3745, Version: 1**

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**HOLD PUBLIC HEARING ADOPTING THE FISCAL YEAR (FY) 2017-18 ANNUAL BUDGET; APPROVING THE 2017-2022 CAPITAL IMPROVEMENT PLAN; APPROVING THE FY 2017-18 FEE SCHEDULE; APPROVING THE FY 2017-18 CALIFORNIA CONSTITUTIONAL APPROPRIATIONS LIMIT; ADOPTING THE FY 2017-18 ANNUAL BUDGET FOR THE PARKING AUTHORITY OF THE CITY OF STOCKTON; AND ADOPTING THE FY 2017-18 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 FY 2017-18 Annual Budget, the 2017-2022 Capital Improvement Plan, the FY 2017-18 Fee Schedule, the FY 2017-18 California Constitutional (Gann) Appropriations Limit and other administrative, financial actions.

And it is recommended that the Parking Authority of the City of Stockton (Parking Authority) approve a resolution that:

- Adopts the FY 2017-18 Annual Budget for the Parking Authority (Exhibit 1 to the Parking Authority resolution).

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

- Adopts the FY 2017-18 Annual Budget for the Successor Agency to the former Stockton Redevelopment Agency (Exhibit 1 to the Successor Agency resolution).

It is further recommended that the City Manager be authorized to take appropriate and necessary actions to carry out the purpose and intent of the resolutions.

### Summary

The City Manager submitted the Proposed Annual Budget, Capital Improvement Plan and Fee Schedule to Council on May 15, 2017. These documents include an annual financial plan for all City funds, the key elements of which are summarized below and described in much greater detail in the documents, which are available on the City's website.

The FY 2017-18 annual budgets for the City of Stockton Parking Authority and the Successor Agency to the former Stockton Redevelopment Agency are also provided for approval and adoption. Council

held a Special Meeting on June 6, 2017, to review the budget in detail and receive public comment for consideration.

The proposed financial plans are balanced in both the short- and long-term, address Council priorities and maintain the commitment to financial sustainability. The proposed Budget released on May 15, 2017 has been increased by \$750,000 for a total of \$626.4 million for operations, capital, debt, transfers and internal service fund operations for all programs of the City. This represents an increase of \$35.5 million from the FY 2016-17 budget primarily due to appropriations for retirement benefit costs, federal capital project grants, technology projects, and Strong Communities Initiative funding. Citywide revenues are budgeted at \$605.4 million for FY 2017-18. Fund summaries and financial schedules showing prior year actuals, FY 2016-17 projections, and FY 2017-18 budget, are included for each City budget unit. The FY 2017-18 budget funds 1,691 full-time positions as detailed in the Personnel Listing.

Staff recommends that Council conduct a public hearing to receive input regarding the proposed budgets and after the hearing approve resolutions to enact the FY 2017-18 budgets.

## DISCUSSION

### Background

The City is poised to begin a fifth year of fiscal stewardship and discipline. In recent years, the Council balanced both its short- and long-term demands by keeping a watchful eye on the City's long-term financial position. The Mayor and Council proactively adjusted the City's financial components within its control and established reserves to ensure the ongoing delivery of services. The City's fiscal stability was further enhanced by Stockton voters, who approved sales tax increases for public safety, libraries, and recreation services. Adherence to prudent financial policies required discipline in the face of internal and external need-based pressures and resulted in Stockton being ranked one of the most financially stable large cities in the United States. The City Manager's proposed budget is balanced both in the near-term and long-term and is consistent in its commitment to long-term solvency. General Fund projected revenues net of transfers and internal charges are expected to exceed expenditures by \$4.1 million in FY 2017-18.

In March 2016, the City Council adopted the General Fund - Fund Balance and Reserve Policy that describes various reserve types, funding priorities, and calculation guidelines. At the close of FY 2015-16, Council allocated the available General Fund balance to the reserve categories outlined in the policy: Priority I targets for the Working Capital and Known Contingencies, and Priority II reserve targets for risk-based contingencies. The Working Capital Reserve target is based on a percentage of total budgeted General Fund expenditures. The current Known Contingencies Reserve target is based on a list of known future expenses that require significant resources, including CalPERS pension costs, staff recruitment and retention, financial system replacement, and a permanent City Hall. The risk-based reserves are based on potential City costs related to infrastructure replacement, extreme events/disasters, legal claims, and economic and revenue volatility. At the close of FY 2015-16, the Working Capital Reserve was funded at \$34 million, Known Contingencies at \$31 million and \$5 million was distributed among the risk-based reserves. The reserve targets are reviewed annually in accordance with the reserve policy.

### Present Situation

The City Manager provided the Proposed FY 2017-18 Annual Budget, along with the Proposed 2017-2022 Capital Improvement Plan and the Proposed FY 2017-18 Fee Schedule to Council on May 15, 2017. A public study session was held on June 6, 2017, to review the budget in detail and to receive public comment. The revenue and expenditure appropriations in the budget are for all funds and include operations, capital, debt and internal transfers for all programs and support functions of the City.

### Revisions to the Published Proposed FY 2017-18 Budget

During the Council's Study Session on the proposed budget held on June 6, 2017, Council members discussed and considered the varying needs of Stockton residents. The Council indicated a strong interest in continuing efforts for blight reduction, increasing efforts to address issues related to homelessness, economic development, public safety radios, and establishing discretionary funds to be available to each Councilmember and the Mayor for projects that are significant to the residents of Stockton. Funding for Council priority spending in the amount of \$750,000 has been incorporated into the General Fund Non-Departmental budget increasing total expenditures from \$216.3 million to \$217.1 million. A portion of the increase for Council priority spending is from the transfer of residual balances from inactive assessment and special district funds. The district funds add \$300,000 to General Fund revenues of \$220.8 million for a new revenue budget of \$221.1 million. Following further Council direction on programming the \$750,000, the appropriations will be scheduled as necessary consistent with Council direction.

### FY 2017-18 Annual Budget

#### **Citywide Budget**

Citywide revenues are budgeted at \$605 million, which represents an 11 percent increase from the prior year total budgeted revenue of \$546 million. These increases include:

- \$12 million in utility user fees
- \$11 million of inter-departmental revenue for higher employee benefit rates and technology projects
- \$10 million from the new Strong Communities Initiative transactions and use tax
- \$9 million in additional transportation grant monies for traffic congestion mitigation, safety, and traffic flow projects
- \$6 million of additional property tax, sales tax, business license and interest revenues
- \$6 million of unspent bond proceeds to be used toward eligible district and utility capital or maintenance costs.
- \$2 million from the State revisions to Gas Tax funding

Total City expenditures of \$626 million reflect a 6 percent increase from the prior year total appropriation of \$590 million, with \$22 million of the \$36 million increase for new positions, wage and benefit rate changes; \$3 million for technology; \$2 million for Strong Communities Initiative programs; and the remainder for capital projects, equipment, grants and operating needs.

The Proposed FY 2017-18 Annual Budget funds 1,691 full-time positions, an increase of 44 from the adopted FY 2016-17 Annual Budget. All but three of these new positions were added by Council action during FY 2016-17, including 26 positions for the Strong Communities Initiative and 11 positions for the Enterprise Resource Plan (ERP) project.

City staff developed this Annual Budget using certain assumptions for baseline costs, such as approved positions and salary and benefit increments in line with approved labor agreements and ongoing expenditure increases no greater than ongoing revenue increases. Staff recommends one-time expenditure increases for equipment purchases, professional services, facility repairs and capital improvements. To ensure long-term sustainability, staff continue to utilize the Long-Range Financial Plan (L-RFP) as part of budget development, an overview of which is included in the Proposed FY 2017-18 Annual Budget Introduction section.

### **General Fund Operating Budget**

General Fund revenues are expected to increase \$6 million to \$221 million from \$215 million projected in the prior year, primarily from sales taxes (\$2.8 million), property taxes (\$2.3 million), and business licenses (\$0.6 million).

As part of its settlement agreement to adjust bond debt in bankruptcy, the City agreed to compensate Assured Guaranty if actual revenues rebounded more than projected in the Plan of Adjustment. Revenues returned to the level required to trigger this provision, and in FY 2017-18, the City expects to pay \$2.1 million to Assured Guaranty. The costs related to this “contingent payment” provision were already incorporated into the L-RFP and will be a draw on General Fund resources of \$350,000 to \$1.6 million annually for the next 35 years.

The General Fund expenditure budget is \$217 million and reflects a \$13 million increase from what was originally adopted in FY 2016-17. This 6 percent increase is primarily related to labor rate increases that occurred after the FY 2016-17 budget was adopted, and increases to retirement costs. Other benefit costs have remained stable.

The General Fund is projected to end FY 2017-18 with a positive net annual activity of \$4.1 million, when combined with FY 2016-17 projections, would result in an available fund balance of \$51 million.

### **General Fund Reserves**

In accordance with the General Fund - Reserve and Fund Balance Policy, the General Fund reserve targets have been updated for the year:

<b>Category</b>	<b>Amount (millions)</b>
Working Capital	\$36
Known Contingencies	\$69
Risk-Based	\$73
<b>Total</b>	<b>\$178</b>



With the increase in budgeted expenditures compared to prior year, the Working Capital Reserve target will also increase from \$34 million to \$36 million. The list of Known Contingencies remains the same. However, the reserve target increased because of CalPERS policy changes adopted last year that increase City costs. The target for the Priority II Risk-Based Reserve in the Fiscal Sustainability Fund increased by \$1 million to \$73 million based on updated revenues and infrastructure values.

At the end of FY 2016-17, the General Fund projected available balance of \$47 million would first be used to fund the Working Capital reserve of \$36 million consistent with the reserve policy. Per the Policy, the balance will partially fund the Known Contingencies. Because there is insufficient funding for the Known Contingencies, no additional funds will be provided for the Risk-Based Reserve that will remain funded at the \$5 million level established at the close of FY 2015-16.

The citizens of Stockton, in demonstration of their support for their community, approved new General Fund taxes that generated revenues faster than services and staffing could be deployed. The lag between the collection of Measure A, and likely Strong Communities, tax revenues and the full ramp up of services is one of the main reasons the General Fund reserves accumulated. As the Police Department fills positions and Strong Communities projects are begun, the rate at which General Fund reserves has grown is likely to diminish.

### **Measure A Citizens' Advisory Committee**

On May 31, 2017, the Measure A Citizens' Advisory Committee reviewed the Measure A FY 2017-18 Proposed Budget (page C-7) along with supporting documents. In summary, the ongoing General Fund increases contained in the Annual Budget include Marshall Plan staffing and operations for the fourth full year.

The Committee recommended the following expenses be added to the proposed budget:

1. Purchase additional radios for the Police Department to assign all sworn officers with a radio unit.
2. One additional prevention staff member within the Office of Violence Prevention to increase school outreach.

The cost to purchase 80 additional radios is \$400,000. A new staff position in the Office of Violence Prevention would cost approximately \$125,000 annually. These costs are not included in the City's Long-Range Financial Plan and would result in the fund balance dropping below the 5% warning level absent offsetting reductions to other services.

### **Continuation of FY 2016-17 Appropriations**

Pursuant to Section 1908 of the City Charter, budget appropriations lapse at the end of each fiscal year if not expended or encumbered. With this requirement in place, projects lose funding at year end unless Council takes action to continue the appropriation into a following fiscal year. A review of City Council-approved FY 2016-17 funding for one-time expenses resulted in six recommendations to continue appropriation balances in FY 2017-18:

Description	Department	Fund	Not to Exceed Amount
Homeless Care	Non-Departmental	General Fund	150,000
Youth Employment	Non-Departmental	General Fund	100,000
Marketing Communication Plan	Non-Departmental	General Fund	25,000
City Facility Re-keying	Public Works	General Fund	55,000
Community Center Gym Equipment	Community Services	Recreation Fund	40,000
Pixie Woods PA System	Community Services	Recreation Fund	7,000
TOTAL			\$377,000

### 2017-2022 Capital Improvement Plan (CIP)

The CIP is a five-year plan that lists the facility and infrastructure needs for the City. On April 27, 2017, the Planning Commission determined that the proposed 2017-2022 CIP conforms to the City of Stockton 2035 General Plan as required by Government Code Section 65401. The CIP includes a list of projects with a total value of \$720 million. Citywide appropriations of \$37 million are recommended in the FY 2017-18 Annual Budget, and of this amount, \$869,000 or 2 percent represents the General Fund appropriation. Appropriations are made for only the first year of the plan, with available funding identified and confirmed. Project costs in years 2 through 5 of the CIP show an unfunded project need of \$275 million. For these unfunded projects to be delivered, additional funding will need to come from cost efficiencies, one-time cost savings, additional revenues from State and Federal grant funds, or other sources.

### FY 2017-18 Fee Schedule

The FY 2017-18 Fee Schedule reflects new and proposed changes to existing fees in many City departments, including a 6 percent inflationary adjustment intended to recover the cost of providing services where applicable. Proposed new and changed fees are listed in Section I of the document along with reasons for each change. Proposed new fees are presented for Administrative Services, Community Development, Economic Development, Fire, Library, Police, and Recreation & Leisure. Proposed fee changes include revisions to Medical Cannabis Business fees, Boat Launching Facility fees, Water and Stormwater fees, Parking bail schedules and Recreation & Leisure event permits, sports registration and activities.

### FY 2017-18 Gann Appropriation Limit

An amendment to the California Constitution intended to limit growth in local government spending requires the establishment of a maximum limit for expenditures from general taxes. The law, generally known as the Gann Limit, requires that the limit is recalculated and approved annually by the City Council at the beginning of each fiscal year. The Gann Limit is also indexed to specified growth factors approved by the Legislature and applied to revenue appropriations. The City's FY 2017-18 Gann Limit is \$339,151,468 while the appropriations the City is making subject to the Gann

Limit are \$185,275,310. Therefore, the City's appropriations are well within the Constitutional appropriations limit.

### *Parking Authority of the City of Stockton*

The Parking Authority of the City of Stockton is a public body established by the City Council in Resolution 2013-12-17-1209, pursuant to the Streets and Highways Code, to oversee the parking garages, lots, meters and enforcement activities within the boundaries of the City of Stockton CFD 2001-1 Downtown Parking District. The FY 2017-18 Budget for the Parking Authority includes expenditure appropriations for operations, violation enforcement and debt service for parking garage facility bonds. The expectation is for expenditures to exceed revenue in FY 2017-18 with the allocation of available fund balance for parking facility and technology improvements.

Revenues derived from fees paid for parking within the district and proceeds from enforcement of parking violations are pledged to first pay the 2004 Parking Bond debt service, then to fund operations and maintenance and any other obligations of the Parking Authority. Taxes assessed on property owners and businesses in the downtown parking district are also recorded in this fund and used for parking management and operations of parking facilities and programs within the district. Revenues are expected to increase 2 percent from proceeds related to more special events, and Parking Authority expenditures of \$6.9 million are less than one percent below projected FY 2016-17 expenditures.

### *Successor Agency to the former Stockton Redevelopment Agency*

The Successor Agency depends on the receipt of property tax increment revenues to pay obligations of the former Stockton Redevelopment Agency. To receive tax increment funds, the Successor Agency submits a Recognized Obligation Payment Schedule annually to an Oversight Board and the State Department of Finance. After approval by the Oversight Board, tax increment funds are distributed to the Successor Agency by the San Joaquin County Auditor Controller's Office. The use of tax increment is restricted, and the Successor Agency does not receive excess tax increment. Excess tax increment after payment of debt and administrative costs are distributed to other taxing entities such as the City of Stockton, San Joaquin County, the State of California (for schools), and special districts.

Successor Agency revenue of \$12 million is expected to be sufficient for all debt and enforceable obligations in FY 2017-18. The total FY 2017-18 Successor Agency budget including transfers and loan repayments is \$18 million. For the first time since the dissolution of the Redevelopment Agency, the City's General Fund will not be subsidizing the Successor Agency for its administrative and operating costs. As property values increase and more tax increment becomes available, there is sufficient funding for administration and loan repayments to City funds approved by the State Department of Finance. The FY 2017-18 Budget includes approximately \$1.8 million in loan repayments to the General Fund, Community Development Block Grant, and Parking Authority funds. The Ending Available Balance in the Administration and Project Area budgets will be retained by the San Joaquin County Auditor-Controller for distribution to other taxing entities including the City of Stockton.

## FINANCIAL SUMMARY

The proposed FY 2017-18 Annual Budget appropriates expenditures of \$626,353,982 for all City funds, \$6,847,552 for the Parking Authority, and \$18,496,942 for the Successor Agency.

The complete documents of the City's Proposed FY 2017-18 Annual Budget, the Proposed 2017-2022 Capital Improvement Plan, and the Proposed FY 2017-18 Fee Schedule are available for review on the City's website [www.stocktonca.gov](http://www.stocktonca.gov) <<http://www.stocktonca.gov>> or in the City Clerk's office.



## CITY OF STOCKTON

### OFFICE OF THE CITY MANAGER

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[www.stocktongov.com](http://www.stocktongov.com)

May 15, 2017

Honorable Mayor and Council:  
City of Stockton, California

### **BUDGET MESSAGE**

On behalf of the entire budget team, I'm pleased to present the Fiscal Year (FY) 2017-18 budget which is balanced in both the near and long-term. The near-term balancing occurred seamlessly because of the disciplined approach you have taken in recent years to ensure our fiscal sustainability. The Mayor and Council have proactively adjusted the components of our finances that are within our control and created an aggressive reserve policy that projects a Working Capital reserve of \$36 million and a \$31.3 million Known Contingency reserve at the end of FY 2017-18. That approach was recognized by *The Financial Times* who ranked Stockton as the 18<sup>th</sup> most financially stable large city (population 200,000+) in the United States. In fact, using the same measurements, our ranking improves to #6 when considering cities larger than 300,000. These strong budgeting practices have contributed to the true Stockton story which has only begun to be told. In 2015, Stockton regained its status as an All American City. U.S. News and World Report ranked Stockton as one of the top 100 places to live in the U.S. and Verizon ranked Stockton as one of the *Top 12 cities in America to launch your tech start-up*. These accolades are particularly meaningful considering how far we've come.

Conversely, the long-term balancing was fraught with difficult decisions this year despite prudent planning on your part. Several external factors outside of our control are constraining our spending ability in the out years. The most impactful of these changes are CalPERS cost increases of \$16.5 million annually by FY 2024-25. This puts us in a similar, yet far less severe, position as most public agencies in California. Fortunately, much of this increase was already anticipated and accounted for in our Long-Range Financial Plan, but the balance creates the spending pressures for which we must begin to prepare. Therein lies the difficulty of this budget. We are a city of many unmet needs but, despite a strong current financial position, we must maintain painfully high levels of discipline because of what we know the future holds. This path sacrifices short-term discomfort for the long-term financial stability that our citizens and employees deserve. It also honors the lessons we learned during the bankruptcy process and keeps the promises of prudent budgeting that we made to our citizens, employees, and creditors.

While this budget maintains our long-term fiscal strength, it comes at a cost. There are many worthwhile items that are not funded this year because this budget limits spending to what we can afford (based on your strategic priorities) rather than what we want or need. In another gesture of confidence from our citizens, the size and impacts of that gap have been mitigated by voters who agreed to fund increased service levels in areas like public safety, libraries, and recreation. These increases are reflected in this budget and have decreased, but not eliminated the gap. Beyond those voter-approved service-level increases, the best path for continued gains is by exploring rationally creative approaches. With a greater emphasis on partnerships, we can better meet the needs of our constituents. This will enable us to have focused, but meaningful, quality of life improvements that we can afford and that our residents deserve.

### Long-Range Financial Plan

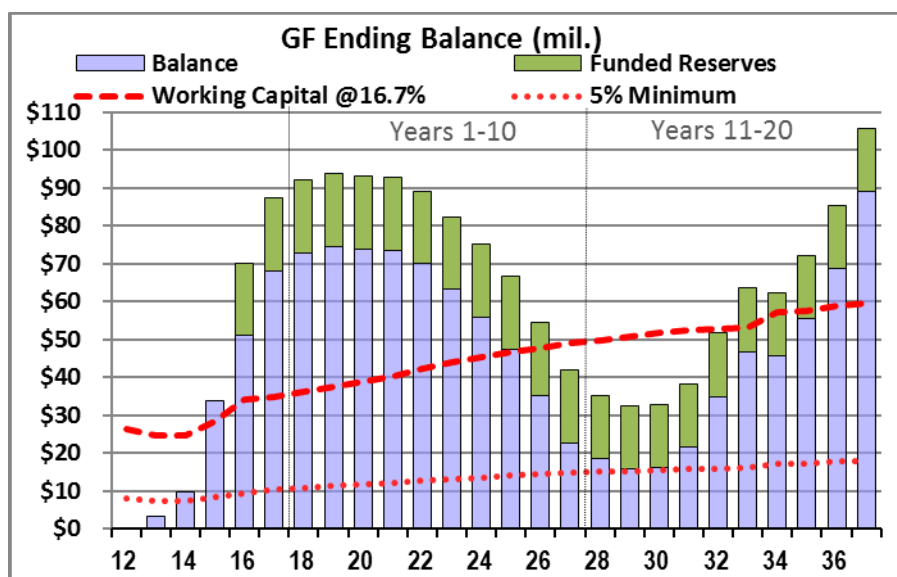
The Long-Range Financial Plan was created as part of the bankruptcy process to demonstrate the financial viability of the Plan of Adjustment over a 30-year period. This window is significantly longer than most long-term forecasts but was necessary to adequately present of significant changes such as debt restructuring, pension costs, and equipment replacement. The L-RFP continues to be updated and is proving to be a useful framework to make budget decisions. By incorporating the L-RFP into its decision-making process, the Council has an effective tool to forecast the future effects of decisions. Because so many facets of City services include long-term commitments such as labor, infrastructure improvements and sufficient reserves, it is imperative for the City to take a long-term view. The L-RFP provides this forward-focused perspective, and as long as the underlying projections are realistic and fiscally conservative, we have the framework to evaluate measured increases.

The L-RFP produced a fund balance chart that shows the annual ending General Fund balance compared to the 17% Working Capital goal and a 5% minimum warning level. The Working Capital Reserve is intended to allow the City to weather the ups and downs of the economy. The 5% minimum is a warning level that operations are not fiscally sustainable and service reductions may be necessary. On April 18, 2017, an update on the L-RFP was provided to Council to provide a preliminary analysis of the effect of recent CalPERS action on the General Fund. At that time, the L-RFP chart showed the General Fund balance falling below the warning level and going negative, absent actions to mitigate the CalPERS discount rate change. A second version of the L-RFP successfully mitigated the CalPERS discount rate change but still left the fund balance below the 5% warning level.

With the FY 2017-18 Annual Budget development, the L-RFP has been updated to reflect new revenue information and expenses from the FY 2017-18 Annual Budget as proposed. The L-RFP incorporates the recently approved PERS rate adjustments, the Strong Communities Initiative, labor agreement terms effective July 1, 2016 through June 30,

2019, and the same long-term labor rate assumptions used during the bankruptcy process. The financial model builds in an additional cost burden of more than \$11 million to the General Fund beginning FY 2034-35 assuming the Strong Communities Initiative sales transactions and use tax is not renewed. General Fund contributions to library and recreation activities are limited to the maintenance of effort (MOE) requirement contained in the Strong Communities ordinance during the years when the tax is in effect.

The graph below illustrates the short and long-term General Fund available balance forecast compared to the 17% Working Capital Reserve and a 5% warning level.



The two red lines on this chart reflect the range of available fund balance to be maintained for operating reserves. The red dotted line represents the minimum fund balance level of 5% of expenditures and indicates a warning that operating reductions may be required to maintain solvency. The available balance exceeds the 17% Working Capital Reserve for several years before decreasing as CalPERS payments begin to rise. The L-RFP anticipates that the balance will drop below the goal for a 10-year period between 2026 and 2035 before stabilizing again at or above 17% goal level. The green bars represent funds reserved at June 30, 2016 for Known Contingencies and Risk-Based Reserves which would be utilized as needs within these categories occur.

Compared to the last scenario presented to Council in April, the City's reserves are larger in the short-term and will be sustained longer, and the period of time the reserves are below the Working Capital level is shorter. The General Fund reserves do recover at a slower rate using an assumption that the Strong Communities Initiative is not renewed. This improved fiscal picture is the result of moderately improved revenues, particularly business license and property taxes and lower-than-anticipated expenditures. We will need to continue to maintain our fiscal discipline in order to stay out ahead of the

inevitable economic downturn and numerous cost pressures, not the least of which are the CalPERS costs described earlier.

### FY 2017-18 Budget Overview

The proposed Budget totals \$625.6 million including operating, capital, debt, transfers and internal service fund operations for all programs of the City. This represents an overall increase of \$35.5 million from the FY 2016-17 budget primarily due to appropriations for retirement benefit costs, federal capital project grants, technology projects, and Strong Communities Initiative funding. Citywide revenues are budgeted at \$605.2 million for FY 2017-18. Fund summaries and financial schedules showing prior year actuals, FY 2016-17 projections and FY 2017-18 budget have been included for each City budget unit in this document.

A summary of the proposed FY 2017-18 Annual Budget is provided in the table below:

City-wide Expenditure Budget All Funds	2016-17 Budget	2017-18 Proposed	Proposed vs. 2016-17 Current
General Fund*	\$ 222,524,108	\$ 216,304,403	\$ (6,219,705)
Utilities	123,171,786	126,973,490	3,801,704
Other Community Programs	65,318,251	70,384,477	5,066,226
Capital/Street Maintenance	31,919,466	37,530,287	5,610,821
Debt Service	12,479,609	13,798,456	1,318,847
Housing Grant Funds	8,276,615	9,510,653	1,234,038
Special Districts/Special Funds	6,870,866	6,182,566	(688,300)
Low & Mod. Income Housing	5,354,661	2,673,620	(2,681,041)
Internal Services	124,790,501	142,246,030	17,455,529
	<u>\$ 600,705,863</u>	<u>\$ 625,603,982</u>	<u>\$ 24,898,119</u>

\*The 2016-17 General Fund expenditure budget includes expenses in the Fiscal Sustainability and Reserve Fund and is presented as amended to include labor agreement costs for a more accurate comparison between fiscal years.

### General Fund

The General Fund budget is \$216.3 million, an increase of \$12.5 million from the FY 2016-17 Adopted budget, which was increased by \$9.9 million for labor agreement costs approved after budget adoption in June 2016.

As shown in the table below, the General Fund is projected to end FY 2016-17 with a fund balance of \$47.1 million that will be used to fund the working capital and known contingency reserves. General Fund expenditure appropriations in the FY 2017-18 Annual Budget are \$4.5 million less than revenues.



General Fund Budget	2016-17 Projected	2017-18 Proposed	Proposed vs. 2016-17 Projected
Beginning Available Balance	\$ 33,898,626	\$ 47,379,150	\$ 13,480,524
Revenues	215,477,856	220,820,697	5,342,841
Expenditures			
Police	111,590,288	119,872,529	8,282,241
Fire	42,839,345	42,105,239	(734,106)
Other Programs	55,466,237	54,326,635	(1,139,602)
	209,895,870	216,304,403	6,408,533
Prior Year Commitments*	7,898,538	-	(7,898,538)
Ending Available Balance	\$ 47,379,150	\$ 51,895,444	\$ 4,516,294

\*Adjustments include encumbrance and Council approved program carryover from prior year.

## Revenues

General Fund revenues proposed in the FY 2017-18 Annual Budget are \$220.8 million, which is an increase of \$6.1 million or 2.6% from the prior year Adopted Budget, and \$5.3 million or 2.5% from the currently anticipated year-end receipts for FY 2016-17.

Property tax revenues continue to grow due to three primary factors: the continued recapturing of property values reduced below Proposition 13 values during the housing market downturn as authorized by Proposition 8, an increase in value due to property sales and transfers, and the Proposition 13 allowed 2% CPI adjustment. The FY 2017-18 Annual Budget includes an estimated overall growth in property tax receipts of 4.5%. It is believed that most of the properties that had their property values reduced during the Great Recession, in accordance with State law have now had the values restored as market values moved upward. According to information from the County Assessor, through FY 2014-15, approximately 73% of properties awaiting recapturing of values under the Proposition 8 process had been fully reinstated, and that the process of restoring the remaining properties would probably extend through the next two fiscal years. Thus, it is anticipated that the 1.1% portion of the growth expected from this process in the FY 2017-18 Budget is probably close the last of Proposition 8 related value restoration growth that can be anticipated for the future.

Sales tax revenues on an overall basis are proposed to be budgeted at \$78.3 million in FY 2017-18. This is only a slight increase from the amount included in the FY 2016-17 Annual Budget (\$77.4 million), but actually represents a projected 3.1% increase from the amount now anticipated to be received in the current year. Since the estimate for Sales Tax proceeds was formulated for FY 2016-17, information has been received indicating a misallocation of sales tax revenue from a large generator of sales tax revenues. Revenue from this entity had been mistakenly allocated to the City of Stockton since 2015

and must be refunded by the City and transferred to the appropriate agency. This one-time reduction is expected to impact FY 2016-17 revenues and cause a shortfall from the budgeted estimate of as much as \$2.0 million.

After adjusting for the one-time impact of the refund discussed above, the FY 2017-18 Proposed Annual Budget projects a relatively healthy sales tax growth of 3.7% from the adjusted base is anticipated. We anticipate the highest growth rates to be in the Fuel and Service Stations, State and County Pools categories, and Restaurants and Hotels. Revenues from the Sales Tax Incentive Program approved by Council in 2014 are estimated to add \$895,000 to the City's sales tax revenues, next year; all of which has again been earmarked for additional Economic Development programs in FY 2017-18. Measure A revenues, which were not impacted by the misallocation, are projected to increase by 2.3%, for a total of \$31.0 million.

Utility Users Tax (UUT) revenues on an overall basis are projected to experience only a small increase 1.0%, or \$340,000, from the current year estimated collection total. This estimate is the result of offsetting projections for increases in two of the four categories of UUT taxes, and significant drops in the other two categories. Water revenues are anticipated to increase approximately 4.9% compared to the FY 2016-17 year-end projection. This reflects mostly the impact of scheduled rate increases for City Water of 11%. Gas and electric revenues are budgeted to increase 2.7% from FY 2016-17. Cable TV UUT proceeds continue to drop as the nation-wide trend of "cutting the cord" and dropping cable service impacts UUT proceeds. The Proposed Budget presumes a 5% drop from the anticipated year-end collections which will fall well below the Adopted Budget level. The Telecommunications UUT also continues its decline, as the types of packages that wireless vendors provide shift due to market forces, to the detriment of City UUT tax collections, and the number of land lines continues to drop precipitously. The FY 2017-18 Annual Budget anticipates a further drop of 4% from projection FY 2016-17 revenues. It should be noted that each sector of the UUT revenues continues to be vulnerable to market conditions and industry advancements such as conservation efforts, solar energy usage, cable video alternatives, and federal laws regulating taxation of internet usage.

Other City tax revenues including franchise, business license, hotel/motel, document transfer fees and interest earning are expected to experience modest growth (1.4%) from FY 2016-17 anticipated collection levels. The largest increase in this group is expected to occur in the Business License Tax, where growth of \$900,000 from the FY 2016-17 Annual Budget level is projected. A total of \$600,000 of this growth is attributable to existing medical marijuana businesses. Revenues from new marijuana businesses authorized by voter approval of Measure P may not be received until late in the fiscal year.

Franchise Tax revenues are estimated to up less than 1% from current year collections. This is the combined result of collections in the three different Franchise Taxes. Small

increases in the PG&E and Waste Haulers Franchise taxes are almost entirely offset by an anticipated drop in the Cable/Video Franchise Tax. Proceeds of this tax will fall below the anticipated current year level by approximately 5%.

Program Revenues are projected to be within \$100,000 of the FY 2016-17 Annual Budget and \$560,000 less than the year-end projection. This variance is due to receipts of greater than anticipated Revenues from Other Agencies for wildland fire reimbursements and the City's share of Successor Agency property tax funds. In the remaining accounts in this category, estimates for revenue collections in FY 2017-18 for Code Enforcement proceeds and Charges for Services are anticipated to fall slightly, but proceeds for Fire Contract, Fines and Forfeitures, and Licenses and Permits are anticipated to be up slightly.

Interfund Reimbursement revenues are projected to increase by \$268,000, or 3.2% compared to the FY 2016-17 year-end projection, reflecting almost entirely an anticipated increase in the estimate for Refunds and Reimbursements.

Transfers In revenue includes a \$922,000 loan repayment from the Redevelopment Successor Agency and \$915,000 in pass through transfers from the Parking Authority for Debt Service payments.

## **Expenditures**

General Fund expenditures in the FY 2017-18 Proposed Budget are \$216.3 million. This is a \$1.5 million decrease from the FY 2016-17 Current Budget and a \$12.6 million increase from the FY 2016-17 Adopted Budget. The FY 2017-18 Annual Budget includes expenditure increases for debt service payments to Assured Guaranty of \$3.4 million in and labor costs totaling \$2.9 million from market adjustments effective July 1, 2017, approved in employee labor agreements and CalPERS rate increases. These increases are offset by reductions in funding for capital projects, recreation programs, library programs and capital outlay. The FY 2017-18 Annual Budget includes \$2.1 million in one-time funding for council priorities compared to \$3.7 million in FY 2016-17. It should be noted, however, that any comparison between the Current Budget and the Proposed Budget is somewhat misleading. For example, the Current Budget includes \$7.9 million in prior year encumbrances and other appropriations carried over from FY 2015-16.

In addition to normal labor, utility and service cost increases, the FY 2017-18 General Fund Annual Budget includes additional funding of \$4.0 million for items that meet the City Council strategic targets of Public Safety, Fiscal Sustainability, Economic Development and Infrastructure.

### *Public Safety*

A total of \$2.5 million has been added to the public safety expenditure budgets and includes funding for items that will continue in the future and one-time expenditures that occur less frequently. Ongoing cost increases include an annual firefighter academy, a service contract for the Animal Shelter, the Safe and Sane Fireworks program, and a variety of technical training programs. One-time funding is made available for specialty training, replacing self-contained breathing apparatus cylinders, to purchase a new Wildland Fire Fighting utility vehicle, and replace police dispatch consoles.

<u>Ongoing</u>	<u>One-time</u>	<u>Description</u>
\$ 131,000	18,000	Fire Department training
400,000		Fire Academy (expected for 3-5 years)
90,000		Safe and Sane Fireworks outreach and enforcement
650,000		Police Department contract for Animal Shelter services
192,000		Police Department training
160,000		Police Officer from Measure W
105,000	700,000	Police Department equipment and dispatch consoles
	50,000	Replace 100 breathing apparatus cylinders
	60,000	One Fire Department Wildland utility vehicle
	11,000	Peacekeeper Program training
<b>\$1,728,000</b>	<b>\$839,000</b>	<b>Total</b>

### *Fiscal Sustainability*

Additional budget for fees charged by collection agencies based on the amount of revenues successfully recovered.

<u>Ongoing</u>	<u>One-time</u>	
\$60,000		Revenue Collection fees
<b>\$60,000</b>		<b>Total</b>

### *Economic Development*

A total of \$1.1 million in one-time funds is proposed for economic development activities. Funding is included for the Downtown Infill Infrastructure program, the implementation of strategies included in the final Food and Agricultural Action Plan, and to conduct feasibility and environmental reviews and other land use initiatives to encourage commercial and infill development.

<u>Ongoing</u>	<u>One-time</u>	<u>Description</u>
	\$900,000	Downtown Infill Infrastructure
	40,000	Food and Agricultural Action Plan
	200,000	Feasibility, environmental and land use reviews
<b>\$1,140,000</b>	<b>Total</b>	

### *Infrastructure*

Increases are recommended for janitorial and alarm services at various City buildings. A small amount of one-time funding is recommended for floor maintenance and new ovens for the Civic Auditorium.

<u>Ongoing</u>	<u>One-time</u>	
\$179,000		Janitorial and alarm contract costs increases
	\$12,000	Civic Auditorium floor maintenance and ovens
<b>\$179,000</b>	<b>\$12,000</b>	<b>Total</b>

### *Other*

A small amount of ongoing and one-time funding is recommended for promotional efforts for the City of Stockton, the restoration of a Tuition Reimbursement program and added temporary help for enhanced recruiting city-wide.

<u>Ongoing</u>	<u>One-time</u>	<u>Description</u>
\$10,000		City Manager's Office travel for professional development, recruiting and promoting the City
30,000		Tuition Reimbursement program for employees
	\$25,000	Recruitment support
<b>\$40,000</b>	<b>\$25,000</b>	<b>Total</b>

### Strong Communities

On November 8, 2016, Stockton voters approved a ballot initiative for a ¼ cent sales transactions and use tax for the restoration and expansion of library and recreation services. The initiative, also known as the Strong Communities Initiative, is estimated to raise between \$9.4 million and \$11.8 million per year for 16 years and is to be used specifically for the purposes of supporting library and recreation programs, facilities and services in the City. The budget incorporates a General Fund allocation of \$7.4 million for library and recreation activities, pursuant to the maintenance of effort contained in the Strong Communities ordinance.

The proposed FY 2017-18 Annual Budget includes \$4.3 million of Strong Communities Initiative appropriations to:

- Fully restore library and community center operating schedules to six days a week by January 1, 2018,
- Provide the on-going funding source to operate the Fair Oaks Branch Library
- Develop Makerspaces to spark entrepreneurial interest and involve children and youth in science and technology learning
- Develop on-line services to register for programs, pay library fines and receive remote access to databases and materials
- Develop community-wide programs to support health and literacy

### Utility Funds

The Municipal Utilities Department (MUD) funds of water, wastewater, and stormwater present unique challenges for the future. Stormwater fund deficits are so severe that many important capital projects have been delayed for years. The City attempted to address this issue in 2010 with a Proposition 218 vote needing a majority of voters to approve; however, sufficient votes were not received. This situation will require additional analysis in order to maintain the safety and efficiency of the flood control system as well as maintain compliance with our regulatory agencies.

In 2010, the Council approved a 5-year tiered wastewater rate increase that provides funding to ensure compliance with bond covenants and to support scheduled capital improvement projects in the Wastewater Utility. Consumer Price Index adjustments were made in FY 2015-16 and FY 2016-17, but no increase is proposed for FY 2017-18.

Since the State declared a drought emergency in 2015, the Water Utility experienced, on average, a 28% decline in water consumption (and a similar decline in revenue) throughout its service area due to significant water conservation. In an effort to soften the financial burden to citizens and allow for the water fund to gradually recover from the drought emergency, the City implemented a water rate increase of 38.5% over a 5-year

period. The first increase of 18.5% was implemented on August 1, 2016. The second increase of 11% will become effective, July 1, 2017.

Maintaining and improving capital facilities is an important part of the utilities ability to comply with regulations and operate efficiently. Year to year capital project funding fluctuations based on available funding and project needs. In FY 2017-18, approximately \$15.4 million is budgeted of capital projects in the utility funds including \$12.3 million in the Wastewater utility. Each of these funds will require close observation and careful analysis going forward to maintain the appropriate level of fiscal health and meet debt coverage ratio requirements. In the interim, any new burdens to these funds should not be taken lightly. We will continue to monitor and plan with the idea of returning to Council as needed for further direction.

### Internal Service Funds

Internal Service Funds (ISFs) are used for equipment and employee benefits whereby service department costs are charged to user departments systematically using comprehensive rate formulas. Rate formulas and methodologies are reviewed annually to determine whether changes could yield greater accuracy. Internal service fund expenditures are budgeted to increase \$15 million dollars in FY 2017-18, primarily from a \$10 million growth for employee and employer contributions to CalPERS, \$2.1 million increase in projected liability claims costs, \$1.5 million increase for the Enterprise Resource Plan (ERP) replacement project and \$900,000 greater costs for vehicles and equipment, most of which are in line with City forecasts.

The retirement fund increase is due to two things: the effect of adding 41 during FY 2016-17 and three new proposed positions in FY 2017-18 and the pension plan funding increase needed to prepare for the impact of the discount rate change on CalPERS rates. The FY 2017-18 retirement ISF rates to City departments will increase 12% and 7% for miscellaneous and safety personnel respectively.

The General Liability Fund is well prepared for changes that may come from increased claim costs resulting from an increasing personnel roster and following the City's exit from bankruptcy protection. Based on a current actuarial report, the fund has reserves in excess of what is expected to be needed for incurred claims, and sufficient resources to accommodate increased litigation and claims processing costs that may occur in the coming fiscal year.

The Workers Compensation Fund is a testament to the diligence and commitment of City staff. Attention to safety by all employees, coupled with a focus by Human Resources to close old claims, resulted in an overall decrease in actual and projected claims costs. Resources have accumulated in the fund and reserves are now sufficient to cover 60% of expected claims costs, where minimal reserves were available three years ago. As a

result, the ISF rates charged to departments will decrease in FY 2017-18, which diffuses increases of other benefits.

### Capital Improvement Program

The FY 2017-18 budget for the Proposed Capital Improvement Program is \$36.7 million. This is an increase of \$8.1 million from the \$28.5 million included in the prior year capital budget. Of this amount, \$869,000 or 2.3% is from the General Fund, with over 42% from the utility funds, 40% from state and federal grants and 8% from Measure K sales tax revenues.

The proposed CIP projects are grouped into three categories: General Government, Transportation, and Utilities. The General Government Category includes improvements associated with City owned facilities including Police, Fire, Parks, Golf Courses, Libraries, Community Centers and City Buildings. For FY 2017-18 include improvements associated with American Disability Act compliance, Roof Reconstruction, and Fire Station security and painting. Additionally, the Public Works Parks Section secured donations for the Grupe Park Court Resurfacing.

Transportation Projects proposed for funding in FY 2017-18 of the Capital Improvement program include Bridge Rehabilitation and Replacement, pavement throughout the City, traffic calming measures in neighborhoods, construction of American Disability Act accessibility improvements, Bus Rapid Transit V on Weber Avenue, High Friction Surface Treatment, and Miner Avenue Streetscape Phase 2.

The Municipal Utilities Department is continuing to budget new projects in the water enterprise to improve onsite treatment capacity, water system expansions, system improvements, transmission mains, and water well new acquisitions, rehabilitations, and abandonments. The Wastewater program continues to fund the multi-year Capital Improvement and Energy Management Plan and has included funding for a number of projects for the Regional Wastewater Control Facility. The maintenance and repairs for the Stormwater program, as mentioned previously, is greatly constrained because of the lack of a fee increase since 1992. For FY 2017-18, a total of \$880,000 in available funding will be used for capital improvements to address a small fraction of pipeline and pump station deficiencies.



Conclusion

The City's prudent financial practices in recent years were designed to provide stability for the services we deliver to the public and to protect against future downturns. This budget meets those standards and demonstrates the fiscal discipline to apply today's surpluses to tomorrow's debts. This responsible approach provides long-term protections for our citizens and staff and reflects the post-bankruptcy evolution of the City's fiscal maturity. By continuing on this path for the foreseeable future, Stockton can look forward to a future of stability and continually improving service levels that our citizens expect and deserve.

Respectfully submitted,



KURT O. WILSON  
CITY MANAGER

# 2017 STRATEGIC WORK PLAN

## Strategic Targets:

- Public Safety
- Fiscal Sustainability
- Economic Development
- Infrastructure

## Priority Goals:

### Tier 1

1. Focus on crime reduction, blight reduction and outreach for “Hot Zones” and “Hot People”
2. Adopt a budget and allocate resources consistent with the Long-Range Financial Plan; implement solutions that provide financial transparency to the community
3. Develop business incentives, including incentive tools for underserved neighborhoods
4. Maximize relationships with partner agencies and organizations in carrying out and funding priority projects
5. Develop solutions that address housing infrastructure for the homeless

### Tier 2

1. Prioritize resource allocation and infrastructure projects to “Hot Zones” within Council Districts
2. Engage private employers and the business community in workforce development and job placement; develop an employment pipeline for Stockton residents to Stockton employers
3. Achieve full staffing for positions funded through Measure A