



MODESTO
CALIFORNIA

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CITY OF MODESTO

City Beat

MAY 2013

*** SPECIAL BUDGET EDITION ***

MAY CITY COUNCIL FINANCE COMMITTEE BUDGET WORKSHOPS

**** Open to the Public ****

Get involved in your government! The Mayor and City Council need to know what services you value most. We want to partner with you to make our community better.

The Finance Committee of the Modesto City Council will hold a series of workshops on the Fiscal Year 2013-2014 proposed budget as presented by the Mayor and City Manager. Modesto citizens are encouraged to attend the Finance Committee Budget Workshops, which are scheduled* as follows:

- Monday, May 13: 1:30 to 4:30 p.m.
- Monday, May 20: 9 a.m. to 4 p.m.
- Tuesday, May 21: 9 a.m. to 4 p.m.
- Wednesday, May 22: 9 a.m. to 4 p.m.
- Thursday, May 23: TBD (held only if needed)

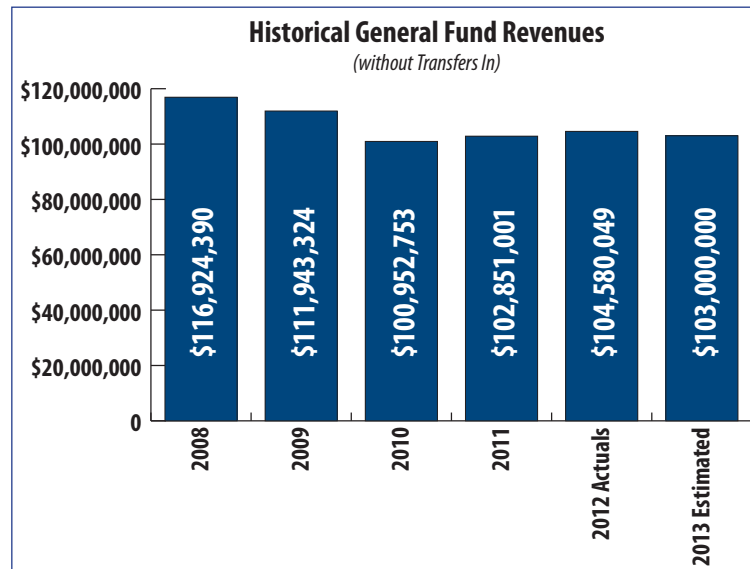
*Workshop schedules are tentative and will be held in the Council Chambers of Tenth Street Place (1010 Tenth Street). As dates and times are subject to change, be sure to visit www.modestogov.com and click on "Budget Information" for up-to-date times and topics.

The Modesto City Council is tentatively scheduled to hold a public hearing and adoption for the FY 2013-2014 Proposed Budget at its regularly scheduled meeting on June 11, 2013, at 5:30 p.m. in the Council Chambers to hear additional public comments.

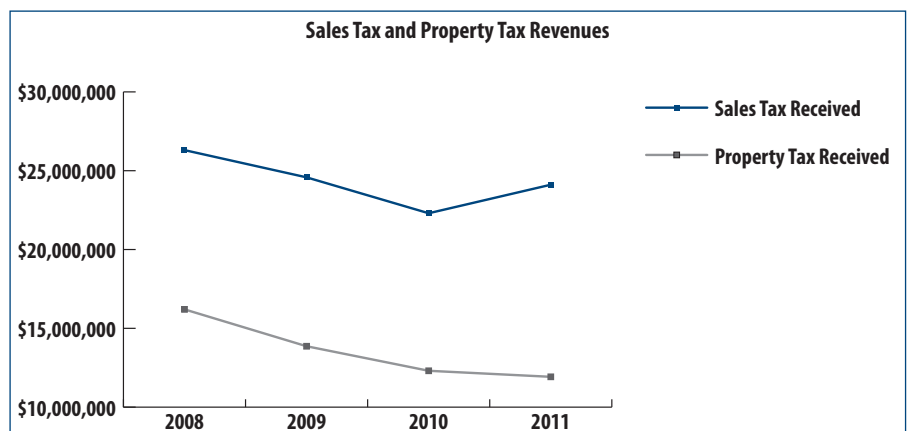
For more information on the Budget, call the Finance Department at (209) 577-5369 or visit www.modestogov.com and click on "Budget Information".

GENERAL FUND REVENUES

The City of Modesto General Fund supports a wide variety of City services, including those most visible and with the most direct impact to citizens - police, fire, park maintenance, city trees, graffiti abatement, economic development, and street maintenance. General Fund revenue sources are approximately \$13.9 million lower than at their peak in 2008 (see chart below).



Two of the major General Fund revenue sources have declined dramatically between 2008 and 2011. Property tax has decreased \$4.3 million and sales tax has decreased \$2.2 million (see chart below).



CURRENT FISCAL CHALLENGES FOR MODESTO

Abolishment of Redevelopment Agencies (RDA):

Recently, City staff was successful in obtaining a decision reversal from the California Department of Finance (DOF) that could have cost the General Fund \$3.2 million annually for the next 20 years. The City's RDA Successor Agency reports debt obligations to the DOF every 6 months in order to receive tax increment revenue. These obligations include the debt service for bonds issued for the Modesto Centre Plaza and Tenth Street Place. The DOF denied the debt service payments in the report submitted for the January-June 2013 period. City staff appealed and obtained the reversal, allowing tax increment revenue to be used to repay these debt obligations. Reported debt obligations are subject to review in each reporting period, unless the DOF has issued a notice of final determination. A request for this determination on all reported debt obligations will be made by City staff.

Motor Vehicle License Fees:

The Motor Vehicle License Fees that the City of Modesto receives from the State of California are not budgeted beyond the current fiscal year due to the passing of SB89. SB89 terminated the allocation to cities and counties of Vehicle License Fee revenues. It effectively took \$130 million of general City revenues and shifted it to State law enforcement grant programs. In FY 2011-2012 alone, Modesto lost \$757,120 that would have otherwise gone toward local public safety needs.

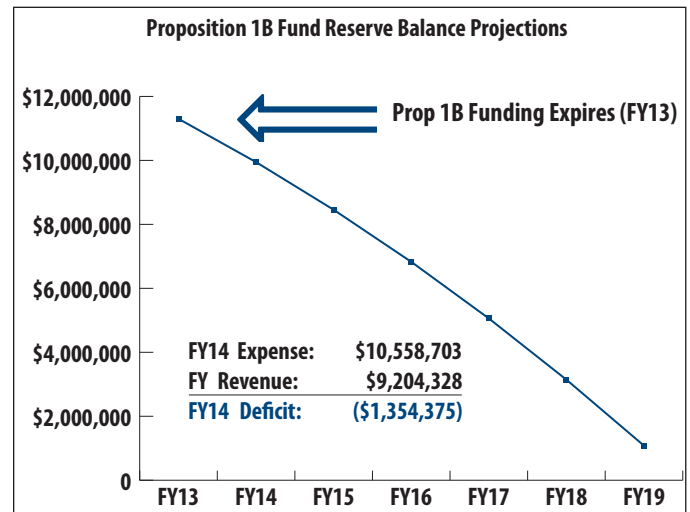
Proposition 42:

In 2002, California voters passed Proposition 42, which provides funding for local street improvements through the collection of a gas sales tax. In Fiscal Year 2008-2009, 20% of this funding went directly to cities for street maintenance. In Fiscal Year 2010-2011, former Governor Schwarzenegger signed two bills as part of the State Budget that repealed Proposition 42 funding, and the City has not received these funds since then. This equates to between \$1.3 and \$1.9 million in lost revenues for street maintenance.

Proposition 1B:

In 2006, California voters passed Proposition 1B, which authorized the State of California to sell \$19.9 million in general obligation bonds to fund transportation projects across the State. A portion of the bond proceeds were provided to cities and counties for street repair work. Between Fiscal Year 2009-2010 and 2011-2012, the City of Modesto has received approximately \$4.2 million for the specific purpose of repairing local streets. Prop 1B funding expires on June 30, 2013.

Losing Prop 42 and Prop 1B as funding sources will have a lasting effect on street repairs and maintenance. With current maintenance levels, it is estimated that funding for street repairs will run dry by Fiscal Year 2018-2019 unless an alternate source of funding can be identified (chart in next column).



Police Department - ARRA COPS Grant Funding:

In August 2009, the Modesto Police Department was awarded an American Rehabilitation and Recovery Act (ARRA) Community Oriented Policing Services (COPS) Hiring Recovery Grant in the amount of \$4,474,782. The grant provided funding to cover the costs of hiring 13 new Police Officers for a period of three years. Per the terms of the grant, following this three-year period, the City of Modesto is required to fund these 13 positions for a period of one year.

In the current fiscal year (2012-2013), grant funding for 11 of the 13 officers has been exhausted. As a result, the costs associated with these new positions are now being absorbed by the General Fund. There is still funding left for the remaining two officer positions; however, it is anticipated that the costs for those positions will be transferred to the General Fund in December 2014 and March 2015 respectively. At that point, all of the grant funds will have been expended. The Modesto Police Department is in the process of preparing an application for a subsequent COPS Grant.

Modesto Regional Fire Authority - SAFER Grant Funding:

In June 2011, the City of Modesto was awarded a Staffing for Adequate Fire and Emergency Response (SAFER) Grant. The grant award was \$1,838,454 and funds nine (9) firefighter positions through the end of March 2014 to assist the Modesto Regional Fire Authority (MRFA) in meeting minimum staffing levels. The SAFER Grant has enabled MRFA to maintain its level of service to the community, keep all fire stations open and keep response times to emergencies from becoming longer.

As the health and safety of the Modesto community is the top priority of both agencies, the Modesto Regional Fire and the City of Modesto are working together to evaluate all options for maintaining these positions after the grant ends. These positions are critical in ensuring our ability to maintain current service levels – the better the response time, the faster citizens get help, and the more lives are saved.

ADDRESSING THE CHALLENGES

What's Been Done Already:

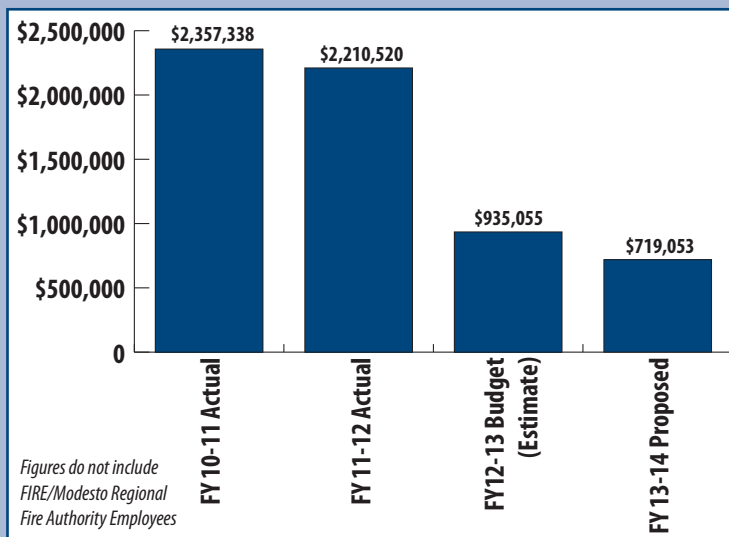
The City of Modesto has eliminated more than 240 full-time equivalent General Fund positions during the past five years. This has included the elimination of 75 management positions. To assist in closing the deficits, the General Fund contribution to the Worker's Compensation and Employee Benefits Funds have been reduced resulting in a General Fund savings of \$5.3 million and \$2.8 million respectively over the past four fiscal years. In addition, employees have taken furloughs resulting in a savings of nearly \$4.9 million to the General Fund, also over the last four fiscal years. All of these actions have been implemented to strategically combat growing expenses and decreasing revenues.

What's Being Done Now:

Pension Reform:

Over the last several years, the City of Modesto has taken several steps to reduce its pension and retiree health costs. In particular, the City has worked with its labor groups to implement a higher retirement age and lower benefit formula for new hires. This change aids the City financially in the long-term. In addition, current employees have agreed to pick up a majority of their share of retirement costs, resulting in significant immediate and on-going savings to the City.

Employee Pension (City Paid) Contribution History

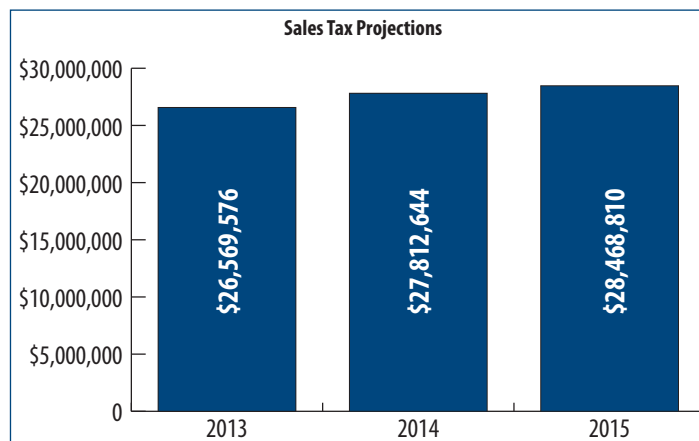


Retiree Health Reform:

On the retiree health benefit front, the City has lowered its current unfunded liability by freezing the current program to ensure no additional costs are accumulated. Additionally, employees hired after January 2011 are not eligible for the retiree health program. The City continues to work with its labor groups to further refine retirement benefits in an effort to provide an equitable solution for future years.

FISCAL OUTLOOK - 2013 & BEYOND

Current projections show that sales tax revenues for the City of Modesto will increase over the next three years (see chart below); however, they are not expected to even cover inflation costs.



The projected increases are mainly due to the local economy showing slight signs of recovery. Sales tax is projected to increase an average of approximately \$1.3 million per year through the fiscal year ending June 30, 2016.

While projections show an increase in sales tax in the coming years, there are other areas in the City of Modesto's revenue stream that are still showing declines. For example, since 2009 construction revenues have been declining and are just now beginning to show signs of staying even year after year.

Property tax revenues continue to drop as commercial areas had shown a decline in property values. It is anticipated that property tax will be flat in Fiscal Year 2014; however only a slight increase is expected over the next five years as commercial and residential property values slowly rise.

COMMUNITY SURVEY COMING SOON!

The City of Modesto will be engaging citizens via a phone survey to obtain input about customer service satisfaction levels and service challenges. This public engagement survey will aid the City in determining performance measures and validating City-wide priorities. The survey will also capture quality of life issues, financial management and attitudes toward revenue options.

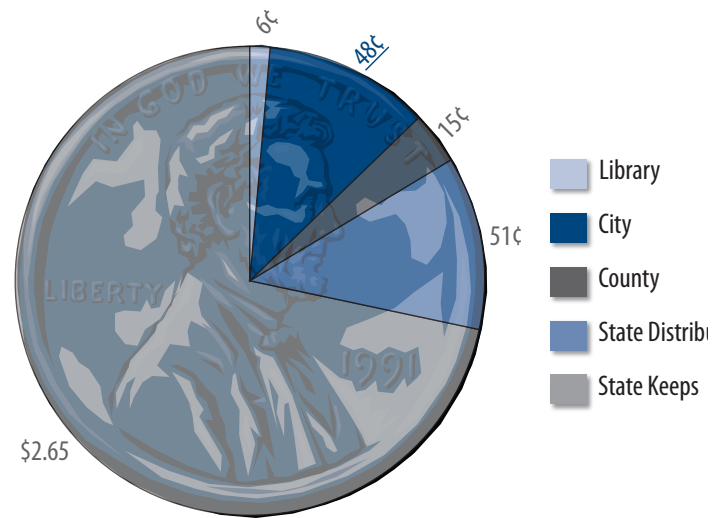
Randomly selected registered voters can anticipate receiving a call in late April to early May to participate in this phone survey. The survey will be available in both English and Spanish to ensure a diverse selection of individuals will be able to contribute to the goal of the survey.

SALES TAX

When you apply the current sales tax rate in Modesto of 7.625% to a purchase of \$50.50 - you will pay \$3.85 in tax. Of the \$3.85 paid in sales tax, the City of Modesto receives less than 50 cents (48 cents to be exact) toward the General Fund for services like police, fire, parks, etc.

So, where does the rest of the sales tax go? It gets divided up between the State, the County, and the Stanislaus Library. The State keeps \$2.65 and distributes 51 cents; 6 cents goes to the local Library system, and the remaining 15 cents goes to the County.

Where your sales tax goes:



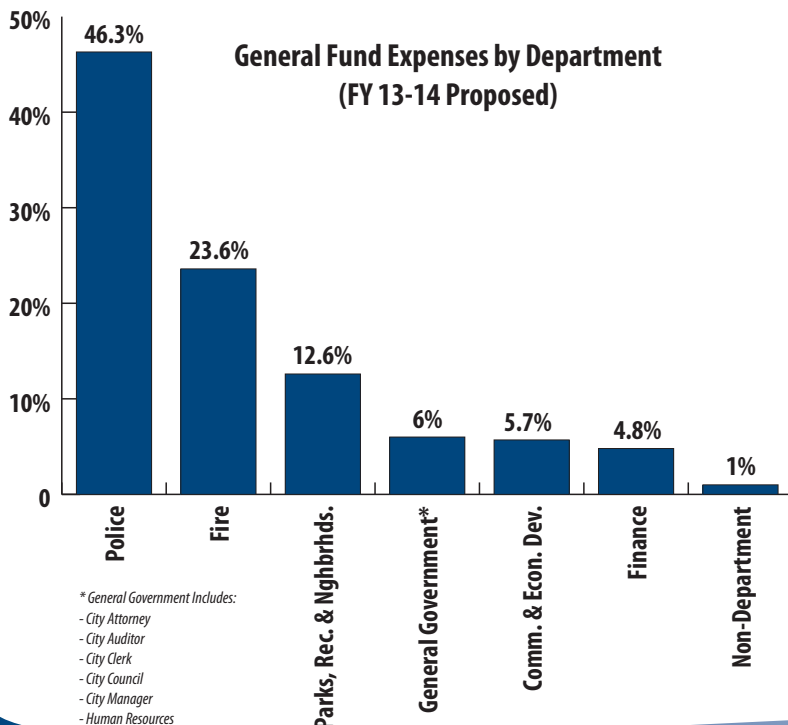
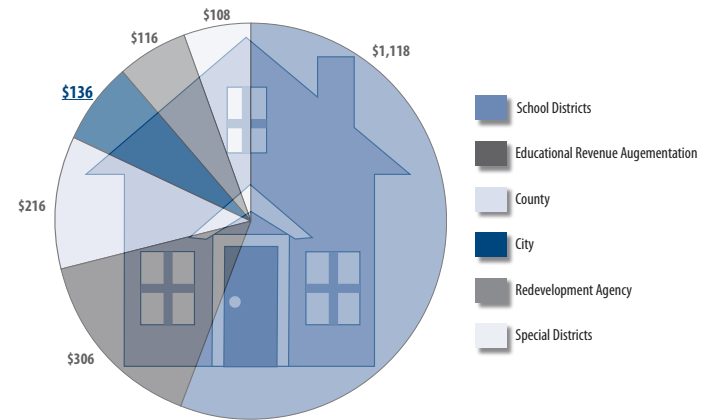
PROPERTY TAX

On an average \$200,000 home, the annual property tax paid is \$2,000 (1% of the assessed value). Of that, the City of Modesto receives \$136 to fund police, fire, parks, roads, etc.

In Stanislaus County, the property tax rate is currently 1% of a property's assessed value, plus any bonds or fees approved by the voters. Statewide, under Proposition 13, real property is reappraised only for: (1) a change in ownership; (2) completion of new construction; (3) unfinished new construction on January 1 (lien date); (4) the annual review of properties having declining values ("Proposition 8" appraisals).

Except for these four instances and Williamson Act Properties, property assessments cannot increase more than 2% annually.

Where your property tax goes:



Modesto's Budget in Brief:

The City's General Fund is the primary operating fund. It's main revenue sources include: property tax, sales tax, utility taxes, business licenses and franchise taxes, and certain other general purpose revenues from the State. Police and Fire services require the bulk of the General Fund revenues, with the balance going to a variety of programs including parks, recreation, city trees, sidewalk maintenance, planning, economic development and general government as you can see in the chart to the left.

\$137.18

The average amount of sales tax a citizen of Modesto can anticipate contributing to the City in FY 13-14.