

A Citizen's Guide to the Adopted Budget

Fiscal Year 2007-08



The "Citizen's Guide to the Budget" is presented each year providing you with an update on the City's budget. This year we are taking this opportunity to not only talk about where we've been, but what the future holds for Modesto.

Throughout this document, we'll be talking about the "Fiscal Year." Modesto, like most governmental agencies, budgets on a fiscal year calendar which runs from July 1 through June 30 of the following year. So, for example, Fiscal Year 2006-07 refers to the period of time from July 1, 2006, through June 30, 2007.

THE GENERAL FUND

The General Fund is the primary operating fund of the City. General Fund dollars are discretionary in nature. This means that unlike water and sewer rates which must be spent on those particular services, General Fund dollars support a wide variety of general-governmental programs. These programs include police, fire, parks, tree maintenance and recreation, just to name a few.

The City's budget policies require the General Fund to set an amount equal to 8% of its operating costs as an unbudgeted reserve. This reserve level is critical, as you'll see when you read further, because it helps smooth out the inevitable changes in the economy and cover unanticipated expenditures.

General Fund revenues make up about 35.4% of the citywide revenues, and are estimated to grow at 4.6% from Fiscal Year 2006-07 to Fiscal Year 2007-08. The majority of the General Fund revenues come from Sales Tax, Property Tax, Motor Vehicle License Tax and the Utility User's Tax (UUT). Together these revenues account for 67% of all the revenue in the General Fund.

LOOKING BACK AT FISCAL YEAR 2006-07

After successive years of budget cuts, the beginning of Fiscal Year (FY) 2006-07 allowed conservative expansion of services and improved maintenance efforts at City parks and on the City's roadways. This was due in part to increases in property tax revenues and City departmental savings in the prior fiscal year.

By the end of FY 2006-07, the City's budget picture had changed. With the recent changes in the housing market, both property taxes and sales taxes are substantially reduced from earlier projections. By the time the books are closed on FY 2006-07 (around the end of August), we estimate there will be about \$2 million less in General Fund revenue than had originally been anticipated. Despite this downturn in the economy, the City will retain nearly \$12.5 million in the General Fund's unrestricted reserve. This is equal to 9.7% of the General Fund operating budget, or slightly more than the 8%, unallocated reserve level required by the City's budget policies.

2007-08 ADOPTED BUDGET

The City's budget is adopted the first week in June after a rigorous review process which begins in the preceding January. This process, led by Council's Finance Committee, culminates in televised budget workshops during the month of May where community residents have the opportunity to voice their thoughts about the budget. Supporting the Mayor and Council's policy of maintaining a long-term sustainable budget, the adopted budget for FY 2007-08 reflects a cautious financial approach. The adopted budget includes total operating expenditures of \$346,126,543 (from all funding sources), against projected revenues of \$358,243,538.

The FY 2007-08 budget also funds the following items that were not part of the previous year's budget:

- Ten new police officers
- One Fire Department Engine Company using existing resources
- Restructuring of current debt for Thurman Field and Tenth Street Place
- Set aside funding (\$300,000) to determine feasibility of Dennet Dam removal

In setting the spending levels for FY 2007-08, the City Council also approved using anticipated reserves in excess of the 8% reserve level for certain one-time and on-going expenditures. This additional funding pays for more street and road maintenance projects including curb

THE CITIZEN'S GUIDE

and gutter repairs, as well as leaf collection, and improvements to park infrastructure, the police training facility and the City's golf courses.

CURRENT STATUS

With the information we now have, it is clear the adopted FY 2007-08 budget will need to be reduced if the City is to end FY 2007-08 with an 8% unallocated reserve in the General Fund. Departments are already looking at budgets to determine what needs to happen and what can wait. Vacant positions are being scrutinized and, in many cases, may not be filled until the revenue picture improves. City staff are closely monitoring both spending and revenues and will be providing the Council with regular updates throughout the year.

OTHER ITEMS OF INTEREST

Proposition 42 Funding

Proposition 42 passed in 2002 and dedicates revenues from the state's share of the sales tax on gasoline to local transportation projects. This sales tax on gasoline generates roughly \$1.3 billion a year, increasing annually of which the City receives \$867,172 annually. The Governor's spending proposal for FY 2007-08 again includes full-year funding of Proposition 42. In order to receive these funds, however, the Proposition 42 Maintenance of Effort (MOE) provision requires the City spend at least \$1,687,172 of the City's discretionary dollars on eligible road projects. As a matter of practice, the City spends about \$1.3 million more on road maintenance projects than is needed to meet the MOE requirement. The Council recognizes the need for additional road maintenance and is committed to continued funding of road repair and improvements.

Pruned Refuse Collection Service

The FY 2007-08 General Fund budget includes only six months of funding for the pruned refuse collection service. This is the program that allows residents to place their large tree and shrubbery trimmings in the street or alleyway for pick up by the City. Staff has recommended to the Council's Finance Committee that this program be discontinued. The full City Council is expected to consider this recommendation in September 2007. Similar to collection practices in neighboring cities of Stockton, Turlock, Livermore and Tracy, the recommendation is:

- The current fall leaf collection program would remain in place.
- The City would contract with the local garbage companies for pruned refuse collection.
- For households placing all their pruned refuse into their one existing green toter, the estimated additional cost is \$1.59 per month.
- For households that need an additional toter to place all their pruned refuse into, the cost for each new toter is estimated at \$4.16 per month.
- Residents choosing to not utilize the garbage company would have the option of hauling their pruned refuse to the transfer station themselves or they may choose to have a lawn care service handle this for them.

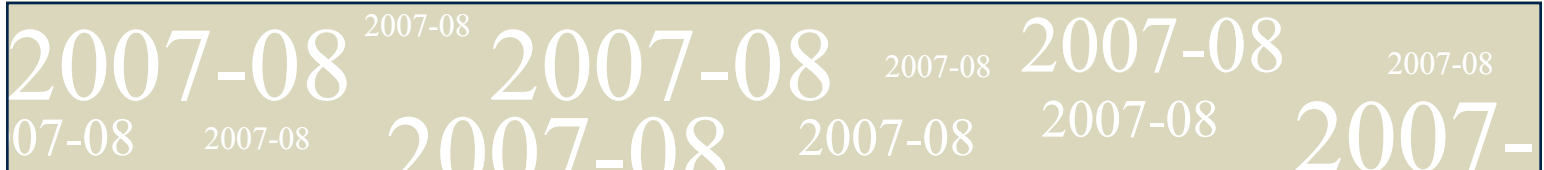
CONCLUSION

The Council's budget choices in the past have led Modesto through challenging financial times. In focusing resources on cost-effective programs and services, the Council continues to make Modesto a safer place to live, enhance the quality of life within neighborhoods and encourage economic development. Through conservative spending practices, the budget balances ongoing expenses with ongoing revenues while addressing many of the services and programs that make a community a home: beautiful parks, well-maintained recreational facilities and cultural activities. It also continues to provide and expand funding for police and fire services to protect the community.

We wish to thank you, the residents of Modesto, for your involvement and feedback during the development of this budget. We also extend an open invitation to all residents to continue participating in the government process by attending City Council meetings so that your voice can be heard.

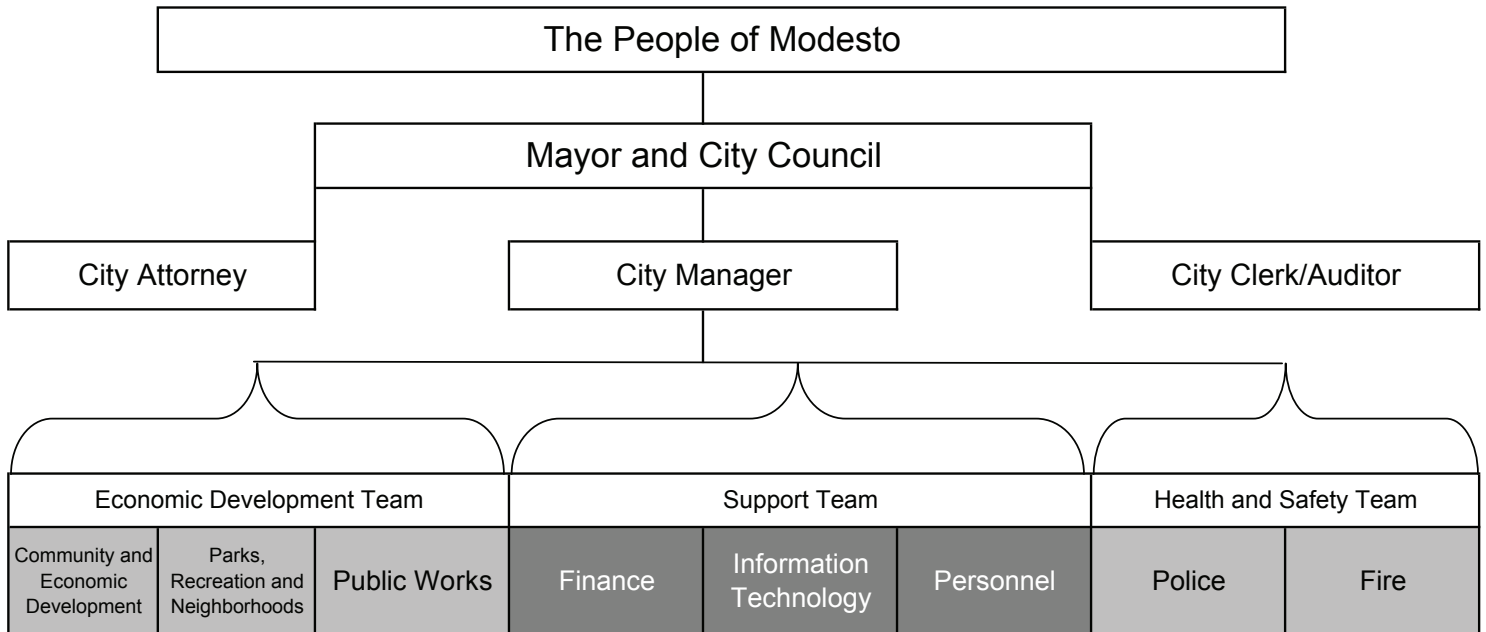
ACCESSING THE BUDGET

In September, the FY 2007-08 "Citizen's Guide to the Budget" will be available online at www.modestogov.com/fn or in hard copy at the Stanislaus County Library, located at 1500 "I" Street, Modesto. For questions or more information, please contact the City's Finance Department at (209) 577-5369.



Our Vision of Modesto:

A healthy, safe, attractive, economically vibrant, socially and culturally diverse city with a strong sense of identity and pride - a community engaged in the practice of citizenship with governance based on the principal of stewardship.



CITY NEWS...

Downtown Street Reconstruction- During FY 2007-08 9th Street, B-D Streets and L-MID Lateral No. 4 will be reconstructed. \$2.5 million is budgeted for this project. Federal participation is 88.53%, City gas tax match is 11.47%.

Tuolumne River Regional Parkway- In total, 72 acres of the Gateway Parcel is currently under construction, with the major portion complete. Construction of Phase 1.1 is scheduled for completion in late summer 2007 and is being funded by a \$1.14 million grant from Proposition 40. Phase 1.2 of the Gateway Parcel should begin construction in late fall 2007 and will include the removal of approximately 4,500 cubic yards of soil separating Dry Creek from the Backwater Channel, excavation and stockpiling of approximately 180,000 cubic yards of soil from along the Tuolumne River under the 9th Street Bridge creating various terraces throughout the park site and the planting of riparian plant material as part of the restoration of the Gateway Parcel. Phase 1.2 also is scheduled to include the construction of various trails and pathways, including a continuation of the Riverwalk Trail eastward from Confluence Point, installation of site furnishings and installation of irrigation. Construction of Phase 1.2 encompasses approximately 60 acres of park site and

is being funded by a \$1.5 million grant from Proposition 50 and is slated to be completed in late 2008.

The Virginia Corridor is beginning to really take flight. With the Rotary Clubs of Modesto Centennial Junction portion of the trail (located at Roseburg Square) completed, the next phase of this 4.2-mile trailway project is under construction. Once completed, the trail will extend from Granger Avenue to College Avenue – ***creating one and one-half miles of usable trail.***

Ten New Police Officers- Full year funding for the police officers added during FY 2006-07 is included in the FY 2007-08 budget at a cost of \$1,040,700.

The Neighborhood Center at Marshall Park is under construction and is scheduled for completion this fall. This is a unique joint venture in which three departments (Police, Fire and Parks, Recreation and Neighborhoods) have teamed up to develop ***a joint service facility*** at the southwest corner of Sutter and Chicago Avenues, on the existing Marshall Park site. In addition to a fire station and police office, this will be a facility where citizens can conduct City business, such as enroll a child in a recreation program, pay sewer and water bills or ask questions about City programs and policies.

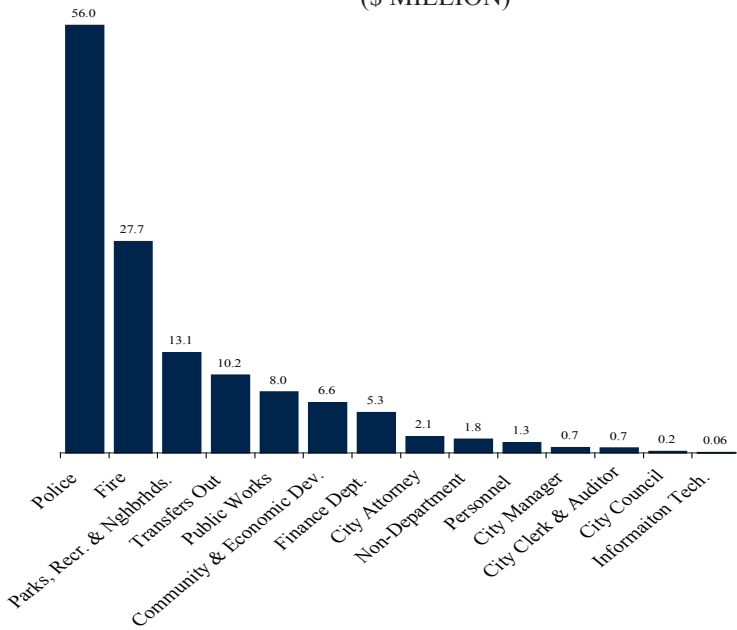
BUDGET AT A GLANCE

City of Modesto 2007-08 Operating Budget

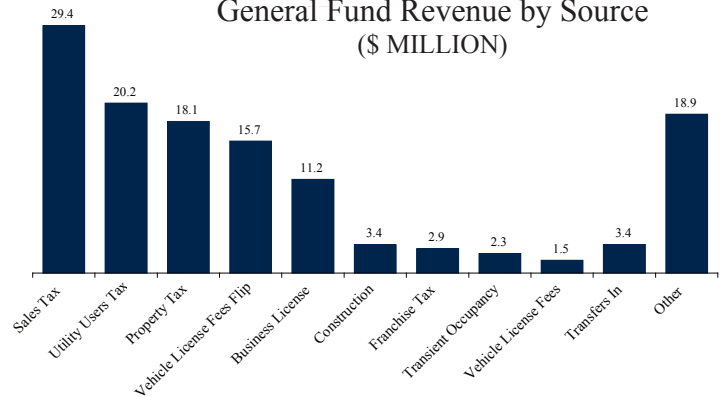
<i>Fund (s)</i>	<i>Revenues</i>	<i>Expenditures</i>	<i>Difference</i>
General Fund	\$126,904,417	\$133,715,896	(\$6,811,479)*
Gas Tax Fund	\$9,628,014	\$8,956,031	\$671,983
Utilities	\$88,017,611	\$67,583,370	\$20,434,241
Internal Services	\$85,516,971	\$85,654,503	(\$137,532)
Debt Services	\$3,273,860	\$4,608,021	(\$1,334,161)
Other	\$44,902,665	\$45,608,722	(\$706,057)
Total (with transfers)	\$358,243,538	\$346,126,543	12,116,995

*\$6.8 million from reserves was approved to help fund street and road maintenance projects, curb, gutter and sidewalk repairs; park infrastructure, storm drain leaf collection efforts, improvements to the police training site and golf capital improvements.

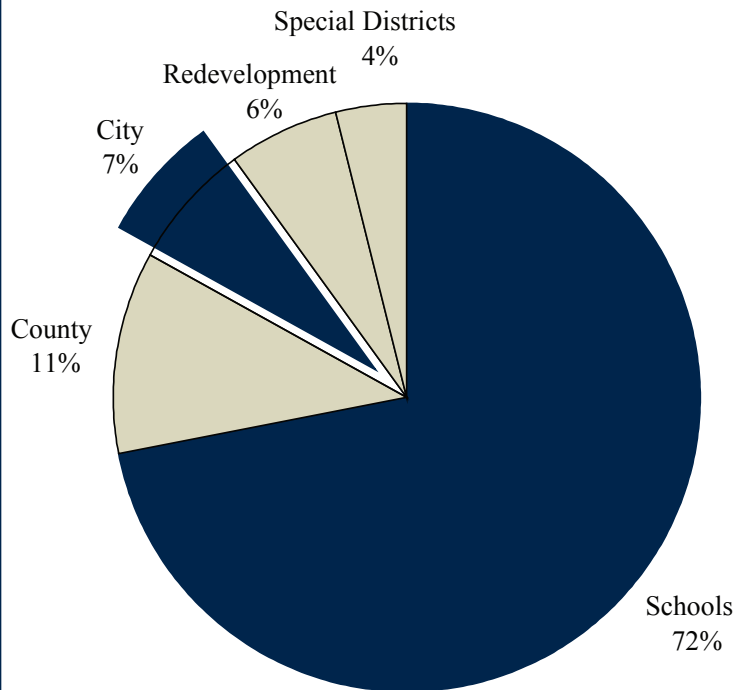
General Fund Expenditures by Department
(\$ MILLION)



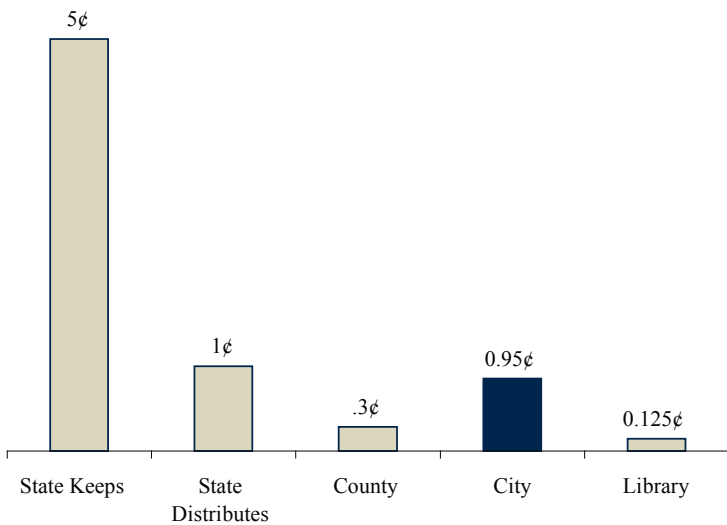
General Fund Revenue by Source
(\$ MILLION)



Where Your Property Tax Goes
(ROUNDED)



Where Your Sales Tax Goes
HOW YOUR 7.375 CENT TAX IS DISTRIBUTED



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