

# General Fund

## General Revenue Assumptions

Revenue assumptions take into consideration a variety of factors. Estimates of population growth, local and regional economic growth, inflation, historical revenue patterns, and factors specific to individual revenue sources are considered. The section below discusses the major economic indicators that impact revenues and expenditure forecasts at the local level. The assumptions are tailored around each major category of revenue sources.

Sales tax, business license tax, and other local sources are related to the local economy. Major revenue growth is estimated for FY 2003 at 4.9%. Overall revenue growth is estimated at 3.3%.

## Economic Indicators

### *Consumer Price Index*

The Consumer Price Index (CPI) is a measurement of the

relative cost of goods and services purchased by the consumers. CPI is considered the measurement of inflation that affects both revenue and expenditures. For example, during periods of high inflation, the cost for personnel, goods and services increases, resulting in sales and property tax revenue increases. The national CPI has been relatively stable during the past six years. In 2000, the CPI in Modesto grew by 3.7%. In 2002, the CPI was about 1.8%.

### *Taxable Sales*

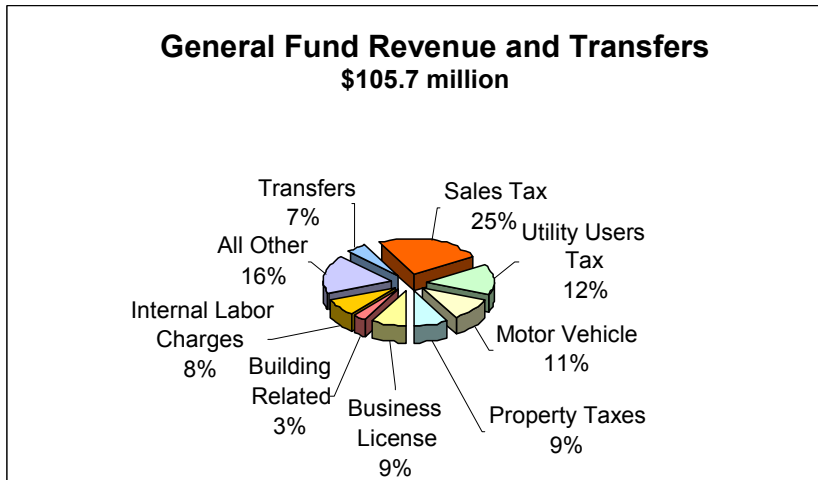
Taxable sales is a measure of the total retail sales in Stanislaus County. This indicator has a direct connection with the City's retail sales tax revenue, since 1% of total sales tax collected is redistributed to the City from the State Board of Equalization, with County share of 5%. Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In 2003, projected slowdown in the GDP growth rate will be a factor contributing to a slower sales tax growth rate. Weakening stock market activity will also impact taxable sales growth.

### *Building Permit Valuations*

One of the major components of growth in Stanislaus County is building activity. This is measured by the sum of all residential and non-residential permit activity and their associated construction valuation. In 2002, total building permit valuation in the City was \$341,991.327. The projected valuation for fiscal year 2003 is \$350 million.

### *State Economics*

During 2000, California's economy grew by \$121 million and the Gross State Product growth rate was estimated at 9.9%. In 2001, the job growth rate was estimated at 1.4% and the unemployment rate was 5.3%. A portion of the City's economy is linked to the health of the State. Fluctuations in recurring revenues may not connect entirely with State economic trends; however, the City's revenue is certainly affected by what the State does with their budget.



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## Sales Tax

Sales Tax represents the General Fund's largest and most important revenue source. Sales tax revenue can be used for any general purpose. The California State Board of Equalization administers revenues from Sales Taxes. Sales Taxes are collected at the point of sale, and then forwarded to the State agency. The City receives sales tax revenue estimates on a monthly basis with quarterly adjustments for actual receipts. It is not tied to a specific use, and Council has discretion on its allocation. The Sales Tax rate in Stanislaus County is 7.125% on each dollar of taxable sales. The basic State sales tax rate is 7.00%. In 1995, citizens approved an additional one-eighth cent to support the County Library. This additional tax was again approved in June 1999. Of the total 7.125% tax charged in Modesto, 0.95% goes to the City of Modesto for discretionary purposes, and the County receives 0.05% by agreement.

Major Revenues	FY 2003 Budget	% of Total	FY 2003 Assumptions	Long-range Assumptions
Sales Tax	26.5	25%	6.8%	6.0%
Utility Users Tax	12.7	12%	3.5%	3.5%
Motor Vehicle	11.6	11%	8.2%	7.0%
Property Taxes	9.3	9%	3.1%	4.9%
Business License	9	9%	6.6%	6.7%
Construction Related	3	3%	7.2%	3.5%
Internal Labor Charges	8.5	8%	8.6%	3.3%
ALL Other	17.4	16%	-8.3%	2.7%
Total Revenue	98	93%	3.3%	4.9%
Transfers	7.6	7%		
All Sources Total	105.6	100%		

A five-year average for Sales Tax from 1996 to 2001 shows an increase of 6.8%. The estimate increase for 2002 over 2001 is also 6.8%. For FY 2003, we are also estimating Sales Tax at 6.8%. FY 2002's budget assumption was estimated at 7%.

For the long-term, we are raising last year's assumption of 4.5% growth rate (real growth of 3.0% and population growth of 1.5%) to an optimistic 6.0% (real growth of 3.5% and population growth of 2.5%). In the past we have been conservative in our long-range projections in this area. Our long-term Sales Tax growth assumption is estimated at 6.0%. The City of Modesto's economy has held steady during the energy crisis and downturn of the economy.

## Utility Users Tax

Utility Users Tax is the General Fund's second largest revenue source. The City's Utility Users Tax is imposed on the consumption of utility services including gas, electric, water, Cable TV and telephones. It is a 6% tax rate with an annual cap of \$1,500 per connection. This General Fund revenue can be used for any general purpose. This \$12.7 million revenue source represents 13% of General Fund revenue. During the energy crisis in FY 2001, the Utility Users Tax (UUT) revenue increased substantially (\$14.4 million). In FY 2002, \$760,000 was allocated for road maintenance from this revenue source. In FY 2002, we have seen the energy crisis and high prices drop, which returned the revenues to normal levels of about \$12.3 million. The FY 2003 budget reflects this revenue reduction to \$12.7 million for a 3.5% increase.

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In forecasting terms, the revenue growth is based on the projection of real growth in the number of consumers, the average consumption per customer and the growth or decline in utility rates. PG&E price increases made a significant contribution to the estimated UUT revenue growth. Modesto Irrigation District (MID) also increased their rates by 9.5% in January of 2001 and an increase of 5.5% in 2002. We project that the Utility Users tax will grow 3.5% in Fiscal Year 2003. The five-year growth average with the energy spike was 7.5%. The four-year average without the spike was 3.5%. Our long-term assumption is also a 3.5% growth rate and no additional money for roads is planned.

## **Motor Vehicle License Fees**

Revenue from Motor Vehicle License Fees, the General Fund's third largest revenue source, is projected at \$11.6 million for Fiscal Year 2003. The Motor Vehicle License Fee is collected as a percentage of a vehicle's market value, and paid annually to the Department of Motor Vehicles at registration and renewal. The fee is imposed by the State "in lieu" of local property taxes on the vehicle. These fees are apportioned to cities (18.75%) and counties (81.25%) on a statewide per capita basis. This revenue source is virtually independent of the Modesto local economy. In this case, growth in local auto sales would not produce increased motor vehicle license fee revenue. Two factors influence the City's share of Motor Vehicle License Fees: the City's population growth (2.57%) relative to all other California cities, and the overall growth or decline in the number and value of motor vehicles on a statewide basis. Statewide growth continues to be healthy. The five-year growth average is 8.2%. The FY 2002 budget assumption set growth at a 9% increase. Our FY 2003 assumption is 8.2% with an optimistic long-term assumption of 7.0%

## **Business License Taxes**

Business License Taxes have two components: annual registration and mill tax. The tax is imposed on entities conducting business within the City of Modesto. The cost of registration varies based on the type of business. The basic rate is one mill (\$.001) per dollar of retail gross receipts, and two mill (\$.002) per dollar rate on service businesses. Business License Taxes follow the same basic trends as Sales Tax. We are projecting a 6.6% growth in FY 2003, and the long-term projection is 6.7%. The five-year average is 9.4% for the mill tax and 2.9% for registrations.

## **Property Tax**

The Property Tax is levied on real property and personal property. Real property includes land and permanently attached improvements such as buildings. The value of the property is based on a determination made by the County Assessor. The property tax rate is limited to 1% of assessed value plus any rates imposed to fund indebtedness approved by the voters. The assessed value can increase by as much as 2% for inflation and market value upon sale of the property. Recent growth trends show signs of increased activity in the housing market due to increased home construction activity within the City. This category includes current year secured and unsecured property taxes, supplemental roll, in-lieu property taxes, and property transfer tax. Our FY 2003 estimate is 3.1%, but we estimate an optimistic 4.9 for our long-range assumption. The five-year average is 2.9% with a FY 2002 over FY 2001 at 8.8% for property tax –secured.

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## Appropriations

Public Safety (Police and Fire) represents the largest portion of General Fund appropriation. The chart below shows General Fund appropriations by Department and transfers.

