

**Staff Paper #1:**  
**State Budget Impacts**

## MEMORANDUM

**DATE:** MAY 4, 2004

**TO:** MAYOR AND CITY COUNCIL

**FROM:** PEGGY HETZLER

**SUBJECT:** ISSUE PAPER REGARDING STATE REVENUE IMPACTS

### History of State Budget Grabs

State budget grabs from cities in California are not new. They began in earnest in 1981-82 when the State first learned that it could balance its budget shortfalls by taking away revenues from cities. Interestingly enough, its first takeaway was vehicle license fees (VLF) in 1981-82 in response to recessionary declines in State General Fund revenues. This takeaway was subsequently restored in 1984-85. That same year, the State also took away subventions for liquor license fees and “bank-in-lieu” subventions.

The following chart summarizes the estimated cumulative impact of these grabs from the City of Modesto for the past 15 years. As shown below, even after accounting for partial restorations, these takeaways reduce revenues to the City by \$6.6 million in 2003-04. After including an estimated impact for FY 04-05 of \$6.8 million, the State has deprived the City of Modesto of more than \$41 million in revenue over the last 15 years.

Description	Fiscal Year 2003-04	Fiscal Year 2004-05	Cumulative Loses Past 15 years
<b>Takeaways:</b>			
Vehicle License Fees (VLF) “Gap”	\$3,600,000	\$2,600,000	\$6,200,000
Property Tax/ERAF	2,940,781	3,846,405	29,243,072
Property Tax (RDA ERAF)	122,000	122,000	387,954
Triple Flip		300,000	300,000
Cigarette Tax	452,104	452,104	5,634,097
Non-parking fees	65,343	65,343	858,734
Jail booking fees	465,000	465,000	7,223,457
Property Tax administration fee	180,000	180,000	2,756,030
<b>Subtotal</b>	<b>7,825,228</b>	<b>8,030,852</b>	<b>52,603,344</b>
<b>Restorations:</b>			
One time VLF			857,830
One Time ERAF Relief			958,313
Proposition 172 Sales Tax	655,819	691,889	5,849,041
Jail Booking Reimbursement	560,804	560,804	3,364,824
<b>Subtotal</b>	<b>1,216,623</b>	<b>1,252,693</b>	<b>11,030,008</b>
<b>Net Revenue Loss</b>	<b>\$6,608,605</b>	<b>\$6,778,159</b>	<b>\$41,573,336</b>

### **Current Strategy to Address State Impacts**

Since FY 01-02, the City has been actively increasing the General Fund's fund balance reserves to accumulate a "cushion" in excess of the Council's adopted reserve level of 8% of General Fund expenditures. In anticipation of future State impacts, the City Manager instituted a hiring chill during fiscal years 01-02 and 02-03 to capture salary savings and approved a \$2 million loan from the Fleet Fund to boost General Fund reserves. These actions have allowed the City to avoid major reductions in service to the public by providing the City with time to develop a strategic approach to balancing the revenue loss with expenditure reductions over time.

Due to continuing uncertainty regarding the State's budget, the Finance Department has included an estimate of ongoing revenue losses in the amount of \$2.6 million in its five year financial projection of the General Fund.

### **Policy Issue**

The FY 04-05 proposed budget will require the use of \$4.2 million of General Fund reserves to balance revenues with expenditures in the General Fund. This funding gap will carryforward into the FY 05-06 budget at which time General Fund reserves are projected to fall below the Council's 8% policy.

The Council may wish to consider enacting a formal policy establishing a level of reserves to be maintained in the General Fund above the current Council 8% reserve policy as an ongoing cushion to absorb future State impacts. This cushion could be maintained in a variety of ways including:

- dedicating unanticipated one time only revenues to fund balance
- sweeping salary savings into fund balance
- including provisions in future collective bargaining agreements to automatically adjust compensation and benefit levels to offset future state revenue impacts that cannot be absorbed through General Fund contingency reserves

A formal policy from the Council such as the one discussed above would provide direction to staff in developing and managing future budgets.

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