

Issue: Impact of State’s Financial Condition

Due to the State’s financial condition and the uncertainty of its future economy outlook, what additional steps - immediate as well as long-term – should the City take to protect its funding, service levels, and staffing?

Background:

As far back as the early 1980’s, the State has been taking revenues from the cities to balance its own budget. Between Fiscal Year 1990-91 and 2004-05, the State diverted almost \$37 million in local revenues (see chart below).

Estimated State Revenue Shifts (FY91 thru FY05 estimates)												
	FY90-91 thru											
	FY94-95	FY95-96	FY96-97	FY97-98	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05	Total
Property Tax/ERAF	4,187,858	2,030,068	2,162,947	2,162,947	2,194,483	2,175,083	2,305,619	2,500,000	2,736,881	2,940,781	2,940,781	28,337,448
Property Tax (RDA ERAF)	77,118								66,836	122,000	250,000	515,954
Cigarette Tax	1,303,074	389,989	401,688	413,739	426,151	438,936	452,104	452,104	452,104	452,104	452,104	5,634,097
Non-Parking Fines	206,585	64,062	65,343	65,343	65,343	65,343	65,343	65,343	65,343	65,343	65,343	858,734
Jail Booking Fees	2,354,659	416,234	561,510	572,740	522,321	486,402	470,955	463,453	445,183	465,000	465,000	7,223,457
Property Tax Admin Fees	888,572	168,248	169,304	172,690	188,036	211,885	232,531	214,951	149,813	180,000	180,000	2,756,030
Motor Vehicle License Fees										3,341,551		3,341,551
Governor’s 1A											2,119,000	2,119,000
Subtotal, Gross Shift	9,017,866	3,068,601	3,360,792	3,387,459	3,396,334	3,377,649	3,526,552	3,695,851	3,916,160	7,566,779	6,472,228	50,786,271
One-Time Motor Vehicle	857,830										3,180,538	4,038,368
One-Time ERAF Relief						409,922	548,391					958,313
Prop 172 Sales Tax	763,704	308,405	344,335	414,610	459,742	524,446	563,732	541,807	580,552	655,819	655,819	5,812,971
Jail Booking Reimbursement						560,804	560,804	560,804	560,804	560,804	560,804	3,364,824
Subtotal, Add Backs	1,621,534	308,405	344,335	414,610	459,742	1,495,172	1,672,927	1,102,611	1,141,356	1,216,623	4,397,161	14,174,476
Net Shift	7,396,332	2,760,196	3,016,457	2,972,849	2,936,592	1,882,477	1,853,625	2,593,240	2,774,804	6,350,156	2,075,067	36,611,795

This diversion of funds by the State continues. Since the passage of Proposition 42 in 2002, Modesto, like other cities across California, has lost millions in transportation funding due to the State diversions. If this money were available, it is estimated the City of Modesto would receive nearly \$1.5 million per year for transportation projects.

Recognizing the impact of these State takeaways, in FY 2001-02, the City began to build General Fund reserves in excess of the Council’s adopted eight percent (8%) reserve level. Accomplishing this required the implementation of hiring “chills” to capture additional salary savings, service level impacts, and programming changes. In FY2004-05, thirteen staff positions, including two executive level managers, were eliminated through a variety of budget saving measures including the reorganization of the Engineering & Transportation and Operations & Maintenance Departments. The recently passed Proposition 1A may bring some relief, hopefully halting State revenue shifts from local communities.

Council and staff have worked together to develop and implement budget reductions for the last three years while avoiding major reductions in service to the public. The proposed FY 2005-06 budget recommends additional staff reductions as well as service level reductions in most operating departments. Programs and services impacted include, but are not limited to, Police, Fire, Streets, Economic Development and other general government services.

The City's Legislative Platform reflects the City's Vision and Council's goals, and forms the cornerstone of Council's policy direction. In FY 2004-05, the Council's top priorities were to support legislation that encourages infrastructure funding and finances health, safety, and technology, as well as measures that increase federal and state funding to the City for projects that support the City's vision and strategic plan. The Council opposes unfunded mandates and the shift of taxes and fees, or changes in their allocations.

Recommendations:

Due to the uncertainty of the State's economy, Staff recommends the Council take a conservative approach to spending for the next two years with reports made to the Finance Committee on a quarterly basis.

Staff also recommends Council's continued support of its Legislative Platform goals regarding unfunded mandates and revenue shifts between the State and local agencies.