

Revenue Assumptions and Economic Indicators

A variety of factors come into play when deciding on revenue projections. Estimates of population growth, local and regional economic growth, inflation, historical revenue patterns, and factors specific to individual revenue sources are considered. 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 categories are estimated for FY 2006 at 3.4%. Overall revenue is estimated to decrease by 2.3%.

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 2005, the West Urban CPI grew by 3.0%.

Taxable Sales

Taxable sales are 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 16% to -4% during the last couple of years. In 2006, projected slowdown in the GDP growth rate will be a factor contributing to a slower sales tax growth rate of approximately 4.4%.

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 2005, total building permit valuation in the City was approximately \$316,000,000. The projected valuation for fiscal year 2006 is \$360,000,000.

State Economics

California's gross state product for 2004 was estimated at \$1,543,835 and 1,438,134 in millions of dollars, which equals a 7.3% growth rate. The growth rate was 5.5% in 2003 (U.S. Bureau of Economic Analysis). Modesto's Gross Metropolitan Product was estimated at \$15.3 billion in 2003 and \$14.2 billion in 2002 for a growth rate of 7.7% (U.S. Conference of Mayors Report).

Sales Tax

Sales Tax is the City's largest and most important revenue source (26% of the General Fund). Sales tax revenue can be used for any general purpose. Nearly 73% of the General Fund discretionary money for the City of Modesto directly supports Public Safety.

The Sales Tax rate in Stanislaus County is 7.375% on each dollar of taxable sales. The basic State sales tax rate is 7.25%. Of the 1% for the Modesto's City Share, 0.95% goes to the City of Modesto for discretionary purposes, and the County receives 0.05% by agreement. The estimate for FY 2004-2005 using a 5-year projection model was 6%. For FY 2005-2006, we estimated an optimistic

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sales tax growth at 4.4%. The City's long-term sales tax growth assumption was estimated at 4.4% because the City of Modesto's economy has shown resiliency during the energy crisis and during the downturn of the nation's economy. In the last 12 months the City has seen its long-term growth forecast drop from 6% to 5%. The City's sales tax consultants now advise us for FY2005-06 it's an optimistic 5.5%, but most likely 4%.

Major Revenues	Budget FY2005/06	% of Total	FY2006 Assumption	Long-Range Assumptions
Sales Tax	\$29.1	29.3%	4.4%	4.0%
Utility Users Tax	\$16.7	16.8%	5.0%	6.0%
Motor Vehicle	\$12.4	12.5%	-6.8%	3.0%
Property Taxes	\$12.8	12.9%	10.0%	6.0%
Business License	\$10.1	10.2%	3.0%	3.0%
Transient Occupancy	\$2.2	2.2%	0.0%	1.0%
Construction Related	\$3.6	3.6%	3.0%	3.0%
Internal Labor Charges	\$5.3	5.3%	1.9%	3.0%
All Other	\$11.1	11.2%	0.3%	2.0%
Total Revenue	\$103.3	104.0%	-2.2%	
Transfers	\$2.3	2.3%	-7.3%	
All Sources Total	\$105.6	106.3%	-2.3%	

Utility Users Tax

Utility Users Tax is the General Fund's second largest revenue source and is a 6% tax rate with an annual cap of \$1,500 per connection. This revenue can be used for any general purpose. 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. We project that the Utility Users tax will grow 5% in Fiscal Year 2006. The City's long-term assumption is for a 5% growth rate.

Motor Vehicle License Fees (VLF)

Revenue from VLF, the General Fund's third largest revenue source, is collected as a percentage of a vehicle's market value. 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 VLF revenue. Two factors influence the City's share of VLF: 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 2006 budget assumption set growth at a 6.8% decrease, with a long-term assumption of 3% growth.

In FY2004-05, the intricacies of the Triple Flip affected the VLF. Three State budget revisions underestimated the City's VLF actual payment, which now requires the State to adjust for the

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overpayment. Triple Flip adjustments will continue affecting revenue estimates for sales taxes, property tax ERAF, and VLF.

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. We are projecting a 3.0% growth in FY 2006. The long-term projection is a conservative 3%.

Property Tax

The Property Tax is levied on real property and personal property. 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. 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. The City's FY 2006 estimate at 10% conforms to its 5-year historical average and is consistent with its County's one-year projection. The City's long-range assumption is a conservative 5-6% annual increase.