

CITY MANAGER'S BUDGET MESSAGE

June 30, 2005

Mayor and City Council
City of Modesto
1010 Tenth Street
Modesto, California 95354

SUBJECT: Adopted Operating Budget for Fiscal Year 2005-06

Honorable Mayor and City Council:

On June 7, 2005, City Council adopted the FY 2005-06 Operating and Interim Capital Improvement Program budgets. Concurrently, the Council, acting as the Redevelopment Agency (RDA), adopted the FY 2005-06 Operating and Capital Improvement Program budget for the RDA. The adopted operating expenditures for all funds (without transfers) total \$293.5 million, with the estimated revenues at \$298.8 million. A summary of fund totals is attached as Exhibit A.

Budget Adoption Process

Developing the FY 2005-06 budget began early with quarterly updates to both the Finance Committee and the City Council. On May 6, 2005, the City Council received the FY 2005-06 Proposed Operating and Interim Capital Improvement Program budgets for review. During the week of May 16, the Finance Committee held a series of public workshops regarding the budget. On May 24, the City Council held a public hearing on the proposed budget. The Council adopted the FY2006 Operating Budget and Interim Capital Improvement Program on June 7, 2005.

Budget Reductions

Budget adoption followed a comprehensive and difficult budget review process requiring reductions in both the General and the Gas Tax Funds. During the workshops, the Finance Committee reviewed the City Manager's proposed budget, which included reductions in all operating departments. The Committee recommended several adjustments as shown below:

Restored funding to:

- Equal Opportunity Commission (\$1,000)
- Planning Commission activities (\$6,430)
- Workforce Alliance activities (\$6,624)
- (2) Police Officer positions (\$180,000)

Accepted estimates of new revenue and/or expenditure reductions for:

- Savings related to installation of INET (\$50,000)
- New revenue from annual building fee adjustment (\$190,000)

The City Council concurred with the Committee's recommendations and included these changes in the June 7, 2005 budget adoption.

This adopted budget includes General Fund base budget cuts in the amount of \$3.56 million, approximately \$948,000 in on-going revenue enhancements and nearly \$800,000 in a one-time transfer adjustment totaling \$5.3 million in proposed budget adjustments. A detailed listing of budget cuts can be found in the **Budget Reductions 05-06** section of this document. Unfortunately, reductions in city services are unavoidable.

Staffing

There are 40.125 full-time staff positions being eliminated (29.625 positions from General Fund and 10.5 positions Gas Tax Fund). The Committee recommended re-examining staffing issues when the State budget impacts are known.

In addition to the restoration of two safety positions, Council also chose to keep the unfunded safety positions "on the books". Personnel will establish a separate tracking process to identify authorized but unfunded public safety positions.

In accordance with City policy and agreements with the City's employee associations, every effort was made to place employees whose positions were eliminated in funded positions for which they are qualified within the organization. This year's budget includes a section entitled **Staffing**, detailing employee related information at the citywide level. For a more specific look at staffing, please also refer to the individual department sections.

Policy Issues

The following summarizes Council's approved policy issues:

- Beginning in FY 2007-08, a structurally balanced General Fund budget, in which recurring revenues meet or exceed recurring expenditures, will be submitted annually to the City Council.
- General Fund surpluses (amounts greater than the 8% reserve level) will be used for capital projects, increasing fund balance, one-time activities or debt reduction rather than new or enhanced operating programs.
- Enhancements to existing operating programs or the development of new operating programs will be funded from clearly identified ongoing funding sources.
- Establish a Technology Fund Reserve that would allow the City to begin funding for technology improvements on a regular and on-going basis (to be implemented as part of unmet needs discussion in Fall 2005).

More discussion of several citywide policy issues is addressed in the **Policies & Issues** section of this document.

Upcoming Challenges

Although the City's economy continues to improve and revenue growth is positive, preparing the FY 2005-06 budget has been challenging as costs continue to outpace the modest revenue growth.

The City still faces financial challenges for the upcoming fiscal year. At the same time, many critical needs remain unaddressed. Unmet needs are discussed in both the department sections of this document and the ***Policies & Issues*** section.

Conclusion

We will carefully track revenues and continue conservative expenditure policies. The community, Mayor, and City Council, and city employees worked diligently to craft a budget that places Modesto on a path toward financial stability. Difficult choices were made during the budget deliberations. Unfortunately, to move towards a balanced budget, service levels were reduced in many areas that are important to the community's quality of life. With a balanced budget, I am confident that in the future we will be able to add to and even enhance service levels.

I want to thank the Mayor and City Council for their total involvement in the budget decision-making and the unselfish giving of months of their time and effort to help craft this budget. I also want to thank all of my city colleagues for their commitment to providing Modesto's outstanding public services despite continued budget reductions and for each employee's commitment to making Modesto a great place to live and work.

Respectfully Submitted,

George W. Britton
City Manager