

CITY MANAGER'S BUDGET MESSAGE

June 30, 2006

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

SUBJECT: Adopted Operating Budget for Fiscal Year 2006-07

Honorable Mayor and City Council:

It is my pleasure to provide a copy of the City's FY 2006-07 Operating Budget and Interim Capital Improvement Program, adopted by the City Council on June 6, 2006. After several years of belt tightening and budget reductions, the FY 2006-07 budget brings optimism with the inclusion of full-year funding for 25 new public safety positions and the restoration of funding for tree programs and street maintenance.

Budget Overview

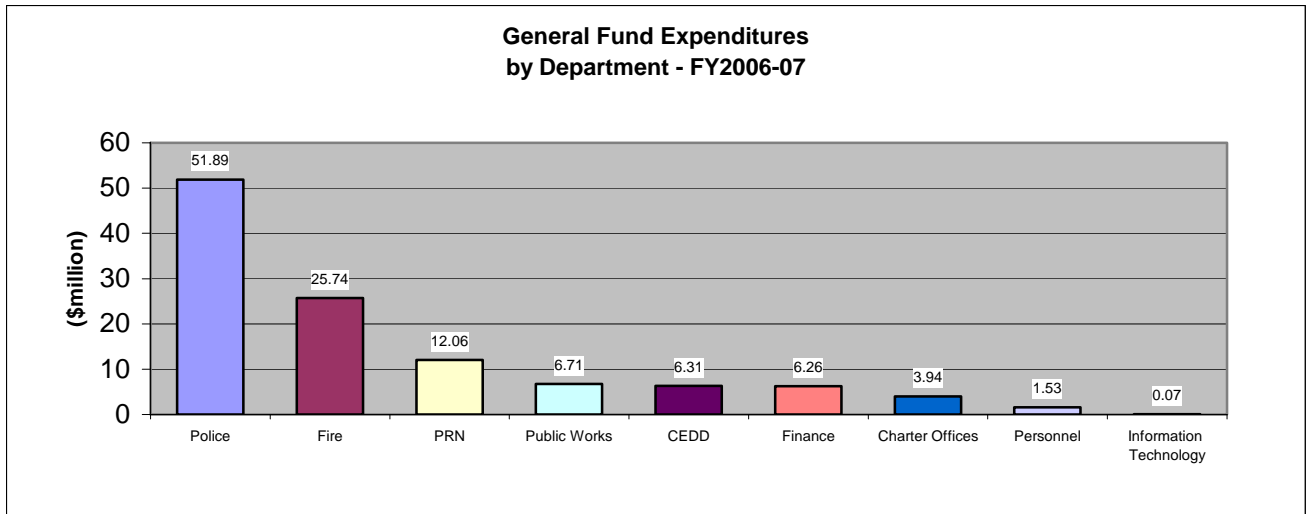
The Big Picture – All Funds

The FY 2006-07 operating budget anticipates spending \$319,863,010, which is \$10,471,129 less than the projected revenues of \$330,334,139. This includes all transfers between funds and the recently adopted MOU employee benefit increases.

The General Fund

The General Fund is the primary operating fund of the City. The primary revenue sources in this fund include property tax, sales tax and certain general-purpose revenues allocated by the State. Police and fire services account for almost three-fourths of General Fund expenditures while programs like parks, recreation, urban forestry, sidewalk maintenance, economic development and general government make up the balance.

In order to be prepared for unforeseen financial emergencies, Council policy requires that an 8% General Fund reserve be maintained. Growth in property tax revenues and departmental savings from FY 2005-06 resulted in a reserve balance above the 8% level. In part, the balance above reserve is targeted to address funding deficits in street and road maintenance projects; curb, gutter, and sidewalk repairs; park infrastructure; rockwell rejuvenation; storm drain leaf collection efforts; improvements to the police training site; and other on-going public safety expenses. This strategy allows the City to effectively commit \$6 million in discretionary funding without incurring ongoing expenditures that will burden the General Fund in future years. Including the one-time reserve expenditures, the General Fund expenditures for FY 2006-07 total \$114,513,758 million with revenues of \$117,424,967 million (this does not include transfers).



The adopted budget for the City's General Fund includes no budget or service level reductions although deficiencies remain in areas such as park maintenance and forestry, which have endured many years of budget cuts.

In the Storm Drain Fund, five percent (5%) across-the-board budget reductions coupled with a General Fund transfer were required to balance the fund. These fund-balancing strategies were discussed during the Finance Committee's budget workshops the week of May 15, 2006.

Structural Changes

The adopted budget implements several structural changes related to Finance Committee recommendations and Council decisions:

- Addressing funding deficits in the Storm Drain Fund, the City will utilize \$675,704 in discretionary revenue from the General Fund to support the Storm Drain Fund while exploring long-term options for assuring the sustainability of this fund. Of this amount, \$319,000 supports the City's leaf collection services and \$272,000 enhances rockwell rejuvenation efforts.
- The Pruned Refuse Collection Program moves from the Sewer Fund to the General Fund. This is for FY 2006-07 only since Council previously directed a study of funding alternatives.
- The Community Forestry Program moves from the Special Gas Tax Fund to the General Fund. This, coupled with other realignments, assures the City's compliance with Proposition 42 Maintenance of Effort (MOU) requirements and the City's continued eligibility for Proposition 42 funding.
- Audit contract costs formerly in the Finance Department's operating budget have moved to the City Clerk & Auditor.
- Implementation of the full-year funding of the contractual park maintenance services provided by Grover Landscaping.

State Impacts

Local budgets are always affected by State budget moves and FY 2006-07 is no different. Governor Schwarzenegger's adopted FY 2006-07 State Budget includes many positives for California cities. Key issues of interest are:

- **Elimination of ERAF III.** The annual contributions from local government to the State, which were part of the Proposition 1A budget package, have come to an end. For Modesto, this was \$2.1 million annually of "ongoing funds" that can now be programmed to meet community needs.
- **Resumption of Mandate Reimbursements.** The Governor's proposed budget includes funds for repayment of deferred mandate claims. The Office of the State Controller has begun to make payments starting with the oldest outstanding claims, which go back over five years. The City currently has over \$2.7 million in outstanding claims. During the last six months the City has received about \$725,000 in back payments.
- **Full funding for Proposition 42.** Passed in 2002, this sales tax on gasoline purchases funded local transportation and road projects. Because of State budget woes, revenue from this source has been diverted to the State in two of the last three fiscal years. Funding was restored in FY 2005-06 when the City received \$867,712. Full-year funding is also recommended in the Governor's 2006-07 budget. However, restoration of this funding also requires the City spend \$1,687,175 to fulfill the Maintenance of Effort (MOE) requirement.
- **Booking Fees.** Legislation enacted in 1990 authorized counties to charge local agencies a fee for booking individuals into the county jail. In 1999, this action was amended providing reimbursement to the local agencies for the cost of booking fees (but capped at 1997-98 levels). This reimbursement continued until FY 2005-06 when funding for the reimbursements was deleted from the State budget and counties were directed to collect only one-half of their current fee. State reimbursement with a one year delay, has been reinstated for FY 2006-07.

Conclusion

The adopted budget for FY 2006-07 is a conservative and fiscally responsible financial plan for the City of Modesto providing quality services to City residents while planning for the future. I look forward to working with the Council, the community, and City staff throughout the year as we continue providing municipal services that make Modesto a community where residents and businesses alike are proud to call home.

Respectfully Submitted,

George W. Britton
City Manager