



**CITY OF MODESTO  
COUNCIL AGENDA REPORT**

**COUNCIL MEETING:  
June 12, 2007**

Date: May 31, 2007

**TO:** Mayor and City Council

**FROM:** Finance Department

**SUBJECT:** Proposition IV – Appropriation Limit Calculation

**CONTACT:** Terri L. Swearingen, Executive Secretary ([tswearingen@modestogov.com](mailto:tswearingen@modestogov.com))

**RECOMMENDED COUNCIL ACTION:**

Adoption of a resolution establishing the 2007-2008 Fiscal Year Appropriation Limit, including the price and population factors to be used in the calculation.

**BACKGROUND:**

The California State Constitution (Proposition IV) requires the City to establish an appropriation limit calculation each fiscal year.

Article XIII B of the California Constitution specifies that appropriations made by State and local governments may increase annually by a factor comprised of the change in population combined with either (1) the change in California per capita personal income or (2) the change in the local assessment roll due to local nonresidential construction.

Schedule A of the attached resolution shows the price and population factors used and the appropriation limit calculation. The recommended factors in calculating the limit are the price factor of “state growth in per capita income” and the population factor of “growth rate in Stanislaus County”.

The appropriation limit calculated for Fiscal Year 2007-08 is \$317,409,812.00. For Fiscal Year 2005-06, the amount of appropriations subject to the limit was \$92,108,000.00. Once the FY2006-07 books are closed, the appropriations subject to the limit will be updated and will remain well below the calculated limit. A copy of Schedule A and the calculation detail is on file in the City of Modesto Finance Department.

**REASONS FOR RECOMMENDATION:**

The California State Constitution (Proposition IV) requires the City to establish an appropriation limit calculation.

**EXISTING POLICY:**

N/A

**POLICY ALTERNATIVES:**

N/A

**FISCAL IMPACTS:**

N/A

**INTERDEPARTMENTAL COORDINATION:**

N/A

**PUBLIC PARTICIPATION:**

A Notice of Availability of the Appropriation Limit Calculation was posted at least 15 days prior to this meeting.

**COMMITTEE RECOMMENDATION:**

None.

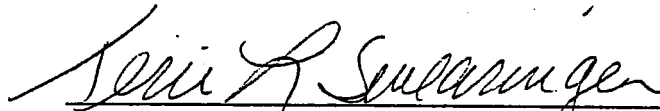
**ENVIRONMENTAL REVIEW:**

This item is an administrative project, which is exempt from environmental review. No environmental documents must be filed.

**STEPS FOLLOWING APPROVAL:**

None.

Prepared By:



Terri L. Swearingen, Executive Secretary

Reviewed By:



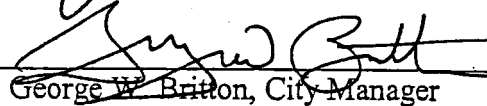
M. Wayne Padilla, Finance Director

Reviewed By:



Judith Ray, Deputy City Manager

Reviewed By:



George W. Britton, City Manager

MODESTO CITY COUNCIL  
RESOLUTION NO. 2007 -

A RESOLUTION ESTABLISHING THE CALCULATION FOR THE APPROPRIATION  
LIMIT FOR THE FISCAL YEAR 2007-2008 ANNUAL BUDGET

WHEREAS, Proposition 4 of the California State Constitution requires the City to establish an appropriation limit calculation each fiscal year, and

WHEREAS, Article XIII B of the California Constitution specifies that appropriations made by State and local governments may increase annually by a factor comprised of the change in population combined with either the change in California per capita personal income or the change in the local assessment roll due to local nonresidential construction, and

WHEREAS, the attached schedule shows the preferred price and population factors to be used and the appropriation limit with the recommended factors in calculating the limit are the price factor of "state growth in per capita income" and the population factor of "growth rate in Stanislaus County", and

WHEREAS, a copy of said report is on file in the City of Modesto Finance Department,

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Modesto that the appropriation limit calculation is hereby established as shown on Schedule A, attached hereto, and made a part hereof.

BE IT FURTHER RESOLVED that the Finance Director is hereby authorized to take the necessary steps to implement the provisions of this resolution.

The foregoing resolution was introduced at a regular meeting of the Council of the City of Modesto held on the 12<sup>th</sup> day of June, 2007, by Councilmember \_\_\_\_\_, who moved its adoption, which motion being duly seconded by Councilmember \_\_\_\_\_, was upon roll call carried and the resolution adopted by the following votes:

AYES: Councilmembers:

NOES: Councilmembers:

ABSENT: Councilmembers:

ATTEST: \_\_\_\_\_  
JEAN MORRIS, City Clerk

(seal)

APPROVED AS TO FORM:

By: \_\_\_\_\_  
SUSANA ALCALA WOOD, City Attorney

FY2007-2008

PROPOSITION 4

APPROPRIATION LIMIT CALCULATION

FY2006-2007 Appropriation Limit	\$299,273,819
---------------------------------	---------------

Adjustment Factors

Per Capita Personal Income Change	4.42%
-----------------------------------	-------

Population Change (Stanislaus County)	1.57%
---------------------------------------	-------

Per Capita converted to a ratio	1.0442
---------------------------------	--------

Population converted to a ratio	1.0157
---------------------------------	--------

Calculation of factor for FY2007-2008	1.0606
---------------------------------------	--------

Adjustment	<u>\$18,135,993</u>
------------	---------------------

FY2007-2008 Appropriation Limit	<u><u>\$317,409,812</u></u>
---------------------------------	-----------------------------

Article XIII B places a limit on most, but not all, government revenue sources. The limit applies to appropriations from proceeds of taxes from both the general fund and special funds of government entities. Proceeds of taxes include tax revenues, interest earnings on invested tax revenues, and any revenues collected by a regulatory license fee or user charge in excess of the amount needed to cover the cost of providing the regulation, product, or service.

Appropriations from nontax revenues, including the City's enterprise funds, are not subject to the limit.

**ORDINANCE NO. 3444-C.S.**

AN ORDINANCE ADOPTING THE 2007-08 OPERATING BUDGET AND THE INTERIM CAPITAL IMPROVEMENT PROGRAM FOR 2007-08 FOR THE CITY OF MODESTO, AND PROVIDING FOR CERTAIN TRANSFERS OF FUNDS

The Council of the City of Modesto does ordain as follows:

WHEREAS, pursuant to the Charter of the City of Modesto, the City Manager presented a Proposed Operating Budget and Interim Capital Improvement Program for the 2007-08 Fiscal Year to the Finance Committee on May 4, 2007, and

WHEREAS, the Finance Committee reviewed the Proposed Budget and Interim Capital Improvement Program in a series of televised public workshops on May 14, 15, 16, and 17, 2007, and

WHEREAS, the Finance Committee recommended modifications to the Proposed Budget and Interim Capital Improvement Program and forwarded its recommendations on the proposed budget to the full City Council, and

WHEREAS, the City Council considered the recommendations of the Finance Committee, and

WHEREAS, in accordance with the City Charter, a duly noticed public hearing was held on May 22, 2007, relating to the adoption of the Proposed Budget, and

WHEREAS, prior to any discussion of the budget and prior to the final adoption, the City Council by separate motion considered each CIP project that could be the source of a potential conflict of interest to one or more members of the City Council without the

participation of those members, and

WHEREAS, copies of the Proposed Budget have been and are available for inspection by the public at the office of the City Clerk,

NOW, THEREFORE, the Council of the City of Modesto does ordain as follows:

SECTION 1. ADOPTION OF BUDGET. That the proposed operating budget, a copy of which is on file in the City Clerk's Office, and the amendments to the proposed revenue budget as shown in Exhibit 1, amendments to the proposed expenditure budget as shown in Exhibit 2, and total revenue and expenditures with transfers as shown in Exhibit 3 is hereby adopted as the Fiscal Year 2007-08 Budget for the City of Modesto.

SECTION 2. ADOPTION OF BUDGET CONTROLS. That the budgetary control and authority policies defined in Exhibit 4 of this ordinance and incorporated herein by reference is hereby adopted for the Fiscal Year 2007-08.

SECTION 3. ADOPTION OF INTERIM CIP. That the Interim Capital Improvement Program defined in the Capital Improvement Program section of the Fiscal Year 2007-08 budget and incorporated herein by reference is hereby adopted as the Capital Improvement Program for the City of Modesto, and that funds identified in Exhibit 5 as Additional Funding or New Projects are hereby appropriated for the corresponding projects and shall be part of the Budget for the Fiscal Year 2007-08 adopted hereby.

SECTION 4. ENCUMBRANCES. That the funds of the City of Modesto encumbered on June 30, 2006, are hereby appropriated for the purposes for which they are

encumbered and shall be rolled over for the Fiscal Year 2007-08.

SECTION 5. MULTI-YEAR OPERATING PROGRAMS. That unexpended funds appropriated to Multi-Year Programs on June 30, 2006 are hereby re-appropriated for the projects for which they were appropriated, as identified in Exhibit 6, and shall be part of the Budget for the Fiscal Year 2007-08 adopted hereby.

SECTION 6. COUNCIL POLICIES. That the Policy Issues outlined in the staff report dated May 22, 2007 have been reviewed and are hereby approved.

SECTION 7. EFFECTIVE DATE. Pursuant to Section 722 of the Charter of the City of Modesto, this ordinance shall go in effect and be in full force and operation immediately upon adoption.

SECTION 8. PUBLICATION. Copies of this ordinance shall be posted in at least three (3) prominent and distinct locations in the City; and a notice shall be published once in *The Modesto Bee*, the official newspaper of the City of Modesto, setting forth the title of this ordinance, the date of its introduction and the places where this ordinance is posted.

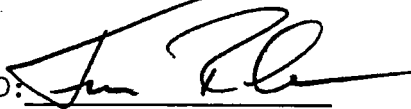
The foregoing ordinance was introduced at a regular meeting of the Council of the City of Modesto held on the 5<sup>th</sup> day of June, 2007, by Councilmember Keating, who moved its adoption, and passage to print, which motion being duly seconded by Councilmember Hawn, was upon roll call carried and the resolution adopted by the following votes:

AYES: Councilmembers: Dunbar, Hawn, Keating, Olsen, Mayor Ridenour

NOES: Councilmembers: O'Bryant

ABSENT: Councilmembers: Marsh

APPROVED:

  
JIM RIDENOUR, Mayor

ATTEST:

  
JEAN MORRIS, City Clerk

(seal)

APPROVED AS TO FORM:

By:

  
SUSANA ALCALA WOOD, City Attorney

## Glossary of Budget Terms

---

**ABATEMENT** - A complete or partial cancellation of a levy imposed by a government and usually applied to tax levies, special assessments, cancelled expenses and service charges.

**ACCOUNTING SYSTEM** - The total structure of records and procedures which discover, record, classify, summarize, and report information on the financial position and the results of operations of a government or any of its funds, fund types, balanced account groups, or organizational components.

**ALLOCATION** - To divide or share out for a specific purpose or to particular persons or departments.

**APPROPRIATION** - An authorization granted by a legislative body to make expenditures and incur obligations for a specific purpose. An appropriation is usually limited in amount and as to time when it may be expended. Operational appropriations usually expire at fiscal year end.

**ASSESSED VALUATION** - A value of real estate or other property by a government as a basis for levying taxes.

**ASSETS** - A probable current or future economic benefit obtained or controlled by a particular entity as a result of past transactions or events.

**BOND** - A City may raise capital by issuing a written promise to pay a specific sum of money, called the face value or principal amount, at a specified date or dates in the future, together with periodic interest at a special rate. The difference between a note and a bond is that the latter runs for a longer period of time and requires greater legal formality.

**BUDGET** - A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. The term usually indicates a financial plan for a single fiscal year.

**BUDGET HEARING** - A public meeting at which any citizen may appear and be heard regarding the increase, decrease or omission of any item in the proposed budget as presented in writing by the City Manager to the City Council.

**BUDGET MESSAGE** - A general discussion of the proposed budget as presented in writing by the City Manager to the City Council. The message contains an explanation of primary budget issues and policy changes found in the proposed budget.

**CAPITAL IMPROVEMENT** - A permanent addition to the City's assets, including the design, construction, or purchase of land, buildings, or facilities, or major renovations.

**CAPITAL IMPROVEMENT PROGRAM BUDGET** - A financial plan of proposed capital improvement projects with single and multiple-year capital expenditures. These include the construction of new streets, sewer lines, fire stations, development of a new park, or a significant study with long-term benefits to the Community. The Capital Program plan is a ten-year plan, which is updated annually. This program is often referred to as the "CIP".

## Glossary of Budget Terms

---

**CAPITAL OUTLAY** - A budget category which includes all equipment having a unit cost of more than \$5,000 and an estimated useful life of over one year. Non-CIP capital outlay is budgeted in the City's operating budget.

**CONTINGENCIES** - A budgetary provision representing that portion of the appropriations set aside to meet unforeseen expenditure requirements.

**CPI** - Consumer price index is a statistical measure of a weighted average of prices of a specified set of goods and services purchased by wage earners in urban areas.

**DEBT SERVICE** - Payment of the principal and interest on an obligation resulting from the issuance of bonds, notes, or other long-term debt..

**DEPARTMENT** - A major organizational unit of the City that has been assigned overall management responsibility for a group of related operations.

**DEPRECIATION** - Expiration in the service life of fixed assets, attributable to normal wear and tear. The portion of the cost of a fixed asset which is charged as an expense during a particular accounting period. In accounting for depreciation, the cost of a fixed asset, less any salvage value is prorated over the estimated service life of such an asset. Each period is charged a portion of this total cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

**ENCUMBRANCE** - Obligations in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.

**ENTERPRISE FUND** - A governmental accounting fund in which the services provided are financed and operated similarly to those of a private business. The rate schedules for these services are established to insure that revenues are adequate to meet all necessary expenditures. Enterprise funds are established for services such as water and sewer, parking facilities, transit systems, airport, and golf courses.

**EXPENDITURE** - Actual cash disbursements for the cost of goods delivered or services rendered.

**FISCAL YEAR** - The time period designated by the City signifying the beginning and ending dates for recording financial transactions. The City of Modesto has specified July 1 to June 30 as its fiscal year.

**FIXED ASSETS** - Assets of a long-term character such as land, building, machinery, furniture, and other equipment with a value greater than \$5,000 and a useful life longer than one year.

**FORFEITURES** - The automatic loss of cash or other property as a penalty for not complying with legal provisions and as compensation for any resulting damages or losses.

**FRANCHISE** - A special privilege granted by a government, permitting the continued use of public property, such as city streets and usually involving the elements of a monopoly or regulation.

## Glossary of Budget Terms

---

**FUNCTION** - A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible (e.g., general government; streets and highways; parks and recreation; public works and public safety).

**FUND BALANCE** - Also known as net assets, fund balance is the excess of assets over liabilities, and represents the cumulative effect of revenues and other financing sources over expenditure and other financing uses.

**FUND** - An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**GENERAL FUND** - The primary operating fund of the City used to account for all revenues and expenditures of the City not legally restricted as to use. Examples of departments financed by the General Fund include the City Council, Police and Fire Departments, and other general services.

**GENERAL FUND DISCRETIONARY REVENUE** - The General Fund is the primary operating fund of the City. It accounts for normal, recurring activities traditionally associated with government. General Fund discretionary money is revenue not restricted to special purposes such as taxes, collected fees, interfund labor charges, service credits, and indirect cost recoveries and can be used to support general government activities.

**GENERAL OBLIGATION BOND** - Bonds used for various purposes and repaid by the regular revenue raising powers of the City. The City of Modesto has no outstanding general obligation bonds.

**GNP** - Gross National Product is the total market value of all final goods and services produced by the entire economy in a one-year period.

**GRANT** - Contributions or gifts of cash or other assets from another governmental entity to be used or expended for a specific purpose, activity, or facility. An example is the Community Development Block Grant given by the Federal Government.

**INDIRECT COSTS** - Those elements of cost necessary in the production of a good or service that are not directly traceable to the product or service.

**INTERFUND TRANSFERS** - Amounts transferred from one fund to another.

**INTERNAL SERVICE FUND** - Funds used to account for the financing of goods or services provided by one department to another department on a cost reimbursement basis, for example; the Fleet Management Fund, which maintains the City's equipment pool; or the Central Services Fund, which provides office supplies and various materials for maintenance and construction.

**NET DISCRETIONARY SUPPORT** - Total operational costs after taking into account related fees and charges and other revenue. This represents the true general tax support for an operation.

## Glossary of Budget Terms

---

**OPERATING BUDGET** - The portion of the budget pertaining to the daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel and fuel.

**ORDINANCE** - A formal legislative enactment by the City Council. It has the full force and effect of law within City boundaries unless pre-empted by a higher form of law. An ordinance has a higher legal standing than a resolution.

**PERFORMANCE MEASURES** - A performance measure is a public oriented measure which, whether stated in terms of effectiveness or efficiency, quantitatively describes how well a service is being performed. The foundation of performance measures is understanding the relationship between program inputs, outputs, efficiency, effectiveness, and ultimately program outcomes.

**RECESSION** - A noticeable drop in the level of business activity.

**REIMBURSEMENT** - Repayments of amounts remitted on behalf of another party, or interfund transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it but properly applied to another fund.

**RESERVE** - An account used to earmark a portion of fund balance to indicate that it is not available for expenditure.

**RESOLUTION** - A special order of the City Council which has a lower legal standing than an ordinance.

**REVENUE** - Funds that the government receives as income. It includes such items as taxes, fees, permits, licenses, grants and interest.

**SPECIAL ASSESSMENT** - A compulsory levy made against certain properties to defray part or all of the cost of a specific improvement or service deemed to primarily benefit those properties.

**SPECIAL REVENUE FUND** - A fund in which revenue is collected and is restricted by the City, State or Federal Government as to how the city might spend its resources.

**SUBSIDY** - A grant by government to another government entity to assist in an enterprise deemed advantageous to the public.

**TAXES** - Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. The term does not include specific charges made against particular persons or property for permanent benefits such as special assessments. Neither does the term include charges for services rendered only to those paying such charges as, for example, water service charges.

**TRUST AND AGENCY FUNDS** - Also known as Fiduciary Fund Types, these funds are used to account for assets held by the City in a trustee capacity or as an agent for private individuals, organizations, or other governmental agencies. The fiduciary funds used by the City are investment trust, non-expendable trust and agency funds.

## Glossary of Budget Terms

---

**USER CHARGES** - The payment of a fee for direct receipt of a public service by the party benefiting from the service.

**WORKING CAPITAL** – Also known as “financial position” in the private sector, working capital is the excess of current assets over current liabilities. For enterprise funds, this term is used interchangeably with “fund balance”, a comparable financial position concept in the governmental fund types.

