



100

DAY

COMMITTEE

MODESTO

CALIFORNIA

NOT PAID FOR AT TAXPAYER EXPENSE.

100-DAY COMMITTEE RECOMMENDATIONS CITY OF MODESTO

“How did you go bankrupt?”

“Gradually, then suddenly.”

—ERNEST HEMINGWAY, THE SUN ALSO RISES

BACKGROUND & OVERVIEW

Modesto Mayor Ted Brandvold promised Modesto citizens during the election campaign that he would conduct a review of City finances and operations. Upon his election, it was clear to the Mayor that circumstances demanded he start with a 100-day review of City finances.

He had two main goals: search for funds in the budget the City could apply to public safety, and a long-term goal of creating ongoing financial sustainability for City taxpayers and City operations.

Under Mayor Brandvold’s leadership, the City Council unanimously supported creation of the 100-Day Committee. It was so named because its mission was to conduct a thorough and independent examination of the City’s current fiscal conditions within 100 days—and determine whether the Mayor’s twin goals could be achieved. The Committee was asked to focus on the City general fund budget, which is where the City Council has the most discretion in setting priorities and from which the council funds public safety. The Committee was asked to report its findings to the Mayor and City Council.

The Committee is made up of the Mayor, two Council Members and 10 citizens, including men and women with deep experience in business, finance and advocacy for taxpayers. It held 25 public workshops from April 1 through June 2. The Committee convened as a whole and in three subcommittees. It gratefully appreciates the cooperation and support City Manager Jim Holgersson and City Hall staff provided. And it appreciates all the public input offered by citizens who participated in the sessions.

As for the Mayor’s immediate goal of finding budget savings for public safety priorities, the Committee’s findings sustain the Mayor’s proposal to increase funding of the Police Department by an amount equivalent to hiring 22 new police officers. On June 21, 2016, the City Council approved a budget including this new priority with full support from the City Manager and City staff. Although the Committee believes the long-term financial condition of the City is precarious, this increase in police staffing is achievable and is largely a matter of the City Council setting appropriate priorities in its budgeting.

As for the Mayor's long-term goal of achieving ongoing financial sustainability for City taxpayers and City operations, what the Committee discovered about the City's general fund budget is deeply alarming. First, in the Committee's view Modesto City government is headed down a path where City expenses (money going out) will exceed City revenues (money coming in) based on the City's own financial forecasts. Second, in the Committee's view Modesto's revenue forecasts are overly optimistic and do not consider more realistic revenue projections nor the effect of an inevitable economic recession. Third, in the Committee's view City general fund reserves, which are supposed to help the City survive financial crises such as recessions, are dangerously low. One of the Committee's preliminary suggestions has already been achieved and the City has increased its general fund reserves from \$3 million to \$10 million.

All this leads to the Committee's conclusion that unless Modesto sheds a "business as usual" approach and acts soon on multiple fronts, it is possible the City general fund will struggle to supply even the most vital services to its citizens within five to ten years.

While there is a limit to what can be accomplished in 100 days, the Committee provides detailed recommendations the City should adopt. In addition, the Committee is communicating to the City Council and the community the broader challenges the City faces in attaining long-term financial sustainability. There is a tendency to shortchange the long-term view for the shorter-term approach. The Committee focuses on long-term solutions. All Committee members agree that unless the City acts quickly and decisively, there is little chance it can meet the long-term financial commitments it has already made, much less adopt new ones.

As a preamble to its specific recommendations, the Committee offers the following overarching observations and recommendations.

- The vast bulk of the general fund budget is devoted to personnel expenses, employee and retiree costs. Collective bargaining between City government and its six bargaining units (public employee unions) determine them. This leaves little room to pursue other priorities. The recommendations in this report need to be enacted so the City can keep the promises it has already made to employees and retirees with some minor room to pursue other priorities.
- The City cannot cut expenses or raise taxes enough to resolve its long-term financial problems. So the City must immediately get serious about addressing the pre-conditions for creating more prosperity in the community, including infrastructure improvements and establishing a more business-, customer- and taxpayer-friendly environment. Moreover, while the Committee's detailed recommendations include reducing some expenses, it does not believe the City can "cut its way" to a sustainable financial future. This report recommends some revenue enhancing measures but no tax increases.
- Embracing these pre-conditions for more prosperity should begin with the City taking a hard look at itself. First, the City should expand efforts already underway to review City functions with an explicit focus on serving its customers, the people of Modesto. Second, the Mayor and City Council should proceed with a thorough review of City operations and follow-up on the work of this Committee with programs concentrating on improving customer service. An emphasis on respecting taxpayers should be included along with the Red Tape Reduction Task Force the Mayor promised.

The 100-Day Committee's detailed recommendations make up the bulk of this report and are divided into four areas:

1. How the City can reduce expenses without damaging the delivery of essential services to its citizens.
2. How the City can raise more money without raising taxes.
3. What the City can do to make better use of its assets and protect community treasures.
4. How the City can involve members of the community to improve its operations.

You can review the voluminous documentation provided to the Committee by City staff that helped it fashion these recommendations. They are available at the City website, www.modestogov.com. Just click on the 100-Day Committee box on the City's home page and you will access the documentation plus a complete listing of all workshop agendas and session minutes.

Many of these recommendations are not new. Some have been suggested before. Some are currently being worked on. Some difficult decisions have been discussed in the past, but no action was taken. Others are new. But unless action is taken now, the Committee believes Modesto City government will find itself having to make even more difficult decisions about its priorities regarding what services can be provided with the limited resources available.

The 100-Day Committee is convinced the public safety and financial health of the City of Modesto can be greatly improved if the Mayor and City Council seriously consider and carry out these recommendations.

REDUCING CITY EXPENSES, PRESERVING ESSENTIAL SERVICES AND PROTECTING COMMUNITY TREASURES

There are a number of ways where the City of Modesto can reduce its expenses with a goal of preserving essential services and protecting community treasures. These are the 100-Day Committee recommendations.

- **Review and reduce credit card use.** One hundred and eighty City employees have City credit cards. An average of \$400,000 is charged on them each month. It is very difficult to monitor and audit such widespread credit card use in a timely manner. The Committee believes the many credit card accounts and the lack of proper control exposes Modesto to potential abuses. The City should review its policies and significantly reduce the number of City employees carrying these cards.
- **Renegotiate banking fees and costs.** The City should completely renegotiate its relationships with the primary bank it currently uses. Modesto has been paying too much in fees and costs. Doing so could save the City \$360,000 a year.
- **Review all vendor contracts.** In addition to primary banking relationships, the City has many contracts with other vendors. The law firm representing the City has indicated to the

Committee its commitment to freeze its rates in fiscal year 2016-17, and to reduce some of its fees. All other contracts should be reviewed and many should be renegotiated to reduce rates charged the City. Offering other vendors chances to submit lower bids for providing the same services to the City and its residents could further reduce municipal costs.

- **More realistic vacancy rate.** The City estimates four percent of its budgeted staff positions remain vacant at any given time. That vacancy rate should be modestly increased to a more realistic five percent, which would free up about \$731,000 a year that could be reallocated for essential municipal services.
- **Cut four staff slots.** Modesto should eliminate four currently unfilled City positions that are included in the current proposed budget for an estimated savings of \$425,000 per year.
- **Monthly spending reports.** The City Council would benefit from receiving a monthly report of vendors receiving combined payments from the City of \$50,000 or more a year. This would supply Council Members with more oversight involving spending than it has now.
- **Updating travel policy.** The City's travel policy has not been updated in many years. A new travel policy should be created. Conference travel and expenses need to be closely monitored and policies should be updated.
- **Consolidate City and County services.** Administrative operations for the City of Modesto and the County of Stanislaus are housed in the same building in downtown Modesto. The Committee recommends the City work with the County to identify duplicative services that could be consolidated into one joint operation to save money for both government entities. Examples include mail services, purchasing and human resources.
- **Vehicle maintenance.** The City and County operate separate and possibly overlapping vehicle maintenance operations. Considerable savings could result if the entities consider consolidating some or all of them into one operation, or outsourcing some of these operations.
- **Collaborative fire services.** The 100-Day Committee recommends the City work collaboratively with neighboring fire service districts to reduce expenses while maintaining levels of service.
- **Review emergency medical services.** There appears to be an overlap or duplication of services between American Medical Response, which responds to emergency medical calls, and the City Fire Department. This should be reviewed to eliminate expensive replication of services through greater cooperation without jeopardizing the quality of service to the community.
- **Is the 911 system too costly?** The Committee is concerned the present City-County 911 emergency dispatch system is too expensive and inefficient. The City should analyze its effectiveness and efficiency to see if major savings can be had, and if justified consider an alternative system.
- **Consolidating elections.** Modesto spends a lot of money holding its elections in odd-numbered years. The City should consider consolidating all elections during even-numbered years. This will save a great deal of money.

- **Review internal charges.** There are many costs one City department charges another for services such as Internet technology, insurance, legal and workers' compensation. The appropriateness of these charges has not been adequately reviewed in a long while. The result is money to pay for these services often gets squirreled away into special funds where it doesn't belong instead of remaining in the City general fund where it can help pay for essential services like police and fire.
- **Controlling costs.** The City should consider managed competition to better control costs involving services such as payroll, accounts payable and sidewalk repair.
- **Review health plans.** Municipal employees' current health insurance program needs to be re-evaluated with an eye to what it costs to protect the City's interests while providing quality coverage employees can better afford.
- **Protect community treasures from long-term budget uncertainties.** Several valuable assets treasured by the community—such as the McHenry Mansion and McHenry Museum—are owned by the City, which operates them at a loss. Modesto is budgeted to lose \$187,000 in fiscal year 2016-17—or \$935,000 over the next five years—managing these two assets alone. The Committee recommends the City consider donating assets such as these to worthwhile and qualified non-profit organizations that could operate them and guarantee they are preserved as part of Modesto's heritage and used to their best advantage by the community. These community treasures, if possible, should be removed from the uncertainty of relying on City budgets. Fundraising by the community and non-profit management of the facilities would relieve the City of annual losses. The historic State Theater, which was brought back to life by a non-profit that owns and operates it without City subsidies, is an example of how this could work.
- **Renegotiate contract with Modesto Nuts.** John Thurman Field, which is managed by the City, is budgeted to lose \$248,000 in fiscal year 2016-17—or \$1.24 million over five years. The City should renegotiate its contract with the Modesto Nuts minor league baseball team to improve the financial situation for the City as well as the relationship between the City and the team.
- **Stem losses from Modesto Centre Plaza.** It is budgeted to lose \$514,000 in fiscal year 2016-17—and \$2.57 million over the next five years. To stem the losses, Modesto should negotiate with the DoubleTree hotel to transfer management and operation of the plaza to the hotel if the terms are favorable to the City. If the transfer cannot be successfully completed, the City should consider or advocate for the sale or closure of the venue.
- **Curb red ink from three golf courses.** It is unusual for a community the size of Modesto to own and run three public golf courses. City staff project a loss of \$696,000 from the courses in fiscal year 2016-17—or a loss of \$3.48 million in the coming five years. As fewer people are playing golf nationwide, the Committee believes the City cannot justify continuing to own and pay for all three golf courses. The City should consider selling one or more of them or restructuring the contracts to curb the red ink.

RAISING MORE MONEY WITHOUT RAISING TAXES

The Committee recommends a number of ways the City could increase its revenues.

- **Realistic revenue forecasting.** MuniServices, a private consulting firm, supplies many local governments—including Modesto—with forecasts into the future of how much money they can expect to take in. These forecasts range from very optimistic (assuming things will go well) to most-likely-to-happen, to conservative, to forecasts that foresee a recession. Modesto's general fund financial forecasts through 2023 are based on the most-likely-to-happen approach. But even using that current more optimistic method, expenses significantly exceed revenues in every future year after the current fiscal year. Using the conservative approach, which doesn't consider the possibility of a recession, the City's financial future looks even worse.

The 100-Day Committee recommends Modesto rely upon MuniServices' less optimistic conservative financial forecasts so it's budgeting is based on a realistic long-term view of revenue the City can expect to receive. This is the most responsible way to plan how much money City Hall will have at its disposal. The conservative approach is also what is used by most of MuniServices' local government clients. Modesto should do the same.

- **Collecting all franchise fees.** The City issues franchises to businesses using its assets within the City limits. For example, a cable company using Modesto streets and municipal property to service its customers will pay a franchise fee to the City. Modesto should make sure it is collecting all fees from the companies that owe it money. A number of companies have failed to pay the City franchise fees to which it is entitled. The City is taking steps to collect some of the fees. If additional collection steps were taken, then \$1 million or more would be received each year.
- **Granting more franchises.** The City should consider issuing other franchises in return for fees. They would both benefit the citizens of Modesto by making it easier for private firms to service customers and bring in more money for the City. One example is the contract the City is presently negotiating to allow use of its light poles for wireless transmitters.
- **Selling naming rights.** Modesto should consider earning money by selling the naming rights to City assets such as ball fields and sports facilities, Modesto Centre Plaza and the three existing municipal golf courses or other assets it owns.
- **Collecting proper fees.** The City charges various fees for services provided to its customers, the people of Modesto. The amount cannot be more than the actual cost of supplying the service. But the City has not updated these fees in some time.

All such fees should be thoroughly reviewed to make sure the City is not overcharging or undercharging its residents. Undercharging individuals or businesses results in a public subsidy. The City should analyze each fee to make sure it is appropriate and create a complete manual that guides it in offering services and assessing fees.

- **Paying a fair share.** The City has not invested enough in overseeing the collection of its "gross revenue tax" (mill tax) and hotel taxes (TOT). Modesto also does not have in place an auditing process to ensure businesses are properly reporting the taxes they owe.

The result is that some businesses are paying their proper taxes to the City and some are not. The tax system should be fair for everyone.

Two years ago the City added one staff person to focus on auditing. That person identified \$250,000 a year in additional revenue the City was owed. The 100-Day Committee recommends contracting for additional help to ensure the City is collecting the taxes it is due. The Committee believes adding an additional staff person could bring in \$150,000 or more each year above the costs of the person.

- **Consider annexing a portion of North McHenry Avenue.** Next to the Modesto City limits are a number of businesses along North McHenry Avenue. They are in the “sphere of influence” of the City. This is an area where the City has the potential to annex the land. The Committee recommends an analysis be conducted to assess the costs and benefits of annexing this land into the City. Initial estimates indicate doing so would bring into the City between \$500,000 and \$1 million or more in sales and property taxes every year. If this estimate is confirmed by the analysis, the City should take steps to annex this North McHenry Avenue area.
- **Obtaining more grant funding.** Millions of dollars in state and federal grants are available each year to the City of Modesto. The City is now seeking a grant to support police services. The City could obtain more of its fair share of these state and federal dollars from Sacramento and Washington, D.C. if it went after grant funding in a more systematic way. The benefits of appropriate, prudently vetted grants are two-fold: improving programs and services for Modesto residents and obtaining additional funds for the City.
- **Assisting blighted neighborhoods.** The Committee recommends the City consider using a new state law, AB 2, which took effect on January 1, 2016, allowing local governments to tackle truly blighted neighborhoods with high crime and unemployment, and crumbling infrastructure and buildings. The City could issue bonds, plan affordable housing and apply other authority to raise funds without tapping into its general fund.
- **Better uses for Modesto airport.** Modesto anticipates a loss of \$284,000 operating the airport in fiscal year 2015-16 and is projected to lose another \$77,000 in fiscal year 2016-17. The Committee recommends the City of Modesto and County of Stanislaus consider coming up with a new way to more profitably use the Modesto City-County Airport. A fresh business model could see the airport re-focus on general aviation (private planes) to improve its financial position—without precluding the possibility of attracting commercial aviation.

BETTER USE OF CITY ASSETS AND INCREASING BUDGET RESERVES

The 100-Day Committee believes that a better use of City assets will improve its financial condition, including increasing budget reserves.

The Committee believes maintaining adequate reserves for the inevitable rainy day is imperative. That is a focus for state government by Governor Jerry Brown. The Government Finance Officers Association (GFOA) recommends communities set aside about 17 percent of their annual operating budgets for reserves. The City of Modesto on April 1, 2016 had \$3 million in reserves. Based on GFOA’s recommendations, Modesto should have reserves of \$20 million. The City must

take deliberate steps to significantly increase its reserves. This can be achieved in large measure through recommendations the Committee offers in this section of the report.

- **Free up collateral.** The City has \$7 million of its funds restricted by the bank as collateral for a bond issue. The Committee recommends this arrangement be renegotiated so the \$7 million can be added to the municipal reserve account. This recommendation has already been accomplished as reported to the City Council this month.
- **Put unspent surpluses into reserves.** There is about \$4.9 million in unspent surpluses from the 2014-15 fiscal year City budget. The City Council should consider placing most, if not all, of these unspent funds into the reserves.
- **Stop paying cash for new vehicles.** The City now pays cash to purchase new vehicles and equipment from a fund for which it has set aside \$2.6 million. Modesto should consider financing or leasing instead of paying cash. This would allow much of the money that sits in this fund during the year to go into reserves.
- **Collaborating with the County.** Modesto could collaborate with Stanislaus County on handling vehicle maintenance as recommended earlier. The City has set aside \$6.4 million to build a new vehicle maintenance facility. If this collaboration moves forward, some of the money that has been set aside could be placed into City reserves.
- **Disposing of surplus property.** The City should immediately begin investigating the sale or re-purposing of any property determined to be surplus, unnecessary or improperly- or under-utilized. For example, 12 small parks could be sold or put to better use by local neighborhoods, with the proceeds added to the reserves; parcels of City-owned property used by the municipal water fund could be leased or sold to the water fund; and several City-owned water systems outside Modesto's sphere of influence—including systems in Ceres, Grayson and Turlock—could be sold. Each of these assets is operated at an annual loss. The City does not now and will not in the future have the resources to sustain them.
- **Freeing assets from collateral.** Modesto has used some of its assets as collateral to obtain loans. The Committee believes negotiations with financial institutions providing the loans could result in these assets being released so the City could better use them to benefit the community.
- **Investing in system upgrades.** Once the goal of increasing City reserves is met, the Committee recommends additional resources be invested in badly needed upgrades of key systems that can help the City operate more efficiently and improve services to its customers. For example, the Committee was surprised by the antiquated financial accounting system historically used by the City. Modesto is currently unable to provide monthly financial statements on its operations. Fundamental questions such as how much the City spends on travel, overhead expenses and outside consultants are difficult—or very time-consuming—to answer. This dilemma is being addressed with a new financial accounting system that the Committee recommends be used to provide this basic information to the City Council and the public on a regular basis. However, the City is woefully behind in modernizing other vital functions. For example, Modesto desperately needs a new records management system. Correcting these problems will reduce City expenses and improve customer service.

COMMUNITY MEMBERS IMPROVING CITY OPERATIONS

Many citizens have volunteered their energy and time to assist government at the national level during times of crisis such as World War II or in response to natural disasters at the local level.

The financial challenges Modesto confronts could be very serious if change is not realized and recommendations proposed by the 100-Day Committee are not seriously taken into consideration. There is a sizeable pool of talented people from the private sector who are willing to lend their considerable expertise to helping the City improve its operations across a wide range of functions and services.

Such offers of volunteer service at a time when the City's financial resources are so strained could prove invaluable. The 100-Day Committee recommends the City draw upon this asset of free community consulting, whether it involves implementing recommendations from this report or other projects.



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