

May 14, 2004

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

SUBJECT: Proposed Operating Budget & CIP for Fiscal 2005

Honorable Mayor and Members of the City Council:

Transmitted herewith is the Fiscal Year 2005 Proposed Operating Budget & Interim CIP.

The Proposed Operating Budget totals \$288.8 million in all operating funds. Total revenues are estimated at \$282.9 million, and the budget projects the net use of \$5.9 million from reserves City-wide. Proposed General Fund expenditures total \$107.1 million, compared with revenues of \$103.0 million. \$4.1 million in General Fund reserves will make up the difference, leaving a projected \$10.6 million ending General Fund balance. The projected balance exceeds the 8% minimum reserve policy which has been endorsed by the City Council.

The proposed budget adds no new permanent City staff positions, and eliminates thirteen permanent positions, including three executive-level managers. In addition, the proposed budget exchanges one vacant position for another with a different classification within the Personnel department. No existing employees are reclassified in the proposed budget.

Overview

Between fiscal 1991 and 2004, the State of California diverted \$34.8 million in local revenues from the City of Modesto into its own coffers. In the current fiscal year (2004), the State diverted \$6.6 million, more than double the previous year's diversion. For fiscal 2005, we are estimating a total impact of \$6.8 million from a combination of long-standing diversions (such as the ERAF shift) and more recent inventions, such as the "triple flip." This will bring the cumulative total diversion to \$41.6 million.

New impacts next year – which include a \$900,000 increase in the ERAF shift, a \$300,000 impact from the "triple-flip" and an anticipated \$2.6 million loss due to "delayed" VLF backfill payments – are expected to cost Modesto's General Fund \$3.8 million. Moreover, recent news from Sacramento suggests that the impact to the City could be \$1.2 million higher than we have assumed.

Complicating the fiscal landscape is the fact that the exact scale of the State impact will remain unknown throughout the City's budget process – and may not be clear until several months into the next fiscal year, depending on when the State's budget is finally adopted.

Negotiations underway in Sacramento hold out the hope that the State's diversions of local revenues may cease to grow two years down the road. But the outlook for the next twenty-four months remains highly uncertain.

Adding to the challenges we face, the California Public Employees Retirement System (CalPERS) has notified the City of significant rate hikes to make up for the lackluster performance of the system's investment portfolio and increased benefits to certain employee classes. These will raise the City's required payments to CalPERS by over 30%, at a cost of \$2.6 million to the General Fund.

The combination of a \$3.8 million estimated revenue diversion by the State and a \$2.6 million cost increase due to CalPERS has, needless to say, greatly increased the difficulty of developing the 2005 Proposed Budget. However, thanks to hard work and creative energy of our managers and staff, as well as the members of the City Council, I am able to present a Proposed Budget which addresses these challenges prudently, and with the minimum possible impact on the services we provide to the public.

Holding the Line

The City's general fund – which primarily pays for services like police, fire, parks, and recreation – faces a shortfall of \$8.7 million. More than three-quarters of this gap is due to State and CalPERS impacts described above. Our priority in this budget process has been to address these impacts responsibly while preserving critical City services.

Over the past few years, the City of Modesto has prudently positioned itself to withstand such a challenge. In each of the past two years, we have reduced department budgets and deliberately slowed hiring in order to build up our "rainy day reserve." Now, the rainy day has arrived. In keeping with the City Council's direction, the Proposed Budget addresses just under half of the shortfall (\$4.1 million) by tapping our reserves. We expect that this will leave a General Fund

balance of \$10.6 million at the end of fiscal 2005, which exceeds the minimum reserve established by Council policy (8% of General Fund expenditures, or about \$8.8 million).

The remainder of the shortfall is addressed with a combination of non-tax revenue measures, one-time savings, and operating budget cuts. The Proposed Budget includes \$3.3 million in budget cuts, which will result in the loss of thirteen permanent City staff positions (of which five are presently filled).

We have worked throughout the budget process to minimize the impact of these budget cuts on the general public. However, given the scale of the reductions that have been necessary, some visible impact to the community is inevitable. Some examples include the following:

- Funding for the Convention and Visitors Bureau (CVB) will be reduced by approximately 16%, overriding the existing funding formula which ties CVB funding to the level of Transient Occupancy Tax (TOT) revenue
- Funding for public access cable television (Channel 26) will be eliminated
- Funding for local arts groups, festivals and most events will be eliminated. Community groups will be asked to pay the cost of City services – such as police, fire and clean-up – provided at local events.
- Maintenance of nine “pocket” parks in various neighborhoods will be ended, except for safety-critical tasks
- Watering of parks will be scaled back, and tree replacement will cease
- City Hall at the Mall (CHATM) will be closed, though a police presence will remain at the site
- The multi-purpose recreational facility at Somerset Middle School will no longer be available through City recreation programs
- The open swim program will no longer be available at Davis and Downey High Schools
- Certain tennis courts will be closed and lighting will be deactivated at all City tennis courts

Preserving Critical Services

Funding for critical services and key priorities has been preserved in the Proposed Budget. For example:

- At the direction of the City Council, the Police and Fire departments have been excluded from cuts in the 2004-5 budget
- An additional \$720,000 has been budgeted to partially or fully replace grant funding for Police staff, and to provide the required local matching funds for other Police grants
- An additional \$500,000 has been added to the Police and Fire department budgets for increases in the cost of the emergency communications and dispatch center
- The Leisure Bucks program remains available to City youth

Organizational Change to Improve Efficiency

In this budget, I am proposing significant organizational changes to prepare city government to meet the uncertain future. Specifically, I am proposing:

- To transfer responsibility for the maintenance of our parks (as well as other facilities maintenance) from the Operations & Maintenance department to the Parks, Recreation and Neighborhoods department. This will put full responsibility for Modesto's parks system under one roof.
- To combine the remaining responsibilities of the Operations & Maintenance department with the responsibilities of the Engineering & Transportation department to create an integrated Public Works department.
- To combine the positions of Finance Director and City Manager, for additional cost savings.

These steps will result in the elimination of three executive management level positions and two support positions, yielding an ongoing city-wide savings of almost \$600,000 per year, of which between \$400,000 and \$450,000 will accrue to the general fund. Transition costs of up to \$100,000 are anticipated in 2004-5 fiscal year.

More important than the savings, however, are the long-term organizational benefits I believe will flow from establishing fully integrated Parks and Public Works departments. This structure will streamline operations and create opportunities for efficiencies which might have been overlooked in the past.

Fiscal Prudence

The Proposed Budget strikes a prudent balance between fiscal conservatism and protecting vital community services, in line with the City Council's policy guidance. Specifically, the Council has directed:

- That we should assume a “most likely” scenario for calculating the available balance of the City's General Fund as of June 30, 2004, estimated at \$14.7 million
- That we should preserve a minimum reserve in the General Fund not less than 8% of General Fund expenditures (approximately \$8.8 million in fiscal 2005)
- That we should provide funding for the workers compensation and general liability self-insurance funds at a level consistent with the actuarially determined expected cost of losses
- That we should provide funding for the post-retirement health benefits reserve sufficient to keep that unfunded liability from growing in fiscal 2005
- That we should establish an Elections fund to account for the costs of municipal elections, allowing the City to set money aside for elections on a steady annual basis

Utilities

Another issue facing the City – and being addressed on a “parallel track” with the budget process – is the physical and financial condition of its water, sewer and storm drainage utilities. A major effort is currently underway focusing on the improvement of the water system, with similar efforts on sewer and storm drainage to begin soon.

A confluence of factors is leading Modesto's water utility to rely increasingly on treated surface water to replace wells: stricter water quality standards, falling pressure in many wells, and concerns about potential contamination. This shift towards surface water use is intensifying the need to invest in a major expansion of the existing water treatment plant, and to make additional capital improvements in the overall water system. Current water rates are not adequate to finance these improvements, and a process is underway to identify and implement rates which are both financially adequate and equitable to all of our customers

The City's sewer utility faces a major backlog of deferred maintenance and capital improvement needs, and the storm drainage utility is in a similar situation. New master plans are being developed in both of these areas, and rate increases will be called for. The drainage utility poses a special challenge because a rate increase would require an affirmative public vote.

Interim CIP

Along with the Proposed Operating Budget, I am submitting an Interim Capital Improvement Program (CIP). The City has embarked on a wide-ranging review of its capital improvement projects, as well as the processes and procedures for managing them. In order to allow adequate time for this review, we are submitting an Interim CIP which includes only existing projects which are being continued into 2005 and a small number of selected new projects which must get underway before the target date for the “full” CIP. The Interim CIP also includes water utility projects which have been identified as part of the parallel process described above.

Policy Issues & Staff Papers

This year’s Proposed Budget document includes an expanded *Policies & Issues* section which highlights a range of policy questions and topics for discussion by the City Council, supplemented with a set of staff papers prepared by City departments on selected topics. Key policy areas include:

- The condition of Modesto’s streets and the funding needs of street maintenance
- Staffing options for the Police and Fire departments
- Revenue options
- Parks maintenance service needs & impacts
- Post-retirement health benefit liabilities

Conclusion

The good news in this budget is that we have planned for the ongoing losses due to the State’s revenue diversions, and we will be able to survive the upcoming year with only incremental reductions in the level of most of the services we deliver. There is also bad news, however. Our community still has many unmet needs – and the City simply lacks the resources to make major progress towards meeting them.

More than one quarter of the City’s streets are in poor or very poor condition, and the cost to repair them is estimated at over \$95 million. Increasing Police Department staffing to a level of 1.85 sworn officers per 1,000 population would cost approximately \$16 million per year, with additional increases needed each year to keep pace with the growth in population. Adding firefighters to meet the NFPA standard of four trained personnel per engine and truck company would cost \$5 million per year, and adding three rescue companies could cost another \$1.5 million annually. And this list does not even begin to address the parks, ball fields, pools, and cultural facilities that truly make a community blossom.

As the City's finances now stand, services like these are out of reach.

I am confident that the City will meet these challenging financial times with creativity and innovation. The City Council and City staff are working well together to streamline City services, reduce costs and balance our budget. This will be an ongoing effort during the year to come.

Respectfully Submitted,

Jack R. Crist
City Manager

Policies & Issues

INTRODUCTION

The *Policies & Issues* section of the Proposed Budget outlines the most important “big picture” budget issues faced by the City of Modesto, and highlights aspects of the budget with the most immediate significance to the public.

This year, this section expands upon the “Policy Questions” format used in previous budgets, to include:

- Policy Direction: policy direction which the Finance Committee and the City Council have given to staff and which have guided the development of the Proposed Budget
- Budget Highlights: key proposals included in the Proposed Budget which would modify existing City policies and practices, or which could have a significant effect on the general public
- Policy Questions: major open policy questions for the City Council to discuss in its budget deliberations
- Long Term Issues: unmet service needs and areas which may require future investments, along with the general outlook for the City’s financial future
- Strategic Directions: four alternative directions the City of Modesto could follow in the upcoming three to five years, to help frame the overall budget discussion

In addition, this year we have asked City department directors to prepare staff papers on selected policy issues. These staff papers are collected in Appendix A, and the discussion in the following pages cross-references the staff papers where appropriate.

We look forward to feedback from the Council and the public on the usefulness of this new format.

POLICY DIRECTION

This section outlines the major Council policies that have guided the preparation of the Proposed Budget.

1. General Fund Beginning Balance Estimate

Staff identified a range of estimates for the 2004-05 beginning balance in the General Fund, based on different assumptions about revenue receipts and department spending patterns. The Committee selected the “most likely” estimate of \$14.7 million.

2. Use of Reserves to Balance the Budget

Staff originally identified a General Fund shortfall of \$9.7 million and presented a number of alternatives for balancing the budget. The Committee opted to make up one half of the shortfall by tapping the City’s reserves, with the other half to be addressed by budget cuts. The General Fund shortfall has since been revised to \$8.5 million, due to an improved revenue outlook. The Proposed Budget roughly follows the Committee’s “50% reserves + 50% cuts” policy to the updated shortfall, using \$4.1 million in reserves and \$4.4 million in cuts, revenues and one-time savings.

3. Police & Fire Departments Exempt from Across-the-Board Cuts

The Committee was asked to determine whether the Police and Fire departments should be included in the base from which the \$4.4 million needed to be cut. The Committee directed that the Police and Fire departments should be excluded from those cuts. With Police and Fire excluded, and after deducting department-specific revenues and internal payments for City services (i.e. internal service fund charges), the remaining General Fund cut base was \$16.9 million. Across-the-board cuts were assigned at approximately 15-16% of each department’s cut base.

4. General Fund Reserve

The Committee re-affirmed the existing Council policy that a minimum reserve equal to 8% of General Fund expenditures, should be retained.

5. Unfunded Liabilities

The Committee directed that sufficient funding be included in the budget to keep the City’s unfunded liability for post-retirement health benefits, estimated at \$40.8 million, from growing in the upcoming fiscal year. They also directed that funding be included for general liability and workers compensation self-insurance reserves at the “expected” cost level. This does not include a funding “cushion” for claims above the expected level. (See staff paper #13 in Appendix A for more details.)

This section describes many of the key proposals that have been incorporated into the Proposed Budget, focusing in particular on items with major policy implications or which may have a visible service impact on the community. The budget highlights are grouped under the following headings:

- Visible Service Reductions
- Reorganization
- Revisiting Formulas & Allocations
- Improved Administrative Cost Recovery
- One-Time Savings
- Areas of Increased Spending

Visible Service Reductions

Staff has made every effort to minimize the visible service impact of budget cuts on the community. Where possible, cuts have been implemented in ways that will attract little public attention – for example delaying the replacement of aging equipment, or eliminating executive and administrative positions. However, there is only so far such “belt-tightening” measures can go – and this is the third consecutive year of belt-tightening the City has faced. Some degree of community impact is inevitable.

The following summarizes some of the more visible service impacts of the 2004-05 Proposed Budget:

- City Hall at the Mall (CHATM) will close. A police presence will remain at the current CHATM site, but bill payment and other services currently offered there will no longer be available.
- Funding for local arts groups and community events will be eliminated (with the exception of \$10,000 for the Fourth of July Committee, which is covered by a two-year agreement). We hope that these organizations will be able to locate private support to replace the lost City funds, but this cannot be guaranteed.
- Community groups will be asked to pay the costs – such as police, fire, and clean-up – of local events and festivals
- The “open swim” programs at the Davis and Downey High School pools will be discontinued. This will leave three high school pools still available for recreational use.
- The use of the multi-purpose facility at Somerset Middle School for community recreation will be discontinued.
- Green fees at municipal golf courses will be increased, making the Golf Fund self-supporting, allowing the elimination of the General Fund subsidy.
- Restroom facilities in certain neighborhood parks will be closed.

- Tennis courts at Graceada, East La Loma, and Roosevelt parks will be closed, and lighting at all tennis courts will be deactivated.
- Maintenance of certain “pocket parks” will be ended, except where absolutely required for health and safety. The City will explore options for mitigating the impact of this change, such as adopt-a-park arrangements and sponsorships. It will also explore the option of selling parcels when feasible.
- Park landscape watering will be cut back by 15%, which will degrade turf conditions visibly. However, irrigation at this level is expected to keep the park trees alive. Planting of new trees will largely be limited to new subdivisions and developments which pay a fee for tree planting.
- Although the Police and Fire budgets have not been reduced, the Proposed Budget provides no funding for additional officers or firefighters. Therefore, service levels may not keep pace with growing population and demand.

Reorganization

The Proposed Budget includes a proposed reorganization affecting several City departments. While many implementation details remain to be worked out, the key points are the following:

- Parks maintenance services will be transferred from the Operations & Maintenance department to the Parks, Recreation and Neighborhoods department. This will create an integrated department responsible for all aspects of parks planning, development, acquisition and maintenance.
- The Engineering & Transportation department will be merged with the remaining functions of Operations & Maintenance, giving Modesto an integrated Public Works department.
- The roles of City Manager and Finance Director will be merged.
- Once these changes are completed, it will be possible to eliminate three executive level management positions and two executive secretary positions.
- City-wide ongoing cost savings are estimated at approximately \$600,000, with approximately \$450,000 accruing to the General Fund.
- Some transition and implementation costs, in the neighborhood of \$100,000, are also anticipated.

Revisiting Formulas & Allocations

Over the years, the City of Modesto has established policies, practices and agreements which automatically allocate funding to various purposes, departments and agencies. In some cases the allocations are formula driven, while in others they involve flat dollar amounts. However, at a time when the City is facing the need to make significant cuts, it makes sense to revisit these standing allocations.

The Proposed Budget includes reductions in several of these allocations:

- **Parks Fund**

In previous years, the Council has directed that 3.8% of property tax revenues be earmarked for parks development and be transferred to the Parks Fund for that purpose. In the current fiscal year, a portion of this funding (\$150,000) was re-allocated to parks maintenance, “back-filling” a cut which was needed to balance the 2003-04 budget.

In the current financial climate, in which parks maintenance is already being scaled back, setting aside a fixed amount of General Fund resources for future parks development appears unsustainable. The 2004-05 Proposed Budget would eliminate the fixed “earmark” percentage, and reduce the transfer to the Parks Fund to \$136,533. This amount is needed to meet existing commitments under the School Facilities Infrastructure program.

- **Modesto Redevelopment Agency (RDA)**

In previous years, funding was allocated for the RDA according to the following formula:

- (a) All sales tax produced by the Lincoln High School site (Savemart), plus
- (b) All transient occupancy tax (TOT) generated by the DoubleTree Hotel, plus
- (c) Twenty percent of the remaining TOT

This funding was deemed necessary to allow the RDA to service its existing debt, to carry out its administrative functions, and to perform planning tasks under its existing workplan. The City Council has determined that this support should be classified as a loan from the City to the RDA. An interest rate for the loan has been agreed, but no repayment schedule has been determined.

The primary funding source for the RDA is the property tax revenue associated with increased values within the redevelopment area (the “tax increment”). In recent years, the RDA’s tax increment revenues have significantly exceeded expectations. As a result, we believe that General Fund support for the RDA can be reduced by 50%, without impacting the agency’s ability to service its debt and perform its other basic functions.

The Proposed Budget reduces the General Fund support to the RDA accordingly, yielding a savings of \$479,000 per year. However, it should be kept in mind that the RDA lacks resources to undertake major new projects and planning efforts. (See staff paper # 11 in Appendix A for more information.)

- **Strategic Planning Fund**

The Strategic Planning Fund is a separate fund which was established to account for resources set aside for major planning projects conducted by the Community & Economic Development department, such as the comprehensive update to the City's General Plan.

In previous years, the City has followed a practice of contributing \$50,000 per year from the General Fund to the Strategic Planning Fund. In addition, the annual payments on the \$2 million loan from the General Fund to the Village I Community Facilities District have been directed to the Strategic Planning Fund rather than to the General Fund itself. The loan payment amounts to \$125,000 per year.

The Proposed Budget would end the annual transfer from the General Fund to the Strategic Planning Fund and re-direct the Village I loan repayments to the General Fund. This action will not impact dollars already set aside for initiating the General Plan update or other CEDD projects. However, existing funding falls short of the amount probably needed to complete the General Plan update. New projects – and additional funding for existing projects – will need to be considered and funded on a case-by-case basis.

- **Convention & Visitors Bureau (CVB)**

In previous years, the City has allocated 13.33% of revenues from the Transient Occupancy Tax (TOT) to the Convention & Visitors Bureau (up to \$330,000, and 5% of TOT once the \$330,000 level is reached), which promotes Modesto as a location for conventions, tourism, film production, and other activities.

The Proposed Budget would reduce the 2004-05 allocation by 15.7%, the same across-the-board cut factor applied to all General Fund discretionary spending. This reduction treats CVB “on par” with City departments.

- **Sidewalks, Curbs & Gutters**

In previous years, the City has transferred \$200,000 per year from the General Liability fund to the Gas Tax fund to pay for sidewalk maintenance projects. The rationale was that excess funding in the General Liability fund could be used for projects that might reduce the number of “trip-and-fall” claims against the City.

However, as a result of actions taken in the current fiscal year to eliminate the substantial unfunded liability in the Workers Compensation fund, the General Liability fund no longer has reserves in excess of expected costs. Therefore the Proposed Budget would discontinue this transfer.

Improved Administrative Cost Recovery

The General Fund pays the cost of the City's central administrative services such as personnel, accounting, and legal support, as well as department level administrative functions. Many of these costs are recoverable from specific City programs with non-General Fund sources of financing. For

example, the cost of grant accounting and administration can be charged to grant-funded programs, and the City will be reimbursed by the grantors.

In some cases, the City has chosen not to fully recover its administrative costs from non-General Fund programs. This has the effect of subsidizing those programs, which allows them to devote their resources to delivering service.

In the current budget climate, however, the City is less and less able to afford such subsidies. The Proposed Budget includes increased cost recovery efforts which are expected to yield over \$300,000 in additional annual reimbursement to the General Fund.

- The City Manager's Office will recover an additional \$40,000 to reflect the Deputy City Manager's role in the administration of Capital Improvement Program (CIP) projects, Community Facilities Districts (CFDs), the Capital Facilities Fee (CFF) program, and Transit
- Finance will recover an additional \$142,000 for its role supporting Transportation, the Modesto Redevelopment Agency (RDA), and the Tenth Street Plaza Joint Powers Authority (JPA).
- Engineering & Transportation will recover an additional \$127,000 primarily from CIP projects and Transit
- Parks, Recreation & Neighborhoods will recover an additional \$12,000, primarily from Community Development Block Grant (CDBG) and Home Investment Partnership (HOME) programs.

One-Time Savings

To help minimize the impact of the General Fund shortfall on the community, the Proposed Budget includes certain one-time savings strategies. These actions produce immediate savings to the General Fund, but may not be sustainable in the long run.

- **Equipment Replacement Deferral**

The Operations & Maintenance (O&M) department and the Parks, Recreation and Neighborhoods (PRN) department will delay setting aside funds for the replacement of certain vehicles and equipment for one year, saving \$265,000 and \$10,000, respectively. The City's Fleet Manager will work to apply these reductions to relatively new equipment, to allow the City the greatest possible time to make "make-up" payments, which would permit timely replacement of the equipment. If make-up payments do not become possible, the equipment's replacement will be delayed, with possible impacts to operational reliability and maintenance cost.

- **Street Tree Program**

The Street Tree program – which maintains the trees which line Modesto's streets – is financed almost exclusively by the City's General Fund, at a cost of approximately \$2.8 million per year. This program is legitimately eligible for gas tax funding, but ongoing gas tax revenues are largely committed to other street maintenance programs, such as pavement management, or to capital construction projects.

The Proposed Budget includes a reduction of \$486,000 in General Fund support for the Street Tree program, which will be temporarily “back-filled” with available balance in the Gas Tax fund. Of course, this means that these gas tax dollars will not be available for other street purposes. Moreover, at this rate the Gas Tax fund balance will be exhausted in two to three years, at which point the City will have to decide between restoring the full General Fund support or cutting the program.

Areas of Increased Spending

Although this is a cut-back year, spending in certain areas is increasing unavoidably. Significant examples include the following:

- **CalPERS Rate Hike**

City employees receive retirement pensions through the California Public Employees Retirement System (CalPERS). Every year, the City is required to contribute a certain percentage of each employee’s salary to the CalPERS system, just as a private employer would pay into a pension plan. The contribution rates are determined by CalPERS based on the contracted benefit levels, the value of previous payments collected and accumulated, and the historical and expected future performance of its investments.

CalPERS has notified the City of significant rate increases for 2004-05 and 2005-06. In the Proposed Budget, the General Fund impact of this rate hike is \$2.6 million (approximately \$2.0 million for public safety employees, and \$0.6 million for non-public safety). Next year, there will be an additional impact of \$1.6 million.

- **Police Grants**

The Proposed Budget includes General Fund spending increases related to a number of Police department grants. A grant received in past years from the Office of Traffic Safety (OTS) is ending, and two police officers supported by the grant will be moved into to the General Fund, at a cost of \$181,000. The SLESF grant which pays for nine non-sworn police personnel is expected to decline in the upcoming fiscal year to approximately \$200,000, leaving a balance of \$282,000 to be paid by the General Fund. (The remainder of the SLESF grant may be at risk in the State budget process, so the General Fund may be called upon to finance the entire cost of these staff.) Finally, \$360,000 is included to pay for the City’s match for the COPS grant and the Cops In Schools program. Both of these grants existed in the current fiscal year, but the positions have only recently been hired, so the matching payments are reflected as a spending increase from the prior year level.

Together, these increases total approximately \$723,000.

- **911 Communications Center Costs**

Emergency 911 communications and dispatch services are provided by a City-County Joint Powers Authority (JPA), which defines its own budget independently of the City’s budget process. In 2004-05, the City’s share of the JPA’s costs is expected to increase by \$500,000 over

the baseline level. This actually represents increases over two years, since the actual JPA costs for 2003-04 were not reflected in the current year's adopted budget.

The cost increase is shared between the Police and Fire departments, with shares of 80% and 20% respectively.

- **Position Swap in Personnel**

The Proposed Budget eliminates the vacant Equal Opportunity Officer position from the Personnel department budget and replaces it with an Employee Relations Specialist, which the department regards as a more urgent priority. Recruitment for the EOO position has been suspended. The Employee Relations Specialist will allow the Personnel department to provide timely advice to department managers on time-sensitive personnel issues. With complex contract negotiations on the immediate horizon, this capacity will be urgently needed. It is expected that this position will cost approximately \$11,000 more per year than the one it replaces, although delayed hiring will offset this impact in the first year.

POLICY QUESTIONS

This section highlights a number of open policy questions for Council discussion. In general, they are questions about how budget decisions should be made, rather than specific budget decisions. We raise these questions to help frame the Council’s deliberative process.

This section is limited to “open” questions – i.e. questions on which the Finance Committee and the Council have not yet provided specific guidance to staff. The *Policy Direction* section, above, recaps the existing Council policy guidelines which have shaped the development of the Proposed Budget.

1. Financing for New Positions

Question: Should the City add permanent staff positions when only temporary or short-term financing for the positions has been identified?

Discussion: Adding a permanent position with temporary financing effectively “places a bet” that City revenues will grow to the extent that when the identified financing runs out, the City will have the means to continue the position in existence. If the position is added in within a high-priority service area, it effectively commits the City to making cuts in other services to continue the position if revenue growth has not been sufficient to pay for the position.

At the same time, adding a position with temporary financing delivers immediate service benefits to the public.

Recommendation: Staff recommends that adding permanent positions with only temporary financing be approached with extreme caution. Council should give consideration to the balance between immediate service needs and long term risk, and should be mindful of the long term impacts that certain short term funding approaches (such as equipment replacement deferral) may have.

2. Budget Under-Expenditures

Question: How should the budget account for unplanned under-expenditure of departmental budgets in the General Fund?

Discussion: In recent years, under-expenditure of department budgets has contributed to the growth of the fund balance in the General Fund. These under-expenditures have had several sources, including long term staff vacancies, short term vacancies (i.e. normal turn-over), and contingency “cushions” built into department budgets. Many staff vacancies have been held open intentionally, partly to create a healthier reserve and partly due to the expectation of budget cuts. The Proposed Budget eliminates a number of vacant positions and reduces or eliminates many departmental contingency cushions. In addition, many long-vacant positions have been filled in the last twelve months. As a result, we expect to see a reduction in under-expenditures.

It is also important to define which departments will be expected to “participate,” particularly whether under-expenditures are to be expected from public safety departments.

Recommendation: Staff recommends that the Council consider incorporating under-expenditures into the budget on a trial basis. We suggest setting a conservative, achievable savings target, such as \$1.5 million over the entire General Fund. We recommend that the City Manager be given the discretion to assign targets at the department level and to re-assign them depending on where vacancies and other savings opportunities occur. We also recommend that the proceeds of the savings be budgeted for expenditures which the City can delay, in case the savings fails to materialize, such as funding for the liability and workers compensation reserves.

3. Long Term Vacancies

Question: How should the City's budget process address long term vacancies in budgeted permanent positions?

Discussion: Long term vacancies (positions which have been vacant 18 months or longer) come to exist in three main ways. First, it may be difficult or impossible to recruit a suitable employee at the offered salary range. Second, the City Manager may direct that the position be left unfilled or that recruitment be delayed – the “hiring chill.” This is done to generate salary savings which enhance the City's cash reserves. Third, a department may choose not to fill a position in anticipation of upcoming budget cuts. In effect, the department deprives itself of the position “preemptively.” This avoids the need to lay off a recently hired employee, which could significantly disrupt the individual's life.

Recommendation: Staff recommends that a review of vacant positions be incorporated into each year's budget process. As part of the review, the reason for each long term vacancy should be identified, and the relevant department director should have an opportunity to explain the rationale for retaining the position. This information should be reported to the Finance Committee and the full Council.

4. City Responses to State Financial Situation

Question: What additional steps, if any, should the City take to protect its financial condition from the immediate – and the long term – effects of the State's financial situation? (See staff paper # 1 in Appendix A for more information.)

Discussion: The Proposed Budget incorporates a reasonable estimate of the impact of the State's budget negotiations upon the City's revenues. It also protects the 8% General Fund reserve, and leaves \$1.8 million in General Fund balance over and above the 8% level. The policy question is whether the City should take additional steps such as (a) raising the 8% minimum reserve to reflect the unusual volatility of the City's “State-impacted” revenues, and (b) negotiating automatic adjustments in its collective bargaining agreements triggered by State budget actions.

UPDATE: As this document goes to press, new information regarding the likely State impacts has become available. The latest proposal increases the proportion of the \$1.3 billion statewide impact which will be borne by cities. As a result, a component of the state impact originally estimated at \$900,000 in fiscal 2005 now appears to be closer to \$2.1 million for each of the next two years.

Recommendation: Staff recommends that Council consider creating an additional 2% “State impact layer” in the General Fund reserve policy (bringing the total reserve to 10%). This layer would be available to offset the effects of State budget actions in future budget processes. Staff also recommends that the feasibility of recognizing State impacts automatically in collective bargaining agreements be explored.

This section outlines a number of issues which are not addressed – or addressed only partially – in the Proposed Budget. These are presented primarily to frame the Council’s deliberations, rather than to elicit immediate decisions.

Many of the long term issues identified here represent unmet service needs and service levels that fall short of desired targets. Naturally, we would like to meet each of these needs, and to hit every target, and the fact that we have limited financial resources does not make any of these goals unworthy. It may, however, force us to make difficult choices.

1. General Fund Financial Outlook

The outlook for the General Fund even as little as one year ahead is murky. Key variables, such as the outcomes of the State’s 2004-05 and 2005-06 budget processes, as well as the results of upcoming labor contract negotiations, are essentially unpredictable – and any projection which ignores such factors would be meaningless.

However, based on our current expectations for State action, and moderate assumptions about the growth of revenues and costs, it appears that next year’s General Fund budget will face a shortfall in the neighborhood of \$4 million. This is not surprising: it corresponds closely to the portion of the 2004-05 shortfall that is addressed by tapping our reserves.

Of course, those reserves will be largely expended in the upcoming fiscal year, and, if the Council opts to budget the prospective department under-expenditures for self-insurance or other needs (see *Policy Questions* above), there may be no easy way to replenish them.

In any event, barring unexpectedly strong revenue growth in the upcoming year, it is possible that the City may need to make up to \$4 million in additional spending reductions next year.

Beyond 2005-06, the picture becomes even less clear. The key question is whether City revenues will grow faster than its cost levels (chiefly wage and benefit rates) and population. If so, shortfalls will eventually give way to surpluses, which may allow the City to rebuild or even enhance service levels. If not, the City may face a number of difficult years.

2. City Utilities

The City of Modesto delivers three major utility services to its residents and businesses: water, sewer, and storm drainage. Today, each of these utilities faces pressing needs – with corresponding financial requirements. The following paragraphs summarize the situation in the utilities. (See staff paper # 12 in Appendix A for additional details.)

Water Fund: The City of Modesto provides water to residential, commercial and industrial customers throughout its service area. Residential customers pay a flat fee for water based on the square footage of their homes, while commercial and industrial customers pay a metered rate, based on their actual water consumption. Modesto’s water supply comes from two principal

sources: ground water pumped from wells, and surface (i.e. river) water treated by a plant owned by the Modesto Irrigation District (MID).

The main challenge facing the water fund is the declining availability of Modesto's ground water. To keep the water safe for the community, the City has undertaken expensive additional treatment at some wells, and shut down others entirely. The result is that the City is increasingly dependent upon surface water from the MID plant – and the plant is nearing its full capacity.

When originally constructed, the MID plant was designed to be expanded: it is engineered so that its capacity can be doubled cost-effectively. Even so, doubling the plant's capacity (from 30 million gallons per day to 60 mgd) will be an expensive capital project, and the cost of connections, new distribution pipelines, and storage tanks will only increase the total price tag. And there are additional projects needed to maintain the system in good working condition.

Unfortunately, current water rates are inadequate to finance these projects or to pay for ongoing maintenance and operations costs. The City is in the process of developing a new Water Master Plan which will address these needs and quantify the level of rate increases which will be necessary to keep Modesto's water supply safe and reliable. The City is also exploring the option of setting metered rates for all customers, in which case users would pay only for their actual water consumption.

Sewer Fund: The City's sewer system suffers from a significant backlog of deferred maintenance and postponed capital investment. As in the case of the Water Fund, current sewer rates are inadequate to finance the projects needed to ensure that Modesto's sewer system is safe and reliable. The City has undertaken a rate study to determine the level rate increases which would be necessary to meet the needs in this fund, and the study is expected to run through the summer of 2004.

Storm Drain Fund: The storm drainage utility is responsible for managing runoff due to rainfall – which can lead to flooding and can carry chemicals from streets and farms into the region's creeks and rivers. Like the water and sewer utilities, the Storm Drain fund has a sizeable backlog of maintenance and capital projects for which it has no funding. Raising rates for storm drainage requires an affirmative public vote. In 2002, a ballot measure to increase these rates passed, but was invalidated on technical grounds. At some point in the near future, the City may place the question before the voters again.

3. Police & Fire Service Levels

The City has identified desirable service level targets for the Police and Fire departments. (See staff papers # 8 and #9 in Appendix A for more information.) Modesto currently falls short of these targets, and significant new resources would need to be allocated to meet them.

The Police department, for example, highlights the standard identified in the City's Capital Facilities Fee (CFF) program, and in the report of the Ad Hoc Committee on Public Safety: 1.85 sworn officers per 1,000 population. At current salary and benefit levels, and with today's population, it would cost approximately \$16 million (per year) to meet this standard. Similarly, the Fire department highlights targets which could cost \$5 to \$6 million to attain.

4. Street Maintenance Backlog

Street maintenance encompasses a wide range of activities, including street lights & signals; sidewalks, curbs & gutters; traffic operations; and maintaining the trees which line Modesto's streets. But the most widely noticed aspect of street maintenance is pavement management: maintaining the surfaces underneath our tires.

Currently, the pavement of over one-quarter of Modesto's streets is in "poor" or "very poor" condition, as defined by traffic engineers. An additional 23% is graded "fair." Only 49% of the City's streets are in "good" condition, a fact which our residents have certainly noticed. (For more details on this topic, see the Street Report, which appears as staff paper #3 in Appendix A.)

It is estimated that reconstructing all streets in very poor condition would cost \$57 million, and resurfacing the streets in poor condition would cost \$38 million. Combined, the maintenance backlog totals \$104 million.

5. Parks & Recreation Needs

The City's capital facilities fee program includes over \$100 million in parks and recreation capital needs to serve the existing population. In addition, the parks system suffers from a considerable maintenance backlog. (For more information on this topic, see staff paper #4 in Appendix A.)

6. Technology Replacement & Upgrades

Currently, the City has no mechanism in place to accumulate funding to pay for large "enterprise-wide" systems upgrades or replacements. Such systems can cost millions of dollars to license and implement, so long-term planning for their acquisition can be essential. (See staff paper #14 in the Appendix for more information on this issue.)

7. General Plan Update & RDA Projects

The Proposed Budget reduces General Fund support to both the Redevelopment Authority and the Strategic Planning Fund. In the long run, this could leave both the RDA and City planners without the resources to initiate or complete major economic development projects, which could be vital to the community's future. (See staff paper #11 for more on this topic.)

8. Self-Insurance Fund "Cushions" & Post-Retirement Health Benefits

Actions taken in the current fiscal year and in the Proposed Budget will eliminate the unfunded liability in the City's Workers Compensation self-insurance reserve, and keep both the Workers Compensation fund and the General Liability fund at a funding level commensurate with the actuarially determined "expected value" of future costs. However, the current budget includes no resources to provide a funding "cushion" for the prospect that costs could exceed the "expected" level. Approximately \$3.8 million would be needed to provide 75% confidence that actual cost would not exceed the funding level in these funds.

In addition, the City expects to hold its unfunded liability for post-retirement health benefits steady in the upcoming fiscal year, at approximately \$40.8 million. While arresting the growth of this liability is a major accomplishment, the City will eventually need to take steps to shrink it to more manageable proportions. (See staff paper #13 for more on this topic.)

STRATEGIC DIRECTIONS

As every business knows, if you try to do everything at once, you wind up doing nothing well. “Strategic direction” is just a fancy term for a simple idea: if you select a few goals and focus your attention and energy on accomplishing them, your chance of success improves dramatically.

While the idea is simple, choosing a strategic direction is not. Setting priorities is partly a process of deciding what *not* to do, placing some worthy objectives on hold or abandoning them altogether. The upside, of course, is the greater likelihood of actually achieving the goals that *are* pursued.

Elsewhere in this section (see *Long Term Issues*, above), we describe a number of service areas which could benefit from significant new investment. Substantially raising service levels in one or more of these areas is the sort of goal that requires strategic focus. The key questions are:

- Which service area or areas should be addressed?
- What level of service is the goal?
- How – and how quickly – should the City move to meet the goal?

This section focuses on the third question: how and how quickly?

To help frame Council discussion of this topic, we present four broad outlines for strategic directions the City may pursue over the next three to five years. While we include “evaluations,” commenting on the pros and cons of each alternative, we present no staff recommendation. Each direction is potentially valid, depending upon the values and priorities of our citizens and their elected representatives.

***Alternative #1:
Significantly Re-Deploy General Fund Dollars to Different Service Areas***

In broad terms, the City’s discretionary General Fund resources pay for four basic services:

- | | |
|---|------|
| • Public Safety (Police & Fire) | 71 % |
| • Parks & Recreation (including park maintenance) | 11 % |
| • Community & Economic Development (with E&T) | 4 % |
| • Street Maintenance | 3 % |

Debt service accounts for another 3%.

The remaining 8% provides basic administrative and governance functions (such as City Council, the City Manager’s Office, City Clerk, City Attorney, Finance and Personnel).

One option for increasing service levels in one area is to partially or fully de-fund another, reallocating those resources to the higher priority service. For example, the Council could decide that the City should withdraw half of its general fund support from street maintenance and re-allocate those resources to parks & recreation. Alternatively, the Council could decide to move the City “out

of the business” of delivering one service altogether, and use those resources for another. Many other combinations are possible.

When thinking in these terms, it is important to keep in mind that the percentages above fluctuate slightly over time, due to factors like changing wage and benefit costs and CalPERS policies. As a “strategic direction,” re-deployment must go beyond moving a percentage point or two between services. To have a long term effect which will be visible to the public, re-deployment of the General Fund would probably involve a conscious shift of four to eight percentage points on an ongoing basis (perhaps more if the receiving service is already large).

Currently, each percentage point of General Fund discretionary resources is valued at about \$900,000.

Evaluation: The re-deployment option has the advantage of allowing the City to deliver a significant service enhancement without additional tax revenues, at the cost of significantly reducing or abandoning other lower-priority services. If carried out to the extreme, we could become essentially a single-service city. A shift of this nature would probably require a one to three year transition period, from the time the Council committed the City to move in this direction.

Alternative #2: Major New Revenues

The City of Modesto has available to it a number of potential major new revenue sources, such as the following:

- Sales Tax (up to 1% of sales)
- Parcel Tax (flat amount per parcel)
- 911 System Access Fee (flat amount per phone line)
- Special Districts (various)

Most revenue options are subject to a public vote, and would require a 2/3 super-majority if legally dedicated to a specific service, such as public safety. (More details on the City’s revenue options are provided in staff paper # 2 in Appendix A.)

With voter approval, one of these, or several in combination, could be implemented to generate financing for major improvements in certain service areas, without requiring corresponding reductions in other services.

Evaluation: The outcome of this alternative depends first and foremost on the will of the voters, and this may be a point in its favor. Placing a revenue option on the ballot would provide direct and unambiguous feedback regarding the public’s willingness to pay more for higher service levels. To improve the chance of a “yes” vote, the City could undertake a one to two year effort to build the community’s understanding of the need and its confidence in our ability to be responsible stewards of the added resources.

***Alternative #3:
Doing More With Less***

In the decade of the 1990's, corporate America undertook a number of massive efforts to raise productivity, under the rubric of "re-engineering." The basic concept of re-engineering was to take a "clean-sheet" look at an organization's processes and re-design them from scratch, leveraging new technology wherever possible. The results of these projects were decidedly mixed, but some organizations were successful, and some part of the rise in national productivity over the last ten years may be attributable to re-engineering.

A third alternative for raising service levels would be to undertake such a re-engineering effort here in Modesto. In considering this option, it is important to keep in mind that it would go beyond the City's usual efforts to become more efficient on a day-to-day basis. It would involve setting ambitious, explicit productivity improvement goals and a willingness to risk serious disruption in an effort to meet them.

A re-engineering approach would also require the City to focus on "outputs and outcomes" rather than resource-based service level concepts. For example, we would have to identify what tangible results we expect from a resource level of 1.85 sworn police officers per 1,000 population, and the focus on how to achieve those results – without necessarily employing (and paying for) the full 1.85.

It is worth keeping in mind that there is no automatic guarantee that ambitious productivity improvement goals are actually achievable. In any organization, some improvement is surely possible, and Modesto city government is no exception. But how far that goes is unknown.

Evaluation: Re-engineering is probably the most difficult of the four alternatives discussed here, both in terms of the potential for disruption and conflict and in the demands it makes on management. Even in the private sector, re-engineering projects have often been costly failures. On the other hand, if successful, it offers our community the best possible deal: better services with no higher cost. This alternative would be expected to require three to five years of concentrated effort to show major positive results.

***Alternative #4:
Status-Quo Plus***

The fourth major alternative path for the City focuses on gradual incremental improvement in service delivery without major changes in the mix of services delivered or in the revenue base that finances them. We call this "Status-Quo Plus."

The "Plus" may include incremental efficiency improvements, modest changes in the allocation of discretionary resources, and possibly certain relatively small revenue options. But the overall thrust of this alternative is holding the line on current services. This alternative also preserves the City's full range of options for future directions.

Evaluation: The principal drawback to this alternative is that it is highly unlikely to achieve major service level enhancements in any service areas. If this alternative is selected as a long term direction for the City, the Council should re-visit any policy documents (such as the Community Facilities Fee plan) which may commit the City to major service improvements.

Strategic Direction & the Proposed Budget

The Proposed Budget for 2004-05 does not commit the City to any of these four paths. As presented, it is broadly consistent with the “Status-Quo Plus” alternative – it proposes no major re-deployment of General Fund resources, it includes no major new revenues, and it does not assume major productivity increases.

The proposed re-organization, which will create a fully integrated Parks Department and Public Works Department, will streamline our management structure and position the City to pursue any of the strategic alternatives that have been described.

Financial Section

INTRODUCTION

This section of the document focuses on the financial nuts-and-bolts of the Proposed Budget. It includes the following topics:

- Consolidated Operating Budget: presents a single unified picture of the proposed operating expenditure budget for the entire City, with adjustments to eliminate double-counting that arises from governmental accounting conventions
- Budget By Fund: summarizes the operating budget by fund group and fund
- General Fund Revenues: outlines the major revenue sources for the City's General Fund and discusses the financial condition of the fund
- General Fund Expenditures: summarizes the expenditures in the General Fund by department and by object
- Position Summary: summarizes the number of authorized City staff positions by department

HIGHLIGHTS

- The General Fund faces a shortfall of \$8.7 million, primarily due to the impacts of the State of California's budget crisis and the condition of the California Public Employee Retirement System (CalPERS). The Proposed Budget eliminates \$4.6 million of this gap with spending cuts, non-tax revenues and one-time savings. The remaining \$4.1 million will be drawn from reserves, reducing the balance of the General Fund from \$14.7 million to \$10.6 million.
- The City will also draw down reserves in its transportation funds (primarily the Gas Tax fund) by approximately \$600,000. This will be used chiefly to preserve the maintenance of Modesto's street trees at current levels. General Fund support for street tree maintenance has been reduced by almost \$500,000.
- The City's utility funds are expected to draw down approximately \$2.2 million from their reserves. Some capital projects may need to be delayed in order to make this funding available. As discussed in the *Policies & Issues* section, the City has undertaken a major effort to improve the financial condition of its utility funds.
- The reserves of the City's internal service funds will increase by approximately \$950,000, mainly due to increased funding for post-retirement health benefit liabilities. The additional money set aside for this purpose should prevent the unfunded liability from growing in the upcoming year.

CONSOLIDATED OPERATING BUDGET

Government accounting and auditing standards require municipalities like the City of Modesto to budget and account for their expenditures in a number of separate funds. This can make it difficult to get a clear picture of the total size and make-up of the City's budget.

One solution would be to add the budgets for each fund together, arriving at a total City budget. However, this approach creates an exaggerated picture of total City spending. Governmental accounting rules require that all payments, transfers, and loans between funds be budgeted as expenditures in the "sending" fund and as revenues to the "receiving" fund. As a result of these interfund transactions, the same money can appear to be "spent" two or even three times.

To address this, we have developed a consolidated budget presentation, which provides a full picture of the City's operating expenditures, while eliminating "double-counted" costs. This is presented in Table 1 on the next page.

As the table shows, the total Proposed Budget for 2004-5 is \$195.9 million on a consolidated basis. Of this, \$107.8 million (55%) represents payroll costs. Another \$68 million (35%) is budgeted for supplies and services, and \$9.8 million (5%) represents debt service payments. The remaining 5% is composed of a variety of costs, the largest being capital equipment, which includes fleet vehicles, buses and fire equipment. Travel and training represent 0.5% of the total.

The total Proposed Budget also \$92.9 million in internal transactions: interfund transfers, interfund service credits, internal service fund charges and pass-through funds used to account for health insurance and other employee benefits. Adding this to the \$195.9 million consolidated total yields the "gross" total budget of \$288.8 million.

Table 1: Consolidated Operating Budget

	2002-3 Actual	2003-4 Budget	2003-4 6 Months	2004-5 Baseline	2004-5 Proposed
Regular Salaries	49,803,198	67,059,734	25,110,821	68,838,082	68,221,465
Part Time Salaries	2,918,828	3,174,319	1,468,114	3,277,674	3,078,987
Overtime Pay	4,050,572	3,159,623	2,134,124	3,200,634	3,200,634
Other Pay	12,613,923	2,446,949	6,691,171	2,603,961	2,607,798
Insurance	5,787,085	7,039,619	3,359,745	8,054,320	8,018,388
Workers Compensation	2,607,371	3,855,170	1,606,373	3,876,743	3,388,689
PERS Retirement	7,291,889	8,723,132	4,112,645	13,178,357	13,167,113
EBF Retirement	733,896	747,551	311,945	1,736,145	3,572,981
Other Benefits	<u>1,355,943</u>	<u>3,144,563</u>	<u>865,280</u>	<u>2,727,229</u>	<u>2,586,547</u>
Payroll Costs	87,162,705	99,350,660	45,660,218	107,493,145	107,842,602
Supplies & Services	61,671,523	69,903,782	28,089,667	68,118,854	68,046,093
Travel & Training	836,497	1,096,526	326,091	1,094,707	1,062,224
Intrafund Service Credits	-136,243	1	-512,586	0	0
Promotions & Events	241,529	497,649	238,143	531,804	420,939
Interest & Principal	<u>4,096,858</u>	<u>9,917,636</u>	<u>4,123,379</u>	<u>9,847,220</u>	<u>9,847,220</u>
Other Operating Costs	66,710,164	81,415,594	32,264,693	79,592,585	79,376,476
Projects	446,033	614,315	21,070	462,400	462,400
Equipment	2,246,436	6,856,360	2,471,585	6,442,702	7,107,212
CIP Costs	354,957	2,644,855	2,384,618	1,149,000	1,149,000
Reserves	<u>0</u>	<u>-1,405,383</u>	<u>-100</u>	<u>0</u>	<u>0</u>
Other Costs	3,047,426	8,710,147	4,877,173	8,054,102	8,718,612
Consolidated Total	156,920,295	189,476,401	82,802,083	195,139,832	195,937,690
plus Internal Transactions	96,817,634	96,226,645	32,654,822	94,347,170	92,871,130
Grand Total	253,737,929	285,703,046	115,456,904	289,487,002	288,808,820

Note: CIP Costs reflect CIP-related charges currently budgeted in operating organizations. These may be removed in future versions of this table. Projects costs primarily represent grant-funded non-capital projects, which in the future may be budgeted as multi-year appropriations.

Negative figures on the Reserves line reflect explicitly budgeted reductions of reserves in certain funds.

BUDGET BY FUND

Table 2, on the following page, summarizes the Proposed Budget for operations by City fund. Of the City's total \$288.9 million budget, the General Fund accounts for \$107.1 million, or about 37%. (On a consolidated basis, the General Fund represents \$90 million out of a consolidated total of \$195.9 million, or 46%.)

In Table 2, funds are grouped by function, rather than strictly by accounting fund type. Non-operating funds, which account for CIP or multi-year projects, are not included here, but are addressed instead in the CIP section of this document.

The Transportation Funds account for resources dedicated to defined transportation purposes, including street maintenance, transit and non-motorized transportation (such as bicycle paths).

The Utilities Funds account for the City's water, sewer and drainage utilities. In addition, the Airport fund is included in this category. (In future versions of this document, Airport may be reclassified into Transportation.) All funds in this group are categorized as Enterprise Funds for accounting purposes, meaning that they operate in a manner similar to private businesses, collecting payments from customers in return for services provided.

The Internal Service Funds account for separate funds established by the City to account for certain internal service functions (such as fleet management, information services, and building services), as well as self-insurance reserves and employee benefits pass-throughs. (The Insurance and Employee Benefits funds both have self-insurance and pass-through components.)

Debt Service funds account for payments of principal and interest on the City debt (excluding debt incurred by Enterprise Funds, such as the utilities).

Other Funds include funds established to track and manage grants (such as the operating grants funds and the CDBG funds), to set aside money for certain designated purposes (such as the Traffic Safety Fund and the Park Fund), and to account for operations which are similar to separate entities (such as Centre Plaza and the Golf Fund).

Table 2: Operating Budget by Fund

	2002-3 Actual	2003-4 Budget	2003-4 6 Months	2004-5 Baseline	2004-5 Proposed
General Fund	102,656,675	103,003,105	40,985,089	108,643,352	107,078,957
Gas Tax Fund	3,096,227	12,655,745	7,021,459	12,146,784	12,063,449
Local Transportation Fund	1,233,753	2,713,762	104,250	2,383,757	2,395,757
LTF Non-Motorized	0	0	0	80,000	81,000
Bus Fund	<u>8,478,208</u>	<u>10,572,009</u>	<u>3,972,770</u>	<u>10,194,809</u>	<u>10,959,937</u>
Transportation Funds	12,808,188	25,941,516	11,098,478	24,805,350	25,500,143
Water Fund	30,771,870	33,965,146	15,735,906	34,747,480	34,845,443
Sewer Fund	21,002,557	26,949,232	9,238,392	27,324,211	27,401,165
Drainage Fund	4,837,943	5,501,053	2,259,391	5,571,594	5,679,593
Airport Fund	<u>586,893</u>	<u>760,541</u>	<u>330,899</u>	<u>783,336</u>	<u>826,008</u>
Utilities Funds	57,199,263	67,175,972	27,564,587	68,426,621	68,752,209
Fleet Fund	3,484,560	5,825,044	2,574,199	7,376,288	7,393,064
Information & Technology	2,882,441	3,781,817	1,762,808	3,925,246	3,856,609
Building Services	3,075,803	1,694,760	858,331	1,898,834	1,905,563
Central Services	1,004,884	3,072,500	453,807	3,160,362	3,164,735
Insurance Funds	15,334,308	18,547,924	6,866,238	17,680,574	17,683,157
Employee Benefit Fund	<u>41,089,739</u>	<u>31,113,404</u>	<u>14,762,936</u>	<u>31,388,100</u>	<u>31,333,286</u>
Internal Service Funds	66,871,735	64,035,449	27,278,317	65,429,404	65,336,414
Debt Service Funds	3,601,551	3,612,421	2,017,658	3,637,146	3,637,146
Capital Improvement Support	0	2,501,416	1,129,299	3,079,445	3,111,655
Solid Waste Fund	0	552,973	257,810	587,715	592,566
Ed & Gvt Communication	0	280,747	102,720	259,964	259,964
Elections	0	0	0	0	2,500
Operating Grants - Block	999,421	2,126,292	431,060	527,858	536,927
Operating Grants - Reimbursed	648,174	1,052,865	489,180	642,886	659,707
Traffic Safety Fund	592,290	607,098	28,409	584,000	584,000
Downtown Improvement District	196,217	205,357	104,678	191,452	191,452
CDBG - Direct	2,517,297	3,891,374	1,308,000	3,173,206	3,177,322
CDBG - Rental Rehab	0	16,853	2,980	0	0
Housing Loan Program	14,552	1,200,000	20,517	1,200,200	1,200,200
HOME Program	230,149	2,726,749	144,735	1,473,108	1,474,055
Emergency Shelter Program	88,000	88,261	40,956	105,715	105,715
CFF Administration	338,519	247,000	38,968	216,900	226,900
Park Fund	150,000	350,000	18,837	499,000	349,000
CFD Administration	380,578	324,676	115,263	379,696	396,522
Parking Fund	761,683	741,730	437,998	846,771	847,312
Refunding Revenue Bonds	0	1,027,253	117,318	921,970	921,970
Golf Fund	2,146,816	2,335,965	1,042,142	2,240,270	2,240,260
Centre Plaza Fund	<u>1,536,821</u>	<u>1,657,974</u>	<u>681,905</u>	<u>1,614,973</u>	<u>1,625,924</u>
Other Funds	10,600,517	21,934,583	6,512,775	18,545,129	18,503,951
Grand Total	253,737,929	285,703,046	115,456,904	289,487,002	288,808,820

Table 3, on the following page, shows the anticipated revenues and proposed operating expenditures by fund, with net surpluses or deficits for each, and estimated available balances.

The Estimated Available Balance for each fund represents staff's estimate of the dollars in each fund that will be available in 2004-5 to pay for operations. These estimates are approximate, tentative and subject to revision for several reasons. They reflect estimates of current fiscal year revenues and expenditures, as well as assumptions regarding commitments in each fund. Commitments (such as existing CIP projects) may change rapidly, depending upon management decisions, and this is particularly likely in the Utility Funds, whose capital plans are currently undergoing major revision. In addition, a "zero" available balance does not necessarily indicate that a fund has no resources, but only that its resources are fully committed (typically to multi-year or capital projects).

The General Fund is expected to expend \$4.1 million from its available balance, leaving an ending balance of \$10.6 million. This exceeds the Council's 8% minimum reserve policy by \$1.8 million.

The Gas Tax fund will spend approximately 37% of its available balance (\$0.7 million out of \$2.0 million). Almost \$500,000 of this is due to the reduction in General Fund support for the street tree program. The remainder is needed to finance other street maintenance programs. Falling Local Transportation Fund revenues (due in part to rising demand for funds on the part of transit agencies) contribute to the shortfall.

The net surplus in Internal Service Funds is due to increased contributions to the Employee Benefit Fund to halt the growth of the unfunded liability for post-retirement health benefits.

The Water Fund is expected to expend significant reserves, and may need to explore short term financing options if water rate increases are not implemented in the near future. The revenue budget for the Water Fund does not currently reflect the potential effects of a rate increase.

The Sewer Fund is currently committed to CIP projects which exceed its resources. Table 3 assumes that CIP commitments will be reduced to match available resources (including 2004-5 revenues) by the end of the current fiscal year.

Table 3: Expenditures & Revenues by Fund

	Est Available Balance	2004-5 Expenditures	2004-5 Revenues	Balance Change	Ending Balance
General Fund	14,700,000	107,078,957	102,978,345	-4,100,612	10,599,388
Gas Tax Fund	2,000,000	12,063,449	11,317,683	-745,766	1,254,234
Local Transportation Fund	0	2,395,757	2,401,669	5,912	5,912
LTF Non-Motorized	0	81,000	139,858	58,858	58,858
Bus Fund	0	<u>10,959,937</u>	<u>11,008,837</u>	<u>48,900</u>	<u>48,900</u>
Transportation Funds	2,000,000	25,500,143	24,868,047	-632,096	1,367,904
Fleet Fund	7,450,000	7,393,064	7,430,609	37,545	7,487,545
Information & Technology	600,000	3,856,609	3,868,418	11,809	611,809
Building Services	40,000	1,905,563	1,873,610	-31,953	8,047
Central Services	400,000	3,164,735	3,167,451	2,716	402,716
Insurance Funds	10,000	17,683,157	17,677,213	-5,944	4,056
Employee Benefit Fund	0	<u>31,333,286</u>	<u>32,271,243</u>	<u>937,957</u>	<u>937,957</u>
Internal Service Funds	8,500,000	65,336,414	66,288,544	952,130	9,452,130
Water Fund	1,600,000	34,845,443	32,630,879	-2,214,564	-614,564
Sewer Fund	-600,000	27,401,165	28,048,256	647,091	47,091
Drainage Fund	1,000,000	5,679,593	5,133,463	-546,130	453,870
Airport Fund	<u>200,000</u>	<u>826,008</u>	<u>764,000</u>	<u>-62,008</u>	<u>137,992</u>
Utilities	2,200,000	68,752,209	66,576,598	-2,175,611	24,389
Debt Service Funds	0	3,637,146	3,637,146	0	0
Capital Improvement Support	10,000	3,111,655	3,101,803	-9,852	148
Solid Waste Fund	5,000	592,566	587,715	-4,851	149
Ed & Gvt Communication	5,000	259,964	256,000	-3,964	1,036
Elections	0	2,500	250,000	247,500	247,500
Operating Grants - Block	0	536,927	536,927	0	0
Operating Grants - Reimbursed	0	659,707	659,707	0	0
Traffic Safety Fund	300,000	584,000	625,000	41,000	341,000
Downtown Improvement District	0	191,452	192,000	548	548
CDBG - Direct	0	3,177,322	3,177,322	0	0
CDBG - Rental Rehab	0	0	0	0	0
Housing Loan Program	0	1,200,200	1,200,200	0	0
HOME Program	0	1,474,055	1,474,055	0	0
Emergency Shelter Program	0	105,715	105,715	0	0
CFF Administration	180,000	226,900	219,902	-6,998	173,002
Park Fund	250,000	349,000	283,842	-65,158	184,842
CFD Administration	20,000	396,522	379,696	-16,826	3,174
Parking Fund	600,000	847,312	781,096	-66,216	533,784
Refunding Revenue Bonds	0	921,970	942,140	20,170	20,170
Golf Fund	0	2,240,260	2,192,608	-47,652	-47,652
Centre Plaza Fund	<u>130,000</u>	<u>1,625,924</u>	<u>1,620,469</u>	<u>-5,455</u>	<u>124,545</u>
Other Funds	1,500,000	18,503,951	18,586,197	82,246	1,582,246
Grand Total	28,900,000	288,808,820	282,934,877	-5,873,943	23,026,057

GENERAL FUND REVENUES

Table 4: General Fund Revenue by Source

	2002-3 Actual	2003-4 Budget	2003-4 6 Months	2004-5 Baseline	2004-5 Proposed	2004-5 No State (1)
Sales Tax	25,887,064	27,848,000	13,587,113	21,466,222	21,466,222	28,666,222
Property Tax	9,610,787	9,505,000	6,114,916	19,008,126	19,008,126	13,008,126
Utility Tax	13,732,571	12,989,000	7,309,810	16,405,602	16,405,602	16,405,602
Vehicle License Fees	11,746,283	12,394,000	2,586,496	10,529,248	10,529,248	13,129,248
Business Licenses	9,238,797	9,844,000	4,695,874	9,775,070	9,775,070	9,775,070
Construction Fees	2,595,934	3,407,809	1,302,070	3,353,385	3,353,385	3,353,385
Franchise Tax	3,265,609	2,608,000	1,121,677	3,116,036	3,116,036	3,116,036
Transient Occupancy Tax	2,097,901	2,108,000	1,128,651	2,451,708	2,451,708	2,451,708
Transfers In	<u>6,388,569</u>	<u>2,013,188</u>	<u>0</u>	<u>1,453,910</u>	<u>1,303,910</u>	<u>1,303,910</u>
Major Sources	84,563,515	82,716,997	37,846,607	87,559,307	87,409,307	91,209,307
Fees for Service	3,150,962	3,365,345	1,569,517	3,197,345	3,242,895	3,242,895
Intergovernmental	2,979,595	3,056,778	967,016	2,072,812	2,116,033	2,116,033
Other Taxes	558,217	548,000	723	539,294	539,294	539,294
Interfund Service Credits	7,938,114	5,301,374	2,080,185	4,981,438	5,081,434	5,081,434
Indirect Cost Recovery	2,785,253	2,884,000	1,184,084	2,898,638	2,898,638	2,898,638
Other	<u>3,603,025</u>	<u>2,115,526</u>	<u>1,189,007</u>	<u>1,435,966</u>	<u>1,690,744</u>	<u>1,690,744</u>
Other Sources	21,015,166	17,271,023	6,990,533	15,125,493	15,569,038	15,569,038
Total	105,578,681	99,988,020	44,837,140	102,684,800	102,978,345	106,778,345

(1) 2004-5 No State column shows what the General Fund's revenue situation would have been in the absence of the anticipated State budget impacts.

Overview

In 2004-5, General Fund revenues are projected at \$103 million, a 3% increase over the 2003-4 budgeted level. Table 4, above, shows the principal sources of this revenue.

The Proposed Budget assumes three major State actions:

- The “triple-flip,” which has the effect of reducing Sales Tax receipts by \$7.2 million and increasing Property Tax revenues by \$6.9 million. Net loss: \$300,000.
- The “ERAF Shift” increase, which diverts local property taxes to supplant the State’s support for schools. Net loss: \$900,000.
- Vehicle License Fee (VLF) Backfill “delay,” assumes that three months worth of VLF Backfill payments will not be received due to delays in the adoption of the State’s budget. Net loss: \$2.6 million.

Overall, General Fund revenues would have grown by 6.8%, to \$106.8 million, if not for the anticipated impact of the State’s budget actions. As the State’s intentions become clearer, it may be necessary to update this financial picture.

General Fund Financial Condition

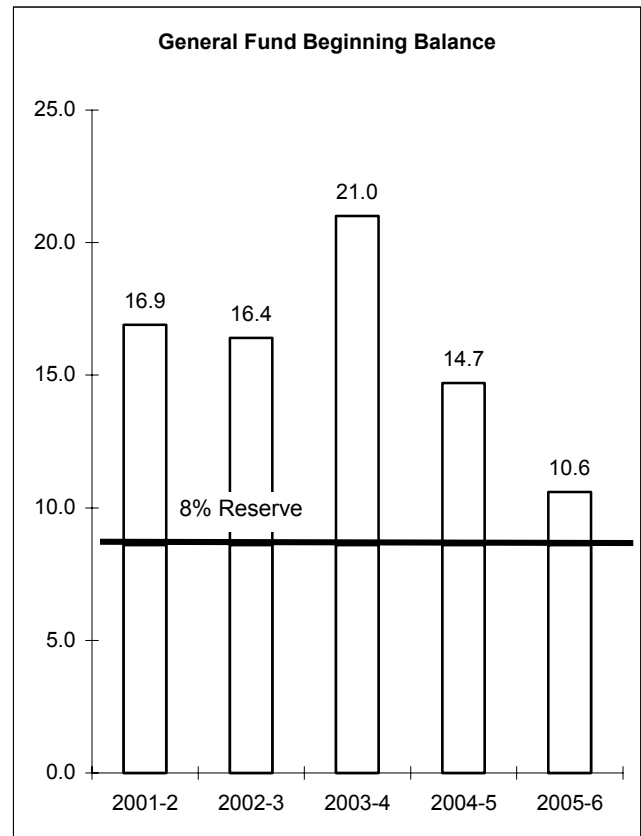
The General Fund began the current (2003-4) fiscal year with an available balance of \$21.0 million. That balance was built up intentionally, to create a cushion against adverse financial events – such as State revenue diversions.

This year, we project that the General Fund will spend approximately \$6.3 million (30%) of this balance, leaving \$14.7 million at the beginning of the 2004-5 budget year.

Next year, the General Fund faces a potential shortfall of \$8.7 million. Budget cuts, non-tax revenue options and one-time savings included in the Proposed Budget have addressed \$4.6 million of the shortfall, with fund balance to be used to cover the remaining \$4.1 million.

Therefore, the General Fund will expend \$4.1 million (27%) of its remaining balance. This figure corresponds closely to the \$3.8 million in anticipated State impact to the General Fund.

The chart at right shows the changes in the General Fund's available balance at the beginning of each fiscal year from 2001-2 (actual) to 2005-6 (budget estimate). It also shows the level of the 8% minimum reserve, based on 2004-5 proposed General Fund expenditures (approximately \$8.8 million).



The prospects for the General Fund in fiscal 2005-6 depend on a number of unpredictable factors, including the 2004-5 and 2005-6 State budgets, and the outcome of the renegotiations of the City's two largest collective bargaining agreements. However, based on plausible assumptions, it appears that the General Fund could face a shortfall in the neighborhood of \$3.5 million in next year's budget process.

Revenue Discussion

Sales Tax. Modesto residents pay a sales & use tax of 7.375 cents per dollar. Of this amount, the City actually receives one cent, from which Stanislaus County deducts 5% for administrative costs. In the absence of the “triple flip,” sales tax revenues were forecast to rise to \$28.7 million, a 4.2% increase compared with current year estimated actuals.

Property Tax. As in most of California, Modesto residents pay a property tax rate of 1%. The lion’s share of the proceeds, 73%, go to support of the public schools. The City’s share of the total property tax is approximately 7%. In the absence of the “triple flip” and the increased ERAF shift, property tax revenues were expected to increase by 10% over the projected current year level. This high rate of growth appears to be related to the rising pace of home sales in Modesto, which is in turn driven partly by in-migration from Bay Area communities.

Utility Tax. The City levies a 6% tax on the users of utilities such as electricity, water, telephone service, gas, and cable television. The tax is capped at \$1,500 per taxpayer per utility, which limits the tax burden on local businesses. We are projecting a 9% increase in Utility Tax revenue compared with estimated current year actuals.

Vehicle License Fees. The vehicle license fee (VLF) is a tax imposed by the State and distributed to local governments on a per-capita basis for general local purposes, such as police and fire protection. In 1999, the State of California lowered the VLF rate paid by the public by two-thirds, and promised to “backfill” the loss to cities and counties from other State revenue sources. In 2003, faced with a deteriorating financial situation, the State re-imposed the full VLF tax rate, and abandoned the backfill. Subsequently, the newly elected Governor reversed the re-imposition of the full VLF, again lowering the rate by two-thirds. However, the backfill was not immediately restored. After further negotiations, the Governor decided to restore the backfill, but not to immediately make up the amount of payments made in the first three months after the rate was reduced. The State has promised to repay this amount – Modesto’s share of which will be \$3.6 million – in the 2005-6 fiscal year. The Governor’s budget, submitted to the legislature in January, included financing for the full VLF backfill for 2004-5. However, based on past experience, there is a significant risk that the State budget will not be adopted prior to the start of the fiscal year, in which case VLF backfill payments would be delayed, and it is possible that the legislature and Governor could decide to retain some of this money in the State’s coffers to help close the State’s own gap. We have included the loss of three months of backfill payments in the City’s revenue estimate, at a cost of \$2.6 million. Absent this impact, VLF revenue would have been expected to grow at 5.9% from the current budget level.

Business Licenses. The City of Modesto imposes an annual registration fee and a gross receipts tax on firms doing business within the City. The tax rate is one dollar per thousand dollars of sales for retail businesses and two dollars per thousand of sales on service businesses. This revenue is forecast to remain essentially flat at its currently budgeted level, an increase of 5.8% on projected actuals.

Construction Fees. The City charges a variety of fees for building and planning activities, such as building permit fees and plan check fees. Building and planning activity dropped off in the current year, and estimated actuals are 11% less than the budgeted level. However, fees were increased during the year, and this should contribute to higher revenues. Overall, these fees are budgeted at slightly lower than the current budget, but 10.4% higher than forecast actuals.

Franchise Tax. The City imposes a franchise tax on solid waste businesses, cable television and gas & electric services. Franchise tax revenue is expected to increase 12.2% compared with forecast actuals.

Transient Occupancy Tax (TOT). The City imposes an 8% tax on hotel and motel stays. In past years, portions of this revenue have been allocated to the Convention & Visitor’s Bureau (CVB) and the Modesto Redevelopment Agency (RDA). Because of the General Fund’s financial condition, the Proposed Budget reduces these allocations (see “Revisiting Formulas & Allocations” in *Policies & Issues*). TOT is forecast to grow by 8.1% from forecast actuals.

Transfers In. The General Fund receives transfers from other City funds (particularly utilities) for their share of certain City debt service (\$183,000), loan repayments from Capital Facilities Funds and the Parks fund (\$537,000) and a transfer from the Traffic Safety fund to help defray the cost of traffic enforcement services provided by the Police department (\$584,000).

GENERAL FUND EXPENDITURES

Table 5: General Fund Expenditures by Department

	2002-3 Actual	2003-4 Budget	2003-4 6 Months	2004-5 Baseline	2004-5 Proposed	2004-5 Allocated (1)
Police Department	37,433,010	41,249,682	17,659,476	44,733,568	46,014,127	46,665,357
Fire Department	18,784,940	22,295,466	10,041,858	22,980,494	23,187,791	23,187,791
Parks, Rec & Neighborhoods	6,208,373	6,360,472	2,840,247	6,663,341	6,122,975	6,946,059
Community & Econ Dev	4,305,627	5,073,512	2,187,755	5,474,687	5,325,102	5,804,102
Operations & Maintenance	12,250,530	9,235,540	2,768,589	9,779,599	8,497,062	5,630,039
Finance Department	5,328,793	5,652,499	2,477,420	5,869,678	5,569,109	5,569,109
Street Maintenance	na	na	na	na	na	2,867,023
Debt Service	na	na	na	na	na	2,497,003
Engineering & Transportation	6,539,240	1,700,598	541,868	1,870,950	1,915,550	1,915,550
City Attorney	1,817,691	1,972,982	775,960	1,900,851	1,764,510	1,764,510
City Manager	1,694,600	1,662,051	789,447	1,578,582	1,240,939	1,240,939
Personnel	1,168,492	1,287,406	576,983	1,363,603	1,371,164	1,371,164
City Clerk & Auditor	508,139	1,578,719	236,534	536,118	501,030	751,030
Information Technology	326,434	235,569	18,210	225,753	128,000	128,000
Interfund Transfer	6,051,429	5,804,463	0	5,399,536	5,078,317	378,000
City Council	239,377	192,086	70,741	216,592	213,281	213,281
Other	0	-1,297,940	0	50,000	150,000	150,000
Total	102,656,675	103,003,105	40,985,089	108,643,352	107,078,957	107,078,957

(1) 2004-5 Allocated column shows expenditures after allocating Interfund Transfer department and separating Street Maintenance component from Operations & Maintenance budget.

Table 5, above, shows the General Fund expenditure budget by department. Of the \$107.1 million Proposed total, the Police and Fire departments account for \$69.8 million, or almost two-thirds of the General Fund. (Police and Fire represent a higher share of the discretionary revenues in the General Fund; see below.)

Table 6: General Fund Discretionary Resources

	Proposed Expenditures	Allocation Adjustment	Department Revenues	Discretionary Resources	Share
Police Department	46,014,127	651,230	2,603,166	44,062,191	47%
Fire Department	23,187,791		432,000	22,755,791	24%
Parks, Rec & Neighborhoods	6,122,975	823,084	1,695,136	5,250,923	6%
Community & Econ Dev	5,078,317	958,000	3,651,294	2,385,023	3%
Operations & Maintenance	8,497,062	-2,867,023	890,092	4,739,947	5%
Finance Department	5,569,109		2,997,836	2,571,273	3%
Street Maintenance	0	2,867,023	0	2,867,023	3%
Debt Service	0	2,497,003	0	2,497,003	3%
Engineering & Transportation	1,915,550		844,163	1,071,387	1%
City Attorney	1,764,510		771,246	993,264	1%
City Manager	1,371,164		82,058	1,289,106	1%
Personnel	1,240,939		76,000	1,164,939	1%
City Clerk & Auditor	501,030	250,000	32,500	718,530	1%
Information Technology	128,000		0	128,000	0%
Interfund Transfer	5,325,102	-5,179,317	0	145,785	0%
City Council	213,281		0	213,281	0%
Other	150,000		0	150,000	0%
Total	107,078,957	0	14,075,491	93,003,466	100%

Table 6, above, shows the distribution of the General Fund’s discretionary resources. Beginning with the 2004-5 Proposed expenditure budget, it performs the same reallocation described in Table 5, above, then deducts department specific revenues, such as fees for service. The result is the portion of each department’s operating budget that is not supported by department-specific sources, but rather by the City’s discretionary resources.

The Police and Fire departments, together, account for approximately 71% of the City’s discretionary general fund.

Table 7: General Fund Expenditures by Object

	2002-3 Actual	2003-4 Budget	2003-4 6 Months	2004-5 Baseline	2004-5 Proposed
Regular Salaries	38,020,225	44,514,486	16,864,982	45,498,437	44,930,419
Part Time Salaries	2,290,861	2,327,759	1,094,633	2,303,906	2,105,219
Overtime Pay	3,321,097	2,133,960	1,544,213	2,166,639	2,166,639
Other Pay	9,973,616	2,375,939	4,685,808	2,582,531	2,586,368
Insurance	4,284,672	4,667,890	2,200,952	5,267,827	5,238,926
Workers Compensation	2,370,162	3,130,842	1,304,518	3,150,201	2,752,966
PERS Retirement	6,288,990	7,165,588	3,389,682	10,686,370	10,683,480
EBF Retirement	554,918	487,187	202,994	1,131,464	2,558,496
Other Benefits	<u>901,188</u>	<u>2,042,912</u>	<u>559,104</u>	<u>1,934,241</u>	<u>1,813,546</u>
Payroll Costs	68,005,729	68,846,563	31,846,885	74,721,616	74,836,059
Supplies & Services	16,076,622	14,005,370	4,267,148	13,245,354	13,069,877
Travel & Training	583,417	801,983	233,706	807,474	773,491
Service Credits	338,511	539,570	123,785	931,349	923,490
Intrafund Service Credits	-122,553	0	-2,733	0	0
Promotions & Events	220,927	457,149	230,350	496,304	385,439
Interest & Principal	10,977	10,978	5,492	10,978	10,978
Internal Service Charge	<u>10,195,071</u>	<u>8,049,810</u>	<u>3,325,309</u>	<u>8,474,808</u>	<u>8,006,621</u>
Other Operating Costs	27,302,972	23,864,860	8,183,056	23,966,267	23,169,896
Projects	0	0	0	0	0
Equipment	1,191,268	1,039,662	955,248	1,009,662	999,662
Interfund Transfers	6,156,706	9,519,553	0	8,945,807	8,073,340
Reserves	<u>0</u>	<u>-267,533</u>	<u>-100</u>	<u>0</u>	<u>0</u>
Other Costs	7,347,974	10,291,682	955,148	9,955,469	9,073,002
Grand Total	102,656,675	103,003,105	40,985,089	108,643,352	107,078,957

Table 7, above, shows the allocation of General Fund expenditures by object. Of the \$107.1 million Proposed total, \$74.8 million (69%) represents payroll costs. An additional \$13.1 million represents the cost of supplies and services purchased from outside providers, and \$8.0 million represents City internal service fund charges, primarily for Fleet and Building Services. Travel & Training accounts for approximately 0.7% of the General Fund budget.

Table 8: Permanent Positions by Department

	2001-2 Actual	2002-3 Actual	2003-4 Adopted	2004-5 Baseline	2004-5 Proposed
Police Department	367.00	363.00	371.00	369.60	369.60
Fire Department	159.00	156.00	175.00	175.00	175.00
Parks, Rec & Neighborhoods	62.50	66.00	61.75	61.75	60.75
Community & Econ Dev	53.00	51.00	49.00	56.00	53.00
Operations & Maintenance	384.00	375.00	382.00	383.00	381.00
Finance Department	64.00	65.00	64.00	65.00	62.00
Engineering & Transportation	91.80	89.80	87.80	87.00	87.00
City Attorney	17.00	17.00	17.00	17.00	16.00
City Manager	16.00	16.00	13.00	13.10	11.10
Personnel	21.13	22.13	22.13	22.12	22.12
City Clerk & Auditor	7.00	7.00	7.00	7.00	7.00
Information Technology	23.75	27.75	26.75	27.00	26.00
Total	1,266.18	1,255.68	1,276.43	1,283.57	1,270.57

Table 8, above, summarizes the number of permanent staff positions authorized for each City department. The 2004-5 Baseline column reflects the number of positions authorized on January 1, 2004, which was the point used to calculate the Baseline budget.

The Proposed Budget reduces the position count by thirteen, including three executive level managers.

Department Budgets

City Council

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	66,660	67,186	33,543	67,186	67,186
Insurance	1,252	994	636	994	994
WorkersCompensation	543	954	398	986	861
EBFRetirement	0	0	0	0	411
OtherBenefits	2,746	5,082	1,440	5,082	5,082
Payroll	71,201	74,216	36,016	74,248	74,534
Supplies&Services	110,849	74,042	19,487	95,322	95,322
Travel&Training	17,534	9,375	1,559	9,563	6,488
OtherOperating	128,383	83,417	21,047	104,885	101,810
Total(ConsolidatedBasis)	199,584	157,633	57,063	179,133	176,344
plusInterfundTransactions	39,793	34,453	13,678	37,459	36,937
DepartmentTotal	239,377	192,086	70,741	216,592	213,281

City Council

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	239,377	192,086	70,741	216,592	213,281
DepartmentTotal	239,377	192,086	70,741	216,592	213,281

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	191	0	0.00
Cut	36	ReduceConferenceExpenses	-3,075	0	0.00
Cut	37	ITSpendingReductions	-878	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	451	0	0.00
TotalDecisionPackages			-3,311	0	0.00

City Manager's Office

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	688,099	797,961	311,226	783,898	594,802
PartTimeSalaries	30,600	42,000	21,273	42,840	23,578
OvertimePay	447	0	20	0	0
OtherPay	117,779	0	71,121	0	0
Insurance	60,955	74,956	27,175	60,452	50,285
WorkersCompensation	5,374	18,490	7,704	16,325	14,257
PERSRetirement	56,902	65,446	27,001	80,900	61,376
EBFRetirement	6,809	6,945	2,894	16,129	30,649
OtherBenefits	35,927	21,233	21,829	50,857	39,364
Payroll	1,002,892	1,027,031	490,242	1,051,401	814,311
Supplies&Services	521,424	509,973	252,123	404,130	328, 619
Travel&Training	8,363	8,350	-1,035	8,517	1,530
IntrafundServiceCredits	20,366	0	3,810	0	0
OtherOperating	550,153	518,323	254,898	412,647	330,149
Equipment	22,313	0	4,004	0	0
Reserves	0	0	-100	0	0
Other	22,313	0	3,904	0	0
Total(ConsolidatedBasis)	1,575,358	1,545,354	749,044	1,464,048	1,144,460
plusInterfundTransactions	119,242	116,697	40,403	114,534	96,479
DepartmentTotal	1,694,600	1,662,051	789,447	1,578,582	1,240,939

City Manager's Office

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	1,694,600	1,662,051	789,447	1,578,582	1,240,939
DepartmentTotal	1,694,600	1,662,051	789,447	1,578,582	1,240,939

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	12,915	0	0.00
Cut	28	EliminateCableAdministrationIntern	-4,982	0	0.00
Cut	29	ImprovedCostRecoveryforDeputyCityManager	0	40,000	0.00
Cut	30	ReduceConferences&MembershipBudget	-12,806	0	0.00
Cut	31	ReduceTemporaryClericalStaffBudget	-14,937	0	0.00
Cut	32	NewCopierLeaseArrangement	-11,000	0	0.00
Cut	33	ReduceCity-WideEventsSponsorship	-20,000	0	0.00
Cut	34	EliminateCommunications&MarketingBudget	-52,775	0	0.00
Cut	35	Cable-RelatedCostReimbursement	0	50,000	0.00
Cut	37	ITSpendingReductions	-1,756	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-510	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	1,231	0	0.00
Cut	90	CityReorganization	-233,023	0	-2.00
TotalDecisionPackages			-337,643	90,000	-2.00

City Manager - CFDs

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	139,669	199,630	69,018	211,947	211,947
PartTimeSalaries	10,492	0	0	9,180	9,180
OvertimePay	757	0	0	1,428	1,428
OtherPay	24,807	0	17,636	0	0
Insurance	17,051	18,082	9,984	28,458	28,458
WorkersCompensation	0	0	0	2,548	2,226
PERSRetirement	12,844	13,839	6,784	23,359	23,359
EBFRetirement	0	0	0	0	7,394
OtherBenefits	2,544	6,113	1,343	5,414	5,414
Payroll	208,164	237,664	104,766	282,334	289,406
Supplies&Services	170,762	202,539	36,749	196,818	196,818
Travel&Training	1,314	7,950	1,450	8,109	8,109
OtherOperating	172,076	210,489	38,199	204,927	204,927
Total(ConsolidatedBasis)	380,240	448,153	142,964	487,261	494,333
plusInterfundTransactions	338	125,400	11,267	109,335	129,089
DepartmentTotal	380,578	573,553	154,231	596,596	623,422

City Manager - CFDs

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	0	0	0	0	0
CFFAdministration	0	248,877	38,968	216,900	226,900
CFDAdministration	380,578	324,676	115,263	379,696	396,522
DepartmentTotal	380,578	573,553	154,231	596,596	623,422

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	6,826	0	0.00
Cut	29	ImprovedCostRecoveryforDeputyCityManager	20,000	0	0.00
TotalDecisionPackages			26,826	0	0.00

Personnel Department

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	610,310	797,094	295,760	831,500	833,982
PartTimeSalaries	12,588	5,530	4,331	8,088	8,088
OvertimePay	385	700	174	714	714
OtherPay	143,400	0	86,121	0	0
Insurance	58,260	62,227	30,905	69,480	69,480
WorkersCompensation	7,757	34,318	14,299	38,739	33,833
PERSRetirement	53,151	56,023	26,951	85,808	85,808
EBFRetirement	8,124	8,286	3,453	19,243	40,281
OtherBenefits	39,121	32,036	22,053	52,656	54,628
Payroll	933,096	996,214	484,047	1,106,228	1,126,814
Supplies&Services	98,532	119,412	46,850	119,209	118,77 8
Travel&Training	29,673	40,453	4,786	28,290	18,560
OtherOperating	128,205	159,865	51,636	147,499	137,338
Equipment	1,986	0	0	0	0
Reserves	0	25,805	0	0	0
Other	1,986	25,805	0	0	0
Total(ConsolidatedBasis)	1,063,287	1,181,884	535,683	1,253,727	1,264,152
plusInterfundTransactions	55,521,543	48,135,260	21,670,474	49,178,550	49,123,455
DepartmentTotal	56,584,830	49,317,144	22,206,156	50,432,277	50,387,607

Personnel Department

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	1,168,492	1,287,406	576,983	1,363,603	1,371,164
InsuranceFunds	15,334,308	17,347,924	6,866,238	17,680,574	17,683,157
EmployeeBenefitFund	40,082,030	30,681,814	14,762,936	31,388,100	31,333,286
DepartmentTotal	56,584,830	49,317,144	22,206,156	50,432,277	50,387,607

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	4	MoveGrant-SupportedStafftoGeneralFund	0	7,067	0.00
Add	7	FundCurrentEBFCosts	-6,913	1,181,539	0.00
Add	18	CurrentYearStepPlacementofRiskManager	24,696	12,348	0.00
Add	81	ReplaceEqualOpportunityOfficerwithEmployee RelationsSpecialist	10,633	0	0.00
Cut	34	EliminateCommunications&MarketingBudget	0	-236	0.00
Cut	37	ITSpendingReductions	-2,666	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-55,927	-55,000	0.00
Cut	72	ReduceTrainingAllowances&Employee SuggestionProgram	-10,161	0	0.00
Cut	73	EliminatePart-TimeTrainingPosition	-5,530	0	0.00
Cut	76	RecoverCostsFromRDA,TSP,Transportation	1,198	0	0.00
TotalDecisionPackages			-44,670	1,145,718	0.00

City Attorney

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	892,799	1,168,428	449,028	1,189,968	1,150,358
PartTimeSalaries	0	13,713	0	13,987	13,987
OvertimePay	13	208	0	212	212
OtherPay	182,356	0	105,658	0	0
Insurance	88,333	98,926	50,919	128,031	122,907
WorkersCompensation	8,006	16,450	6,854	16,041	14,009
PERSRetirement	75,886	82,519	39,172	122,813	118,723
EBFRetirement	11,670	11,903	4,960	27,644	43,309
OtherBenefits	37,444	41,267	22,234	53,955	51,979
Payroll	1,296,507	1,433,414	678,825	1,552,651	1,515,484
Supplies&Services	464,917	287,973	94,416	302,134	215,024
Travel&Training	10,251	25,542	6,247	26,053	18,053
IntrafundServiceCredits	-77,769	0	-56,921	-136,611	-136,611
OtherOperating	397,399	313,515	43,742	191,576	96,466
Reserves	0	91,481	0	0	0
Other	0	91,481	0	0	0
Total(ConsolidatedBasis)	1,693,906	1,838,410	722,567	1,744,227	1,611,950
plusInterfundTransactions	123,785	134,572	53,394	156,624	152,560
DepartmentTotal	1,817,691	1,972,982	775,960	1,900,851	1,764,510

City Attorney

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	1,817,691	1,972,982	775,960	1,900,851	1,764,510
DepartmentTotal	1,817,691	1,972,982	775,960	1,900,851	1,764,510

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	11,882	0	0.00
Cut	19	EliminateLegalSecretaryPosition	-50,012	0	-1.00
Cut	20	ReduceConferenceExpenses	-3,000	0	0.00
Cut	21	ReduceBusinessExpenses	-7,000	0	0.00
Cut	22	ReduceTrainingExpenses	-5,000	0	0.00
Cut	23	ReduceProfessionalServices	-80,110	0	0.00
Cut	37	ITSpendingReductions	-3,759	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-788	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	1,446	0	0.0 0
TotalDecisionPackages			-136,341	0	-1.00

City Clerk & Auditor

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	252,005	321,064	131,785	335,487	335,487
PartTimeSalaries	1,120	20,000	846	0	0
OtherPay	42,604	0	26,219	0	0
Insurance	30,851	34,127	18,207	40,225	40,225
WorkersCompensation	2,281	4,384	1,827	5,156	4,502
PERSRetirement	20,783	22,696	11,158	34,647	34,647
EBFRetirement	3,724	3,799	1,583	8,823	17,881
OtherBenefits	9,538	9,579	7,183	16,730	16,452
Payroll	362,906	415,649	198,807	441,068	449,194
Supplies&Services	294,147	1,340,548	130,525	285,023	24 8,023
Travel&Training	8,559	7,900	328	8,028	7,528
OtherOperating	302,706	1,348,448	130,853	293,051	255,551
Equipment	18,237	0	0	0	0
Reserves	0	55	0	0	0
Other	18,237	55	0	0	0
Total(ConsolidatedBasis)	683,849	1,764,152	329,660	734,119	704,745
plusInterfundTransactions	55,819	53,200	21,061	49,985	49,366
DepartmentTotal	739,668	1,817,352	350,721	784,104	754,111

City Clerk & Auditor

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	508,139	1,578,719	236,534	536,118	501,030
CentralServices	231,529	238,633	114,187	247,986	250,581
Elections	0	0	0	0	2,500
DepartmentTotal	739,668	1,817,352	350,721	784,104	754,111

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	7,965	0	0.00
Add	8	EstablishElectionFund	0	250,000	0.00
Cut	26	ReducePrinting,Training&ConferenceExpenses	-7,500	0	0.00
Cut	27	ReduceOutsideAuditingServices	-30,000	0	0.00
Cut	37	ITSpendingReductions	-502	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-278	0	0.00
Cut	76	RecoverCostsFromRDA,TSP,Transportation	322	0	0.00
TotalDecisionPackages			-29,993	250,000	0.00

Information Technology

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	1,071,869	1,561,790	522,768	1,572,283	1,532,951
PartTimeSalaries	23,998	49,120	10,496	50,102	50,102
OvertimePay	30,326	38,232	16,433	38,997	38,997
OtherPay	142,135	3,400	85,546	3,468	3,468
Insurance	106,769	135,595	63,704	185,374	180,529
WorkersCompensation	5,718	19,306	8,044	20,823	18,186
PERSRetirement	85,686	105,602	42,957	162,783	158,723
EBFRetirement	9,749	9,944	4,143	23,094	64,891
OtherBenefits	34,995	84,850	17,358	50,912	49,676
Payroll	1,511,245	2,007,839	771,450	2,107,836	2,097,523
Supplies&Services	1,094,103	1,238,196	758,752	1,117,160	1,076,119
Travel&Training	51,844	75,169	24,546	76,672	75,652
Interest&Principal	8,223	28,006	14,003	28,006	28,006
OtherOperating	1,154,170	1,341,371	797,300	1,221,838	1,179,777
Equipment	464,365	624,991	274,205	787,363	721,016
Reserves	0	35,416	0	0	0
Other	464,365	660,407	274,205	787,363	721,016
Total(ConsolidatedBasis)	3,129,780	4,009,617	1,842,955	4,117,037	3,998,316
plusInterfundTransactions	79,095	288,516	40,782	293,926	246,257
DepartmentTotal	3,208,875	4,298,133	1,883,737	4,410,963	4,244,573

Information Technology

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	326,434	235,569	18,210	225,753	128,000
Information&Technology	2,882,441	3,781,817	1,762,808	3,925,246	3,856,609
Ed&GvtCommunication	0	280,747	102,720	259,964	259,964
DepartmentTotal	3,208,875	4,298,133	1,883,737	4,410,963	4,244,573

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	37,150	0	0.00
Cut	37	ITSpendingReductions	-105,997	-105,997	-1.00
Cut	38	EliminateFundingforPublicAccessCableTV	-97,753	-65,000	0.00
Cut	71	EliminateEducationalPartnershipProgram	-676	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	886	0	0.00
TotalDecisionPackages			-166,390	-170,997	-1.00

Finance Department

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	2,161,263	2,961,952	1,119,825	3,102,620	2,892,516
PartTimeSalaries	50,966	12,250	10,198	12,495	12,495
OvertimePay	6,476	16,280	1,983	16,606	16,606
OtherPay	369,240	0	235,505	0	0
Insurance	238,476	294,906	141,009	342,959	321,581
WorkersCompensation	48,095	80,031	33,346	54,447	47,554
PERSRetirement	179,588	201,664	95,230	320,317	297,371
EBFRetirement	35,902	36,621	15,259	85,051	142,537
OtherBenefits	86,315	144,095	45,565	111,606	106,113
Payroll	3,176,321	3,747,799	1,697,920	4,046,101	3,836,773
Supplies&Services	2,090,369	3,850,374	696,681	3,938,958	3,870,858
Travel&Training	32,229	46,000	30,687	46,920	46,920
IntrafundServiceCredits	-983	0	0	0	0
OtherOperating	2,121,615	3,896,374	727,368	3,985,878	3,917,778
Equipment	117,593	0	112,314	0	0
Reserves	0	143,490	0	0	0
Other	117,593	143,490	112,314	0	0
Total(ConsolidatedBasis)	5,415,529	7,787,663	2,537,602	8,031,979	7,754,551
plusInterfundTransactions	686,619	698,703	279,438	750,075	728,712
DepartmentTotal	6,102,148	8,486,366	2,817,040	8,782,054	8,483,263

Finance Department

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	5,328,793	5,652,499	2,477,420	5,869,678	5,5 69,109
CentralServices	773,355	2,833,867	339,620	2,912,376	2,9 14,154
DepartmentTotal	6,102,148	8,486,366	2,817,040	8,782,054	8,483,263

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	46,638	0	0.00
Add	92	Cust.Svc.Promotions(2004)	12,210	0	0.00
Cut	32	NewCopierLeaseArrangement	0	-16,066	0.00
Cut	37	ITSpendingReductions	-21,394	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-2,734	0	0.00
Cut	74	EliminateBudgetManagerandAccountClerk	-127,653	0	- 2.00
Cut	75	ReduceSuppliesandServicesBudget	-63,300	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	3,986	173,500	0.0 0
Cut	90	CityReorganization	-146,544	-14,654	-1.00
TotalDecisionPackages			-298,791	142,780	-3.00

Community & Economic Development

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	2,130,628	3,133,192	1,083,586	3,325,272	3,175,795
PartTimeSalaries	68,121	36,632	29,695	37,365	37,365
OvertimePay	37,894	41,224	11,309	42,048	42,048
OtherPay	426,642	0	245,401	0	0
Insurance	233,862	282,737	133,324	357,535	357,535
WorkersCompensation	20,528	44,435	18,515	48,389	42,261
PERSRetirement	179,881	212,681	93,507	343,253	343,253
EBFRetirement	30,950	31,569	13,154	73,317	128,303
OtherBenefits	74,145	125,137	37,887	102,909	67,060
Payroll	3,202,651	3,907,607	1,666,376	4,330,088	4,193,620
Supplies&Services	730,439	764,038	426,286	759,209	759,209
Travel&Training	46,560	58,973	14,944	69,397	69,397
IntrafundServiceCredits	0	0	-762	0	0
Promotions&Events	9,467	10,000	0	5,000	5,000
OtherOperating	786,466	833,011	440,468	833,606	833,606
Equipment	42,232	2,500	0	0	0
Reserves	0	87,278	0	0	0
Other	42,232	89,778	0	0	0
Total(ConsolidatedBasis)	4,031,349	4,830,396	2,106,844	5,163,694	5,027,226
plusInterfundTransactions	470,495	448,473	185,589	502,445	489,328
DepartmentTotal	4,501,844	5,278,869	2,292,433	5,666,139	5,516,554

Community & Economic Development

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	4,305,627	5,073,512	2,187,755	5,474,687	5,325,102
DowntownImprovementDistrict	196,217	205,357	104,678	191,452	191,452
DepartmentTotal	4,501,844	5,278,869	2,292,433	5,666,139	5,516,554

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	44,289	0	0.00
Cut	24	EliminateThreePositions	-213,481	-30,427	-3.00
Cut	25	EliminateGeneralFundSupporttoStrategic PlanningFund	0	-125,000	0.00
Cut	37	ITSpendingReductions	-11,735	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-2,272	0	0.00
Cut	76	RecoverCostsFromRDA,TSP,Transportation	53,509	0	0.00
TotalDecisionPackages			-129,690	-155,427	-3.00

Fire Department

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	7,320,960	10,790,241	3,870,972	10,702,785	10,780,120
PartTimeSalaries	79,144	71,100	28,774	72,522	72,522
OvertimePay	1,867,810	1,104,348	832,294	1,126,435	1,126,435
OtherPay	2,836,445	1,109,819	1,378,834	1,284,271	1,288,108
Insurance	823,623	1,164,500	470,224	1,234,245	1,238,773
WorkersCompensation	857,129	1,289,579	537,325	1,074,635	938,547
PERSRetirement	2,332,225	2,627,824	1,255,387	3,573,592	3,596,385
EBFRetirement	95,945	97,864	40,777	227,284	371,445
OtherBenefits	-235,495	446,909	-15,237	327,782	321,432
Payroll	15,977,786	18,702,184	8,399,349	19,623,551	19,733,767
Supplies&Services	1,724,417	1,671,783	730,320	1,818,721	1,939,175
Travel&Training	104,112	98,157	22,151	90,141	90,141
IntrafundServiceCredits	-109	0	762	0	0
OtherOperating	1,828,420	1,769,940	753,233	1,908,862	2,029,316
Equipment	575,120	970,500	899,427	908,000	908,000
Reserves	0	457,940	0	0	0
Other	575,120	1,428,440	899,427	908,000	908,000
Total(ConsolidatedBasis)	18,381,326	21,900,564	10,052,009	22,440,413	22,671,083
plusInterfundTransactions	450,600	427,389	188,859	540,081	516,708
DepartmentTotal	18,831,926	22,327,953	10,240,868	22,980,494	23,187,791

Fire Department

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	18,784,940	22,295,466	10,041,858	22,980,494	23,187,791
OperatingGrants-Block	26,302	14,748	3,286	0	0
OperatingGrants-Reimbursed	20,684	17,739	195,724	0	0
DepartmentTotal	18,831,926	22,327,953	10,240,868	22,980,494	23,187,791

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	-8,610	0	0.00
Add	9	CurrentYearPromotions	109,332	0	0.00
Add	10	UtilitiesCostIncreasesatFireStations	25,300	0	0.00
Add	11	CommunicationsCenterJPACostIncrease	95,154	0	0.00
Cut	37	ITSpendingReductions	-7,153	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-7,189	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	463	0	0.00
TotalDecisionPackages			207,297	0	0.00

Police Department

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	15,731,915	20,176,334	7,895,159	20,770,689	20,873,569
PartTimeSalaries	869,896	947,505	446,329	920,530	920,530
OvertimePay	929,368	918,200	653,181	915,854	915,854
OtherPay	4,122,541	1,276,120	2,175,045	1,308,460	1,308,460
Insurance	1,723,609	2,185,927	1,099,187	2,519,900	2,537,340
WorkersCompensation	1,107,918	1,389,663	579,026	1,633,752	1,428,640
PERSRetirement	2,696,066	3,591,819	1,711,191	5,772,543	5,806,841
EBFRetirement	224,078	229,192	95,497	532,288	1,609,734
OtherBenefits	530,586	1,175,249	308,664	955,530	940,748
Payroll	27,935,977	31,890,009	14,963,277	35,329,546	36,341,716
Supplies&Services	5,246,830	5,598,219	1,121,767	5,535,671	5,938,972
Travel&Training	272,617	466,295	146,251	465,645	465,645
IntrafundServiceCredits	57,937	0	48,467	128,611	128,611
Promotions&Events	0	5,000	0	5,000	5,000
OtherOperating	5,577,384	6,069,514	1,316,484	6,134,927	6,538,228
Projects	0	0	0	0	0
Equipment	472,161	985,534	151,921	20,000	20,000
Other	472,161	985,534	151,921	20,000	20,000
Total(ConsolidatedBasis)	33,985,522	38,945,057	16,431,682	41,484,473	42,899,944
plusInterfundTransactions	4,583,324	4,582,947	1,837,525	4,368,487	4,259,465
DepartmentTotal	38,568,846	43,528,004	18,269,207	45,852,960	47,159,409

Police Department

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	37,433,010	41,249,682	17,659,476	44,733,568	46,014,127
OperatingGrants-Block	779,115	1,304,066	376,974	482,473	491,542
OperatingGrants-Reimbursed	356,721	861,472	204,348	636,919	653,740
TrafficSafetyFund	0	112,784	28,409	0	0
DepartmentTotal	38,568,846	43,528,004	18,269,207	45,852,960	47,159,409

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	1	CommunicationsCennterJPACostIncrease(2)	273,734	0	0.00
Add	2	CommunicationsCennterJPACostIncrease	129,567	0	0.00
Add	3	GeneralFundBackfillforSLESFGrant	0	282,473	0.00
Add	4	MoveGrant-SupportedStafftoGeneralFund	161,280	0	0.00
Add	7	FundCurrentEBFCosts	800,678	9,533	0.00
Add	85	COPSGrantsMatch	0	359,688	0.00
Cut	37	ITSpendingReductions	-42,023	0	0.00
Cut	62	CloseCityHallattheMall	0	35,000	0.00
Cut	71	EliminateEducationalPartnershipProgram	-16,787	-464	0.00
TotalDecisionPackages			1,306,449	686,230	0.00

Parks, Recreation & Neighborhoods

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	2,555,203	3,240,474	1,190,184	3,314,617	3,212,654
PartTimeSalaries	1,153,179	1,241,038	618,736	1,259,329	1,099,904
OvertimePay	10,228	8,500	5,702	8,670	8,670
OtherPay	500,299	0	263,012	0	0
Insurance	305,303	306,839	155,784	368,123	368,123
WorkersCompensation	48,354	100,975	42,073	76,881	66,879
PERSRetirement	212,970	225,279	100,961	337,788	337,788
EBFRetirement	31,568	32,831	13,680	76,246	144,574
OtherBenefits	177,459	220,636	96,443	205,578	163,449
Payroll	4,994,563	5,376,572	2,486,574	5,647,232	5,402,041
Supplies&Services	3,953,004	7,889,974	1,895,081	6,728,371	6,619,783
Travel&Training	65,435	67,460	19,226	65,635	62,464
IntrafundServiceCredits	30,230	0	67,746	139,000	139,000
Promotions&Events	232,062	482,649	238,143	521,804	410,939
Interest&Principal	347,760	615,465	172,467	516,193	516,193
OtherOperating	4,628,491	9,055,548	2,392,663	7,971,003	7,748,379
Projects	446,033	614,315	21,070	462,400	462,400
Equipment	49,846	122,288	7,764	122,315	122,315
CIPCosts	344,932	1,608,563	281,153	149,000	149,000
Reserves	0	48,451	0	0	0
Other	840,811	2,393,617	309,986	733,715	733,715
Total(ConsolidatedBasis)	10,463,865	16,825,737	5,189,223	14,351,950	13,884,135
plusInterfundTransactions	2,234,563	2,359,723	914,139	2,267,863	2,211,316
DepartmentTotal	12,698,428	19,185,460	6,103,362	16,619,813	16,095,451

Parks, Recreation & Neighborhoods

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	6,208,373	6,360,472	2,840,247	6,663,341	6,122,975
OperatingGrants-Block	31,500	619,300	3,042	0	0
CDBG-Direct	2,516,202	4,061,542	1,308,000	3,173,206	3,177,322
CDBG-RentalRehab	0	16,853	2,980	0	0
HousingLoanProgram	14,552	1,200,000	20,517	1,200,200	1,200,200
HOMEProgram	230,149	2,728,692	144,735	1,473,108	1,474,055
EmergencyShelterProgram	88,000	88,261	40,956	105,715	105,715
ParkFund	0	200,000	18,837	149,000	149,000
GolfFund	2,146,816	2,335,965	1,042,142	2,240,270	2,240,260
CentrePlazaFund	1,462,836	1,574,375	681,905	1,614,973	1,625,924
DepartmentTotal	12,698,428	19,185,460	6,103,362	16,619,813	16,095,451

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	52,054	0	0.00
Add	13	LeaseParkLandforWaterWells	0	1,358	0.00
Cut	37	ITSpendingReductions	-9,006	0	0.00
Cut	50	FeeIncreasesApprovedinCurrentYear	0	7,000	0.00
Cut	51	RevenuefromNewCellTowerLeases	0	2,880	0.00
Cut	52	LicenseAgreementsforSpecialEvents	0	30,000	0.00
Cut	53	ReduceExpendituresforMcClureCountryPlace	-34,000	0	0.00
Cut	54	EliminateYouthScholarshipsforUnincorporated AreaResidents	-19,000	0	0.00
Cut	55	JohnThurmanFieldParkingFees	0	6,550	0.00
Cut	56	ImprovedCostRecovery	0	12,319	0.00
Cut	57	SavingsfromReducedTuolumneRiverRegional ParkBudget	-26,361	-23,140	0.00
Cut	58	DeferReplacementofFourSedans	-9,668	0	0.00
Cut	59	ReduceFundingforCVBby15.7%	-46,001	0	0.00
Cut	60	ActivityGuideSponsorship	0	54,000	0.00
Cut	61	EliminateFundingforIntern	-14,000	0	0.00
Cut	62	CloseCityHallattheMall	-206,887	-128,413	0.00
Cut	63	EliminateRecreationSuperintendent	-93,388	0	-1.00
Cut	64	EliminateFundingForArts,MusicandPromotions	-45,864	0	0.00
Cut	65	RevenueforYouth/Senior/DisabledFinancial AssistanceProgram	0	50,000	0.00
Cut	66	EndUseofSomersetMulti-PurposeFacility	-11,462	-4,342	0.00
Cut	67	EndFreeSwimatDavisandDowneyHSPools	-60,000	-17,000	0.00
Cut	71	EliminateEducationalPartnershipProgram	-2,393	0	0.00
Cut	76	RecoverCostsFromRDA, TSP, Transportation	1,614	0	0.00
TotalDecisionPackages			-524,362	-8,788	-1.00

Engineering & Transportation

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	3,611,425	5,140,906	1,873,910	5,297,610	5,299,796
PartTimeSalaries	152,791	188,670	91,529	177,742	177,742
OvertimePay	91,211	85,173	50,212	86,856	86,856
OtherPay	727,002	1,925	429,286	1,963	1,963
Insurance	371,935	452,221	215,957	523,863	523,720
WorkersCompensation	42,925	76,741	32,027	79,481	69,415
PERSRetirement	305,832	361,660	158,739	546,293	545,633
EBFRetirement	52,227	52,248	22,235	121,344	201,062
OtherBenefits	155,151	208,830	82,294	209,330	205,505
Payroll	5,510,499	6,568,374	2,956,188	7,044,482	7,111,692
Supplies&Services	12,399,531	13,202,266	6,892,142	11,955,746	11,961,746
Travel&Training	35,997	49,572	9,973	50,149	50,149
IntrafundServiceCredits	-16,038	0	19,288	0	0
Interest&Principal	41,552	41,553	20,776	41,553	41,553
OtherOperating	12,461,042	13,293,391	6,942,179	12,047,448	12,053,448
Equipment	315,413	1,373,659	173,061	951,519	1,667,876
CIPCosts	10,025	1,036,292	2,103,465	1,000,000	1,000,000
Reserves	0	165,238	0	0	0
Other	325,438	2,575,189	2,276,527	1,951,519	2,667,876
Total(ConsolidatedBasis)	18,296,979	22,436,954	12,174,894	21,043,449	21,833,016
plusInterfundTransactions	5,530,957	7,699,398	2,354,475	6,961,905	7,120,229
DepartmentTotal	23,827,936	30,136,352	14,529,369	28,005,354	28,953,245

Engineering & Transportation

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	6,539,240	1,700,598	541,868	1,870,950	1,915,550
GasTaxFund	142,773	4,000,213	3,290,654	4,581,970	4,584,364
LocalTransportationFund	114,943	1,560,852	104,250	95,000	95,000
BusFund	7,014,675	8,609,669	3,213,787	8,183,776	8,945,480
WaterFund	4,807,486	5,201,911	3,729,177	4,248,297	4,288,066
SewerFund	4,126,876	4,558,177	1,714,757	4,271,338	4,291,029
DrainageFund	232,238	274,105	103,121	292,175	292,175
AirportFund	586,893	865,800	330,899	743,336	786,008
CapitalImprovementSupport	0	2,501,416	1,129,299	3,079,445	3,111,655
SolidWasteFund	0	552,973	257,810	587,715	592,566
OperatingGrants-Block	162,504	188,178	47,758	45,385	45,385
OperatingGrants-Reimbursed	100,308	122,460	65,989	5,967	5,967
DepartmentTotal	23,827,936	30,136,352	14,529,369	28,005,354	28,953,245

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	5	TrafficEngineeringSupportforDevelopment Review	37,141	37,141	0.00
Add	6	CurrentYearPromotions	6,897	0	0.00
Add	7	FundCurrentEBFCosts	48,405	0	0.00
Add	89	AirportDecisionPackages	41,500	0	0.00
Add	91	BusFundRequests	686,257	686,257	0.00
Cut	29	ImprovedCostRecoveryforDeputyCityManager	20,000	0	0.00
Cut	37	ITSpendingReductions	-3,479	0	0.00
Cut	68	ImprovedCostRecovery	110,621	110,621	0.00
Cut	69	ImprovedCostRecovery	-24,006	16,739	0.00
Cut	70	DowngradeVacantPosition	-5,585	0	0.00
Cut	71	EliminateEducationalPartnershipProgram	-3,754	0	0.00
Cut	76	RecoverCostsFromRDA,TSP,Transportation	33,894	0	0.00
TotalDecisionPackages			947,891	850,758	0.00

Operations & Maintenance

ByObject	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
RegularSalaries	12,570,393	16,703,482	6,264,057	17,332,220	17,160,302
PartTimeSalaries	465,933	546,761	205,908	673,494	653,494
OvertimePay	1,075,657	946,758	562,818	962,814	962,814
OtherPay	2,978,673	55,685	1,571,787	5,799	5,799
Insurance	1,726,806	1,927,582	942,732	2,194,681	2,178,438
WorkersCompensation	452,743	779,844	324,935	808,540	707,519
PERSRetirement	1,080,075	1,156,080	543,608	1,774,261	1,757,206
EBFRetirement	223,150	226,349	94,312	525,682	770,510
OtherBenefits	405,467	623,547	216,224	578,888	559,645
Payroll	20,978,897	22,966,088	10,726,381	24,856,379	24,755,727
Supplies&Services	32,328,915	33,123,822	14,963,844	34,780,382	34,595,647
Travel&Training	152,009	135,330	44,978	141,588	141,588
IntrafundServiceCredits	-149,877	1	-594,975	-131,000	-131,000
Interest&Principal	104,188	300,781	153,400	300,781	300,781
OtherOperating	32,435,235	33,559,934	14,567,247	35,091,751	34,907,016
Equipment	167,170	2,776,888	848,888	3,653,505	3,668,005
Other	167,170	2,776,888	848,888	3,653,505	3,668,005
Total(ConsolidatedBasis)	53,581,302	59,302,910	26,142,517	63,601,635	63,330,748
plusInterfundTransactions	10,423,046	16,488,119	5,043,739	17,261,053	16,250,600
DepartmentTotal	64,004,348	75,791,029	31,186,256	80,862,688	79,581,348

Operations & Maintenance

ByFund	2002-3 Actual	2003-4 Budget	2003-4 SixMonths	2004-5 Baseline	2004-5 Proposed
GeneralFund	12,250,530	9,235,540	2,768,589	9,779,599	8,497,062
GasTaxFund	260,294	7,315,322	3,730,805	7,564,814	7,465,085
LocalTransportationFund	518,810	1,744,552	0	2,288,757	2,288,757
LTFNon-Motorized	0	0	0	80,000	80,000
BusFund	1,445,533	1,944,340	758,983	1,992,673	1,996,097
WaterFund	24,237,610	25,130,659	11,439,241	26,855,147	26,913,341
SewerFund	13,308,359	16,460,967	6,438,722	16,750,386	16,807,649
DrainageFund	4,605,705	5,226,948	2,156,269	5,279,419	5,387,418
FleetFund	3,484,560	6,080,869	2,574,199	7,376,288	7,393,064
BuildingServices	3,075,803	1,694,760	858,331	1,898,834	1,905,563
OperatingGrants-Reimbursed	55,461	65,342	23,119	0	0
ParkFund	0	150,000	0	150,000	0
ParkingFund	761,683	741,730	437,998	846,771	847,312
DepartmentTotal	64,004,348	75,791,029	31,186,256	80,862,688	79,581,348

DecisionPackages			2004-5 Expenditures	2004-5 Revenues	2004-5 Positions
Add	7	FundCurrentEBFCosts	103,069	0	0.00
Add	13	LeaseParkLandforWaterWells	22,667	0	0.00
Add	15	ReplaceScenicLiftStationPump	14,500	0	0.00
Add	16	EvaluationofStormwaterPublicAwareness Program	44,451	0	0.00
Add	17	RockwellStudy	59,451	0	0.00
Add	89	AirportDecisionPackages	0	5,400	0.00
Cut	37	ITSpendingReductions	-1,646	0	0.00
Cut	39	FeeIncreasesApprovedinCurrentYear	0	3,500	0.00
Cut	40	DeactivateLightingatTennisCourts	-15,000	0	0.00
Cut	41	RestroomClosures	-106,159	-4,000	0.00
Cut	42	RevenuefromNewCellTowerLeases	0	25,920	0.00
Cut	43	LicenseAgreementsforSpecialEvents	-19,945	16,400	0.00
Cut	44	EliminateBudgetforReplacementTreePlanting	-30,000	0	0.00
Cut	45	EliminateMaintenanceofPocketParks	-34,000	-2,000	0.00
Cut	46	EliminateParksSupervisor	-26,668	0	0.00
Cut	47	CurtailWateringofParks	-90,000	0	0.00
Cut	48	DeferReplacementofCertainEquipment	-330,000	-330,000	0.00
Cut	49	EliminateClericalSupporttoGraffitiRemoval Program	-20,000	0	0.00
Cut	58	DeferReplacementofFourSedans	0	-9,668	0.00
Cut	71	EliminateEducationalPartnershipProgram	-16,692	0	0.00
Cut	76	RecoverCostsFromRDA,TSP,Transportation	52,000	40,000	0.00
Cut	77	ReduceGeneralFundSupportforCommunity Forestry	-486,248	-486,248	0.00
Cut	78	ReduceGeneralFundParkDevelopmentSupport	-150,000	-150,000	0.00
Cut	90	CityReorganization	-205,992	-106,869	-2.00
TotalDecisionPackages			-1,236,212	-997,565	-2.00

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	Total FY2005 Budget
FIRE						
1320-180-M174	Fire Station #11 (Pelandale/Carver)	127,505	65,992	2,097,863		2,291,360
1300-180-N412	Rehab of Fire Station 1	14,805	2,012	710,549		727,366
			TOTAL			3,018,726
POLICE						
1300-140-J192	911 Communications Center	2,049,320	0	50,680		2,100,000
1300-120-J299	Police Headquarters-Restricted	13,819,976	915,010	232,876		14,967,862
1300-190-M168	Police Tactical Training Center	891,316	169,332	782	160,000	1,221,430
			TOTAL			18,289,292
REDEVELOPMENT						
9070-140-J887	Tenth Street Police Prop Acquisition (1)	13,184,473	0	(306,240)		12,878,233
9060-140-Q244	Downtown Aff Housing Land Acq	0	1,508	1,713,092		1,714,600
9080-140-Q260	Gallo Arts Center St. Improvement	105	644	601,251		602,000
9080-140-Q246	Kansas BP Conceptual Mstr Plan	192,759	(0)	212,241		405,000
9080-140-Q243	Kansas Ave. Bus/Park Prop. Opt	50,000	0	50,000		100,000
9080-140-K871	RDA Master Plan	0	0	120,000		120,000
			TOTAL			15,819,833
CAPITAL FACILITIES DISTRICTS						
<i>Village One</i>						
2600-020-Q314	700' Of 30 Rcp Merle	0	0	7,000		7,000
2600-020-A107	Floyd Ave-Oakdale To Roselle	0	198,091	39,909	3,873,000	4,111,000
2600-020-Q309	Force Main From West Basin	6,445	609,010	544,545		1,160,000
2600-020-Q301	Hillglen Ave 60 Rcp"	13,460	461,882	134,658		610,000
2600-020-Q315	Merle Road Improvement	54	(0)	9,946	110,000	120,000
2600-020-Q310	Pedestrian Overcrossing	9,077	4,293	107,630		121,000
2600-020-A114	Roselle/Floyd Roundabout	0	362	133,638	1,931,000	2,065,000
2600-430-M208	Sylvan Ave - Widen East Of Bob	46,087	10,049	58,864		115,000
2600-020-Q312	Sylvan/Roselle Intersection	762	154,312	181,926	1,550,000	1,887,000
2600-020-Q311	Sylva-Southside Symphony Park	8,004	17,904	404,092	391,000	821,000
2600-020-Q302	Village One Stormdrain Improve	99,433	3,038,267	348,300		3,486,000
			TOTAL			14,503,000
<i>Enterprise Park</i>						
2660-040-K040	Enterprise Business Park	1,480,204	0	172,758		1,652,962
			TOTAL			1,652,962

(1) There will be an accounting adjustment at project closeout. Funding will be postive after the adjustment is made

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	FY2005 Total Budget
<u>Carver/Bangs/Pelandale/Snyder</u>						
2670-020-A105	Bangs Ave-American To Carver	0	4,703	297		5,000
2680-020-A101	Landscaping E.Dale (Peladale-Snyder)	0	0	24,000		24,000
2670-020-A106	MID Canalxing American & Bangs	0	334,648	2,352	297,000	634,000
2680-020-Q319	Prescott Rd Improvements	0	98,158	317,842		416,000
2680-020-A102	Snyder Ave (Prescott & Carver)	0	2,170	9,830		12,000
2680-020-Q318	Stormdrain Basins Pump	1,570	223,710	1,005,720		1,231,000
2680-020-A104	Tully Ctr MID 6 & Pelandale	0	0	28,000		28,000
2680-020-A103	Tully Front Imprv Pelandale-MID Lat6	0	0	22,000	35,000	57,000
			TOTAL			2,407,000
TRAFFIC CIRCULATION						
0700-160-H906	753 Detector Loops (Install)	41,577	0	239,923		281,500
0700-430-C926	7th St Bridge-Preliminary Desgn	238,427	558	48,518		287,503
2300-430-M203	9th Street Bridge Replacement	365,034	6,840,656	21,380,801		28,586,491
0510-430-K389	9th Street Pedestrian Enhancement	34,915	687	167,230		202,832
1410-160-M190	Advanced Traffic Mgmt System	103,002	(0)	496,998		600,000
1300-160-M282	Backup Battery Systems-Traffic	87,291	17,609	95,100		200,000
1410-430-M193	Briggsmore/Roselle-Impr To Merle	10,861	(0)	314,139		325,000
1410-430-A157	Briggsmore Soundwall	0	11,546	138,454		150,000
1410-430-N495	Briggsmore-Oakdale To Roselle	6,205	37,654	1,856,141		1,900,000
1410-430-A216	Briggsmore-Roselle To Claus	0	29,501	870,499	1,000,000	1,900,000
0700-430-K940	Carpenter Road Bridge-Seismic	123,612	(4,949)	4,881,337		5,000,000
1410-160-L912	CCTV Phase III	275,650	29,142	35,208		340,000
1410-480-M278	CFF - Streets Pelandale-Hwy 99	371,193	(1,184)	1,329,991		1,700,000
1410-430-Q210	Claratina - Coffee To Oakdale	0	0	2,672,000		2,672,000
1410-440-M283	Claus Road Plan Line	21,639	2,840	75,521		100,000
1410-430-Q201	Claus Road Right-Of-Way	1,756	366,664	31,580		400,000
1300-430-N121	College N. Of Bowen Rec. Lane	557	0	91,443		92,000
2300-430-N489	Community Gateways	0	29,808	292,692		322,500
2300-160-A153	Encina Improvements	0	8,952	356,048		365,000
2300-160-N064	Expand ATMS College Ave	663	(0)	99,337		100,000
0700-160-L129	Expand ATMS Northeast	594,079	(0)	17,349		611,428
0700-160-L130	Expand ATMS Northwest	75,809	408,020	312,171		796,000
2300-160-Q005	Federal (Hes) Grant Street Lights	0	0	178,000		178,000
2300-160-N068	Five Traffic Signal Mod - State	22,539	8,364	379,097		410,000
1410-430-N492	Floyd Widen - Oakdale-Roselle	64	0	1,199,936		1,200,000
2300-160-N066	Four New Signals - Pelandale	2,442	25,327	572,231		600,000
2300-160-N061	Four New Signals - Prescott	42,645	(12,289)	150,645		181,001
1410-430-Q203	Garner Road Plan Line	0	45,270	4,730		50,000

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	Total Budget
TRAFFIC CIRCULATION (continued)						
1410-430-A014	Hatch Rd Improvement at Dallas St	0	1,000	292,975		293,975
0700-430-F265	Kansas/Needham Overhead	12,867,789	4,037,778	436,433		17,342,000
0700-160-L904	Loop Detectors Citywide	25,880	79,047	245,073		350,000
2300-160-A265	Lower UPRR Crossings	0	23,497	231,503	2,146,419	2,401,419
2300-430-N157	McHenry Median Landscape Improve	0	0	120,000		120,000
2300-160-N067	Modify Traffic Signal - Standiford	25,399	195,444	48,581		269,424
1410-160-L133	Needham & L Signal Upgrade	68,325	0	21,675		90,000
1410-430-A155	Norseman City Limit-Yosemite	0	1,601	38,399		40,000
2300-160-N063	Operating CCTV System-2 Years	97,213	99,561	53,226		250,000
2300-160-A221	OTS Lighted Crosswalks Various	0	191,291	118,709		310,000
1410-160-L903	Paradise/Sttr/Martin Luther-Left Turn	936	0	60,064		61,000
1410-430-Q207	Pelandale - Reimburse For ROW	0	0	110,000		110,000
1410-430-N111	Pelandale -Coffee To Oakdale	112,418	13,725	123,857		250,000
1410-160-A156	Pelandale Interchange	0	0	150,000		150,000
1410-430-N496	Pelandale Intersection Improvement	186,846	55,122	1,128,032		1,370,000
1410-430-A159	Pelandale/McHenry Project Study	0	593	299,407		300,000
1410-430-A158	Pelandale-Sisk Intersection Improve	0	0	400,000		400,000
1410-430-Q209	Reimburse Development for Improve	0	0	55,000		55,000
0700-160-L029	Replace HighVolt Circ-Alley/College	138,752	123	6,125		145,000
2300-430-A223	Revegetation 9th Street Bridge	0	0	100,000		100,000
2300-160-N415	Roadway Illumination at 29 Intersections	13,826	167,723	45,451		227,000
2300-160-N416	Road Way Illumination McHenry	6,496	65,433	23,071		95,000
0700-160-L136	Roundabout Paradise & Sutter	0	221	14,779		15,000
2300-430-N130	RSTP 02/03 Scenic Pave Maint	76,653	757,187	315,160		1,149,000
0700-430-Q002	RSTP Coffee:Sylvan-Mable Design	120	91,645	16,235		108,000
2300-160-N060	Scenic/Bodem Right Turn Lane	21,596	3,246	150,159		175,001
2300-160-A009	Scenic at Lakewood Left Crosswalk	0	569	159,431		160,000
2300-160-A010	Sharon at Maid Marianne Roundabout	0	903	29,097		30,000
2300-430-M205	Sisk Road - Evergreen To Dale	1,812,875	806,006	749,319		3,368,200
1410-430-M188	Sr132 Phase I City Contribution	0	0	1,025,000		1,025,000
0700-160-M154	Standiford/Prescott Intersection Upg	0	0	50,000		50,000
1410-160-H982	T/S Synchro-Closed Circuit TV	746,537	9,060	60,244		815,841
2300-160-N062	Traffic Coordination Downtown	90	1,629	278,281		280,000
0700-480-L116	Traffic Ops Corp Yard Relocation	53,919	8,132	362,949		425,000
2300-160-N065	Traffic Signal Yosemite/McClure	0	4,400	75,600		80,000
1410-160-A224	Tully/Snyder Traffic Signal	0	110,485	19,515		130,000
2300-160-N498	New Traffic Signals Oakdale/Coffee	10,645	14,136	255,219		280,000
2300-160-N059	Upgrade ATMS Communication	33,666	37,377	58,957		130,000
1410-160-A154	Woodland Inters Imprv 9th/Carver	0	0	100,000		100,000
			TOTAL			82,602,115

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	Total FY2005 Budget
TRANSIT						
6510-165-F768	Auto Vehicle Locaters Systm-MAX	26,312	17,463	416,225		460,000
6510-165-A044	Autom Vehicle Location System	0	0	300,000		300,000
6510-165-Q003	Fare Collection System Upgrade	0	189,708	10,292		200,000
6510-165-N591	Hybrid Electric Bus	0	0	660,000		660,000
6510-165-B911	New Bus Maintenance Facility	2,155,232	23,486	11,601,607		13,780,325
6510-165-A047	Purchase 2 Commute Buses	0	0	450,000		450,000
6510-165-K821	Purchase New Buses	39,693	4,498,695	567,769		5,106,157
6510-160-L102	Refurbish 1983/90 Gillig Buses	2,648,687	38,238	4,845		2,691,770
			TOTAL			23,648,252
AIRPORT						
6320-440-M275	Airport Expansion & Resurfacing	48,968	19,668	491,252		559,888
6320-160-M254	Airport Master Plan & EIR	207,465	63,178	29,889		300,532
6320-440-A008	Airport Terminal Prkng Lot Expansion	0	9,543	734,901		744,444
6320-440-N559	Emergency Airfield Generator	46,612	391,782	6,050		444,444
6320-440-Q143	Hangar T	0	55	366,611		366,666
6320-440-N127	Perimeter Access Road	67,293	(0)	222,707		290,000
6320-440-N020	Runway Pavement Evaluation	111,378	1,218,389	1,170,233		2,500,000
6320-440-N561	Security ID Display Upgrade	0	165	372,056		372,221
			TOTAL			5,578,195
CENTRE PLAZA						
6700-340-L018	Centre Plaza Energy Management	37,269	45,305	17,426		100,000
6700-310-N440	Centre Plaza Terrace Elevator	42,594	249,235	65,171		357,000
6710-340-A088	Modesto Centre Plaza Lighting	0	493	149,507	150,000	300,000
			TOTAL			757,000
PARKS						
2300-310-A012	1230 12th Street Retrofit	0	0	600,000		600,000
2300-310-A080	Briggsmore/99 Beautification	0	3,701	1,371,299		1,375,000
1350-310-Q238	Coffee/Claratina Neigh Park	114,572	1,037,452	61,206		1,213,230
2300-310-Q240	Conant/Rumble Sidewalk Improvement	10,460	29,205	310,335		350,000
1350-310-A081	Creekwood Park Shade Structure	0	796	74,204		75,000
1350-310-Q233	Freedom Neighborhood Park	5,818	112,904	839,278	400,000	1,358,000
1350-310-M176	Grogan Community Park Acquisition	2,481,334	198	922,886	458,000	3,862,418
2300-310-Q245	Hillside Dr-Orville Wright Park	334,771	38,060	4,269		377,100
2300-310-A013	Hillside Drive Imprv Kerr/S Santa Cruz	0	0	55,000		55,000
1400-310-K048	Infrastructure Preservation	109,472	0	27,528		137,000
1400-310-M185	Infrastructure Preservation	836,047	83,522	203,431		1,123,000
2300-310-N992	King Kennedy Center	49,137	208,516	23,347		281,000
2300-310-M182	Maddux Youth Ctr Improvement	115,901	278,921	1,927,240		2,322,062
2300-310-N112	Mark Twain Picnic Area	396	4,037	50,567		55,000

**Proposed Fiscal Year 2004-2005
EXISTING PROJECTS**

Fd-Agy-Orgn	Project Description	<i>FY2003 Actuals Since Inception</i>	<i>FY2004 Estimated Expenditures</i>	<i>FY2005 Unobligated as of 4/30/04</i>	<i>FY2005 Additonal Funding</i>	<i>Proposed FY2005 Total Budget</i>
1350-310-N107	McKinney Colony Neighborhood	36,636	259,092	442		296,170

**Proposed Fiscal Year 2004-2005
EXISTING PROJECTS**

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	Total FY2005 Budget
PARKS (continued)						
1300-310-M163	Modesto Westside Svce Center	65,334	34,175	1,587,376	1,849,000	3,535,885
1350-310-L002	Northeast McHenry Nbh Park Acq	1,139,257	(1)	5,684		1,144,940
2300-310-M186	Orville Wright Neighborhood Park	439,511	568,139	104,350		1,112,000
1350-310-N445	Park Master Plan/Construction	63,883	(0)	227,117		291,000
2300-310-N442	Play Equipment Upgrades	19,994	102,892	377,114		500,000
0520-430-L923	Scenic Ave Corridor	30,611	6,370	622,696		659,677
1350-310-M177	Sports Complex	128,458	96,982	198,560		424,000
1350-310-M178	Sutton Community Park	65,062	24,373	225,565		315,000
8910-310-M269	TRRP Gateway Construction	9,552	381,710	34,523		425,785
8910-310-N441	TRRP Gateway Project	0	21,923	1,230,077	75,000	1,327,000
1350-310-Q200	Ustach Neighborhood Park - All	96,256	1,168,555	78,869		1,343,680
0520-160-N045	Virginia Corridor Safe School Route	20,327	2,650	467,023		490,000
0520-310-M139	Virginia Corridor	244,331	274,965	704		520,000
2300-310-A087	Virginia Corridor Phase I Construction	0	6,686	275,314		282,000
			TOTAL			25,850,947
STORM DRAIN						
6280-430-N686	9th Street Storm Drainage	74,853	397,614	47,533		520,000
0800-140-L092	Kiernan Bus Prk Storm Drain Study	60	0	49,940		50,000
6280-440-Q231	Storm Drain Master Plan	218,714	218,272	13,014		450,000
6280-430-A213	Storm Drainage System Analysis	0	0	100,000	100,000	200,000
			TOTAL			1,220,000
WASTEWATER						
6210-480-M244	Cannery Segregation - Land Acq	44,448	1,150	2,454,402		2,500,000
6210-430-A215	DAF Dissolved Air Floatation	0	3,173	4,496,827	(4,096,826)	403,174
6210-430-A218	Deferred Maintenance Reduction	0	28,698	171,302		200,000
6210-430-A209	Engineering System Analysis	0	0	200,000	155,000	355,000
6230-480-J590	Equipment For WWC Bldg	3,950	0	101,050		105,000
6230-480-J889	Parallel 60" Outfall, Construct	2,210,115	0	112,465		2,322,580
6210-480-Q234	Repl/Rehabilitate Brick Manhole	6,904	5,911	87,185		100,000
6210-430-A049	Rose/Celeste/Scenic Sewer Trunk		0	439,000	400,000	839,000
6210-430-A212	Sewer Collection System Rehab	0	701	99,299		100,000
6210-430-N143	Shackleford Crossing	33,359	11,229	510,412		555,000
6210-480-L070	Thousand Oaks Lift Stn Genr Rep	57,483	15,315	127,203		200,000
6210-480-Q235	Village One-Extend Subtrunks	82,661	0	277,339		360,000
6210-480-F743	Wastewater Collection Maint Bldg	1,471,748	729,491	139,130		2,340,369
6210-430-A208	Wastewater Master Plan Update	0	1,013,006	36,994		1,050,000
			TOTAL			11,430,123

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	FY2005 Total Budget
WATER (2)						
6100-480-Q211	Acquire Property/Install GAC A	419	14,690	284,891		300,000
6100-480-A020	Extend 12 Water Mains New Area	0	10,722	372,587	230,691	614,000
6160-430-A037	Grayson Wellhead Treatment	0	35,924	(11,924)		24,000
6100-430-A021	Groundwater Management	105	22,373	17,522		40,000
6160-430-A035	Groundwater Management (6160)	0	3,100	56,900		60,000
6150-440-Q248	Install Generator Tanks 6,7,8	948	(0)	319,052		320,000
6150-480-M224	Install New Services (6150)	1,213	55,012	3,775		60,000
6160-480-N650	Install New Wells	24,881	173,937	226,182		425,000
6100-480-M214	Install New Wells	266,431	860,005	657,076	720,000	2,503,512
6150-430-M231	Install New Wells (6150)	185,796	318,664	324,132		828,592
6100-480-L051	Install Well Carver/Bangs (6100)	33,452	13,665	352,883		400,000
6100-480-L050	Install Wells Village One (6100)	167,320	12,723	219,957		400,000
6100-430-A202	MRWTP Phase2 Exp Distrib Improve	0	327,789	3,371,208		3,698,997
6150-430-A205	MRWTP Phase2 Exp. Distrib Improve	0	134,700	190,300		325,000
6150-430-A220	Purch/Install Empire Generator	0	8,445	125,555		134,000
6100-480-Q213	Purchase And Install New Generator	9,128	14,895	244,977	139,000	408,000
6160-480-Q223	Purchase And Install New Generator	13,227	22,643	343,130		379,000
6150-480-M228	Purchase Generators (6150)	58,368	8,731	215,250		282,349
6160-480-M241	Purchase Generators (6160)	31,234	2,527	21,411		55,172
6100-440-M212	Recoat Tank Interior (6100)	97,379	0	112,621		210,000
6150-480-M232	Recoat Tank Interior (6150)	1,736	422	417,842	210,000	630,000
6100-480-M221	Replace & Upgrade Existing Wat	559,705	783,742	197,122		1,540,569
6150-480-M222	Replace & Upgrade Existing Wat	2,046,451	1,665,506	370,960	619,000	4,701,917
6160-480-M242	Replace & Upgrade Existing Wat	297,130	118,059	292,496	115,000	822,685
6100-480-M211	Replace Pumps (6100)	142,314	67,374	90,312		300,000
6150-480-M227	Replace Pumps (6150)	192,496	2,692	129,812		325,000
6100-480-A022	Replace/Upgrade Water Mains	0	127	399,873	750,000	1,150,000
6160-480-Q224	Retrofit Existing Water Meters	0	75,959	214,041		290,000
6100-480-A042	Satellite Corp Yard Wall	0	2,859	47,141	50,000	100,000
6160-480-Q225	System Analysis	4,638	31,461	8,451		44,550
6100-430-N639	System Analysis (6100)	149,230	256,300	30,220		435,750
6150-430-N637	System Analysis (6150)	56,199	77,300	13,701		147,200
6100-430-A025	Water Master Plan	0	0	210,000		210,000
6150-430-A032	Water Master Plan (6150)	0	0	150,000		150,000
6160-430-A040	Water Master Plan (6160)	0	0	100,000		100,000
6100-430-A054	Water Quality Study (6100)	0	0	100,000	150,000	250,000
6150-430-A055	Water Quality Study (6150)	0	0	30,000	50,000	80,000
6150-480-A203	Water Sys Sec Enhancement (6150)	0	10,000	32,000	70,000	112,000
6160-480-A207	Water Sys Sec Enhancement (6160)	0	10,000	18,000	31,000	59,000
6100-430-A200	Water System Analysis	0	1,199	148,801	158,000	308,000

(2) Projects currently are setup in each of the water zones and will be consolidated into one zone per Council direction

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

		<i>FY2003 Actuals Since Inception</i>	<i>FY2004 Estimated Expenditures</i>	<i>FY2005 Unobligated as of 4/30/04</i>	<i>Additional Funding</i>	<i>Proposed FY2005 Total Budget</i>
Fd-Agy-Orgn	Project Description					
as we go through the Capital Improvement Program budget process						

Proposed Fiscal Year 2004-2005 EXISTING PROJECTS

Fd-Agy-Orgn	Project Description	FY2003	FY2004	FY2005		Proposed
		Actuals Since Inception	Estimated Expenditures	Unobligated as of 4/30/04	Additonal Funding	FY2005 Total Budget
WATER (continued)						
6150-430-A204	Water System Analysis (6150)	0	0	30,000	30,000	60,000
6160-430-A206	Water System Analysis (6160)	0	0	50,000	20,000	70,000
6100-480-A201	Water System Security Enhancement	0	34,016	147,984	202,000	384,000
6150-430-A030	Water Zone 2 (Mid Area) (6150)	0	6,358	98,642		105,000
6100-430-A023	Wellhead Treatment Zone 1	0	11,927	714,155	580,918	1,307,000
6160-430-N641	Wellhead Treatment Zone 3#288	0	14,184	110,816	3,600,000	3,725,000
			TOTAL			28,875,293
MISCELLANEOUS						
1300-140-J219	City/County Admin Bldg-JPA	17,861,263	0	614,102		18,475,365
1300-430-K859	Corporation Yard Land Acquisition	482,863	10,500	6,637		500,000
1300-120-Q237	Counter Reconstruction	0	0	200,000		200,000
7200-480-H028	Fleet Maintenance Facility	21,421	216,424	249,384		487,229
			TOTAL			19,662,594
<p>(2) Projects currently are setup in each of the water zones and will be consolidated into one zone per Council direction as we go through the Capital Improvement Program budget process</p>						
Total Capital Improvement Projects		89,473,558	40,305,909	106,826,663	18,709,202	255,315,332

**Proposed Fiscal Year 2004-2005
NEW PROJECTS**

Project Description	<i>FY2005 Proposed New Projects</i>
AIRPORT	
Airport Improvements and FAA planning Documents	905,000
PARKS	
Claus Neighborhood Park	113,000
TRAFFIC CIRCULATION	
Northwest Modesto Street Improvements	110,000
TRANSIT	
Fiscal Year 2004-05 Bus Purchase	944,350

Proposed Fiscal Year 2004-2005

NEW PROJECTS

AIRPORT

Proposed FY2005

Type: Airport

Location:

Project Title: Airport Improvements and FAA planning documents

Description: Various improvement projects and noise/environmental studies are scheduled for the Modesto City - County Airport. Some are locally funded. Others involve Federal Aviation Administration (FAA) grant funds with deadlines attached to them.

- | | |
|--|------------|
| 1. F.A.R. Part 150 Noise Study | \$ 300,000 |
| This is a noise study that is required as a part of receiving FAA approval of the Final Airport Master Plan. | |
| 2. Airport Master Plan Environmental Document Preparation and Processing | \$ 445,000 |
| Finalizing the Airport Master Plan requires preparing and processing an environmental document that meets both Federal NEPA and State CEQA Guidelines, as required by FAA. | |
| 3. Reroof Office Building No. 1 | \$ 75,000 |
| The project will replace an increasingly deteriorating, 15-year old roof. This office houses airport related tenants, as well as some non-aviation users. The roof is in such condition that periodic stop-gap maintenance is no longer effective. | |
| 4. Replace Vinyl Floor Tile - Office Building No. 1 | \$ 10,000 |
| The existing floor tile in this office building is the original floor tile, which is a minimum 30-35 years old, perhaps older. It needs replacing. | |
| 5. Reroof Office Building No. 2 | \$ 75,000 |
| The project will replace an increasingly deteriorating 18-year old roof. This office houses non-aviation users. The roof has deteriorated to the point where periodic stop-gap maintenance is no longer effective. | |

Project Total

\$905,000

Proposed Fiscal Year 2004-2005
NEW PROJECTS

PARKS

Proposed FY2005

Type: CFF Construction **Location:** Village One

Project Title: Claus Neighborhood Park

Description: This funding will provide for the development of a masterplan, environmental work, construction documents; Phase I (site improvements); Phase II (play apparatus); Phase III (rest room utility building); Phase IV (picnic Units and Phase V (area lighting). This new park will serve the Village One area and is a 7-acre neighborhood park.

\$113,000

Project Total

\$113,000

Proposed Fiscal Year 2004-2005 NEW PROJECTS

TRAFFIC CIRCULATION

*Proposed FY2005
Preliminary Engineering Only*

Type: CFF Construction **Location:** Various

Project Title: Northwest Modesto Street Improvements

Description: Various intersection and roadway improvements are scheduled for the Northwest area of Modesto. An anticipated increase in traffic volumes necessitate the following improvements and the cost for preliminary engineering design only:

- | | |
|--|----------|
| 1. Bangs / Prescott Intersection Improvements
A new intersection control device and additional West Bound Left Turn Lane will be installed at the Bangs / Prescott Intersection | \$25,000 |
| 2. Dale / Pelandale Intersection Improvements
The addition of a 3rd Eastbound Receiving lane through the Dale / Pelandale Intersection will be constructed. | \$40,000 |
| 3. Prescott / Pelandale
The proposed median on Prescott, South of Pelandale will be lengthened by 100' for additional vehicles. | \$5,000 |
| 4. Pelandale - Sisk to SR99 Northbound On-Ramp | \$40,000 |

Project Total

\$110,000

Proposed Fiscal Year 2004-2005
NEW PROJECTS

TRANSIT

Proposed FY2005
Equipment Purchase Only

Type: Bus Purchase **Location:**

Project Title: Fiscal Year 2004-05 Bus Purchase

Description: Purchase of three (3) thirty-foot low-floor diesel powered heavy duty buses. These buses are needed to accommodate the expansion of the MAX system recently approved by the City Council.

Funding:	FY05 FTA Grant	6510	165	B001	3553	\$784,350
	CFF Transfer	6510	165	B001	9142	\$160,000

Project Total **\$944,350**

Capital Improvement Program Process and Assumptions

The Capital Improvement Program (CIP) for the City of Modesto recognizes and plans for the large investments required for maintaining or expanding public facilities and infrastructure.

Capital Improvement Project - Descriptions

- Capital asset - new or rehabilitated physical asset, non-recurring, long life, and generally expensive
- Capital Project - undertaking to acquire or build a capital asset
- Capital Improvement Program - multi-year plan identifying projects to be funded during the planning period (10 Years)

The CIP is a formal mechanism for decision making to develop agreement on policies, projects, funding sources, community needs and priorities. The CIP links to long-range capital plans to the Urban Area General Plan, Specific Plans, Capital Facility Fees Program, and other Joint Powers Agreements. The CIP is also a financial management tool for forecasting and a reporting document. The advantage of Capital programming is that it focuses attention on community goals, needs and financial capacity. The CIP builds public consensus for projects and improves community awareness.

Capital Improvement Project - Definition

- Identifiable project, with a beginning and end
- Cost should be \$100,000 or more, however, in some cases it may be less
- Usually multiyear but non-recurring
- Project budget should balance (Revenues equal Expenditures)
- Long service life

We have made several changes in the CIP. We have differentiated “capital” from “maintenance” for improved ability to prioritize and monitor “capital” projects. This will also improve project reporting and our ability to examine the cost maintenance and deferred maintenance.

CIP development and monitoring is an ongoing process in which department managers, Council, or citizens request capital improvements. These requests are evaluated and prioritized by each program area. Each area of the CIP has a profile for evaluating a project and ranking it as to its relative priority. The project is also evaluated for availability of funding and coordinated between City Departments and other impacted agencies. If a project is selected for funding it is included in this document.

Revenue Assumptions

The revenue projections for developing the CIP are based on the latest economic and demographic information available, recent revenue trends, and our projection models. Our projection modeling is most important in projecting development related revenue sources. Depending on the area of analysis, population growth is projected at 2.57% for next year, which is approximately the same growth experienced over the past two years. Our revenue projections focus on the large dollar revenue sources. In developing our revenue projections, staff also considers the seasonal variations and recent activity in the building and construction field. Revenue projection information is monitored monthly, and adjusted on a quarterly and annual basis. Revenue projections also include the latest information on grants from the Federal and State sources.

Appendix A

Staff Policy Papers

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Staff Paper #1:
State Budget Impacts

MEMORANDUM

DATE: MAY 4, 2004

TO: MAYOR AND CITY COUNCIL

FROM: PEGGY HETZLER

SUBJECT: ISSUE PAPER REGARDING STATE REVENUE IMPACTS

History of State Budget Grabs

State budget grabs from cities in California are not new. They began in earnest in 1981-82 when the State first learned that it could balance its budget shortfalls by taking away revenues from cities. Interestingly enough, its first takeaway was vehicle license fees (VLF) in 1981-82 in response to recessionary declines in State General Fund revenues. This takeaway was subsequently restored in 1984-85. That same year, the State also took away subventions for liquor license fees and “bank-in-lieu” subventions.

The following chart summarizes the estimated cumulative impact of these grabs from the City of Modesto for the past 15 years. As shown below, even after accounting for partial restorations, these takeaways reduce revenues to the City by \$6.6 million in 2003-04. After including an estimated impact for FY 04-05 of \$6.8 million, the State has deprived the City of Modesto of more than \$41 million in revenue over the last 15 years.

Description	Fiscal Year 2003-04	Fiscal Year 2004-05	Cumulative Loses Past 15 years
Takeaways:			
Vehicle License Fees (VLF) “Gap”	\$3,600,000	\$2,600,000	\$6,200,000
Property Tax/ERAF	2,940,781	3,846,405	29,243,072
Property Tax (RDA ERAF)	122,000	122,000	387,954
Triple Flip		300,000	300,000
Cigarette Tax	452,104	452,104	5,634,097
Non-parking fees	65,343	65,343	858,734
Jail booking fees	465,000	465,000	7,223,457
Property Tax administration fee	180,000	180,000	2,756,030
Subtotal	7,825,228	8,030,852	52,603,344
Restorations:			
One time VLF			857,830
One Time ERAF Relief			958,313
Proposition 172 Sales Tax	655,819	691,889	5,849,041
Jail Booking Reimbursement	560,804	560,804	3,364,824
Subtotal	1,216,623	1,252,693	11,030,008
Net Revenue Loss	\$6,608,605	\$6,778,159	\$41,573,336

Current Strategy to Address State Impacts

Since FY 01-02, the City has been actively increasing the General Fund's fund balance reserves to accumulate a "cushion" in excess of the Council's adopted reserve level of 8% of General Fund expenditures. In anticipation of future State impacts, the City Manager instituted a hiring chill during fiscal years 01-02 and 02-03 to capture salary savings and approved a \$2 million loan from the Fleet Fund to boost General Fund reserves. These actions have allowed the City to avoid major reductions in service to the public by providing the City with time to develop a strategic approach to balancing the revenue loss with expenditure reductions over time.

Due to continuing uncertainty regarding the State's budget, the Finance Department has included an estimate of ongoing revenue losses in the amount of \$2.6 million in its five year financial projection of the General Fund.

Policy Issue

The FY 04-05 proposed budget will require the use of \$4.2 million of General Fund reserves to balance revenues with expenditures in the General Fund. This funding gap will carryforward into the FY 05-06 budget at which time General Fund reserves are projected to fall below the Council's 8% policy.

The Council may wish to consider enacting a formal policy establishing a level of reserves to be maintained in the General Fund above the current Council 8% reserve policy as an ongoing cushion to absorb future State impacts. This cushion could be maintained in a variety of ways including:

- dedicating unanticipated one time only revenues to fund balance
- sweeping salary savings into fund balance
- including provisions in future collective bargaining agreements to automatically adjust compensation and benefit levels to offset future state revenue impacts that cannot be absorbed through General Fund contingency reserves

A formal policy from the Council such as the one discussed above would provide direction to staff in developing and managing future budgets.

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Staff Paper #2:
Revenue Alternatives



**CITY OF MODESTO
AGENDA REPORT**

**COMMITTEE MEETING:
May 05, 2004**

April 30, 2004

TO: Finance Committee

FROM: Donna Hansen, Deputy City Manager

SUBJECT: Cost for Additional Police and Fire Service and Revenue Opportunities to Fund Public Safety

CONTACT: Donna Hansen, dhansen@modestogov.com, 571-5125

RECOMMENDED COMMITTEE ACTION:

Review Public Safety policy issues and safety cost estimates. Consider new revenue opportunities and cost recovery options.

SAFETY POLICY ISSUES

Public Safety has been a priority for this Council and as such the Police and Fire Departments were exempt from 04/05 program reductions. Council action concerning Capital Facility Fees (CFF) and the Ad Hoc Committee report approved by the Safety and Communities Committee and forwarded to the Finance Committee for action on March 15, 2003 have the following financial implications.

1. CFF policies and deficiencies analysis- A comprehensive update of the Capital Facilities Fees (CFF) program was approved by the City Council on June 24, 2003. While the new fees for police and fire facilities were increased, deficiencies still exist and general fund support will be necessary. In addition Council adopted the police officer staffing model of 1.85 officers/1000 population. Facility needs, costs and the police fee level were based on that staffing number and therefore a good faith effort must be made to hire additional police officers.
 - a. 1.85 Officers/1000 population cost estimate- Using the staffing model presented to the Finance Committee by the Police Department, an average cost by job classification was used to estimate the cost per FTE for the new staff. Also added is the expected employee benefit fund (EBF) impact for each new position, in line with the goal of keeping the EBF liability from growing. This includes very rough estimates of the increase in fleet costs and a modest figure for routine supplies.

The Police operating budget would increase \$15.9 million annually to serve the current population with 1.85 officers/1000. To serve the 2010 population would cost an additional \$4.1 millions; however this reflects *no* cost level increases, not even the anticipated 2006 CALPERS rate increase. From a revenue perspective, funding would

need to grow \$16 - \$17 million per year (as of 2005) and grow by 8% per year (to keep the entire department in line with the 1.85) plus 3-6% per year to keep pace with salary & benefit inflation for the \$16 million in new staff (total growth 11-14%). Growth slower than that could create a whole new funding gap.

If the Police Department used the personnel “ramp-up model” presented to the Safety and Communities Committee, it would cost approximately \$2,161,910 to increase sworn staffing to a 1.35/1000 level.

- b. The 2003 CFF update increased the capital facility fees significantly based on future buildout. However, since its adoption, the market has dictated increased costs that leave the City facing shortfalls in its collection. Land costs were estimated to be approximately \$125,000 per acre. Now, however, land costs are approximately \$250,000 per acre.
 - c. In addition, in an effort not to thwart business development, the City capped its 2003 CFF Program, creating a future deficit. For the Fire Department capital projects, the anticipated shortfall is approximately \$25,000 for the 04-05 fiscal year. For the Police Department capital projects, it is approximately \$81,000 for the 04-05 fiscal year. Both of these shortfalls represent approximately 23% of uncollected revenue for that fee program. General fund loans to the Fire Department for the 03/04 budget are roughly \$500,000. It is estimated that unless the CFF’s are increased, the General Fund will have to loan approximately \$3 million to the Fire Department to meet facility and equipment needs in new growth areas.
2. Ad Hoc Safety Committee Report – The Safety and Communities Committee endorsed the Ad Hoc Safety Committee report and recommended actions. This report was forwarded to the Finance Committee on March 15, 2003 for review and funding consideration. The following is a *very rough* estimate of costs associated with the Committee recommendations that focus on staffing and competitive salaries and benefits.

- a. *“The City Council will dedicate a fixed percentage of the general fund to public safety functions by the 2004 City Budget.”*

Police and Fire account for 72% of the General Fund discretionary revenue in the City Manager’s proposed budget.

- b. *“The Modesto Police Department will achieve a staffing ratio of 1.85 sworn officers per 1000 residents by 2010.”* (See above analysis)
- c. *“In order to assist with the attraction and retention of qualified personnel, the starting and average salary levels of the Modesto Police Officers and Fire Fighters will be competitive with other law enforcement agencies in the Central Valley and East Bay region by 2005.”*

The Personnel Department estimated that by increasing health care benefits to \$800/month for sworn members of the Safety Departments (current fiscal year staffing) costs would increase approximately \$500,000, annually.

Information provided by police and fire employee associations generated the following comparison estimates.

Police – The average salary for 22 comparison cities was \$5,577/month compared to Modesto’s \$4842/month. The difference is \$735/month. If multiplied by all sworn personnel, the annual impact would be \$2,310,840. This does not include benefits which accounts for 45% of police salaries bringing the number closer to \$3,350,718.

If we compare MPD salaries to Stockton the numbers would be \$462,168 (salary increase) annually + 45% (benefits) = \$670,143

Fire – Compared to Stockton’s top step fire fighter’s monthly salary, the difference is \$1171. Multiplying this number by 161 members of the Modesto Fire Department and adding a 45% benefit package the annual cost would be cost \$3,280,439.

Again the above police and fire analysis are very rough estimates and they do not provide the cost differences associated with the various classification. It also does not include incentive pay, which varies greatly between cities.

- d. *“Support and administration staffing levels for both the Modesto Police Department and Modesto Fire Department need to be increase in order to allow sworn personnel to focus their attention on public safety.”*

Police Department Support and Administrative staffing request for 04/05:

Police Clerk (half year funding)	\$ 22,850
Animal Control Office	\$ 53,522
Total	\$ 76,372

Fire Department Support and Administrative staffing:

Training Division	\$240,902
Fire Prevention Bureau	\$321,668
Support Services	\$272,631
Total	\$840,201

- e. *“The Modesto Fire Department should achieve the National Fire Protection Association (NFPA) standard of 4 trained personnel on each engine and truck company in the City by 2008”.*

54 additional Firefighters, 6 additional Relief Personnel	\$4,640,328
Constant Staffing Overtime	\$ 288,816
Total	\$4,929,144

- f. *“Two person rescue companies should be created by the Modesto Fire Department to enhance firefighter safety and to improve system reliability by handling many non-fire related requests for service by 2005”.*

Nine Engineers, Nine Firefighters (3, two person units)	\$1,449,252
Constant Staffing Overtime	\$ 102,626
Total	\$1,551,878

CURRENT PRACTICE

The Finance Committee established the budget policy to exclude the Police and Fire Departments from across-the-board reductions, however, funds for additional resources necessary to staff Fire Station 11 or begin to address the 1.85 staffing/1000 population ratio for police have not be budgeted.

COUNCIL OPTIONS – Funding for additional safety personnel and equipment

- I. Take no action.
 - a. No additional police officers or support staff.
 - b. Station 11 staffed with existing personnel or delayed equipment replacement.
- II. Use general fund reserves to fund additional safety personnel.
- III. Increase program cuts by other general fund departments to increase safety funding.
- IV. Continue to hold safety harmless if additional cuts are required.
- V. Cut safety in proportion to other service cuts.
- VI. Pursue new revenue options to support safety and other city operations.

New Revenue Options

1. Sales Tax Increase

1/8% increased City sales tax	=	\$3,818,636
1/4% increased City sales tax	=	\$7,637,271
1/2% increased City sales tax	=	\$15,274,542
3/4% increased City sales tax	=	\$22,911,813
1% increased City sales tax	=	\$30,549,084

2. Property Tax Increase – Parcel Tax

The calculations based on 53,000 residential parcels are:

53,000 parcels x \$30	=	\$1,590,000
53,000 parcels x \$50	=	\$2,650,000
53,000 parcels x \$75	=	\$3,975,000
53,000 parcels x \$100	=	\$5,300,000

- 3. General Tax on New Residential Construction - revenue undetermined
- 4. Utility Users Tax – Remove the maximum rate of \$1500 - revenue undetermined
- 5. Transient Occupancy Tax Increase from 9% to 11% - \$234k each 1% increment
- 6. Cable Franchise Fee - Increase from 3% to 5% will generate approximately \$500,000
 - a. Current 3% = \$749,736
 - b. Increase to 5% = \$ 1,249,560
- 7. Cable Franchise “pass through” of \$.25 to .55/month/customer for PEG and INET equipment costs. (\$159,000 to \$349,800)
- 8. Surcharge on each telephone, including mobiles, for 911 Dispatch Costs – Approximately \$2.5 million annually

- 9. Fire Department Service Consolidation – revenue undetermined
- 10. Advanced Life Support Partnership – revenue undetermined
- 11. Park Fund Development Strategies
 - a. Legacy Endowment for Parks – Could build to \$500,000/year
 - b. Sale/Lease of Remnant Parcels – possibly up to \$6.9 million
 - c. Fund Development Naming Rights – Potentially \$250,000 annually
 - d. Neighborhood Improvement Sponsorships - revenue undetermined
 - e. Corporate Program Sponsorships - \$50- \$5,000/program
 - f. Presentation Sponsorships - \$10,000- \$50,000 annually
 - g. Exclusive Vendor/Official Supplier - \$10,000- \$50,000 annually
- 12. Park, Lighting and Safety Districts - \$8.8 million
- 13. Advertising –Web Site – \$86,000 annually
- 14. Wireless Network Branding/Partnerships – approximately \$300,000 in equipment and \$270,000 annually
- 15. Tow Truck Franchise – Approximately \$200,000

VII. Seek full cost recovery, including indirect costs, for city services

Cost recovery:

- 1. Special Events/Downtown Security – Increase Parking Fees - \$150,000 annually
- 2. Administrative Enforcement and “City” Court - \$150,000 annually
- 3. Public/Private Events – Full Cost recovery - Fees, License agreements (Xfest, etc) - approximately \$300,000 - \$350,000.
- 4. Hourly Parking Fees - \$20,000 annually
- 5. Developer User Fees – Planning - \$50,000 annually

RAMIFICATIONS

Additional revenue is necessary to meet public safety as well as other community needs.

Prepared by:

Donna Hansen, Deputy City Manager

Submitted By:

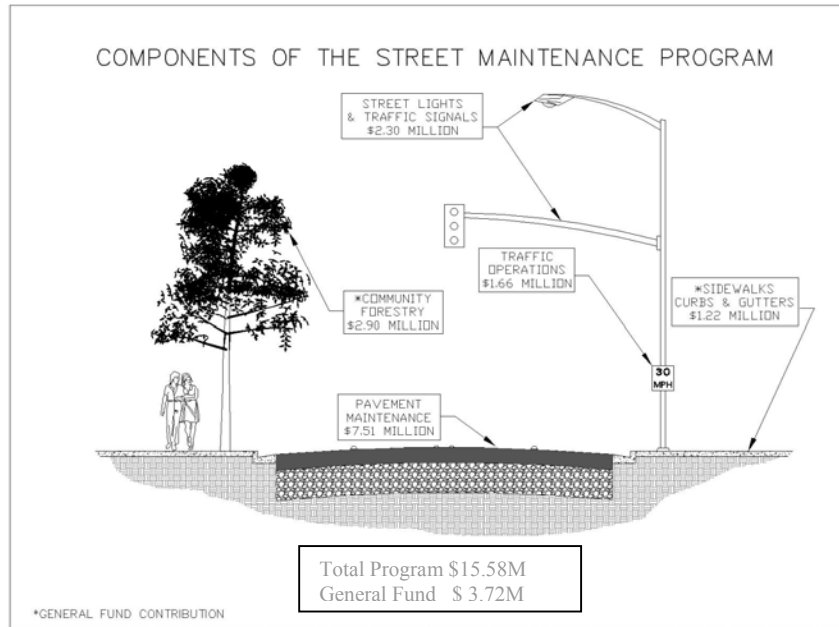
Jack R. Crist, City Manager

Staff Paper #3:
State of the Streets

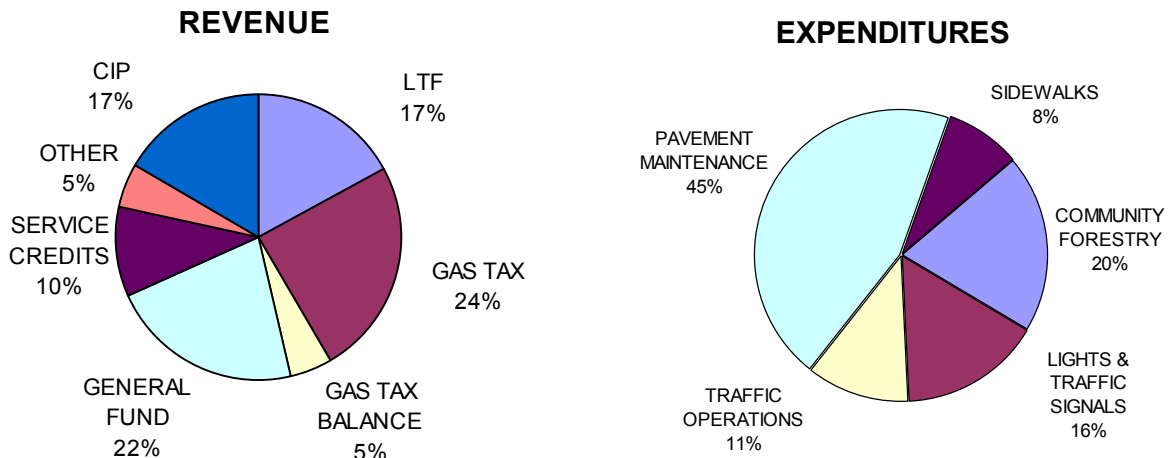
STATE OF THE STREETS REPORT

What is the Problem? Good quality streets support a healthy local economy, reduce the cost of vehicle maintenance, and help improve our quality of life. But, today in Modesto, fifty-one percent (51%) of the streets require substantial work. Due to the State's fiscal crisis, the funding needed to improve the City's streets is being significantly reduced. As a consequence, the City is falling further and further behind in its goal to provide Modesto a high quality transportation system. The bottom line is that there just isn't enough money to adequately maintain Modesto's streets.

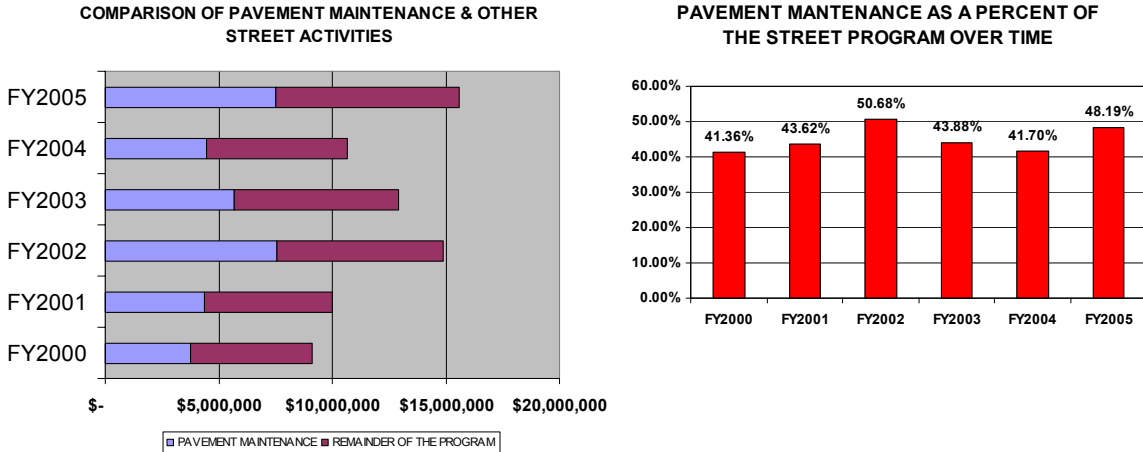
What is Street Maintenance? When most people think of street maintenance, they usually think about repairing the pavement. But, repairing the pavement is only one component of the program to maintain the Modesto street system. A wide range of activities is needed to make the street system work to reduce the impact of increased traffic on everyone's quality of life. Other essential components of street maintenance are traffic management, intersection improvements, curb and sidewalk restoration, street light maintenance, street tree preservation, and pavement repair. The following diagram identifies each program component and its share of the 2005 street budget.



The following charts summarize expenditures and revenues for the entire program. Pavement "maintenance" is the largest expenditure at forty-five percent (45%) of the budget. The largest source of funding is the State gasoline tax that provides twenty-nine percent (29%) of the revenues. The Capital Improvement Program (CIP) is usually funded through a combination of State and federal revenue sources and constitutes seventeen percent (17%) of the revenues. The City's Local Transportation Fund (¼ cent of the State sales tax) and General Fund Transfers provide thirty-nine percent (39%) of the remaining budget, but have been decreasing over time due to the State's financial problems.



How much Money do we spend on Street Maintenance? Between 2000 and 2004, the City spent an average of \$11.5 million annually for street maintenance of which \$5.2 million was spent on pavement maintenance. In Fiscal Year 2005, the City has budgeted \$15.5 million for street maintenance of which \$7.5 million is allocated to pavement maintenance. Due to delays in project delivery, Modesto has historically expended seventy-seven percent (77%) of the funding budgeted each year. These unexpended funds are carried over into the next Fiscal Year. In the bar chart below, the amount shown for Fiscal Year 2005 is the budgeted amount while the amounts for the other Fiscal Years are actual expenditures. Due to historic delivery rates, the actual amount that will be expended by the end of Fiscal Year 2005 is likely to be less than shown in this chart.

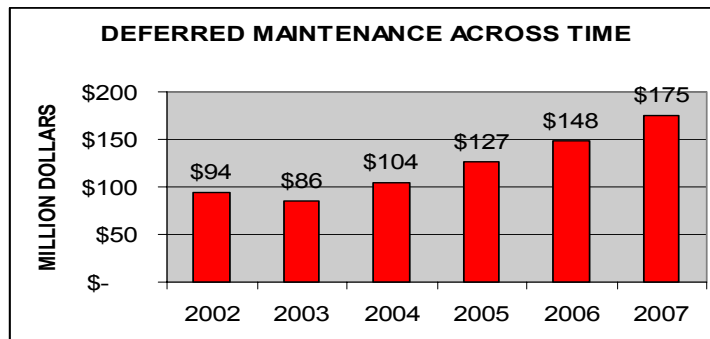


What is the Condition of Modesto's Streets? The City of Modesto has 578 centerline miles or 1252 lane miles of streets within it borders. For maintenance purposes, engineers have identified three types of roads: local streets, collectors, and arterials. Sixty-four percent (64%) of Modesto's streets are two-lane neighborhood streets. Arterial streets, like Briggsmore Avenue, handle a large volume of traffic but only make up eleven percent (11%) of the City's streets. Collector streets, like Orangeburg or Scenic Avenues, allow commuters to go from local streets to arterials.

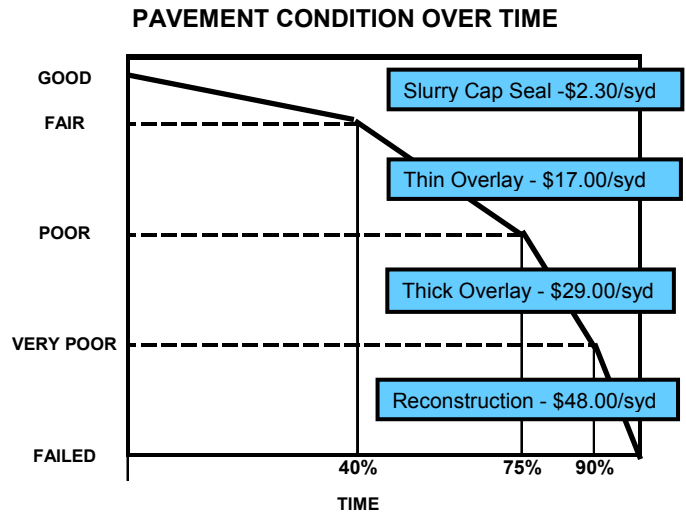
FUNCTIONAL CLASSIFICATION OF MODESTO STREETS		
FUNCTIONAL CLASS	TOTAL MILES	PERCENTAGE OF TOTAL
ARTERIALS	66	11.42%
COLLECTORS	146	25.26%
LOCAL	366	63.32%
TOTAL	578	100.00%

THE CONDITION OF MODESTO STREETS		
ROAD CONDITION	DESCRIPTION	PERCENT
GOOD CONDITION	NO CRACKS OR RIDGING	49%
FAIR CONDITION	A FEW CRACKS	23%
POOR CONDITION	SOME CRACKS AND RIDGING	21%
VERY POOR CONDITION	EXSTENSIVE CRACKS & RIDGING	7%

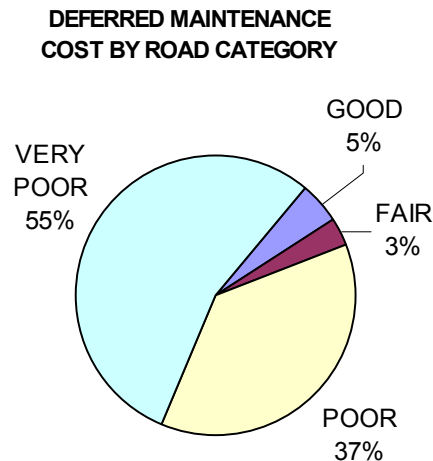
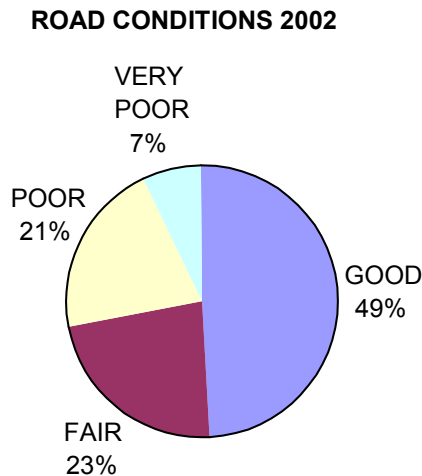
In 2002, the City completed an extensive survey of the condition of its streets. Of the 578 total miles of street, forty-nine percent (49%) were in "good condition" with no cracks or potholes. Of the remaining roads, twenty-three percent (23%) were in "fair" and twenty-eight percent (28%) were in "poor" to "very poor" condition. If the streets are not maintained, a street has a usable life of about thirty years depending on the volume of traffic it handles. During that time a road would deteriorate in a non-linear fashion similar to the curve found in the subsequent diagram. When a road deteriorates, the amount needed to repair the road to "good" condition is commonly referred to as deferred maintenance. The total deferred maintenance for Modesto was estimated at \$104 million in Fiscal Year 2004. The majority of deferred maintenance is on residential (local) streets, not the heavily traveled arterials. Even under the present investment level in pavement maintenance (roughly \$8 million each year), deferred street maintenance will increase substantially to \$175 million by 2007. The following chart shows the expected increase in the cost of deferred maintenance over time.



How much will it Cost to bring Modesto's Streets to "Good Condition?" The chart, below, suggests that there are a number of points in the life cycle of street pavement that are critical turning points. The diagram on the last page of this report illustrates what a street would look like if it fell into one of these categories. During the first twelve years after construction, the cost to maintain streets in "good" condition is relatively inexpensive (\$2.30 per square yard). Application of a slurry seal to seal all of the small cracks in the asphalt during this stage functionally extends the life of the road another three years. However, if the road is allowed to deteriorate beyond a certain point where there is extensive cracking the slurry seal is not effective, the next level of treatment is a thin overlay of asphalt (\$17.00 per square yard) to improve the street "fair" to "good" condition. As the road deteriorates further and further, cracking becomes more extensive a thick layer of asphalt (\$29.00 per square yard) is needed to restore the road from "poor" to "good" and a reconstruction requires an investment of \$48.00 per square yard. Experts agree that the most cost-effective strategy is to keep streets from deteriorating into a higher priced repair category.

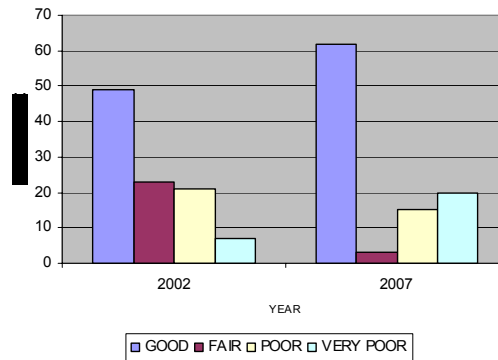


Below are two charts that demonstrate the cost of deferred maintenance. While only seven percent (7%) of the streets are in a "very poor" condition, the cost to repair these streets represents more than fifty-five percent (55%) of the deferred maintenance costs (\$57 million). On the other hand, maintaining the streets that are in "good" condition (forty-nine percent (49%) of Modesto's streets) costs only five percent (5%) of the budget. Despite the large annual maintenance expenditures, it would take an additional \$95 million to bring all of Modesto's "poor" and "very poor" streets to "good" condition.



If the City's investment in street maintenance continues at these levels, the condition of Modesto's streets will deteriorate dramatically over the next five years. Even though the proportion that will be in "good" condition is expected to increase, more local streets will drop to the "very poor" category.

ROAD CONDITION OVER TIME
PAY AS YOU GO



Transportation Policy Issues.

Five issues are impacting the City of Modesto's transportation system.

1. Pavement Management vs. the Rest of the Street System.

A number of past City policies have stressed the importance of pavement maintenance over the operation of the rest of the street system's components. This policy will eventually hurt the overall operation of the street system. All of the components of the street system must work to maximize system efficiency.

2. Funding.

The transportation-funding environment has changed at the State, local and federal level. Some of these changes could have significant impacts on the funds available for pavement management. More than forty-six percent (46%) of the money presently used to fund the City's street system comes from Local Transportation Funds and General Fund sources. The State fiscal crisis has had a significant impact on the City's General Fund. Funding for transportation has decreased by over one million dollars in Fiscal Year 2005. This was caused by a reduction of General Fund transfers to the Gas Tax Fund.

3. Increased Indirect Costs.

The State's financial crisis has required the City to re-evaluate how it charges administrative overhead to capital improvement projects. This policy change would result in a more accurate allocation of administrative costs to street maintenance activities, but would reduce the amount of funding available for actual construction.

4. Cash Flow.

Most federal and State grants are awarded on a cost-reimbursement basis. After the expenses are paid and Caltrans is invoiced, it may take two to three weeks to receive federal reimbursement. This delay could cause a funding gap within the Gas Tax over time.

5. The Absence of a Comprehensive Funding Strategy.

Although the City has recently established a committee to explore alternative revenue sources, the same approach has not been applied to the transportation-funding problem. Given the regional nature of most funding alternatives, the development of a comprehensive may require close coordination with other governments and private associations.

Although of the issues identified above are daunting, the lack of a definite financial strategy has proven to be the greatest challenge for the City of Modesto.

Alternative Transportation Funding Strategies.

A number of funding strategies could be used to fund a comprehensive pavement maintenance program. These strategies are not mutually exclusive.

1. **“Pay-as-you-go”:**

The City presently funds its pavement maintenance and street maintenance on a “pay-as-you-go” basis. Each year, as part of the budgeting process, funds are appropriated to pavement maintenance. No specific amount is identified by any policy and the amount actually budgeted is determined by external factors like the total amount of funds available or by specific Council priorities. Normally, between six and eight million dollars are appropriated each year through the capital improvement program and operations budgeting processes. Street maintenance is funded through a combination of Gas Tax, Local Transportation Funds, Federal grant, and City General Fund appropriations.

ADVANTAGE: With specific policy direction, this approach can be used to appropriate a specific level of funding to high priority projects.

DISADVANTAGE: This may result in an unstable source of funding for on-going projects. Unless pavement maintenance is consistently identified a high priority program, the City’s investment in long-term projects could be lost.

2. **Transportation sales tax:**

Jurisdictions in California can submit a sales tax measure to the voters to fund transportation projects. The most common measure proposed has been a one-half cent sales tax to fund both transportation capital improvements and maintenance. This measure requires a super majority of the electorate to pass (2/3).

A one-half cent sales tax in Stanislaus County would raise about \$33 million annually. It is common for twenty-five percent (25%) of this amount to be returned to the jurisdictions for road maintenance. Since this distribution is usually based upon population, Modesto could expect to receive about \$3.5 million annually.

ADVANTAGE: A sales tax would provide a stable funding source for pavement maintenance.

DISADVANTAGE: Passage of a sales tax requires a clear consensus of both the private and public sectors. It also requires a clear distribution agreement between the cities and the County. Such a consensus takes strong leadership and time to develop. Often the division between maintenance and new construction programs may create programming problems. A sales tax is often passed with a sunset provision and may not provide a perpetual source of maintenance funds.

3. **Long-term debt bonding:**

Long-term debt financing can provide a funding alternative to pavement maintenance. Voters can approve a 30-year bond that could be used for a one-time improvement of the roads. The debt would be paid back over a thirty-year period at about \$5 million annually. A bond in these circumstances could be repaid by a sales tax measure.

In this financing scenario, all of the streets in Modesto would be repaired to “good” condition. And, although the repair requirements would be comparatively low during the first ten years of the period, the annual repair budget would increase over time as the streets age.

ADVANTAGE: The City would save a substantial amount of money by repairing the roads now before they deteriorated further. That savings alone could pay the debt service over a ten-year period.

DISADVANTAGE: The program would require a super-majority (2/3) to pass in Modesto. Although the program would provide a one-time fix to the problem, additional funds would still have to be identified to maintain streets at their highest benefit level.

4. **Landscape and Lighting District:**

The maintenance of street trees and street lighting absorbs more than thirty percent (30%) of the entire street system maintenance budget. The City may establish a landscaping and lighting district for the entire city. In this situation, commercial and resident lots would be assessed a fee collected through the property taxes. Based on the assumption that all 59,770 parcels within the City limits would participate in the District, the City could generate roughly \$3 million dollars through the imposition of a \$50 annual parcel fee. This would be enough to fund the street tree program and allow the funds replaced to be appropriated to pavement maintenance.

ADVANTAGE: This program is eligible for street tree related maintenance costs the program would be allocated to a highly visible program and popular program.

DISADVANTAGE: Establishing the district would require an approved Proposition 218 voting procedure. Citizen acceptance of this additional fee may be difficult to realize at this time.

STAGES OF ROAD WEAR AND RELATED REPAIR COSTS



GOOD
SLURRY CAP SEAL
\$2.30 SQ YD



FAIR
THIN OVERLAY
\$17.00 SQ YD



POOR
THICK OVERLAY
\$29.00 SQ YD



VERY POOR
TOTAL RECONSTRUCTION
\$48.00 SQ YD

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Staff Paper #4:
Parks Maintenance

ISSUE: Maintenance of park properties and open space

Over the course of the past 10 years, the Parks Operations Division has lost the equivalent of 23 full-time positions, or thirty-eight percent (38%) of the parks maintenance workforce. In the same timeframe park and open space acreage has grown. Maintaining our existing parks to the same standard as that established in 1993-1994 standard would require adding almost double the number of parks maintenance employees. Park Service Levels are based on the frequency of performing approximately 40 tasks. Service Levels are described as "Excellent", "Good", "Fair", "Poor", and "Unacceptable". Service Levels in 1993 – 1994 were in the "Good" to "Excellent" range. Service Levels for 2004 – 2005 will be in the "Poor" to "Fair" range. Parks Operations was able to absorb some of the cuts incurred over the past decade through maximizing efficiencies. However, since 02-03, cuts have translated to a visible loss in service levels and a parallel increase in customer complaints.

CURRENT PRACTICE:

The Parks Operation Division of the Operations and Maintenance Department currently provides landscape services, facility maintenance and recreation program support to the City's parks, planter strips and other green space and open space areas.

OPTION #1: Restrict construction of new parks facilities / landscaped areas unless all ongoing operations and maintenance costs are funded by new development.

- While most of the City's Community Facility Districts (CFDs) contain funding for some level of parks and/or landscaping maintenance, none of the CFDs provide full funding for these activities. Cost recovery is roughly 20% of total operations and maintenance in these areas.
- Of the 58 neighborhood and community parks in the City, only 2 (Coffee-Claratina and Ustach) are in CFDs. These two CFD parks are nearing completion at this time. All of the funding for maintenance, both accumulated and anticipated, has been directed toward the maintenance of these two CFD parks. There will be no maintenance funding available for future parks in these CFDs.

RAMIFICATIONS:

If new park construction is halted, impacts include the following:

- Violation of General Plan policies, which require a park ratio of 3 acres per 1,000 residents.
- Dissatisfaction of new residents promised parks when purchasing their homes.
- Accrual of Community Facilities Fees (CFF) funds collected for the purpose of park construction and dedicated to this purpose.

OPTION #2: Seek a Citywide Lighting and Landscape District to fund maintenance of parks, planter strips and other green space, as well as to fund street lighting.

RAMIFICATIONS:

A super majority (two-thirds) vote of the people would be required. Prior to the election, staff would need to complete an assessment to thoroughly evaluate the required financing and to ensure equity throughout the system (i.e., should CFD properties be charged less than those in the City's baseline developed area?).

The Council has the authority to place a measure on the ballot without a petition. A public hearing isn't required, but public input would be essential and achieving a supermajority is difficult.

OPTION #3: Privatize parks Landscape maintenance services.

RAMIFICATIONS: Privatization of parks landscape maintenance costs may reduce overall costs to the City. Staff has begun the legwork to develop an RFP in anticipation of going out to bid for parks and landscape maintenance services. It is unknown whether bids received will actually be below current staff costs to perform these services. Potential savings could be directed back to park maintenance to improve service levels.

OPTION #4: Support the Parks, Recreation and Neighborhoods Department's Fund Development Program, which will provide significant funding for enhanced and improved maintenance of parks, trails and other open space.

RAMIFICATIONS: The Parks, Recreation and Neighborhoods Department is one of a very few in the United States that is uniquely positioned with a wide variety of facilities, from traditional neighborhood parks to baseball stadiums and a community/conference center. The department has taken the aggressive stance to develop an alternative revenue program that can be implemented to improve the system, its programs and facilities and to provide these improvements with private sector monies. These efforts will include seeking private and foundation funding for improvements to the City's open space system, including its parks and trails. In many cases, funding for infrastructure will come with a funding mechanism for bringing the City's open space up to a level of safety and aesthetics that provides the residents with the quality of parks and trails they desire and deserve.

Staff Paper #5:
Remnant Properties

ISSUE: Maintenance of "remnant" park properties and open space

The City of Modesto has a number of remnant parcels of land that do not contribute to the City's requirement for open space in the City of Modesto General Plan. Many of these areas require costly maintenance with little or no benefit to the community. Many of the parcels could be sold to the private sector with monies placed in long-term endowments to support programs and facilities and many lend themselves to long-term leases that would significantly and positively affect the community and the Parks, Recreation and Neighborhoods Department's proposed endowment program. In addition, some of these sites would lend themselves to future use for affordable housing. The property could be sold to a developer, who could be eligible for Community Development Block Grant funds for purchase and/or development. This action would provide benefit to the city by: 1) eliminating park sites that are problems to maintain and police; 2) reducing maintenance costs; 3) providing revenue to PR&N; and 4) increasing the city's affordable housing stock.

CURRENT PRACTICE:

The Park Maintenance Division of the Operations and Maintenance Department currently provides mowing, litter removal, watering and other maintenance to these parcels, a cost which is borne by the General Fund.

OPTION #1: Sell or offer long term leases for certain parcels. Some examples include:

- Sale of the Downey Annex . Approximately three acres of non-contiguous park green space that is operationally unsafe and unable to be developed. This property could be sold for community housing development for fair market value. The monies could be used as an endowment for the Downey Park Complex.
- Lease of McClure Property (Outside of established gardens). The McClure property could be divided to accommodate a long-term lease or sale for a community single-family housing development. A significant amount of the property, 18 – 20 acres, could be leased to a developer for fair market value with the proceeds placed into an endowment for the development of the McClure Home into a corporate retreat. Enough acreage contiguous to the home site should be kept as a buffer.
- Sale or Lease of Modesto Community Service Center. This building could be utilized in a sale or long-term lease agreement. Special attention to historic preservation and integrity of the building and site, beautification, landscaping, and projected use should be incorporated in the deed or lease as restrictions.
- Throughout the PR&N system, there are a number of small parklets that are financial drains on the system and do not lend themselves to development. The sale or lease of these properties would not negatively affect open space or recreation needs or requirements. These areas include Elk Park, MID Lateral, and Pierre Park, among others. These areas could be sold, with monies realized placed in the PR&N Endowment to be used for maintenance of other parks or for park development.

RAMIFICATIONS:

It is recommended in all cases that professional diligence be exercised prior to sale or lease of any property, including but not limited to the following areas:

- Is there any future PR&N need for the property?
- Are there any original deed restrictions?

- o Are there any donor/gift restrictions?
- o Do other government agencies have first right of refusal?
- o Should restrictions be placed on the property to protect adjoining PR&N facilities and/or local citizens?
- o Are there restrictions on where monies from the sale must go?
- o Does money have to be returned to the original funding source, either government or donor?

OPTION #2: Seek neighborhood-based Lighting and Landscape Districts to fund maintenance of certain parcels.

RAMIFICATIONS:

A two-thirds vote of the people of the impacted neighborhood would be required. Prior to any vote, an assessment would need to be completed to thoroughly evaluate the required financing and the impact to each property.

The Council has the authority to place a measure on the ballot without a petition. A public hearing isn't required, but public input would be essential. It could be a New Business item for discussion and several resolutions would be required. If this item is placed on the November election, we would have to ask the County Board of Supervisors for permission through a resolution process.

OPTION #3: Seek financial support from neighborhoods, in the form of an endowment.

RAMIFICATIONS: Not all residents would be legally required to participate in the financing. Also, a substantial up-front contribution would be necessary to provide sufficient funding from the interest earned.

OPTION #4: Seek sponsorships for maintenance.

RAMIFICATIONS: This option would require finding a business or organization willing to enter into an agreement with the City to provide maintenance funding or maintenance, in exchange for a pre-determined recognition.

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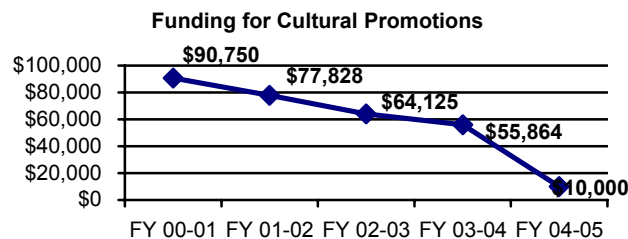
Staff Paper #6:

Events, Festivals & Arts Organizations

ISSUE: Funding to Cultural Organizations, Festivals and Outside Groups

The City of Modesto has historically provided financial support to cultural organizations, festivals and other local outside groups that enhance the quality of life in Modesto. Support is provided in the form of cash (through the Cultural, Arts, and Promotions program), through direct service (employees, goods and services provided at no cost to the organization) or through waiver of fees.

The Culture Commission has been charged with the responsibility to award direct funding to qualifying organizations through the City's Arts, Music and Promotions account. Available funding has declined since Fiscal Year 2000-01. As part of the budget reductions, Parks, Recreation and Neighborhoods Department staff is proposing to eliminate all funding in Fiscal Year 2004-05, with the exception of \$10,000 to the Fourth of July committee; the City Council approved an agreement for this event, which has a two-year cancellation clause.



In addition to direct funding, various departments provide City services to events held in Modesto throughout the year. In most cases, expenditures for staffing and other services are not recovered. The table that follows this report describes the costs of providing event and festival services by department. These costs are described in the table following this report.

CURRENT PRACTICE:

The Culture Commission makes funding recommendations for cash contributions. Each department provides required services to festivals and events as part of its operating budget.

COUNCIL OPTION #1: The Council could support the staff recommendation to discontinue direct support to outside groups and to require festivals and events to reimburse the City for its costs.

RAMIFICATIONS: Many organizations would not be able to continue to provide their events, due to the increased costs and/or lack of direct financial support.

COUNCIL OPTION #2: The Council could continue to provide funding to cultural organization and could require festivals and events to reimburse the City for its costs.

RAMIFICATIONS: Many organizations would not be able to continue to provide their events, due to the increased costs.

COUNCIL OPTION #3: The Council could discontinue to provide funding to cultural organization and could direct departments to continue to provide services at the current level.

RAMIFICATIONS: Many organizations would not be able to continue to provide their events, due to the lack of direct financial support.

COUNCIL OPTION #4 The Council could continue to provide funding to cultural organization and could direct departments to continue to provide services at the current level.

RAMIFICATIONS: Organizations would continue to provide cultural festivals and events.

COMMUNITY ORGANIZATION SUPPORT (BASELINE)

Event	PR&N Cash	PR&N In-kind	POLICE CNR	FIRE CNR	C&ED Cash	O&M CNR	IT CNR	CMO Cash
Modesto Camellia Society								100
Connecting Stanislaus								2400
Modesto Relays								5000
Tourism	293,000							
4th of July Celebration	10,000	6100	10000	1014		23597	4000	
Modesto Symphony	5,200							
Modesto Performing Arts Association	5,200							
Central California Art League	1,500							
Stanislaus Arts Council	5,000							
Hispanic Chamber of Commerce	4,000	2645	1500				2800	
Cinco de Mayo			1500	1580		3949		
Townsend Opera Players	5,200							
Red Nations & Friends	1,000							
Hmong Assoc. of Modesto	1,500		3000			3149		
International Festival	4,000	2150	5000	1580		8667	2000	
Modesto Community Concert Assoc	2,000							
Y.E.S.	1,000							
Central West Ballet	5,200					875		
Moband		4000	15000			18114	16800	
State Theatre	0		5000					
St. Andrews Society	0					500		
KKMC Board	0					5262		
Stanislaus Chinese Association	1,500							
Youth Scholarship	95,000							
International Friendship Donation	28,440							
McHenry Museum & Historical Society	2,000							
Khmer American Citizens Association	1,500							
PT Cruisers		1050	1000	87		772		
Christmas Parade		4275	1500			6915	4000	
Christmas Parade		5780	1000					
Other festivals, company events		4000	1500					
National Night Out			5000			830		
Mexican Independence Day			1000			675		
Pasta Festival						690		
Cesar Chavez Celebration						2200		
Earth Day			1000			2000		
Sund-Carrington			1000			300		
Veterans Parade			500			1140		
Stanislaus County Pet Day						500		
Assyrian Festivals			500			3000		
City/County Election Coverage							4322	
Water Rate Show							480	
League of Women Voters Debates							335	
Stanislaus Economic Dev & Workforce Alliance					67,000			
Stanislaus Partners in Education					10,000			
General Fund Total	472,240	30000	55000	4261	77000	83135	34737	7500
CNR=Cost not Recovered								
Grand Total General Fund	763,873							

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Staff Paper #7:

City Hall at the Mall

ISSUE: Closure of City Hall at the Mall

City Hall at the Mall (CHATM) is now in its sixth year of operation. It provides a convenient location to obtain many services during non-traditional government hours of operation. Services at CHATM include acceptance of: registration forms for City of Modesto Parks, Recreation and Neighborhoods Department recreation classes, programs and adult sports leagues; utility payments for Modesto Irrigation District, City Water/Sewer/Garbage, Comcast (Cable), AT&T Long Distance (\$1.00 fee), AT&T Wireless (\$1.00 fee) and PG&E; payment for City of Modesto Business License Mill Tax, City Employee Retiree Insurance and City Parking Citations; and, purchase of U.S. Postal Stamps, City of Modesto Golf passes and Gift Certificates, Modesto MAX monthly bus passes and ticket books, Modesto MAX to BART passes and Dial-A-Ride tickets. Staff is also available to provide information on current City of Modesto job openings; bus routes, fares and schedules; and City Council agendas and minutes. Blue recycling bags are also available to City residents. Many customers who do not have checking accounts use CHATM as a pay station, since it accepts cash.

One of the Fiscal Year 04-05 budget reductions proposed by staff includes closure of City Hall at the Mall (CHATM). Two full-time and twelve part-time staff are assigned to CHATM. The full-time employees would be reassigned to other functions within the department; one would fill a vacant support position, and the other would oversee Guest Services. The part-time employees would be terminated.

CURRENT PRACTICE:

CHATM is open 73 hours each week (longer hours during the holiday season). All of the services available at CHATM are offered each hour that the facility is open. CHATM is currently seeing over one-half million dollars in gross receipts monthly, and is providing service to over 5,000 customers.

In addition to general government services, the Police Department's Northwest Area Office is located at this facility. Services offered by the Police Department would remain as they are presently.

COUNCIL OPTION #1: Support the staff recommendation to close City Hall at the Mall.

RAMIFICATIONS: Closure of CHATM would mean that patrons would need to find other pay stations for their non-City bills and would either have to mail their City utility bills or come to Tenth Street Place during normal business hours. The closest pay stations are on Coffee and Paradise Roads. There is currently no other location for MAX to BART passes, but this function could be handled through another site. As stated above, the twelve part-time staff would be laid off; the two full-time staff would be reassigned to duties at Tenth Street Place.

COUNCIL OPTION #2: Reduce the number of hours CHATM is open.

RAMIFICATIONS: Staff would need to determine the hours/days of the week/month when the least number of customers are paying utility bills, which is the greatest method of revenue collection. The savings would result from lower part-time payroll expenditures. Each hour that CHATM is reduced equates to approximately \$15.00 in part-time staffing.

COUNCIL OPTION #3: Keep City Hall at the Mall open.

RAMIFICATIONS: Leaving CHATM open would result in a continuation of the services currently provided at this location. The Parks, Recreation and Neighborhoods Department has been given a budget reduction requirement of \$601,000, which has been achieved. Removing CHATM from the list of reductions would decrease the department's proposed reductions by \$113,000.

Staff Paper #8:

Police Staffing

ISSUE: INCREASED POLICE DEPARTMENT STAFFING

The Modesto City Council has committed to increase Police staffing towards 1.85 officers per thousand population. The staffing plan is to add Police personnel in FY 04/05 to achieve 1.35 officers per thousand.

The anticipated cost of the additional personnel, both sworn and support staff, in the 2004/05 budget is \$2,161,910.

1 Lieutenants	\$128,101
1 Sergeant	\$108,615
1 Detective	\$93,899
12 Officers	\$1,009,680
3 Community Service Officers	\$170,181
4 Police Clerks	\$182,796
1 Animal Control Officers	\$53,522
1 Property & Evidence Spec	\$51,060
EBF Increase	\$93,056
One time costs (equipment & vehicles)	\$271,000
TOTAL	\$2,161,910

CURRENT PRACTICE:

The ongoing general fund cost of the additional personnel will be \$1,890,910 annually.

COUNCIL OPTIONS:

OPTION 1:

Hire twenty-four additional police personnel to be funded by the general fund.

OPTION 2:

Included in these 24 positions are 10 positions that were “unfunded” in FY 02. Option 2 is to reallocate all of these positions throughout fiscal year 04/05.

4 Officers 9/1/04	\$252,420
4 Officers 1/1/05	\$178,280
1 Police Clerk 1/1/05	\$ 22,850
1 Animal Control Officer 7/1/05	\$ 53,522
EBF	\$ 29,140
One time costs (equipment & vehicles)	\$ 70,400
TOTAL	\$606,612

Annual costs for the positions will be \$ 811,195 beginning 05/06 and would be funded by the general fund. This amount does not include any negotiated salary and benefit increases.

Option 3:

Reallocate half of the unfunded officer positions and the civilian positions throughout the 04/05 fiscal year.

2 Officers 9/1/04	\$126,210
2 Officers 1/1/05	\$ 84,140
1 Police Clerk 1/1/05	\$ 22,850
1 Animal Control Officer 1/1/05	\$ 26,761
EBF	\$ 14,999
One time costs (equipment and vehicle)	\$ 55,200
TOTAL	\$330,160

Annual costs for the positions will be \$ 456,927 beginning 05/06 and would be funded by the general fund. This amount does not include any negotiated salary and benefit increases.

RAMIFICATIONS:

The Modesto City Council has committed to moving the staffing of the Modesto Police Department to 1.85 sworn per thousand population. The Department has presented its staffing plan in order to achieve the 1.85 sworn to population ratio by the 2014/2015 fiscal year. Not moving to the 1.35 sworn staff per thousand in the next fiscal year as outlined in the staffing plan will cause a considerable delay in achieving the 1.85 goal set by Council.

Impacts to no increase in staffing may include an increase in gang activity, an increase of drug related criminal activity and increases in other violent crime in the City of Modesto. The proliferation of methamphetamine use, aggravated assaults and calls for service of a non-emergency nature will increase response times to all but the most serious calls. Delayed response impacts the department's ability to deliver a safe and efficient level of service to the community.

Insufficient staffing coupled with excessive calls for service will result in a disenfranchised community who will no longer participate in a community oriented policing model. The citizens of Modesto have a clear expectation of their police department and without additional staffing, we will be unable to meet those expectations.

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Staff Paper #9:

Fire Station Eleven

ISSUE: FIRE STATION #11 STAFFING

Fire Station #11 is currently under construction, due to be completed in December 2004. This station is planned to open with one engine company, with a total of nine personnel (3 personnel per platoon x 3 platoons). These personnel would be hired in early November, to provide six weeks of training prior to the station opening.

The anticipated cost of these personnel in the 2004/05 budget is \$592,992. This is equivalent to eight months salary, due to the November hiring date.

3 Captains	\$215,395
3 Engineers	\$184,007
3 Firefighters	\$149,664
Proportional Overtime Costs	\$43,926
TOTAL	\$592,992

The anticipated cost of these personnel for the 2005-06 budget year (a full 12 months) is \$889,045.

CURRENT PRACTICE:

When a fire station is opened, nine personnel are hired and the funding for these positions is placed in the fire department budget, from the general fund.

COUNCIL OPTIONS:

OPTION 1:

Continue current practice by hiring nine additional firefighters, to be funded out of the general fund.

OPTION 2:

Hire nine additional firefighters, to be funded with the current fire department budget allocation. Allow the fire department to re-prioritize needs, to absorb additional costs in 2004-05, and 2005-06. Beyond budget year 2005-06, additional funding would be necessary.

The following are proposed 2004-05 funding sources, from within the fire department budget, to be reallocated toward staffing costs:

Apparatus Acquisition Fund	\$360,000
Vacant Battalion Chief Position	\$135,316
Training, Equipment, and Other Savings	\$97,381
TOTAL	\$592,697
Apparatus Acquisition Fund	\$360,000
Vacant Battalion Chief Position	\$135,316
Training, Equipment, and Other Savings	\$97,381
Current ABS Budget Savings	\$296,348
TOTAL	\$889,045

RAMIFICATIONS:

The apparatus acquisition fund is ongoing funding to keep our fleet of fire apparatus current. We purchase one engine per year. The \$360,000 proposed to be taken from our apparatus was to be coupled together (2004-05 and 2005-06) to purchase the ladder truck for Station 11. This ladder truck was originally scheduled to be staffed in 2005-06.

- **The Battalion Chief Position:**

This position has been held vacant for the past year to ensure we could live within our means. This position has heavy staff responsibilities, which are currently divided amongst the other chief officers. As financial times improve, or revenue is identified, restoration of this position is vital to our ability to adequately manage all administrative issues in a timely manner.

- **Training, Equipment and Other Savings:**

The fire department, over the last 12 years, has never failed to live within its budget. In fact, several million dollars have been returned to the general fund during this time. While I do not have specific line items to account for this savings, I am asking for the opportunity to utilize long standing past results to anticipate these savings.

- **ABS Savings (2005-06)**

Between 2000 and 2002, the fire department accumulated ABS savings (department year end savings x 50%) of approximately \$450,000. This money has been reserved for essential projects or needs otherwise unable to fund.

This solution is only effective through 2005-06. This will allow two full years to establish ongoing funding. In 2006-07, the purchase of a ladder truck could be made from Fire Capital Facility Fees (CFF), if funds are available for its staffing.

OPTION 3:

Staff Station #11 utilizing current fire department personnel. This would reallocate staff hired in 2003-04 to staff Engine 31 (Station #1), to Station #11.

RAMIFICATIONS:

This would reduce the number of on duty personnel at Station 1 from ten, to seven. Relocating this engine to Station #11 would negate the gains made in fire department staffing in 2003-04, which was the first such increase in twelve years. This change would again reduce system reliability in the south half of the city.

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Staff Paper #10:

Fire Inspector

ISSUE: ADDITION OF ONE FIRE INSPECTOR II

The Fire Prevention Bureau is currently staffed with three Fire Inspector positions, one less than the 1999/2000 staffing levels. The bureau currently has 1,064 state regulated occupancies that require annual inspections. This is in addition to all new development and tenant improvement inspections; plan reviews, public education presentations and follow-up on citizen complaints. The increased volume of activities coupled with the loss of the fourth Inspector position has forced us to suspend inspections in some hazardous occupancies.

On August 12, 2003, council approved the adoption of the development fee increase with an effective date of October 12, 2003. The Fire Prevention Bureau has projected a revenue increase of approximately \$111,000 based on prior year development actuaries. The increased revenue would allow for an additional staff position with no impact to current budget constraints.

Over the last two years, the bureau has seen a significant increase in special events and public education activities and requests. In addition to these activities is the future construction of the Gallo Performing Arts Center, 12th Street Parking Garage, Memorial Hospital expansion and the new Kaiser facility. Once construction starts on any one of these four projects, the bureau will be forced to further reduce community services and will not be able to maintain current performance standards.

Annual projections are as follows:

Projected Increase in Department Revenue	\$111,000
Fire Inspector II Wages and Benefits	\$50,876
Projected Return to General Fund	\$60,124

CURRENT PRACTICE:

When demand for service exceeds our ability to meet performance standards, an additional inspector is hired. Cost is typically proportional to revenue, in essence paying for itself.

COUNCIL OPTIONS:

OPTION 1:

Hire one additional Fire Inspector II.

Annual projections are as follows:

Projected Increase in Department Revenue	\$111,000
Fire Inspector II Wages and Benefits	\$50,876
Projected Return to General Fund	\$60,124

RAMIFICATIONS:

Hiring the fourth inspector position would allow the Fire Prevention Bureau to effectively distribute current workload assignments. By doing so we will be able to maintain plan check turn around times in 14 days or less (FD-8 H.II.K) and complete more annual inspections to reduce fire hazards in the community (FD-9 H.II.K).

OPTION 2:

Continue current staffing level. Prioritize workload to focus on fee based inspections, followed by special event inspections and our annual inspection program.

RAMIFICATIONS:

Potential degradation of our Annual Fire Prevention Inspection Program. State mandated annual inspections completed bi-annually, and risk of heavy scrutiny in the event of a fire related tragedy.

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Staff Paper #11:

RDA Funding

POLICY PAPER

MODESTO REDEVELOPMENT AGENCY

DATE: APRIL 2004

POLICY ISSUES:

- a. Should the City continue its current practice of devoting a portion of the annual Transient Occupancy Tax and the Sales Tax from the Shops at Lincoln School to the Modesto Redevelopment Agency (RDA) as annual Project revenue?
- b. Should these transfers be considered loans?
- c. Should the Redevelopment Agency undertake an update of its master plan and EIR?

PURPOSE OF FUNDS TRANSFER:

The transfer of Transient Occupancy Tax (TOT) and Sales Tax to the RDA provides two additional, on-going sources of annual revenue to the RDA. There are two primary uses for these annual revenue streams: (1) Debt service; (2) Funding for additional projects

HISTORY OF FUNDS TRANSFER:

Sales Tax from the Shops at Lincoln School: The “Shops at Lincoln School” was one of the first projects to be completed using Modesto RDA funds. The Sales Tax from this shopping center is intended to fund some of the debt service of the Original Project Area, including the Modesto Centre Plaza and 9th Street Garage construction. This debt service schedule is expected to be defeased by 2024. The Tenth Street Place debt service schedule is expected to be defeased by 2034.

Transient Occupancy Tax: The TOT is set forth in Modesto Municipal Code §8-2.603 and is imposed at the current rate of nine percent (9%) of the hotel rent. The TOT is collected by the City of Modesto. A portion of the TOT (as set forth below) is intended to fund some of the debt service of the Original Project Area and the Amended Project Area. In addition, this funding is intended for future projects.

In 1985, the TOT rate was 6%. Beginning in 1985, the TOT was adjusted as follows:

1. TOT 3% increase. On March 19, 1985, the City increased the TOT a total of 3% over 3 years (Ord. 2322-C.S.):
 - a. July 1985 – 7%
 - b. July 1986 – 8%
 - c. July 1987 – 9%
2. Distribution of the 3% increase: In subsequent actions, the City approved the distribution of the 3% TOT increase as follows:
 - a. 1.2% of **3% Increase** = 13.33% of all TOT – To Convention and Visitors Bureau
 - b. 1.8% of **3% Increase** = 20% of all remaining TOT (Excluding Doubletree) – To RDA for revenue to repay debt and initiate projects

Transfers to RDA from City: FY 03-04

100%	of sales tax from Shops at Lincoln School	\$ 80,000 (Est.)
100%	of TOT generated by Doubletree Hotel	\$500,000 (Est.)
20%	of all TOT in Modesto (excl. Doubletree)	<u>\$336,000 (Est.)</u>
	Total:	\$916,000

Estimated Transfers to RDA from City: FY 04-05: \$949,000

IMPACTS OF DISCONTINUING FUNDS TRANSFER:

We now have the makings of a vibrant and economically strong downtown, clearly on its way to being one of the finest in the Central Valley. Redevelopment was ...and is an important and essential tool for revitalizing downtown Modesto. It's important that the City stay on track with its commitment and investment strategy, so as not to turn back the clock.

The RDA is currently suffering from a severe lack of funding for future projects. This lack of funding is due in large part to the substantial investment of RDA tax increment into two major downtown projects, the Doubletree Hotel/Centre Plaza and Tenth Street Place. These projects are critical to the success of Downtown Modesto. However, these investments also left little funding for additional projects or for staff to manage the Agency. Most staff resources over the past few years have been for:

1. Administration of debt service
2. Management of garages and retail spaces included in the development projects
3. Development of office projects and affordable housing in the downtown
4. Development of Kansas-Woodland Business Park, including brownfield remediation

Since the late 1980's, the City has allocated a portion of the TOT and Lincoln School Sales Tax to the Agency. Currently this equates to about just under \$1 million annually. Because of the heavy debt service load, the RDA has required additional General Fund assistance in the form of loans from the City to maintain fund balances.

Recent increases in Tax Increment funding will eliminate the need for the General Fund loans, but the TOT and Sales Tax allocations are required to meet RDA debt obligations and to provide funding for future projects. We expect the RDA to break even within the next 18 months, despite State RDA ERAF takeaways. Once there is available working capital, the RDA can again begin applying funding for the following: (1) Improve administrative capabilities; (2) Complete an update of its Master plan and EIR for future planning and projects.

The RDA is at a crossroads. We have enjoyed significant success in the past, but future success depends on increased funding. Blight elimination via partnerships with the private sector is the lifeblood of the RDA. Should the City of Modesto reduce or eliminate the TOT and Sales Tax funding, we run the risk of continued deficiencies in the RDA's administrative capabilities and little, if any, investment in the Project Area. The issue regarding administrative deficiencies is of critical importance given the Agency's difficulties in recent years of complying with State reporting requirements. Though none of these deficiencies have been significant enough to be considered a major violation, continued problems could result in penalties and/or sanctions levied by the State. It is imperative that the Agency allocates sufficient resources to support current efforts to improve the organization's administrative capabilities.

Redevelopment has been an important and successful tool in renovating many cities. In Modesto, we think that it has been the main reason for attracting new investors into the downtown and for creating alliances between the City and the County to provide better services for our citizens in a central location. Also, we have added entertainment destinations in the downtown along with restaurants and new retail stores. All in all, redevelopment is performing its job well here in Modesto. Beyond the projects now under construction, housing is another objective for the Redevelopment Agency and we expect to see new housing projects starting within the next year or so. We are pleased with the results that have been achieved to date by using the redevelopment process and are looking forward to more partnerships and more improvements in the future.

To maintain the RDA as a key economic development tool, the City and RDA should agree upon a Work Program outlining the following: (1) Future project priorities; (2) Future project funding (3) Debt service schedule to repay the General Fund loans. This Work Program will allow the RDA to develop a program that retains sufficient funding to achieve project objectives while still servicing the City's debt requirements.

SHOULD THE TRANSFERS BE CONSIDERED LOANS?

It is not uncommon for Redevelopment Agencies to designate a portion of the non-property tax revenues generated within the Project Area to the RDA. The justification for this approach is that, just as the increase in property tax is attributable to the positive activities of the RDA, it can be reasoned that the increase in other revenues is also a direct result of RDA investment in the Project Area. Without the RDA, there would be little improvement in the overall economic health of the Area and, therefore, there would not be an increase in property tax and other governmental revenues.

Whether the TOT and Sales Tax should be treated as a loan is a policy decision of the City Council and Agency Board. As with any debt, terms must be established for repayment of the principal and any interest, if desired. Currently, the City/Agency have an agreement on the rate of interest for loans provided to the Agency from the City's General Fund. However, a repayment schedule has not yet been established. Prior to making such a policy decision, it would be prudent to conduct a detailed analysis of the RDA's long-term revenue and expenditure Performance. This analysis would assist the decision-makers in determining what the expenditure priorities are for the City and Agency and allow for a logical allocation of revenues based on these priorities. The Agency has recently retained the services of Keyser-Marston to conduct a detailed cash flow analysis of the RDA's budget. This information will be very useful in determining if the current TOT and Sales Tax transfers should be considered a loan to the Agency from the City General Fund. The analysis should be completed in the next 45 days, at which time we will schedule the matter for Agency review.

IMPACT OF NOT UPDATING THE RDA MASTER PLAN AND EIR

As discussed above, redevelopment is an essential tool for revitalizing the entire RDA Project Area, as well as the downtown. It is in the long-term interest of Modesto to use its redevelopment authority to improve the quality of life and business throughout the Project Area. As a continuing part of this long-term strategy, the RDA staff -- in consultation with the RDA General Counsel -- has determined that both the RDA EIR and Master Plan should be updated. Considering the dramatic changes that have taken place since the early 1990's, both documents are out of date and must be revised to reflect the current conditions and to ensure legal compliance.

The purpose of the Master Plan is to update the vision and plan for development for the Project Area. An additional component of the Master Plan is preparation of a *Safety Campus Concept*. The Campus Concept is intended to provide an expanded area for the future needs of both the Police and Fire Departments within the Downtown. The Master Plan, EIR will be a Program EIR, as defined by Section 15168 of the CEQA Guidelines, and it will be prepared at a general level of detail. It will also be designed for use by subsequent private development so they may proceed without subsequent, supplemental EIRs unless there are new significant impacts.

Agency staff, working with the members of the Citizens Redevelopment Advisory Commission, the Agency members and the public will accomplish the following tasks as part of the Master Plan update.

- a. Revisit the vision statement, the Master Plan and create updated goals for the Project Area
- b. Build upon the City Council's Strategic Plan goals for the Downtown
- c. Identify strategic directions for the future of the Modesto Redevelopment Area
- d. Analyze the existing land use and development patterns within the Redevelopment Project Area
- e. Use a market analysis and extensive public input to develop alternative development strategies

- for key opportunity sites in the Redevelopment Area
- f. Integrate design, planning and implementation methods into an improvement plan and provide a “toolkit” of improvement strategies for the Redevelopment Area, such as land use suggestions for the RDA, zoning recommendations, parking strategies, and design and development standards
 - g. Provide public and private financing strategies (i.e. what funds are available, and funding sources)
 - h. Based on the public workshop results, up to three different alternative site layouts for the Campus will be designed. Each layout will be accompanied by a land use table depicting general sizes of facilities
 - i. These plans will not show architectural details but will illustrate the conceptual locations and areas required including access and parking.
 - j. Following review of the Alternatives, EDAW will generate a Campus Concept Plan that combines the best ideas and thinking of all parties. This Plan will be illustrative and will include a land use table. A three dimensional sketch of the campus will be prepared that conveys the character of the campus.

Funds are budgeted in the FY 2003-04 budget in the amount of **\$482,619** in the following accounts:

<u>Redevelopment Agency:</u>		<u>\$405,365</u>
9080-140-1493-0235	RDA Master Plan	\$285,365
9080-140-K871	CIP - Update RDA EIR	\$120,000

<u>Fire:</u>		
0100-0180-1300-6040	Fire Station #1- Seismic Imprv	<u>\$77,254</u>

Fire funding is a re-allocation of funds budgeted for the seismic improvements to Fire Station #1. These improvements have been delayed to perform a cost-benefit analysis between the seismic improvements and the razing and reconstruction of a Fire Station / Fire Administration building, including future needs identified in the Capital Facilities Fee update of 2003.

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Staff Paper #12:

Utilities

City Utilities: Water, Wastewater, and Storm Drain

The Utility Funds of Water, Wastewater, and Storm Drain are facing many Capital Improvement Project challenges, which will require the debt financing and pay as you go funding strategies.

Many cities' are faced with decision on whether to pay for capital improvements from current revenues (pay-as-you-go) or issue debt. Debt is appropriate to finance assets with high capital costs and long useful lives. Taxpayers of several generations will both benefit and pay for some projects and no one group of taxpayers will be unfairly burdened. The maturity of the debt should not, however, exceed the useful life of the project being financed.

Repair and replacement projects with short useful lives should be part of a City's pay-as-you-go program, with rates and fees set appropriately to accommodate this ongoing operation costs and allow of the building of a contingency reserve level at 10% to 50% of the operating expenses. Carefully planned use of the revenues and a healthy fund balance are favorable to credit agencies. The City of Modesto should exercise caution, however, when drawing down fund balance revenues for capital purposes. Significant reduction of fund balance restricts a city's flexibility in responding to unanticipated revenues downturns or other emergency situations.

Water Fund:

In FY 2002-2003, the Water Fund debt service coverage of 1.25 was barely met using one-time revenues. It is expected that rate increases are needed to not only meet our current bond requirements but also to improve the health of the fund and to prepare for new bonds. The residential flat rate in Zone 1 has not had any rate increases since 1994.

Water Fund: Flat Rate for Single Family Residential						
				LESS THAN 3500 SF	3501 TO 7000 SF	7001 TO 10500 SF
	2000	5% Decrease		\$17.86	\$20.60	\$23.08
	1994	30% Increase		\$18.80	\$21.68	\$24.30
	1993	30% Increase		\$14.46	\$16.68	\$18.69
	1992	35% Increase		\$11.12	\$12.83	\$14.38
	1991	30% Increase		\$8.24	\$9.50	\$10.65

Rate History

In 1990, reports explained that over the next 15 years approximately \$190,000,000 would be required to provide the City of Modesto with a safe, high quality, and abundant water supply. The best option for a water source was a conjunctive use program with existing

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ground water supplemented with treated surface water. 30% rate increases were put into place (25% for financing water facilities plus 5% for operation and maintenance of existing facilities). The MID (Modesto Irrigation District), City of Modesto, and Del Este Water Company formed a partnership to build a Regional Water Treatment Plant. MID owns, operates and maintains the plant and facilities and acts as a water wholesaler by treating, then delivering water to the City of Modesto's distribution system. The first delivery of the 30 million gallons a day (mgd) surface water plant occurred in January of 1995. The City of Modesto purchased Del Este in mid-1995 and now receives all water treated at the facility. The actual project was \$97 million and included the plant, a terminal reservoir and pump station, 28 miles of transmission/distribution pipeline and reservoir outlet works. It was anticipated that phase 2 of the MID plant would double the capacity from 30 mgd to 60 mgd in 2005-2007 to meet increasing demand.

MID services north of the Tuolumne River. It was also assumed that TID (Turlock Irrigation District) would also need to plan and build a water surface treatment plant to provide for service areas south of the Tuolumne River. It was expected that by 1995 water costs in Modesto would need to escalate to that of Bay Area communities because the treatment of ground and surface water was unavoidable and very expensive. An additional 40% increase did not occur in 1995.

Proposition 218

Since 1993 the Water Fund (Zone One only) and the Sewer Fund had transferred monies to the General Fund, known as Contributed Capital in order to repay the General Fund for the initial funding and support of the new growing utility. Proposition 218 passed in November 1996, as a result by October 1999, the Water and Sewer funds stopped the transfers completely. The elimination of the transfer resulted in Water Fund savings of \$1.3 million, which represented an 8% reduction in rates. Funding for maintenance projects offset the reduction creating a 5% reduction scenario in 2000. This reduction scenario however did not take into account the need for inflationary increases and other water related issues concerning higher costs of new regulations and stricter requirements. Nor did the reduction scenario address the second phase of the MID plant or a TID plant.

The Proposition 218 process requires a notice to property owners, at least 45 days before a public hearing, for any increase in user rates. At the public hearing, all protests are considered, and if the written protests against the proposed fee are presented by a majority of property owners, then the increase will not be imposed.

Capital Project Financing Needs

There are many new standards concerning contaminates levels and treatment methodologies. Many of our wells have been shut down or incurred the additional costs of wellhead treatment. Our wells are drawing in various contaminates such as nitrates, uranium, arsenic, and man-made chemicals. The City of Modesto is also involved expensive environmental litigation in order to protect community assets. The trend of well loss with contaminates and litigation is expected to continue.

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New plans for urban water shortage contingencies (including up to a 50% percent reduction in water supply) are needed to ensure reliability and water quality. Water plans must be proactive and require long-term planning. A new urban-based policy of providing for a safe and reliable water supply looks towards the expansion of conjunctive use strategies and using treated surface water as the primary water source for the City of Modesto with our water well supply used to meet peak demand needs and redundancy requirements.

A continued partnership with MID for a Phase Two expansion of the treated surface water plant project is recommended. MID originally designed and plumbed the water plant so that its capacity could be doubled efficiently and cost-effectively when additional surface water supply was needed. In Phase Two, MID will double the output of the water treatment plant to 60 mgd and increase pumping capacity at the terminal reservoir. [mgd = million gallons per day] MID's part of the Phase Two project is estimated to cost in the \$38 - \$40 million range, based on preliminary engineering studies. The City of Modesto's share of the project to build all of the improvements necessary to receive the Phase Two water and deliver it to the customers while improving water pressure and ensuring quality requires an estimated \$64 million dollars. The Phase Two project as a whole should be financed through \$100 million dollars of revenue bonds being repaid over 30 years with \$112 million of interest.

Water Rate Increases

The City of Modesto is moving towards a fundamental shift in using treated surfaced water as the primary reliable source instead of ground water from wells. Modesto's water utility rate need to reflect the costs of operations and maintenance, construction, acquisition, upgrade, repair, and replacement of water systems facilities, including the associated debt service. In March the proposed rate increases were 35% for fiscal year 04-05, 30% beginning on July 1, 2005, 30% on July 1, 2006, then 5% increases on July 1, 2007 and July 1, 2008. The rate increases ranges are based on the timing of the new revenue needed for many important water related projects. On April 6, Council approved the policy direction to move towards a common rate structure that will comply with Proposition 218. The common rate policy direction will require additional adjustments to the rates and rate structures. This additional rate analysis work will take place in April, May and June. It is anticipated that water connection fees will be updated in order to pay for some new growth related projects over time. Many policy decisions will be needed. Some policy discussions will deal with metering as part of an overall plan for creating equity among customers while keeping water conservation in mind.

Current Status

Currently, a new Water Master Plan is underway. An infrastructure and rate study started in February 2004 and will be finalized this summer. Immediate water fee increases need to be discussed in order to meet our revenue requirements. MID has a preliminary project timeline for phase 2, which starts construction in 2005 and finishes in 2007. The preliminary estimated MID project costs are in the \$38-\$40 million dollar range, but does not include all of the City of Modesto's connections, distribution pipelines, and storage tanks estimated at \$64 million. Other project costs add up to over \$51 million over the

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next 5 years. Talks are also being held with TID concerning South Modesto water needs. Also metering requirements are being developed at the State level.

The Wastewater (Sewer) Fund:

The Wastewater Fund is unable to meet the requirements to issue additional debt for needed capital improvements. Many deferred projects and expensive environmental litigation have depleted the reserves.

Rate History

The 1995 Wastewater Master Plan established a financial strategy to pay for needed sewer improvements over a ten-year period (1995-2005). The strategy included a series of debt issues in the amount of \$45 million. In addition, the strategy required a series of five 7% rate increases beginning in 1996.

The 1997 bond issue listed a series of rate increases of 3% to 4.5% per year for five years, but the increases were delayed. In 1998, staff recommended a 5% increase, then a 4%, however the Sewer Rate Advisory Group recommended only a 2% increase by postponing projects, take calculated risks and reduce lift station rehabilitation projects, remove garden refuse pickups, pass some repair and maintenance charges to the Storm Drain Fund, and reduce reserve dollars down to 10% or less. Also, in 1998 the date of rate increases was changed from July 1 to October 1 to accommodate seasonal industries budget planning, a minimum \$2.0 million capital reserve was established, and recommendations for a rate structure review and multi-year sewer rate plan were made.

Sewer Fund: Flat Rate for Residential			CODE 1	CODE 2	CODE 3
2004	3% Increase		\$14.26	\$11.15	\$11.15
2003	4% Increase		\$13.84	\$10.83	\$10.83
2002	4% Increase		\$13.31	\$10.41	\$10.41
2001 (Oct)	5% Increase		\$12.80	\$10.01	\$10.01
2001 (Jan)	8% Increase		\$12.19	\$9.53	adj \$7.84
1996	3% Increase		\$11.29	\$8.82	\$8.82
1995	4% Increase		\$10.96	\$8.56	\$8.56
1994	5% Increase		\$10.54	\$8.23	\$8.23
1993	3.1% Increase		\$10.04	\$7.84	\$7.84
1992	15% Increase		\$9.74	\$7.60	\$7.60
1991	15% Increase		\$8.45	\$6.59	\$6.59

In late 1998, Council considered a proposal to raise rates over a three-year period in the amounts of 2%, 6%, and 6%. No action was taken at that time. In May 1999, staff projected rate increases of 8% in 2000 and 6% in 2001.

In 1999, a rate equity was addressed concerning three rate groups: residential,, commercial, and industrial. The results of the study concluded that residential rates needed to be increased by 6%, while commercial rates are reduced by 16% creating a zero net revenue increase to the Sewer Fund.

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The Sewer fund was in need of a 14% rate increase based on the continuance of the transfer to the General Fund. The elimination of the transfer resulted in \$1.65 million of savings and reduced the need for a rate increase of 14% to 6% in 2000.

In November 2000, a public hearing was set to adjust Sewer Rates. Two rate adjustments were made. The first adjustment was an equity adjustment +8% for residential, -20% commercial, and 0% for industrial. Second, a 3% across the board rate increase for all classes. (The result being +11%, -17%, +3% respectively.) Also, the reserve policy changed from 25% to 15-20% of operating expenditures.

In August 2001 another successful Sewer Rate Increase Public Hearing was held proposing an Oct 1, 2001 increase of 5%, 2002 4%, 2003 4%, and 2004 3%.

Current Status

Many Sewer Fund changes need to be addressed. A Wastewater (Sewer) Master Plan is 2 years away. Environmental litigation issues and costs are impacting the reserve levels. A rate study effort started in February 2004 will continue to the summer. The deferred maintenance issues for repair and replacement needs to be addressed. The Sewer Fund needs to issue additional bonds estimated at over \$25 million in order to take care of existing and growth related projects. Sewer connection fees also need to be reviewed and updated. The new master plan will document the need for additional projects.

Storm Drain Fund:

The Storm Drain Fund does not have any bonds, but without rate increases the reserves will fall to zero and planned maintenance and capital projects will continue to slide allowing for greater deterioration of the infrastructure and the overall health of the fund.

Unlike Water and Sewer, Storm Drain requires a positive majority vote of the people in order to the increase fees. In 2002, a ballot vote was voided because the notice and the ordinance calculation did not match.

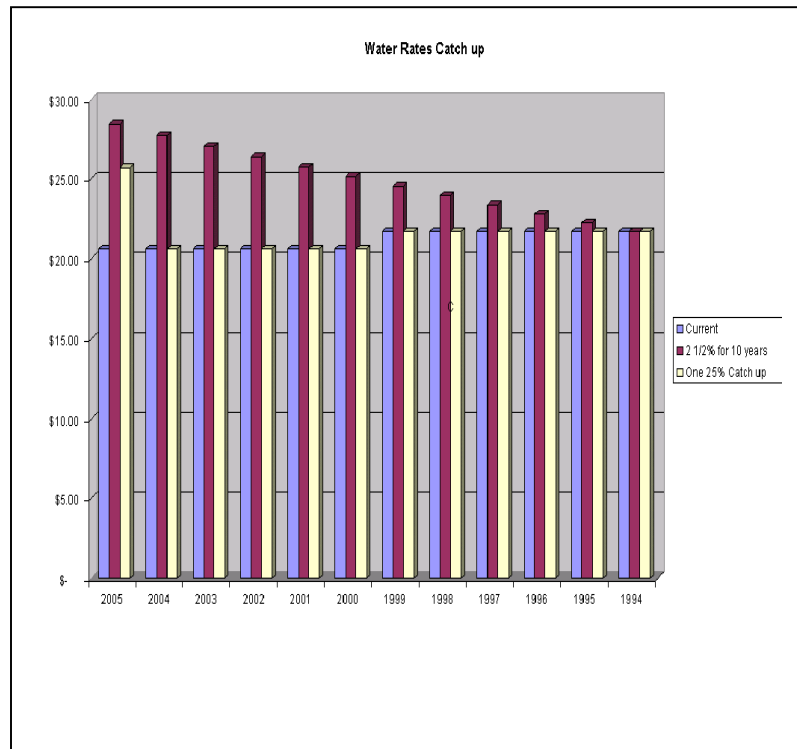
Storm Drain Fund:			LESS THAN 3500	LESS THAN 7000	Over 7000
1995	5% Decrease		\$1.65	\$3.23	\$4.85
1993	Mixed Use Established				
1992 (Oct)	10.2% Increase		\$1.73	\$3.40	\$5.10
1992 (Oct)	Duplex Category Established				
1992 (Apr)	Multi-Dwelling Redefined				
1992 (Mar)	Non-Curb Established (30% of Rate)				
1991	Fund Established		\$1.57	\$3.08	\$4.62

Rate Shock

Rate shock usually occurs when small incremental increases are not made over a period of time. As an example, for the City of Modesto, the last real increase was in 1994 with a rate decrease in 2000. By applying just basic inflationary costs increases at 2.5% for 10 years starting in 1995, the rate base would have had adequate funding for many repair and replacement projects and built a cash reserve sufficient to pay a large percentage of the Phase Two project in cash without incurring long-term interest payments. In order to “catch up” a single rate increase of 25% (2.5% X 10 years) falls short of making up the difference. As a result large consecutive increases are required to build reserves and issue debt in order to finance needed infrastructure improvements. .

Inflation - California CPI			
<i>(All Urban Consumers)</i>			
<u>Year</u>	<u>Index</u>	<u>% Change</u>	
1995	154.0	1.7	
1996	157.1	2.0	
1997	160.5	2.2	
1998	163.7	2.0	
1999	168.5	2.9	
2000	174.8	3.7	
2001	181.7	3.9	
2002	186.1	2.4	
2003	190.4	2.3	
2004	194.2	1.9	<i>forecast</i>
2005	199.4	2.7	<i>forecast</i>
2006	205.3	3.0	<i>forecast</i>
2004-06 Ave.		2.5%	

Source: California Consumer Price Index (CPI), All Urban Consumers, California Department of Finance, 3/04



One important element dealing with rate increases is time. Currently, the water utility needs a rate increase as soon as possible. Annual rates should recover revenues sufficient to operate the water utility on a sound enterprise basis, while paying for O& M expenses, capital expenditure, debt service, and transfers. By combining the issues of no rate increases for 10 years, expenditure cost increases over the last 10 years, environmental litigation impacts, and declining reserve levels the City of Modesto is barely meeting its bond covenants and without a rate increase at the beginning of FY 04-05, the water utility risks having \$84 million of bonds being callable and not being able to issue additional debt in time for Phase Two.

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Staff Paper #13:
Actuarial Liabilities

MEMORANDUM

DATE: May 3, 2004
TO: Mayor and City Council Members
FROM: Peggy Hetzler, Finance Director
SUBJECT: Actuarial Liabilities Issues Paper

BACKGROUND

The City of Modesto self-insures for general liability and workers compensation, and it has established separate funds (the Liability Fund and the Workers Compensation Fund, respectively) to hold reserves set aside to pay current and future claims (as well as administrative and legal costs and premiums paid for excess coverage).

In addition, the city provides certain benefits to its employees upon retirement based upon their accumulated sick-leave balances. The city has established the Employee Benefit Fund (EBF) to account for reserves set aside to pay those costs, as well as the cost of vacation and holiday hours “cashed-out” by employees upon separation from service. (The EBF also acts as a pass-through point for a number of other benefits, but these pass-through amounts have no net effect on the subjects of this agenda memo.)

As of June 30, 2003, the city’s Comprehensive Annual Financial Report (CAFR) reflected a combined net negative fund balance in these three reserve funds of \$42.4 million. That is, liabilities in these funds exceeded assets by \$42.4 million.

This memo provides additional background on the nature and components of this deficit, identifies key policy decisions to be made with respect to these funds, and recommends actions in both the current fiscal year and the 2004-05 budget to address the situation.

Self-Insurance Funds

The city is self-insured for general liability claims, up to a limit of \$1 million per claim. This limit is called the “self insured retention” or SIR. Costs in excess of the SIR are passed on to the Authority for California Cities for Excess Liability (ACCEL), an excess liability pool. The city pays ACCEL an annual premium of about \$475,000 for this coverage.

The city is also self-insured for workers compensation claims, up to a limit of \$750,000 per claim. It pays an annual premium of about \$165,000 per year to the CSAC Excess Insurance Authority for this coverage, as well as an administration fee of about \$35,000 to the California Department of Industrial Relations.

Every other year, the city contracts for a professional actuarial evaluation of the likely costs of current and future claims, taking into account the city’s loss experience, measures of exposure (such as total staff), trends in claims cost and frequency, and industry-standard statistical models and methods.

The actuarial studies attempt to estimate the full cost of outstanding claims, accounting for the fact that (a) many known, existing claims have not been fully settled, and therefore have unknown final costs and (b) future claims may be made against the city for events taking place in prior years (referred to as “incurred but not reported” claims, or IBNR). They also estimate the cost of claims for the upcoming year which, of course, hasn’t happened yet. Because of these uncertainties, actuarial estimates rely on a variety of statistical techniques, both to make the estimates and to quantify the uncertainty associated with them.

Actuarial studies quantify uncertainty in terms of “confidence levels.” These are expressed as the probability that actual costs will not exceed a particular dollar amount. For each type of liability being estimated, an actuarial study will typically provide an “expected value” – the best single estimate of the full cost – and the additional amounts needed to attain a number of specific confidence levels.

For example, the actuarial study of general liability estimated the city’s outstanding liabilities, as of June 30, 2003, at \$2.1 million. It also estimated several confidence levels:

Expected.....	\$ 2.1 million
70% Confidence.....	2.5 million
75% Confidence.....	2.6 million
85% Confidence.....	3.0 million
90% Confidence.....	3.3 million

This means that the city should *expect* to pay \$2.1 million for these claims, though the actual cost may be more or less than this amount. There is a 70% probability that the costs will be less than \$2.5 million and a 90% probability that the costs will be below \$3.3 million.

The city has historically selected the 75% confidence level as its funding target. The city’s actuary recommends funding in the range between 75% and 85%. The liabilities shown on the city’s current financial statements currently reflect the dollar amounts associated with the 75% confidence level, even though this is above the expected value of the corresponding costs.

Each year, the city establishes an amount to be set aside for each self-insurance reserve and allocates these totals to departments based on a formula that combines total payroll (an approximate measure of exposure) and past claims experience (an approximate measure of the risk level of particular activities and programs). These amounts are built into department operating budgets as internal service fund (ISF) allocations. In the current fiscal year, these amounts totaled \$2.5 million for general liability and \$3.9 million for workers compensation.

As of June 30, 2003, the Liability Fund showed a positive net fund balance of \$2.1 million, while the Workers Compensation Fund showed a negative fund balance of \$5.0 million.

Employee Benefits Fund

A number of benefit costs run through the Employee Benefits Fund (EBF) as pure pass-through transactions, and these will be ignored in the following discussion.

In the current context, the most significant costs accounted for in the EBF are the (a) cash payments made to employees for their accumulated vacation and holiday hours upon separation from service and (b) cash payments and health benefits provided to employees upon retirement based upon their accumulated sick leave balances.

The vacation & holiday separation cash-out costs are expected to remain steady at around \$400,000 per year. The city does not make payments into the EBF to reflect vacation and holiday hours earned; rather it finances these separation costs on a pay-as-you-go basis. For accounting purposes only, the city does show a liability within the EBF for the full value of employee vacation and holiday balances (\$6.1 million as of June 30, 2003).

Sick leave-based benefits paid from the EBF include cash payments to firefighters and health insurance coverage for other retired employees. Firefighters receive payments equal to 90% of their first 2,000 hours of accumulated sick leave valued at their regular rate of pay. Compared with the cost of post-retirement health benefits, the overall fiscal impact of these cash payments is modest.

Management and Other Miscellaneous employees can convert 90% of their first 2,000 hours of accumulated sick leave into health insurance coverage (the same share paid by the city for its current employees) at a rate of 8 hours of leave per one month of coverage. Police, Police Management and Fire Management employees can convert 90% of their first 2,200 hours of accumulated sick leave into health insurance coverage at the same rate as Management & Other Miscellaneous.

The following points may be useful in understanding the overall magnitude of the city's current sick leave banks and the likely costs of the post-retirement health insurance benefit.

- Currently, city employees have accumulated sick leave balances totaling almost 600,000 hours. The average city employee has approximately 500 hours of accumulated sick leave.
- The average city employee accumulates an additional three hours of sick leave per month (net of leave used).
- The city has 363 current employees whose sick leave balances would entitle them to five years or more of post-retirement health insurance.
- The city has 169 current employees whose sick leave balances would entitle them to ten years or more of post-retirement health insurance.

- An actuary has estimated the cost of post-retirement health benefits for employees who had already retired as of June 30, 2003 at \$9.7 million.

(Note that the average figures given above encompass considerable individual variation, and aren't necessarily representative of any particular employee or group.)

In the current fiscal year, the city will set aside approximately \$750,000 for the costs and liabilities associated with the EBF. This amount has been allocated to individual departments in a manner similar to the ISF allocations for the self-insurance funds.

As of June 30, 2003, the EBF fund showed a negative fund balance of \$39.6 million. This included a liability of \$9.7 million for post-retirement health benefits for pre-existing retirees, a liability of \$37.7 million for post-retirement benefits of future retirees (i.e. current employees), a \$6.1 million liability for accumulated vacation and holiday leave, and \$0.3 million for various miscellaneous liabilities. These liabilities exceeded the \$14.2 million in assets in the fund by \$39.6 million.

POLICY ALTERNATIVES

Liability Valuation for Financial Statements

As mentioned above, the city currently recognizes liabilities in the amount of the 75% Confidence Level in its self-insurance funds. This means that those funds may appear to be in a deficit position, even if sufficient funding is set aside to cover the full expected value of outstanding claims. We believe that this presents an overly negative impression of the position of these funds.

We are recommending that, beginning with the current fiscal year, we adjust the liabilities in the self-insurance funds to reflect their actuarially determined expected value. This change of accounting policy will be reflected in the notes accompanying the financial statements.

We are *not* recommending any change in the city's policy setting the funding target for these reserves at the 75% Confidence Level. The accounting change being recommended will simply have the effect of showing any "cushion" in the funds, over and above the expected value, as a positive fund balance, which we believe is a fairer presentation of the funds' conditions.

Liability Cost Recognition in Operating Budgets

We are recommending that, beginning with the 2004-05 fiscal year, the amount the city charges to ongoing operating budgets for self-insurance and EBF liability accruals be pegged to the expected value of these liabilities.

In the current year, operating budgets are being charged amounts based on the 75% Confidence Level for general liability and workers compensation plus a small amount for EBF liabilities. We propose a more uniform approach, based on the principle of recognizing the full cost of service in the year in which the service is delivered. (In other words, "Current taxes pay for

current services, future taxes pay for future services.”) In line with this principle, we believe that current operating budgets should reflect the best estimate (expected value) of all of these costs.

This will reduce the operating budget contributions for general liability and workers compensation, while increasing the contribution for EBF liabilities. In total, payments will increase by \$2.2 million citywide, with an increase of \$1.6 million in the general fund. These increases are partially reflected in the 2004-05 baseline budget; the net increase above baseline will be \$1.2 million citywide and \$0.9 million in the general fund.

The recommended approach holds operating budgets “harmless” from the cost of funding liabilities incurred in past years, and from the costs of setting aside funding “cushions” needed to offset the risk of actual costs exceeding the expected levels. This means that additional funding, possibly from accumulated fund balance in the general fund, will be required to address these needs.

Valuing Liabilities With Long Payment Horizons

One complication involved with making provision for self-insurance and EBF liabilities is that actual cash payments for these costs may occur many years – in some cases decades – after the cost is incurred.

Consider the case of EBF post-retirement health benefits. As part of the package of pay and benefits a city employee will receive in return for services provided today, the employee receives a certain amount of accumulated sick leave (on average, a net 36 hours per year) along with a promise to convert those hours into 4 months of city health insurance premiums. That promise is part of the cost of those services – this year – even though the promise may not be redeemed for ten or more years.

The policy question is: what, if anything, should the city set aside today in recognition of the fact that it has made this promise, given that it won’t be asked to honor the promise for some years? Put another way, how should the value of that promise be “discounted” to reflect the fact that it won’t be paid for several years?

There are two general approaches to this question: the subjective/intuitive approach and the objective/quantitative approach.

The subjective approach relies on a judgment call: how immediate or urgent does the promise to pay benefits in the future *seem*? In general, this approach tends to discount costs more than four or five years in the future very steeply – perhaps to zero.

A quantitative approach seeks to put a number on the problem – what is the value today of a dollar twenty years from now? A natural way to answer this question is with an interest rate. Typically the interest rate used reflects either the rate of return available from alternative investments, or the cost of borrowing.

Actuaries (and finance professionals) are naturally inclined to support a quantitative approach, and we are recommending such an approach. Specifically, we recommend that liabilities with long payment horizons be recognized and funded at levels based upon a reasonable interest rate and the expected timing of the actual payouts (as well as cost trends that will affect the amounts paid out).

The city's current actuarial studies and the funding recommendations in this memo are consistent with this policy.

Funding Level Targets

For self-insurance funds, we recommend that the city continue its policy of targeting the 75% Confidence Level.

For the EBF, we recommend the following targets:

- The estimated value of the post-retirement health benefits for employees who retired on or before June 30, 2003 (\$9.7 million) should be fully funded immediately. There is sufficient balance in the EBF to meet this requirement.
- The first \$400,000 of the vacation and holiday liability should be fully funded immediately. This represents a one-year cash cushion for vacation cash-outs at separation. The city should continue to provide for this cost on a pay-as-you-go basis, at \$400,000 per year. The remainder of the vacation and holiday liability should be allowed to remain unfunded for the immediate future.
- The remaining assets in the EBF should be counted against the outstanding liability for sick leave related retirement benefits (including cash payouts and post-retirement health benefits). We are not recommending any steps toward funding the remaining liability in the current or next fiscal year. However, we do recommend that the city make an effort to fund this liability on an opportunistic basis – that is, with any unexpected revenue or savings that may become available. If left unaddressed over the long term, this liability will gradually erode the city's ability to provide for current service needs.

RECOMMENDED ACTION

Policy Direction

On March 13th the Finance Committee agreed with staff's recommendations as set out below.

Current Fiscal Year (2003-04)

To bring the self-insurance funds into a neutral (no deficit or surplus) position by the end of the fiscal year, we recommended the following actions:

- Transfer \$2,616,782 from the General Liability Fund to the Workers Compensation Fund. This is in addition to the \$500,000 transfer already budgeted in 2003-04.
- Transfer \$324,115 from the General Fund to the Workers Compensation Fund.

These actions, in combination with the recommended accounting policy change, will eliminate the reported negative net fund balance in the Workers Compensation Fund and eliminate the reported surplus in the General Liability Fund.

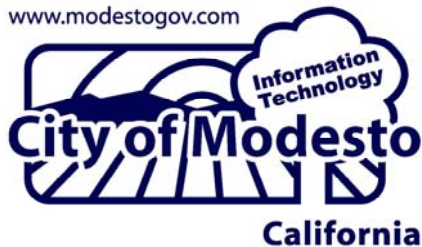
These actions will *not* provide a “cushion” at the target 75% Confidence Level. We recommend that additional funding to create such a cushion be considered in the 2004-05 budget process.

2004-05 Budget

Finance has prepared a Decision Package for the 2004-05 budget process to update the self-insurance and EBF ISF allocations in line with the policy recommended above (“Liability Cost Recognition in Operating Budgets”).

In addition, the Council may wish to consider setting aside additional funds as a “cushion” in the self-insurance funds. Meeting the 75% Confidence Level target would require \$1.4 million for general liability and \$2.4 million in workers compensation. Finally, the estimated cost of fully funding the outstanding liability for sick-leave related retirement costs (cash payouts and health benefits) is \$37.1 million over and above the funding proposed above.

One method to accomplish the goal of increasing funding to the insurance and EBF funds is the development of an accounting mechanism to capture annual departmental “underspending”. In the past five years, General Fund departments have underspent their annual budgets by an average of 3% - 5% due primarily to vacant positions. The Council may choose to officially acknowledge this historical underspending and dedicate all or a portion of the savings to the insurance and EBF funds.



MEMORANDUM

To: Mayor and Council Members

From: Joyce Engberg, Chief Information Officer

Date: April 26, 2004

Re: IT Budget Policies

- **Policy #1 - Software/Hardware Maintenance and Technical Support Contracts Managed by IT**

Issue:

Contracts not centrally managed by Information Technology are leading to excessive costs being charged to the City of Modesto by the Technology vendors who provide hardware and software services to the City.

Background:

Prior to the time that the Information Technology group became a department, individual City departments were responsible for acquiring their own software and hardware. They were also responsible for working with the vendors to set up software and hardware maintenance contracts.

Current Practice:

Many of these contracts still exist today, and continue to be overseen by a number of different, non-IT personnel. In several cases, the City works with the same vendor in multiple, different departments but, because each contract is managed by a different individual, there has been no opportunity to consolidate services and take advantage of preferred/volume pricing. In addition, the individuals who manage these contracts have no broad experience working with technology vendors, putting them at a disadvantage when negotiating the terms of the contracts. In some cases, critical contractual protections for the City have not been written into the agreements, due to the inexperience of the staff that are managing the City-vendor relationships.

IT Managed Contracts Solution:

Although the end user is typically responsible for the ongoing costs of maintenance and technical support, management of these complex contracts could benefit from a centralized approach, and the experience of an organization (IT) which has significant experience in negotiating the details of technology environments. The result of placing these contracts

under the responsibility of IT could net the City of Modesto an annual savings of \$50,000 or more.

Ramifications:

The establishment of this policy would be a departure from the way that technology contracts have been handled in the past. IT would need to work closely with the individual departments during the transition to ensure that their needs were being met.

Not establishing this policy continues the potential excessive pricing that can occur when contracts are not managed centrally.

- **Policy #2 - PEG is established as part of the overall IT Budget**

Issue:

The PEG budget is currently separated from the IT Budget, complicating our ability to effectively manage the overall IT budget.

Background:

PEG cable television programming allows the public to air a variety of programs on a single, dedicated public access channel. In addition, government and education each have a dedicated channel on which they are able to air programs that are specific to their organizations. IT assumed management of PEG beginning in our current FY (03/04). With the responsibility of managing this program, it became necessary for IT to dedicate staffing to this program in order for it to continue functioning.

Current Practice:

The PEG program is currently separated from the overall IT budget. Although this was meaningful when our PEG functions were managed in a separate department, several IT staff are now performing all of the work for the PEG program. The PEG program benefits from this arrangement, since it is able to draw upon a number of different technical skills (programming, networking, web) without the need to hire or outsource multiple full or part-time positions.

PEG Established as Part of IT Budget Solution:

Because IT staff are managing the PEG program, and because PEG is considered a technology related program, the placement of PEG within the overall IT budget would enable us to make more appropriate use of the combined PEG and IT budgets.

Ramifications:

This policy change will allow more appropriate management of budget and staffing resources.

- **Policy #3 – Establish a Technology Fund Reserve (TFR)**

Issue:

There is insufficient funding available to start large-scale technology replacement, improvement, or integration projects that are critically needed by the City.

Background:

Some of our current systems are out-of-date and no longer meet the demands of today's business environment and/or cannot be integrated with other critical systems where required. These problems lead to inefficiencies in the way that we do business, and can even lead to errors as a result of relying on manual tasks that should be automated through integrated system solutions.

The City of Modesto recently established a draft IT Tactical Plan providing the City with a roadmap for technology related improvements for our current and future systems. Unfortunately, many of the improvements recommended by the Tactical Plan are beyond our current financial reach because no funding mechanism exists to handle enterprise-wide (multi-department) technology projects.

Current Practice:

Since the City of Modesto has not followed a routine plan for upgrading or improving systems, we are facing the unusual situation of needing major over-hauls to most of our critical systems at the same time. Today's technology applications often serve multiple departments and cost millions of dollars for an organization of our size. In order to acquire new technology, IT is currently relegated to relying on individual departments to 'locate' sufficient funds when a need is identified. This approach worked in the past, when we were focused only on individual systems, rather than a full, interoperable environment. As our systems have become more complex and, as the City has grown, this method of funding has become unworkable. Permitting systems need to connect to financial systems. GIS systems need to work with Public Safety systems. Utility systems need information that is in assessor files. Funding plans need to account for this interoperability (systems that operate across multiple departments).

Although teaming with Departments is a good practice, it often does not provide adequate means by which to acquire the necessary systems. Technology projects can fail because an individual department may opt to divert funds from a planned technology project to other programs that they support. Or as budgets are reduced, funding that was supposed to pay for an upgrade, new technology, or integration effort may be quickly cut from one or even all participating departments.

Technology Fund Reserve Solution:

We believe that the answer to this problem is long-term planning and funding, similar to what was established for the replacement of desktop computers. By planning for the ongoing upgrade and replacement of major City systems, we can ensure that our systems provide the maximum benefit and efficiency for city staff and citizens. We are also likely to save money

over the current approach to technology projects, which actually encourages departments to procure their own software, missing the opportunity to consolidate and re-use applications. In many cases, the City owns multiple applications which perform exactly the same function. Not only have we paid for the 'same' application multiple times, but we pay ongoing maintenance charges which are also redundant.

The recommended approach would involve establishing a value for our existing portfolio of business applications, determining the expected life-cycle for these systems, and then calculating what the annual investment would be in order to maintain these systems in proper running condition (upgrades, replacements, enhancements).

We would then have a couple of options to handle the financial requirements:

1. The establishment of a Technology Fund Reserve would allow the City of Modesto to begin to upgrade and integrate our systems. Funding would be placed into the Technology Fund Reserve (TFR) as part of the annual budget process. Each year we would draw against these Reserve Funds for specifically designated, enterprise-wide projects.

We might be able to begin some limited work on our systems with reserves that have already accumulated in multiple departments, but we might also need to consider short-term borrowing to allow these projects to start in a timely manner.

2. A second option could be to use the already existing Capital Improvement Project program to establish funding for large-scale projects. In this case a CIP would be established for a given project and the funding cycle would begin. Over the course of iterative years the CIP fund level would be able to address all of our major systems.

Ramifications:

This policy requires adopting a new approach to software procurement, centralizing this function within the IT department. IT would need to work closely with the individual departments during and after the transition to ensure that their needs were being met.

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