

Mayor's Recommendation

I recommend that the Finance Committee forward to the City Council for adoption the Proposed Budget for Fiscal Year 2010/11. This proposed budget is a coordinated effort between the City Manager and the Mayor and is guided by the policy and priority direction of the City Council.

Introduction and Background

The national and global financial crisis continues to unfold in 2010. Individuals, companies and governments all feel the anxiety of an uncertain financial future. As we've seen vividly in the last few years, financial stability requires constant and disciplined monitoring and action. We have done just this over the past two years and will continue to do so as we navigate through these challenging economic times.

Sales and property tax revenues have felt the greatest declines and are the major funding sources of most of the City's core operations. In FY 2008/09, we recognized \$118 million* in General Fund revenue. For this fiscal year (2009/10), we projected that revenues will reach \$104 million*. For FY 2010/11, we are anticipating the same revenue sources will continue to decline generating \$102.9 million*.

Since FY 2005/06 when nearly \$30 million in sales tax revenue was recognized, we have seen steady decreases in sales tax revenues of 5-6% annually. For FY 2010/11, \$22.8 million is projected for sales tax revenue; relatively flat from the current fiscal year's projection but down nearly \$7 million from just five years ago. As recently as FY 2007/08, property tax revenues were more than \$16 million. For the current fiscal year, the property tax revenue for the City is projected at \$12.2 million. In FY 2010/11, the Stanislaus County Assessor's Office is projecting another drop of 5% in assessed property values with City property tax revenues projected at \$11.8 million.

Dwindling revenues over the past few years have significantly stretched the City's resources and caused reductions in every General Fund program area including public safety. Understanding the need to maintain core City services during these poor economic times, I am recommending that we maintain a flat \$7 million reserve for the proposed budget.

Overview of the Mayor's Proposed Budget

Each of the last few years, we've asked the following questions about City programs and services as each line item was reviewed. This year is no different, and is in fact more vital than ever:

- Is the service essential and who does it serve?
- Does it serve Modesto residents' greatest needs?
- Can we do it better and at less cost?

*Including transfers

- Are there others who provide the service with whom we can partner to reduce costs and improve effectiveness?
- What are the long-term benefits of continuing the program or spending level?

The following information provides you with a quick summary of the City's major areas of funding and areas of concern. There are three major funds within the City's entire budget – General Fund, Water and Wastewater. The General Fund has experienced the most dramatic declines while the Water and Wastewater funds have remained relatively stable. As a result, the focus of the information below is the General Fund. During the Finance Committee Workshops, more information will be provided on all funds.

General Fund

Total General Fund revenues for FY 2010/11 are anticipated to be \$102.9 million*. This is down nearly \$4.3 million* from adopted budget for FY 2009/10 and \$22.8 million* from the adopted budget for FY 2008/09. We anticipate a shortfall in the FY 2010/11 General Fund budget of \$12.4 million*.

In the coming fiscal year, we will spend approximately 69%* of the City's General Fund on public safety – police and fire. While public safety is our top priority, we must also continue to provide other core services to Modesto citizens. As a result, the remaining 31%* of the General Fund are proposed to be strategically budgeted to preserve core services in other areas such as park maintenance, planning, finance and personnel services.

I have recommended more than \$8.6 million in expense reductions and revenue for the coming fiscal year. Additionally, I propose a holiday on the payment to the Worker's Compensation Fund in the amount of \$1.8 million. This still leaves us with a \$2 million shortfall that will be discussed as part of the Finance Committee Workshops. This proposed budget is an effort to take the most prudent path going forward on behalf of the community. As the effect of staffing and service cuts has accumulated over the last several years, expense cuts have had to go deeper into important services.

Community Impacts and Workforce Reductions

Labor costs account for the majority of costs in a service-driven organization such as the City. As a result, there are significant reductions in personnel in my proposed budget in order to meet revenue shortfalls. More reductions are needed for the FY 2010/11 budget in the area of employee cost reductions and we will continue to meet with all labor organizations over the next few weeks and months to realize additional savings.

Including the position reductions in my proposed budget, we have eliminated more than 200 positions through a combination of layoffs, early separations and retirements.

*Including transfers

Reductions to services that will most impact our citizens include:

- Reduction in police staffing. While we will continue to hold to the 100 patrol officers on the streets responding to calls; specialized units and community service officers will bear the brunt of the reductions this coming year.
- Reduction in fire staffing. We will close down the full-time operation of an Engine, which will result in a reduction of 10 personnel.
- Park maintenance and recreation staff will be reduced leading to an even lower level of park maintenance, tree pruning and removal and recreation programming.
- Community and Economic Development will further reduce staff and the amount of specialized tasks performed with some being eliminated completely from the work plan.

Closing

We are embarking on new territory this coming fiscal year. Everyone is anxious and feeling the tightening of their own budgets. Our goal, as the City organization, is to provide our community with core services that emphasize public safety. I have met with staff for hundreds of hours reviewing, changing, and reviewing reductions again and again. We know that we have no choice but to continue providing services, and we must change the way we do business in order to accommodate that.

I recommend that the Finance Committee forward the following budget goals for FY 2010/11:

1. Focus resources on vital public services;
2. Continue efforts which will result in long-term structural budget changes;
3. Reduce deferred maintenance;
4. Increase the City's economic opportunities.

Together we will continually improve and provide good services to our community. With these goals as our focus, we are sure to be good stewards of the taxpayer's money.

In closing, I would like to extend my sincere appreciation and thanks to the City Manager and his staff for their diligence and compassion as they worked through the difficult task of developing this budget with me. Without their efforts, this proposed budget would not exist.

Thank you.

Jim Ridenour,
Mayor, City of Modesto