

STATE OF THE CITY ADDRESS 2009

Good evening and thank you for taking the time to join us here for the State of the City Address. I am Mayor Anthony Cannella and I would like to take this opportunity to acknowledge the rest of the Ceres City Council: Vice Mayor Chris Vierra, Council Members Ken Lane, Guillermo Ochoa, and Bret Durossette. I would also like to acknowledge our City Manager, Brad Kilger and our soon to be appointed Deputy City Manager and Director of Public Safety, Art de Werk, as well as other Staff in attendance this evening. I would also like to thank my wife Julie whose love and support brings much joy to my life. Finally, I would like to recognize my children, Caleb, Mackay, Elise and Hope. I think this is their first State of the City address.

I think it goes without saying this past year has been one the most challenging our society has faced in a long time perhaps since the Great Depression. The catastrophic meltdown of an overheated housing market which had at its foundation high leverage and speculation, has given rise to an economic and banking crisis that has had profound reverberations for our economic well being. At the National level.--Lehman Brothers, GM, Chrysler, Bear Stearns, AIG...the list goes on...all pillars of our national economy--- have been forced into bankruptcy or government conservatorship. The volume of global trade is down 11 year-over-year, industrial production is all but frozen by tight credit markets and high inventories, and unemployment is approaching double digit levels. In response, the Federal Government is employing unprecedented massive fiscal and monetary stimulus programs to try to arrest the economic deterioration and re-spark activity.

Nowhere has this national crisis been felt more painfully than here in California the Golden State --where the housing decline has crippled the State's finances and now the legislature is working to roll-back spending to be more in-line with vastly lower projected revenues. All across the country, over the last decade individuals, cities, and states all spent their revenues based on what they believed at the time was to be an extended period of enhanced prosperity. The problem was that this prosperity wasn't, in fact, prosperity after all. Rather, it was debt fueled consumption and now the bill is coming due and we must permanently adjust to a lower revenue baseline. John F. Kennedy once said, "Our task is not to fix the blame for the past, but to fix the course for our future." So, on a local level, we have rolled up our sleeves and are moving quickly and decisively to deal with the problems at hand.

Locally, as a City, our revenues are heavily reliant on sales and property taxes. While most of our retail here in the City of Ceres comes from consumer non-discretionary purchases such as grocery, we are still experiencing a decline in tax revenue as local consumers deal with the new economic realities of job loss, wage reductions, and higher food and gasoline prices. Our sales tax revenue is expected to decline an additional 11 % in the current budget year. On the property tax side, 2005-2006 was the peak of the housing market and prices. The price of a median home peaked at about \$400,000 and has since declined to the mid- \$100,000 range. The Stanislaus County Assessors Office has, accordingly, been forced to re-assess existing homes. This year alone, assessed property tax values across Stanislaus County have declined 8%,--the steepest one year decline on record. In total, assessed values will decrease \$3 billion---- and while this is good news for our county's residents who will pay less, it is bad news for the cities which are so heavily reliant on property taxes as a source of revenue.

Moreover, the State budget crisis has prompted the State to bolster its own ailing finances by "borrowing" property tax revenue from counties and cities. While, I, along with many of the mayors are fighting to prevent this from happening, at the same time, we are preparing for the worst. In total we expect the City of Ceres General Fund revenue to be \$14.4 million, down 10% from last year and 17% from 2006-2007. This has forced us to have to take some fairly painful actions, particularly related to our City personnel since personnel expenses comprise 80% of the general fund expenses. We have had to move quickly and decisively and re-adjust as the financial picture has been a bit of a moving target.

At the beginning of the 2008-2009 fiscal year our general fund expenses were estimated at \$20 million. Prior to the recent developments in the State budget crisis, we estimated our available revenues to be \$16.4 million. This became the basis of the budget that the council adopted at our June 29th council hearing. With over \$20 million in estimated expenses at the beginning of the year and only \$16.4 million in anticipated revenue, the adoption of the June budget was the culmination of many months of work by the council and Staff to eliminate the gap. In total, we reduced expenses by \$3.6 million--\$1.3 million of which was personnel related and forced us to lay off 19 people.

Our work on the budget is not finished yet, however. Given the deterioration of the State's finances and the likelihood that they will be "borrowing" general fund revenues and possibly taking other City revenues such as transportation and redevelopment funds, we are beginning the dialogue with our employee labor representatives to cut an additional \$1.5 to more that \$2.0 million from the budget. It is my hope that, despite these painful layoffs, service levels will be maintained. I know our staff and personnel are extremely dedicated and will make every effort to do more with less.

As fiduciaries of this City, the Mayor and City Council are responsible for making prudent decisions. Over the course of the last several years, we have built up our general fund reserve which currently totals approximately \$5.0 million. Some of those reserves will be called onto weather the storm. But we don't know how long this storm will last nor do we really know how severe it may be, so our council is being prudent and has adopted a policy of not allowing our general fund reserve to dip below 25%. This reserve will also be used to buffer the city against any potential state raids and any other unforeseen expenses that could occur.

2009 Highlights

Now, let me delve into some more detail about the changes we are making at City Hall to help us weather the storm. Over the last few months we have eliminated several department heads and mid manager positions as a way to cut overhead and streamline our operations at City Hall in order to save costs. As a quick summary, we have eliminated the following management positions: Planning and community development director, Administrative Services Director, Recreation Director, Planning manager and Human resources manager and we have backfilled these positions with existing city staff who are admittedly being asked to take on greater workloads and responsibilities.

The Administrative Services Department has been moved temporarily under the direct supervision of the City Manager as the Finance and Human Resource Department. Betina McCoy Assistant to the City Manager has been appointed Interim Assistant Finance and Human Resource Director. Likewise, oversight of the Information Technology Division has been transferred to the City Manager's Office. Our Community Development Department, now referred to as Development Services, will be headed by Glen Gebhardt who along with the title of City Engineer has now also been appointed as Interim Development Services Director. Tom Westbrook has been appointed as Interim City Planner and will report to Glenn Gebhardt. Similar staff position consolidation and streamlining of reporting was enacted in the Recreation Department which has become a division of the Public Safety Department under the direction of Police Chief Art de Werk.

All of the Staff appointments and changes I just mentioned involve existing employees of the City of Ceres. They are being tasked with taking on more responsibilities so that we may maintain key functions and service levels but do so with fewer City employees. Just as many of our citizens in these troubled times are being forced to get by with less, we at City Hall must be able to do what is required of us with fewer resources. This will mean longer hours and greater workloads for the remaining staff, but I know our staff well, and I know they are up to the task. The reality is that we must adjust to this new downsized economic reality and get government to do more with less because this just may be the new reality.

One additional change we are making in our structure at City Hall is the promotion of Police Chief Art de Werk to the position of Deputy City Manager /Director of Public Safety. Chief de Werk has been a significant asset to this city during the last ten years, helping lead us thru some horrible tragedies and significant triumphs. Most recently, Chief de Werk played an instrumental role in the passage of our Public Safety Measure---Measure H which is providing critical funding for our police and fire services during these lean times. An altered economic reality will require new and thoughtful ideas for how we cope and thrive as a City. We must be willing to shepherd along new ways of conducting business in the City of Ceres and we as a City Council have great faith that the dynamic duo of City Manager Brad Kilger and Deputy City Manager Art de Werk will do just that.

Over the next few months the council has asked our City Manager to perform a comprehensive analysis of the City organization to:

1. Review the overall health of the City organization and its various departmental functions.
2. Identify areas within the City organization that are underperforming financially and/or are lacking from a service perspective and recommend steps to correct immediate deficiencies.
3. Initiate a review of the 2010/2011 projected budget gap of \$1.5 to more than \$2.0 million and recommend action that the Council may direct staff to take begin to address that gap not least of which will be entering into negotiations on our labor contracts.
4. Propose how he might further re-position city departments and functions to deal with a continued deterioration of City finances and shifting service priorities. In essence we are

asking for continued contingency planning so that we, as your City Council, can be proactive rather than reactive.

Enough gloom and doom for the moment. Despite these hard times, we had a very productive year at City Hall and now I would like to spend a few minutes highlighting some accomplishments.

First of all, though there has been a lot of recent media attention regarding the opening of our new Community Center, I need to take just one more moment to emphasize the significant of this achievement.

As I said at the grand opening Ceres has talked about building a new Community Center since the old one was torn down to build the Police Station in 1988 - 21 years ago. Though it took longer to realize the vision than I'm sure anyone expected, now that we have this new venue the returns to the community I feel are limitless.

Of course the main benefit of the new facility is that our citizens now have a 2 story multipurpose building with over 26,000 square feet that includes auditorium space for holding community events, computer lab, fitness room, arts and crafts room, senior lounge, teen lounge, and meeting rooms to allow for a variety of recreation, education and social events for years to come.

However, another benefit of this new Center will be to serve as a centerpiece for the revitalization of downtown Ceres. With input from local businesses the City Council will be adopting a new economic development strategy for the downtown in the coming year. One of the key objectives of the strategy will be to leverage the use of the facility as a regional event center to attract new business and investment downtown. Located close to Highway 99 and just minutes away from Turlock and Modesto, the Center will assist in our efforts to attract additional restaurants and retail stores downtown.

IN THE PLANNING DEPARTMENT:

- Planning is continuing to work with the developers of the Mitchell Road Center retail project. This project includes 300,000 s.f. of retail commercial and is located at the northwest corner of Service and Mitchell roads. It is City staff's expectation that this project will be in the public hearing process at the end of this year.
- Work continues on the West Ceres Specific plan a master planned development on 960 acres on the west side of Ceres which is proposed to include industrial, commercial and residential development. In addition it includes the annexation of the old Proctor and Gamble site (now G3) and the Stanislaus County complex.

PUBLIC SAFETY:

- On the public safety, thanks largely to the funding the City receives from Measure H, service levels have been held high.

FIRE:

- The fire department added 2 battalion chiefs and 3 fire fighters.
- 3 person engine companies at Station No. 1.

POLICE:

- Under the direction of Chief DeWerk, the City of Ceres created the street crimes unit which was very productive during its first year of operation. There were:
 - 122 Arrests
 - 91 Gang Field interagations
 - 22 Search Warrants
 - 19 Probation /Parole searches
 - 5 Meth lab investigations
 - 15 Drug purchases
- Developed an online reporting system which improves the ability of citizens to file police reports online and not be forced to wait for contact with an officer. This will increase efficiency within the department and provide better service to the community.

CODE ENFORCEMENT:

Major Accomplishments:

1. The Council adopted a Shopping Cart Ordinance. The majority of businesses are now in compliance with the ordinance, which has resulted in a significant decrease in the number of abandoned shopping carts and the amount of time that they remain uncollected. Code Enforcement Officers are working with the remaining businesses to achieve 100% compliance. There was only one instance where City Staff had to collect a shopping cart last year, because it was in the public right-of--way.
2. Ceres Community Clean-Up - "Love Much Ceres" was held with 125 community volunteers and Ceres Christian Church on April 25, 2009. City alleyways, vacant lots, and unoccupied residences were cleaned up. The yards of vacant properties were weeded/mowed and businesses in the community donated water, food, and tools for the volunteers who collected 3.5 tons of debris.
3. The Unit has dealt with at least 200 foreclosed properties. The rise in foreclosures and related issues resulting from the housing crisis has significantly affected our community. The impact is not only in terms of dealing with the physical problems (blight, etc.) but these cases require extensive research to provide necessary notification to responsible parties.

REDEVELOPMENT, ECONOMIC DEVELOPMENT AND HOUSING:

- The Ceres Redevelopment Agency approved the HELP program.

With the downturn in the national economy local Ceres businesses have seen their overall sales drop dramatically, which has significantly affected their bottom line. I believe the majority of Ceres businesses will survive this downturn and in time their business prospects will improve. However, for some of our local businesses the downturn has been significant enough to result in them potentially closing their doors.

The recession has resulted in the banks tightening their underwriting criteria to the point that it is very difficult for even the most credit worthy applicant to be approved for a commercial loan. Regardless of the financial strength of a Ceres business, some are being turned away. To respond to this phenomenon, the City of Ceres Redevelopment Agency approved the Hometown Entrepreneur Program (H.E.L.P.), a commercial loan program designed to assist the City's business gain access to financial resources.

The H.E.L.P. program proposes to work in conjunction with private lending institutions to increase access to financial resources for Ceres businesses.

The goal is to assist small for-profit businesses that have shown a commitment to Ceres, have a positive net worth, good credit history and are able to repay the loan, but have no viable source of credit from a traditional commercial lender.

The program guidelines are designed to assist small businesses only during the current national credit crisis. If the conditions that led to the crisis persist, staff will return to the Agency in FY 2010/11 to discuss the Agency Board's desire to continue with the program. In addition to the standard HELP applications, staff is proposing to allocate 2 loan applications to "special circumstance" applications. By being more flexible with the approval recommendation criteria the Agency will be able to assist two long term Ceres businesses per year through this unforeseen economic recession. However, by using a majority of the SBA 7a criteria as the basis for approval the Agency will use good business practices to protect its resources and minimize its risk.

ENGINEERING:

- Continue to work with TID on the surface water project.

The project proposes to construct a water treatment facility on the Tuolumne River near Fox Grove, including a distribution system so that treated surface water may be delivered to local agencies in the Turlock Basin. The City of Ceres has requested 6 MGD.

- o Completed the sewer and water rate increase for the city.

I know this may not be popular; I know I don't like paying more each month, but it was necessary for a couple of reasons. First, the city of Ceres sends effluent to both the City of Turlock and the City of Modesto.

Both of these arrangements began before my time on the council. Both of these cities increased what they charge the city for this service so we had to increase our rates to cover their costs. For sanitary sewer most of our rate increase covers just what they charge us with very little going to cover necessary capitol projects to keep our system up and running.

Second, relating to water, the state of California has continued to increase their standards relating to potable water. Wells that had been in service for 50 years were now deemed unacceptable to the State. Our water situation got so bad, that two years ago the city had a difficult time providing the necessary pressure and flow to fight fires if the need arose. We had to put in new wells into service and install necessary infrastructure to fix those problems. The increase in fees has allowed us to make the necessary changes and develop a domestic water system that is safe and capable of providing proper fire flow to assure public safety.

WASTE WATER DIVISION:

As an engineer I found this interesting so I thought I would share it:

- o Treated and disposed of 1,121,540,000 gallons of wastewater. That is an increase of 8.6 million gallons from 2007/2008 and is an average daily flow of 3.07 million gallons per day. That is a very large number.
- o Maintained 33.8 miles of sewer lines. That is only 23% of the total conveyance system in the city of Ceres.

WATER DIVISION:

- The City continues to be aggressive and innovative in improving our water system.
- Four existing wells were rehabilitated which added 1710 gallons per minute to the system.
- A booster pump was added to the Smyrna Park Well and water from this well was blended with well water from South of the Park. This enabled the City to meet drinking water quality standards, and yield much needed water production for the summer demand.
- The Hatch and Mitchell well had been shut down because it exceeded the allowable limit of nitrates. The Water Division staff relined it to block off the section of the water aquifer which produced the nitrates so it now produces safe drinking water.

- For the Firestein Well staff had the casing cleaned, installed a new pump, pumped at a little slower rate, which yielded another 230 gpm from that well.
- Two new wells were developed at Crowslanding and Lions Park adding 1400 gallons per minute to the system.

The addition of over 3,100 gpm to our water system has drastically improved the water situation from a couple of years ago when the City had difficulty maintaining pressure when demand rose during the summer. Water pressure has been improved almost 30% to an average of 45 to 50 psi during the recent 100 plus degree heat. Many residents, especially in the North side of the City, have commented they have noticed the improvement in water pressure.

Though that doesn't mean we can waste water or that City staff can rest -many old wells need to be replaced including Smyrna Park Well- It does mean the City is making progress. More wells must be drilled in the near future to ensure that we have enough water producing capability even when one or more wells are down for maintenance. Additional wells will also help us run the wells we have at a little slower pace so the pumps and motors will last longer and require less maintenance.

This is where our new fees are going.

These are just brief highlights of what the 188 men and woman who are employed by this city have done this year. They work hard every day and are committed to this city and I believe we all owe them a debt of gratitude for all of their efforts.

In closing, the current fiscal crisis has been a painful one for many families. It is requiring tremendous sacrifices on many different levels as we rollback our spending to meet the new revenue realities. Here at the City of Ceres, we are working diligently to ensure we are adjusting in appropriate ways while continuing to carry on the business of our City. We are streamlining departments and eliminating excesses. Some of these changes may result in a noticeable reduction in service levels to the public., However, the City Council is committed to continuing to maintain high-levels of Essential Services public safety being first and foremost. Our Staff is dedicated and committed to working harder than ever to deal with the situation at hand. While we do not know what the future holds in store for our economy, we are dedicated to continuing to pinch, scrap, and save where we can all while maintaining a prudent level of rainy-day reserves.

Thank you for your time. Good night.