

The Economics of Land Use



Final Report

Demographic, Economic and Fiscal Conditions in the City of Ceres

Prepared for:

City of Ceres

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1. INTRODUCTION AND SUMMARY OF FINDINGS

This report summarizes the economic, real estate, and fiscal conditions and trends that will shape medium- to long-term growth opportunities in the City of Ceres.¹ An evaluation of the City's fiscal conditions and the fiscal implications of land use decisions are provided as well. This report has been prepared for the City of Ceres by Economic & Planning Systems, Inc. (EPS) as a sub-consultant to Dyett & Bhatia (D&B) to support of the City's General Plan Update process.

The primary purpose of this analysis is to inform, in broad terms, the City's overall land use planning with respect to the type of development and land uses that could be effectively targeted in the City during the next 20 to 30 years. An evaluation of the City's fiscal situation is designed to provide a context for how General Plan polices related to land use and public service standards might affect the City's General Fund revenues and costs. In subsequent tasks, EPS will be providing more detailed economic and fiscal analysis of specific land use alternatives.

Summary of Findings

A summary of the key findings and their implications for the General Plan Update are provided below for the socio-economic/real estate and fiscal analyses, respectively.

General Plan Implications from the Socio-Economic and Real Estate Analysis

1. *Future growth in Ceres will require continued recovery from the economic impacts of the "Great Recession" as well some departure from its historic role as a lower cost "bedroom community."*

Limited population and employment growth since 2010, and a low rate of jobs per resident, have reinforced Ceres' position as a stable, residentially-oriented community. After experiencing rapid growth between 1960 and 2010, Ceres experienced little population and job growth during the past five years. Ceres currently has a resident to employment ratio of more than 5 to 1. In comparison, Turlock, Modesto, Stanislaus County, and the State have resident to employment ratios of approximately 3 to 1. Ceres' relationship between population and employment has remained relatively consistent over time, illustrating the residential focus of the City.

2. *Ceres has a number of desirable attributes that position the City to capture growing housing demand, including school quality that appears to be comparable to both Turlock and Modesto, and violent crime rates that are far below those found in both of the comparison cities and across the State.*

As a relatively safe community with above average public schools, Ceres provides a number of community attributes that are attractive to existing and prospective residents. For example, crime rates in Ceres are well below the State average and the City experiences less than half of the violent crimes than that of other urban Stanislaus County communities.

¹ The medium term is defined as the next five to 10 years, and the long-term is defined as the next 10 to 20 years (through the General Plan horizon of 2035).

Meanwhile school quality (based upon State testing as illustrated using API and the State Rank) indicates Ceres students score similar to those in Modesto and Turlock public schools, all of which are just above State averages. These and other factors, such as a small town feel, suggest the City should be able to capitalize on the rebounding residential market going forward.

3. Ceres' diverse and lower income demographic profile presents both opportunities and challenges for fostering economic development and market support for future growth.

Ceres is generally younger, less wealthy and less educated than Turlock, Modesto, or the State, but it also has a more equal age and income distribution and a relatively large cadre of younger age cohorts who have recently or may soon join the workforce and who may be forming their own households in the coming years. Ceres' population has fewer individuals with a college degree and a far larger proportion of individuals who have not completed high school than neighboring cities and the State. The median annual household income in Ceres of \$46,132 is somewhat lower when compared with \$47,607 in Modesto and \$51,594 in Turlock but quite a bit lower when compared with the State's median household income of \$61,489. Below average incomes and household purchasing power have implications for both residential and retail markets. In addition, the population of Ceres is much younger than the State average with nearly 33 percent of all residents under the age of 20 compared with 27 percent Statewide. Finally, the City of Ceres is composed of a majority (59 percent) Hispanic or Latino population, a far higher proportion than Modesto (37 percent) Turlock (37 percent), the County (43 percent), and the State (38 percent).

4. The Ceres residential market currently lacks higher-priced housing options as well as multifamily rental products. While these product types may not be feasible under current market conditions, in the medium- and long-term, the City may seek opportunities to provide a wider variety of residential products to the community, which can have positive economic development effects.

While the median home price in Ceres is comparable to that in Modesto and only 18 percent below Turlock, just 9 percent of single-family homes in the City are valued above \$300,000. Proportionally, Modesto has nearly twice as many homes as Ceres valued over \$300,000 and over 23 percent of Turlock's inventory is valued in this higher price segment. Similarly, only 5 percent of Ceres' residential structures include 10 or more units, compared to 10 percent in Modesto and 11 percent in Turlock, indicating a far lower proportion of multifamily product relative to Stanislaus County peer cities, which may point to future opportunities. Average monthly rental rates further suggest that there is demand in Ceres for more multifamily or other residential rental products.

5. Current retail options within the City are limited and dated, and as Modesto and Turlock continue to expand their commercial offerings, the City of Ceres is finding it difficult to compete. However, recent real estate market data indicate there is demand for a well-positioned, smaller format retail and office project. If located in the Downtown area, such a project could help enhance Downtown growth.

Recent absorption, vacancy, and lease rate trends suggest potential market support for well-positioned, small- to medium-scale commercial projects in Ceres, most likely adjacent to or near existing amenities such as employment centers and civic institutions. While Ceres will need to compete with Modesto and Turlock to attract additional, large format retailers, there

are several proposed mixed-use projects in Ceres, such as the Mitchell Ranch Center Project, the Ceres Gateway Center, and the Rita Plaza, that are described later in this Report and that may create new retail opportunities in the City. Retail sites with Highway access and visibility will be more attractive to national retailers and will help the City to compete with other jurisdictions in the region. In addition, recent real estate data suggest demand for some additional retail and office space. Given the lack of a commercially-focused district in Ceres, it is likely the support of a project providing these two uses could help create a foundation for a vibrant commercial core.

6. *While employment and commute patterns in Ceres reflect an economy dominated by local population serving sectors (e.g., Government, Retail, and Accommodation and Food Services) and a workforce that is heavily linked to the regional economy, the City appears well-positioned to attract a higher proportion of County-wide industrial growth going forward.*

For the most part the largest employment sectors in Ceres, such as government (25 percent of total employment), retail (16 percent), and accommodation and food services (11 percent), appear to be focused on serving needs of the local population. However, the City is home to a small export-oriented economy with jobs in construction (12 percent), manufacturing (7 percent), transportation and warehousing (5 percent), and wholesale trade (5 percent). Moreover, the existing industrial market in Ceres is competitive with other Stanislaus County cities such as Modesto and Turlock and appears well-positioned to capture additional jobs due to its geographic positioning around Highway 99. While the City has not added industrial inventory since 2009, it has experienced a steady decrease in vacancy rates and relatively strong lease rates coming out the Great Recession. In 2015, Ceres boasted higher average industrial lease rates than Turlock, Modesto and Stanislaus County with vacancy rates at approximately 4 percent. These data indicate Ceres may possess geographic strengths attractive to industrial users and there may be ample demand for additional industrial space.

General Plan Implications from Analysis of Fiscal Trends

7. *The County's allocation of property tax revenue to the City is very low (approximately 6.4 percent), challenging the City's ability to fund the public services needed to serve current and future residents and employees.*

The low allocation of property tax revenue is exacerbated when unincorporated land is annexed into the City. If past annexation agreements are any indication, the City receives minimal property tax revenue from these areas, suggesting that growth through annexation may have negative implications on the General Fund compared with infill development. Consequently, going forward, the City may want to consider strategies for negotiating more favorable annexation agreement(s) with the County or focus on infill development.

- 8. The City made cuts to its public services in response to the Great Recession; however, the passage of Measure H (the ½-cent sales tax measure) in 2007 has provided an important source of public safety funding. When limited to the General Fund, Public Safety (Police and Fire) expenditures have nearly returned to pre-Recession levels but are still below Fiscal Year 2007/08 peaks and have not kept pace with population growth.**

Fiscal expenditures related to providing public safety services account for 80 percent of the City's General Fund expenditures each year. Given that the fiscal effects of growth generally affect Public Safety more than other departments, the amount and geographic proximity of the new development to existing core services will be an important consideration to ensuring fiscal sustainability. If new development is planned for areas that are geographically separated from existing core service areas, it is likely that new police beats and or sub-stations, new fire stations, additional road miles, and the corresponding additional staffing and maintenance may be required. Conversely, for development that is more concentrated within the existing core service areas (i.e., infill development or small development projects near existing City boundaries), the focus may be more on providing incremental staffing and not necessarily on adding new facilities. Retail land uses, which generate sales tax, will help to generate revenue for public services through Measure H.

- 9. The annual fiscal impact of residential development can be positive or negative depending on a number of factors, including home value (and associated household incomes) and the marginal cost of providing public services.**

The value of the homes affect property taxes, property transfer taxes, average household income which impacts sales tax revenue, and motor vehicle in-lieu fees. This means that a home priced 10 percent higher than another is likely to generate more than 10 percent more in annual tax revenue. Public service costs required by new residential development will also affect the fiscal impact of the development, particularly if the development occurs in an area of the City requiring a geographic expansion of services or if the amount of new development triggers demand for new public facilities (e.g., new fire station or new police beats). As described later in the Report, the City may require the formation of a Community Facilities District (CFD) to generate revenue to fund ongoing Police, Fire, and Parks maintenance costs.

- 10. In constant dollars, sales tax revenues increased just 2 percent during the last nine years—well below the rate of inflation and even as the City's population expanded by 9 percent. However, during this period, median household incomes decreased by nearly 10 percent (in nominal dollars), with significant implications for household spending.**

During the past nine years, the City's population increased 9 percent, while median household incomes decreased by nearly 10 percent. The effect on sales tax revenues in the City is mixed with sales tax revenues increasing just 2 percent (in constant 2015 dollars) during this nine year period. New retail development can have a significantly positive General Fund impact through the generation of additional sales tax. However, if current retail demand is largely being met by existing businesses or by retail options in neighboring cities, any new retail development that occurs in the City will need to increase sales capture, so that the associated sales tax revenue does not simply represent a shift of sales from existing businesses.

11. The effects of the dissolution of the City's Redevelopment Agency are ongoing, and it will be several years until all outstanding obligations are satisfied.

With the dissolution of Redevelopment statewide in 2012, the process of paying off outstanding obligations is underway in the City. As soon as the obligations (currently estimated at \$58.6 million) have been satisfied, the property tax increment that is currently going to fund these obligations will go to the City's General Fund instead, and the City will see an increase in property tax revenue.

2. SOCIO-ECONOMIC CONDITIONS AND RESIDENTIAL MARKET TRENDS

This chapter describes the demographic, socio-economic, community quality, and residential real estate conditions and trends relevant to the General Plan Update process. The analysis is primarily based on existing and historical data from a variety of public and private sources.

The socio-economic profile of Ceres residents is relatively comparable to other cities in the San Joaquin Valley although there are noteworthy differences. Overall, indicators such education, median income, and household composition suggest a relatively stable, working-class, family-oriented community, as described further below.

Population

Ceres is the third largest city in Stanislaus County behind Modesto and Turlock and has experience ten-fold population growth since 1960, increasing from 4,400 residents to nearly 47,000 today. Ceres increased population by approximately 10,000 residents per year between 1960 and 2010, on a proportional basis exceeding growth in Modesto, Turlock, and Stanislaus County between 1970 and 2010, as shown below in **Table 1**. However, like many communities throughout the Central Valley, Ceres has experienced minimal growth since 2010 due primarily to the impacts of the Great Recession.

A variety of factors account for Ceres' relatively fast historical growth rate, some unique to Ceres and some reflective of County and Statewide trends. At the State level, California has experienced significant growth, driven by employment opportunities and quality of life amenities. Statewide population pressures since the mid-1980s, including from the Bay Area, have pushed population groups to the Central Valley in search of lower-cost housing opportunities. In addition, the Central Valley's strong agricultural-based economies have attracted immigrant populations with higher birth rates.

Although all of these trends have influenced Ceres' growth, other factors such as a diversifying economy and increased urbanization of the County as a whole have also played a role. By way of example, despite relatively strong growth in Stanislaus County over the past half century, population in the unincorporated areas has expanded only marginally. In other words, the County's population has increasingly being accommodated in urban areas, including Ceres.

A further break-down of household, age and educational composition of the City provides further insight into regions demographic trends, as described below.

Table 1 Population Trends 1960 - 2015

Geography	1960	1970	1980	1990	2000	2010	2015
Ceres	4,406	6,029	13,281	26,314	34,609	45,417	46,989
Turlock	9,116	13,992	26,287	42,198	55,810	68,549	71,043
Modesto	36,585	61,712	106,963	164,730	188,856	201,165	209,186
Stanislaus County	514,453	516,244	519,105	523,707	528,157	532,297	532,297
State of California	15,717,204	19,971,069	23,667,764	29,760,021	33,871,653	37,253,956	38,714,725
Percent Growth (by Period)	(1960-1970)	(1970-1980)	(1980-1990)	(1990-2000)	(2000-2010)	(2010-2015)	
Ceres		37%	120%	98%	32%	31%	3%
Turlock		53%	88%	61%	32%	23%	4%
Modesto		69%	73%	54%	15%	7%	4%
Stanislaus County		0%	1%	1%	1%	1%	0%
State of California		27%	19%	26%	14%	10%	4%
Compound Annual Growth Rate (CAGR)	(1960-1970)	(1970-1980)	(1980-1990)	(1990-2000)	(2000-2010)	(2010-2015)	
Ceres		3.2%	8.2%	7.1%	2.8%	2.8%	0.7%
Turlock		4.4%	6.5%	4.8%	2.8%	2.1%	0.7%
Modesto		5.4%	5.7%	4.4%	1.4%	0.6%	0.8%
Stanislaus County		0.0%	0.1%	0.1%	0.1%	0.1%	0.0%
State of California		2.4%	1.7%	2.3%	1.3%	1.0%	0.8%

Source: California Department of Finance (DOF).

Household Composition

Expressed in 2014 dollars, the City of Ceres' median household income in 2014 was \$46,132, lower than the median household income in the State as a whole (\$61,489), as well as Modesto (\$47,607) and Turlock (\$51,594) as shown below in **Table 2**. In comparison to the State, however, this lower medium income is partially mitigated by a generally lower cost of living. In comparison to Turlock and Modesto, Ceres' median household income, while below these two peer cities, illustrates similar household economics and suggests little to no differentiation regarding household purchasing power. On the other hand, average household size in Ceres is considerably higher than in Turlock, Modesto, and the State average, suggesting both that individual incomes are indeed likely even lower in Ceres than median household income would imply (more workers per household).

Larger household size also indicates a high proportion of families in Ceres. Furthermore, home-ownership rates in Ceres are much higher than the State average and the rates seen in neighboring cities. High home-ownership rates reflect both the housing stock available in Ceres (for-sale single-family homes) and the relative stability of the community despite lower household incomes.

Table 2 Household Composition

Category	Ceres	Turlock	Modesto	State of California
Number of Households	13,110	23,606	70,310	12,617,280
Average Household Size	3.49	2.93	2.89	2.95
Owner-Occupied	58%	54%	53%	55%
Renter-Occupied	42%	46%	47%	45%
Median Household Income	\$46,132	\$51,594	\$47,607	\$61,489

Source: 2010-2014 American Community Survey 5-Year Estimates.

Income Distribution

As shown below in **Table 3**, Ceres has a similar household income distribution to both Modesto and Turlock. Consistent with Modesto, Turlock, Stanislaus County and the State, approximately 30 percent of households in Ceres earn between \$50,000 and \$100,000 per year. However, only 16 percent of Ceres households earn \$100,000 or more per year, compared with 18 percent of Modesto households, 21 percent of Turlock households, and 30 percent statewide, likely contributing to the lower median income in Ceres.

Table 3 Household Income Distribution

Household Income Range	Ceres	Modesto	Turlock	Stanislaus County	California
Less than \$10,000	6%	7%	6%	7%	6%
\$10,000 to \$14,999	8%	7%	6%	7%	5%
\$15,000 to \$24,999	11%	12%	11%	11%	10%
\$25,000 to \$34,999	11%	11%	13%	11%	9%
\$35,000 to \$49,999	18%	15%	13%	14%	12%
\$50,000 to \$74,999	19%	18%	20%	19%	17%
\$75,000 to \$99,999	12%	12%	12%	12%	12%
\$100,000 to \$149,999	12%	12%	13%	13%	15%
\$150,000 to \$199,999	3%	3%	5%	4%	7%
\$200,000 or more	1%	3%	3%	3%	8%
Median family income (dollars)	\$46,132	\$47,607	\$51,594	\$49,573	\$61,489

Source: 2010-2014 American Community Survey 5-Year Estimates.

As noted in the previous section, the larger average household sizes in Ceres combined with primarily low and middle income earning households, suggests individual incomes are likely to be slightly below those in nearby Modesto and Turlock.

Age

The working age population cohort (ages 20 to 54) represents the largest population segment in both Ceres and the State at about 50 percent. However, unlike the State, Ceres is composed of a much younger population as nearly 33 percent of all residents are under the age of 20 compared to 27 percent statewide as show in **Table 4** below. Ceres also has far fewer residents over the age of 55 (18.5 percent) than the State as a whole (23.4 percent), resulting in a median age of approximately 31 years compared to the State average age of nearly 36.

Table 4 Age Distribution

Item	Ceres	State of California
Total Population	46,989	38,714,725
Age		
Under 9 years	16.3%	13.2%
10 to 19 years	16.2%	13.8%
20 to 34 years	23.7%	22.1%
35 to 54 years	25.2%	27.4%
55 and over	18.5%	23.4%
Median Age	30.9	35.6

Sources: 2010-2014 American Community Survey 5-Year Estimates; California Department of Finance (DOF).

Education

Ceres residents are less educated than Turlock, Modesto and the State as a whole. As shown below in **Table 5**, the Ceres population (over the age of 25) consists of a higher proportion of individuals without a high school diploma (32 percent) than Turlock, Modesto and the State (all 19 percent). In addition, Ceres has a small proportion of individuals holding a bachelor's degree or higher (10 percent) compared to Turlock (23 percent), Modesto (18 percent) and the State (31 percent).

Table 5 Educational Attainment

Item	Ceres	Turlock	Modesto	California
Population (25 years or over)	46,989	71,043	209,186	38,714,725
Less than high school graduate	32%	19%	19%	19%
High school graduate (includes equivalency)	30%	28%	28%	21%
Some college or associate's degree	28%	30%	35%	30%
Bachelor's degree or higher	10%	23%	18%	31%

Sources: 2010-2014 American Community Survey 5-Year Estimates; California Department of Finance (DOF).

Race and Ethnicity

The City of Ceres has a majority (59 percent) Hispanic or Latino population (of any race), a far greater proportion than Modesto, Turlock, the County, and the State. The racial composition of Ceres includes nearly 70 percent White, 1.7 percent Black or African American, less than 1 percent American Indian and Alaskan Native, 6 percent Asian, 16.5 percent categorized as Some Other Race, and 4.1 percent categorized as Two or More Races. More detail on racial and ethnic composition in other Stanislaus County cities, the County and the State of California can be found below in **Table 6**.

Table 6 Race and Ethnicity

Subject	Ceres	Modesto	Turlock	Stanislaus County	California
Race					
White	69.7%	72.2%	80.7%	75.9%	62.1%
Black or African American	1.7%	3.9%	2.2%	2.8%	5.9%
American Indian and Alaska Native	0.9%	0.9%	0.4%	0.8%	0.8%
Asian	6.0%	7.4%	5.8%	5.3%	13.5%
Native Hawaiian and Other Pac. Islander	1.0%	0.9%	0.7%	0.7%	0.4%
Some Other Race	16.5%	9.7%	5.8%	10.0%	12.8%
Two or More Races	<u>4.1%</u>	<u>5.1%</u>	<u>4.3%</u>	<u>4.5%</u>	<u>4.5%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Hispanic or Latino (of any race)					
Hispanic or Latino	58.7%	37.2%	36.6%	43.0%	38.2%
Not Hispanic or Latino	<u>41.3%</u>	<u>62.8%</u>	<u>63.4%</u>	<u>57.0%</u>	<u>61.8%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: 2010-2014 American Community Survey 5-Year Estimates.

Ceres is home to a diverse group of cultures and immigrant groups, with a Hispanic or Latino population of nearly 70 percent. A number of the demographic characteristics found in Ceres are

consistent with immigrant populations in the Central Valley including larger family sizes, younger populations, and lower levels of education.

School Quality

A community's school quality can have significant real estate and economic development implications, especially in relation to home values. Therefore, the quality of a school district may either provide a benefit to, or limit the appeal of, the local housing market. Using the Academic Performance Index (API) and corresponding Average State Rank (ASR), which ranks California schools and school districts on statewide student assessments, Ceres' public schools appear to be slightly above the State average and comparable to the public schools in the cities of Turlock and Modesto. In particular, elementary schools in Ceres outperform neighboring cities. As shown below in **Table 7**, elementary schools in Ceres averaged an 817 API and a 5.7 ASR (both are unweighted averages), higher than averages for both Modesto (792 API; 3.8 ASR) and Turlock (776; 5.1 ASR). Middle school average API and ASR is lower in Ceres (758/3.7) compared to 797/5.3 and 791/5.2 in Turlock and Modesto, respectively, and high school scores in Ceres (684/5.3) exceed Turlock (642/5.0) but were modestly below Modesto (706/5.5). It should be noted that API/ASR sole reflects statewide test scores and does not take into account qualitative or other quantitative metrics. However, based on the API/ASR metric, Ceres schools appear to perform at similar levels to their larger peer cities of Modesto and Turlock.

Table 7 School Quality

City	Elementary		Middle School		High School	
	Avg. State Rank ¹	Avg. API ²	Avg. State Rank ¹	Avg. API ²	Avg. State Rank ¹	Avg. API ²
Ceres	5.7	815	3.7	758	5.3	684
Turlock	3.8	776	5.3	797	5.0	642
Modesto	5.1	792	5.2	791	5.5	706

¹ The State Rank is determined by a school's API Score in comparison to all other schools in California. (1 is the worst, 10 is the best). An equal number of schools occupy each rank statewide. * This rank comes from the 2013 California Academic Performance Index (API) Growth report.

² The API Score is a number between 200 and 1000 that reflects a school's or school district's performance on statewide student assessments administered in 2013.

Crime

While Ceres public schools do not appear to outperform Modesto or Turlock, violent crime rates, based on 2014 statistics from the FBI U.S. report, are significantly lower in Ceres than Turlock and especially than Modesto. Violent crime rates for Ceres were 309.1 per 100,000 residents, roughly 70 percent lower than Turlock and nearly 180 percent lower than Modesto as shown in **Table 8** below. Ceres violent crime rates also place it well below the State average, reaffirming the family-oriented, bedroom community appeal of the City. Nonviolent/property crime in Ceres, however, is above the State average and much more closely aligned with the cities of Turlock

and Modesto. As property crime statistics are far more correlated with income levels, it is not surprising that while Ceres maintains a low level of violent crime, it still struggles with poverty-driven crime at similar rates of its larger Stanislaus County neighboring cities.

Table 8 Crime Statistics (per 100,000 Residents)

Jurisdiction	Ceres	Turlock	Modesto	State of California
	Per 100,000 Residents			
Violent Crime	309.1	525.5	863.9	396.1
Murder and Nonnegligent Manslaughter	4.3	4.2	5.3	4.4
Rape (revised definition) ¹	0.0	0.0	0.0	29.7
Rape (legacy definition) ²	23.5	28.3	39.4	21.6
Robbery	91.7	152.6	187.1	125.5
Aggravated Assault	189.8	340.5	632.1	236.6
Property Crime	3,377.2	3,545.9	4,427.7	2,441.1
Burglary	669.5	731.8	852.2	522.3
Larceny-Theft	2,112.9	2,282.9	2,994.8	1,527.4
Motor Vehicle Theft	594.8	531.2	580.6	391.3
Arson	6.4	46.6	28.7	na

Source: 2014 FBI Crime in the U.S. Report.

Both school quality and crime are significant factors in a local housing market. It is likely that by maintaining comparable school quality and lower violent crime rates than Modesto and Turlock, the City of Ceres has been able provide competitively-priced, single-family housing options, despite more limited public amenities and job opportunities than Modesto and Turlock.

Housing Trends

As illustrated earlier in **Table 2**, Ceres maintains a higher proportion of owner-occupied housing than Modesto, Turlock and the State. In addition, as illustrated below in **Table 9**, Ceres' residential inventory consists of a higher proportion of single-family detached units than Modesto, Turlock, the State and Stanislaus County. Furthermore, Ceres residential inventory features a lower proportion of structures containing three or more units than all of these geographies, reflecting the limited multifamily inventory throughout the City.

Table 9 Housing Structures by Unit Type

Unit Count/Unit Type	Ceres	Turlock	Modesto	Stanislaus County	California
1-unit, detached	77%	68%	69%	75%	58%
1-unit, attached	5%	5%	4%	4%	7%
2 units	3%	3%	5%	3%	3%
3 or 4 units	2%	5%	5%	4%	6%
5 to 9 units	3%	4%	4%	3%	6%
10 to 19 units	1%	3%	3%	2%	5%
20 or more units	4%	8%	7%	5%	12%
Mobile home	4%	3%	2%	4%	4%
Boat, RV, van, etc.	1%	0%	0%	0%	0%

Source: 2014 American Community Survey.

Similar to many of the communities in the Central Valley, Ceres has experienced virtually no new residential development since 2010. As shown below in **Table 10**, 80 percent of all housing stock in the City was built between 1970 and 2009, reflecting both the strong population growth patterns discussed at the beginning of this chapter during this period along with the impacts of the Great Recession on housing demand and pricing, which has severely limited new development since 2010. While Modesto, Turlock, and the County all experienced significant residential development between 2000 and 2009, Ceres' residential building stock consists of a particularly large proportion (25 percent of all residential building stock) of structures built in this era. Ceres' higher proportion of homes built between 2000 and 2009, and the ceasing of all residential construction following 2009, suggests that the City of Ceres experienced a disproportionately severe drop in residential construction following the Great Recession.

Table 10 Housing Structure Age

Structure Age	Ceres	Turlock	Modesto	Stanislaus County	California
Built 2010 or later	0%	0%	0%	0%	1%
Built 2000 to 2009	25%	22%	11%	17%	12%
Built 1990 to 1999	13%	18%	12%	15%	11%
Built 1980 to 1989	23%	18%	20%	17%	15%
Built 1970 to 1979	19%	21%	25%	20%	18%
Built 1960 to 1969	6%	7%	13%	10%	14%
Built 1950 to 1959	8%	6%	11%	10%	14%
Built 1940 to 1949	4%	4%	5%	5%	6%
Built 1939 or earlier	2%	5%	5%	6%	9%

Source: 2014 American Community Survey.

Table 11 shows the distribution of owner-occupied homes by estimated valuation for the cities of Ceres, Modesto, Turlock, Stanislaus County and the State. Ceres residential inventory includes a higher proportion of homes valued at less than \$100,000 than all other selected geographies and has a significantly lower proportion of homes valued at more than \$300,000. Consequently, Ceres' residential inventory appears to be less varied and predominately valued between \$100,000 and \$299,999 (75 percent of all inventory). In comparison, less than half of the City of Turlock's residential inventory falls within this price band. The lack of move-up and higher priced housing options likely inhibits the City's ability to attract businesses and perpetuates a community composition of limited socio-economic variation.

Table 11 Owner-Occupied Home Value Distribution

Owner-Occupied Home Value Distribution	Ceres	Turlock	Modesto	Stanislaus County	California
Less than \$50,000	8%	6%	6%	6%	4%
\$50,000 to \$99,999	10%	5%	11%	10%	4%
\$100,000 to \$149,999	29%	18%	23%	21%	6%
\$150,000 to \$199,999	30%	22%	22%	21%	8%
\$200,000 to \$299,999	16%	26%	23%	22%	16%
\$300,000 to \$499,999	7%	20%	13%	13%	28%
\$500,000 to \$999,999	1%	3%	3%	5%	26%
\$1,000,000 or more	1%	1%	1%	1%	8%
Median (dollars)					

Source: 2014 American Community Survey.

The lack of higher-priced homes is reflected in the median home price based on Zillow data for the City of Ceres in comparison to Modesto and Turlock, as shown below in **Table 12**. In 2000, Ceres median home price was \$136,200, 2 percent below median prices in Modesto and 5 percent below median prices in Turlock. In fact, Ceres median home prices even exceeded Modesto between the late 2005 through most of 2008 (pre-Recession peak). However, since late 2008, Ceres median home price has trailed that of Modesto and the gap between prices in Ceres and Turlock has expanded. Between 2000 and 2010, median home prices in Turlock hovered between 4 and 5 percent above Ceres. By 2015, Turlock median home prices exceeded Ceres by nearly 20 percent. These dynamics suggest that Ceres experienced a disproportionate spike in prices during the peak of the housing market before the Recession and that following the Recession, there has been an expanding differentiation between the Ceres and Turlock residential markets. Also, the lack of new housing development in Ceres and other Central Valley communities following the Recession likely has contributed to lower home values in Ceres and the expanding differentiation with the Turlock market.

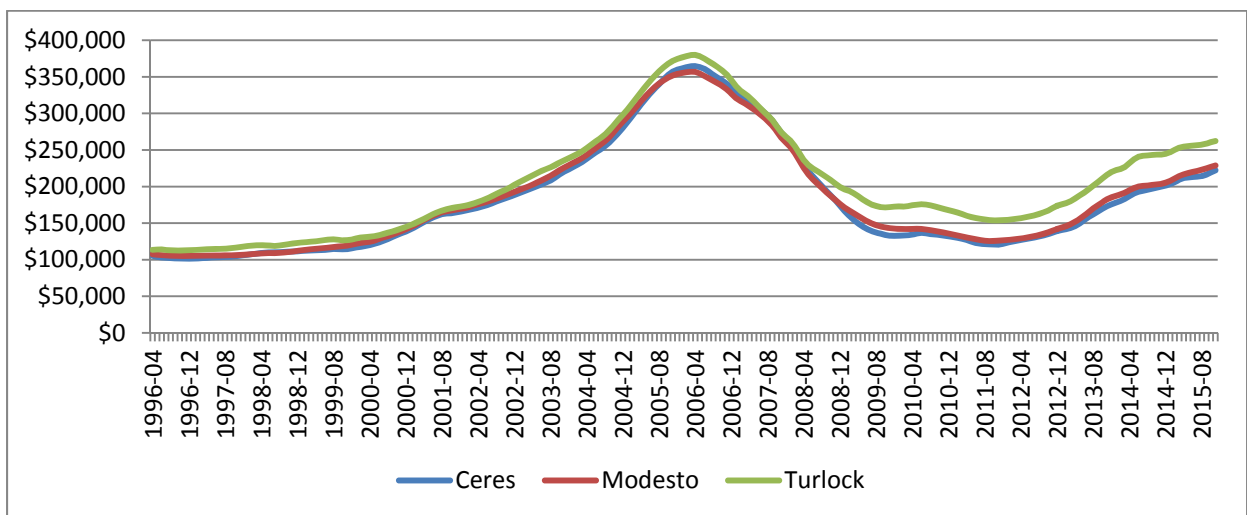
Table 12 Single-Family Housing Prices

Median Home Price	2000	2005	2010	2015	2015 Present Below Peak (2006)
Ceres	\$136,200	\$357,100	\$132,900	\$222,100	39%
Modesto	\$139,200	\$351,900	\$137,000	\$228,700	36%
Turlock	\$142,500	\$371,900	\$169,300	\$262,200	31%

Source: Zillow.

The latter phenomenon may, however, be less of a byproduct of Ceres' lagging residential market and due more to Turlock's accelerated rebound, and less precipitous fall in home values, following the Great Recession as is illustrated in **Figure 1** below.

Figure 1 Median Home Price (1996 – 2015)



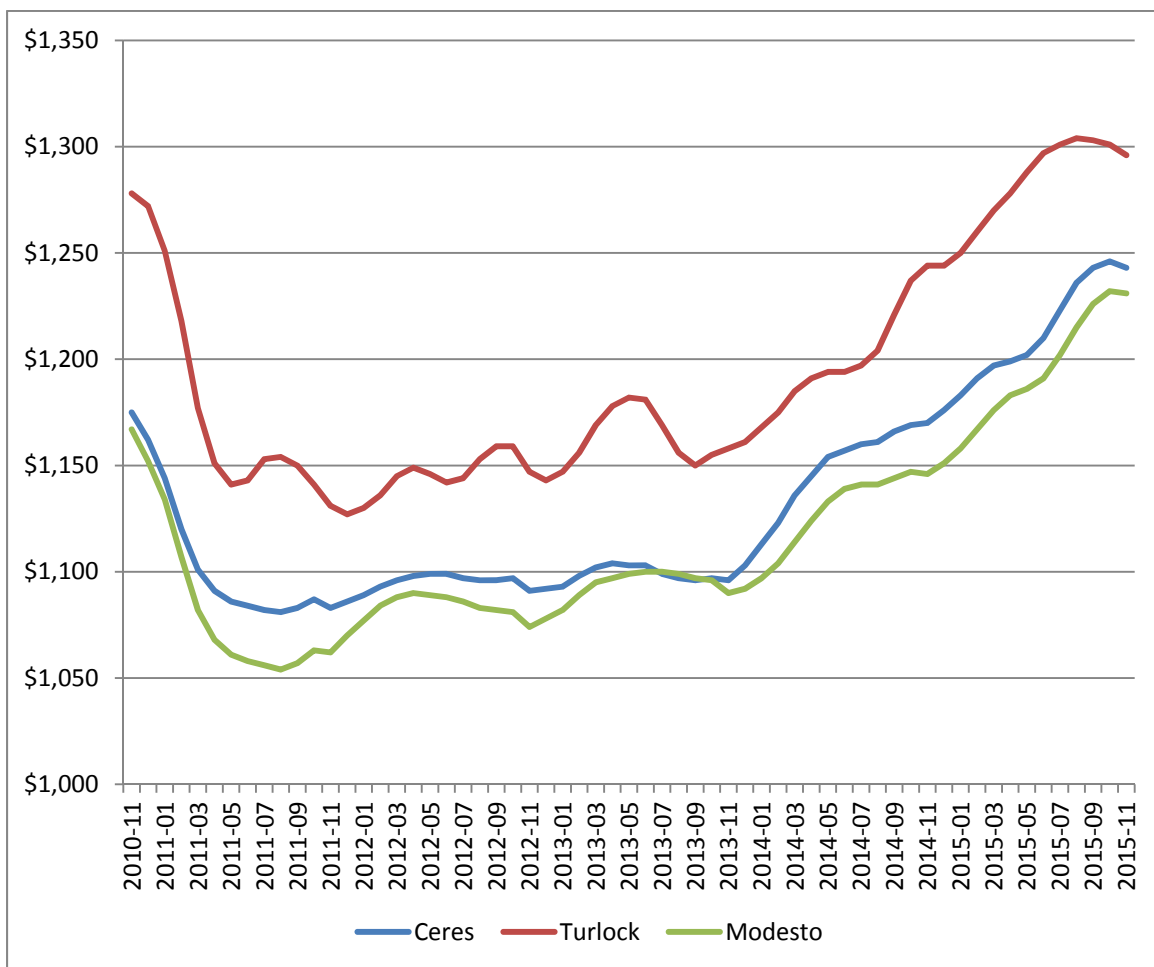
While home prices have shown greater differentiation between Ceres, Modesto, and Turlock over the past five years, residential rental rates in these three cities appear far more comparable over time as shown in **Table 13** and **Figure 2** below. Since 2000, rental rates in Ceres have remained slightly above Modesto and slightly below Turlock. Ceres' consistently higher rental rates than Modesto (as opposed to Ceres' median home price consistency being below Modesto's median home price aside from the market peak between 2005-2008) is likely reflective of more limited multifamily supply as discussed earlier in this section. Similarly, while median home prices in Turlock exceed those in Ceres by nearly 20 percent in 2015, rental rates in Turlock were only 5 percent higher than Ceres. These data may suggest potential for expanded residential rental inventory in Ceres going forward.

Table 13 Multifamily Monthly Rental Rates

Multifamily Monthly Rental Rates	2010	2011	2012	2013	2014	2015
Ceres	\$1,175	\$1,083	\$1,091	\$1,096	\$1,170	\$1,243
Modesto	\$1,167	\$1,062	\$1,074	\$1,090	\$1,146	\$1,231
Turlock	\$1,278	\$1,131	\$1,147	\$1,158	\$1,244	\$1,296

Source: Zillow.

Figure 2 Multifamily Monthly Rental Rates



Overall, the Ceres residential market closely resembles the demographics of the City, in that it caters largely to a family-oriented, low- and middle-income population. The residential inventory is dominated by single-family detached homes built between 1970 and 2009, valued between \$100,000 and \$300,000. In addition to having no new residential inventory (built in the last five years), there are also very few housing options for upper-middle and higher income individuals and families. Furthermore, there are limited multifamily options that may be desirable for

smaller households (1 to 2 persons) with little interest or limited financial capabilities to rent or buy a single-family home. This limited rental inventory appears to have buoyed rental rates in comparison to home prices and suggests potential for new rental inventory in Ceres in the future.

Commute Patterns

Commute patterns play an increasingly important role in population growth and thus, land use demand. Information on Ceres' jobs-housing balance (or resident to employment ratio as discussed previously in this section) and the travel patterns of both local residents and employees provide important insight into its role in the local and regional economy.

As illustrated in **Table 14** below, the largest proportion of workers who are employed in Ceres live in Modesto (24.9 percent) followed by Ceres (13.1 percent) and Turlock (8.9 percent). The largest proportion of employed Ceres residents work in Modesto (27.2 percent) followed by Ceres (11.3 percent) and Turlock (6.0 percent). These patterns confirm that Modesto, Turlock and Ceres represent the commercial center of Stanislaus County, and simultaneously point to the sprawling nature of development and the Central Valley workforce. Overall, these data suggest a dispersed workforce and similarly dispersed place of work for Ceres residents, reaffirming the dynamics often found in both Central Valley cities and bedroom communities.

Table 14 Ceres Commute Patterns

Category	Share
Where Ceres Workers Reside	
Total Primary Jobs	100.0%
Modesto	24.9%
Ceres	13.1%
Turlock	8.9%
Stockton	2.0%
Riverbank	1.9%
Oakdale	1.5%
Manteca	1.3%
Patterson	1.2%
Merced	1.1%
Salida CDP	1.1%
All Other Locations	43.0%
Where Ceres Residents are Employed	
Total Primary Jobs	100.0%
Modesto	27.2%
Ceres	11.3%
Turlock	6.0%
Stockton	2.1%
San Jose	1.8%
Manteca	1.5%
Salida CDP	1.5%
Merced	1.3%
Livermore	1.1%
Oakdale	1.0%
All Other Locations	45.4%

Source: 2013 LED OnTheMap (US Census).

Population Projections

According to the 2016 Stanislaus Council of Governments' (StanCOG) demographic forecast, the population of Ceres is projected to grow by 28 percent during the 20-year period between 2015 and 2035. While this is approximately consistent with countywide growth of 25 percent over the

same period, it is substantially lower than Ceres' historical 20-year growth rate of 43 percent between 1990 and 2010².

Table 15 Population Projections

Geography	2015	2020	Year			2015 - 2035	
			2025	2030	2035	% Growth	Avg. Annual
Ceres	48,029	51,049	54,424	57,879	61,290	28%	1.2%
Turlock	72,229	76,475	81,219	86,077	90,872	26%	1.2%
Modesto	210,341	220,865	232,622	244,662	256,545	22%	1.0%
Stanislaus County	540,794	571,139	605,040	639,754	674,019	25%	1.1%

Sources: StanCOG 2040 Demographic Forecast (2016), Economic & Planning Systems, Inc.

² California Department of Finance (DOF).

3. EMPLOYMENT AND JOBS TRENDS

This chapter evaluates the existing composition of the Ceres economy in order to shed light on its competitive position in comparison to other Stanislaus County job centers. In this section, historical employment trends, current jobs by industry sector, and commercial real estate market trends will be discussed in an effort to evaluate the commercial dynamics within the City of Ceres and assess opportunities for future growth.

Employment

There are approximately 8,700 jobs in the City of Ceres, resulting in a resident to jobs ratio of more than 5 to 1. In comparison, Turlock, Modesto, and the County have resident to jobs ratios of approximately 3 to 1, confirming that Ceres is less of an employment center and more residentially focused. As shown in **Table 16** below, Ceres experienced slower job growth than both Modesto and Turlock in the ten years since 2005, while exceeding employment growth in Stanislaus County (which experienced a net loss in employment during that same period).

Table 16 Total Employment (2005 - 2015)

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Annual Growth
Ceres	8,528	8,660	8,856	8,583	7,649	7,598	8,434	8,524	8,767	8,572	8,666	0.16%
Modesto	68,701	66,977	66,619	61,597	53,824	52,697	60,732	61,889	68,248	69,957	70,066	0.20%
Turlock	23,322	23,630	23,009	22,068	19,739	19,503	20,873	21,415	23,091	23,507	24,057	0.31%
Stanislaus County	170,865	171,294	171,713	168,512	157,658	156,070	156,314	159,516	163,245	167,242	167,277	-0.21%

Source: 2015 Q2 California Employment Development Department (EDD).

Following the Great Recession, employment in Ceres decreased by approximately 14 percent (measured as the change between peak employment in 2007 and the low in 2010). While a 14 percent reduction in just three years is a significant decline in total employment, both Modesto and Turlock experienced greater losses. Modesto lost more than 23 percent of its employment base from a peak in 2005 to its low in 2010 and Turlock lost approximately 16 percent of its employment during that same period. These data suggest Ceres has a more stable workforce, likely due to the composition of its employment base.

Employment by Industry Sector

Ceres' relative employment resilience following the Great Recession was likely due to its employment composition. As shown in **Table 17** below, the largest industry sectors in Ceres include Local Government and Schools (25 percent of total employment), Retail Trade (16 percent), Construction (12 percent), and Accommodation and Food Services (11 percent).

Table 17 Current Job Sector Distribution by Geography

Industry Sector	Ceres		Turlock		Modesto		Stanislaus County	
	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture, Forestry, Fishing and Hunting	****	na	456	2%	1,223	2%	12,976	8%
Mining, Quarrying, and Oil and Gas Extraction	****	na	0	0%	****	na	39	0%
Utilities	na	na	na	na	na	na	****	na
Construction	1,019	12%	1,046	4%	1,926	3%	7,756	5%
Manufacturing	585	7%	3,337	14%	5,024	7%	19,883	12%
Wholesale Trade	438	5%	436	2%	1,494	2%	5,730	3%
Retail Trade	1,367	16%	3,803	16%	10,750	15%	21,930	13%
Transportation and Warehousing	430	5%	487	2%	801	1%	6,612	4%
Information	0	0%	166	1%	505	1%	911	1%
Finance and Insurance	110	1%	574	2%	1,619	2%	3,004	2%
Real Estate and Rental and Leasing	104	1%	216	1%	997	1%	2,033	1%
Professional, Scientific, and Technical Services	196	2%	643	3%	3,084	4%	5,524	3%
Management of Companies and Enterprises	106	1%	124	1%	1,127	2%	1,456	1%
Administrative and Support and Waste Management and Remediation Services	287	3%	794	3%	3,543	5%	6,634	4%
Educational Services	26	0%	139	1%	656	1%	1,444	1%
Health Care and Social Assistance	463	5%	3,499	15%	15,177	22%	22,820	14%
Arts, Entertainment, and Recreation	68	1%	279	1%	940	1%	1,931	1%
Accommodation and Food Services	943	11%	3,281	14%	7,485	11%	15,123	9%
Other Services (except Public Administration)	148	2%	677	3%	1,904	3%	3,882	2%
Federal Government	****	na	****	na	378	1%	820	0%
State Government	49	1%	1,244	5%	107	0%	1,486	1%
Local Government	2,188	25%	2,736	11%	11,233	16%	24,474	15%
Not Elsewhere Classified	<u>16</u>	<u>0%</u>	<u>****</u>	<u>na</u>	<u>****</u>	<u>na</u>	<u>****</u>	<u>na</u>
Total	8,666	100%	24,057	100%	70,066	100%	167,277	100%

*Note that when proprietary business data would be revealed, EDD denotes industry job sector totals as *****. These job sector totals are counted in the total number of jobs for each geographic area. Therefore, total job figures for each geographic area may not correspond with the sum of the job figures shown.

Sources: 2015 Q2 California Employment Development Department (EDD).

For the most part Ceres' job profile is dominated by population-serving or "non-basic" sectors.³ Basic sectors, in contrast, are those that are focused on the export of goods and services and generally include, agriculture, manufacturing, wholesale trade, warehousing, and professional services. While the construction sector is usually considered a non-basic, in the case of Ceres, this sector appears to be serving other localities since the City has not experienced significant new residential or nonresidential development over the past few years. The fact that 12 percent of Ceres' jobs are in this sector suggests a cluster of contracting or construction supply businesses may be located in Ceres despite job sites being located in other communities.

In comparison to Modesto, Turlock and the County, Ceres features significant warehousing and wholesale trade industry sector jobs and fewer health care jobs. The relative strength of the warehousing and wholesale sectors is further reflected in the industrial real estate market in Ceres, which is discussed in the following section, and is likely due to the geographic competitiveness of industrial parks located along Highway 99 such as those located off of E. Whitmore Avenue. The limited healthcare employment results from no hospitals being located in Ceres, aside from urgent care facilities and a convalescent hospital. The primary medical facilities serving Ceres' residents and businesses are located in Modesto and Turlock. The leading employers in Ceres are shown on **Table 18** and largely reflect the largest industry sectors described above. The leading private businesses represent a mix of wholesalers, manufacturers, retailers and labor contractors.

Table 18 City of Ceres Top 10 Job Generators

Top 10 Job Generators, July 2016	Type	Number
In City of Ceres		
Stanislaus County	County Government	1,668
Ceres Unified School District	School District	1,300
G-3 Enterprises Campus	Bottling and Distribution	570
M.A. Garcia Agrilabor	Labor Contractor	481
WinCo Foods	Distribution Center	369
Wal-Mart	Retailer	350
City of Ceres	City Government	202
Home Depot	Retailer	200
K-Mart	Retailer	110
Kingspan Insulated Panels	Building Systems	92
Near City of Ceres		
Bronco Wine	Winery	350
Superior Fruit	Fruit and Almonds	79

Source: City of Ceres, July 2016.

³ "Basic" and "nonbasic" employment categories refer to industry sectors which export outside of the region, therefore bringing in wealth from nonlocal sources (basic) and service industry sectors that support basic industries within the local economy (nonbasic).

Office Trends

Consistent with the relatively few jobs in professional services and related industries (Information, Finance and Insurance, Real Estate and Rental and Leasing, Professional, Scientific and Technical Services, etc.), Ceres has a limited inventory of office space. With less than 200,000 square feet of total commercial office, the city of Ceres features only 23 square feet of office per total employee compared to 51 square feet per employee in Turlock and over 87 square feet of office per employee in Modesto. Limited office inventory is not surprising given the limited industry sectors occupying office space located in Ceres. However, as shown in **Table 19** below, there is virtually no office vacancy in Ceres suggesting demand for additional space and the corresponding expectation of increases in lease rates. Yet despite low to near zero vacancy rates, Ceres office lease rates have continued to decline since 2007. Meanwhile, Modesto has shown increased rental rates over the past two years even with consistent double digit vacancy rates.

Table 19 Office Trends 2007 - 2015

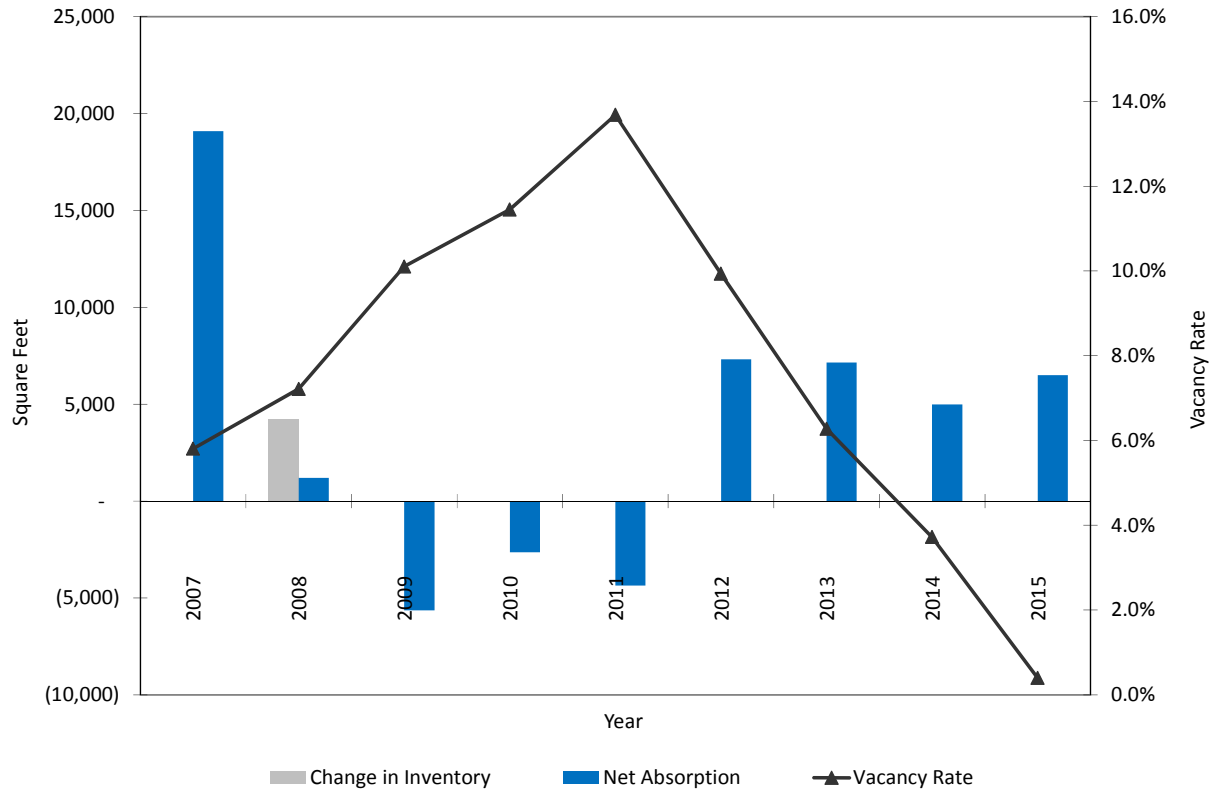
Jurisdiction	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ceres									
Total Inventory (Sq.Ft.)	191,177	195,377	195,377	195,377	195,377	195,377	195,377	195,377	195,377
(YOY) Change in Square Footage	-	4,200	-	-	-	-	-	-	-
(YOY) Percent Change	-	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vacancy	5.8%	7%	10%	11%	14%	10%	6%	4%	0.4%
Average Lease Rates	\$18.00	\$14.84	\$14.84	\$12.08	\$6.31	\$12.13	\$12.13	\$11.70	\$11.62
Modesto									
Total Inventory (Sq.Ft.)	5,971,654	6,057,455	6,091,249	6,094,789	6,094,789	6,115,965	6,115,965	6,127,680	6,127,680
(YOY) Change in Square Footage	-	85,801	33,794	3,540	-	21,176	-	11,715	-
(YOY) Percent Change	-	1.4%	0.6%	0.1%	0.0%	0.3%	0.0%	0.2%	0.0%
Vacancy	16%	12%	11%	13%	15%	14%	14%	13%	11%
Average Lease Rates	\$18.95	\$18.07	\$18.12	\$16.02	\$14.83	\$14.38	\$14.15	\$15.64	\$16.14
Turlock									
Total Inventory (Sq.Ft.)	1,160,840	1,211,387	1,229,663	1,229,663	1,229,663	1,229,663	1,229,663	1,229,663	1,229,663
(YOY) Change in Square Footage	-	50,547	18,276	-	-	-	-	-	-
(YOY) Percent Change	-	4.4%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vacancy	10%	12%	6%	6%	6%	9%	7%	6%	4%
Average Lease Rates	\$18.82	\$17.90	\$15.20	\$14.02	\$13.96	\$14.53	\$14.61	\$13.36	\$13.20
Stanislaus County									
Total Inventory (Sq.Ft.)	7,992,622	8,282,482	8,334,552	8,338,092	8,338,092	8,359,268	8,359,268	8,370,983	8,374,608
(YOY) Change in Square Footage	-	289,860	52,070	3,540	-	21,176	-	11,715	3,625
(YOY) Percent Change	-	3.6%	0.6%	0.0%	0.0%	0.3%	0.0%	0.1%	0.0%
Vacancy	15%	13%	11%	13%	14%	13%	13%	12%	10%
Average Lease Rates	\$18.37	\$17.73	\$17.53	\$15.62	\$13.70	\$14.33	\$14.24	\$15.37	\$15.70

¹ YOY refers to year-over-year changes.

Sources: CoStar; Economic & Planning Systems, Inc.

One would expect to see lease rates increase with such consistent absorption and corresponding decrease in vacancy. Ceres office absorption rates are illustrated in **Figure 3** below. These data suggest perhaps Ceres' office inventory is indeed in demand (the result of which is minimal to no vacancy) but the potential for lease rate increases is constrained. There are several reasons that could explain why rents are persistently low: there could be a number of existing leases whose terms reflect conditions of several years ago or it could be that lack of investment (e.g., remodeling) in the office inventory is precluding being able to attract tenants who would pay more for higher-quality space.

Figure 3 Ceres Office Market Trends



Industrial Trends

As discussed in the previous section, Ceres’ relative strength in the Warehousing and Transportation and Wholesale industry sectors is reflected in the demand for its industrial real estate market. As shown in **Table 20** below, industrial space is currently leasing at an average of \$4.68 per square foot, higher than both Modesto (\$4.01 per square foot per month) and Turlock (\$4.65 per square foot). Ceres also has over ten times more industrial inventory than office space, reflecting the demands of businesses located in the area. Similar to the office market, and as shown in **Figure 4** below, Ceres industrial space has experienced consistent positive absorption since 2010 and corresponding reductions in vacancy rates, from a peak of 14 percent in 2010 to approximately 4 percent in 2015. However, no new inventory has come online since 2009. Market data suggest new industrial space will likely continue to increase in demand in the region over the near term and Ceres appears well positioned to capture some of the demand going forward.

Demand for industrial land varies by the amount of land available. For example, the City is well-positioned with smaller properties in the ½- to 3-acre range. However, City staff notes that in the past several years, the majority of the requests from potential industrial land users are for five to 10 to 20, or even 50-acre parcels, which the City cannot currently accommodate. Due to limitations of the City’s wastewater treatment plant, the City cannot take “wet-industry” users, or users that generate substantial wastewater.

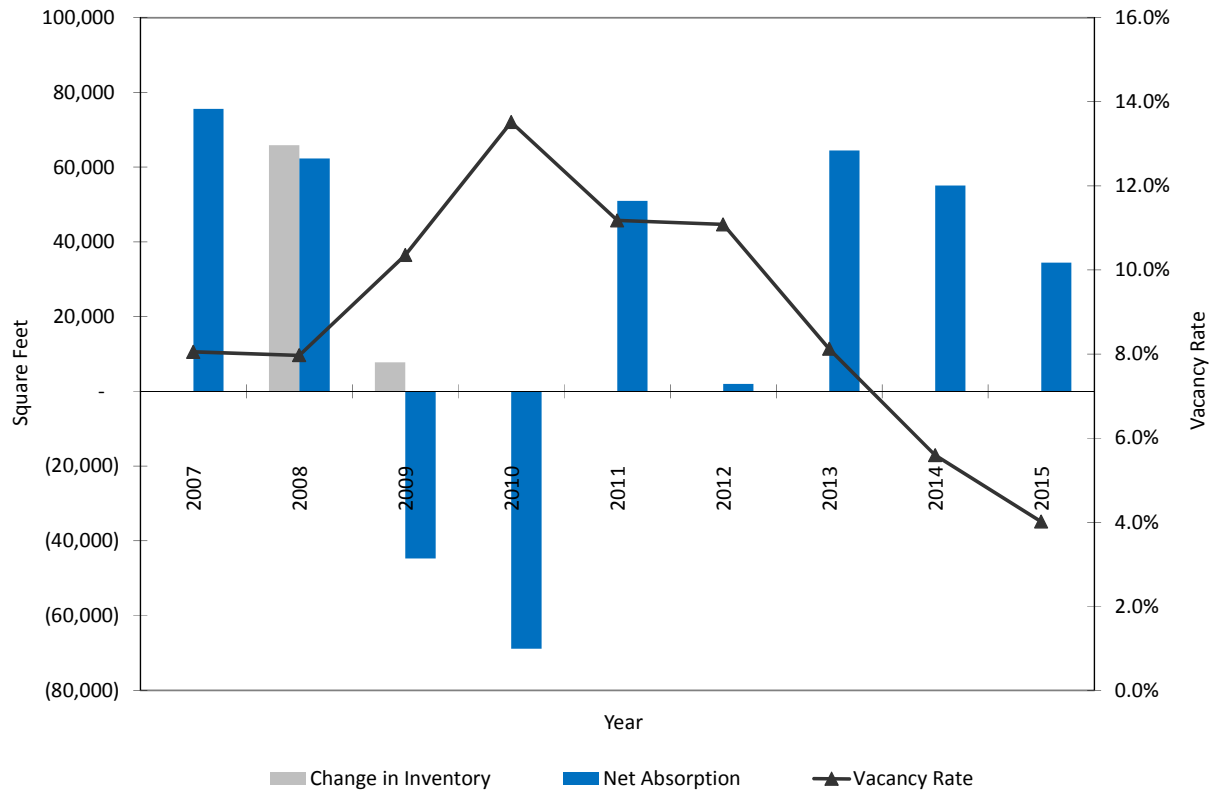
Table 20 Industrial Trends 2007 – 2015

Jurisdiction	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ceres									
Total Inventory (Sq.Ft.)	2,103,924	2,169,814	2,177,584	2,177,584	2,177,584	2,177,584	2,177,584	2,177,584	2,177,584
(YOY) Change in Square Footage	-	65,890	7,770	-	-	-	-	-	-
(YOY) Percent Change	-	3.1%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vacancy	8.1%	8%	10%	14%	11%	11%	8%	6%	4%
Average Lease Rates	\$6.27	\$5.72	\$5.35	\$5.77	\$5.16	\$4.50	\$4.78	\$4.89	\$4.68
Modesto									
Total Inventory (Sq.Ft.)	33,068,262	33,495,431	33,875,720	33,875,720	33,556,136	33,418,261	33,417,232	33,417,232	33,440,232
(YOY) Change in Square Footage	-	427,169	380,289	-	(319,584)	(137,875)	(1,029)	-	23,000
(YOY) Percent Change	-	1.3%	1.1%	0.0%	-0.9%	-0.4%	0.0%	0.0%	0.1%
Vacancy	9%	5%	8%	7%	8%	8%	6%	6%	4%
Average Lease Rates	\$4.21	\$5.58	\$3.98	\$3.89	\$3.52	\$3.64	\$3.53	\$3.72	\$4.01
Turlock									
Total Inventory (Sq.Ft.)	6,447,311	6,543,342	6,812,913	6,812,913	6,812,913	6,816,955	7,010,959	7,007,087	7,015,087
(YOY) Change in Square Footage	-	96,031	269,571	-	-	4,042	194,004	(3,872)	8,000
(YOY) Percent Change	-	1.5%	4.1%	0.0%	0.0%	0.1%	2.8%	-0.1%	0.1%
Vacancy	4%	4%	3%	4%	5%	5%	3%	2%	3%
Average Lease Rates	\$6.78	\$6.29	\$6.64	\$6.71	\$5.77	\$5.29	\$5.44	\$4.53	\$4.65
Stanislaus County									
Total Inventory (Sq.Ft.)	48,351,277	49,470,337	50,138,567	50,138,567	50,638,983	50,505,150	51,705,465	51,643,971	53,174,971
(YOY) Change in Square Footage	-	1,119,060	668,230	-	500,416	(133,833)	1,200,315	(61,494)	1,531,000
(YOY) Percent Change	-	2.3%	1.4%	0.0%	1.0%	-0.3%	2.4%	-0.1%	3.0%
Vacancy	8%	6%	8%	7%	8%	8%	6%	5%	4%
Average Lease Rates	\$4.56	\$5.47	\$4.43	\$4.34	\$3.86	\$3.87	\$3.84	\$3.92	\$4.11

¹ YOY refers to year-over-year changes.

Sources: CoStar; Economic & Planning Systems, Inc.

Figure 4 Ceres Industrial Market Trends



Retail Trends

One metric for evaluating the health of a City's retail market is per-capita sales tax revenue. In Ceres, the annual per-capita sales tax ratio is \$122, which is lower than it was nine years ago. Not only has the City's per-capita sales tax decreased by approximately 10 percent in the past nine years, the City's per-capita sales tax ratio is well below that of neighboring Modesto and Turlock. Compared with Ceres' per capita sales tax ratio of \$122, Modesto's per capita sales tax ratio is \$144 and Turlock's is \$199, as shown below on **Table 21**. Since Fiscal Year 2007/08, the City's median household income decreased in nominal dollars from \$51,418 (Census 2007) to \$46,132 (Census 2014), indicating a loss of household purchasing power. In addition, Ceres experiences significant retail expenditure leakage to both Modesto and Turlock due to the newer, large format retailers located in those two cities.

In addition to simply reflecting the decrease in median household incomes, the decrease in the per capita generation of sales tax revenues would indicate that the City's retail base has not grown sufficiently to maintain (much less increase) its capture rate. For the City to remain economically viable over the long term it should strive to continue expanding its retail base by creating a more diverse retail environment and possibly looking at mechanisms to increase the market demand for higher income residential properties within the City to attract new residents with greater purchasing power.

Table 21 Per Capita Sales Tax Revenue Comparison

Item	City of Turlock		City of Modesto		City of Ceres	
	Amount	per Capita	Amount	per Capita	Amount	per Capita
City Population (2015)		71,043		209,186		46,989
Sales Tax Revenue	\$14,121,200	\$198.77	\$30,047,332	\$143.64	\$5,734,315	\$122.04

Sources: 2015/16 Budgets for the cities of Turlock, Modesto, and Ceres.

The 1.2 million square feet of retail inventory in Ceres is composed mainly of a Wal-Mart and a variety of local-serving retailers located in noncontiguous, single-use buildings. As shown in **Table 22** below, lease rates, however, consistently remain above Modesto and the County, and until recently, above Turlock, indicating smaller format retail spaces that charge slightly higher per square foot rates.

Table 22 Retail Trends 2007 - 2015

Jurisdiction	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ceres									
Total Inventory (Sq.Ft.)	1,132,925	1,135,925	1,168,602	1,172,802	1,190,255	1,191,587	1,191,587	1,200,987	1,200,987
(YOY) Change in Square Footage	-	3,000	32,677	4,200	17,453	1,332	-	9,400	-
(YOY) Percent Change	-	0.3%	2.9%	0.4%	1.5%	0.1%	0.0%	0.8%	0.0%
Vacancy	5%	3%	6%	7%	11%	11%	11%	9%	5%
Average Lease Rates	\$25.44	\$23.90	\$19.44	\$15.98	\$15.16	\$14.84	\$14.97	\$14.08	\$14.50
Modesto									
Total Inventory (Sq.Ft.)	14,913,852	15,040,770	15,083,211	15,161,410	15,142,579	15,115,714	15,121,799	15,118,540	15,103,518
(YOY) Change in Square Footage	-	126,918	42,441	78,199	(18,831)	(26,865)	6,085	-3,259	(15,022)
(YOY) Percent Change	-	0.9%	0.3%	0.5%	-0.1%	-0.2%	0.0%	0.0%	-0.1%
Vacancy	5%	6%	8%	8%	7%	8%	7%	7%	6%
Average Lease Rates	\$15.38	\$16.86	\$14.55	\$12.59	\$12.31	\$12.14	\$11.53	\$11.92	\$12.20
Turlock									
Total Inventory (Sq.Ft.)	5,055,310	5,094,308	5,173,534	5,139,467	5,139,467	5,143,869	5,143,869	5,244,663	5,254,263
(YOY) Change in Square Footage	-	38,998	79,226	(34,067)	-	4,402	-	100,794	9,600
(YOY) Percent Change	-	0.8%	1.6%	-0.7%	0.0%	0.1%	0.0%	2.0%	0.2%
Vacancy	4%	4%	6%	7%	8%	7%	7%	5%	4%
Average Lease Rates	\$21.49	\$21.42	\$16.48	\$15.15	\$13.35	\$13.25	\$13.25	\$13.68	\$15.10
Stanislaus County									
Total Inventory (Sq.Ft.)	24,502,176	24,851,579	25,010,268	25,092,044	25,105,500	25,248,485	25,263,570	25,399,190	25,430,368
(YOY) Change in Square Footage	-	349,403	158,689	81,776	13,456	142,985	15,085	135,620	31,178
(YOY) Percent Change	-	1.4%	0.6%	0.3%	0.1%	0.6%	0.1%	0.5%	0.1%
Vacancy	5%	6%	7%	7%	8%	7%	7%	6%	5%
Average Lease Rates	\$21.58	\$20.49	\$17.18	\$13.59	\$12.70	\$12.57	\$12.31	\$12.56	\$12.88

¹ YOY refers to year-over-year changes.

Sources: CoStar; Economic & Planning Systems, Inc.

While retail vacancy rates spiked dramatically following the Great Recession, it has come down from around 10 percent in the last year to approximately 5 percent, attributed to strong absorption in both 2014 and 2015 as shown below in **Figure 5**.

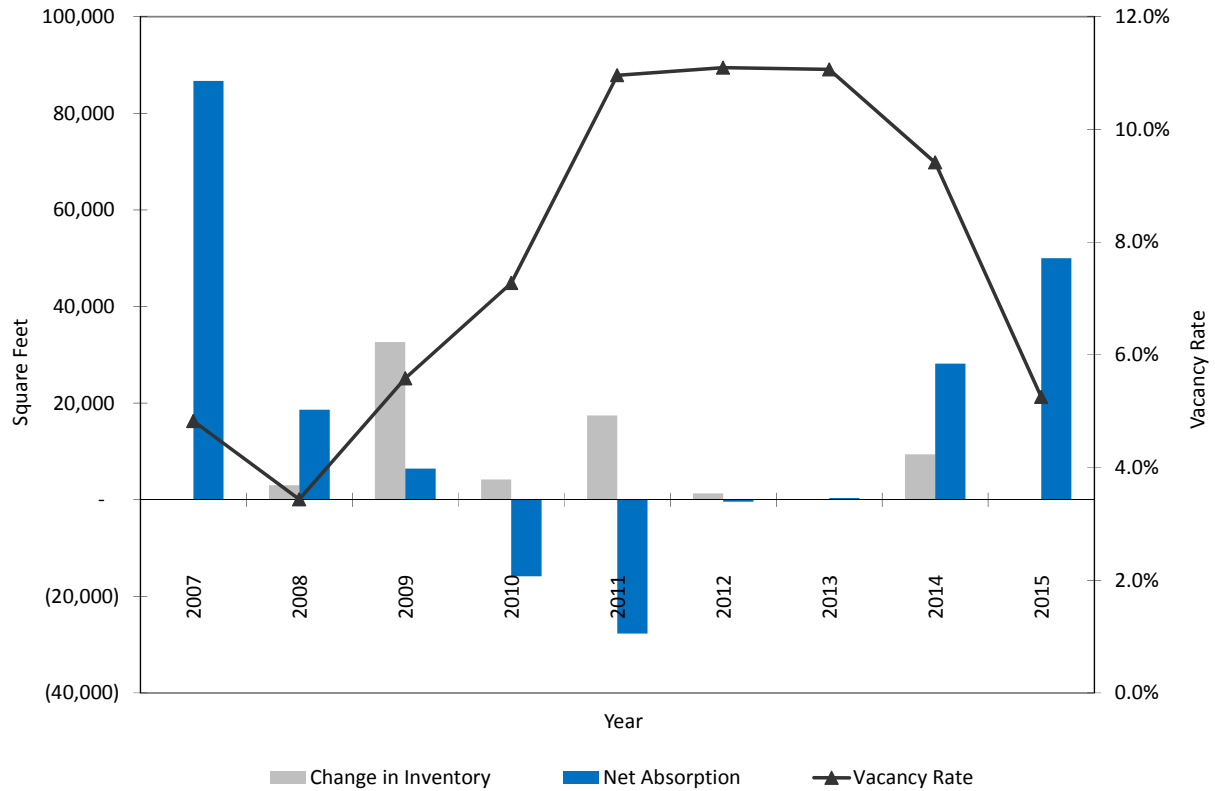
There are several proposed retail projects that may create new retail opportunities for the City. The most significant is the 26-acre Mitchell Ranch Center Project located at Mitchell and Service roads. Walmart owns the site and plans to develop a 189,000-square foot Super Walmart, along with another 110,000 square feet of retail and restaurant space.⁴ The site is easily accessible from Highway 99.

Assuming the Mitchell Ranch Super Walmart goes forward, there are two other projects that could follow: the Ogden and Ortiz parcels. The Ogden parcel is the nearby Ceres Gateway Center, a hotel and retail project, and the Ortiz parcel is Rita Plaza, a hotel with other highway-oriented retail uses. The highway orientation of these opportunities may distinguish them and allow Ceres to compete with neighboring Modesto and nearby Turlock in attracting large-scale, regional-serving national chain retailers, which has been a limiting factor for the City in past years.

Once the existing Walmart in Ceres relocates to its new location at Mitchell Ranch, the existing space will be available for lease. In addition, the Whitmore Plaza Shopping Center is undergoing façade improvements, which is expected to reduce vacancies at the Center.

⁴ Following a lengthy legal battle, the Fifth District Court of Appeals in Fresno will make a decision regarding the Mitchell Ranch Shopping Center by mid-August 2016.

Figure 5 Ceres Retail Market Trends



Jobs Projections

According to a range of different public and private forecasting sources, jobs in the City of Ceres are projected to increase anywhere from 21 to 41 percent between 2015 and 2035. EPS assembled several sources that forecast total jobs, including the Employment Development Department, Caltrans, Woods & Poole, and StanCOG. Even the lowest employment increase of 21 percent (Caltrans) is much higher than if Ceres' historical growth rate of just 2 percent from 2005-2015 was carried forward through 2035. **Table 23** and **Figure 6** below show job projections for the City, using data from each of the sources researched by EPS. Excluding StanCOG's 2010 data, future jobs (in 2035) range from nearly 11,400 to approximately 15,700.

StanCOG estimates employment growth for the City of Ceres through 2040, though this analysis is focused on the period between 2015 and 2035 to be consistent with the General Plan time horizon. StanCOG's 2016 projections are significantly higher than its 2010 projections.

The California Employment Development Department (EDD) forecasts jobs at the Metropolitan Statistical Area (MSA) level for the period 2012 through 2022. According to the EDD forecast, jobs in the Modesto MSA, which reflects the boundaries of Stanislaus County, will grow at an average annual rate of 1.7 percent. To establish a base level of jobs for 2015, EPS used EDD data for Ceres from the second quarter of 2015. EPS applied EDD's 1.7 percent annual growth rate to the 2015 estimate of jobs in Ceres to project future employment at the City level.

Caltrans and Woods & Poole Economics, Inc. provide only county level employment projections. Caltrans' projections are through 2040 and Woods & Poole's are through 2050. For these data sources, EPS calculated the City's share of employment in Stanislaus County based on EDD's estimate of City and County employment in 2015. According to EDD data, the City of Ceres comprises 5.18 percent of total employment in Stanislaus County. Therefore, projections of employment for Stanislaus County by Caltrans and Woods & Poole Economics, Inc. were multiplied by 5.18 percent to estimate jobs in the City of Ceres.

Across each of the data sources, there is significant variation in the 2015 job levels, with the current number of jobs ranging from approximately 8,000 to 12,000. Another source of current job numbers in Ceres is the Longitudinal Employer-Household Dynamics OnTheMap (LEHD) data, which indicates that there were nearly 12,000 jobs in Ceres in 2014. LEHD does not provide a forecast, so it is excluded from the data shown below.

Table 23 Jobs Projections for the City of Ceres

Source	Year					2015 - 2035	
	2015	2020	2025	2030	2035	% Growth	Average Annual
EDD [1]	8,666	9,435	10,271	11,182	12,174	40.5%	1.7%
Caltrans [2]	9,372	10,064	10,461	10,900	11,369	21.3%	1.0%
Woods & Poole [3]	12,012	12,964	13,893	14,805	15,687	30.6%	1.3%
StanCOG, 2010 [4]	7,909	8,469	9,029	9,589	10,149	28.3%	1.3%
StanCOG, 2016 [4]	11,303	12,212	12,921	13,564	14,157	25.2%	1.1%

[1] The EDD employment forecast for the Modesto MSA indicates that between 2012 and 2022, the region's jobs will grow at an average annual rate of 1.7%. This calculation applies the 1.7% annual growth rate to the 2015 EDD employment estimate for Ceres. Note that the EDD 1.7% growth rate is a 10-year estimate applied to a 20-year time period, which could overstate growth over the the long term because as cities grow over time, their growth rates typically begin to slow.

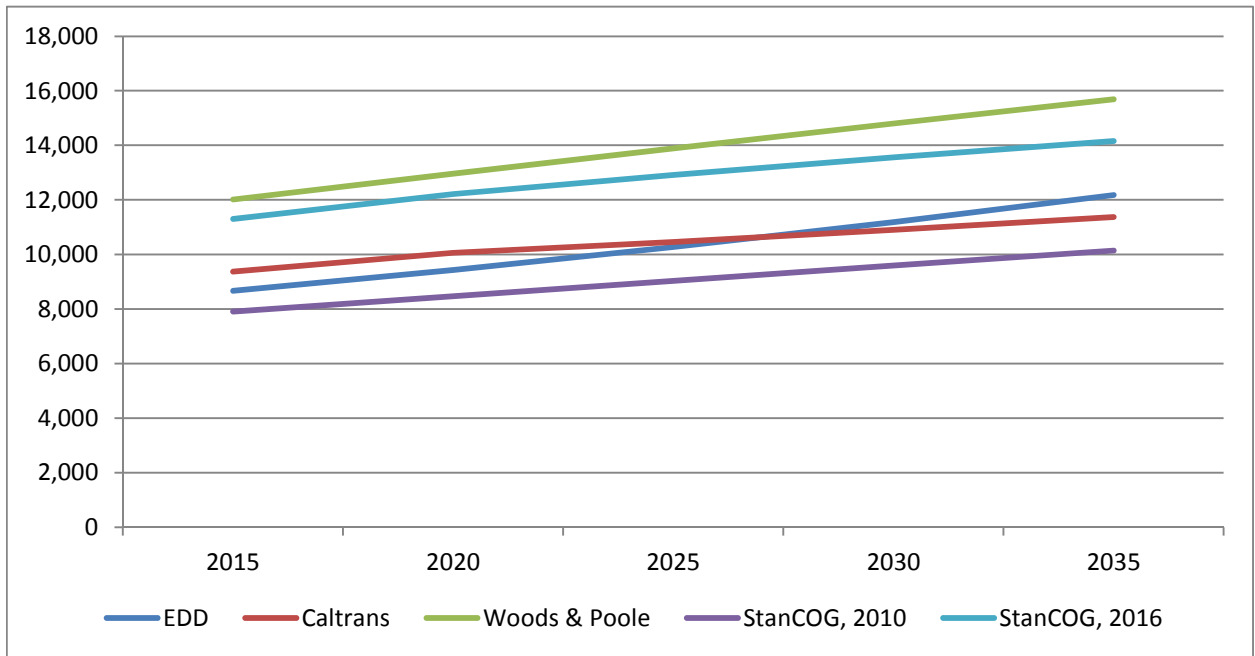
[2] Caltrans prepares job forecasts for California counties. The forecast for Ceres is estimated by multiplying Caltrans' job projections for Stanislaus County by Ceres' 2014 share of the County's jobs (5.18%) according to 2015 EDD job estimates for Ceres and Stanislaus County.

[3] Woods & Poole prepares job forecasts at the countywide level. The forecast for Ceres is estimated by multiplying Woods & Poole's job projections for Stanislaus County by Ceres' 2014 share of the County's jobs (5.18%) according to 2015 EDD job estimates for Ceres and Stanislaus County.

[4] StanCOG prepares annual job projections for the City of Ceres through 2040.

Sources: CA Employment Development Department 2012-2022 Industry Employment Projections (2015); Caltrans Forecast Data (2015); StanCOG 2040 Demographic Forecast (2010 & 2016); Woods & Poole Employment Projections (2016); Economic & Planning Systems, Inc.

Figure 6 **Jobs Projections for the City of Ceres**



4. FISCAL TRENDS AND GENERAL PLAN IMPLICATIONS

In support of the General Plan update, this chapter looks at current conditions and trends in the General Fund revenues and expenditures in Ceres during the last nine-year period. It also provides a qualitative evaluation of the relative fiscal implications of select land use categories on the City's General Fund. This evaluation can be used to help the City understand the potential fiscal tradeoffs of land use and development patterns, as well as service standards and public facilities.

Once the General Plan land use alternatives are defined (a later task), a detailed fiscal analysis that quantifies the net fiscal impact of each alternative at build-out will be prepared to facilitate a comparison between the alternatives. As part of the fiscal impact analysis of the General Plan alternatives, EPS will speak with department heads and other key City staff to discuss considerations specific to each department.

For this review, data from the City's Adopted budgets for Fiscal Years 2007/08 through 2015/16 were analyzed. The analysis highlights key fiscal challenges and opportunities that may affect land use decisions made during the course of the General Plan update. To control for the impact of inflation on revenues and expenses over this period, an inflation adjustment has been incorporated to the analysis, and results are presented both in nominal dollars (i.e., current dollars, including the effects of inflation) and constant 2015 dollars. The analysis uses the "California Urban" Consumer Price Index, prepared by the Bureau of Labor Statistics, which is consistent with the index used by County Assessors.

General Fund Revenues

The City's General Fund Revenues peaked in Fiscal Year 2007/08, before falling nearly 20 percent during the Great Recession. Fiscal Year 2015/16 revenues recovered to surpass Fiscal Year 2007/08 revenue levels in nominal terms but are still below Fiscal Year 2007/08 revenue levels in constant dollar terms. During the same period, the City's population has increased 9 percent. The components of the City's General Fund revenues are described below. **Table 24** presents the City's General Fund revenue trends between Fiscal Year 2007/08 and Fiscal Year 2015/16 in nominal dollars. **Table 25** presents the same series of data in inflation-adjusted, constant 2015 dollars.

Property-Related Taxes

Property taxes are derived from the assessed value of secured and unsecured property,⁵ and the City's general fund share of the 1 percent base property tax rate. Assessed valuation is derived from the following factors:

- the sum of the prior year's "base" plus an added annual increment that includes a 2 percent statutory increase
- the value added from turnover of real property (property sales)

⁵ Unsecured property refers to owned and leased business equipment.

Table 24 Summary of General Fund Revenues (Nominal Dollars)

Item	Budget (Nominal Dollars)					Percent Change		
	FY 2007- 2008 Actual	FY 2009- 2010 Actual	FY 2011- 2012 Actual	FY 2013-2014 Actual	FY 2015-2016 Adopted	FY 2007-08 to FY 2015-16	FY 2007-08 to FY 2011-12	FY 2011-12 to FY 2015-16
Population	43,029	44,738	45,534	46,251	46,989	9.2%	5.8%	3.2%
City of Ceres Assessed Value	\$2,986,845,621	\$2,384,868,186	\$2,096,205,528	\$2,193,787,136	\$2,662,295,557	-10.9%	-29.8%	27.0%
General Fund Revenues								
Taxes	\$14,154,974	\$11,898,687	\$11,586,737	\$12,970,462	\$14,420,822	1.9%	-18.1%	24.5%
Property Tax ¹	\$6,335,662	\$5,166,215	\$4,389,104	\$4,811,334	\$5,866,407	-7.4%	-30.7%	33.7%
Sales Tax ²	\$5,075,635	\$4,201,679	\$4,814,865	\$5,375,148	\$5,734,315	13.0%	-5.1%	19.1%
Transient Occupancy Tax	\$78,646	\$60,986	\$60,906	\$75,779	\$90,000	14.4%	-22.6%	47.8%
Real Property Transfer	\$95,410	\$68,026	\$61,573	\$58,228	\$70,000	-26.6%	-35.5%	13.7%
Other ³	\$1,080	\$1,047	\$908	\$10,839	\$7,000	548.1%	-15.9%	670.9%
Utility Users Tax ⁴	\$1,498,670	\$1,483,531	\$1,292,503	\$1,473,952	\$1,467,500	-2.1%	-13.8%	13.5%
Business License Tax ⁵	\$1,069,871	\$917,203	\$966,878	\$1,165,182	\$1,185,600	10.8%	-9.6%	22.6%
Licenses, Permits and Franchises	\$1,034,785	\$693,087	\$859,961	\$1,151,678	\$1,228,150	18.7%	-16.9%	42.8%
Revenues from Use of Money and Property	\$398,131	\$66,820	\$50,827	\$61,280	\$82,700	-79.2%	-87.2%	62.7%
Fines, Forfeitures and Penalties	\$235,332	\$256,713	\$204,222	\$224,738	\$243,000	3.3%	-13.2%	19.0%
Intergovernmental Revenue	\$965,942	\$719,515	\$766,729	\$894,757	\$1,029,525	6.6%	-20.6%	34.3%
Charges for Services & Other Revenue	\$498,571	\$386,447	\$389,363	\$726,521	\$672,900	35.0%	-21.9%	72.8%
Transfers From Other Funds	\$768,920	\$709,972	\$712,320	\$947,327	\$530,000	-31.1%	-7.4%	-25.6%
Total General Fund Revenues	\$18,056,655	\$14,731,241	\$14,570,159	\$16,976,763	\$18,207,097	0.8%	-19.3%	25.0%

Sources: City of Ceres 2015/16 Adopted Budget; CA Department of Finance; Economic & Planning Systems, Inc.

[1] Property Tax includes Secured Property Tax, Property Tax-Motor Vehicle in Lieu, Unsecured Property Tax, Property Tax from RDA, Property Tax administration Fees, Supplemental Property Tax SB813 and Redevelopment Property Tax Trust Fund .

[2] Sales tax includes revenue from Sales Tax PS Augmentation

[3] "Other" includes revenue from County in lieu and other taxes.

[4] Utility Users Tax includes electrical, natural gas, cable TV, and telephone taxes.

[5] Business License Tax includes revenue from Contractor's Business License Tax, Solicitors License and Transportation License.

Table 25 Summary of General Fund Revenues (Constant 2015 Dollars)

Item	Budget (\$2015)					Percent Change		
	FY 2007- 2008 Actual	FY 2009- 2010 Actual	FY 2011- 2012 Actual	FY 2013-2014 Actual	FY 2015-2016 Adopted	FY 2007-08 to FY 2015-16	FY 2007-08 to FY 2011-12	FY 2011-12 to FY 2015-16
Population	43,029	44,738	45,534	46,251	46,989	9.2%	5.8%	3.2%
City of Ceres Assessed Value	\$3,429,767,637	\$2,656,822,545	\$2,246,817,711	\$2,266,812,593	\$2,662,295,557	-22.4%	-34.5%	18.5%
General Fund Revenues								
Taxes	\$16,254,028	\$13,255,533	\$12,419,243	\$13,402,215	\$14,420,822	-11.3%	-23.6%	16.1%
Property Tax ¹	\$7,275,183	\$5,755,335	\$4,704,461	\$4,971,491	\$5,866,407	-19.4%	-35.3%	24.7%
Sales Tax ²	\$5,828,305	\$4,680,810	\$5,160,813	\$5,554,073	\$5,734,315	-1.6%	-11.5%	11.1%
Transient Occupancy Tax	\$90,308	\$67,940	\$65,282	\$78,301	\$90,000	-0.3%	-27.7%	37.9%
Real Property Transfer	\$109,558	\$75,783	\$65,997	\$60,166	\$70,000	-36.1%	-39.8%	6.1%
Other ³	\$1,240	\$1,166	\$973	\$11,200	\$7,000	464.4%	-21.5%	619.2%
Utility Users Tax ⁴	\$1,720,909	\$1,652,703	\$1,385,369	\$1,523,016	\$1,467,500	-14.7%	-19.5%	5.9%
Business License Tax ⁵	\$1,228,523	\$1,021,795	\$1,036,348	\$1,203,968	\$1,185,600	-3.5%	-15.6%	14.4%
Licenses, Permits and Franchises	\$1,188,234	\$772,122	\$921,749	\$1,190,014	\$1,228,150	3.4%	-22.4%	33.2%
Revenues from Use of Money and Property	\$457,170	\$74,440	\$54,479	\$63,320	\$82,700	-81.9%	-88.1%	51.8%
Fines, Forfeitures and Penalties	\$270,230	\$285,987	\$218,895	\$232,219	\$243,000	-10.1%	-19.0%	11.0%
Intergovernmental Revenue	\$1,109,182	\$801,564	\$821,818	\$924,541	\$1,029,525	-7.2%	-25.9%	25.3%
Charges for Services & Other Revenue	\$572,505	\$430,515	\$417,339	\$750,705	\$672,900	17.5%	-27.1%	61.2%
Transfers From Other Funds	\$882,944	\$790,932	\$763,500	\$978,861	\$530,000	-40.0%	-13.5%	-30.6%
Total General Fund Revenues	\$20,734,293	\$16,411,093	\$15,617,024	\$17,541,875	\$18,207,097	-12.2%	-24.7%	16.6%

Sources: City of Ceres 2015/16 Adopted Budget; CA Department of Finance; Economic & Planning Systems, Inc.

[1] Property Tax includes Secured Property Tax, Property Tax-Motor Vehicle in Lieu, Unsecured Property Tax, Property Tax from RDA, Property Tax administration Fees, Supplemental Property Tax SB813 and Redevelopment Property Tax Trust Fund .

[2] Sales tax includes revenue from Sales Tax PS Augmentation

[3] "Other" includes revenue from County in lieu and other taxes.

[4] Utility Users Tax includes electrical, natural gas, cable TV, and telephone taxes.

[5] Business License Tax includes revenue from Contractor's Business License Tax, Solicitors License and Transportation License.

- the value added by new construction
- the value added or subtracted by re-assessments

Changes in assessed value are capped by Proposition 13, which limits the annual increase to 2 percent or the California Consumer Price Index (whichever is lower). When property is sold, the assessed value is reset at the sale price, thus establishing a new base for property tax collection. The property tax rate may exceed 1 percent if voters have approved general obligation debt/bonds.

On average, the City's General Fund currently receives approximately 6.4 percent of each property tax dollar.⁶ In the future, if additional land is annexed into the City, the actual amount of property tax generated from that land and future development will depend on the tax sharing agreement.

The City's assessed value is \$2.67 billion as of Fiscal Year 2015/16. In inflation adjusted dollars, the City's assessed value is 22 percent below Fiscal Year 2007/08 levels. In nominal dollars, the City's assessed value is approximately level with Fiscal Year 2006/07 levels. **Table 26** and **Figure 7** present the City's assessed value historical trends. The decreases in Assessed Value beginning in Fiscal Year 2008/09 and persisting through Fiscal Year 2012/13 are attributable to downward reassessments by the County Assessor's Office, reflecting the downturn in the real estate market. During this period, the County Assessor's Office reviewed the assessed values of tens of thousands of residential parcels in Ceres and throughout the County. The majority of those reviewed were placed on "reduced market value" below their Proposition 13 factored base value. As the market continues to improve, these owners will see significant increases in their assessed value, which will have positive implications for the City's property tax revenues in the coming years.

⁶This is low relative to other cities in California, which typically receive between 10 to 15 percent of each property tax dollar.

Table 26 Ceres Assessed Value Trends

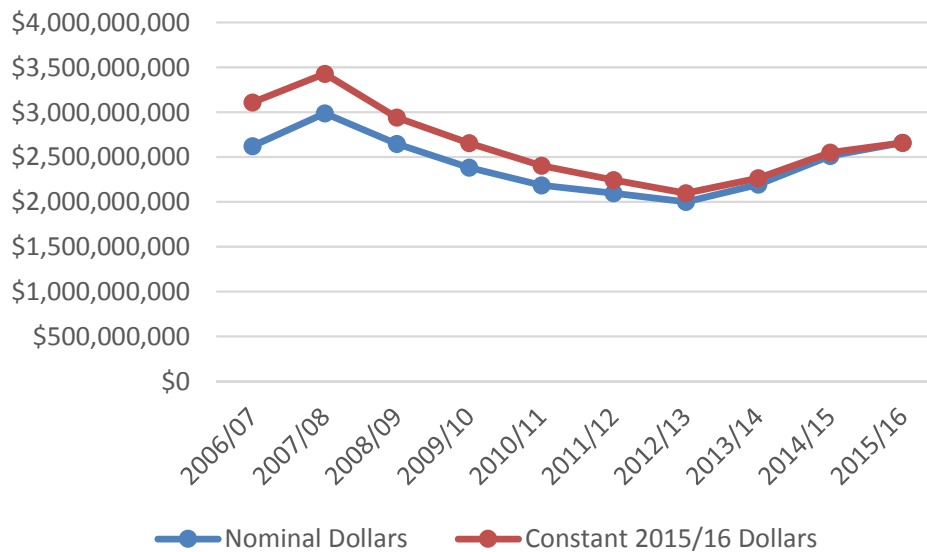
Fiscal Year	Total Assessed Value in Nominal Dollars [1]	Year-over-Year Percent Change	Total Assessed Value in Constant 2015/16 Dollars [1, 2]	Year-over-Year Percent Change
2006/07	\$2,623,214,812	--	\$3,111,294,771	--
2007/08	\$2,986,845,621	13.9%	\$3,429,767,637	10.2%
2008/09	\$2,648,163,078	-11.3%	\$2,940,995,089	-14.3%
2009/10	\$2,384,868,186	-9.9%	\$2,656,822,545	-9.7%
2010/11	\$2,184,620,374	-8.4%	\$2,403,612,876	-9.5%
2011/12	\$2,096,205,528	-4.0%	\$2,246,817,711	-6.5%
2012/13	\$2,000,682,638	-4.6%	\$2,097,383,769	-6.7%
2013/14	\$2,193,787,136	9.7%	\$2,266,812,593	8.1%
2014/15	\$2,515,537,340	14.7%	\$2,552,454,311	12.6%
2015/16	\$2,662,295,557	5.8%	\$2,662,295,557	4.3%

[1] Net of exemptions.

[2] Inflation factors use the BLS "California Urban" series.

Source: Stanislaus County Assessor's Office; Economic & Planning Systems, Inc.

Figure 7 Ceres Assessed Value Trends



Since 2004, Property Tax in-lieu of Motor Vehicle License Fee (VLF) revenue increases each year based on the proportion of growth of assessed value in the City and thus also is categorized as a property-related tax. Since Fiscal Year 2007/08, Property Tax in Lieu of VLF decreased 11 percent.

In aggregate, property-related tax revenues are budgeted to be \$5.9 million in Fiscal Year 2015/16, representing a significant gain above the recent low point in Fiscal Year 2011/12, when property tax revenues were \$4.4 million.

Fiscal Implications of Future Land Use Decisions

The following discussion focuses on the general fiscal implications of future land use decisions. As the City considers various General Plan alternatives, fiscal implications may be one criterion that City decision-makers evaluate. A more detailed fiscal impact analysis that allows comparison of the alternatives will be prepared as part of a later task.

Residential Property Taxes

In estimating property taxes, the market value of the residential units is the single most critical factor. Market value is determined by location, size, the quality and character of a project, market supply and demand trends (e.g., unsold inventory of comparable homes), whether the unit is for sale or for rent, and other intangibles. At this preliminary stage of the planning process, market values of the proposed residential units are unknown.

Stakeholder interviews indicated some interest in more multifamily, rental housing. On this topic, one of the central questions being posed of many general plan processes is whether more compact development will have greater or lesser fiscal impacts than more traditional single-family, suburban development. Based on fiscal analyses in other communities, compact development does not uniformly result in greater or lesser fiscal impacts. In highly urbanized areas, compact development has the ability to generate higher property valuations on a per-acre basis compared to single-family development. In more rural and/or less developed areas, it is likely that the opposite is true—for example, five single-family homes on one acre could generate higher value than ten townhomes on that same acre. That said, the location of the development also matters. If those same five single-family homes are located on land that needs to be annexed, the property tax revenue to the City would be lower than if the new homes are located on infill property.

Actual property valuations depend on a variety of factors, including, but not limited to, underlying land values and the demand for higher-density housing products in a particular jurisdiction (or even a subarea within a jurisdiction). Though it is not necessarily true that higher-density units command lower market values than lower-density residential construction, some price discounting is reasonable. Rental units also typically have lower values than for-sale equivalents, but the relative mix by product type and tenure is not known at this time.

Commercial Property Taxes

The amount and value of new commercial development, as well as subsequent transactions, also affect property tax revenue. Values per square foot will vary by type of commercial use (i.e., office, retail, industrial), location, market demand, and supply. Office uses typically generate higher property tax revenue than retail uses because the buildings are generally of better quality and include a higher level of tenant improvements (but retail uses also generate sales tax, which typically offsets the difference in property tax revenues, as discussed below).

Public Facilities and Open Space

Public facilities, parks, and urban reserve land will not generate property tax revenue. However, if properly maintained and patrolled, parks can be an important amenity, and proximity to a park can increase property values.

Implications of Annexation

There are County islands that will require annexation if they are to be considered for development as part of the General Plan update. Consequently, before development can occur, the land will need to be annexed into the City, and a City/County tax-sharing agreement will be required. Typically, the City receives a small percent of the County's property tax share that is attributable to an increase in assessed value above the base amount (i.e., the tax increment), which can often be less than the City's standard allocation.

Implications of the Former Redevelopment Area

With the dissolution of Redevelopment in 2012, the process of paying off outstanding obligations is underway in the City, through its Successor Agency. The largest remaining obligations are the annual debt service payments on the 2006 Tax Allocation Refunding Bonds (two series of bonds with total remaining payments of \$46,802,063 through 11/1/2036), and the annual debt service payments on the 2015 Tax Allocation Refunding Bonds (remaining payments total \$11,814,543 through 12/15/2033). After the last payment is made on the 2006 Bonds in November of 2036, the Successor Agency may cease operations and the former tax increment revenues will subsequently be paid to the taxing entities as they were before redevelopment. The City's share (approximately \$800,000 in 2016 dollars) will go to the City's General Fund and the City will see an increase in property tax revenue.

Property Transfer Tax

The City receives real property transfer tax for any property that is sold at a rate of \$0.55 for every \$1,000 of value. Property transfer tax revenues, therefore, depend upon sales activity, which slowed significantly during the Great Recession. Estimated at \$70,000 for Fiscal Year 2015/16, property transfer tax revenues are recovering but are still well below levels in Fiscal Year 2007/08.

Fiscal Implications of Land Use Decisions

For-sale residential units typically "turn over" about once every ten years although this can vary by product type (e.g., starter home versus move-up). Because rental residential properties, as well as commercial office, industrial and retail properties, are often held as investment properties, they tend to turn over infrequently, resulting in very low property transfer tax revenue. The future mix of ownership and rental residential units to be analyzed is unknown at this point; however, stakeholders have indicated a need in the City for more rental product.

Sales Tax

After property-tax related revenues, sales tax revenues represent the next largest revenue source to the City's General Fund. Of the 8.125 percent sales tax rate applied to sales in the City of Ceres, 0.95 percent is returned to the City's General Fund. In Fiscal Year 2007/08 sales tax revenues accounted for approximately 28 percent of the City's General Fund revenues, compared with 31 percent in Fiscal Year 2015/16. As discussed previously, at \$5.7 million, the Fiscal Year

2015/16 budget for sales tax revenues represents an inflation-adjusted 2.1 percent increase over sales tax revenues budget in Fiscal Year 2007/08. Comparatively, the City's population increased 9.2 percent over the same nine-year period, while median household incomes decreased by nearly 10 percent.

Additionally, the "triple-flip" ends in Fiscal Year 2015/16, which will return the quarter-cent sales tax revenue to the City's General Fund.⁷ In Fiscal Year 2015/16, a corresponding reduction in property tax revenue will appear. Initially, the effect of the end of the "triple-flip" will be neutral for the City. For taxable sales on and after January 1, 2016 the 0.25 percent will revert back to the original Bradley Burns tax rate (0.95 percent in Ceres). Counties and Cities will receive allocated payments directly from the Board of Equalization (BOE) starting in March 2016 for quarter one 2016 taxable sales.

Fiscal Implications of Land Use Decisions

New retail development can have a positive General Fund impact through the generation of sales tax. Taxable sales will be attributable to sales to *new* residents and employees, *net new* sales of goods and services to *existing* residents and employees (either through increased capture of existing sales or increased household spending), and increased capture from outside non-resident sources. Sales tax is also generated by business-to-business purchase transactions (i.e., the purchase of office supplies from a local office supply store).

The incomes of new households will be an important factor in determining the increase in sales tax revenue generated by new development. The decrease in median household income in the past nine years has no doubt played a significant role in the slow growth of sales tax revenue, and economic development efforts to support income growth of existing residents (i.e., employment opportunities) may affect sales tax revenues even more than new residents. In addition, if there is not enough population or employment growth to generate new retail demand equal to new supply, or if the new retail is redundant to what is already available in the City, new retail development may only shift sales from existing retail establishments. This type of shifting behavior does not generate new sales tax revenue.

From a fiscal perspective, sales tax revenue estimates are sensitive to *where* in the City new retail is located because location of retail can affect performance. If appropriately located and targeted, new retail development can improve a City's capture rate by keeping more household spending in the City or attracting more spending from outside the City.

As noted, other employment-generating development will also increase sales tax revenue through business-to-business transactions and employee spending (especially employees from other jurisdictions). Although estimating the retail spending by new workers is relatively

⁷ In March 2004, California voters authorized the issuance of bonds to close the State's budget deficit. To guarantee bond repayment, the state established an excise tax equal to one-quarter percent (.25 percent) of the sales price of property subject to the state's sales and use tax and simultaneously lowered the Bradley-Burns Uniform Sales Tax 1 percent rate to three-fourths of one percent (.75 percent). The bonds are repaid from the .25 percent excise tax. The quarter-percent reduction in local sales tax is recovered through a series of revenue swapping procedures. These exchanges are referred to as the "triple flip."

straightforward, the level of business-to-business sales can vary significantly by type of business. For example, some manufacturers, especially in technology sectors such as computer, software, and medical devices, often report significant point of sale transactions. However, firms involved in food or raw material processing (like many firms in Ceres) generally do not since their products are sold elsewhere. Thus, the economic development implications of the various General Plan land use Alternatives will need to be considered as part of the fiscal analysis.

Business License Taxes

Ceres assesses business license taxes on all businesses operating within the City. While certain categories of businesses pay a fixed rate, most businesses pay a business license tax that is based on gross receipts. A \$30 application fee is also due at the time of application. Business license revenues increased from nearly \$1.07 million in Fiscal Year 2007/08 to \$1.19 million in Fiscal Year 2015/16, a total of 10.8 percent in nominal dollars. However, in constant 2015 dollars, business license tax revenue has decreased since Fiscal Year 2007/08. Thus, General Plan alternatives with a stronger emphasis on economic development (e.g., more land dedicated to commercial uses) are likely to generate more revenue from this source.

Other Annual Revenues

Other revenues associated with new development include franchise fees, fines and penalties, transient occupancy taxes (TOT), and fees/charges for service. Most of these revenue items expand in relative proportion to population and employment growth. In 2015 Ceres voters raised the City's TOT from 5 percent to 10 percent, which is already resulting in additional TOT revenue to the General Fund. Additional hotel development also would increase TOT revenue, assuming the residential uses generate visitor nights, while the commercial uses generate stays related to business travel.

General Fund Expenditures

The City's General Fund Expenditures peaked in Fiscal Year 2007/08, before the Great Recession required a tightening of the City's budget. Fiscal Year 2015/16 expenditures remain below Fiscal Year 2007/08 levels both in nominal and constant dollar terms. During the same period, the City's population increased 9 percent, which means that per capita spending decreased from nearly \$528 per year to \$415 per year (in constant dollars). The components of the City's General Fund expenditures are described below. **Table 27** presents the City's General Fund expenditure trends between Fiscal Year 2007/08 and Fiscal Year 2015/16 in nominal dollars. **Table 28** presents the same series of data in inflation-adjusted, constant 2015 dollars.

Administration

As of 2015/16, General Fund Administration expenditures in the City of Ceres includes Building Inspection, City Attorney, City Clerk, City Council, City Manager, Finance, General City,⁸ Human Resources, Planning and Recreation.⁹ In constant 2015 dollars, Administration-related

⁸ General City includes expenditures such as workers' compensation, purchased transportation, and public liability insurance.

⁹ Parks services are categorized under Public Works and Engineering.

expenditures decreased more than 53 percent between Fiscal Year 2007/08 and 2015/16, with per capita spending down to \$51 per person per year in Fiscal Year 2015/16. Severe cuts in FY 2009/10 brought per capita spending on Administration to as low as \$9 per year. Administration expenditures are being controlled more effectively in recent years due in part to improved cost recovery efforts, for services like Building Inspection, Planning and Recreation.

Public Safety

The annual expenditures associated with police and fire service can be significant and have fluctuated between 72 and 90 percent of the General Fund budget over the last nine years. Typically, public safety expenditures (e.g., police and fire) comprise the majority of General Fund expenditures, but the Fiscal Year 2015/16 share of 80 percent is high relative to other cities. For Fiscal Year 2015/16, public safety expenditures in Turlock and Modesto represent 76 and 75 percent of General Fund expenditures, respectively, as shown on **Table 29**. The City of Los Banos is more comparably sized to Ceres. Even so, public safety expenditures as a share of General Fund expenditures are lower than in Ceres (74 percent in Los Banos).

General Fund public safety expenditures are supplemented with Measure H revenues which are used just to fund public safety services. Measure H is a ½-cent sales tax that voters in the City of Ceres passed in 2007. In recent years, Measure H has been generating approximately \$2.5 million per year, primarily for police and fire salaries and benefits. A Citizens' Oversight Committee oversees the expenditure of Measure H revenues.

Public safety costs associated with new development can be substantial if new growth causes demand for service to exceed capacity thus triggering the need for new facilities. For example, in smaller projects, the police and fire expenditures can be estimated using an average expenditure per resident equivalent, assuming that any given project contributes cumulatively to the need for future service level increases, along with the demands of other new development. However, a single major project may create the need for a large increment of additional service, such as staffing and maintenance for a new fire station or police sub-station.

It should be noted that the City may require the establishment of a Mello-Roos Community Facilities District (CFD) for new residential development projects to help fund ongoing police, fire and parks maintenance costs.¹⁰

In Ceres, public safety expenditures in Fiscal Year 2015/16 are the highest they have been in the past nine years (in nominal dollars); however, in constant dollars, public safety expenditures are 12.7 percent lower than in Fiscal Year 2007/08, even as the City's population has grown by more than 9 percent.

¹⁰ The Mello-Roos Community Facilities Act of 1982 (*authorized by Section 53311 et. seq. of the Government Code*) enables the formation of a CFD by local agencies, with two-thirds voter approval (or landowner approval when there are fewer than 12 registered voters in the proposed district), for the purpose of imposing special taxes on property owners. The resulting special tax revenue can be used to fund capital costs or operations and maintenance expenses directly, or they may be used to secure a bond issuance, the proceeds of which are used to fund capital costs.

Table 27 Summary of General Fund Expenditures (Nominal Dollars)

Item	Budget (Nominal Dollars)										Per Capita % Change			
	FY 2007-2008		FY 2009-2010		FY 2011-2012		FY 2013-2014		FY 2015-2016		FY 2007-08 to	FY 2007-08 to	FY 2011-12 to	
	Actual		Actual		Actual ¹		Actual		Adopted		FY 2015-16	FY 2011-12	FY 2015-16	
	Amount	per Capita	Amount	per Capita	Amount	per Capita	Amount	per Capita	Amount	per Capita				
City Population		43,029		44,738		45,534		46,251		46,989		9.2%	5.8%	3.2%
Administration²	\$4,121,475	\$95.78	\$368,635	\$8.24	\$722,810	\$15.87	\$2,023,689	\$43.75	\$2,388,670	\$50.83	-46.9%	-83.4%	220.2%	
Public Safety	\$14,188,248	\$329.74	\$13,712,772	\$306.51	\$12,766,114	\$280.36	\$13,184,732	\$285.07	\$15,533,091	\$330.57	0.3%	-15.0%	17.9%	
Fire ³	\$4,519,842	\$105.04	\$4,394,947	\$98.24	\$4,047,583	\$88.89	\$4,022,088	\$86.96	\$4,538,395	\$96.58	-8.1%	-15.4%	8.7%	
Police ³	\$9,402,616	\$218.52	\$9,124,812	\$203.96	\$8,489,841	\$186.45	\$8,710,564	\$188.33	\$10,385,019	\$221.01	1.1%	-14.7%	18.5%	
Other ⁴	\$265,790	\$6.18	\$193,013	\$4.31	\$228,690	\$5.02	\$452,080	\$9.77	\$609,677	\$12.97	110.1%	-18.7%	158.3%	
Public Works & Engineering	\$1,476,136	\$34.31	\$1,113,706	\$24.89	\$911,051	\$20.01	\$990,783	\$21.42	\$1,589,669	\$33.83	-1.4%	-41.7%	69.1%	
Administration	\$61,011	\$1.42	\$88,078	\$1.97	\$48,150	\$1.06	\$93,608	\$2.02	\$158,508	\$3.37	137.9%	-25.4%	219.0%	
Engineering Services	\$336,911	\$7.83	\$136,758	\$3.06	\$97,275	\$2.14	\$77,076	\$1.67	\$176,248	\$3.75	-52.1%	-72.7%	75.6%	
Facility Maintenance	\$78,372	\$1.82	\$67,622	\$1.51	\$62,674	\$1.38	\$64,476	\$1.39	\$46,368	\$0.99	-45.8%	-24.4%	-28.3%	
Housing Rehabilitation	-	-	\$0	-	-	-	-	-	\$52,500	\$1.12				
Parks Service	\$999,842	\$23.24	\$821,248	\$18.36	\$702,952	\$15.44	\$755,623	\$16.34	\$1,156,045	\$24.60	5.9%	-33.6%	59.4%	
Total Expenditures	\$19,785,859	\$459.83	\$15,195,113	\$339.65	\$14,399,975	\$316.25	\$16,199,204	\$350.25	\$19,511,430	\$415.23	-9.7%	-31.2%	31.3%	

[1] The "Actual" expenditure total for FY 2011/12 does not appear to be consistent with the "Audited" total due to transfers in and transfers out which are not included in the Audited numbers. The "Audited" number for FY 2011/12 is \$15,854,620. This does not affect this Study's Departmental trends analysis.

[2] Includes Building Inspection, City Attorney, City Clerk, City Council, City Manager, Finance, General City, Human Resources, Planning, and Recreation.

[3] Includes sworn-in officers (police officers and firefighters) and nonsworn-in officers (dispatch, emergency medical services, records).

[4] "Other" includes Code Enforcement and Animal Control Departments.

Sources: City of Ceres 2015/16 Adopted Budget; Economic & Planning Systems, Inc.

Table 28 Summary of General Fund Expenditures (Constant 2015 Dollars)

Item	Budget (\$2015)										Per Capita % Change		
	FY 2007-2008 Actual		FY 2009-2010 Actual		FY 2011-2012 Actual		FY 2013-2014 Actual		FY 2015-2016 Adopted		FY 2007-08 to FY 2015-16	FY 2007-08 to FY 2011-12	FY 2011-12 to FY 2015-16
	Amount	per Capita	Amount	per Capita	Amount	per Capita	Amount	per Capita	Amount	per Capita			
City Population		43,029		44,738		45,534		46,251		46,989	9.2%	5.8%	3.2%
Administration¹	\$4,732,652	\$109.99	\$410,672	\$9.18	\$774,744	\$17.01	\$2,091,052	\$45.21	\$2,388,670	\$50.83	-53.8%	-84.5%	198.8%
Public Safety	\$16,292,236	\$378.63	\$15,276,484	\$341.47	\$13,683,358	\$300.51	\$13,623,617	\$294.56	\$15,533,091	\$330.57	-12.7%	-20.6%	10.0%
Fire ²	\$5,190,093	\$120.62	\$4,896,117	\$109.44	\$4,338,401	\$95.28	\$4,155,973	\$89.86	\$4,538,395	\$96.58	-19.9%	-21.0%	1.4%
Police ²	\$10,796,938	\$250.92	\$10,165,344	\$227.22	\$9,099,835	\$199.85	\$9,000,516	\$194.60	\$10,385,019	\$221.01	-11.9%	-20.4%	10.6%
Other ³	\$305,204	\$7.09	\$215,023	\$4.81	\$245,121	\$5.38	\$467,129	\$10.10	\$609,677	\$12.97	82.9%	-24.1%	141.0%
Public Works & Engineering	\$1,695,034	\$39.39	\$1,240,706	\$27.25	\$976,510	\$21.45	\$1,023,764	\$22.13	\$1,589,669	\$33.83	-14.1%	-45.6%	57.8%
Administration	\$70,058	\$1.63	\$98,122	\$2.19	\$51,610	\$1.13	\$96,724	\$2.09	\$158,508	\$3.37	107.2%	-30.4%	197.6%
Engineering Services	\$386,872	\$8.99	\$152,353	\$3.41	\$104,264	\$2.29	\$79,642	\$1.72	\$176,248	\$3.75	-58.3%	-74.5%	63.8%
Facility Maintenance	\$89,994	\$2.09	\$75,333	\$1.68	\$67,177	\$1.48	\$66,622	\$1.44	\$46,368	\$0.99	-52.8%	-29.5%	-33.1%
Housing Rehabilitation	-	-	-	-	-	-	-	-	\$52,500	\$1.12			
Parks Service	\$1,148,109	\$26.68	\$914,898	\$20.45	\$753,459	\$16.55	\$780,776	\$16.88	\$1,156,045	\$24.60	-7.8%	-38.0%	48.7%
Total Expenditures	\$22,719,922	\$528.01	\$16,927,862	\$378.38	\$15,434,612	\$338.97	\$16,738,433	\$361.90	\$19,511,430	\$415.23	-21.4%	-35.8%	22.5%

Sources: City of Ceres 2015/16 Adopted Budget; Economic & Planning Systems, Inc.

[1] Includes Building Inspection, City Attorney, City Clerk, City Council, City Manager, Finance, General City, Human Resources, Planning, and Recreation.

[2] Includes sworn-in officers (police officers and firefighters) and nonsworn-in officers (dispatch, emergency medical services, records).

[3] "Other" includes Code Enforcement and Animal Control Departments.

Table 29 Public Safety Expenditure Comparison

Item	City of Los Banos		City of Turlock		City of Modesto		City of Ceres	
	Amount	per Capita	Amount	per Capita	Amount	per Capita	Amount	per Capita
City Population (2015)		37,145		71,043		209,186		46,989
Public Safety	\$8,986,666	\$241.93	\$26,017,271	\$366.22	\$84,500,688	\$403.95	\$15,533,091	\$330.57
Fire ¹	1,225,512	\$32.99	\$7,845,242	\$110.43	\$27,197,003	\$130.01	\$4,538,395	\$96.58
Police ¹	7,503,370	\$202.00	\$17,317,360	\$243.76	\$56,284,269	\$269.06	\$10,385,019	\$221.01
Code Enforcement	257,784	\$6.94	-	-	-	-	\$259,677	\$5.53
Neighborhood Services	-	-	\$330,826	\$4.66	-	-	-	-
Animal Control	-	-	\$523,843	\$7.37	\$1,019,416	\$4.87	\$350,000	\$7.45
Public Safety Share of General Fund²		74%		76%		75%		80%

Sources: 2015/16 Budgets for the cities of Los Banos, Turlock, Modesto, and Ceres.

[1] Includes sworn-in officers (police officers and firefighters) and non-sworn-in officers (dispatch, emergency medical services, records). For the City of Turlock, the Fire Department also includes Neighborhood Services.

[2] Does not include Measure H revenues.

Fire

The City of Ceres has four fire stations and 38 positions in the department.¹¹ The Fire Department responded to 4,758 emergency calls for service in 2014. At approximately \$4.5 million in Fiscal Year 2015/16, fire expenditure levels have returned to Fiscal Year 2007/08 levels (in nominal dollars). On a per capita basis, fire expenditures are approximately \$97 per resident per year. In constant dollar terms, per capita expenditures have decreased since Fiscal Year 2007/08 but increased since the low of Fiscal Year 2013/14.

Fiscal Implications of Land Use Decisions

Fire expenditures associated with the General Plan alternatives will depend on the capacity and geographic reach of each station relative to the location and amount of growth. Depending on the amount of new growth reflected in the General Plan alternatives, the existing fire stations may or may not be able to accommodate the new growth. The fiscal analysis of the preferred alternative will need to understand the “service capacity thresholds” of each station—the point at which a station is operating at maximum capacity and a new station, including new equipment and new personnel, is needed to serve growth. An understanding of each station’s service capacity threshold should be considered as part of the preferred alternative selection process.

Police

At approximately \$10.4 million in Fiscal Year 2015/16, police expenditure levels are the highest they have been in the past nine years, in nominal dollars. The increase of the police budget includes the addition of Animal Control Services (\$334,000), the purchase of new technology, and the split of the public safety director to separate police chief and fire chief positions.

On a per-capita basis, police expenditures are approximately \$221 per resident per year. In constant dollar terms, per capita expenditures have decreased since Fiscal Year 2007/08 when per-capita police expenditures were approximately \$251 per year, but increased since the low of Fiscal Year 2013/14 (\$195 per capita per year).

Fiscal Implications of Land Use Decisions

The General Fund cost implications of the various Alternatives will depend on the relative cost of expanding or modifying beat structures and adding personnel. If new development is planned for areas that are geographically separated from existing core service areas, it is likely that both new beats (and potential sub-stations) and additional staffing may be required. Conversely, for development that is more concentrated within the existing core service areas, the focus may be more on additional patrol (e.g., staffing). The extent to which existing personnel and the existing beat configuration can accommodate new development will need to be discussed before the selection of the preferred alternative.

¹¹ Includes 37 uniformed personnel and 1 non-uniformed personnel.

Source: <http://www.ci.ceres.ca.us/40823.html>.

Six of the 38 positions are not funded by the General Fund; rather they are funded by a federal SAFER grant that expires in March 2018. While the City intends to reapply for this grant, it is not certain that the grant will be awarded to the City again. One other position is a captain position for the Fire Investigation Unit (FIU) that is funded by the County through a MOU.

Generally speaking, the fiscal costs associated with retail uses are typically related to relatively high calls for police service. Parks may generate calls for police service depending on the level and type of activity in the park. Calls for service are relatively low for office and industrial space. Calls for services for residential uses vary widely.

Of course, various development patterns can also have differential impact on crime rates (and thus public safety costs). However, it is difficult to predict *a priori* whether a particular alternative is likely to have a positive or negative impact on crime given the variety of factors at play. For example, highly-dense urban environments can have higher per square mile crime rates but lower per capita crime rates. Factors such as income, education, and employment generally play a much more important role.

Public Works and Engineering

Expenditures related to Public Works and Engineering include an Administration component, Engineering Services, Facility Maintenance, and Parks Services. In nominal dollars, Public Works and Engineering expenditures are 1.4 percent lower in Fiscal Year 2015/16 than they were in Fiscal Year 2007/08. In constant 2015 dollars, expenditures are 14.1 percent lower.

Fiscal Implications of Land Use Decisions

There are annual operations and maintenance expenses associated with streets and park land. Public works expenditures can be estimated using an average expenditure per resident equivalent or using a per service unit (e.g., per road mile or per park acre). For road maintenance, total miles and/or vehicle trips are generally a more important contributor than population.

For parks, the population/acreage cost relationship can vary depending upon the level of improvements and programming. For example, more passive recreation areas have a low cost per acre relative to areas with intensive landscaping and recreational facilities (e.g., ball fields and play structures). In addition, parks can generate user fees, which may offset some costs (although these rarely fully offset operation and maintenance costs).

Other Expenditures

Many of the costs associated with new residential development will be estimated on a per-capita basis and depend on the number of people estimated to live in each household unit. There are some costs that are generally recoverable through fees assessed at the time of service and are therefore fiscally neutral. Some of these costs include building, planning, engineering, sewer, water, animal control, and recreation. Other expenditures including administrative or managerial services (e.g., City Attorney, City Clerk, Finance) do not vary significantly with marginal increases in population or employment and generally exhibit economies of scale (i.e., fixed costs). However, a significant amount of new development can generate demand for another increment of additional service.