

2

SECTION – 2 **Budget Overview**

APPROVED BUDGET OVERVIEW

The FY2014/15 Operating and Capital Improvement Program (CIP) Budgets were approved by the City Council on June 10, 2014. The Approved Budget totals \$873 million from all funding sources and supports 4,156.87 authorized full-time equivalent (FTE) positions. The General Fund totals \$383 million and 2,942.07 authorized FTE, and the Enterprise and other Funds total \$490 million and 1,214.80 FTE.

The following charts summarize the changes to the FY2014/15 Proposed Budget as released on April 28, 2014.

Operating Budget Changes

| Department | Fund Name (Number) | Revenue Adjustment | Expenditure Adjustment | Description |
|---------------------------------|--------------------|--------------------|------------------------|--|
| Mayor/Council | General (1001) | - | 100,000 | Provide the City Auditor funding for additional contract audit services. |
| Parks and Recreation | General (1001) | - | 65,300 | Restore Historic City Cemetery operations to seven days/week. Funding includes FTE and additional security services. |
| Parks and Recreation | General (1001) | - | - | Parks and Recreation to fund the City's Life Jacket program during the summer season within existing operating budget. |
| Subtotal General Fund: | | - | 165,300 | |
| General Services | Measure U (2401) | - | 141,854 | Add 1.0 FTE Animal Control Officer I and service and supplies for the position. |
| Parks and Recreation | Measure U (2401) | - | 90,050 | Add 3.0 FTE and service and supplies for restoration of the Oki and Mangan Pools to full-time operations. |
| Parks and Recreation | Measure U (2401) | - | 18,500 | Provide funding for increased participation in the Summer at City Hall Program to 100 participants in 2015. |
| Parks and Recreation | Measure U (2401) | - | 124,182 | Add 1.0 FTE Park Safety Ranger and service and supplies for the position. |
| Subtotal Measure U Fund: | | - | 374,586 | |
| Net Department Changes: | | \$ - | \$ 539,886 | |

Multi-Year Project Changes

| Project Name (Number) | Fund Name (Number) | Revenue Adjustment | Expenditure Adjustment | Description |
|--|---|--------------------|------------------------|--|
| Land Park Ponds (L19012900) | 2006 Capital Improvement Reimbursement Bonds (taxable) (3005) | - | 400,000 | Establish a new project to drain, clean, and renovate infrastructure of the existing three ponds. Improvements to include additional plantings and irrigation adjacent to the ponds and upgrading safety features and signage. |
| Net Multi-Year Project Changes: | | \$ - | \$ 400,000 | |

FY2014/15 Position Changes

| Department | Fund | Job Classification | Union (Rep. Unit #) | FTE Change | Description |
|----------------------|-----------|----------------------------|---------------------|-------------|---|
| City Manager | General | Staff Aide (Management) | SCXEA (01) | 1.00 | Transfer Homeless Program Liaison position from Parks and Recreation to the City Manager's Office. |
| Fire | General | Fire Prevention Officer II | 522 (05) | (1.00) | Eliminate a position due to a reorganizational change. |
| Fire | General | Typist Clerk II | L39 (16) | 2.00 | Add positions to address organizational change to be fully offset by the elimination of a Fire Prevention Officer II position. |
| General Services | Fleet | Vehicle Service Attendant | IAMAW (12) | - | Change 2.00 FTE into four 0.50 FTE to provide staffing flexibility for the Fleet Division. In an effort to provide entry level opportunities for students, General Services will work with local technical colleges to fill |
| General Services | Measure U | Animal Control Officer I | L39 (03) | 1.00 | Add an Animal Control Officer I position. |
| Parks and Recreation | General | Staff Aide (Management) | SCXEA (01) | (1.00) | Transfer Homeless Program Liaison position from Parks and Recreation to the City Manager's Office. |
| Parks and Recreation | General | Utility Worker | TMP (09) | (0.50) | Eliminate a 0.50 FTE position and add a 1.00 FTE position to restore Historic City Cemetery operations to seven days/week. |
| Parks and Recreation | General | Park Maintenance Worker | L39 (03) | 1.00 | Add a 1.00 FTE position and eliminate a 0.50 FTE position to restore Historic City Cemetery operations to seven days/week. |
| Parks and Recreation | Measure U | Park Safety Ranger | SPOA (02) | 1.00 | Add a Park Safety Ranger. |
| Parks and Recreation | Measure U | Assistant Pool Manager | TMP (09) | 0.35 | Add positions to restore Oki and Mangan Pools to full-time operations. |
| Parks and Recreation | Measure U | Cashier | TMP (09) | 0.25 | Add positions to restore Oki and Mangan Pools to full-time operations. |
| Parks and Recreation | Measure U | Lifeguard | TMP (09) | 0.90 | Add positions to restore Oki and Mangan Pools to full-time operations. |
| Parks and Recreation | Measure U | Pool Manager | TMP (09) | 0.40 | Add positions to restore Oki and Mangan Pools to full-time operations. |
| Parks and Recreation | Measure U | Senior Lifeguard | TMP (09) | 1.10 | Add positions to restore Oki and Mangan Pools to full-time operations. |
| Police | General | Police Clerk II | L39 (16) | (1.00) | Eliminate a position to cover the increased cost of reclassifications requested on Schedule 8. This position will be eliminated if the proposed reclassifications are approved by Human Resources. |
| Total Change | | | | 5.50 | |

FY2014/15 Measure U Restorations

Voter approval of Measure U in November 2012 authorized an additional one-half cent transaction and use tax effective April 1, 2013. On June 11, 2013, the City Council adopted a six-year Measure U expenditure plan. The following chart reflects the programs and services funded by Measure U tax revenues approved by the City Council through June 10, 2014.

Measure U Restoration Plan

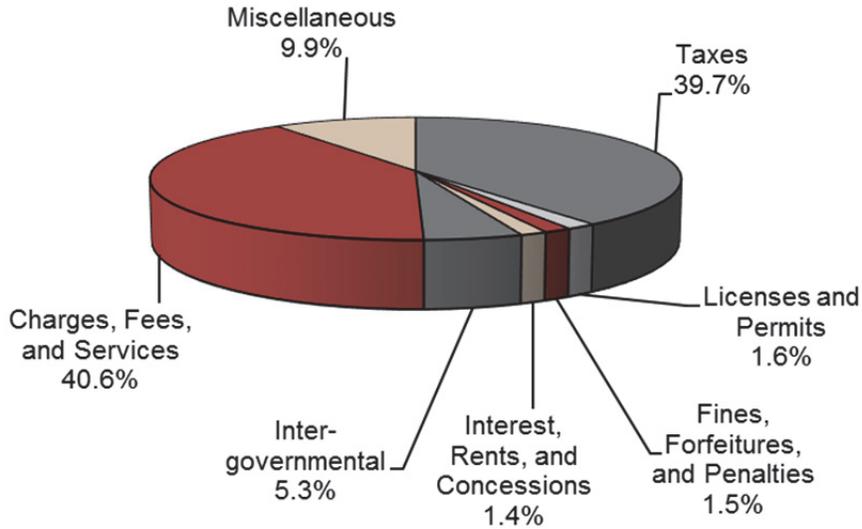
| Measure U Revenues and Expenditures (in 000s) | Total FTE¹ | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|----------------|
| REVENUES | | 4,820 | 27,000 | 31,824 | 33,097 | 34,421 | 35,798 | 27,922 |
| FIRE DEPARTMENT | | | | | | | | |
| SAFER Grant Retention | 27.00 | - | 1,503 | 2,803 | 2,803 | 2,803 | 2,803 | 2,803 |
| January 2013 Brownout - Restoration | 12.00 | 690 | 1,380 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Fire Company Restoration - April 2013 | 12.00 | 314 | 1,652 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Fire Company Restoration | 12.00 | - | 1,626 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Fire Company Restoration - May 14, 2014 | 12.00 | - | 190 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Two Medic Units - January 2014 <i>(partially offset by revenues)</i> | 12.00 | - | - | 657 | 505 | 590 | 680 | 774 |
| Technology | 4.00 | - | 249 | 437 | 441 | 446 | 450 | 455 |
| Fiscal Support | 2.00 | - | 142 | 169 | 171 | 172 | 174 | 176 |
| Fire Prevention | 1.00 | - | 160 | 140 | 141 | 143 | 144 | 146 |
| Human Resources | 1.00 | - | 55 | 94 | 95 | 96 | 97 | 98 |
| Recruit Academy | - | 78 | 777 | 360 | - | - | - | - |
| Sacramento Regional Fire Emergency Communications | | | 357 | - | - | - | - | - |
| Grant Retention for Future Years | - | - | 1,300 | - | - | - | - | - |
| Fire Department Subtotal | 95.00 | 1,082 | 9,391 | 11,704 | 11,553 | 12,016 | 12,503 | 13,013 |
| POLICE DEPARTMENT | | | | | | | | |
| COPS Hiring Program (CHP) Match and Retention FY13 <i>(New in FY15)</i> | 10.00 | - | - | 557 | 648 | 743 | 1,219 | 1,304 |
| COPS Hiring Program Retention FY09 (CHRP) and FY11 (CHP) | 60.00 | - | 2,734 | 4,862 | 5,483 | 5,483 | 5,483 | 5,483 |
| Field & Operations <i>(12.0 new FTE in FY15)</i> | 61.00 | 274 | 5,553 | 5,180 | 6,951 | 7,605 | 8,413 | 8,811 |
| Investigations <i>(2.0 new FTE in FY15)</i> | 8.00 | - | 716 | 556 | 1,142 | 1,173 | 1,206 | 1,241 |
| Forensics | 6.00 | - | 300 | 512 | 539 | 571 | 606 | 643 |
| Communications | 4.00 | - | 200 | 317 | 339 | 363 | 388 | 415 |
| Crime Analysis | 1.00 | - | 100 | 96 | 98 | 100 | 102 | 104 |
| Grant Retention for Future Years | - | - | 2,749 | 500 | - | - | - | - |
| Police Department Subtotal² | 150.00 | 274 | 12,352 | 12,580 | 15,200 | 16,038 | 17,417 | 18,001 |
| Public Safety Total | 245.00 | 1,356 | 21,743 | 24,284 | 26,753 | 28,054 | 29,920 | 31,014 |
| PARKS DEPARTMENT | | | | | | | | |
| Aquatics | 31.00 | 274 | 1,558 | 1,654 | 1,662 | 1,670 | 1,679 | 1,687 |
| Community Centers | 18.30 | - | 808 | 832 | 836 | 840 | 845 | 849 |
| Park Maintenance <i>(includes Park Ranger)</i> | 22.00 | - | 1,600 | 1,766 | 1,730 | 1,739 | 1,747 | 1,756 |
| Senior Programs | 1.50 | - | 172 | 194 | 195 | 196 | 197 | 198 |
| Teen Services <i>(Hot Spots/Summer at City Hall)</i> | 4.15 | - | 292 | 311 | 313 | 314 | 316 | 318 |
| Gang Prevention | 1.00 | - | 50 | 100 | 100 | 101 | 101 | 102 |
| Capital Investment | - | - | 850 | - | - | - | - | - |
| Parks Department Subtotal | 77.95 | 274 | 5,330 | 4,857 | 4,836 | 4,860 | 4,885 | 4,909 |
| MISCELLANEOUS RESTORATIONS | | | | | | | | |
| Animal Control Officer | 2.00 | - | 85 | 227 | 140 | 146 | 152 | 158 |
| Library Restoration | - | 506 | 506 | 506 | 506 | 506 | 506 | 506 |
| Miscellaneous Subtotal | 2.00 | 506 | 591 | 733 | 646 | 652 | 658 | 664 |
| Total Measure U Restorations | 324.95 | 2,136 | 27,664 | 29,874 | 32,235 | 33,566 | 35,462 | 36,587 |
| ANNUAL RESERVE | | 2,684 | (664) | 1,950 | 862 | 855 | 336 | (8,665) |
| Cumulative Reserve | | 2,684 | 2,020 | 3,970 | 4,832 | 5,687 | 6,022 | (2,642) |

¹14.0 new FTE are included in the FY2014/15 Proposed Budget for the Police Department

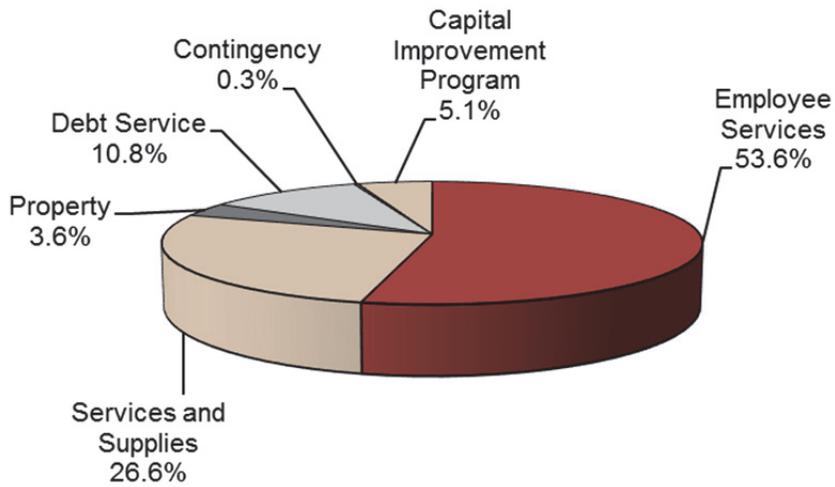
²The Police Department will be requesting Council authority during the budget hearings to carryover \$744,000 from FY13 to FY14 to allow for new officer costs (vehicles and equipment).

Total Approved City Budget: \$873 Million

Revenue

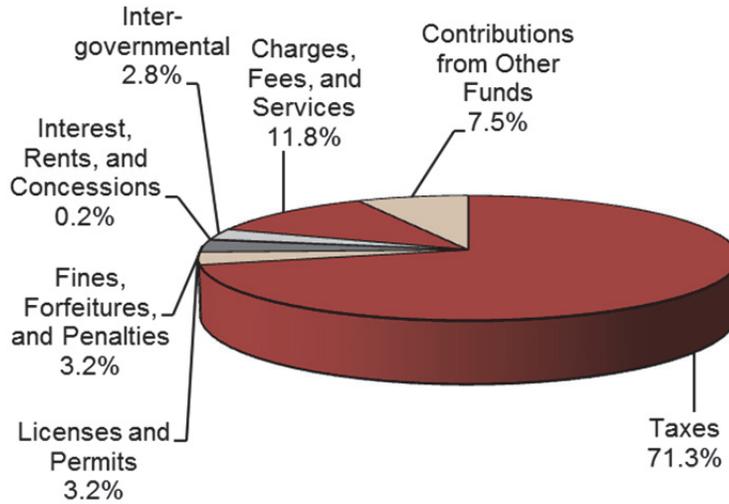


Expenditures

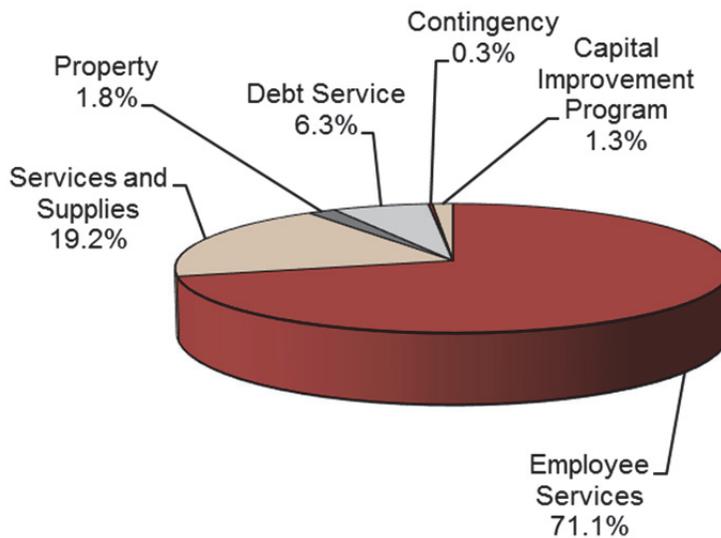


Total Approved General Fund Budget: \$383 Million

Revenue



Expenditures

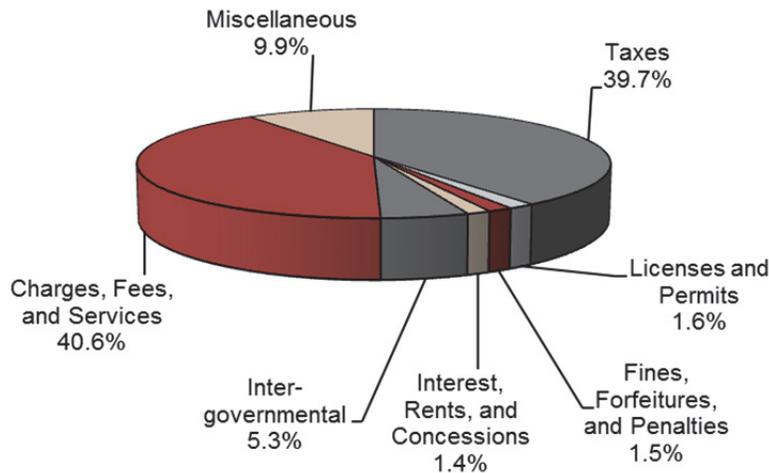


PROPOSED BUDGET OVERVIEW
(As written on May 1, 2014)

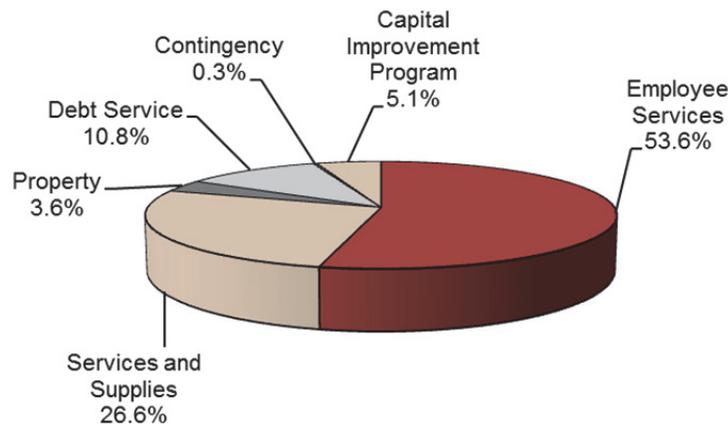
INTRODUCTION

The total budget proposed for FY2014/15 is \$872 million from all funding sources and supports 4,146.37 FTE positions. This includes \$383 million for General Fund operations and capital projects, and \$489 million for operations and capital projects for the City’s Enterprise Funds and other fund activities. The following charts provide a summary of the FY2014/15 Proposed Budget:

Revenues



Expenditures



Note: The above charts do not include other sources and uses as represented in Schedules 2A and 2B.

The Sacramento region began to see positive signs of recovery in 2013:

- Median home prices increased by 52% from 2011, but are still 32% below the 2006 pre-recession historical high.
- Sales taxes increased by \$7.5 million from FY2009/10 to FY2012/13, but are still \$5.6 million below the peak in FY2006/07.
- The City unemployment rate decreased from 12.3% in 2012 to approximately 10.3% in 2013 with strong growth in service, retail, and hospitality leisure sectors, but is still significantly above the 2007 rate of 5.6%.
- The Measure U half-cent sales tax became effective April 1, 2013 providing resources to restore \$29.8 million and 305.95 positions to fund priority programs and services in our Fire, Police, Parks and Recreation, and General Services Departments as well as the City’s Libraries.

While there continue to be positive indications of an economic recovery, it is important to remember that the City will continue to be challenged to address the nearly \$2.1 billion in liabilities outlined in the City Treasurer’s January 28, 2014, long-term financial liabilities report. These liabilities are related to debt (\$1 billion), post-employment pension and health benefits for employees (\$985 million), and future costs (\$166 million) associated with risk claims, development fee credits, and landfill post-closure costs. As the economy improves, it is important that the City begin to address these liabilities to avoid more drastic budget actions that will have to be taken in future years.

Further, while revenues are projected to exceed expenditures in FY2014/15 and FY2015/16, the changes recently approved by the PERS relative to actuarial assumptions and methodologies will result in increased costs for PERS member agencies. As such, the City’s expenditures are forecast to once again outpace revenues beginning in FY2016/17. A detailed discussion and forecast of the financial consequences associated with this most recent PERS action is outlined in the “On the Horizon – Future Fiscal Challenges” section of this report.

THE GENERAL FUND

For the first time in seven years, base General Fund expenditures are below projected revenues. This positive balance is partially the result of the elimination of employer paid member contributions for new employees resulting in approximately \$400,000 in savings, and improved position costing, including a change in methodology for costing entry level public safety positions resulting in approximately \$2 million in savings.

| General Fund (\$ in 000s) | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 | FY2019/20 |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Revenues | 384,829 | 392,826 | 400,739 | 408,909 | 417,355 | 426,087 |
| Expenditures | 382,846 | 391,330 | 403,019 | 411,764 | 420,996 | 430,738 |
| Surplus (Deficit) | 1,983 | 1,496 | (2,280) | (2,855) | (3,641) | (4,651) |

Budget Balancing

As reflected in the chart above, a small surplus is anticipated for the next two fiscal years. The largest portion of the budget is tied to the cost of our employees responsible for the provision of services. Unfortunately, with the known cost increases associated with pension benefits approved by PERS, shortfalls are anticipated beginning in FY2016/17 unless revenue growth exceeds current projections.

The Proposed Budget is balanced and includes funding for new initiatives, one-time funding to address unfunded liabilities, the use of Measure U resources to maintain and fund additional public safety positions as directed by Council, and several position changes as reflected below:

| Department | Adds | Measure U | Reorganizations | Other ¹ | FTE Changes |
|----------------------------------|--------------|--------------|-----------------|--------------------|--------------|
| City Manager | - | - | - | (1.00) | (1.00) |
| Citywide and Community Support | - | - | (2.00) | - | (2.00) |
| Community Development | 3.50 | - | - | - | 3.50 |
| Convention and Cultural Services | - | - | (1.50) | (1.00) | (2.50) |
| Finance | 1.00 | - | - | - | 1.00 |
| Fire | 2.50 | - | - | - | 2.50 |
| Information Technology | 4.00 | - | - | - | 4.00 |
| Parks and Recreation | 1.00 | - | 1.50 | - | 2.50 |
| Police | 1.00 | 14.00 | 2.00 | (4.00) | 13.00 |
| Total | 13.00 | 14.00 | - | (6.00) | 21.00 |

¹Position reductions related to grants, agreements, and right-sizing of departments.

FY2014/15 Initiatives

After several years of budget reductions, the FY2014/15 Proposed Budget includes funding to address initiatives that will provide or enhance services and programs for the residents of Sacramento, as well as provide the opportunity to implement efficiencies and address critical needs in several operating departments. In an effort to begin addressing the City’s OPEB liability, the proposed budget includes a \$1 million contribution to the City’s OPEB Trust. Additionally, the City’s Economic Uncertainty Reserve will be increased by \$400,000, bringing the reserve to 7.5% of General Fund revenues. A summary of the General Fund initiatives included in the Proposed Budget is provided below.

| Program/ Department | Description ¹ | Revenue Adjustment (in 000s) | Expenditure Adjustment (in 000s) | FTE |
|--------------------------|---|------------------------------|----------------------------------|------|
| Justice for Neighbors | Dedicated positions in the Community Development and Police Departments to prepare case files and coordinate with the City Attorney’s Office. | - | 300 | 2.00 |
| Homeless Program Liaison | Liaison position in Parks and Recreation to coordinate the City’s efforts related to homeless programs with Sacramento Steps Forward (SSF), the County, nonprofits, and the Police Department. This position will work with SSF to develop a program for the \$1 million designated for this purpose by Council with the FY2013/14 Midyear Budget approval. Council approval of the program will be required in a separate action before these funds will be made available for this purpose. | - | 120 | 1.00 |
| Digital Innovation | The Digital Strategy program will serve as the framework for how the City delivers unified and effective technology services internally and to the community. Staffing augmentation is needed to redesign existing technology systems and implement necessary innovative enhancements to streamline business processes and create efficiencies citywide. Costs of the positions are offset by a reduction in expenditures. Existing General Funds (\$0.7M) and bonds will be redirected to support associated CIPs. | - | - | 4.00 |

| Program/ Department | Description ¹ | Revenue Adjustment (in 000s) | Expenditure Adjustment (in 000s) | FTE |
|---|--|------------------------------------|--|-------------|
| Citywide and Community Support | As recommended by the City's General Liability and Auto Liability actuarial study, General Fund contributions for anticipated costs have been increased based on a proposed three-year smoothing. For the next three years the General Fund contributions are anticipated to increase by \$1.2 million per year, for a total ongoing increase of \$3.6 million necessary to offset increasing costs related to insurance premiums and claim settlements. | - | 1,200 | - |
| Community Development | Additional staff to address increased development activity and support the development permitting system. | 100 | 102 | 2.50 |
| Finance | Additional staff to assist with labor negotiations and grievances, support the citywide payroll system, and reconcile employee leave balances. | - | 90 | 1.00 |
| Fire | Reduce revenues as a result of declining medical transports, increase expenditures to reflect increased costs related to the regional communications JPA, and add staff to support operations. | (933) | 1,197 | 2.50 |
| General Services | Increase funding for food, medical supplies, and veterinarian services for the City's animal shelter. | - | 197 | - |
| Mayor and City Council | Continue additional Community Support funding for the Mayor and Councilmembers (one-time funding was provided in the FY2013/14 Approved Budget). | - | 392 | - |
| Mayor and City Council | Increase funding for the Mayor to address travel requirements associated with his presidency of the U.S. Conference of Mayors and the National Conference of Black Mayors. | - | 40 | - |
| Total Ongoing | | (833) | 3,638 | 6.00 |
| Account Based Health Plan (ABHP) Incentive | The ABHP is one of the City's solutions to lowering future healthcare costs. In FY2013/14, approximately 20% of employees electing health coverage moved from traditional health plans to an ABHP, receiving a one-time contribution of \$2,000 to a health savings account. Funding is included in the budget in an effort to encourage more employees to transition to ABHP plans. | - | 300 | - |
| Citywide and Community Support | Consistent with adopted labor agreements the Department of Human Resources is working with affected employee groups to develop a long-range plan to address movement within salary ranges for employees not in traditional step increase positions. | - | 1,200 | - |
| Other Post Employment Benefit (OPEB) Trust | As presented to the City Council on January 28, 2014, the City has a \$473 million unfunded liability for retiree medical benefits. Additional funding reflects the City's commitment to addressing this liability and is consistent with best practices. | - | 1,000 | - |
| Economic Uncertainty | The City Council's adopted goal for the EUR is 10% of General Fund revenues. The proposed funding will bring the EUR to 7.5%. | - | 400 | - |
| Total One-Time | | - | 2,900 | - |

¹Detailed information on the proposed changes is included in each department's section of the Proposed Budget.

Also included in the Proposed Budget are several organizational changes necessary to achieve efficiencies/increase productivity as well as align staff and operating budgets with similar operations.

The following chart provides an overview of the changes in the General Fund:

| Current Department | Description | Revenue Adjustment (000s) | Expenditure Adjustment (in 000s) | FTE |
|----------------------------------|---|---------------------------|----------------------------------|--------|
| General Services | Transfer citywide security and janitorial services at multi-tenant facilities to Citywide and Community | - | (741) | - |
| Citywide and Community Support | Transfer citywide security and janitorial services at multi-tenant facilities from General Services. | - | 741 | - |
| Convention and Cultural Services | Transfer maintenance of the Historic City Cemetery to Parks and Recreation. | - | (125) | (1.50) |
| Parks and Recreation | Transfer maintenance of the Historic City Cemetery from Convention and Cultural Services. | - | 125 | 1.50 |
| Citywide and Community Support | Transfer management and operation of the Office of Emergency Services to the Police Department to better align emergency services. | - | (426) | (2.00) |
| Police | Transfer management and operation of the Office of Emergency Services from Citywide and Community Support to better align emergency services. | - | 426 | 2.00 |
| Convention and Cultural Services | Transfer Marina dredging revenue and expenditures to Public Works. | (50) | (50) | - |
| Public Works | Transfer Marina dredging revenue and expenditures from Convention and Cultural Services. | 50 | 50 | - |
| Total Change | | - | - | - |

FY2014/15 Measure U Restorations

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of an additional one-half cent transaction and use tax effective April 1, 2013, expiring in six years on March 31, 2019. While the Measure U funds provide the resources to protect and restore vital services, it is critical that we recognize and continue to plan for the fact that ongoing General Fund reliance on these temporary resources will create an enormous burden when the tax expires in 2019 unless contingency planning is done. Consistent with City Council adopted policies relative to Measure U, a reserve has been established which will provide resources through the end of FY2018/19.

The Measure U Restoration plan as shown on following the chart is based on the information below:

- FY13 = actuals as reported in the CAFR
- FY14 = budget as approved by Council to date
- FY15 = proposed U budget including the addition of 14.0 FTE in the Police Department
- FY16-FY19 =forecast with 4% annual revenue growth and projected labor growth

| Measure U Revenues and Expenditures (in 000s) | Total FTE* | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---------------|--------------|---------------|---------------|---------------|---------------|---------------|----------------|
| REVENUES | | 4,820 | 27,000 | 31,824 | 33,097 | 34,421 | 35,798 | 27,922 |
| Fire Department | 95.00 | 1,082 | 9,391 | 11,704 | 11,553 | 12,016 | 12,503 | 13,013 |
| Police Department* | 150.00 | 274 | 12,352 | 12,580 | 15,200 | 16,038 | 17,417 | 18,001 |
| Parks Department | 73.95 | 274 | 5,330 | 4,624 | 4,647 | 4,671 | 4,694 | 4,718 |
| Miscellaneous | 1.00 | 506 | 591 | 591 | 594 | 598 | 602 | 606 |
| Total Measure U Restorations | 319.95 | 2,136 | 27,664 | 29,499 | 31,994 | 33,323 | 35,216 | 36,337 |
| Annual Reserve | | 2,684 | (664) | 2,325 | 1,103 | 1,098 | 582 | (8,415) |
| Cumulative Reserve | | 2,684 | 2,020 | 4,345 | 5,447 | 6,546 | 7,128 | (1,287) |

*14.0 new FTE are included in the FY2014/15 Proposed Budget for the Police Department

Revenues: MuniServices, the City’s sales tax consultant, is continuing to evaluate Measure U tax receipts and is working with the State Board of Equalization (BOE) to reconcile and correct the over/under payments received by the City. The following provides a summary of the variances affecting the City’s collections that are currently under review: (1) the City is erroneously receiving collections from businesses located within the county but not within the city limits; and (2) businesses with multiple locations appear to be remitting Measure U taxes for non-city locations. Additionally, the taxability of internet transactions, and “business-to-business” and “business-to-government” sales are being reviewed as these purchases do not follow a cyclical pattern.

Based on only three quarters of sales tax data, the FY2014/15 revenue budget for Measure U is projected to be \$31.8 million, up from \$27 million in FY2013/14. Staff will provide an update on Measure U collections and updated projections as they become available. The revenue forecast for this tax assumes 4% growth in the out years, with FY2018/19 reflecting the expiration of the tax in March of 2019.

Programs and Services: The Proposed Budget for Measure U reflects the annual cost of programs and services Council has previously approved. As originally proposed in the restoration plan, the Police Department will be adding 14 new sworn positions and the costs associated with the retention of positions for the new COPS Hiring Program approved in FY2013/14, which funded 10 additional positions. The following chart summarizes the Proposed Measure U Budget and associated new FTE for FY2014/15:

Proposed FY2014/15 Measure U Restoration Plan

| Measure U Revenues and Expenditures (in 000s) | FTE | FY15 |
|---|-------------|---------------|
| Measure U Revenues | | 31,824 |
| Fire Department | - | 11,704 |
| Police Department ¹ | 14.0 | 12,580 |
| Parks Department | - | 4,624 |
| Miscellaneous | - | 591 |
| Total Measure U Restorations | 14.0 | 29,499 |
| Annual Reserve | | 2,325 |

¹Includes \$500,000 reserve for restoration of grant-funded FTE (CHRP/CHP)

A summary and chart of Measure U programs and services is provided below with additional detail available in the department sections of the budget:

- **Fire – \$11.7 million** provides the department resources to eliminate all brownouts. The implementation of the two additional medic units approved in FY2013/14 has been delayed while the department continues to evaluate the reduction in transports and the potential use of non-sworn employees. Additionally, the funding provides for the restoration of resources for the coordination of fire prevention services as well as department administrative infrastructure for daily field operations support.
- **Police – \$12.6 million** includes the addition of 14 additional positions (10 Police Officers and 4 Police Sergeants) as reflected in the Measure U plan approved by Council and match/retention costs associated with 10 additional grant funded positions approved by the City Council on November 19, 2013 (Resolution 2013-0369). The Proposed Budget also provides for continued funding of previously restored critical public safety services as well as funding to retain previously grant-funded police officers.
- **Parks and Recreation – \$4.6 million** provides the department resources to continue the restoration of park maintenance operations, the operation of eleven City swimming pools and five stand-alone wading pools, and the extension of hours and programs at the City's community centers for youth services as well as grant management and coordination of services related to gang prevention.
- **General Services – \$85,000** provides the department resources to address critical animal control challenges including animal bites, animal cruelty, and rabies control.
- **Sacramento Public Library Authority (SPLA) Maintenance of Effort (MOE) – \$506,000** to the SPLA for continued funding for library services consistent with the MOE (additional information on the MOE is provided in the Citywide and Community Support section of the budget).

| Measure U Revenues and Expenditures (in 000s) | Total FTE* | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---------------|--------------|---------------|---------------|---------------|---------------|---------------|----------------|
| REVENUES | | 4,820 | 27,000 | 31,824 | 33,097 | 34,421 | 35,798 | 27,922 |
| FIRE DEPARTMENT | | | | | | | | |
| SAFER Grant Retention | 27.00 | - | 1,503 | 2,803 | 2,803 | 2,803 | 2,803 | 2,803 |
| January 2013 Brownout - Restoration | 12.00 | 690 | 1,380 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Fire Company Restoration - April 2013 | 12.00 | 314 | 1,652 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Fire Company Restoration | 12.00 | - | 1,626 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Fire Company Restoration - May 14, 2014 | 12.00 | - | 190 | 1,761 | 1,849 | 1,942 | 2,039 | 2,141 |
| Two Medic Units - January 2014 <i>(partially offset by revenues)</i> | 12.00 | - | - | 657 | 505 | 590 | 680 | 774 |
| Technology | 4.00 | - | 249 | 437 | 441 | 446 | 450 | 455 |
| Fiscal Support | 2.00 | - | 142 | 169 | 171 | 172 | 174 | 176 |
| Fire Prevention | 1.00 | - | 160 | 140 | 141 | 143 | 144 | 146 |
| Human Resources | 1.00 | - | 55 | 94 | 95 | 96 | 97 | 98 |
| Recruit Academy | - | 78 | 777 | 360 | - | - | - | - |
| Sacramento Regional Fire Emergency Communications | | | 357 | - | - | - | - | - |
| Grant Retention for Future Years | - | - | 1,300 | - | - | - | - | - |
| Fire Department Subtotal | 95.00 | 1,082 | 9,391 | 11,704 | 11,553 | 12,016 | 12,503 | 13,013 |
| POLICE DEPARTMENT | | | | | | | | |
| COPS Hiring Program (CHP) Match and Retention FY13 <i>(New in FY15)</i> | 10.00 | - | - | 557 | 648 | 743 | 1,219 | 1,304 |
| COPS Hiring Program Retention FY09 (CHRP) and FY11 (CHP) | 60.00 | - | 2,734 | 4,862 | 5,483 | 5,483 | 5,483 | 5,483 |
| Field & Operations <i>(12.0 new FTE in FY15)</i> | 61.00 | 274 | 5,553 | 5,180 | 6,951 | 7,605 | 8,413 | 8,811 |
| Investigations <i>(2.0 new FTE in FY15)</i> | 8.00 | - | 716 | 556 | 1,142 | 1,173 | 1,206 | 1,241 |
| Forensics | 6.00 | - | 300 | 512 | 539 | 571 | 606 | 643 |
| Communications | 4.00 | - | 200 | 317 | 339 | 363 | 388 | 415 |
| Crime Analysis | 1.00 | - | 100 | 96 | 98 | 100 | 102 | 104 |
| Grant Retention for Future Years | - | - | 2,749 | 500 | - | - | - | - |
| Police Department Subtotal¹ | 150.00 | 274 | 12,352 | 12,580 | 15,200 | 16,038 | 17,417 | 18,001 |
| Public Safety Total | 245.00 | 1,356 | 21,743 | 24,284 | 26,753 | 28,054 | 29,920 | 31,014 |
| PARKS DEPARTMENT | | | | | | | | |
| Aquatics | 28.00 | 274 | 1,558 | 1,564 | 1,571 | 1,579 | 1,587 | 1,595 |
| Community Centers | 18.30 | - | 808 | 832 | 836 | 840 | 845 | 849 |
| Park Maintenance | 21.00 | - | 1,600 | 1,642 | 1,650 | 1,659 | 1,667 | 1,675 |
| Senior Programs | 1.50 | - | 172 | 194 | 195 | 196 | 197 | 198 |
| Teen Services <i>(Hot Spots/Summer at City Hall)</i> | 4.15 | - | 292 | 293 | 294 | 296 | 297 | 299 |
| Gang Prevention | 1.00 | - | 50 | 100 | 100 | 101 | 101 | 102 |
| Capital Investment | - | - | 850 | - | - | - | - | - |
| Parks Department Subtotal | 73.95 | 274 | 5,330 | 4,624 | 4,647 | 4,671 | 4,694 | 4,718 |
| MISCELLANEOUS RESTORATIONS | | | | | | | | |
| Animal Control Officer | 1.00 | - | 85 | 85 | 88 | 92 | 96 | 100 |
| Library Restoration | - | 506 | 506 | 506 | 506 | 506 | 506 | 506 |
| Miscellaneous Subtotal | 1.00 | 506 | 591 | 591 | 594 | 598 | 602 | 606 |
| Total Measure U Restorations | 319.95 | 2,136 | 27,664 | 29,499 | 31,994 | 33,323 | 35,216 | 36,337 |
| ANNUAL RESERVE | | 2,684 | (664) | 2,325 | 1,103 | 1,098 | 582 | (8,415) |
| Cumulative Reserve | | 2,684 | 2,020 | 4,345 | 5,447 | 6,546 | 7,128 | (1,287) |

¹The Police Department will be requesting Council authority during the budget hearings to carryover \$744,000 from FY13 to FY14 to allow for new officer costs (vehicles and equipment).

As discussed with the City Council during FY2013/14 budget development and the midyear budget review, the City will face a “fiscal cliff” in FY2019/20 absent significant growth in base General Fund revenues.

The Six-Year General Fund Forecast

The General Fund forecast provides a multi-year view of revenues and expenditures, allowing an assessment of the fiscal consequences of both prior and current funding decisions in the context of forecasted revenues and expenditures. Given the Council’s sustainable budget policy, proposed fiscal actions are evaluated in a longer-term, rather than a short-term, context. As such, the FY2014/15 Proposed Budget for the General Fund must be considered within the context of a six-year forecast in order to understand the expiration of Measure U funding in March of 2019.

The following table depicts the structural gap between revenues and expenditures in the General Fund that is expected to develop again in FY2016/17, the result of increased pension costs as approved by PERS and base expenditure growth included in the forecast:

| \$ in 000s | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 | FY2019/20 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Total Revenues | 384,829 | 392,826 | 400,739 | 408,909 | 417,355 | 426,087 |
| Total Expenditures | 382,551 | 391,435 | 403,124 | 411,869 | 421,101 | 430,843 |
| Revenues less Expenditures | 2,278 | 1,391 | (2,385) | (2,960) | (3,746) | (4,756) |
| Other Sources and (Uses) | (295) | 105 | 105 | 105 | 105 | 105 |
| Loss of Measure U Revenues | - | - | - | - | (8,415) | (36,337) |
| Annual Operating Surplus/(Deficit) | 1,983 | 1,496 | (2,280) | (2,855) | (12,056) | (40,988) |

General Fund Expenditures

Expenditure growth projected over the forecast period reflects the terms of the current labor contracts relative to lowest cost health care contributions, required step and minor compensation increases, and anticipated growth related to PERS-approved pension cost increases.

The largest expenditure increase in the forecast is related to labor expenditures, specifically the City’s required pension contributions to PERS. The FY2019/20 contribution is expected to be \$32.4 million higher than FY2014/15. Additional detail on estimated PERS cost increases is provided in the “On the Horizon – Future Fiscal Challenges” section below.

Even with Measure U resources to assist with the restoration of previously grant-funded public safety positions, the City will continue to struggle with the challenge to return to long-term structural stability in the General Fund. At this point in time, given current economic trends, it appears that revenue growth will barely keep pace with compounding expenditure growth caused by increasing service demands, escalating personnel costs, and the ongoing operations and maintenance of aging infrastructure.

Budget sustainability and the fiscal capacity to address longer-term fiscal issues require that annual base operating cost increases be held to a level below annual revenue growth. The fiscal reality is that given the lack of significant revenue growth beyond that of expenditures in the forecast and the expiration of Measure U revenues in March of 2019, current expenditure commitments are unsustainable.

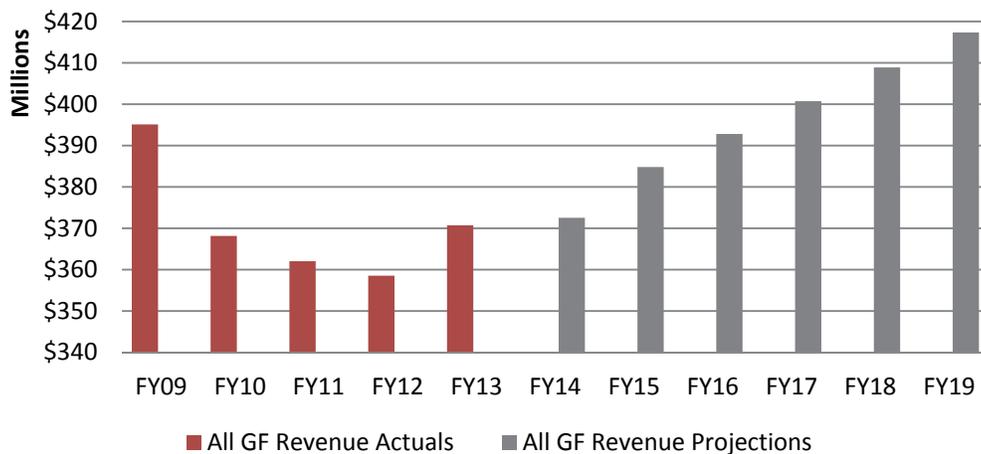
General Fund Revenues

The City’s general fund revenue stream has rebounded significantly over the past year led by property and sales tax growth. These two taxes comprise 50% of all General Fund revenue. Revenues in the forecast are projected to grow by approximately two percent per year over the term of the forecast. In the FY2014/15 Proposed Budget, 32% of General Fund revenues come from property taxes, 18% from

sales taxes, and 15% from utility user taxes (UUT). As directed by Council, the forecast does not include the growth in the 11% general tax on the water and wastewater utility funds resulting from the third year of the rate increases approved in March 2012. The \$3.8 million estimated from the three-year rate increase has been budgeted in the Utility Rate Assistance (I14130100) program to offset the additional rate increases for low-income customers.

The following charts provide a summary of the City’s major revenue sources. A detailed explanation, including the current indicators guiding the development of the forecast for that specific revenue type is included below.

All General Fund Revenue



The General Fund revenue forecast includes the following growth assumptions beginning in FY2016/17: Property Tax is 3 percent, Sales Tax is 3-4 percent, Utility User Tax is 1 percent, and Other Revenues is 1 percent.

| Revenue Source | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Property Tax ¹ | 125,103 | 128,842 | 132,693 | 136,660 | 140,746 |
| Sales Tax | 67,918 | 70,634 | 73,107 | 75,665 | 78,314 |
| Utility User Tax | 58,982 | 59,572 | 60,168 | 60,769 | 61,377 |
| Other Revenue | 132,826 | 133,778 | 134,771 | 135,815 | 136,918 |
| Total General Fund Revenue | 384,829 | 392,826 | 400,739 | 408,909 | 417,355 |

¹Property tax is defined as current secured, current unsecured, prior secured, prior unsecured, property taxes in lieu of vehicle license fees, supplemental property taxes and redevelopment pass-through property taxes.

Property Tax

Property taxes account for 32% of all General Fund revenues. Revenues related to property taxes are affected by fluctuations in the real estate market, levels of new construction activity, and the corresponding changes to the assessed value of those properties on the tax roll. According to the Sacramento Business Review’s Annual Report, the Sacramento housing market showed signs of improvement during 2013 with increases in home prices and sales volume. The Assessor’s 2013 Annual Report highlighted several positive barometers for the City, as follows:

- City assessment roll grew 3% from FY2012/13 to FY2013/14.

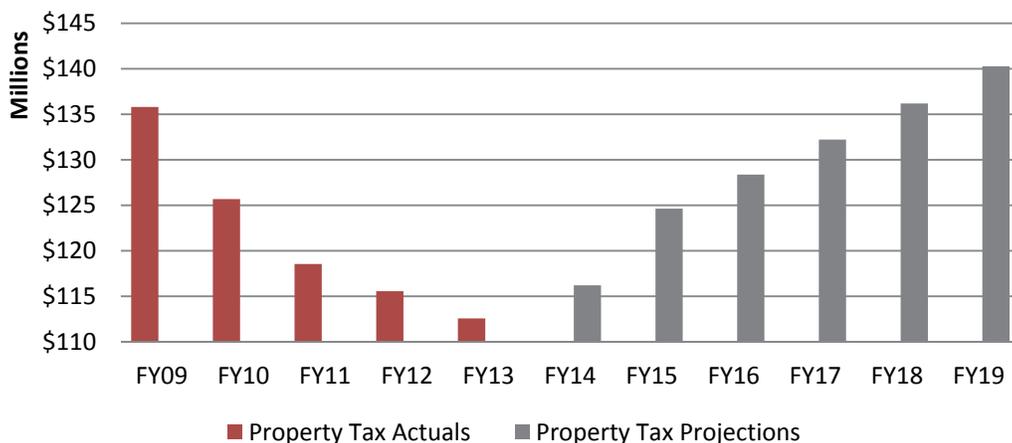
- City foreclosures dropped from 3,842 to 2,270 from 2011 to 2012, the lowest level since 2006.
- City properties with Proposition 8 (Prop 8) assessments decreased from 71,243 in FY2012/13 to 40,781 in FY2013/14.
- Countywide assessment appeal filings declined from 6,662 in FY2011/12 to 4,294 in FY2012/13.

After four consecutive years of property tax decline, assessed values within the city rebounded in FY2013/14. Additionally, properties with reduced values due to Prop 8 (temporary reduction in assessed value based on the current market) have rebounded significantly over the past year. Prop 8 requires the county assessor to annually enroll either a property’s adjusted base year value (Proposition 13 value) or its current market value, whichever is less. The Prop 8 value is the value at the time the current market value replaces the higher Proposition 13 value on the assessor’s roll. On March 7, at the request of the City, the County Assessor for the first time provided additional data allowing the City to better forecast the effect of Prop 8 actions on estimated property tax revenues. Previously this information was not available until July when the property tax roll was set by the Assessor. This information has been included in the property tax forecast.

Early indications from the Assessor are positive and there is potential that when the 2014 property tax roll closes in June, the City could see Prop 8 values increase by as much as 5-6%. However, the Assessor does not finalize property tax valuations until early July. The forecast for property tax revenues is based on the Assessor’s “work in progress” and will be re-evaluated when final information is received from the Assessor. Any significant variance will be reported as part of the Midyear budget review.

Based on the data from the Assessor and the improving economic conditions in the region, the property tax forecast for FY2014/15 is 8.6% higher (\$6.7M) than the FY2013/14 adopted budget, and estimates for FY2015/16-FY2018/19 include an annual 3% growth rate assumption as Prop 8 properties continue to be reassessed at higher values.

Property Tax Revenue



Sales Tax

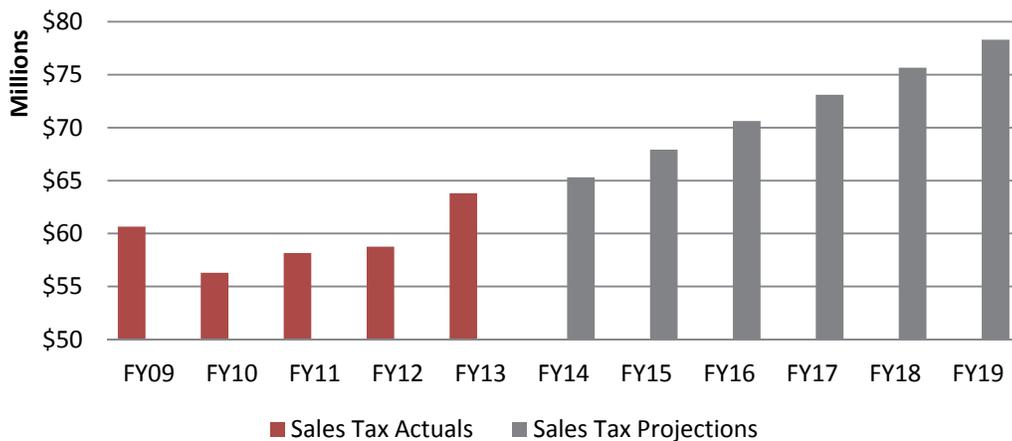
Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas the use tax is imposed on the purchase for storage, use, or other consumption of tangible

personal property within the City purchased from any retailer. Sales tax accounts for 18% of all General Fund revenue.

Over the previous four quarters, the City’s sales tax has increased by 5.6% compared to the prior four quarters. Statewide sales tax increased by 6.3% during the same period. This quarter the City has seen its highest level of sales tax receipts compared to the previous eight quarters across several economic segments including restaurants, building materials (wholesale and retail), auto sales (new and used), and apparel stores.

While construction has rebounded statewide Sacramento lags other jurisdictions, likely due to the building moratorium in the Natomas Basin. Growth in the construction segment has surpassed 10% in other jurisdictions, whereas the City is projecting just 4% growth in FY2014/15. Based on the most recent information from the City’s sales tax consultant, growth projections are currently estimated at 4% in FY2014/15 and 3-4% annually from FY2015/16-2018/19.

Sales Tax Revenue



Utility User Tax (UUT)

UUT is the City’s third largest revenue source, accounting for 15% of all General Fund revenue, and has been the most consistent revenue stream over the past five years. Below is a breakout of the five components that comprise the UUT.

Cable – This has been the most reliable component of the UUT revenue stream over the past 11 years. Cable revenue has increased by 2.3% or \$79K during the first seven months of FY2013/14 versus the same period in FY2012/13. However, at the end of 2013 there were 1.6 million fewer subscribers nationwide than in 2011, and future estimates indicate that by 2017 there will be an additional reduction in subscriptions by another 4.5 million nationwide. Even with the loss of subscribers, the industry had record revenues due to increased subscription rates. Unless there is fundamental change within the current Pay TV model, UUT revenue will begin to decline as viewers continue the exodus from cable to other forms of media.

Electricity – According to the U.S. Energy Information Administration (EIA), electricity sales during 2013 have experienced little, if any, growth. Year-to-year fluctuations in residential electricity use are driven primarily by weather patterns. Improvements in appliance and lighting efficiency have offset the

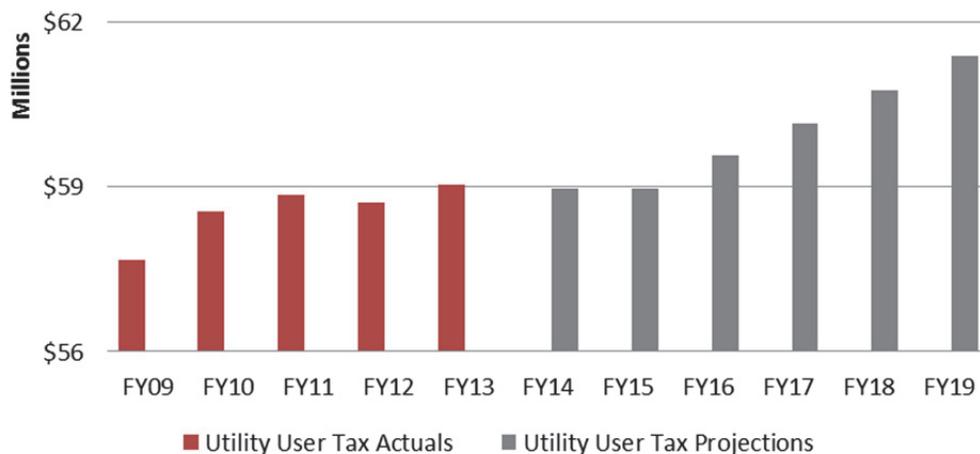
rising cost of U.S. residential electricity per kilowatt hour. During the first seven months of FY2013/14, electricity UUT revenue remains flat when compared to the same period in FY2012/13. Electricity is the largest component of UUT revenue, accounting for approximately 42% of the revenue stream.

Natural Gas – PG&E’s average rates for residential gas customers are estimated to increase in 2014 by 7.3% over last year. A typical residential customer bill based on average usage would increase by \$3.15 monthly. More than half of the increase is caused by a sharp jump in the forecast market for gas prices. The City’s UUT revenue associated with natural gas has increased 11% or \$350K during the first seven months of FY2013/14 when compared to the same period in FY2012/13.

Wired Telecommunications – As traditional wired telephone service continues to decline, the overall revenue declines from wired services are expected to be marginally offset by the addition of VoIP subscribers from cable and broadband providers. AT&T and Verizon, the two largest wired telephone providers, experienced a combined decline of 2.6% in overall wired business services revenue between 2012 and 2013. Wired UUT revenues in 2014 and into the future will be largely affected by regional and local business dynamics. After two years of declining revenues, wired UUT has increased 2.3% or \$135K during the first seven months of FY2013/14 versus the same seven-month period in FY2012/13.

Wireless Telecommunications – During the first seven months of FY2013/14, wireless UUT revenues have declined by 3.6% or \$260K versus the same period in FY2012/13. In October of 2013 wireless providers introduced unlimited international roaming plans which allow unlimited data and texting in over 100 countries with no additional activation or extra monthly fees. This is a significant change within the wireless communications industry. All major wireless providers are trying to adjust to the new revenue model, which will have an immediate effect on UUT receipts by reducing wireless services revenues subject to the UUT.

Utility User Tax Revenue



The five components of UUT revenue have seen minimal growth over the past five years as industry trends and regulations have changed. Based on actual revenues collected over the past five years, UUT is projected to remain flat at \$59 million in FY2014/15 and the annual growth projected from FY2015/16-FY2018/19 is forecast at 1% annually.

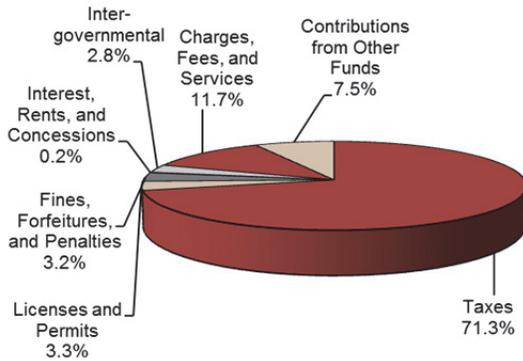
Use of Reserves

The Economic Uncertainty Reserve (EUR) is maintained in the event of significant revenue declines and/or expenditure growth and to ensure the City has adequate resources in case of an emergency or unforeseen events. At the time the FY2013/14 Budget was approved, the reserve was at \$24.4 million or 6.5% of General Fund revenues. The Council’s adopted goal is a 10% reserve balance. With the addition of \$4.2 million from FY2012/13 savings and the addition of \$400,000 included in the FY2014/15 Proposed Budget, the EUR will total \$29 million or 7.5% of General Fund revenues.

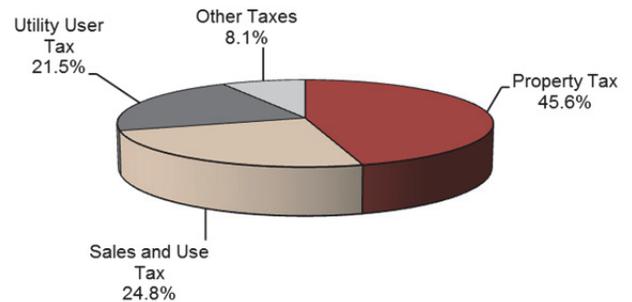
The following charts provide a summary of the FY2014/15 Proposed General Fund revenue and expenditure budgets:

**Total Proposed General Fund Budget
\$382.6 million**

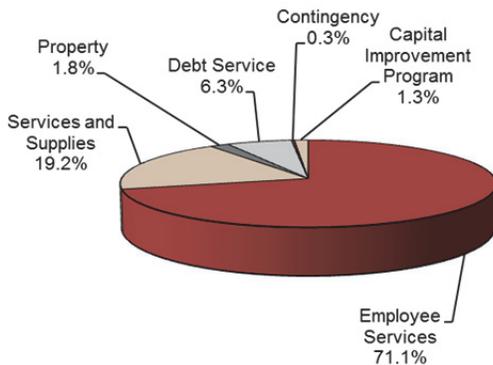
**Revenues
\$384.8 million**



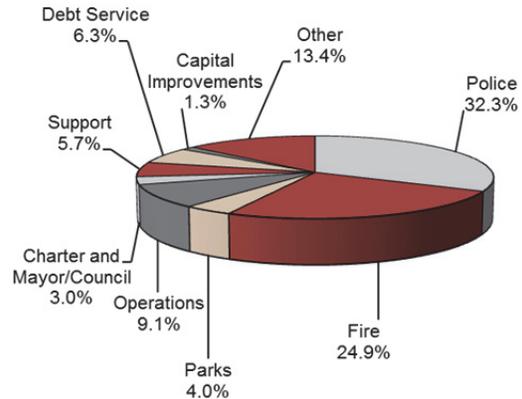
**Tax Revenues
\$274.2 million**



**Expenditures
\$382.6 million**



**Expenditures by Program
\$382.6 million**



ON THE HORIZON – FUTURE FISCAL CHALLENGES

The City faces long-term financial issues. In developing the immediate and shorter-term budgetary plans, it is also important to plan for long-term financial issues. Three key fiscal issues continue to present challenges for the City as follows:

- Rising pension costs
- Rising health care costs
- Increasing retiree medical benefit (OPEB) costs

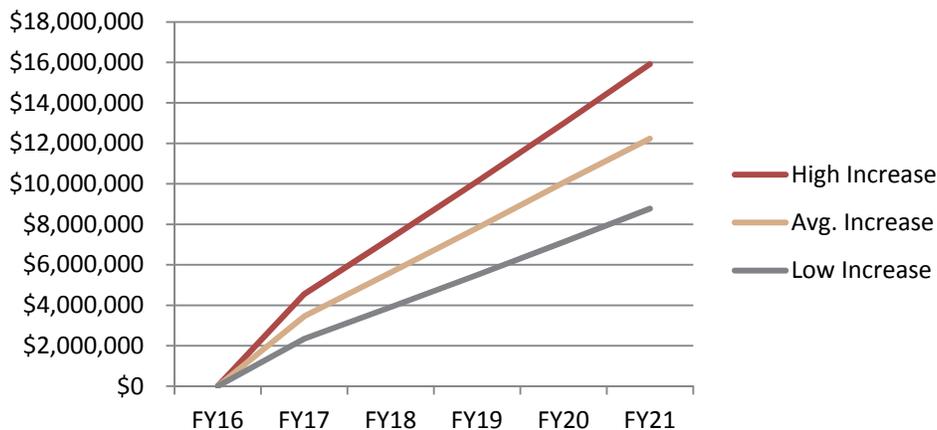
A brief summary of each issue and potential effect on the City’s finances is outlined below.

RISING PENSION COSTS

Mortality Assumption Changes

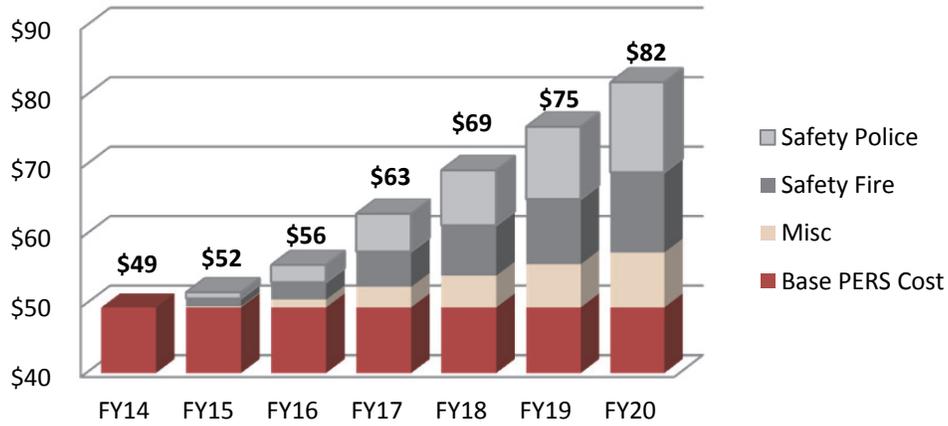
PERS recent review of actuarial assumptions confirmed that government workers, including public safety employees, are living longer. Since PERS last addressed the issue in 2010, there have been dramatic changes in life expectancy: by 2028, men retiring at age 55 are projected to live an average of 29.4 years and women 31.9 years longer. Based on these revised numbers, the PERS Board adopted the 20-year mortality projection along with 20-year amortization and a five-year phasing policy, with associated costs for local government agencies beginning in FY2016/17. The final cost for the mortality increase won’t be known until the City’s actuarial report is received from PERS in fall 2014. At this time, PERS has provided a three-tiered range for the potential impact illustrated below.

City of Sacramento Mortality Impact Range



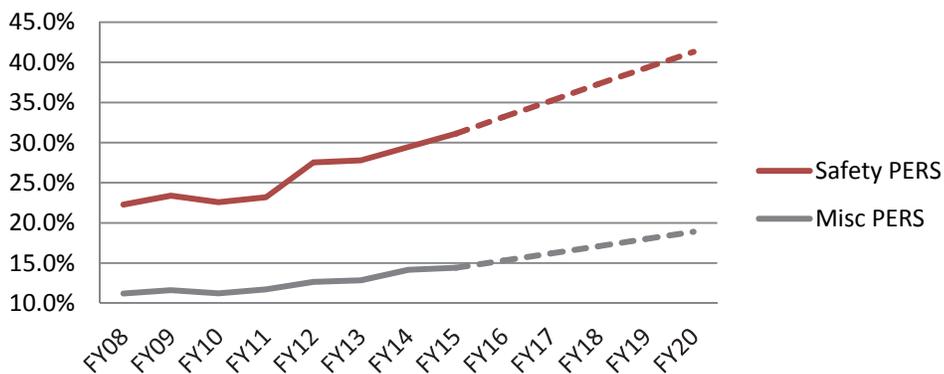
In addition to the mortality increase on PERS rates, other actions previously adopted by the Board will increase rates for the foreseeable future. The discount rate on invested funds has been permanently reduced from 7.75% to 7.5%. The Board also implemented a change in the amortization and smoothing policy that will pay for gains and losses over a fixed 30-year period, with the increases or decreases in the rate spread directly over a five-year period. The smoothing policy change will result in more volatility in normal years but a much reduced chance of very large rate increases in years when there are large investment losses. Ultimately the changes in the discount rate, smoothing policy, and the “average” assumption for mortality will result in significant increases in PERS rates affecting costs not only in the General Fund forecast but to all City funding sources as reflected below.

Approved CalPERS Increases in Pension Costs for City of Sacramento Employees (\$ in millions)



The graph below shows an eight year history of PERS rates as well as a five-year projection from the June 30, 2012, PERS Actuarial Valuation report received in October 2013. Note: the graph below **does not** include rate increases from the recently adopted mortality assumption changes. The revised estimates will be available in fall 2014.

PERS Rates (excludes Mortality Impact)



Note: Historical (solid lines) and Projections (dashed lines)

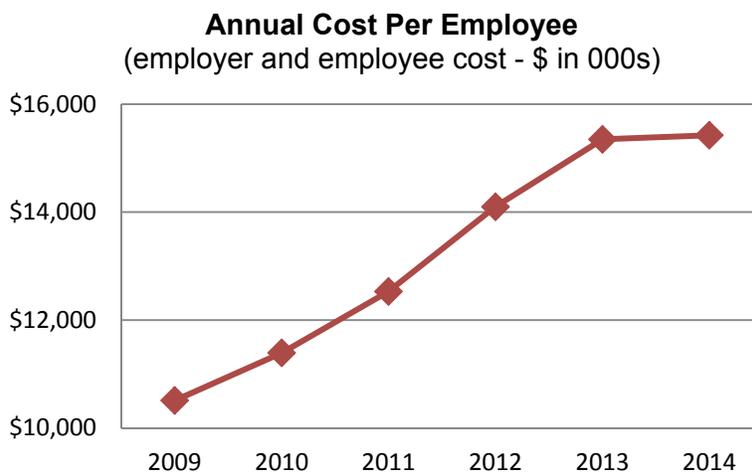
The Public Employees' Pension Reform Act of 2013 (PEPRA) established new benefits formulas for public employees in California hired after January 1, 2013. PEPRA established lower pension benefits and requirements for all new members, resulting in new members contributing at least 50 percent of the total annual normal cost of their pension benefit as determined in the annual PERS actuarial reports. Currently, the City is still paying the same rate for new employees. PERS will be providing the first actuarial reports with rates for PEPRA employees in the fall of 2014.

RISING HEALTH CARE COSTS

The cost of employee health care benefits has increased rapidly over recent years, contributing to the budgetary stress that governments are already facing as a result of escalating benefit costs in other areas such as pensions. For the City, the average cost per employee for health care has grown almost 50% since FY2008/09 as shown in the chart below (costs represent an average cost per employee).

The Government Finance Officers Association (GFOA) conducted independent research to identify the most innovative and effective strategies local governments can employ to meet the dual goals of containing costs and managing the quality of employee health care benefits. GFOA recommendations included two strategies that have been incorporated by the City. The first one is the wellness program that increases quality of life by focusing on preventative strategies such as better nutrition and fitness. The second strategy is a high deductible, or account-based health plan accompanied by a health savings account. This has the potential to reduce employer premiums and put more money into employee pockets by introducing a consumer approach into employees’ decisions about how they use their health benefit, in addition to allowing employees the opportunity to contribute premium savings into a health savings account (HSA).

In 2014 the City began offering an Account Based Health Plan (ABHP) accompanied by a HSA which allows employees to make federal tax-free contributions in order to offset eligible medical expenses. To encourage employees to participate in an ABHP, the City began offering a one-time health savings account contribution of \$2,000 to employees who switched from a traditional health plan to an ABHP. The FY2013/14 budget included \$600,000 for this contribution amount, and the incentive proved to be very successful as 524 employees enrolled in the ABHP. Another \$190,000 was provided in the FY2013/14 Midyear Budget Report as the enrollments exceeded the initial estimates. In 2014 approximately 20% of employees electing health coverage have moved to an ABHP, which has resulted in a reduction in the increases seen in prior years as reflected below.



In the continued effort to find ways to reduce employer and employee health care costs, \$300,000 has been included in the FY2014/15 Proposed Budget for employees that enroll in an ABHP for the first time in 2015. This funding will provide the same one-time contribution of \$2,000 to a HSA as was provided in 2014. The contribution is to help employees pay deductibles associated with ABHP.

Affordable Care Act (ACA)

Another driver of increased health care costs is the Affordable Care Act (ACA) signed into law on March 23, 2010. The major goal of the ACA is universal access to health care through employers, exchanges, Medicare or Medicaid, and subsidies to those who can’t afford health insurance. The biggest effect on employers is the change in definition of “full-time” employee relative to health care

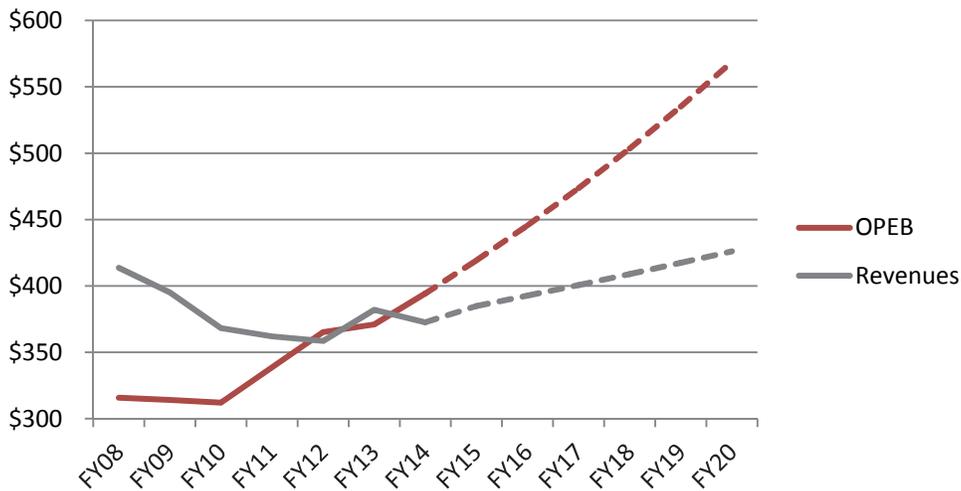
benefits from 40 hours per week to an average of 30 hours or more per week. In response, City departments are in the process of reviewing how they staff to make sure that part-time employees do not exceed 30 or more hours per week unless there is a valid business reason to do so.

The other major change is the so-called “Cadillac” tax which will be imposed on employers beginning in 2018. The tax is a 40% excise tax on employers providing coverage with a value exceeding \$10,200 for individual coverage and \$27,500 for family coverage. The City’s health care plans currently available to employees are below the “Cadillac” tax threshold today but will exceed it by 2018 based on projected health care increases. The City’s health care contracts will go out for bid for the 2015 calendar year and, based on the “Cadillac” tax, we hope lower premium plans will be offered in the marketplace.

INCREASING OPEB LIABILITY

Currently, the City has \$473 million in unfunded long-term liabilities associated with retiree medical benefits from all funding sources, \$394 million attributable to the General Fund. While the benefit is currently funded on a pay-as-you-go (pay-go) basis, paying only the actual cost of the benefit in the current fiscal year, financial accounting standards require the City to account for the benefit as if it were actuarially funded. The current unfunded liability is up from \$93 million in FY2007/08 and will continue to grow based on the continuation of pay-go as reflected below. The following graph represents the projected growth in the General Fund OPEB liability compared with the projected growth in General Fund revenues.

General Fund (GF) Revenues vs GF OPEB Liability
(\$ in millions)



Note: dashed lines are estimates based on historical growth

GFOA recommends that governments develop a plan to ensure the sustainability of OPEB they offer to their employees. This includes determining an appropriate funding approach and prefunding the obligations for OPEB. If employers make long-term investments to cover these obligations through a separate trust fund, it will result in a lower total cost for providing these benefits.

Consistent with best practices, Council authorized the establishment of a trust in September 2013 with an initial General Fund investment of \$2 million. Another \$2 million was provided for the trust in FY2013/14. The FY2014/15 budget includes a \$1 million contribution to the trust, bringing the total funding for the trust to \$5 million. The Proposed Budget Resolution includes authority to direct any

available budgetary resources in the PERS budget accounts at the end of the fiscal year, as a result of vacancies, to be appropriated to the OPEB Trust. The General Fund “pay-go” amount included in the proposed budget is \$8.6 million (\$10.2 million for all funds), an increase of 6.2% over the current year.

In addition, given the enormity of this unfunded liability and how fast it is growing, the City has been successful in eliminating this benefit for all new hires, except for Sacramento Area Firefighters, Local 522 employees.

THE ENTERPRISE FUNDS

The Utilities Enterprise Funds reflect increased expenditures necessary to sustain operational needs, replace aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the utility funds. The increase in expenditures is supported by Council-adopted rate increases for the Water and Wastewater Funds to address the increased operational and capital costs of providing utility services. The Water Fund revenue for FY2014/15 is expected to remain at FY2013/14 levels due to increased water conservation measures implemented in response to the drought. Since revenues are expected to remain steady, the increase in expenditures related to drought measures have been offset by a realignment of resources and operational efficiencies. Increased expenditures in the Community Center Fund are supported by an increase in revenues as a result of growth in the Transient Occupancy Tax (TOT), the primary source of revenues for this fund.

The following chart provides an overview of the initiatives included in the FY2014/15 Proposed Budget for the Enterprise Funds:

| Program/ Department | Description | Fund | Revenue Adjustment (000s) | Expenditure Adjustment (in 000s) | FTE |
|--|---|-----------------------------|---------------------------------|--|-------------|
| Digital Innovation/ Information Technology | Provide support for the Digital Strategy program, which will serve as the framework for how the City delivers unified and effective technology services, and the existing enterprise systems. Enterprise funding in the amount of \$298,000 has been included in FY2014/15 CIP budget for this purpose. | Enterprise Funds | - | - | - |
| Utilities | Staffing to support critical water resources master planning, asset management, water policy and continued compliance with regulatory and operational programs. | Storm Drainage/ Water | - | 709 | 5.90 |
| Utilities | Increased funding to address drought conditions including water conservation, meter replacements, and rate structure and adjustment adoption/election. | Water | - | 1,081 | - |
| Total Change: | | | - | 1,790 | 5.90 |

Operational descriptions and updates of each of the City’s Enterprise Funds are shown on the following pages, including a five-year forecast for each fund.

The chart below summarizes the status of these funds.

| Fund | Status |
|-------------------|--|
| Community Center | Revenues are projected to grow by 3.4 percent; this is primarily due to Transient Occupancy Tax (TOT) growth. Measures to reduce expenditures remain in place in order to maintain a positive fund balance and to prepare for the Community Center Theater Renovation project. |
| Parking | The fund is balanced over the five-year period based on significant reductions in the 2014-2019 Capital Improvement Program. Revenues and expenditures are projected to grow by approximately one to two percent annually. |
| Solid Waste | The five-year forecast funds current residential service programs and meets regulatory requirements with no increase to solid waste utility rates through June 30, 2015. While organizational and operational efficiencies will generate savings, the forecast also includes modest rate adjustments beginning in FY 2015/16 to meet significant operating cost increases. |
| Storm Drainage | No rate increase is included in the five-year forecast. As such, the budget continues to rely on the use of reserves and minimal funding to meet capital needs. Per Proposition 218, a voter-approved ballot measure is required to increase rates, which will be necessary in the near future to sustain operational, capital, and regulatory requirements as fund reserves will be depleted. |
| Wastewater, Water | On March 27, 2012, Council adopted increases to the wastewater and water rates for FY2012/13 through FY2014/15 in order to continue critical infrastructure repair and rehabilitation, as well as to ensure compliance with state and federal regulations. However, the water revenue projections for FY2014/15 have been reduced for increased water conservation measures implemented in response to the drought, and which may be in effect throughout FY2014/15. |

Community Center Fund (6010)

The Community Center Fund supports the operation, debt service, and CIP for the Sacramento Convention Center Complex, which includes the Convention Center, Memorial Auditorium, and Community Center Theater. The operational/financial goals for the Community Center Fund include maintaining successful financial performance as an enterprise fund, optimizing facility utilization through aggressive marketing, exceeding industry standards for customer service and facility maintenance, stimulating hotel market demand to generate transit occupancy tax (TOT) revenues, and offering a premier venue to contribute to the economic vitality of the downtown and Sacramento region.

Over two-thirds of the fund's revenues are provided by TOT. In FY2012/13, TOT grew by 4.9% over the prior year, and in the current year, FY2013/14 it is estimated to grow by 3.0%. Revenue growth has been projected at 3.4% for FY2014/15.

In 1997, to maintain the financial integrity of the Community Center Fund, the City Council approved the use of up to \$12 million in inter-fund loans, if needed, to offset any year-end deficit. Total borrowing was just over \$7.5 million. Repayment of the inter-fund loan began in FY2005/06 and an annual payment of \$250,000 will continue in FY2014/15 and beyond. Through FY2012/13, \$4.0 million in payments have been made.

The City remains committed to providing an accessible theater for the community. Funds for the renovation to the Community Center Theater are included in the 2014-2019 CIP. The Theater was built in 1974 and has not had a major renovation since its opening. In 2007, Council approved the pursuit of a project to address Americans with Disabilities Act accessibility, critical needs of the building's mechanical and electrical systems, and patron- and client-driven improvements. In 2008, the City Council approved a facility fee of \$3.00 per ticket to help fund a renovation project. The facility fee has generated nearly \$4.0 million to date. The fund balance projections included in the forecast do not include the potential debt obligation for the project.

Community Center Fund (Fund 6010)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

| | Proposed | | | | |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
| REVENUES | | | | | |
| Transient Occupancy Tax | 17,661 | 18,191 | 18,737 | 19,299 | 19,878 |
| User Fees | 6,863 | 7,144 | 7,358 | 7,653 | 7,920 |
| Interest | 375 | 425 | 475 | 550 | 625 |
| Other (Facility Fee) | 706 | 750 | 800 | 800 | 850 |
| TOTAL REVENUES | 25,605 | 26,510 | 27,370 | 28,302 | 29,273 |
| EXPENDITURES | | | | | |
| Operating - Employee Services | 6,155 | 6,340 | 6,530 | 6,791 | 7,063 |
| Operating - Other | 8,065 | 8,504 | 8,754 | 9,011 | 9,311 |
| Debt Service | 8,206 | 8,194 | 8,191 | 8,179 | 8,179 |
| Capital Improvements | 1,727 | 1,550 | 1,300 | 1,300 | 1,350 |
| TOTAL EXPENDITURES | 24,153 | 24,588 | 24,775 | 25,281 | 25,903 |
| CURRENT SURPLUS/(DEFICIT) | 1,452 | 1,922 | 2,595 | 3,021 | 3,370 |
| Other Source/(Use) | (250) | (400) | (400) | (400) | (400) |
| Beginning Fund Balance | 2,897 | 4,099 | 5,621 | 7,816 | 10,437 |
| ENDING FUND BALANCE | 4,099 | 5,621 | 7,816 | 10,437 | 13,407 |

Parking Fund (Fund 6004)

The City of Sacramento operates nine parking garages and eleven surface parking lots for a total of over 10,000 parking spaces in the downtown core. These include surface parking lots that are managed for the County of Sacramento and Inland American Real Estate Trust. The Parking Services Division also manages over 65,000 square feet of retail space within the various City parking structures.

Parking fee revenues are projected to increase one percent for FY2014/15 compared to FY2013/14 budget. Revenue is expected to increase one to two percent, depending on the garage location, annually thereafter. Rental income is based on current and anticipated leases with no rate increases included in this forecast. Operating expenses, primarily labor, are projected to grow at approximately two percent annually.

**Parking Fund (Fund 6004)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands**

| | Proposed FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
|----------------------------------|-------------------------------|------------------|------------------|------------------|------------------|
| REVENUES | | | | | |
| Parking Fees | 16,389 | 16,528 | 16,636 | 16,744 | 16,854 |
| Interest (Operating Funds) | 600 | 600 | 600 | 600 | 600 |
| Real Property Rental | 894 | 1,022 | 1,032 | 1,043 | 1,053 |
| TOTAL REVENUES | 17,883 | 18,150 | 18,268 | 18,387 | 18,507 |
| EXPENDITURES | | | | | |
| Employee Services | 4,589 | 4,726 | 4,868 | 5,014 | 5,165 |
| Other Services & Supplies | 6,245 | 6,339 | 6,434 | 6,531 | 6,631 |
| Operating Transfer Out/In | 1,882 | 1,896 | 1,907 | 1,918 | 1,929 |
| Debt Service | 5,874 | 5,868 | 5,864 | 5,859 | 5,855 |
| Capital Improvements | (721) | (664) | (664) | (664) | (664) |
| TOTAL EXPENDITURES | 17,869 | 18,165 | 18,409 | 18,658 | 18,916 |
| CURRENT SURPLUS/(DEFICIT) | 14 | (15) | (141) | (271) | (409) |
| Beginning Fund Balance | 5,033 | 5,047 | 5,032 | 4,891 | 4,620 |
| ENDING FUND BALANCE | 5,047 | 5,032 | 4,891 | 4,620 | 4,211 |

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Solid Waste Fund (Fund 6007)

The Solid Waste Fund is financially responsible for the activities of collecting garbage, recyclables and yard waste, sweeping streets, removing illegal dumping, post-closure monitoring of landfills, and waste reduction education. Issues facing the Solid Waste Fund include:

- Keeping solid waste utility rates flat through June 30, 2015
- Reducing the number of employee accidents and injuries through the implementation of a robust safety and training program
- Implementing a comprehensive strategy to mitigate citywide illegal dumping that includes improvements to collection, enforcement, reward, and education programs
- Upgrading the 28th Street Landfill gas recovery system to address increased regulatory oversight and offset the foreseeable decline of methane gas quality as the landfill ages
- Increasing the City’s compliance with state-mandated diversion goals by exploring new waste reduction opportunities, such as the Pilot Food Scraps Program

Costs for items vital to providing solid waste services and complying with regulatory mandates continue to rise. The most significant cost increases are in-region disposal fees, fleet fuel, post-closure activities of landfills, and container replacements. While costs in many areas are rising, the Recycling and Solid Waste Division (RSWD) will experience labor savings by modifying daily route collection practices and adjusting the schedules of some staff. Additionally, RSWD will generate fleet savings by replacing aging refuse trucks with lower cost, cleaner burning compressed natural gas vehicles in accordance with the division’s seven-year replacement cycle.

The following chart provides a five-year budget forecast for the Solid Waste Fund to address anticipated cost increases, organizational and operational changes, and meet regulatory requirements, and includes the following assumptions:

- Continue to fund existing residential service programs in FY2014/15 with no change to the solid waste utility rate
- Implement organizational and operational changes through a realignment of existing staffing duties and assignments
- Provide resources for the replacement of aging refuse trucks and refuse containers through budgeted replacement dollars
- Fund necessary upgrades and ongoing post-closure costs at the 28th Street Landfill with budgeted multi-year resources

Solid Waste Fund (Fund 6007)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

| | Proposed | | | | |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
| REVENUES | | | | | |
| Charges, Fees, and/or Services | 57,931 | 61,986 | 65,085 | 67,689 | 70,396 |
| Other | 115 | 115 | 115 | 115 | 115 |
| TOTAL REVENUES | 58,046 | 62,101 | 65,200 | 67,804 | 70,511 |
| EXPENDITURES | | | | | |
| Operating - Employee Services | 15,078 | 16,498 | 17,193 | 17,917 | 18,672 |
| Operating - Other | 32,605 | 35,001 | 36,480 | 38,091 | 39,712 |
| Debt Service | 4,126 | 3,788 | 3,784 | 2,685 | 2,403 |
| Multi-Year Operating Projects | 7,645 | 7,695 | 7,745 | 7,745 | 7,745 |
| Capital Improvements | 1,533 | 1,489 | 1,515 | 1,515 | 1,515 |
| TOTAL EXPENDITURES | 60,987 | 64,471 | 66,717 | 67,953 | 70,047 |
| CURRENT SURPLUS/(DEFICIT) | (2,941) | (2,370) | (1,517) | (149) | 464 |
| Beginning Fund Balance | 17,274 | 14,333 | 11,963 | 10,446 | 10,297 |
| ENDING FUND BALANCE | 14,333 | 11,963 | 10,446 | 10,297 | 10,761 |

Storm Drainage Fund (Fund 6011)

Revenue generated for the purpose of providing storm drainage services is deposited in the Storm Drainage Fund. Revenues are derived primarily from customer service fees and interest earnings. Storm Drainage Fund revenues cover the cost of storm drainage operations for pumping stations, wet weather treatment and storage, collection system maintenance, related engineering services, flood plain management, customer service and billing, education programs, water quality monitoring, innovative “green” infrastructure programs, regulatory compliance, and a capital improvement program. Fund expenditures are divided among operating costs, debt service, and capital improvement and multi-year operating projects. Challenges facing the Storm Drainage Fund include the following:

- Declining reserves, as the existing revenue is not sufficient to cover current operating and capital expenses
- Upgrading drainage service to areas outside of the City’s Combined Sewer System (CSS) to meet citywide standards
- Improving drainage system reliability and contributing to the combined wastewater system repair, rehabilitation, and improvements
- Maintaining state and federal regulatory compliance, e.g., National Pollution Discharge Elimination System (NPDES), and supporting regional flood control efforts
- Implementing low impact development standards, green infrastructure, and the River Friendly Program to further minimize urban runoff, conserve water, and preserve resources

The following chart provides a five-year forecast, which includes the following assumptions:

- No rate increases with continued use of fund reserves. However, as stated above, expenditures continue to exceed revenues and the fund is projected to be in a deficit position in the near-term. Per Proposition 218, a voter-approved ballot measure is required to increase storm drainage rates.
- While the department expects to achieve savings in major cost drivers such as fuel, electricity, and chemicals in FY2014/15, the five-year forecast also includes increases in these costs each year thereafter. This assumption is based on historical trends and past performance of the various indices used to project utility cost growth.

As there have been no rate increases since 1996, the capital program has been severely curtailed creating a significant backlog of repair and rehabilitation projects. A rate increase is necessary to address aging infrastructure.

**Storm Drainage Fund (Fund 6011)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands**

| | Proposed FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
|---|-------------------------------|------------------|------------------|------------------|------------------|
| REVENUES | | | | | |
| Charges, Fees, and/or Services ¹ | 35,767 | 36,482 | 37,212 | 37,956 | 38,715 |
| Interest | 422 | 422 | 422 | 422 | 422 |
| Other (Intergovernmental) | 106 | 109 | 112 | 116 | 119 |
| TOTAL REVENUES | 36,295 | 37,014 | 37,746 | 38,494 | 39,257 |
| EXPENDITURES | | | | | |
| Operating - Employee Services | 23,141 | 23,430 | 24,671 | 25,979 | 27,356 |
| Operating - Other | 7,720 | 8,149 | 8,337 | 8,466 | 8,596 |
| Debt Service | 3,661 | 3,664 | 3,664 | 3,662 | 3,537 |
| Multi-Year Operating Projects | 3,088 | 3,159 | 3,341 | 3,441 | 3,545 |
| Capital Improvements | 297 | 250 | 250 | 250 | 250 |
| TOTAL EXPENDITURES | 37,907 | 38,653 | 40,263 | 41,799 | 43,284 |
| CURRENT SURPLUS/(DEFICIT) | (1,612) | (1,639) | (2,517) | (3,305) | (4,027) |
| Beginning Fund Balance | 16,979 | 15,367 | 13,728 | 11,211 | 7,906 |
| ENDING FUND BALANCE | 15,367 | 13,728 | 11,211 | 7,906 | 3,879 |

¹Voter approval is required for rate adjustments to the Storm Drainage Fund. Nominal growth is expected in the latter part of the five-year forecast.

Wastewater Fund (Fund 6006)

Revenue generated for the purpose of providing wastewater collection service is deposited in the Wastewater Fund. Revenues are derived from customer service fees, recovery of Sacramento Regional County Sanitation District (SRCSD)-related operation and maintenance costs paid for by the fund, interest earnings, and connection charges. Wastewater Fund revenues cover the cost of wastewater collection and maintenance, storage and treatment of wet weather combined sewage, installation of new services, operation of sanitary pumping stations, related engineering services, customer service and billing, and the monitoring of discharge into the wastewater collection system. Fund expenditures are generally divided among operating costs, debt service, capital improvement, and multi-year operating projects.

As the City prepares for the renewal of the NPDES permit for the CSS and continues its innovative water quality programs under the Municipal Stormwater NPDES permit, both “green infrastructure” and the River Friendly Program will continue to become much more prominent features. Green infrastructure strives to prevent and reduce stormwater pollution, flooding, and water use through water management practices that more closely mimic the natural water cycle than typical “grey” infrastructure (pipes, pumps, etc.). Green infrastructure, when used in conjunction with grey infrastructure can be both cost effective and more community friendly. Examples of green infrastructure to be implemented will include conjunctive use storage projects, turf replacement programs, rain barrels, and enhanced water conservation measures. The River Friendly Program will help promote certain aspects of green infrastructure through grants and rebates.

The City-operated wastewater collection system consists of a combined wastewater system and a separated wastewater system that, together, serve approximately 60% of the city, primarily the northeastern, central, and southern sections of the city. The SRCSD is the wastewater collection system provider for the other areas of the city. While the City is responsible for limited treatment of its combined wastewater, it partners with SRCSD to treat the majority of the city’s wastewater. The City provides SRCSD with billing and collection services for properties within the service area in which wastewater collection is provided by the City.

The Wastewater Fund presents unique challenges due to the system’s growth potential and the age and nature of the system’s infrastructure. On March 27, 2012, Council approved increases to the wastewater rates for FY2012/13 through FY2014/15. Issues facing the Wastewater Fund include:

- Compliance with state and federal regulations, including state-mandated rehabilitation of the central city. The CSS collects wastewater from homes and businesses, as well as storm water and urban runoff.
- Increased costs associated with the California Sportfishing Protection Alliance Consent Decree to ensure minimization of wastewater overflows.
- Continued rehabilitation of the City’s separated wastewater service area. A separated wastewater system collects wastewater from homes and businesses and does not collect storm water.
- Incorporating growth of new wastewater services and the increasing costs for repair and reconstruction of the aging system.
- Maintaining the financial strength of the fund for the purpose of raising sufficient capital to finance rehabilitation of the CSS.

The following chart provides a five-year forecast for the Wastewater Fund to address anticipated cost increases and meet regulatory requirements, and includes the following assumption:

- Use of bond financing secured in FY2012/13 to finance CSS improvements and other wastewater repair and rehabilitation projects. The rate increases adopted for FY2012/13 through FY2014/15 will allow the City to invest in mandated system improvements as required, as well as make progress towards reaching a reasonable replacement schedule for aging pipes.

While the FY2014/15 budget includes expected savings in major cost drivers such as fuel, electricity, and chemicals, the forecast reflects increases in these costs each year thereafter. This assumption is based on historical trends and past performance of the various indices used to project utility cost growth.

Wastewater Fund (Fund 6006)
Revenue and Expenditure Five-Year Forecast
 Dollars in Thousands

| | Proposed | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
| REVENUES | | | | | |
| Charges, Fees, and/or Services ¹ | 30,440 | 33,983 | 37,722 | 41,871 | 42,708 |
| Interest | 392 | 392 | 392 | 392 | 392 |
| Other (Intergovernmental) | 738 | 760 | 783 | 806 | 831 |
| TOTAL REVENUES | 31,570 | 35,135 | 38,897 | 43,069 | 43,931 |
| EXPENDITURES | | | | | |
| Operating - Employee Services | 8,112 | 8,524 | 8,976 | 9,451 | 9,952 |
| Operating - Other | 13,663 | 14,721 | 15,720 | 16,750 | 17,865 |
| Debt Service ² | 2,327 | 2,881 | 2,881 | 5,270 | 6,819 |
| Multi-Year Operating Projects | 5,624 | 7,432 | 7,833 | 8,068 | 8,310 |
| Capital Improvements | 1,232 | 51,247 | 5,000 | 7,750 | 5,750 |
| TOTAL EXPENDITURES | 30,959 | 84,805 | 40,410 | 47,289 | 48,696 |
| CURRENT SURPLUS/(DEFICIT) | 611 | (49,670) | (1,513) | (4,220) | (4,765) |
| Other Source/(Use) ² | - | 48,000 | - | - | - |
| Beginning Fund Balance | 15,836 | 16,447 | 14,777 | 13,264 | 9,044 |
| ENDING FUND BALANCE | 16,447 | 14,777 | 13,264 | 9,044 | 4,279 |

¹City Council approved 16%, 15%, and 14% rate increases for FY2012/13, FY2013/14, and FY2014/15 respectively.

²The Department of Utilities is proposing to issue bonds as part of its financing plan.

Water Fund (Fund 6005)

Revenue generated for the purpose of providing water service is deposited in the Water Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs of providing water service to customers. Services include water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service and billing, the City-County Office of Metropolitan Water Planning, and capital improvements. Fund expenditures are summarized and reflected as operating costs, debt service, capital improvement costs, and multi-year operating projects.

The Water Fund faces significant challenges over the next five years. On March 27, 2012, Council adopted increases to the water rates for FY2012/13 through FY2014/15 to begin to address these challenges. Key issues for the Water Fund over the next five years include the following:

- Ongoing replacement and maintenance of aging infrastructure to provide safe and reliable drinking water to the community and meet state and federal standards.
- Continued implementation of the Residential Water Meter Installation Program in compliance with the state mandates requiring full meter installation by 2025 and 20% water conservation by the year 2020.
- Maintaining state and federal regulatory compliance.
- Continued implementation of an aggressive water conservation program consistent with the Water Forum Agreement, integrating actions necessary for providing a regional solution to water shortages, environmental damage, and groundwater contamination.
- Support of regional, long-term water supply planning.
- Development of wholesale and wheeling agreements in support of effective regional water management.
- Meeting future debt service requirements related to the rehabilitation and improvement of intake structures and treatment plants.
- Costs for items that are vital to the collection, purification, and delivery of water, and to meet levels of service, continue to rise at rates exceeding general inflationary costs. The most significant cost increases are for chemicals, electricity, sludge dewatering, and replacement and maintenance of water meters.
- Implementation of components of the Water Conservation Plan, including the River Friendly Turf Replacement Program (cash for grass).

Bond financing obtained in FY2012/13 to finance the water treatment facility rehabilitation and other infrastructure projects will help smooth rate increases necessary to implement these projects. The rate adjustments adopted for FY2012/13 through FY2014/15 will allow the City to invest in one of its most critical assets, our water treatment plants, as well as make progress towards reaching a reasonable replacement schedule for aging pipes and the installation of water meters. However, revenue projections for FY2014/15 have been reduced to reflect the effect of water conservation measures implemented in FY2013/14 in response to the drought, and are expected to continue throughout FY2014/15.

The chart below provides a five-year forecast for the Water Fund to address anticipated cost increases and meet regulatory requirements.

Water Fund (Fund 6005)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

| | Proposed | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| | FY2014/15 | FY2015/16 | FY2016/17 | FY2017/18 | FY2018/19 |
| REVENUES | | | | | |
| Charges, Fees, and/or Services ¹ | 95,012 | 113,753 | 124,287 | 135,801 | 138,517 |
| Interest | 400 | 400 | 400 | 400 | 400 |
| Other (Intergovernmental) | 946 | 974 | 1,004 | 1,034 | 1,065 |
| TOTAL REVENUES | 96,358 | 115,127 | 125,691 | 137,235 | 139,982 |
| EXPENDITURES | | | | | |
| Operating - Employee Services | 24,509 | 26,006 | 27,385 | 28,836 | 30,364 |
| Operating - Other | 31,713 | 34,194 | 36,218 | 38,310 | 40,556 |
| Debt Service ² | 27,133 | 27,199 | 40,219 | 43,422 | 43,410 |
| Multi-Year Operating Projects | 2,769 | 2,791 | 2,874 | 2,961 | 3,049 |
| Capital Improvements | 10,101 | 235,500 | 9,000 | 15,975 | 26,000 |
| TOTAL EXPENDITURES | 96,225 | 325,689 | 115,696 | 129,504 | 143,379 |
| CURRENT SURPLUS/(DEFICIT) | 133 | (210,562) | 9,995 | 7,731 | (3,397) |
| Other Source/(Use) ² | - | 216,000 | - | - | - |
| Beginning Fund Balance | 39,001 | 39,134 | 44,572 | 54,567 | 62,298 |
| ENDING FUND BALANCE | 39,134 | 44,572 | 54,567 | 62,298 | 58,901 |

¹City Council approved 10% rate increases for FY2012/13, FY2013/14, and FY2014/15.

²The Department of Utilities is proposing to issue bonds as part of its financing plan.