

3

SECTION – 3 The Forecast

REVISED GENERAL FUND FORECAST

The FY2015/16 Proposed Operating Budget and 5-year General Fund forecast included estimates for pending labor agreements. Following adoption of the budget, agreements were reached with the Sacramento City Exempt Employee Association and the Western Council of Engineers. The General Fund forecast as reflected below has been updated to reflect costs associated with these agreements that exceed the original estimates.

5-YEAR GENERAL FUND FORECAST

\$ in 000s	FY16	FY17	FY18	FY19	FY20	FY21
Beginning Fund Balance	11,234	6,956				
Total Revenues/Other Sources	400,451	407,726	415,558	423,883	432,458	441,295
Total Expenditures	396,112	414,522	426,134	432,548	438,502	441,910
Priority Budget Initiatives (<i>one-time costs</i>)	8,038	-	-	-	-	-
FY2015/16 Approved Budget Balance	7,535	160	(10,576)	(8,665)	(6,044)	(615)
Labor Contract Adjustment	579	1,998	2,564	3,280	3,280	3,280
Projected Fund Balance	6,956	(1,838)	(13,140)	(11,945)	(9,324)	(3,895)

PROPOSED FINANCIAL FORECAST
(As written on May 1, 2015)

Financial Forecast

The purpose of financial forecasting is to evaluate current and future fiscal trends and conditions to help guide policy and programmatic decisions. A financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This will help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services. This section includes five-year forecasts for the General Fund, Measure U and Enterprise Funds. These tools enable improved decision-making and maintaining essential community services.

General Fund

Ongoing General Fund expenditures are expected to be below projected revenues in the Budget year. This positive balance is the result of growth in major tax revenues, specifically property tax and sales tax, and the return of funds previously directed to the Utility Rate Assistance Program which are above the funding level necessary to fully implement the program.

In addition, the Budget includes significant one-time expenditures to address priority needs. Resources identified to fund these one-time expenditures include previously identified one-time funding from the close of FY2013/14 (\$4.8 million) and unspent funds previously allocated to the Utility Rate Assistance Program (\$6.4 million) in prior fiscal years. Unfortunately, the City's expenditures are forecast to once again outpace revenues beginning in FY2016/17. The largest portion of the budget is tied to the cost of employees. With the known cost of funding approved labor contracts coupled with increases associated with pension benefits required by PERS, shortfalls are anticipated in out-years. Below is a year-by-year projection:

\$ in 000s	FY16	FY17	FY18	FY19	FY20	FY21
Beginning Fund Balance	11,234					
Total Revenues/Other Sources	400,571	407,846	415,678	424,003	432,578	441,415
Total Expenditures	395,712	414,143	425,772	432,205	438,178	441,598
Priority Budget Initiatives <i>(one-time costs)</i>	8,038	-	-	-	-	-
Surplus/(Deficit)	8,055	(6,297)	(10,094)	(8,202)	(5,600)	(183)

Additional detail on the five-year forecast is provided in the Five-Year General Fund Forecast section below.

The Proposed Budget is balanced and includes funding for new initiatives, one-time funding to address unfunded liabilities, and the use of Measure U resources to maintain and fund additional public safety and parks and recreation positions.

The Five-Year General Fund Forecast

Given the Council’s sustainable budget policy, proposed fiscal actions are evaluated in a longer-term, rather than a short-term, context. The Five-Year Forecast is an essential tool in the City’s long-range financial planning process. Changes in economic conditions and anticipated future costs are all components of the long-range forecasting process. 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.

The five-year forecast is updated at Midyear and again during the budget development process. The model used to develop the forecast relies on detailed assumptions related to both revenues and expenditures, distinguishing between ongoing and one-time costs to further refine the estimates. The gap between revenues and expenditures has been closed in the short-term, the result of higher than estimated property tax revenues, retention of unused Enterprise Fund General Tax revenues previously allocated to the Utility Rate Assistance Program, and the use of available and estimated one-time resources.

The gap between revenues and expenditures persists over the term of the forecast, the result of increased base expenditure growth, specifically salaries and associated pension costs, which cannot be closed with estimated revenue growth. The following table depicts the current five-year forecast following the loss of Measure U revenues in FY2018/19 and the Measure U reserve in FY2019/20:

\$ in 000s	FY16	FY17	FY18	FY19	FY20	FY21
Beginning Fund Balance	11,234	8,055	1,758	(8,336)	(16,538)	(22,691)
Total Revenues/Other Sources	400,571	407,846	415,678	424,003	432,578	441,415
Total Expenditures	395,712	414,143	425,772	432,205	438,178	441,598
Current Surplus/(Deficit)	4,859	(6,297)	(10,094)	(8,202)	(5,600)	(183)
Priority Budget Initiatives <i>(one-time costs)</i>	8,038	-	-	-	-	-
Ending Fund Balance	8,055	1,758	(8,336)	(16,538)	(22,138)	(22,874)
Loss of Measure U / Measure U Reserve	-	-	-	-	(553)	(43,359)
Ending Fund Balance w/Loss of Measure U	8,055	1,758	(8,336)	(16,538)	(22,691)	(66,233)

In addition, as noted earlier, while costs of current labor contracts have been included in the forecast, with the exception of \$3.2 million included in the Citywide and Community Support

Department, no additional funding for future labor agreements has been included over the term of the forecast.

General Fund Expenditures

Total General Fund expenditures are increasing by \$20.6 million or 5.4 percent over the current year. Of this amount \$8.5 million is due to one-time additions. Ongoing expenditure growth projected over the forecast period reflects the terms of the current labor contracts relative to salaries, no increases in health care contributions except for Local 39 employees, required employee step increases and anticipated growth related to PERS-required pension cost increases.

The largest expenditure increase in the forecast is related to employee services, specifically the City’s cost of approved labor contracts and the City’s required pension contributions to PERS. The FY2019/20 contribution is expected to be \$18.7 million higher than FY2015/16 and as salaries grow, this cost will continue to grow beyond current estimates. Staff is continuing to evaluate the impacts of pension reform on growth estimates and will revise the forecast when PERS provides rates inclusive of pension changes for new employees.

Even with Measure U resources to assist with the restoration of previously grant-funded public safety positions, the City will continue to struggle 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 continues to grow across most revenue sources. The two major drivers of the City’s improved economic condition continue to be property and sales tax growth. The following charts provide the five-year forecast and assumptions used in forecasting General Fund revenues.

Revenue Source	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Property Tax ¹	125,103	131,612	135,273	139,303	143,453	147,727
Sales Tax	67,918	70,634	73,107	75,665	78,314	81,055
Utility User Tax	58,982	59,572	60,168	60,769	61,377	61,991
Other Revenue/Other Sources	133,211	138,753	139,297	139,941	140,859	141,805
Total General Fund Revenue	385,214	400,571	407,846	415,678	424,003	432,578

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.

Revenue Source	% of Total General Fund Revenues	FY16 Growth	FY17-FY20 Average Growth
Property Tax	33%	5.0%	3.0%
Sales Tax	18%	4.0%	3.5%
Utility Users Tax	15%	1.0%	1.0%
Other Revenue	34%	3.0%	1.0%
Total General Fund	100%	3.7%	2.0%

Schedule 6 located in the Budget Schedules section provides detail of each of the revenue categories by source. A detailed explanation, including the current indicators guiding the development of the forecast for the three major revenue sources, is included below.

Property Tax

Property taxes account for 33% 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 regional housing market was “lackluster” in 2014 with a decline in sales and a modest increase in the median sale price. However, as the unemployment rate continues to drop, coupled with new programs that provide first-time home buyers the ability to purchase a home with as little as 3% down, the outlook for FY2015/16 is optimistic. The Sacramento County Assessor’s 2014 Annual Report and additional resources highlighted several positive barometers for the City as follows:

- Assessed value of properties in the City grew 6% from FY2013/14 to FY2014/15.
- Number of City parcels increased from 152,584 in FY2013/14 to 152,866 in FY2014/15.
- City properties with Proposition 8 assessments (temporary reduction in property taxes due) decreased from 38,115 in April 2014 to 23,314 in March 2015, a 38.8% decrease.
- Assessment appeals declined countywide from 4,294 in FY2012/13 to 2,729 in FY2013/14, a 36.4% decrease.

The long-term forecast for the City’s secured property taxes continues to be positive with the addition of the Entertainment and Sports Center downtown, lifting of the building moratorium in North Natomas and numerous other development projects underway or in the planning stages throughout the city. However, this optimism must be tempered by the reality of the “project to property tax timeline” as the City will not see a permanent change in property tax revenues until the project is completed and the new assessed value included on the Assessor’s roll. At the time a project is completed and the property is sold or reassessed the City will receive one-time property transfer tax and one-time supplemental tax, but the full value of the property may not be included in the secured property tax roll for two years from the completion of the project (depending on the completion date).

Example of Project to Property Tax Timeline

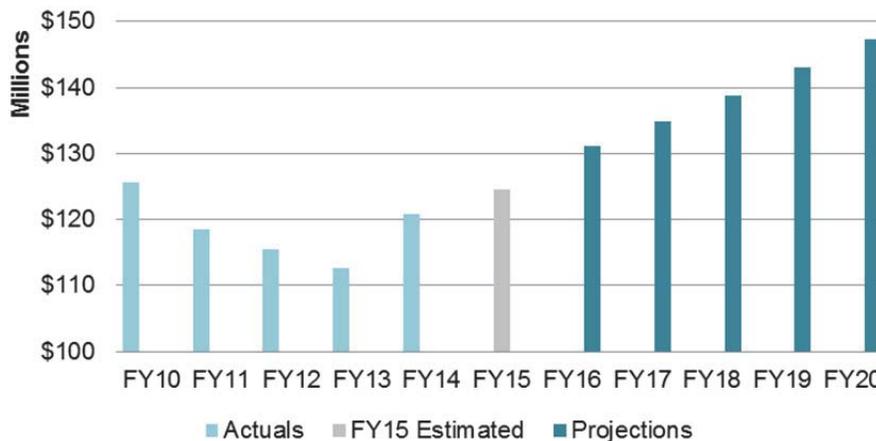
Date	Development Timeline
4/1/2015	Residential/commercial building permit application submitted to City
6/16/2015	Permit issued (earliest possible date for North Natomas)
6/16/2015	Break ground
7/1/2016	Construction completed (sold to occupant)

Fiscal Year	County Assessor Timeline
FY2016/17	Supplemental taxes (if any) due for new construction/change in ownership.
FY2016/17	Transfer tax paid on sale to new purchases.
FY2017/18	New Prop 13 base value set due to new construction/change in ownership
FY2018/19	Prop 13 value is escalated by annual inflation factor.

Early indications from the Assessor are positive and there is potential that when the 2015 property tax valuations are finalized in early July the City will continue to see Prop 8 values increase. As such, 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 in July. Any significant variance will be reported as part of the FY2015/16 Midyear Review.

Based on the data from the Assessor and the improving economy in the region, the property tax forecast for FY2015/16 is 5.0% higher (\$6.7 million) than the FY2014/15 budget, and estimates for FY2016/17-FY2019/20 include annual growth of 3% assuming the application of the full 2% Proposition 13 growth factor and that Prop 8 properties will continue to be reassessed at higher values.

Property Tax Revenue



Sales Tax

The statewide Bradley-Burns Uniform Sales and Use 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 purchased from any retailer within the city. Sales tax accounts for 18% of all General Fund revenue. The City receives only 1 cent of every 8.5 cents paid per dollar sale in Sacramento. As such, substantial growth in new sales is required to affect the forecast.

	New Sales	City Sales Tax
\$	100,000	\$ 1,000
\$	1,000,000	\$ 10,000
\$	10,000,000	\$ 100,000
\$	100,000,000	\$ 1,000,000

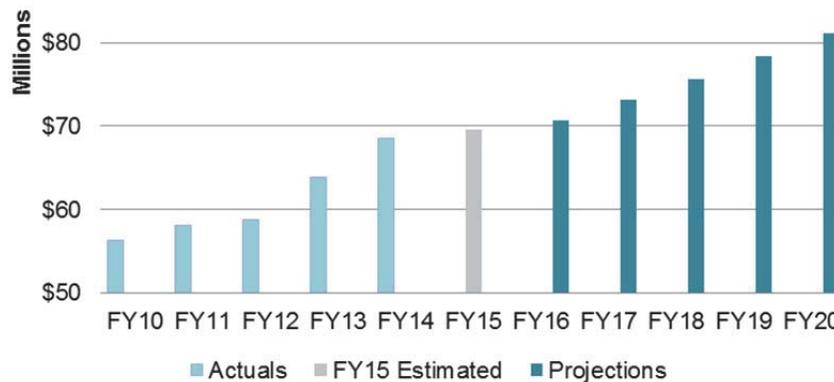
Over the last four quarters (calendar year 2014), the City’s sales tax has increased 2.7% compared to calendar year 2013. Statewide sales tax increased by 4.5% during the same period. The most current quarter (October through December 2014) the City has seen its highest level of sales tax receipts compared to the previous eight quarters across several economic segments including restaurants, miscellaneous retail, food markets and apparel stores.

The following chart displays the makeup of the City’s sales tax revenues by economic category for calendar year 2014.

Sales Tax by Economic Category	%
General Retail	27.4%
Food Products	21.7%
Transportation	20.6%
Business-to-Business	16.1%
Construction	11.9%
Miscellaneous	2.3%

Growth in the construction sector, hit hard by the economic downturn, is expected to pick up with the lifting of the building moratorium in North Natomas. New housing construction will be limited to 1,000 single family homes and 500 multifamily homes during the first twelve months. The Entertainment and Sports Center will also increase growth in the construction sector in FY2015/16, and we anticipate continued growth in all other sectors in FY2016/17 and beyond. Based on the most recent information from the City’s sales tax consultant, growth projections are currently estimated at 4% in FY2015/16 and 3-4% annually from FY2016/17-20.

Sales Tax Revenue



An update on the City's Measure U transaction and use tax is included in the Measure U Forecast Section of this document.

Utility User Tax (UUT)

UUT is the City's third largest revenue source, accounting for 15% of all General Fund revenue. It 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 Subscriptions – This has been the most reliable component of the UUT revenue stream over the past 12 years. While consumer complaints continue to escalate about the price of pay-tv subscriptions, which often exceed \$100 per month, persons dropping the subscription service altogether has not affected revenue to this point. Moving to less expensive bundles has so far not made a significant dent in service provider revenues, but pay-tv providers are beginning to realize that they cannot continue to raise prices without incurring consequences. Cable revenue has increased by 4.6% or \$263,000 during the first seven months of FY2014/15 versus the same period in FY2013/14.

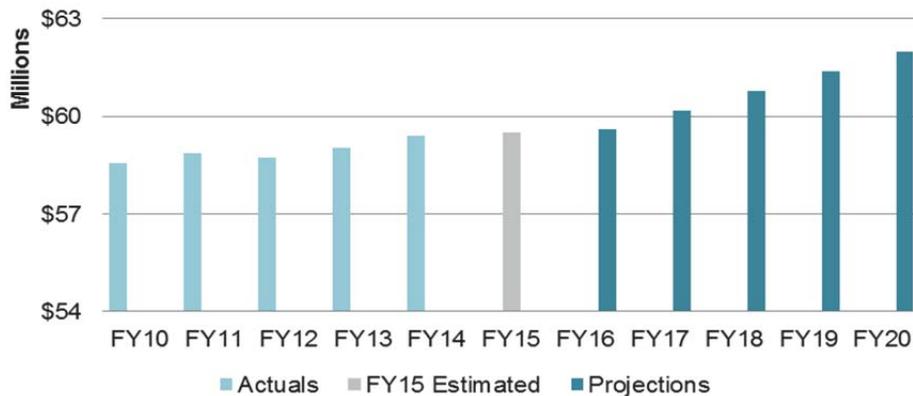
Electricity –The US Energy Information Administration (EIA) projects relatively flat residential sales during 2015. Consumption of electricity in the commercial and industrial sectors is expected to grow by an estimated 0.4% and 2.1%, respectively, in 2015. The EIA projects average residential electricity prices to grow at 1.7%. During the first seven months of FY2014/15, the City's electricity UUT revenue increased by 1.5% compared to the same period in FY2013/14. Electricity is the largest component of UUT revenue, accounting for approximately 45% of the revenue stream.

Natural Gas – California imports about 85% of its natural gas and so the severity of weather elsewhere affects the cost of supplies for local users. The EIA expects total natural gas consumption to be flat as continued industrial sector growth and higher electric power sector consumption offset lower residential and commercial consumption. The City's UUT revenue associated with natural gas represents 10% of the total and has remained relatively flat over the past five years.

Wired Telecommunications – UUT revenues from wired telecommunication services will continue to decline for the foreseeable future. Recent reports indicate that by the end of 2015, the portion of households at the national level using only wireless phones for voice services is projected to surpass 50%. Due to newly discounted wireless rates, wired subscribers will have an additional incentive to "cut the cord" which will continue the decline of landline services. Wired revenue decreased by 2.5% in FY2013/14 when compared to FY2012/13.

Wireless Telecommunications – Wireless UUT revenue will continue to be under downward pressure until 2016 when the Local Prepaid Mobile Telephony Service Collection Act, a portion of California Assembly Bill 1717, becomes effective. At that time, cities and counties with an applicable UUT ordinance will be able to collect UUT on prepaid wireless. Potential increases in UUT revenue from other wireless sources are limited because: (1) the market is virtually saturated and new subscribers are difficult to find, (2) increasing subscription rates is very difficult with T-Mobile and Sprint cutting rates by 50%, and (3) subscribers are increasingly opting for prepaid rate plans which generally cost less than postpaid plans. During the first seven months of FY2014/15, wireless UUT revenues have declined by 10.1% or \$695,000 versus the same period in FY2013/14.

Utility User Tax Revenue



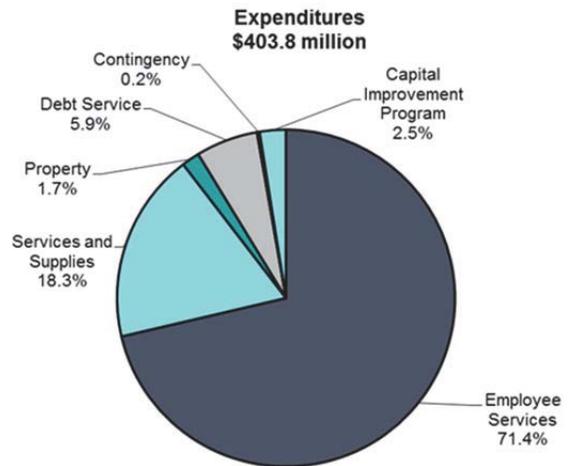
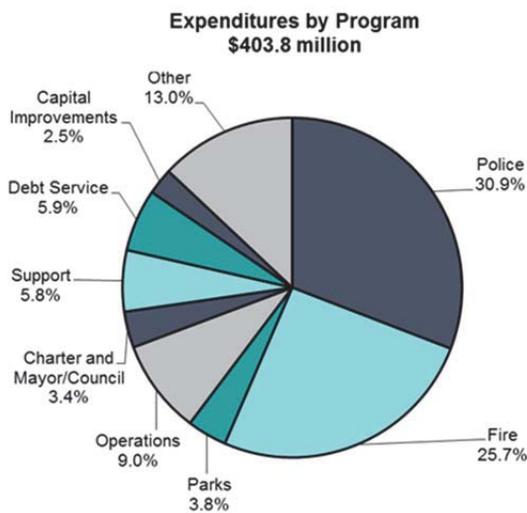
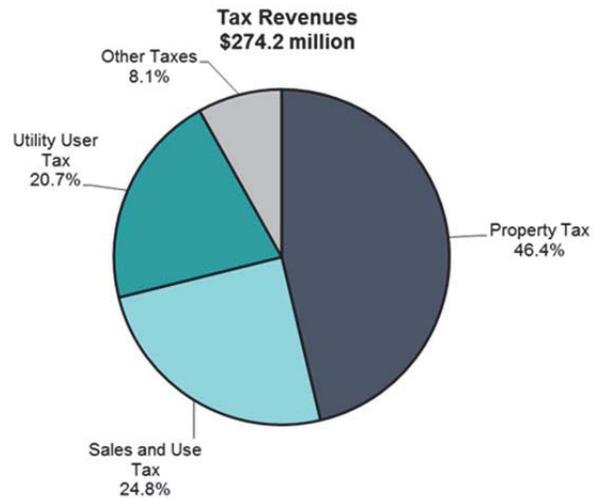
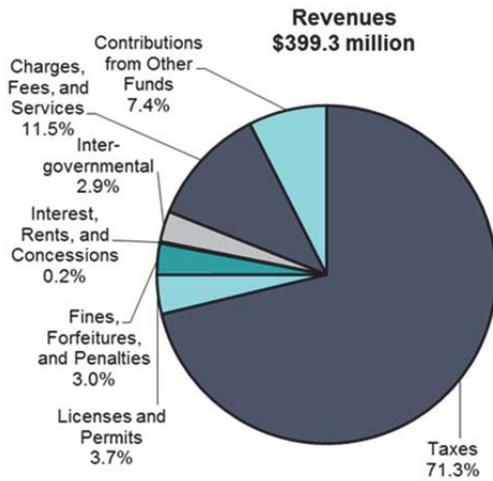
The five components of UUT revenue have seen minimal growth cumulatively over the past few years as industry trends and regulations have changed. Based on actual revenues collected over the past five years, UUT is projected to grow by 1% in FY2015/16 with annual growth projected from FY2016/17-20 forecast at 1% annually.

Use of Reserves

The Economic Uncertainty Reserve (EUR) is maintained in the event of significant revenue declines and/or emergencies or unforeseen events. At the time the FY2014/15 Budget was approved, the reserve was at \$28.8 million or 7.5% of General Fund revenues. The Council's adopted goal is a 10% reserve balance. With the addition of \$4.9 million from FY2013/14 year-end results and \$400,000 included in the FY2014/15 Approved Budget, the EUR will total \$34.1 million or 8.5% of General Fund revenues.

The following charts provide a summary of the FY2015/16 Proposed General Fund revenue and expenditure budgets:

**Total Proposed General Fund Budget
\$403.8 million**



Measure U Fund

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of a six-year one-half cent transaction and use tax effective April 1, 2013, which expires on March 31, 2019. A one-year reserve has been established to provide contingency funding to address unanticipated revenue changes and financing for a transition period when Measure U is no longer available, providing funding for programs through the end of FY2019/20.

Until such time as General Fund revenues grow to a level sufficient to back-fill the loss of Measure U revenues, or the additional tax is extended beyond its current expiration date, ongoing reliance on these temporary resources will create an enormous burden on the General Fund when the tax expires in 2019.

The Measure U forecast has been updated to reflect the following:

- FY15 – budget as approved by Council to date
- FY16 – proposed budget including the addition of 46.79 FTE
- FY17-20 – forecast assumes:
 - 4% annual revenue growth
 - 4% on average projected labor cost growth

Measure U Revenues and Expenditures (in 000s)	FY15	FY16	FY17	FY18	FY19	FY20	FY21
BEGINNING FUND BALANCE	21,500	32,746	32,912	39,432	46,281	41,138	(553)
Revenues	41,509	42,046	43,798	45,610	35,619	0	0
Expenditures							
Fire Department	12,154	14,618	10,803	11,043	11,290	11,545	12,007
Police Department	12,351	17,064	18,304	19,316	20,834	21,265	22,115
Parks and Recreation Department	5,018	9,516	7,484	7,708	7,940	8,178	8,505
Miscellaneous	740	682	687	693	698	704	732
Total Measure U Restorations	30,263	41,880	37,278	38,760	40,762	41,691	43,359
ENDING FUND BALANCE	\$32,746	\$32,912	\$39,432	\$46,281	\$41,138	(\$553)	(43,912)

Revenues: Substantial economic growth coupled with the introduction of an internet sales tax and a capture rate that far outpaces that of the majority of other city transaction and use taxes has resulted in higher revenues than were initially estimated for Measure U. Based on the most recent four quarters of receipts, annual revenues of \$42 million for FY2015/16 are estimated, with FY2018/19 reflecting the expiration of the tax in March of 2019.

Programs and Services: The Proposed Budget includes \$41.9 million in Measure U resources to fund the restoration of programs and services in the Fire, Police, Parks and Recreation, and General Services departments as well as to the Sacramento Public Library Authority (\$35.6 million) and funding for the replacement of fire stations (\$4.05 million) and increased funding for park maintenance (\$2.25 million).

Proposed Measure U expenditures reflect the annual cost of programs and services as previously approved by City Council, with the following additions:

FY2015/16 Approved Budget

Department	Description	Revenue/ Offset Adjustment	Expenditure Adjustment	Net Cost	FTE Change
Parks and Recreation	Increase staffing for community centers, summer programs for children, and teen services (Hot Spots) to address the increased demand for services.	35,000	667,729	632,729	4.50
Parks and Recreation	Increase staffing to maintain 2012 service levels as 13 new parks and park enhancements totaling 44 acres have been added since that time, and to address oversight and management of crews responsible for homeless camp clean ups.	-	763,303	763,303	7.00
Parks and Recreation	Right-size positions in several operations to reflect programmatic changes, address labor increases, and budget for benefits related to the implementation of the Affordable Care Act (ACA).	-	861,870	861,870	15.29
Park Maintenance	Funding for the maintenance and operation of the Clunie Community Center and McKinley Park Rose Garden.	-	25,000	25,000	-
Police	Funding for 15 unmarked vehicles for two night investigation teams as outlined in the FY14 CHP Grant.	-	375,000	375,000	0.00
Police	Funding for a one-day biased based policing training course and to increase the overtime budget to restore services until Measure U vacancies can be filled.	-	521,000	521,000	0.00
Police	The City received \$1.9 million for 15.0 Police Officer positions. The grant funds up to \$125,000 per position over the three-year grant period. Additional costs over the \$125,000 per position must be funded through local resources.	-	545,000	545,000	0.00
Police	Pipeline Hiring Plan - add positions (9.5 Student Trainees, 5.0 Reserve CSOs, and 8.0 Limited Term CSOs) to help transition young adults from the Criminal Justice Magnet Academy and Cadet Programs into law enforcement. This restoration will increase the department's efforts to increase diversity.	82,500	1,082,500	1,000,000	22.50
	Total Operating	117,500	4,841,402	4,723,902	49.29
Fire	Fire Station Replacement Program (F13000800) - design and construction funding for the replacement of two fire stations (Stations 14 and 15).	-	4,048,000	4,048,000	-
Parks and Recreation	Measure U Park Maintenance Improvements (L19706000) - to address deferred maintenance projects (irrigation, furnishings, restrooms, sidewalks, etc.) for the City's park system.	-	2,000,000	2,000,000	-
Parks and Recreation	Citywide Pool Assessment Program (L19706500) - to address aging aquatic infrastructure and develop a plan of action to address identified needs based on priority.	-	250,000	250,000	-
	Total Capital Improvement Program	-	6,298,000	6,298,000	-
	Total Additional Measure U	\$ 117,500	\$11,139,402	11,021,902	49.29

A summary and chart of Measure U programs and services is provided below with additional detail available in the department sections of the budget and in the Public Safety and Parks and Recreation sections of the 2015-2020 CIP.

- Fire – \$14.6 million** provides the department resources to staff all companies and retain positions associated with the Staffing for Adequate Fire and Emergency Response (SAFER) grant. The implementation of the two additional medic units approved in FY2013/14 to be deployed with non-sworn, single-role medics has been delayed while the department confers with the employee union. The funding also provides the restoration of resources for the coordination of fire prevention services as well as department administrative staff for daily field operations support. Funding for the replacement of functionally obsolete fire stations (Station 14 in the Central City and Station 15 in South Natomas) is included in the Proposed Capital Improvement Program (CIP) budget.

- **Police – \$17.1 million** includes the addition of match/retention/vehicle costs associated with 15 additional grant-funded positions approved by the City Council on November 24, 2014, (Resolution 2014-0382) as well as funding for the Hiring Pipeline Program and Fair and Impartial Policing training. The 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 – \$9.5 million** provides the department resources to continue the restoration of park maintenance operations, while adding 44 acres of new parks completed since Measure U was approved, the operation of eleven City swimming pools and five stand-alone wading pools (repair of Cabrillo Pool is underway), the extension of hours and programs at the City’s community centers for youth and older adults, and grant management and coordination of services related to youth gang prevention.

Additional funding has been included in the budget to respond to strong demand for Measure U funded programs to improve oversight and cleanliness at various community centers; to sufficiently provide for safe activities, healthy snacks, and security at existing teen “Hot Spot” sites, and to properly align staffing in various recreation programs to address the Affordable Care Act, benefit qualification and program restorations.

Further, \$2.25 million is included in the Proposed Capital Improvement Program for Parks and Recreation to address water sprinkler sidewalk, furnishing and playground repair needs in priority neighborhoods, to resurface Clunie Pool prior to summer 2016, and to fund a citywide assessment and prioritization of pool infrastructure needs as most of the City’s pools are over 40 years old.

- **General Services – \$176,000** 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).

FY2015/16 Approved Budget

Measure U Revenues and Expenditures (in 000s)	Existing FTE	FY16 Proposed FTE	Total FTE	FY15	FY16	FY17	FY18	FY19	FY20
BEGINNING FUND BALANCE				21,500	32,746	32,912	39,432	46,281	41,138
REVENUES				41,509	42,046	43,798	45,610	35,619	-
EXPENDITURES									
Fire Department									
SAFER Grant Retention	27.00	-	27.00	2,803	2,803	2,803	2,803	2,803	2,803
Fire Company Restorations	48.00	-	48.00	7,044	6,384	6,576	6,773	6,976	7,185
Two Medic Units - January 2014 <i>(partially offset by \$1.2 million in new revenues)</i>	12.00	-	12.00	457	492	507	522	538	554
Technology	4.00	-	4.00	437	456	470	484	498	513
Fiscal Support	2.00	-	2.00	169	192	198	204	210	216
Fire Prevention	1.00	-	1.00	140	147	151	156	161	165
Human Resources	1.00	-	1.00	94	96	99	102	105	108
Recruit Academy	-	-	-	560	-	-	-	-	-
Capital Investment	-	-	-	450	4,048	-	-	-	-
Fire Subtotal	95.00	-	95.00	12,154	14,618	10,803	11,043	11,290	11,545
Police Department									
COPS Hiring Program Match and Retention (CHP and CHRP)	60.00	-	60.00	4,862	5,483	5,483	5,483	5,483	5,483
COPS Hiring Program (CHP Match and Retention FY13 (New in FY15))	10.00	-	10.00	557	653	843	960	1,409	1,451
COPS Hiring Program (CHP) Match and Retention FY14 and 15 vehicles in FY16	15.00	-	15.00	-	920	1,094	1,361	2,072	2,134
Field & Operations <i>(12.0 new FTE in FY15)</i>	61.00	-	61.00	4,075	6,316	7,564	8,087	8,404	8,656
Overtime	-	-	-	1,105	511	-	-	-	-
Investigations <i>(2.0 new FTE in FY15)</i>	8.00	-	8.00	556	1,201	1,254	1,283	1,292	1,331
Forensics	6.00	-	6.00	512	567	614	636	646	665
Communications	4.00	-	4.00	317	311	355	408	429	442
Crime Analysis	1.00	-	1.00	96	92	97	98	99	102
Hiring Pipeline	-	22.50	22.50	-	1,000	1,000	1,000	1,000	1,000
Fair & Impartial Policing Training	-	-	-	-	10	-	-	-	-
Capital Investment	-	-	-	271	-	-	-	-	-
Police Subtotal	165.00	22.50	187.50	12,351	17,064	18,304	19,316	20,834	21,265
Public Safety Total	260.00	22.50	282.50	24,505	31,682	29,107	30,359	32,124	32,809
Parks and Recreation Department									
Aquatics	34.00	-	34.00	1,732	1,764	1,817	1,871	1,928	1,985
Community Centers	18.30	3.50	21.80	832	1,104	1,137	1,171	1,206	1,243
Park Maintenance <i>(includes Park Ranger)</i>	22.00	7.00	29.00	1,766	2,527	2,603	2,681	2,761	2,844
Senior Programs	1.50	-	1.50	194	172	177	182	188	194
Teen Services <i>(Hot Spots/Summer at City Hall)</i>	4.15	-	4.15	311	390	402	414	426	439
Gang Prevention	1.00	-	1.00	100	100	103	106	109	113
Recreation	-	16.29	16.29	-	1,209	1,245	1,283	1,321	1,361
Capital Investment	-	-	-	83	2,250	-	-	-	-
Parks and Recreation Subtotal	80.95	26.79	107.74	5,018	9,516	7,484	7,708	7,940	8,178
MISCELLANEOUS RESTORATIONS									
Animal Control Officer	2.00	-	2.00	227	176	181	187	192	198
Capital Investment - Animal Control	-	-	-	7	-	-	-	-	-
Library Restoration	-	-	-	506	506	506	506	506	506
Miscellaneous Subtotal	2.00	-	2.00	740	682	687	693	698	704
Total Measure U Restorations	342.95	49.29	392.24	30,263	41,880	37,278	38,760	40,762	41,691
ENDING FUND BALANCE			-	\$32,746	\$32,912	\$39,432	\$46,281	\$41,138	(553)

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 funds. Water Fund revenue for FY2015/16 is expected to remain at FY2014/15 levels due to increased water conservation measures implemented in response to the drought. With revenues expected to remain flat, the increase in expenditures related to the enactment of drought measures has been offset by a realignment of resources and the implementation of 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 FY2015/16 Proposed Budget for the Enterprise Funds:

Department	Description	Fund	Revenue/ Offset Change	Expenditure Change	Net Cost	FTE Change
Convention & Cultural Services	Increased staffing and operating expenditures to meet the needs of the Convention Center, fund an energy audit, transition Old Sacramento to a new management structure, and cover increased operating costs at the Crocker Art Museum.	Community Center	398,450	398,450	-	1.34
General Services	Increased staffing to address increased regulatory compliance and to address the citywide illegal dumping problem.	Solid Waste	449,767	449,767	-	5.00
Utilities	Increased budget and staffing for Proposition 218 rate proposals, increased security measures, and additional capital project work.	Storm Drainage	412,365	1,128,021	715,656	7.00
Utilities	Increased budget and staffing for drought related activities, accelerated water meter program, and operational needs on weekends.	Water	573,009	1,253,072	680,063	6.50
Total Change			\$ 1,833,591	\$ 3,229,310	\$1,395,719	19.84

Additional information on each of these initiatives can be found in the related department sections. 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 the Enterprise Funds.

Fund	Status
Community Center	Revenues are projected to grow by three percent, primarily due to Transient Occupancy Tax growth. Expenditures are continually monitored to ensure prudent use of resources and a healthy fund balance.
Parking	The fund is balanced over the five-year period based on significant reductions in the 2015-2020 Capital Improvement Program. Revenues and expenditures are projected to grow by approximately one to two percent annually.
Solid Waste	The five-year revenue forecast will fund current residential service programs and meets regulatory requirements. While organizational and operational efficiencies will generate savings, the forecast includes modest rate adjustments already approved by the City Council beginning in FY2015/16 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 to balance. 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	No rate increase is included in the five-year forecast. The Department is reviewing rate adjustments so that there are sufficient resources to continue critical infrastructure repair and rehabilitation, as well as to ensure compliance with state and federal regulations.

The following charts provide a snapshot of the five-year forecast for each of the Enterprise Funds. Additional information for each of the forecasts can be found on the following pages.

Community Center Fund

Dollars in Thousands	Proposed FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Beginning Fund Balance	4,180	4,332	4,811	7,974	11,670
Revenue	27,775	28,679	29,626	30,613	31,644
Expenditures	25,373	25,950	26,213	26,667	27,247
Other Source/(Use)	(2,250)	(2,250)	(250)	(250)	(250)
Ending Fund Balance	4,332	4,811	7,974	11,670	15,817

Parking Fund

Dollars in Thousands	Proposed FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Beginning Fund Balance	8,303	5,566	5,066	4,778	4,429
Revenue	16,981	17,511	17,922	18,081	18,241
Expenditures	19,718	18,011	18,210	18,430	18,657
Ending Fund Balance	5,566	5,066	4,778	4,429	4,013

Solid Waste Fund

Dollars in Thousands	Proposed FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Beginning Fund Balance	19,590	15,411	14,151	14,804	15,358
Revenue	59,777	62,190	64,701	66,008	67,340
Expenditures	63,956	63,450	64,048	65,454	67,307
Ending Fund Balance	15,411	14,151	14,804	15,358	15,391

Storm Drainage Fund

Dollars in Thousands	Proposed FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Beginning Fund Balance	17,906	16,388	14,830	12,968	10,909
Revenue	36,080	36,793	37,521	38,263	39,020
Expenditures	37,598	38,351	39,383	40,322	41,417
Ending Fund Balance	16,388	14,830	12,968	10,909	8,512

Wastewater Fund

Dollars in Thousands	Proposed FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Beginning Fund Balance	16,305	6,778	4,315	2,141	(800)
Revenue	31,595	31,595	31,595	31,595	31,595
Expenditures	41,122	34,058	33,769	34,536	34,771
Ending Fund Balance	6,778	4,315	2,141	(800)	(3,976)

Water Fund

Dollars in Thousands	Proposed FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Beginning Fund Balance	41,047	24,445	28,052	31,753	36,540
Revenue	96,591	98,512	100,471	102,469	104,508
Expenditures	113,193	94,905	96,770	97,682	99,656
Ending Fund Balance	24,445	28,052	31,753	36,540	41,392

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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 TOT revenues

Over two-thirds of the fund's revenues are provided by TOT. In FY2013/14, TOT grew by 8% over the prior year. In the current year, it is estimated to grow by 5%. Revenue growth has been projected at 3% for FY2015/16 and over the term of the forecast.

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 from the Risk Fund, if needed, to offset any year-end deficit. Total borrowing was \$10.4 million, including interest. Repayment of the inter-fund loan began in FY2005/06 and has continued each year. An annual payment of \$250,000 is budgeted in FY2015/16 with payments continuing at this level in future years. Through FY2014/15, \$4.2 million in payments have been made leaving a remaining balance of \$6.2 million. The fund is reviewed annually to determine the appropriate level of loan repayment. In FY2013/14 the Community Center Fund began making contributions, \$2 million per year for three years, to the Entertainment and Sports Center (ESC) liquidity reserve. Future loan repayment and contributions to the ESC will limit additional expenditure growth.

The Community Center Theater was built in 1974 and has not had a major renovation since. In 2008, the City Council approved a facility fee of \$3.00 per ticket to help fund a renovation project. The facility fee is projected to generate over \$4.5 million by the end of FY2014/15. These funds are included in the 2015-2020 CIP.

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

	FY2015/16 Proposed	FY2016/17 Estimate	FY2017/18 Estimate	FY2018/19 Estimate	FY2019/20 Estimate
BEGINNING FUND BALANCE	4,180	4,332	4,811	7,974	11,670
Revenues					
Transient Occupancy Tax	19,490	20,071	20,673	21,293	21,932
User Fees	7,135	7,358	7,653	7,920	8,237
Interest	400	450	500	550	625
Other (Facility Fee)	750	800	800	850	850
 Total Revenues	27,775	28,679	29,626	30,613	31,644
Expenditures					
Operating - Employee Services	6,736	6,811	7,083	7,367	7,661
Operating - Other	8,324	8,923	9,176	9,456	9,752
Debt Service	8,194	8,191	8,179	8,169	8,159
Capital Improvements	2,119	2,025	1,775	1,675	1,675
 Total Expenditures	25,373	25,950	26,213	26,667	27,247
SURPLUS/DEFICIT	2,402	2,729	3,413	3,946	4,397
Other Source/(Use)	(250)	(250)	(250)	(250)	(250)
ESC Liquidity	(2,000)	(2,000)	0	0	0
ENDING FUND BALANCE	4,332	4,811	7,974	11,670	15,817

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Parking Fund (Fund 6004)

The City operates nine parking garages and seventeen 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 several private owners. 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 2% for FY2015/16 compared to FY2014/15 budget. Revenue is expected to increase 3% in FY16/17, 2% in FY17/18 and 1% annually thereafter. Rental income is based on current and anticipated leases with no rate increases included in this forecast. Expenses are projected to grow less than 1% in FY2015/16, decreasing the following year due to a reduction in inter-fund support, then increasing at approximately 1% annually due to escalating labor costs. Beginning in FY2015/16 the Parking Fund will begin making annual contributions to the Entertainment and Sports Center (ESC) liquidity reserve with estimated payments in the amount of \$3.7 million over the next five years.

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

	FY2015/16 Proposed	FY2016/17 Estimate	FY2017/18 Estimate	FY2018/19 Estimate	FY2019/20 Estimate
BEGINNING FUND BALANCE	8,303	5,566	5,067	4,779	4,430
Revenues					
Parking Fees	15,316	15,796	16,201	16,353	16,507
Administrative Fees	475	480	480	480	480
Interest (Operating Funds)	600	600	600	600	600
Real Property Rental	590	635	641	648	654
Total Revenues	16,981	17,511	17,922	18,081	18,241
Expenditures					
Employee Services	4,843	4,802	4,922	5,046	5,172
Other Services & Supplies	4,250	4,234	4,314	4,396	4,479
Operating Transfer Out/In	3,096	3,150	3,190	3,205	3,221
Debt Service	7,201	5,883	5,859	5,234	4,612
Other Uses/CIP	328	(58)	(75)	549	1,173
Total Expenditures	19,718	18,011	18,210	18,430	18,657
SURPLUS/DEFICIT	(2,737)	(500)	(288)	(349)	(416)
ENDING FUND BALANCE	5,566	5,067	4,779	4,430	4,014

In addition to the off-street parking operations the City also has on-street parking operations. The revenues from on-street parking are included in the General Fund forecast. On-street parking revenues are anticipated to grow by \$29 million as a result of the ESC, \$21 million of this growth will be used to fund the required liquidity reserve.

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:

- Increasing operational efficiency and accountability, and eliminating unnecessary costs.
- Creating a “safety-first” culture that reduces the number of accidents and injuries, and lost work-time through the Recycling and Solid Waste Division’s (RSWD) robust safety and training program.
- Mitigating citywide illegal dumping and litter issues by enhancing collection programs, enforcement, rewards, and education.
- Upgrading the 28th Street Landfill gas recovery system to address increased regulatory requirements and offset the foreseeable decline of methane gas quality as the landfill ages.

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, labor agreements, fleet fuel, and post-closure activities of City-owned landfills. While costs in many areas are rising, RSWD will continue to evaluate opportunities to increase efficiencies and reduce costs, including modifications to daily route collection practices and schedules of some staff. Additionally, RSWD will generate fleet savings by replacing aging refuse trucks with lower-cost, cleaner-burning compressed and liquefied 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:

- Implement City Council approved three-year utility rate adjustment for recycling and solid waste services beginning in FY 2015/16 as follows:

Service Type	FY2015/16	FY2016/17	FY2017/18
Garbage	2.90%	2.00%	2.00%
Recycling	6.00%	4.20%	4.15%
Yard Waste	2.00%	1.00%	1.00%
Street Sweeping	0.00%	0.00%	0.00%
Overall	3.00%	2.00%	2.00%

- Provide staffing to address increased regulatory compliance related to landfills and food waste diversion requirements.
- Address anticipated development growth in North Natomas, the Railyards, and Delta Shores.

- Fund additional staffing to provide enhanced litter abatement and illegal dumping eradication citywide.
- Provide resources for the replacement of aging refuse trucks and refuse containers.
- Fund necessary upgrades, new and ongoing post-closure costs at City-owned landfills with budgeted multi-year resources.

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

	FY2015/16 Proposed	FY2016/17 Estimate	FY2017/18 Estimate	FY2018/19 Estimate	FY2019/20 Estimate
BEGINNING FUND BALANCE	19,590	15,411	14,152	14,805	15,358
Revenues					
Charges, Fees, and/or Services	59,738	62,151	64,662	65,969	67,301
Other	39	39	39	39	39
Total Revenues	59,777	62,190	64,701	66,008	67,340
Expenditures					
Operating - Employee Services	16,159	16,711	17,212	17,728	18,260
Operating - Other	38,914	39,303	40,496	41,951	43,310
Debt Service	3,794	3,790	2,694	2,129	2,091
Multi-Year Operating Projects	2,081	2,131	2,131	2,131	2,131
Capital Improvements	3,008	1,515	1,515	1,515	1,515
Total Expenditures	63,956	63,450	64,048	65,454	67,307
SURPLUS/DEFICIT	(4,179)	(1,259)	653	553	33
ENDING FUND BALANCE	15,411	14,152	14,805	15,358	15,391

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 to further minimize urban runoff, conserve water, and preserve resources.

Unlike the water and wastewater utilities, any rate adjustments for the storm drainage utility are subject to voter approval. Storm drainage user charges have not been increased since 1996, prior to the implementation of Proposition 218. For this reason, revenue collection has not kept pace with storm drainage system costs, and the utility has been historically underfunded. The City has delayed repair and replacement of critical infrastructure in order to bridge these funding shortfalls. To begin the process of addressing the backlog, the City is working closely with the community and the Utilities Rate Advisory Commission since early 2014 to develop a Storm Drainage Infrastructure Program and Financing Plan.

The following chart provides a five-year forecast, which assumes no rate adjustments and 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.

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

	FY2015/16 Proposed	FY2016/17 Estimate	FY2017/18 Estimate	FY2018/19 Estimate	FY2019/20 Estimate
BEGINNING FUND BALANCE	17,906	16,388	14,831	12,968	10,909
Revenues					
Charges, Fees, and/or Services	35,633	36,346	37,073	37,814	38,570
Interest	422	422	422	422	422
Other (Intergovernmental)	25	26	27	27	28
Total Revenues	36,080	36,793	37,521	38,263	39,020
Expenditures					
Operating - Employee Services	25,220	25,977	26,756	27,559	28,385
Operating - Other	6,487	6,682	6,882	7,089	7,301
Debt Service	3,662	3,664	3,662	3,537	3,536
Multi-Year Operating Projects	1,344	1,779	1,833	1,888	1,944
Capital Improvements	885	250	250	250	250
Total Expenditures	37,598	38,351	39,383	40,322	41,416
SURPLUS/DEFICIT	(1,518)	(1,557)	(1,862)	(2,059)	(2,396)
ENDING FUND BALANCE	16,388	14,831	12,968	10,909	8,513

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 continues its innovative water quality programs under the Municipal Stormwater NPDES permit, “green infrastructure” will continue to become much more prominent. Green infrastructure prevents and reduces 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 include conjunctive use storage projects, turf replacement programs, rain barrels, and enhanced water conservation measures.

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. Issues facing the Wastewater Fund include:

- Compliance with state and federal regulations, including state-mandated rehabilitation of the central city combined sewer system (CSS). The CSS collects wastewater from homes and businesses, as well as storm water and urban runoff.
- 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.

In the past, combined system projects were partially funded by the Storm Drainage Fund. However, as the Storm Drainage Fund has become increasingly underfunded the Wastewater Fund has borne more of these costs, increasing pressure on the Wastewater Fund.

The following chart provides a five-year forecast for the Wastewater Fund to address anticipated cost increases and meet regulatory requirements. The forecast assumes no rate adjustments and as such does not adequately address funding needs for critical wastewater infrastructure.

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

	FY2015/16 Proposed	FY2016/17 Estimate	FY2017/18 Estimate	FY2018/19 Estimate	FY2019/20 Estimate
BEGINNING FUND BALANCE	16,305	6,778	4,315	2,141	(800)
Revenues					
Charges, Fees, and/or Services	30,488	30,488	30,488	30,488	30,488
Interest	392	392	392	392	392
Other (Intergovernmental)	715	715	715	715	715
Total Revenues	31,595	31,595	31,595	31,595	31,595
Expenditures					
Operating - Employee Services	8,417	8,670	8,930	9,197	9,473
Operating - Other	15,941	16,387	16,846	17,318	17,803
Debt Service	3,035	2,881	2,882	2,841	2,842
Multi-Year Operating Projects	2,229	2,120	2,111	2,180	2,152
Capital Improvements	11,500	4,000	3,000	3,000	2,500
Total Expenditures	41,122	34,058	33,769	34,536	34,770
SURPLUS/DEFICIT	(9,527)	(2,463)	(2,174)	(2,941)	(3,175)
ENDING FUND BALANCE	6,778	4,315	2,141	(800)	(3,975)

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. Key issues for the Water Fund over the next five years include the following:

- Addressing impacts of the ongoing drought, including complying with the requirements of the Governor's Executive Order, which include, but are not limited to, increasing water conservation efforts and consideration of implementation of drought surcharges, tiered water rates and other pricing mechanisms to encourage water conservation.
- Ongoing replacement and maintenance of aging infrastructure to provide safe and reliable drinking water to the community and meet state and federal standards.
- Accelerating implementation of the Residential Water Meter Installation Program in support of full meter installation by December 2020, ahead of the State mandated date of 2025.
- 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.

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

- No rate adjustments with continued use of fund reserves.
 - Revenue projections for FY2015/16 have not been increased from the prior year to reflect the effect of water conservation measures as a result of the ongoing drought.
 - Due to funding limitations the proposed five-year program for water and wastewater includes only those projects required by health, safety, legislative or regulatory requirements.
-

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

	FY2015/16 Proposed	FY2016/17 Estimate	FY2017/18 Estimate	FY2018/19 Estimate	FY2019/20 Estimate
BEGINNING FUND BALANCE	41,047	24,445	28,052	31,753	36,540
Revenues					
Charges, Fees, and/or Services	96,041	97,962	99,921	101,919	103,958
Interest	400	400	400	400	400
Other (Intergovernmental)	150	150	150	150	150
Total Revenues	96,591	98,512	100,471	102,469	104,508
Expenditures					
Operating - Employee Services	26,264	27,052	27,863	28,699	29,560
Operating - Other	34,272	35,232	36,218	37,232	38,275
Debt Service	27,135	27,190	27,183	27,171	27,164
Multi-Year Operating Projects	2,361	2,432	2,505	2,580	2,657
Capital Improvements	23,161	3,000	3,000	2,000	2,000
Total Expenditures	113,193	94,905	96,770	97,682	99,656
SURPLUS/DEFICIT	(16,602)	3,607	3,701	4,787	4,852
ENDING FUND BALANCE	24,445	28,052	31,753	36,540	41,392