

# 3

## **SECTION – 3** **The Forecast**

## Revised General Fund Forecast

**General Fund:** The changes to the FY2016/17 Proposed Budget as summarized in the Budget Overview resulted in changes to General Fund revenues and expenditures. The General Fund forecast as shown below has been updated to reflect the budget as approved.

General Fund (\$ in 000s)	FY17	FY17	FY18	FY19	FY20	FY21
	Proposed	Approved	Projection	Projection	Projection	Projection
<b>Total Revenues</b>	<b>436,863</b>	<b>438,908</b>	<b>440,906</b>	<b>449,056</b>	<b>457,847</b>	<b>466,908</b>
Operations	412,873	412,873	432,493	442,977	452,157	456,869
Capital/Multi-year Projects	14,442	17,444	10,808	10,808	10,808	11,058
Priority Budget Initiatives (1x costs)	8,517	8,517	0	0	0	0
<b>Total Expenditures</b>	<b>435,832</b>	<b>438,834</b>	<b>443,301</b>	<b>453,785</b>	<b>462,965</b>	<b>467,927</b>
<b>Surplus/(Deficit)</b>	<b>1,031</b>	<b>74</b>	<b>(2,395)</b>	<b>(4,729)</b>	<b>(5,118)</b>	<b>(1,019)</b>
Beginning Fund Balance <sup>1, 2</sup>	7,782	7,042	7,116	4,721	(8)	(5,126)
Ending Fund Balance	8,813	7,116	4,721	(8)	(5,126)	(6,145)

<sup>1</sup> Beginning fund balance has been adjusted in FY17 Proposed to audited FY2014/15 fund balance.

<sup>2</sup> Beginning fund balance has been adjusted in FY17 Approved to reflect authorized use of fund balance during FY2015/16.

**Measure U:** In an effort to maintain sustainability in the Measure U Fund, no changes were made between the Proposed Budget to the Approved Budget for programs and projects supported by Measure U.

**Enterprise Funds:** The FY2016/17 Proposed Budget as presented in the Proposed Budget was developed in advance of Council's approval of four-year rate increases in the Wastewater and Water Funds. The revised forecasts shown below include the changes as summarized in the Budget Overview for these funds.

Wastewater Fund (\$ in 000s)	FY17	FY17	FY18	FY19	FY20	FY21
	Proposed	Approved	Projection	Projection	Projection	Projection
<b>Total Revenues</b>	<b>31,895</b>	<b>34,635</b>	<b>38,597</b>	<b>41,911</b>	<b>45,521</b>	<b>45,709</b>
Operations	26,913	27,338	28,359	29,559	30,876	31,757
Capital/Multi-year Projects	5,926	11,138	3,214	6,118	11,611	13,782
<b>Total Expenditures</b>	<b>32,839</b>	<b>38,476</b>	<b>31,573</b>	<b>35,677</b>	<b>42,487</b>	<b>45,539</b>
<b>BEGINNING FUND BALANCE</b>	<b>7,957</b>	<b>7,957</b>	<b>4,116</b>	<b>11,141</b>	<b>17,374</b>	<b>20,408</b>
<b>ENDING FUND BALANCE<sup>1</sup></b>	<b>\$ 7,013</b>	<b>\$ 4,116</b>	<b>\$ 11,140</b>	<b>\$ 17,375</b>	<b>\$ 20,408</b>	<b>\$ 20,578</b>

<sup>1</sup> This forecast does not include future debt service needed for investment in capital replacement.

Water Fund (\$ in 000s)	FY17	FY17	FY18	FY19	FY20	FY21
	Proposed	Approved	Projection	Projection	Projection	Projection
<b>Total Revenues</b>	<b>96,924</b>	<b>106,043</b>	<b>109,989</b>	<b>119,409</b>	<b>130,099</b>	<b>130,556</b>
Operations	88,406	89,646	92,981	96,524	100,293	102,919
Capital/Multi-year Projects	5,783	11,125	9,917	15,126	11,220	20,369
<b>Total Expenditures</b>	<b>94,189</b>	<b>100,771</b>	<b>102,898</b>	<b>111,650</b>	<b>111,513</b>	<b>123,288</b>
<b>BEGINNING FUND BALANCE</b>	<b>33,737</b>	<b>33,737</b>	<b>39,009</b>	<b>46,100</b>	<b>53,860</b>	<b>72,445</b>
<b>ENDING FUND BALANCE<sup>1</sup></b>	<b>\$ 36,472</b>	<b>\$ 39,009</b>	<b>\$ 46,100</b>	<b>\$ 53,860</b>	<b>\$ 72,445</b>	<b>\$ 79,713</b>

<sup>1</sup> This forecast does not include future debt service needed for investment in capital replacement.

## **Proposed Financial Forecast**

(As written on April 25, 2016)

### **Financial Forecast**

The purpose of financial forecasting is to evaluate current and future fiscal trends and conditions to help guide policy and programmatic decisions. The financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This tool helps 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, Measure U, and Enterprise Funds. The information in these forecasts provides a current picture of the fiscal condition of the fund, establishing an important context to the decision-making necessary to maintain essential community services.

### **General Fund**

The General Fund budget is balanced. It includes limited additional funding for new initiatives the majority of which are offset by additional revenue growth. In addition the Budget includes approximately \$8.5 million in one-time funding to address program shortfalls in the 4<sup>th</sup> R and START programs, Summer Night Lights funding for summer of 2017, FY2016/17 funding for the gang prevention program, and critical facility improvements as well as \$4.5 million to complete the replacement of Fire Stations 14 and 15.

As detailed below, General Fund expenditures are expected to be below projected revenues in the budget year. This positive balance is the result of significant growth in major tax revenues that are described in the General Fund Revenue section. In June 2017, the majority of the City's labor contracts will expire, except the Sacramento Firefighters Local 522 and SCXEA contracts that expire in June 2018. Existing labor contracts and additional costs for pension benefits will add approximately \$5.1 million in additional General Fund expenditures in FY2017/18. These increases outpace anticipated revenue growth and the General Fund is forecast once again to be out of balance. It is important to note that increases for future labor contracts have not been included in the five-year forecast. As such, any additional labor costs will increase the gap between revenues and expenses in future years.

### **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 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 developed during the annual budget process and updated at midyear based on known changes. It is essential to evaluate and understand issues that

can affect assumptions included in the forecast. 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 following chart reflects the variance between ongoing revenues and ongoing expenditures over the term of the forecast.

\$ in 000s	FY16	FY17 <sup>1</sup>	FY18	FY19	FY20	FY21
	Approved	Proposed	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>11,234</b>	<b>7,782</b>				
Total Revenues	400,451	436,863	439,588	447,725	456,502	465,549
Total Expenditures	396,112	427,815	441,562	452,069	461,272	466,257
Priority Budget Initiatives (one-time costs)	8,038	8,517				
<b>Surplus/(Deficit)</b>	<b>7,535</b>	<b>8,313</b>	<b>(1,974)</b>	<b>(4,344)</b>	<b>(4,770)</b>	<b>(708)</b>

<sup>1</sup> FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

The FY2015/16 General Fund forecast anticipated a \$1.8 million shortfall in FY2016/17. However, there has been positive revenue growth, 7.6 percent above FY2015/16, which is the result of a recovering housing market, increased personal spending for goods and vehicles, and continued reductions in unemployment. While General Fund labor costs increased by \$26 million, revenues increased by \$33 million, helping to cover the projected shortfall, increased labor costs, and recommended budget adjustments to address Council initiatives and critical department needs.

It is important to note that a portion of the revenue growth is related to a financial reporting change affecting the revenue change year-over-year. As outlined in the FY2015/16 Midyear report, the Council authorized a change in accounting for the City's recreation fees for service in the General Fund instead of the Parks Special Recreation Revenue Fund (\$3 million). Additionally, on-street parking revenue has increased by \$4.8 million as a result of changes to parking operations.

Finally, consistent with the Council adopted Measure U Policy, the City Manager was directed to prepare a transition plan to address the expiration of the Measure U tax. Unfortunately, given the significant growth in General Fund expenditures, adequate resources have not been available to transition Measure U programs to the General Fund with the exception of minor adjustments needed to maintain fiscal balance in Measure U. The following table depicts the current five-year forecast, including the expiration of Measure U in March 2019.

\$ in 000s	FY16	FY17 <sup>1</sup>	FY18	FY19	FY20	FY21
	Approved	Proposed	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>11,234</b>	<b>7,782</b>	<b>8,313</b>	<b>6,339</b>	<b>1,995</b>	
Total Revenues	400,451	436,863	439,588	447,725	456,502	465,549
Total Expenditures	396,112	427,815	441,562	452,069	461,272	466,257
<b>Current Surplus/(Deficit)</b>	<b>15,573</b>	<b>16,830</b>	<b>6,339</b>	<b>1,995</b>	<b>(2,775)</b>	<b>(708)</b>
Priority Budget Initiatives (one-time costs)	8,038	8,517	0	0	0	0
Ending Fund Balance	<b>7,535</b>	<b>8,313</b>	<b>6,339</b>	<b>1,995</b>	<b>(2,775)</b>	<b>(708)</b>
Loss of Measure U / Measure U Reserve	0	0	0	0	<b>(33,472)</b>	<b>(50,811)</b>
<b>Ending Fund Balance w/Loss of Measure U</b>	<b>7,535</b>	<b>8,313</b>	<b>6,339</b>	<b>1,995</b>	<b>(36,247)</b>	<b>(51,519)</b>

<sup>1</sup> FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

The City continues to benefit from the economic recovery with revenues growing at a substantial rate. However, the level of revenue growth we are forecasting for FY2016/17 is unsustainable and expenditures are forecast to outpace revenues in FY2017/18. Escalating employee salary and benefit costs, new program initiatives, and the increasing costs of operations and maintenance of aging infrastructure continue to be a challenge.

While the strategic use of fund balance provides a tool to bridge the gap, the use of one-time funding for ongoing expenses over the long-term is inconsistent with adopted budget policies and guidelines. Further, this will require extraordinary discipline to ensure those resources remain available for future year budget balancing. Budget sustainability requires that annual operating cost increases be held to a level at or below annual revenue growth and/or cutting or eliminating specific expenditures.

### **General Fund Expenditures**

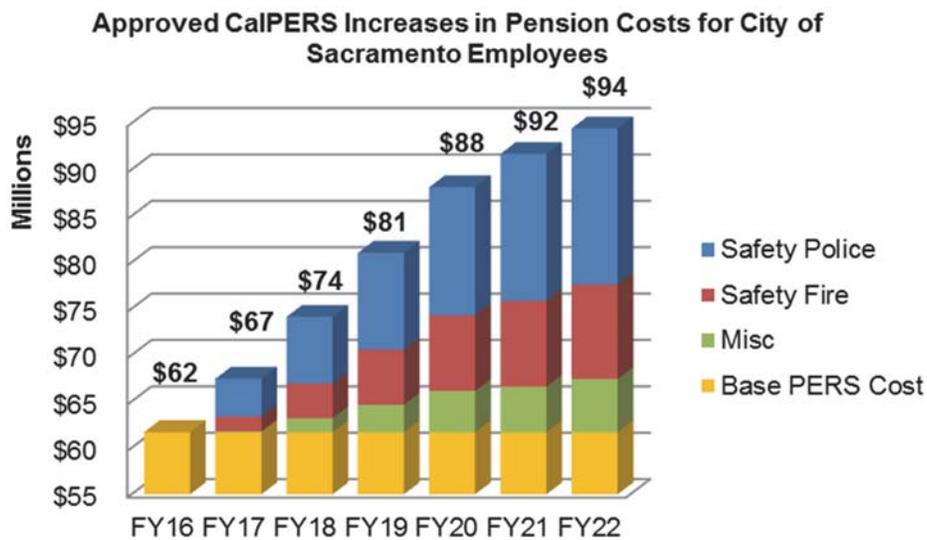
The single largest expenditure in the General Fund is the cost of employees who support department operations through the delivery of programs and services to the community. The Budget and forecast include scheduled salary increases based on existing labor agreements. As mentioned above, the forecast does not include future labor cost growth to address upcoming contract negotiations. In FY2016/17 labor costs increased by approximately 7 percent as a result of approved salary and CalPERS increases associated with pension benefits.

One of the biggest challenges for the City continues to be the increase in CalPERS rates for the foreseeable future. In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocations. As a result the CalPERS Board of Administration (Board) has approved significant changes, resulting in increased employer rates:

- Modest changes to the current asset allocation to reduce the expected volatility of returns – Goal is to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent.
- Demographic assumption changes that more closely align with actual experience – Mortality improvement is the most significant change and was necessary to acknowledge greater life expectancy (paying for the benefit longer).

The new actuarial assumptions were used to set the FY2016/17 contribution rates for public agency employers. The increase in liability resulting from the actuarial assumptions is amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy. Also, in 2015 the City, CalPERS, and the Sacramento Police Officer's Association reached agreement on a 2007 dispute over the inclusion of holiday pay in final pension calculations. The agreement determined that payment for holidays in lieu of employees having holidays off should be included in final pension calculations. CalPERS is estimating that this agreement will increase rates over the next five years by approximately 3.6 percent total for this unit (\$5 million) and add \$38 million to the unfunded liability over the next 30 years.

Based on the phase-in of the CalPERS Board actions and the increases associated with the holiday pay liability, the increase in the City’s CalPERS employer contributions will cost the City an additional \$25 million in FY2020/21 as illustrated in the chart below:



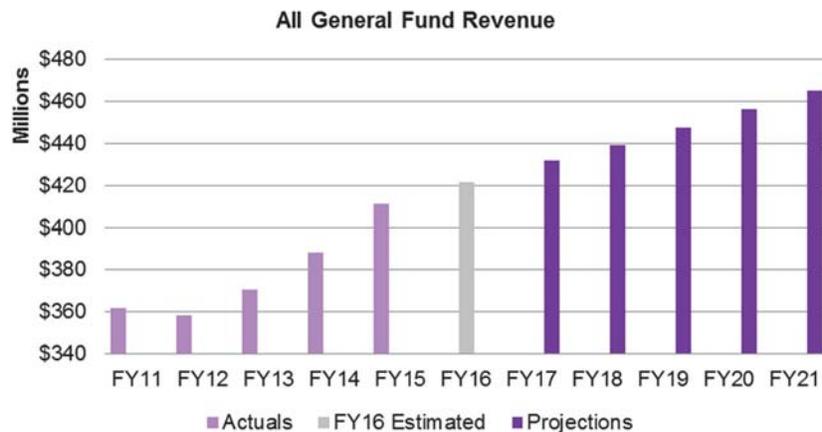
**General Fund Revenues**

A major highlight in the Budget is that 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 exceptional property and sales tax growth. These two taxes comprise 49 percent of all General Fund revenue (32% property taxes, 17% from sales taxes) and are anticipated to grow 5.1 percent and 5.5 percent, respectively, in the budget year. Rounding out the top three revenue sources is utility user taxes (UUT), at 14 percent, with estimated growth of just 1.4 percent. Overall General Fund revenues are projected to grow in FY2016/17.

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.

Revenue Source	FY2016/17 Proposed	FY2017/18 Projected	FY2018/19 Projected	FY2019/20 Projected	FY2020/21 Projected
Property Tax <sup>1</sup>	139,512	143,423	147,658	152,019	156,512
Sales Tax	74,500	76,735	79,421	82,200	85,077
Utility User Tax	60,406	61,010	61,620	62,236	62,859
Other Revenue	157,700	158,315	158,921	159,942	160,996
<b>Total General Fund Revenue</b>	<b>432,118</b>	<b>439,483</b>	<b>447,620</b>	<b>456,397</b>	<b>465,444</b>

<sup>1</sup>Property 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 percent 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.

Construction and investment in the downtown urban core is expected to remain strong in 2016 with new retailers entering the region. The opening of the Golden 1 Center in the fall of 2016 will certainly be one of the most significant events in recent Sacramento history. This is not only due to the arena itself, but also because of the related mixed-use project known as Downtown Commons, which will include approximately 630,000 square feet of retail space, 50 luxury residential units, a 250-room hotel, and 250,000 square feet of office space within the Central Business District. Consistent with current Council budget guidelines, property tax growth in the former Downtown Redevelopment Area will accrue to the Innovation and Growth Fund, with the exception of the possessory interest tax paid on the Golden 1 Center which will be budgeted to pay a portion of the associated debt service.

Additionally, the Sacramento County Assessor’s (Assessor) 2015 Annual Report and monthly reports highlighted several positive barometers for the city as follows:

- Total gross assessed value of secured/unsecured properties in the city grew 4 percent from FY2014/15 to FY2015/16.
- Number of city parcels increased from 152,866 in FY2014/15 to 152,896 in FY2015/16.
- City properties with Proposition 8 assessments (temporary reduction in property taxes due) decreased from 23,346 in February 2015 to 20,330 in March 2015, a 12.9 percent decrease.

The long-term forecast for the city’s secured property taxes continues to be positive with the addition of the Golden 1 Center, the lifting of the North Natomas building moratorium, 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

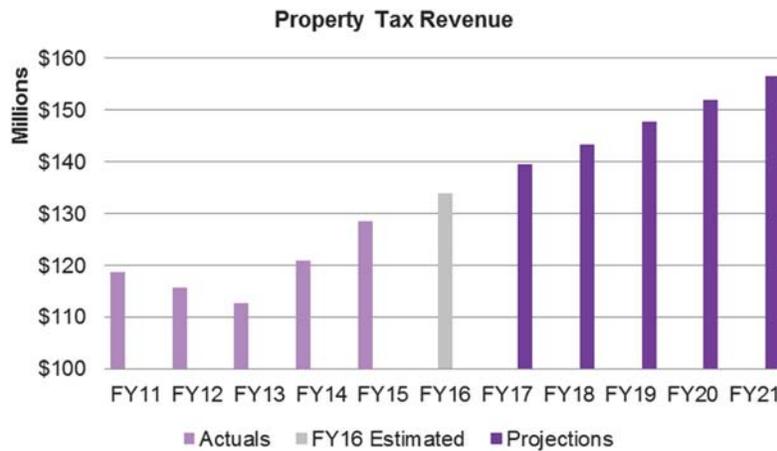
property tax revenues until these projects are completed and the new assessed value included on the Assessor’s tax roll. At the time a project is completed and the property is sold or reassessed the City will receive one-time property transfer tax and one-time supplemental tax, but the full value of the property may not be included in the secured property tax roll for as long as two years after the completion of the project depending on the completion date.

Early indications from the Assessor are positive and there is potential that when the 2016 property tax valuations are finalized in early July the City will continue to see Proposition 8 values increase. Because the Assessor does not complete the work on the tax roll until after the Budget is adopted, 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 FY2016/17 Midyear Review.

Based on the most recent data from the Assessor and the improving economy in the region, the property tax forecast for FY2016/17 is 5.1 percent higher than the FY2015/16 Budget, and estimates for FY2016/17-FY2020/21 include annual growth of 3 percent assuming the application of the full 2 percent Proposition 13 growth factor and that Proposition 8 properties will continue to be restored to their Proposition 13 values on the tax roll over time. The graph below illustrates the assessed roll value that remains to be restored as a result of the housing crash during the recession. Restoration of Proposition 13 values happen annually, while reductions as the result of a Proposition 8 appeal can be applied to the tax roll at any time during the year. Therefore, the reduction in pending appeals limits the City’s exposure to a reduction in roll value.

**Summary of Proposition 8 Assessments by Land Use**

Property Type	Prop 8	Prop 13	% of Full Value
Single-Family Residence	4,764,549,478	6,262,827,349	76%
Commercial	2,798,479,529	4,269,133,752	66%
Multi-Family Residence	1,539,117,570	1,849,058,209	83%
Industrial	459,425,686	645,838,692	71%
Others	204,608,664	435,988,509	47%
<b>City Total</b>	<b>9,766,180,927</b>	<b>13,462,846,511</b>	<b>73%</b>

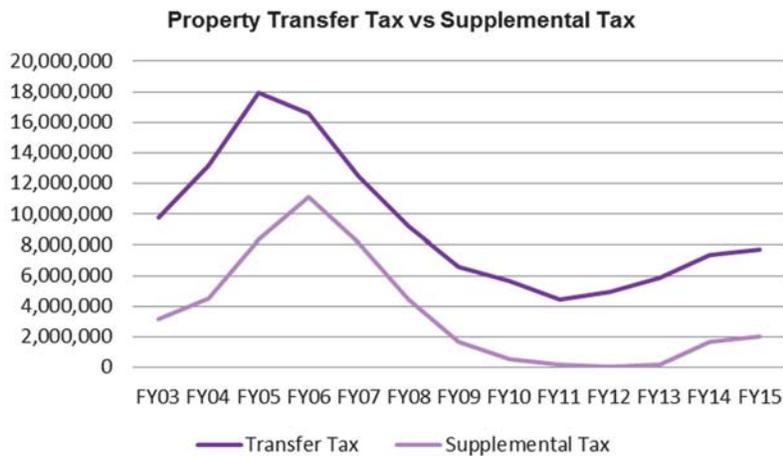


**What are Property Transfer Tax and Supplemental Property Tax?**

**Real Property Transfer Tax** - A charge imposed by the City upon the passing of title from one owner to another. The City charges \$2.75 for every \$1,000 of the property’s sale price (.00275%). This revenue stream has fluctuated significantly ranging as high as \$18 million in FY2004/05 to a low of \$4.4 million in FY2010/11.

**Supplemental Property Tax** - A supplemental tax bill is generated when a property is reassessed due to a change in ownership (a sale, transfer, or transfer of fractional interest) or the result of new construction. The supplemental tax bill reflects any increase or decrease in property tax generated by the supplemental event.

These two sources of revenue fluctuate heavily with the housing market, reaching a high of \$27.7 million in FY2005/06 and a low of \$4.6 million in FY2010/11. While we remain confident that Property Transfer Tax and Supplemental Property Tax will continue to rebound from their 2010/11 low points, the volatility of these revenues make them very challenging to forecast. The graph below reflects the significant effect the recession had on these revenue sources and the gradual rebound over the past three years.



Given the volatility of these revenues it is especially important to be aware of market trends and make adjustments early should overall sales volume and price decrease dramatically.

**Sales and Use Tax (Sales Tax)**

Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas 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 17 percent of all General Fund revenue. The General Fund receives only 1 cent of every 8.5 cents paid per dollar sale in Sacramento.

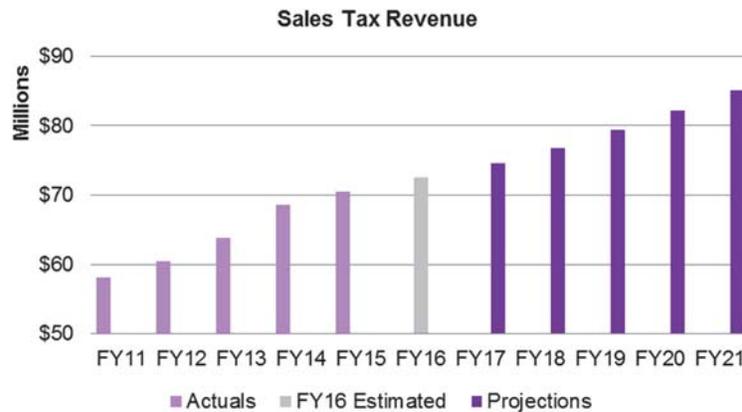
Over the last four quarters, the City's sales tax has increased 5.0 percent compared to the prior four quarters. Retail sales grew by 7.9 percent during the holiday season year-over-year, excluding autos and gas. Statewide sales tax increased by 2.4 percent during the same period. This quarter the City has seen its highest level of sales tax receipts compared to the previous eight quarters across several economic segments including restaurants, food markets, new auto sales, drug stores, used auto sales and miscellaneous retail.

<b>Sales Tax Breakdown by Economic Segment</b>	
General Retail	27.5%
Food Products	22.5%
Transportation	19.3%
Business to Business	15.8%
Construction	12.6%
Miscellaneous	2.3%
<b>Total</b>	<b>100.0%</b>

The annual inflation rate (CPI-U Western Region) in November edged down to 1.5 percent from 1.7percent in November 2014, due in part to lower gasoline prices. The overall inflation rate of 1.5 percent includes two segments that are increasingly using up more of California's disposable income and generally don't generate sales tax revenue: housing 3.4 percent and medical care 3.4 percent. The annual inflation rate for segments that typically generate sales tax based on data from the Bureau of Labor Statistics are the following:

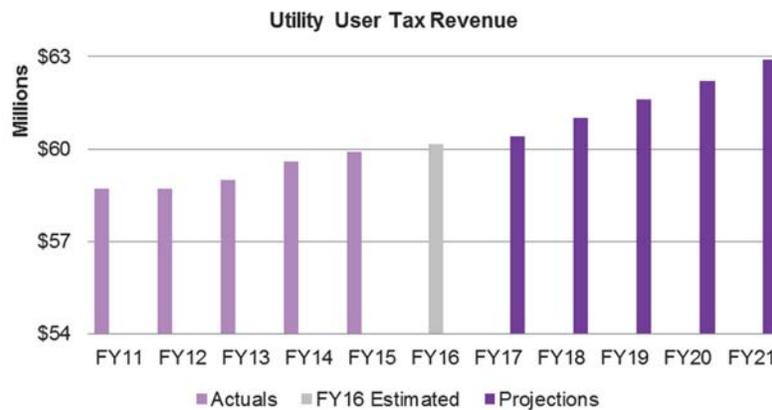
- Commodities less food - 2.4%
- Nondurables - 2.0%
- Motor fuel -18.7%
- Food and beverages - 1.6%

Based on the most recent information from MuniServices, the City's sales tax consultant, growth projections are estimated at 5.5 percent in FY2016/17 and 3.0-3.5 percent annually from FY2017/18-FY2020/21.



### Utility User Tax

UUT is a usage tax on communication, electric and gas charges billed to a billing or service address in the City as authorized by City Code (Section 3.40). Measure O was approved by the voters in November 2008, reducing the 7.5 percent tax rate to 7.0 percent on telecommunication services, but was expanded to include Voice over Internet Protocol (VoIP), text messaging and many other previously excluded technologies. The 7.5 percent tax rate continues to be in effect for gas, electric, and cable services. UUT is the City’s third largest revenue source, accounting for 14 percent of all General Fund revenue. UUT has been the most consistent revenue stream over the past five years.



Following are details on the five components that comprise the UUT.

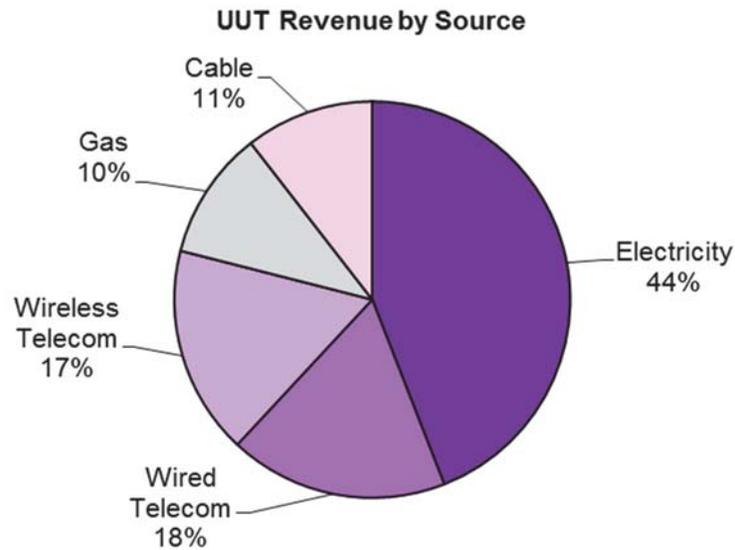
Cable Subscriptions – This has been the most reliable component of the UUT revenue stream over the past 13 years however, a recent survey of pay-tv subscribers suggests significant reductions in cable subscriptions in 2016 and beyond. One in five cable subscribers could “cut the cord” in 2016 based on a report by PricewaterhouseCoopers. Streaming services such as Netflix and Hulu continue to gain subscribers and millennials are reluctant to subscribe to cable. In response, the cable industry has offered video-on-demand that allows programming to be viewed on multiple devices and “bundle slimming” where packages of 10-17 channels are offered at a lower rate. The City’s cable revenue has increased by 3.6 percent, or \$128,000, during the first seven months of FY2015/16 versus the same period in FY2014/15.

Electricity – The U.S. Energy Information Administration (EIA) projects the retail price of electricity in the residential sector to be 12.7 cents per kilowatt hour in 2016, a 0.7 percent increase from 2015. In July 2015, the California Public Utilities Commission approved a plan that will change existing residential rates for customers of investor-owned utilities in California, Pacific Gas and Electric Company and Southern California Edison. Most residential customers in California will see their electricity bills increase under the new rate structure. High-usage households have unfairly subsidized low-usage households for years and the low-usage households will see a slight increase in their respective power bills. The new rate structure will affect 75 percent of California's residential customers, or approximately 10 million electricity accounts. These changes will appear for the first time on 2016 utility bills and will be phased in over several years. During the first seven months of FY2015/16, the City's electricity UUT revenue increased by 6.4 percent compared to the same period in FY2014/15. Electricity is the largest component of UUT revenue, accounting for approximately 48 percent of the revenue stream.

Natural Gas – Natural gas prices have steadily dropped due to an increase in supply. Strong inventory and production growth have contributed to low natural gas prices. 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 percent of the total and has remained relatively flat over the past seven years.

Wired Telecommunications – UUT from wired telecommunication services will continue to decline for the foreseeable future as subscription rates and accounts continue to decline. The loss of subscribers appears to be comprised of residential low income households and millennials. Wired UUT revenue accounts for approximately 18 percent of the total UUT base; however, the revenue stream has decreased by 41 percent since FY1999/00. Wired revenue decreased by 1.3 percent during the first seven months of FY2015/16 when compared to FY2014/15.

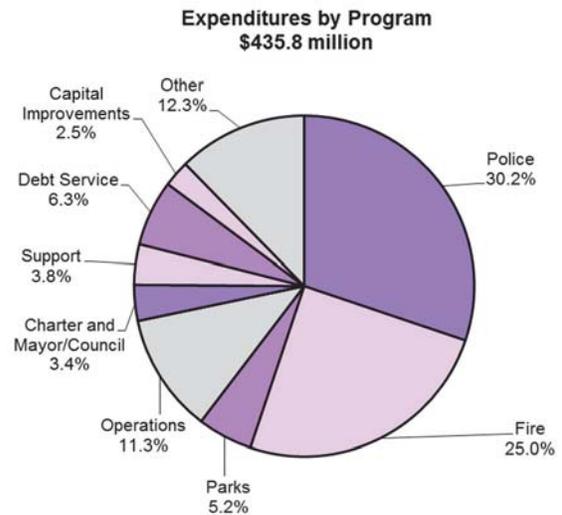
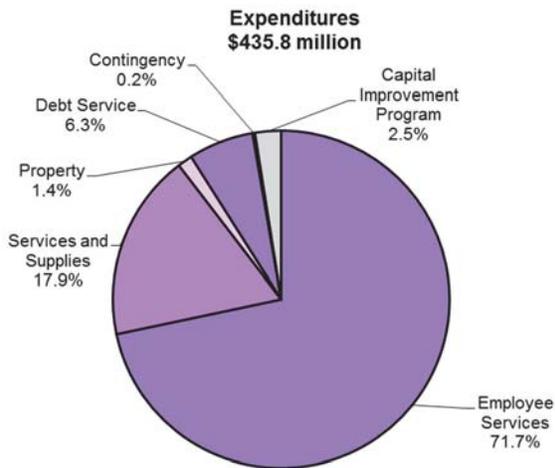
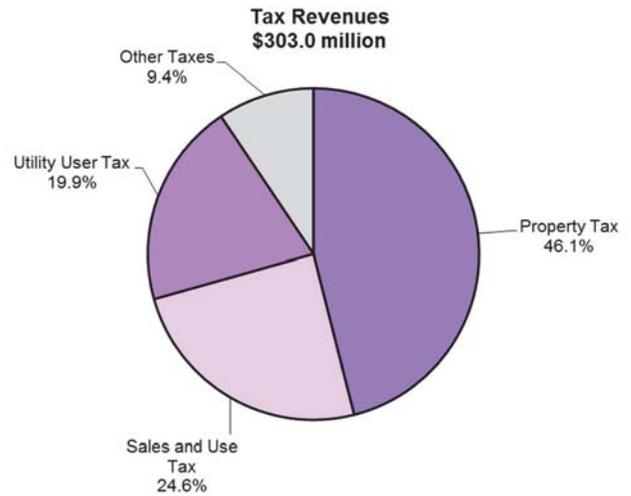
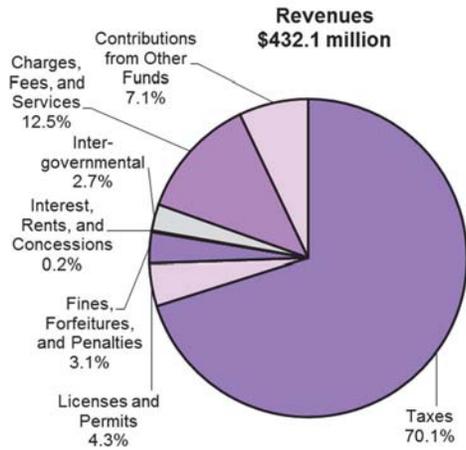
Wireless Telecommunications – Wireless UUT continues to be under downward pressure but that could change as AB 1717 went into effect in January, 2016. AB 1717 protects existing and future state and local revenues by providing a collection mechanism for prepaid (non-contract) wireless services. Once the state program is fully functional there will be an increase in the wireless portion of the UUT revenues. Since wireless revenue peaked in FY2009/10 at \$14.2 million, it has declined by \$4 million, or 28 percent, in FY2014/15. During the first seven months of FY2015/16, wireless UUT revenues have declined by 12.2 percent or \$756,000 versus the same period in FY2014/15. While revenues resulting from AB 1717 have not yet been realized, the hope is that this will stem the continued decline of this source of UUT 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 1.4 percent in FY2016/17 with annual growth projected from FY2017/18-FY20/21 forecast at 1 percent annually. However, these projections could change after AB 1717 has been in place for an entire fiscal year and the wireless revenue stream can be analyzed.

The following charts provide a summary of the FY2016/17 Proposed General Fund revenue and expenditure budgets:

**Total Proposed General Fund Budget  
\$435.8 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 reserve has been established to provide contingency funding to address unanticipated revenue changes and financing for a transition period when Measure U resources are no longer available, providing funding for programs through the end of FY2019/20. Due to growth in ongoing labor and service and supplies in excess of revenue growth, available fund balance will only provide resources for approximately half of the anticipated expenditures in FY2020/21 as shown in the chart below.

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:

- FY16 – Budget as approved by Council to date
- FY17 – Budget including:
  - addition of 7.28 FTE in Police and Parks and Recreation
  - transfer of 8.0 FTE support staff from Fire and Parks and Recreation to the General Fund, to keep ongoing expenditures below revenues in FY2016/17
- FY17-20 – forecast assumes:
  - 4% annual revenue growth
  - 3% average projected labor cost growth

Measure U Revenues and Expenditures (in 000s)	FY16 Amended	FY17 <sup>1</sup>	FY18	FY19	FY20
<b>BEGINNING FUND BALANCE</b>	<b>41,972</b>	<b>35,927</b>	<b>30,605</b>	<b>29,490</b>	<b>17,339</b>
<b>REVENUES</b>	<b>42,046</b>	<b>43,732</b>	<b>45,614</b>	<b>36,800</b>	<b>-</b>
<b>EXPENDITURES</b>					
Fire Department	11,993	13,137	13,447	13,766	14,095
Police Department	16,091	20,209	22,547	24,478	25,703
Parks and Recreation Department	8,109	9,200	9,734	10,026	10,327
Miscellaneous	1,682	671	676	681	686
<b>Total Measure U Expenditures</b>	<b>37,875</b>	<b>43,217</b>	<b>46,404</b>	<b>48,951</b>	<b>50,811</b>
<b>One-time Uses (including CIPs)</b>					
Capital Projects	9,039	4,452			
One-time Service and Supplies (vehicles, radios, computers, etc.)	2,862	1,385	325		
<b>Total Measure U One-time Funding</b>	<b>11,901</b>	<b>5,837</b>	<b>325</b>	<b>-</b>	<b>-</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 34,242</b>	<b>\$ 30,605</b>	<b>\$ 29,490</b>	<b>\$ 17,339</b>	<b>\$ (33,472)</b>

<sup>1</sup>FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

**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 \$43.7 million for FY2016/17 are estimated, with FY2018/19 reflecting a prorated revenue amount as the tax is set to expire in March 2019.

**Programs and Services:** The Budget includes continued funding of the restoration of ongoing programs and services in the Fire, Police, Parks and Recreation, and Community Development Departments as well as to the Sacramento Public Library Authority. An additional \$5.8 million in one-time funding has been allocated to Police and Parks and Recreation Departments as described below.

- **Fire – \$13.1 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 funding also provides the restoration of resources for the coordination of fire prevention services as well as two additional medic units. Support staff (7.0 FTE) in Technology, Fiscal and Human Resources that were restored with Measure U in prior years has been transferred to the General Fund.
- **Police – \$21 million** includes the match/retention and vehicle costs associated with grant-funded police officer positions approved by the City Council (including 15.0 FTE approved in October 2015, Resolution 2015-0332), funding to expand deployment of the ShotSpotter audio gunfire detection system, and match requirements for the Body Worn Camera Pilot Implementation Program (BWC PIP) grant that was approved in October 2015 (Resolution 2015-0333).
- **Parks and Recreation – \$10.1 million** provides the department resources to continue the restoration of park maintenance operations and park security including the addition of a 1.0 Park Safety Ranger (13.0 FTE total Park Safety staff). The funding also provides for the operation of 12 City swimming pools and five stand-alone wading pools, children’s summer programs, and year-round sports camps, extension of hours, and programs at the City’s community centers for youth and older adults, ongoing financial support for before and after-school programs, and grant management and coordination of services related to youth gang prevention. A position in Recreation Administration restored with Measure U in prior years has been transferred to the General Fund.

**\$4.2 million** is included in the CIP to fund critical capital replacements needed for the following Park and Recreation facilities: Coloma Community Center, Shepard Garden & Arts Center, Clunie Pool House, the Softball Complex and the Sam and Bonnie Pannell Community Center. Additionally, \$0.3 million is included to address pool repair needs identified in the citywide pool assessment study funding in FY2015/16.

- **Community Development – \$165,000** 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).
- A summary and chart of Measure U programs and services is provided on the next page with additional detail available in the department sections of the Budget and in the 2016-2021 CIP. Given Council adoption of the Mayor and Council Budget Priorities for FY2016/17 relative to the renewal of Measure U and the need to address critical infrastructure deficiencies staff will return to Budget and Audit Committee to discuss modification of the Measure U Policy.

Proposed FY2016/17 Measure U Restoration Plan

Measure U Revenues and Expenditures (in 000s)	FY17			FY16 Amended	FY17 <sup>1</sup> Proposed	FY18 Projection	FY19 Projection	FY20 Projection
	FY16 Amended FTE	Proposed FTE Changes	FY17 Proposed FTE					
<b>BEGINNING FUND BALANCE</b>				<b>41,972</b>	<b>35,927</b>	<b>30,605</b>	<b>29,490</b>	<b>17,339</b>
<b>REVENUES</b>				<b>42,046</b>	<b>43,732</b>	<b>45,614</b>	<b>36,800</b>	<b>-</b>
<b>EXPENDITURES</b>								
<b>Fire Department</b>								
SAFER Grant Retention	27.00	-	27.00	2,803	2,803	2,803	2,803	2,803
Fire Company Restorations	48.00	-	48.00	6,384	7,141	7,355	7,576	7,803
Fire Station 43	15.00	-	15.00	1,414	2,276	2,344	2,415	2,487
Two Medic Units - January 2014 <i>(partially offset by \$1.2 million in new revenues)</i>	12.00	-	12.00	692	764	787	811	835
Fire Support <i>(Technology, Fiscal, and Human Resources)</i>	7.00	(7.00)	-	744	-	-	-	-
Fire Prevention	1.00	-	1.00	147	153	158	162	167
Recruit Academy	-	-	-	-	-	-	-	-
Capital Investment	-	-	-	4,048	-	-	-	-
<b>Fire Subtotal</b>	<b>110.00</b>	<b>(7.00)</b>	<b>103.00</b>	<b>16,232</b>	<b>13,137</b>	<b>13,447</b>	<b>13,766</b>	<b>14,095</b>
<b>Police Department</b>								
COPS Hiring Program Match and Retention <i>(CHP and CHRP)</i>	60.00	-	60.00	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	653	775	960	1,409	1,451
COPS Hiring Program (CHP) Match and Retention FY14 and 15 vehicles in FY16	15.00	-	15.00	920	1,004	1,361	2,072	2,134
COPS Hiring Program (CHP) Match and Retention FY15 and 15 vehicles in FY17	15.00	-	15.00	-	1,066	1,094	1,361	2,072
Police Officers	15.00	-	15.00	300	860	1,665	1,800	1,872
BWC Pilot Program	-	2.00	2.00	-	535	325	-	-
ShotSpotter	-	-	-	-	210	210	210	210
Public Safety Counter <i>(Kinney Station)</i>	3.00	-	3.00	228	228	247	256	267
Field & Operations <i>(12.0 new FTE in FY15)</i>	61.00	-	61.00	6,316	7,590	8,087	8,404	8,656
Overtime	-	-	-	511	-	-	-	-
Investigations <i>(2.0 new FTE in FY15)</i>	8.00	-	8.00	1,201	1,145	1,283	1,292	1,331
Forensics	6.00	-	6.00	567	606	636	646	665
Communications	4.00	-	4.00	311	343	408	429	442
Crime Analysis	1.00	-	1.00	92	109	113	116	120
Hiring Pipeline	22.50	-	22.50	1,000	1,000	1,000	1,000	1,000
Summer Night Lights	-	-	-	200	-	-	-	-
Fair & Impartial Policing Training	-	-	-	10	-	-	-	-
<b>Police Subtotal</b>	<b>220.50</b>	<b>2.00</b>	<b>222.50</b>	<b>17,792</b>	<b>20,954</b>	<b>22,872</b>	<b>24,478</b>	<b>25,703</b>
<b>Public Safety Total</b>	<b>330.50</b>	<b>(5.00)</b>	<b>325.50</b>	<b>34,024</b>	<b>34,091</b>	<b>36,319</b>	<b>38,244</b>	<b>39,798</b>
<b>Parks and Recreation Department</b>								
Aquatics	36.85	-	36.85	1,764	2,054	2,116	2,179	2,244
Community Centers	22.80	-	22.80	1,104	1,484	1,529	1,574	1,622
Park Maintenance <i>(includes Park Rangers)</i>	52.00	1.00	53.00	4,000	4,035	4,106	4,229	4,356
Senior Programs	2.60	1.88	4.48	172	342	352	363	374
Teen Services	7.65	2.40	10.05	390	696	717	738	761
Neighborhood Services <i>(includes Gang prevention, Hotspots and Summer at City Hall)</i>	2.65	-	2.65	100	334	344	354	365
Other Recreation Programs	6.25	(1.00)	5.25	1,209	554	571	588	605
4th R	-	-	-	340	340	-	-	-
Capital Investment	-	-	-	4,450	4,453	-	-	-
<b>Parks and Recreation Subtotal</b>	<b>130.80</b>	<b>4.28</b>	<b>135.08</b>	<b>13,529</b>	<b>14,292</b>	<b>9,734</b>	<b>10,026</b>	<b>10,327</b>
<b>MISCELLANEOUS RESTORATIONS</b>								
Animal Control Officer	2.00	-	2.00	176	165	170	175	180
Gang Prevention Task Force	-	-	-	1,000	-	-	-	-
Capital Investment - Garcia Bend Bike Trail Study	-	-	-	541	-	-	-	-
Library Restoration	-	-	-	506	506	506	506	506
<b>Miscellaneous Subtotal</b>	<b>2.00</b>	<b>-</b>	<b>2.00</b>	<b>2,223</b>	<b>671</b>	<b>676</b>	<b>681</b>	<b>686</b>
<b>Total Measure U Restorations</b>	<b>463.30</b>	<b>(0.72)</b>	<b>462.58</b>	<b>49,776</b>	<b>49,054</b>	<b>46,728</b>	<b>48,951</b>	<b>50,811</b>
<b>ENDING FUND BALANCE</b>				<b>\$ 34,242</b>	<b>\$ 30,605</b>	<b>\$ 29,490</b>	<b>\$ 17,339</b>	<b>\$ (33,472)</b>

<sup>1</sup>FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

## Enterprise Funds

The Utilities Enterprise Funds reflect the anticipated revenues and expenditures necessary to sustain operational needs, replace aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the funds. The Water Fund and the Wastewater Fund forecasts do not include the rate increases approved by Council in late March. The Department of Utilities will present a separate report to Council during the budget hearings in May that will include a revised operational and CIP Budget based on the recently approved rate structure (10% rate increase per year for Water and 9% rate increase per year for Wastewater for four years).

Water Fund revenue for FY2016/17 is expected to remain relatively unchanged compared to FY2015/16 levels due to the mandatory 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 proposed changes included in the Budget for the Enterprise Funds. Additional information is provided in department sections.

Department	Description	Fund	Revenue/ Offset Change	Expenditure Change	FTE Change
Convention and Cultural Services	Add 1.0 Administrative Technician and a 1.0 Facilities and Real Property Superintendent by eliminating 3.0 FTE vacancies.	Community Center	-	(15,961)	(1.00)
Public Works	Add 1.0 Accountant Auditor and a 1.0 Customer Service Specialist to support the expanding customer service, reporting and auditing needs for oversight of managed locations and add 1.0 Administrative Technician to provide administrative support to the division.	Parking	-	239,838	3.00
Public Works	Add ten 0.33 FTE Sanitation Worker II positions for leaf season work. The Recycling and Solid Waste Division used non-budgeted positions for this work in prior years.	Solid Waste	-	216,113	3.30
Utilities	Add staffing to support long range IT master plan changes. Costs will be offset by reductions to service and supplies to minimize impact to the fund.	Wastewater	100,986	100,986	1.00
Utilities	Add staffing to support water assurance reporting and testing and support regulatory and safety compliance measures. Increase service and supplies for a water treatment plant filter monitoring and testing program to meet industry standards.	Water	349,179	1,007,860	10.00
<b>Total Change</b>			<b>\$ 450,165</b>	<b>\$ 1,548,836</b>	<b>16.30</b>

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 3%, primarily due to TOT 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 a significant increase in revenue due to anticipated efficiency improvements gained from the new Parking Access and Revenue Control System and event revenues from the Golden 1 Center which is scheduled to open in October 2016. Revenues are projected to grow by 20% in FY2016/17, then 2% annually, and expenditures are projected to grow by approximately 2% annually.
Solid Waste	Anticipated revenues will fund current residential service programs and meet 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. Pursuant to 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	Rate increases are not included in the five-year forecast. Council approved four- year rate increases in late March (10% per year for Water and 9% per year for Wastewater) to provide sufficient resources to continue critical infrastructure repair and rehabilitation, as well as to ensure compliance with state and federal regulations. No funding for CIPs is included beyond FY2016/17. The department will be providing updated operating and capital funding recommendations based on approved rate increases in May when the department budget is presented.

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 in the following pages.

**Community Center Fund**

	FY16	FY17	FY18	FY19	FY20	FY21
Dollars in Thousands	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>4,180</b>	<b>7,431</b>	<b>8,558</b>	<b>11,775</b>	<b>15,444</b>	<b>20,334</b>
Revenue	27,775	30,137	31,003	31,896	32,816	33,764
Expenditures	25,373	26,760	27,536	27,977	27,676	28,172
Other Source/(Use)	(2,250)	(2,250)	(250)	(250)	(250)	(250)
<b>Ending Fund Balance</b>	<b>\$ 4,332</b>	<b>\$ 8,558</b>	<b>\$ 11,775</b>	<b>\$ 15,444</b>	<b>\$ 20,334</b>	<b>\$ 25,676</b>

**Parking Fund**

	FY16	FY17	FY18	FY19	FY20	FY21
Dollars in Thousands	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>8,303</b>	<b>3,621</b>	<b>3,908</b>	<b>4,092</b>	<b>5,128</b>	<b>7,005</b>
Revenue	16,981	20,176	20,810	21,265	21,723	22,176
Expenditures	19,618	19,889	20,626	20,228	19,846	19,687
<b>Ending Fund Balance</b>	<b>\$ 5,666</b>	<b>\$ 3,908</b>	<b>\$ 4,092</b>	<b>\$ 5,128</b>	<b>\$ 7,005</b>	<b>\$ 9,494</b>

**Solid Waste Fund**

	FY16	FY17	FY18	FY19	FY20	FY21
Dollars in Thousands	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>19,901</b>	<b>20,374</b>	<b>16,682</b>	<b>17,133</b>	<b>17,552</b>	<b>17,405</b>
Revenue	59,777	62,047	64,552	65,197	65,862	66,609
Expenditures	63,956	65,739	64,101	64,778	66,009	67,333
<b>Ending Fund Balance</b>	<b>\$ 15,722</b>	<b>\$ 16,682</b>	<b>\$ 17,133</b>	<b>\$ 17,552</b>	<b>\$ 17,405</b>	<b>\$ 16,681</b>

**Storm Drainage Fund**

	FY16	FY17	FY18	FY19	FY20	FY21
Dollars in Thousands	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>17,906</b>	<b>18,350</b>	<b>17,891</b>	<b>16,189</b>	<b>13,765</b>	<b>9,581</b>
Revenue	36,080	36,152	36,277	36,402	36,528	36,654
Expenditures	37,598	36,611	37,979	38,826	40,712	38,317
<b>Ending Fund Balance</b>	<b>\$ 16,388</b>	<b>\$ 17,891</b>	<b>\$ 16,189</b>	<b>\$ 13,765</b>	<b>\$ 9,581</b>	<b>\$ 7,918</b>

**Wastewater Fund**

	FY16	FY17	FY18	FY19	FY20	FY21
Dollars in Thousands	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>16,486</b>	<b>7,957</b>	<b>7,013</b>	<b>9,239</b>	<b>10,819</b>	<b>9,592</b>
Revenue	31,595	31,895	32,032	32,170	32,309	32,450
Expenditures	41,122	32,839	29,806	30,590	33,536	33,915
<b>Ending Fund Balance</b>	<b>\$ 6,959</b>	<b>\$ 7,013</b>	<b>\$ 9,239</b>	<b>\$ 10,819</b>	<b>\$ 9,592</b>	<b>\$ 8,127</b>

**Water Fund**

	FY16	FY17	FY18	FY19	FY20	FY21
Dollars in Thousands	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>Beginning Fund Balance</b>	<b>43,548</b>	<b>33,737</b>	<b>36,472</b>	<b>39,963</b>	<b>41,503</b>	<b>40,901</b>
Revenue	96,591	96,924	97,261	97,599	97,939	98,280
Expenditures	113,193	94,189	93,770	96,059	98,541	101,519
<b>Ending Fund Balance</b>	<b>\$ 26,946</b>	<b>\$ 36,472</b>	<b>\$ 39,963</b>	<b>\$ 41,503</b>	<b>\$ 40,901</b>	<b>\$ 37,662</b>

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

### **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 fund also provides support to cultural partners and the General Fund. 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, and offering a premier venue to contribute to the economic vitality of the downtown and Sacramento region.

Over two-thirds of fund revenues are provided by TOT. In FY2014/15 these revenues grew by 12 percent. The current fiscal year growth rate was budgeted at 5 percent. Actual growth through December 2015 was 11.8 percent. While TOT has experienced exceptional performance the last two fiscal years, projected revenue growth has been conservatively estimated at 3.25 percent for FY2016/17 and beyond, a rate that more closely aligns with historical data.

In 1997, to maintain the financial integrity of the Community Center Fund, the City Council approved a loan of up to \$12 million from the Risk Fund, if needed, to offset any year-end deficit. Total borrowing was \$10.4 million, including interest. Repayment of the interfund loan began in FY2005/06 and has continued each year. An annual payment of \$250,000 is budgeted in FY2016/17 with payments continuing in future years. Through FY2015/16, \$4.4 million in payments will have been made; leaving a remaining balance of \$6.0 million. The Budget also includes the third and final \$2 million transfer to the Golden 1 Center (G1C) liquidity reserve.

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 2016 - 2021 CIP Budget. 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, plus patron- and client-driven improvements. In 2008, the City Council approved a Theater Facility Fee of \$3.00 per ticket to help fund a renovation project. It is projected that by the end of FY2015/16, this fee will have generated over \$5.1 million since its inception.

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

	FY16 Approved	FY17 Proposed*	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
<b>BEGINNING FUND BALANCE</b>	<b>4,180</b>	<b>7,431</b>	<b>8,558</b>	<b>11,775</b>	<b>15,444</b>	<b>20,334</b>
<b>Revenues</b>						
TOT	19,490	21,821	22,530	23,262	24,018	24,799
User Fees	7,135	7,495	7,645	7,798	7,954	8,113
Interest	400	200	201	203	205	206
Other (Facility Fee)	750	621	627	633	639	646
<b>Total Revenues</b>	<b>27,775</b>	<b>30,137</b>	<b>31,003</b>	<b>31,896</b>	<b>32,816</b>	<b>33,764</b>
<b>Expenditures</b>						
Operating - Employee Services	6,736	7,348	7,715	8,101	8,506	8,931
Operating - Other	8,324	8,277	8,526	8,781	9,045	9,316
Debt Service	8,194	8,191	8,200	8,200	8,200	8,200
Capital Improvements	2,119	2,944	3,095	2,895	1,925	1,725
<b>Total Expenditures</b>	<b>25,373</b>	<b>26,760</b>	<b>27,536</b>	<b>27,977</b>	<b>27,676</b>	<b>28,172</b>
<b>SURPLUS/(DEFICIT)</b>	<b>2,402</b>	<b>3,377</b>	<b>3,467</b>	<b>3,919</b>	<b>5,140</b>	<b>5,592</b>
Other Source/(Use)	(250)	(250)	(250)	(250)	(250)	(250)
G1C Liquidity Reserve	(2,000)	(2,000)	-	-	-	-
<b>ENDING FUND BALANCE</b>	<b>\$ 4,332</b>	<b>\$ 8,558</b>	<b>\$ 11,775</b>	<b>\$ 15,444</b>	<b>\$ 20,334</b>	<b>\$ 25,676</b>

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

## **Parking Fund (Fund 6004)**

The City operates nine parking garages and twenty-six surface parking lots for a total of over 12,000 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 20 percent for FY2016/17 compared to the FY2015/16 Budget, three percent in FY2017/18, and then two percent annually thereafter. The large increase for FY2016/17 is due to expected efficiency improvements from the replacement of the Parking Access and Revenue Control System at all City-owned garages and anticipated event revenues from G1C events. Rental income is based on current and anticipated leases with an 11 percent increase in FY2016/17 due to new leases and Consumer Price Index increases to current rents, then two percent annually thereafter. Expenses are projected to grow at just under two percent in FY2016/17, increasing approximately two percent annually due to escalating labor costs. Debt service costs will decrease 30 percent in FY2016/17 due to no longer providing support to the G1C.

There are several active projects to modernize the parking facilities including the replacement of the 14-year-old Parking Access and Revenue Control System. The new system will have current technology including license plate recognition, new enhanced card reading devices at all garage entrances and exits, faster access in and out of garages, and improved customer service including self-service features to allow customers to manage their accounts online. Additionally, an elevator modernization project is underway at three garages, as well as Americans with Disabilities Act (ADA) barrier removal and structural upgrades at all City-owned garages. These projects are scheduled to be completed by October 2016 and are funded by capital lease equipment financing agreements.

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

	FY16 Approved	FY17 Proposed*	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
<b>BEGINNING FUND BALANCE</b>	<b>8,303</b>	3,621	3,908	4,092	5,128	7,005
<b>Revenues</b>						
Parking Fees	15,316	18,377	18,975	19,384	19,794	20,205
Administrative Fees	475	525	559	593	628	662
Interest (Operating Funds)	600	600	600	600	600	600
Real Property Rental	590	674	676	688	701	709
<b>Total Revenues</b>	<b>16,981</b>	<b>20,176</b>	<b>20,810</b>	<b>21,265</b>	<b>21,723</b>	<b>22,176</b>
<b>Expenditures</b>						
Employee Services	4,843	4,849	4,970	5,095	5,222	5,352
Other Services & Supplies	4,150	5,454	5,494	5,584	5,660	5,745
Operating Transfer Out/In	3,096	2,081	2,141	2,181	2,223	2,263
Debt Service	7,201	7,077	7,073	6,445	5,823	5,409
Other Uses/CIP	328	428	948	923	918	918
<b>Total Expenditures</b>	<b>19,618</b>	<b>19,889</b>	<b>20,626</b>	<b>20,228</b>	<b>19,846</b>	<b>19,687</b>
<b>SURPLUS/(DEFICIT)</b>	<b>(2,637)</b>	<b>287</b>	<b>184</b>	<b>1,037</b>	<b>1,877</b>	<b>2,489</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 5,666</b>	<b>\$ 3,908</b>	<b>\$ 4,092</b>	<b>\$ 5,128</b>	<b>\$ 7,005</b>	<b>\$ 9,494</b>

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

### **Solid Waste 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:

- Optimizing collection routes to increase operational efficiency, plan for customer growth, and improve customer service levels.
- Implementing recommendations to meet increased air quality, groundwater, and landfill gas regulatory compliance standards at the City's three closed landfills.
- Reducing the contamination rate of recyclables by targeting outreach efforts to specific neighborhoods and enhancing educational resources.
- Improving response to illegal dumping issues by implementing new collection strategies and alternative waste reduction programs.

Costs for items vital to providing solid waste services and compliance with regulatory mandates continue to rise. The most significant cost increases are in-region disposal fees, vehicle operations and maintenance, labor contracts, and post-closure activities of City-owned landfills. While costs in many areas are rising, the Recycling and Solid Waste Division will continue to evaluate opportunities to increase efficiencies and reduce costs, including modifications to daily collection routes and the procurement of 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 that reflects anticipated cost increases, organizational and operational changes, and compliance with regulatory requirements, and includes the following assumptions:

- Implement the second year of the City Council approved three-year utility rate adjustment for recycling and solid waste services.
- Provide additional staffing to increase efficiency of yard waste collection during "leaf-season" (November through January).
- Provide resources for the replacement of aging refuse trucks and refuse containers through budgeted replacement dollars.
- Fund necessary upgrades, and new and ongoing post-closure costs at City-owned landfills with multi-year resources.

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

	FY16	FY17	FY18	FY19	FY20	FY21
	Approved	Proposed*	Projection	Projection	Projection	Projection
<b>BEGINNING FUND BALANCE</b>	<b>19,901</b>	<b>20,374</b>	<b>16,682</b>	<b>17,133</b>	<b>17,551</b>	<b>17,404</b>
<b>Revenues</b>						
Charges, Fees, and/or Services	59,738	62,008	64,513	65,158	65,823	66,494
Other	39	39	39	39	39	115
<b>Total Revenues</b>	<b>59,777</b>	<b>62,047</b>	<b>64,552</b>	<b>65,197</b>	<b>65,862</b>	<b>66,609</b>
<b>Expenditures</b>						
Operating - Employee Services	16,159	16,914	17,337	17,770	18,215	18,670
Operating - Other	38,914	41,732	40,425	41,233	42,058	42,899
Debt Service	3,794	3,395	2,694	2,129	2,091	2,118
Multi-Year Operating Projects	2,081	2,131	2,131	2,131	2,131	2,131
Capital Improvements	3,008	1,567	1,515	1,515	1,515	1,515
<b>Total Expenditures</b>	<b>63,956</b>	<b>65,739</b>	<b>64,101</b>	<b>64,778</b>	<b>66,009</b>	<b>67,333</b>
<b>SURPLUS/(DEFICIT)</b>	<b>(4,179)</b>	<b>(3,692)</b>	<b>451</b>	<b>419</b>	<b>(147)</b>	<b>(724)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 15,722</b>	<b>\$ 16,682</b>	<b>\$ 17,133</b>	<b>\$ 17,551</b>	<b>\$ 17,404</b>	<b>\$ 16,681</b>

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

**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 current 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 adjustment for the Storm Drainage Fund is subject to voter approval. Storm drainage user charges have not been increased since 1997, 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**

	FY16 Approved	FY17 Proposed*	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
<b>BEGINNING FUND BALANCE</b>	<b>17,906</b>	<b>18,350</b>	<b>17,891</b>	<b>16,189</b>	<b>13,765</b>	<b>9,581</b>
<b>Revenues</b>						
Charges, Fees, and/or Services <sup>1</sup>	35,633	35,705	35,830	35,955	36,081	36,207
Interest	422	422	422	422	422	422
Other (Intergovernmental)	25	25	25	25	25	25
<b>Total Revenues</b>	<b>36,080</b>	<b>36,152</b>	<b>36,277</b>	<b>36,402</b>	<b>36,528</b>	<b>36,654</b>
<b>Expenditures</b>						
Operating - Employee Services	25,220	14,963	15,562	16,184	16,831	17,504
Operating - Other	6,487	15,934	16,412	16,904	17,411	17,933
Debt Service	3,662	3,658	3,662	3,537	3,536	271
Multi-Year Operating Projects	1,344	1,597	1,893	1,951	2,684	2,359
Capital Improvements	885	459	450	250	250	250
<b>Total Expenditures</b>	<b>37,598</b>	<b>36,611</b>	<b>37,979</b>	<b>38,826</b>	<b>40,712</b>	<b>38,317</b>
<b>SURPLUS/(DEFICIT)</b>	<b>(1,518)</b>	<b>(459)</b>	<b>(1,702)</b>	<b>(2,424)</b>	<b>(4,184)</b>	<b>(1,663)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 16,388</b>	<b>\$ 17,891</b>	<b>\$ 16,189</b>	<b>\$ 13,765</b>	<b>\$ 9,581</b>	<b>\$ 7,918</b>

<sup>1</sup>Growth based on 2016 Metropolitan Transportation Plan/Sustainable Communities Strategy Update: Preferred Scenario for the SACOG Board of Directors meeting on 4/9/2015

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

**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 more prominent. Green infrastructure prevents and reduces storm water 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 percent 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 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.

To meet the Charter requirements for the delivery of the budget, this Budget was developed assuming no rate increases and as such only a one-year CIP Budget was proposed. In late March Council approved a nine percent rate increase in each of the years from FY2016/17 through FY2019/20. The operating budget, five-year CIP, and five-year forecast for this fund will be amended in May based on Council action.

The following chart provides a five-year forecast for the Wastewater Fund to address anticipated cost increases and meet regulatory requirements. The forecast without a rate adjustment does not adequately address funding needs for critical wastewater infrastructure.

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

	FY16 Approved	FY17 Proposed*	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
<b>BEGINNING FUND BALANCE</b>	<b>16,486</b>	<b>7,957</b>	<b>7,013</b>	<b>9,239</b>	<b>10,819</b>	<b>9,592</b>
<b>Revenues</b>						
Charges, Fees, and/or Services <sup>1</sup>	30,488	30,490	30,597	30,704	30,811	30,919
Interest	392	392	392	392	392	392
Other (Intergovernmental)	715	1,013	1,043	1,074	1,106	1,139
<b>Total Revenues</b>	<b>31,595</b>	<b>31,895</b>	<b>32,032</b>	<b>32,170</b>	<b>32,309</b>	<b>32,450</b>
<b>Expenditures</b>						
Operating - Employee Services	8,417	11,322	11,775	12,246	12,736	13,245
Operating - Other	15,941	12,558	12,935	13,323	13,723	14,135
Debt Service	3,035	3,033	2,882	2,841	2,842	2,753
Multi-Year Operating Projects	2,229	1,919	2,214	2,180	4,235	3,782
Capital Improvements	11,500	4,007	-	-	-	-
<b>Total Expenditures</b>	<b>41,122</b>	<b>32,839</b>	<b>29,806</b>	<b>30,590</b>	<b>33,536</b>	<b>33,915</b>
<b>SURPLUS/(DEFICIT)</b>	<b>(9,527)</b>	<b>(944)</b>	<b>2,226</b>	<b>1,580</b>	<b>(1,227)</b>	<b>(1,465)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 6,959</b>	<b>\$ 7,013</b>	<b>\$ 9,239</b>	<b>\$ 10,819</b>	<b>\$ 9,592</b>	<b>\$ 8,127</b>

<sup>1</sup>Growth based on 2016 Metropolitan Transportation Plan/Sustainable Communities Strategy Update: Preferred Scenario for the SACOG Board of Directors meeting on 4/9/2015

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

**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 (Water Forum), 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 include the following:

- 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.
- Addressing effects 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.
- 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.

To meet the Charter requirements for the delivery of the budget, this Budget was developed assuming no rate increases and as such only a one-year CIP Budget was proposed. In late March Council approved a 10 percent rate increase in each of the years from FY2016/17 through FY2019/20. The operating budget, five-year CIP, and five-year forecast for this fund will be amended in May based on Council action.

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 FY2016/17 remain very close to 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 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**

	FY16 Approved	FY17 Proposed*	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
<b>BEGINNING FUND BALANCE</b>	<b>43,548</b>	<b>33,737</b>	<b>36,472</b>	<b>39,963</b>	<b>41,503</b>	<b>40,901</b>
<b>Revenues</b>						
Charges, Fees, and/or Services <sup>1</sup>	96,041	96,339	96,676	97,014	97,354	97,695
Interest	400	400	400	400	400	400
Other (Intergovernmental)	150	185	185	185	185	185
<b>Total Revenues</b>	<b>96,591</b>	<b>96,924</b>	<b>97,261</b>	<b>97,599</b>	<b>97,939</b>	<b>98,280</b>
<b>Expenditures</b>						
Operating - Employee Services	26,264	36,389	37,845	39,359	40,933	42,570
Operating - Other	34,272	25,567	26,334	27,124	27,938	28,776
Debt Service	27,135	26,450	26,450	26,450	26,450	26,450
Multi-Year Operating Projects	2,361	2,736	3,141	3,126	3,220	3,723
Capital Improvements	23,161	3,047	-	-	-	-
<b>Total Expenditures</b>	<b>113,193</b>	<b>94,189</b>	<b>93,770</b>	<b>96,059</b>	<b>98,541</b>	<b>101,519</b>
<b>SURPLUS/(DEFICIT)</b>	<b>(16,602)</b>	<b>2,735</b>	<b>3,491</b>	<b>1,540</b>	<b>(602)</b>	<b>(3,239)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 26,946</b>	<b>\$ 36,472</b>	<b>\$ 39,963</b>	<b>\$ 41,503</b>	<b>\$ 40,901</b>	<b>\$ 37,662</b>

<sup>1</sup>Growth based on 2016 Metropolitan Transportation Plan/Sustainable Communities Strategy Update: Preferred Scenario for the SACOG Board of Directors meeting on 4/9/2015

\*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.