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**SECTION – 1**

**BUDGET MESSAGE**





OFFICE OF THE  
CITY MANAGER

CITY OF SACRAMENTO  
CALIFORNIA

CITY HALL  
5<sup>th</sup> FLOOR  
915 I STREET  
SACRAMENTO, CA  
95814-2684

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PH 916-808-5704  
FAX 916-808-7618

Mayor and City Council  
Sacramento, California

Honorable Members in Session:

I respectfully submit the Fiscal Year 2007/08 Proposed Budget for the City of Sacramento. The Proposed Budget is balanced and totals \$964.6 million from all funding sources and supports 5,222 full time equivalent (FTE) positions. The General Fund totals \$428.6 million and 3,906 FTE positions. These figures reflect the City's Proposed Budget requirements, consistent with the Mayor and City Council's Strategic Planning - Strategic Budgeting process. Also identified in the Overview, but not included in the Proposed Budget, pending Mayor and City Council approval, are augmentations totaling \$6.2 million and 32.8 FTE positions.

**Strategic Planning – Strategic Budgeting**

The FY2007/08 Proposed Budget reflects expenditures necessary to maintain current staffing levels and fund prior year commitments. The largest single impact to the growth of the base budget has been the implementation of long-term labor agreements which will result in significant expenditure growth over the remaining two years of the contracts. Other obligatory labor impacts include: employee salary adjustments, full-year costs of reclassified positions, pension and retirement contributions to both the Public Employee Retirement System (PERS) and the Sacramento City Employee Retirement System (SCERS), and employee health plans.

In addition to the growth detailed above, the Proposed Budget includes funding for the four high priority initiatives identified by the City Council since the completion of the FY2006/07 budget planning cycle and prioritized for inclusion in the Proposed Budget through the Strategic Planning – Strategic Budgeting process. These priorities include the addition of 911 dispatchers, conversion of park maintenance contracts to City staff, implementation of a Citywide 311 program, and labor adjustments for Police Department civilian staff.

These programs are consistent with the Mayor and Council's identified strategic planning focus areas of Public Safety, and Sustainability and Livability. As directed by Council, the 911 Dispatchers, Park Maintenance and 311 programs are proposed to be phased in over three years, with continual evaluation each year to determine whether program expansion continues to be the most appropriate next step, and whether the City can continue to fund the expansion given overall budget considerations at that time. The adjustments to Police civilian labor budgets are ongoing, to address recruitment and retention issues.

### **Sustainable Budget Concept**

With the leadership and vision of the Mayor and City Council, the City of Sacramento has seen fiscal stability in times when many other jurisdictions are facing serious fiscal problems. The City Council has adopted the following principles to support this philosophy:

- Maintain a fiscally sustainable, balanced budget
- Use one-time resources strategically
- Identify return on investment and impacts; fiscal and social benefits
- Maintain a reserve for economic uncertainties
- Keep the City Council informed on the fiscal condition of the City
- Focus on incremental changes to staffing and spending
- Identify resources for top priorities and initiatives
- Continuous evaluation for efficiencies and effectiveness

Adhering to these sustainable budget principles has allowed the City to weather the economic downturn in the early years of this decade without impacts to services and positioned the City to afford long-term labor contracts and key budget augmentations for public safety and other critical services. It is critical that the City maintain its commitment to these budget policies as the City will face future fiscal challenges as nationwide and statewide economic trends can and will impact the City.

### **Local Economic Issues and the Budget**

The slowing real estate market, on both the national and regional level, is well publicized. The change in the local market is having a significant impact on tax revenues as the rate of growth in property taxes is smaller than in recent years. Further, in the current fiscal year the City is realizing reductions in sales tax and utility users' tax revenues. Slowing growth in major tax revenues had been forecast, but not actual reductions in sales tax and utility users' tax. This weakness in revenues requires more extensive use of budgetary reserves than in previous years. The new budget process and decision-making model requires regular assessment and reporting of the overall status of expenditures and revenues. Should these trends continue over the remainder of the fiscal year, then options for achieving budget sustainability will be brought before the Mayor and City Council for consideration.

### **Past Accomplishments – Looking to the Future**

In the past several years, the Mayor and City Council have authorized increases in the City's capacity to deliver services to City residents and businesses with an emphasis on public safety. All service needs, however, have not been addressed. Ultimately, the performance of the local economy and the resulting tax revenues put limits on the ability to support higher service levels and annual costs. Long term budget planning must include an aggressive economic development strategy focused on creating new jobs and growing revenues. Options for changing both the expenditure and funding side of the budget on a multi-year basis must continually be developed and refined. This will be done in the context of the transparent and accountable strategic planning – strategic budgeting process.

Respectfully submitted,



RAY KERRIDGE  
City Manager