

**CITY MANAGER'S
TRANSMITTAL LETTER**





OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 304
730 I STREET
SACRAMENTO, CA
95814

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

City Council
Sacramento, California

Honorable Members in Session:


It is with pleasure that I transmit to you the Approved Budget for Fiscal Year 2003/04. The Approved FY2003/04 budget is balanced and totals \$707 million from all funding sources with the City's General Fund totaling \$304 million.

The FY2003/04 Budget includes modest adjustments centered on funding new mandated costs and investing in infrastructure maintenance. The FY2003/04 Budget is balanced using a combination of departmental savings, new revenues and reserves. The FY2003/04 Approved Budget continues to support the Council's policy of maintaining a long-term sustainable budget.

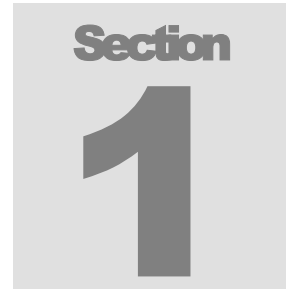
Looking forward, the most significant challenges for the City are the level of financial uncertainty - from the effects of the overall economy to the state budget deficit - and the need to address a structural imbalance of at least \$25 million in the next few years. Because of the Council's commitment to a sustainable budget, however, the City is relatively well positioned to deal with these challenges.

The Council's FY2003/04 budget is a prudent financial plan that continues to protect, preserve, and enhance the quality of life for present and future generations in Sacramento. I look forward to working with you, the community and City staff to continue providing quality municipal services throughout the year.

Respectfully submitted,



Robert P. Thomas
City Manager



BUDGET MESSAGE

Proposed Budget Message (As written on May 1, 2003)

Honorable Members in Session:

I respectfully submit the FY2003/04 Proposed Budget. The Proposed Budget is balanced and totals \$705 million from all funding sources. It includes 4,680 full time equivalent (FTE) positions. The General Fund portion of the Budget represents \$302 million and 3,372 FTE positions. The Proposed Budget includes a net increase of 21 FTE positions, including 15 in the Fire Department to staff the new North Natomas Fire Station.

Financial Picture

The City has successfully weathered a number of financial challenges over the past year including a weak economy, corresponding slow growth in revenues, and a ballot measure that would have reduced the City's Utility User Tax revenues by \$39 million annually. Thanks to the foresight and proactive planning of the Mayor and City Council, the City of Sacramento has been much more strongly positioned to deal with these challenges than many other California cities facing similar financial hurdles.

Unfortunately, the City's financial status and budget continue to be affected by factors whose impact and timing are out of our control. These factors are like rings surrounding the City, putting financial pressure on the budget. Specifically:

- The continued lag in the economy and the corresponding slow growth in revenues negatively affect the City's budget.
- The State is facing an unprecedented budget deficit. Final action on the State's FY2003/04 budget may not occur until this fall. At risk are Vehicle License Fee revenues, Booking Fee Reimbursement and other City revenues totaling \$18 to \$20 million annually.
- The County is facing large budget reductions and is considering closure of clinics, elimination of probation officers and reduced funding to our joint powers/partners activities. These actions will eliminate services to City residents and create additional demands on City fire and police services. The County's budget is adopted in September.
- Although the City continues to grow both in population and in service demands, General Fund staffing levels have remained relatively static. The modest staff increases over the past few years have allowed us only to regain some of the staffing eliminated over the past decade, but not keep pace as the City's population has continued to grow.
- The City continues to experience a structural imbalance in the General Fund, with the cost for current service levels growing faster than revenues. Major factors in the imbalance are slow revenue growth and increased costs for services due in part to the higher-than-expected retirement costs resulting from poor investment returns experienced by the California Public Employees Retirement System (PERS).

Based on the five-year forecast, permanent annual reductions will likely be needed for the next three to five years before a balance between costs and revenues is achieved. This does not include any adjustments that may be needed as a result of the state or county budget actions.

Financial Strategies for FY2003/04

The potential impacts on the City's financial status, while anticipated, are difficult to project. As actions take place and the details become clearer, the City must be in a position to respond. In the interim, sound planning and financial decisions consistent with the sustainable budget concept, which have served the City well in the past, will be inherent in the financial strategies for the City over the coming year.

Due to the financial unknowns and their potential impact to the City, the budget process for FY2003/04 will be a year-long activity to respond to financial conditions as they occur. Staff will be reporting to Mayor and City Council regularly on the implementation of the financial strategies including the status of achieving department savings.

The FY2003/04 Proposed Budget incorporates the following multi-pronged strategy:

- Maintain the sustainable budget concept. The FY2003/04 Proposed Budget has been developed consistent with the Mayor and City Council's policy of a long-term sustainable budget.
- Balance the FY2003/04 Proposed Budget. In order to begin to address the structural imbalance in the General Fund for FY2003/04, the Proposed Budget is balanced and incorporates:
 - \$8 million in department savings. Hiring controls which restrict filling of vacant positions have been instituted and are expected to result in salary savings. Staff will report quarterly to the Mayor and City Council on the results of the hiring controls.
 - \$2.6 million in new revenues are proposed to help offset the cost of maintaining service levels. Specific reports on proposed fee/revenue increases will be presented during the course of the budget hearing process.
 - \$13 million in reserves and funding reallocations will be used to help close the gap.
 - Increased service demands resulting from growth are addressed through reallocation of resources within existing budgets. This will create significant pressure on departments as they cope with increased work without increased resources, resulting in some cases in reduced service levels.
- Identify specific reductions which could be implemented. Reductions in staff and services are never easy choices. General Fund reduction plans of 2 ½ to 5 percent for public safety and 5 to 10 percent for non-public safety activities have been developed by departments. These reductions will be submitted to the Mayor and City Council for their consideration as part of the budget hearing process.
- Plan for the future. After July 1st, the City will begin an organizational assessment to identify opportunities for savings through the evaluation of best practices, overlapping

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services, centralization vs. decentralization, span of control, etc. Savings realized as a result of this assessment effort will be used to offset the approximately five percent ongoing reduction requirement anticipated for FY2004/05. Staff will report back to the Mayor and City Council at the FY2003/04 Midyear Report with the results and recommendations from the organizational assessment.

The Proposed Budget also continues the Mayor and City Council policy of maintaining the Reserve for Economic Uncertainty at 6 percent of General Fund Resources for FY2003/04, for a total of \$22 million.

While the year ahead holds many unknowns, the City is in a position to respond decisively. I am confident that, with the leadership of the Mayor and City Council, the City of Sacramento will maintain its commitment to being the City of choice to live, learn, work and play.

Respectfully submitted,



Robert P. Thomas
City Manager