

**APPROVED BUDGET
OVERVIEW**

FY2003/04 APPROVED BUDGET

On June 17, 2003, the City Council adopted the FY2003/04 Budget. The following charts summarize the change to the City Manager's Proposed Budget, originally released on May 1, 2003.

Program	Description	FTE	Revenue Change	Expenditure Change
Operating Budget Changes Approved By Intent During Budget Hearings				
Non Department	Reduce reserves to provide funding for campaign financing for the 2004 City Council races, as approved on June 5, 2003 subject to reporting back on program implementation	0.0	\$0	\$300,000
Fire	Adjust Fire – ALS budget to reflect City Council action on May 29, 2003 Operating CIP Station Computer Upgrade	1.0	\$1,202,000	\$1,000,000 \$750,000
Parks and Recreation	Adjust positions and reallocate existing funding to create a fiscal unit for the department and to increase park maintenance positions as approved on May 29, 2003.	2.5	\$0	\$53,500
Parks and Recreation and Neighborhood Services	Move the START program from the Parks and Recreation Department to the Neighborhood Services Department to align budget and program operation (no net budget or FTE change), as discussed on May 29, 2003.	0.0	\$0	\$0
Planning and Building	Adjust Planning and Building Department Budget to reflect additional revenues, expenses and FTE approved by Council on April 29, 2003 and June 10, 2003. Planning fee implementation is subject to a report back within 60 days.	18.0	\$287,627	\$1,163,206

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Program	Description	FTE	Revenue Change	Expenditure Change
Public Works	Adjust Animal Care budget authority as directed by City Council on June 10, 2003 and portion of fee increase to cover new costs.	0.0	\$84,256	\$84,256
Public Works	One-year rate increase approved by City Council on 6/3/03 (not the two-year rate increase proposed). Report back on a voluntary program for containerized green waste requested by City Council.	0.0	\$0	\$0
	TOTAL ADJUSTMENTS	21.5	\$1,573,883	\$3,350,962
	Expenditure offsets - Operating Grants, Fees and ALS reserve	21.5	n/a	(\$1,477,079)
	General Fund	0.0	\$1,573,883	\$1,873,883
New General Fund Revenues Approved by City Council During Budget Hearings				
Public Works	Adjust on-street parking fee revenues for fees approved by City Council on June 10, 2003.		\$260,000	n/a
Public Works	Adjust parking penalty revenues as approved by City Council on June 10, 2003.		\$885,000	n/a
Public Works	Animal Care revenues approved by Council June 10, 2003 above new program costs.		\$206,186	n/a
Parks and Recreation	Adjust revenues for increased fees for special event applications, neighborhood and community park reservations and Adult sports field use as approved by City Council on June 10, 2003. Proposed increases in swim admission fees were NOT approved.		\$67,500	n/a

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Program	Description	FTE	Revenue Change	Expenditure Change
Convention Culture & Leisure	Adjust fee for Old Sacramento Visitor Boat Dock use approved on June 10, 2003.		\$15,000	n/a
Neighborhood Services	Adjust revenues for increased code enforcement fees approved by City Council on June 10, 2003.		\$60,000	n/a
	TOTAL		\$1,493,686	n/a

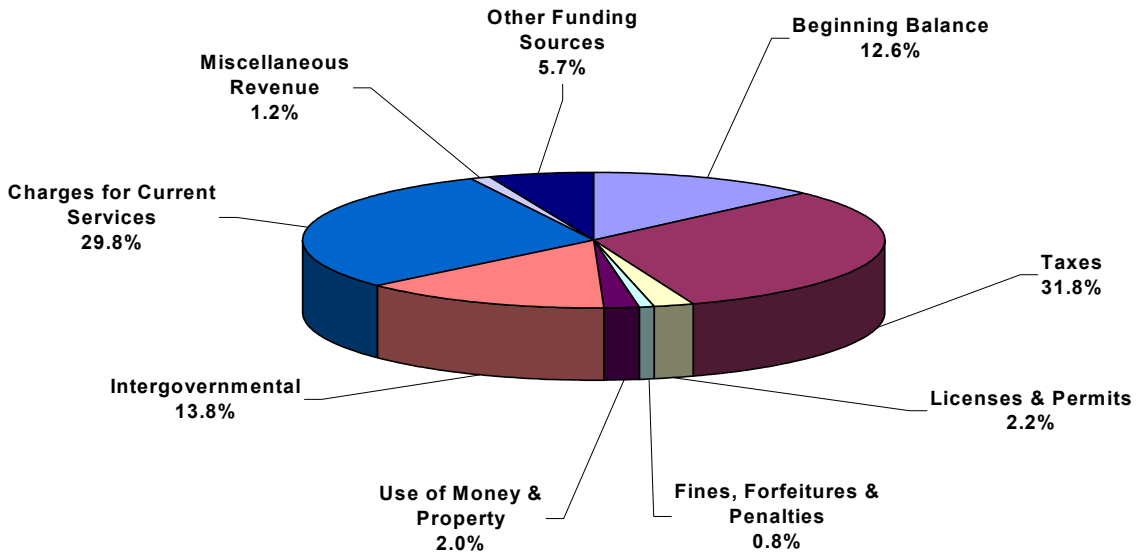
FY2003/04 APPROVED BUDGET

The following chart is the General Fund Five-Year Forecast which has been updated to reflect all Approved Budget changes.

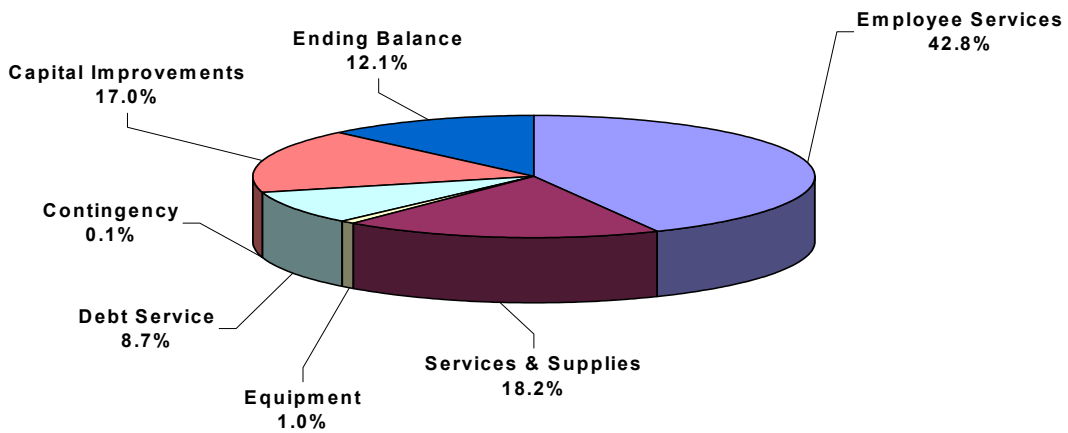
Table 2						
General Fund Five-Year Forecast (\$ in thousands)						
	FY2002/03 Midyear	FY2003/04 Approved	FY2004/05 Estimated	FY2005/06 Estimated	FY2006/07 Estimated	FY2007/08 Estimated
Beginning Fund Balance	6,787	1,137	714	350	3,284	3,169
Revenues						
Taxes	180,114	186,651	191,980	198,283	204,814	211,579
Department Operating Revenues	45,203	50,012	47,670	48,672	49,694	50,737
All other (VLF, interest etc...)	51,280	52,512	52,125	52,733	53,320	53,939
Total Revenues	276,597	289,175	291,776	299,688	307,828	316,255
Expenditures						
Department Operating	283,274	304,934	312,755	318,651	330,116	338,252
Capital & Other Expenditures	5,764	6,741	6,683	9,965	8,963	9,146
Total Expenditures	289,038	311,675	319,438	328,616	339,079	347,397
Revenues - Expenditures	(12,440)	(22,500)	(27,662)	(28,929)	(31,250)	(31,142)
Balancing the Budget						
Department Savings/Reductions						
New Revenues	0	0	2,638	2,717	2,798	2,882
Other Sources/Use of Reserves	6,789	14,077	11,160	7,014	0	0
ENDING BALANCE	1,137	714	350	3,284	3,169	3,247

Approved
Total City Budget: \$707 Million

Resources

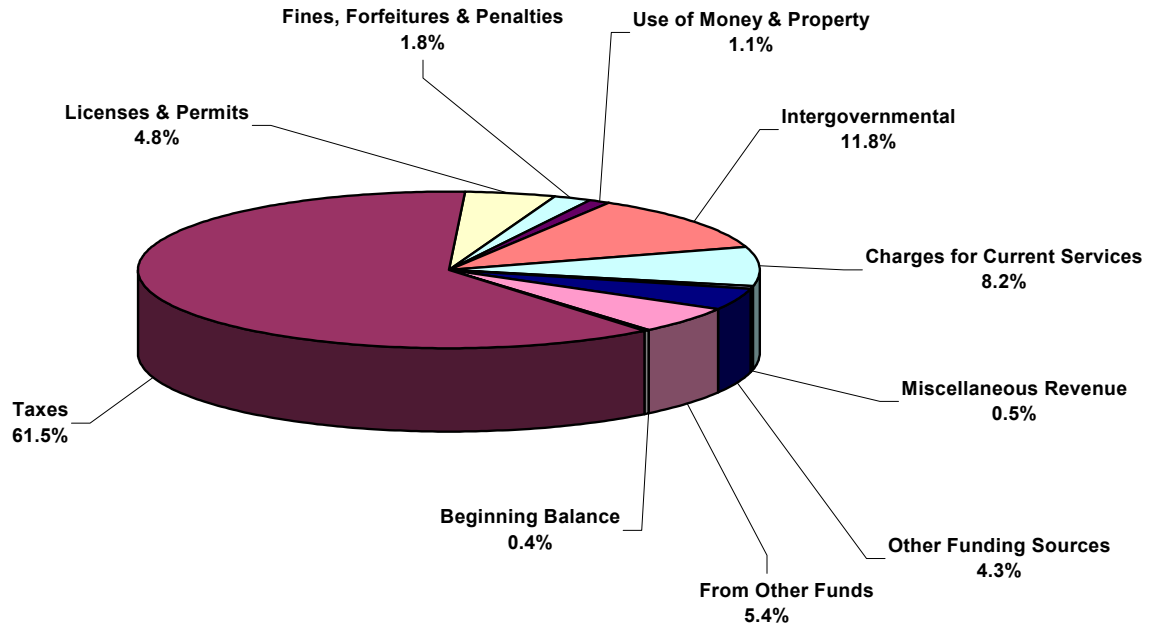


Expenditures

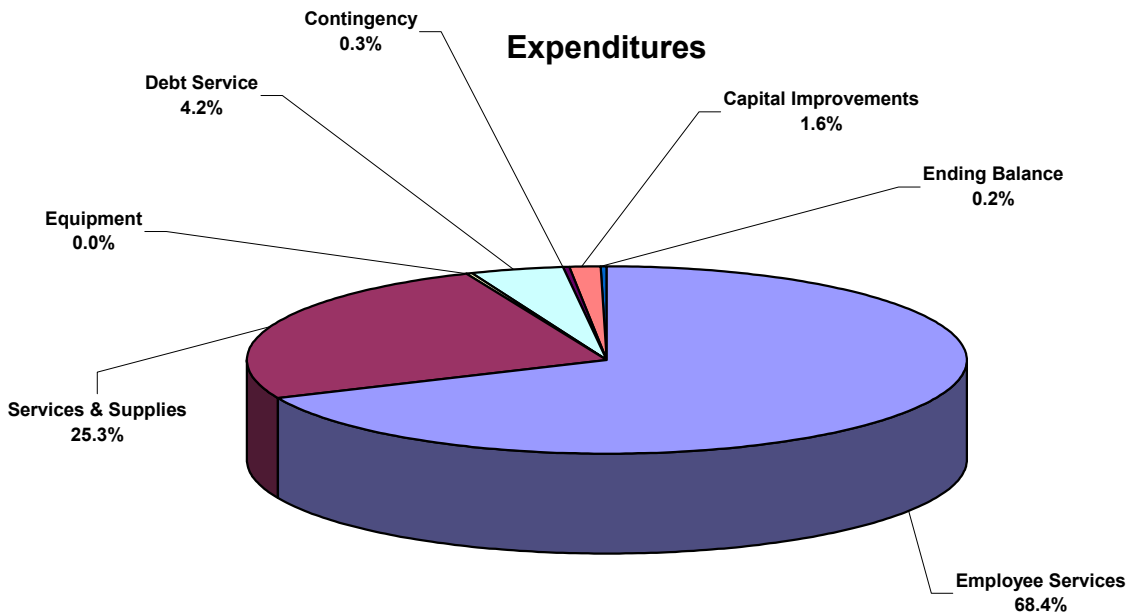


**Approved
General Fund: \$304 Million**

Resources



Expenditures



Detail on Approved Position Increases

Fund/Department	General Fund	Other Funds	Comments
GENERAL FUND			
Human Resources – ADA Coordinator	1.0		To increase City responsiveness on ADA-related issues
Public Works – Animal Care	3.0		Related to state mandates and Blue Ribbon Committee recommendations
Public Works – Maintenance Services	2.0		Related to growth in facilities
Fire	15.0		Staffing for new North Natomas Fire Station
Total, General Fund	21.0		
OTHER FUNDS			
Parks – Maintenance		3.0	Increased number of parks to maintain, funded by Citywide Community Facilities District
Utilities – Drainage		2.0	Maintenance of new drainage basins
Total, Other Funds		5.0	
Total Citywide	21.0	5.0	

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

The FY2003/04 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.

OVERALL FINANCIAL OUTLOOK FOR THE CITY OF SACRAMENTO

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.

GENERAL FUND REVENUES

After experiencing a mild recession in early 2001, the national, state, and local economies have remained virtually flat in 2002 and early 2003, with gross domestic product (GDP) increasing at a 2.4 percent and 2.3 percent (estimated) rate respectively. A mild recovery is anticipated later this year and in early 2004, with estimates for a 3.5 percent GDP rate of growth in 2004.

While the California statewide unemployment rate has gone from 5.4 percent in 2001 to 6.7 percent in 2002, it is estimated that the rate will stabilize this year and trend downward in 2004. The Sacramento regional unemployment rate, while growing from 4.0 percent in 2001 to 5.1 percent in 2002, has not increased as severely as the national and state rates. This region is also expected to stabilize and show slight improvement going forward with unemployment rates ranging from 4.7 percent to 4.9 percent through 2007.

FY2003/04 General Fund revenues are estimated to be \$285.2 million, which is \$5.8 million greater than the FY2002/03 Approved Budget. While taxes are projected to increase by \$4.0 million (2.8 percent) over the FY2002/03 budget, other General Fund revenues are expected to increase by \$1.8 million (1.3 percent).

The economic slowdown since early 2001 has had a direct negative impact on sales tax revenues the past two years. However, projected FY2003/04 sales tax revenues of \$59.0 million are anticipated to slightly exceed peak sales tax receipts in FY2000/01 of \$58.6 million (0.7 percent). Taxable sales in the Sacramento region have begun to stabilize and are anticipated to show a slight improvement going forward, absent additional negative impacts to the economy such as continued rising unemployment and reduced consumer confidence.

Property tax revenues are projected to be \$57.7 million in FY2003/04, a 5.6 percent increase over the FY2002/03 approved budget. The overall housing market has remained strong, with housing starts, home sales, average home price, and assessed valuations estimated to increase by 8.9 percent, 0.8 percent, 4.3 percent, and 7.6 percent respectively in the coming year. Non-residential development is also expected to remain solid, with a 5.8 percent increase in non-residential construction in 2004.

Utility User Tax (UUT) revenues continue to remain sluggish primarily due to the telecommunications and cable portion of UUT collections. While FY2002/03 telecommunications and cable UUT revenues are down 16 percent and 8 percent respectively so far this year, cellular and gas collections are up 10 percent each, with electric UUT revenues up a slight 2 percent. Overall, FY2003/04 estimated UUT revenues of \$48.9 million will remain flat from FY2001/02 actual revenues and down slightly from the FY2002/03 approved budget.

State motor vehicle license fee (VLF) revenues are budgeted at \$24.5 million for FY2003/04, which assumes that the State continues its current backfill of \$16 to \$18 million. This amount is down slightly from the current year budget. Any estimate of VLF revenues is subject to change, however, until it is determined whether the state will continue to backfill

these collections. Without further clarity, the outlook going forward is anticipated to be essentially flat.

GENERAL FUND EXPENDITURES

FY2003/04 Proposed Budget:

The FY2003/04 Proposed Budget includes modest adjustments centered on Mayor and City Council priorities and the City's Strategic Plan. The most significant ongoing funding increases are for further implementation of the Animal Care Blue Ribbon Committee recommendations and legal mandates as well as the staffing of the North Natomas Fire Station. Other specific highlights include:

Implementation of Mayor and City Council Priorities

- Addition of 3.0 FTE to Animal Care, including a veterinarian and volunteer/rescue coordinator, to further implement the Animal Care Blue Ribbon Committee recommendations and to meet legal mandates.
- Addition of 1.0 Citywide ADA (Americans with Disabilities Act) Coordinator to increase city responsiveness to ADA issues.
- Support to expand the City's legislative advocacy efforts (\$200,000).
- Direct funding to support the delivery of small capital projects, effectively reducing the indirect costs charged to these projects (\$300,000).

Maintain Service Levels and Respond to Growth

- Addition of 15.0 FTE to the Fire Department to provide for staffing of the new North Natomas fire station anticipated to open in the fall of 2004.
- Addition of 2.0 FTE to Utilities Field Services for maintenance of new conjunctive use areas related to detention basins.
- Addition of 3.0 FTE to Parks Maintenance to support increased service demands.
- Increased funding in Solid Waste to address the increased service demands in street cleaning, garbage, recycling and garden refuse.

Protect the Investment in Public Assets

- Additional funding to address sidewalk repair complaints (\$70,000).
- Addition of 2.0 FTE in Public Works and associated services and supplies costs to address maintenance at an increased number of public facilities (\$400,000).
- Support for Water Conservation Programs as required under the Water Forum Agreement (\$243,000).
- Continued funding to address the deferred maintenance backlog of City-owned facilities (\$1 million).
- One-time funding to retrofit parks to increase maintenance efficiency (\$1 million).

FY2003/04 APPROVED BUDGET

Detail on Proposed Position Increases is shown on Table 1.

The Proposed Budget also continues the Mayor and City Council policy of growing the Reserve for Economic Uncertainty. The proposed level for FY2003/04 is \$22 million (6 percent of General Fund revenues).

**Table 1
Proposed Position Increases**

Fund/Department	General Fund	Other Funds	Comments
GENERAL FUND			
Human Resources – ADA Coordinator	1.0		To increase City responsiveness on ADA-related issues
Public Works – Animal Care	3.0		Related to state mandates and Blue Ribbon Committee recommendations
Public Works – Maintenance Services	2.0		Related to growth in facilities
Fire	15.0		Staffing for new North Natomas Fire Station
Total, General Fund	21.0		
OTHER FUNDS			
Parks – Maintenance		3.0	Increased number of parks to maintain, funded by Citywide Community Facilities District
Utilities – Drainage		2.0	Maintenance of new drainage basins
Total, Other Funds		5.0	
Total Citywide	21.0	5.0	

FIVE-YEAR GENERAL FUND FORECAST

Table 2 provides a projection of General Fund revenues and expenditures over the next five years.

Highlights of the Five-Year Projection:

- The General Fund's financial condition faces significant challenges over the next several years.
- Proposed Budget revenue growth over the Midyear FY2002/03 estimate is approximately 2.8 percent across major taxes and 2.3 percent for total revenues. Revenue growth for the 5-year projection reflects a slow economic recovery.
- Ongoing operating expenditures are growing at an average rate of 3 to 4 percent per year and there will be significant pressure on operating costs as new development continues in the City requiring new infrastructure such as fire stations and libraries.
- General Fund labor costs in FY2003/04 are affected by not only the normal upward pressure on salaries due to CPI increases, but also by 1) poorer-than-expected investment returns by PERS (which increases the cost to the City of approved retirement benefits), and 2) increases in the costs for workers compensation.
- Consistent with Mayor and City Council Policy, the FY2003/04 Proposed Budget maintains the Reserve for Economic Uncertainty at 6 percent of revenues, or \$22 million.
- Given the additional costs described above, as well as the existing structural imbalance in the City's General Fund budget, the Proposed FY2003/04 Budget is balanced with:
 - \$8 million in department savings. Hiring controls which restrict filling of vacant positions have been instituted and are expected to result in salary savings;
 - \$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/other sources will be used to help close the gap. This includes releasing \$1.5 million in surplus franchise fee revenues that has been held for nearly one year for programs such as park maintenance, tree maintenance, community schools partnership and streetlight matching;
 - Increased service demands resulting from growth will be addressed through reallocation of resources within existing budgets. To the extent that departments have savings from FY2000/01 that the City has been reserving to help position the City to deal with potential reductions, the Proposed Budget recommends release of those savings to assist in meeting departmental and citywide unmet needs. Table 3 shows the available carryover amounts.

To Achieve a Long-Term Sustainable Budget

The five-year projection shows that in order to bring the General Fund budget back into balance, reductions of three to five percent will be needed annually for the next several years. Without those adjustments, current spending levels are not maintainable.

FY 2003/04 APPROVED BUDGET

Part of achieving those reductions will come from conducting an organizational assessment beginning July 1, 2003. This assessment will identify opportunities for savings through the evaluation of best practices, overlapping 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.

Table 2						
General Fund Five-Year Forecast (\$ in thousands)						
	FY2002/03 Midyear	FY2003/04 Proposed	FY2004/05 Estimated	FY2005/06 Estimated	FY2006/07 Estimated	FY2007/08 Estimated
Beginning Fund Balance	6,787	1,137	1,212	847	3,781	3,667
Revenues						
Taxes	180,114	186,651	191,980	198,283	204,814	211,579
Department Operating Revenues	45,203	46,690	47,670	48,672	49,694	50,737
All other (VLF, interest etc...)	51,280	51,892	52,125	52,733	53,320	53,939
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Department Operating	283,274	301,558	312,755	318,651	330,116	338,252
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Total Expenditures	289,038	308,698	319,438	328,616	339,079	347,397
Revenues - Expenditures	(12,440)	(23,465)	(27,662)	(28,929)	(31,250)	(31,142)
Balancing the Budget						
Department Savings/Reductions	0	(8,000)	(13,500)	(22,131)	(28,338)	(28,338)
New Revenues	0	2,561	2,638	2,717	2,798	2,882
Other Sources/Use of Reserves	6,789	12,979	11,160	7,014	0	0
ENDING BALANCE	1,137	1,212	847	3,781	3,667	3,746

Table 3
FY2000/01 Department General Fund Carryover

Department	FY2000/01 General Fund Carryover
Mayor/City Council	\$1,000
City Manager	\$300,000
City Attorney	\$892,000
City Clerk	\$81,000
City Treasurer	\$686,000
Finance	\$329,000
Information Technology	\$72,000
Human Resources	\$0
Labor Relations	\$0
Police	\$1,596,000
Fire	\$130,000
Public Works	\$321,000
Convention, Culture & Leisure	\$76,000
Economic Development	\$0
Parks and Recreation	\$0
Neighborhood Services	\$246,000
Planning & Building	\$552,000
Total	\$5,282,000

IMPACT OF STATE BUDGET

The budget imbalance for the State of California is currently estimated at \$26 to \$35 billion. Traditionally, the State has looked to local government to help balance their budget during difficult economic times. In fact, the Governor's Proposed FY2003/04 Budget proposed eliminating the current State backfill of vehicle license fee (VLF) revenues, as well as eliminating the State's subvention for jail booking fees. Together, these two proposals could cost the City up to \$20 million per year in revenue.

If the State does eliminate revenue totaling \$18 to \$20 million annually to the City, an additional 8-10 percent reduction in spending could be required. This would be in addition to the spending reductions of 3 to 5 percent anticipated to be needed over each of the next three to five years to balance the City's own budget.

ENTERPRISE FUND OVERVIEW

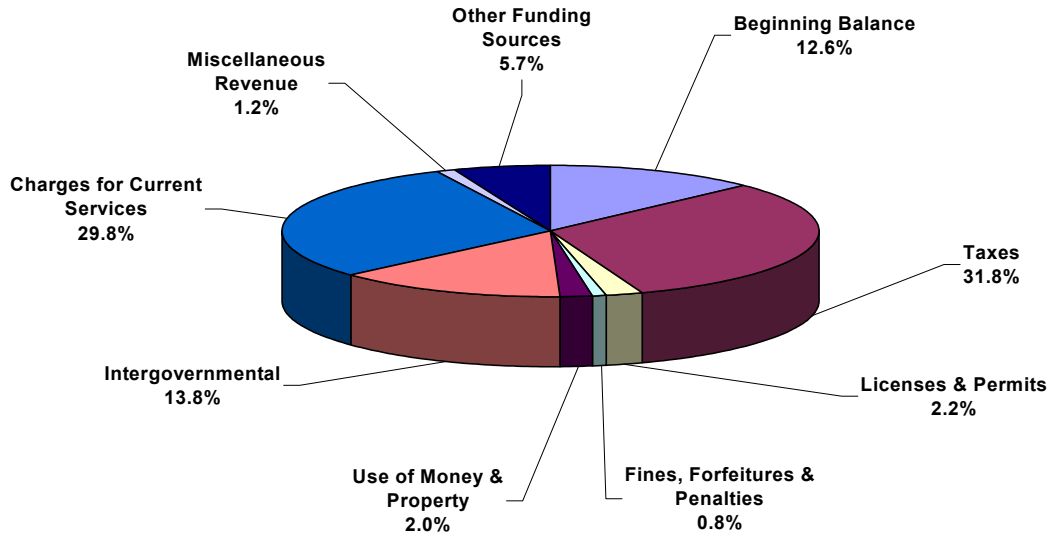
In order to meet the needs of utility customers, comply with mandated programs and account for capital improvement and operational costs, the City is proposing two-year increases to the City's water, sewer, garbage, and lawn and garden refuse rates. The proposed rate changes for FY2003/04 include the following: a 1 percent increase in the garbage collection rates, an 18 percent increase in the lawn and garden refuse/street sweeping rates, a 6 percent increase in the sewer collection rates, and a 6 percent increase in un-metered water rates. The overall rate increase as proposed is 5 percent and will result in a \$3.07 increase per month for the average household.

SUMMARY

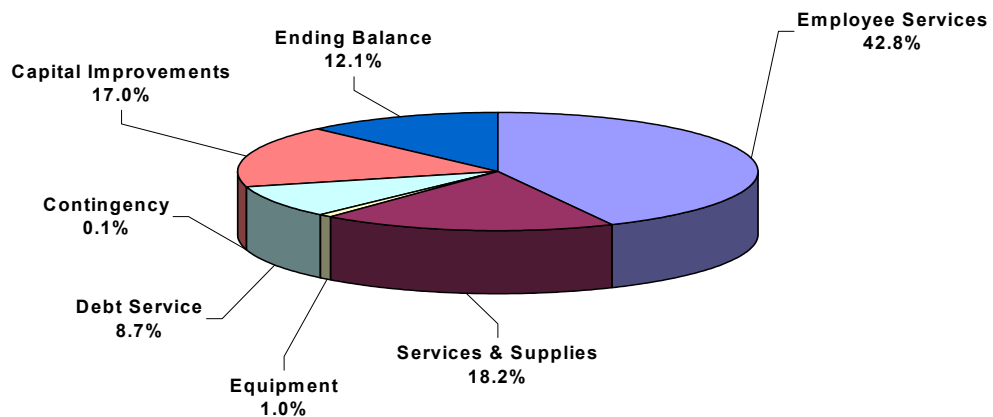
The next several years will be financially challenging for the City, likely requiring reductions and reallocations in spending. The Mayor and City Council's leadership will once again ensure that the City has a plan for prudently managing its resources in the coming year, as well as position the City of Sacramento for the future.

**Proposed
Total City Budget: \$705 Million**

Resources



Expenditures



**Proposed
General Fund: \$302 Million**

