

# 2

## **SECTION – 2**

# **APPROVED BUDGET OVERVIEW**

**APPROVED BUDGET OVERVIEW UPDATE**

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**APPROVED BUDGET OVERVIEW**

On June 17, 2008, the City Council adopted the FY2008/09 Budget. The FY2008/09 Approved Budget totals \$965.6 million from all funding sources and supports 5,300 authorized full time equivalent (FTE) positions. The General Fund totals \$423.9 million and 3,945 authorized FTE, with 3,585 FTE funded and 360 FTE unfunded.

The following charts summarize the changes to the FY2008/09 Proposed Budget released on May 1, 2008.

**FY2008/09 SUMMARY OF ADDITIONS TO THE PROPOSED BUDGET**

**General Fund, Fee Supported or Cost Offset** – The augmentation will be funded with new revenues:

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Parks and Recreation	General (101)	-	1.50	-	-	Add 1.50 FTE Park Safety Officer (Program Coordinator) for \$112,000 to be offset by increased youth and adult field use fees and increased picnic area reservation fees.
<b>TOTAL</b>		-	<b>1.50</b>	-	-	

**Enterprise, Special Revenue and Internal Service Funds, Fee Supported or Cost Offset** – These augmentations will be funded with either the recognition of new revenues or the reallocation of funding within the budget:

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Planning	North Natomas (780)	442,000	-	-	-	Adjust multiyear budgets to reflect administrative expenses and scheduled transportation agreements.
Planning	North Natomas (780)	350,000	-	-	-	Adjust reimbursements to the General Fund to reflect administrative expenses. This augmentation is part of the Planning Departments 20% General Fund reduction.
Utilities-Water	Water (413)	1,330,043	-	-	-	Adjust Water fund significant cost drivers in the service and supply budgets for COLA for \$1,120,043; and increase budget for "corrective maintenance" previously funded through CIP (Z14000100/ZB31) for \$210,000.

**(Continued) Enterprise, Special Revenue and Internal Service Funds, Fee Supported or Cost Offset**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Utilities-Sewer	Sewer (414)	55,344	-	-	-	Adjust Sewer fund significant cost drivers in the service and supply budgets for COLA.
Utilities-Solid Waste	Solid Waste (415)	1,428,096	-	-	-	Adjust Solid Waste fund significant cost drivers in the service and supply budgets for COLA.
Utilities-Storm Drainage	Storm Drainage (425)	225,196	-	-	-	Adjust Storm Drainage fund significant cost drivers in the service and supply budgets for COLA for \$140,136; and increase budget for ongoing maintenance costs on hardware and software programs for \$85,060.
<b>TOTAL</b>		<b>\$3,830,679</b>	-	-	-	

**SUMMARY OF CHANGES AND TECHNICAL ADJUSTMENTS TO THE FY2008/09 APPROVED OPERATING AND CIP BUDGETS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
City Clerk	General (101)	-	-	1.00	(1.00)	1.00 FTE Deputy City Clerk is unfunded.
City Treasurer	General (101)	-	-	(1.00)	1.00	Restore the Assistant City Treasurer FTE previously marked as unfunded. This will provide continuity in the investment business functions during this transitional period under the leadership of a newly appointed City Treasurer. The costs of this position (\$201,834) will be funded within the City Treasurer's proposed budget.
Finance	General (101)	-	-	(6.00)	6.00	1.00 FTE Accounting Clerk II is funded; 2.00 FTE Customer Service Representative is funded; 2.00 FTE Senior Accountant Auditor is funded; 1.00 FTE Special Projects Manager is funded
Fire	General (101)	2,316,332	-	(25.00)	25.00	Increase the Fire Department budget by \$2.7 million and fund 25 FTE based on Council's action on June 12, 2008 to include a rotational work force reduction of 1.5 companies (1 company starting 7/15/08 and 1 company starting 1/1/09).
General Services	General (101)	-	-	-	-	Change the identified unfunded position of Customer Service Supervisor (1.0 FTE) to Customer Service Representative (1.0 FTE). The change in labor costs as a result of the staffing changes will be offset by an adjustment to the service & supply budget so that the net effect to the general fund is zero.

**(Continued)**  
**SUMMARY OF CHANGES AND TECHNICAL ADJUSTMENTS TO THE FY2008/09 APPROVED  
 OPERATING AND CIP BUDGETS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
General Services	General (101)	-	-	-	-	Transfer an Info Tech Support Specialist I from Org 3112 (Fund 101) to Org 3259 (Fund 420). Transfer Info Tech Support Specialist II from Org 3259 (Fund 420) to Org 3112 (Fund 101).
General Services	General (101) / Fleet (420)	-	-	-	-	Transfer an Info Tech Support Specialist I from Org 3112 to Org 3259. Transfer an Info Tech Support Specialist II from Org 3259 to Org 3112.
Information Technology	General (101)	-	-	0.50	(0.50)	Change the identified unfunded positions from 6.0 to 6.5 and change the classification of 4.0 unfunded positions as a result of approved Voluntary Separation Program (VSP) participants. The change in labor costs as a result of the staffing changes will be offset by an adjustment to the service & supply budget so that the net effect to the general fund is zero.
Mayor & City Council	General (101)	-	0.50	-	0.50	Add 0.50 FTE Executive Assistant until the 2010 census redistricting project is completed, to address service levels associated with population growth.
Non-Department (Library)	General (101)	360,000	-	-	-	Match funding from the Sacramento Public Library Authority (\$360,000) to restore the proposed cuts in City Library Services.
Non-Department	General (101)	(100,000)	-	-	-	Establish a salary savings reduction to offset the restoration of Fire Department operating budget.

**(Continued)**  
**SUMMARY OF CHANGES AND TECHNICAL ADJUSTMENTS TO THE FY2008/09 APPROVED  
 OPERATING AND CIP BUDGETS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Parks and Recreation	General (101)	-	(0.31)	-	-	Delete 0.31 FTE Program Leader position for the Triple R program rightsizing
Parks and Recreation	General (101)	-	(2.82)	-	-	Delete 2.82 FTE Senior Recreation Aide positions for the Triple R program rightsizing
Parks and Recreation	General (101)	600,000	-	(10.67)	10.67	Increase the Parks and Recreation budget by \$600,000 and fund 10.67 FTE based on Council's action on June 12, 2008 to restore identified Tier II reduction measures.
Parks and Recreation	General (101)	-	-	0.40	(0.40)	Unfund 0.40 FTE Clerical Assistant
Parks and Recreation	General (101)	-	-	0.03	(0.03)	Unfund 0.03 FTE Arts and Crafts Specialist
Parks and Recreation	General (101)	-	-	2.40	(2.40)	Unfund 2.40 FTE Program Leader
Parks and Recreation	General (101)	-	-	5.51	(5.51)	Unfund 5.51 FTE Recreation Aide
Parks and Recreation	General (101)	-	-	3.00	(3.00)	Unfund 3.00 FTE Program Coordinator
Parks and Recreation	General (101)	-	-	0.25	(0.25)	Unfund 0.25 FTE Student Trainee
Parks and Recreation	General (101)	50,000	-	-	-	Adjust the General Fund revenue budget in Recreation Administration by \$50K to record revenue from Pepsi Corp to recover costs for the City's Capital Spirit Program. Expense already budgeted in proposed.

**(Continued)**  
**SUMMARY OF CHANGES AND TECHNICAL ADJUSTMENTS TO THE FY2008/09 APPROVED  
 OPERATING AND CIP BUDGETS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Parks and Recreation Police	General (101)	-	2.53	-	2.53	Increase FTE related to receipt of CalGRIPS grant. Resolution 2007-835 established revenue and expense budgets; however, the resolution did not include the augmentation of FTE to be reimbursed by the grant.
Police	General (101)	-	-	-	4.00	Reduce the total number of Unfunded FTE by 4.00 FTE ( 1.00 FTE Forensic Investigator II, 1.00 FTE Police Clerk II, 1.00 FTE Program Analyst and 1.00 FTE Supervising Forensic Investigator) for purposes of consistency and accuracy.
Resolution	All	-	-	-	-	Add the following language to the FY2008/09 Budget Resolution: Section 5.9: The City Manager is authorized to substitute unfunded positions within a department for alternate vacant positions in order to address operational needs within the department's approved budget.
Transportation	General (101)	-	-	-	-	Transfer a Special Projects Engineer from Org 3435 to Org 3491. Transfer a Street Construction Laborer from Org 3492 to Org 3435. No funding source change.
Utilities	Sewer (414)	90,000			-	Adjustment for vehicle traps (Regulatory)
Utilities	Storm Drainage (425)	90,000			-	Adjustment for vehicle traps (Regulatory)

**(Continued)**  
**SUMMARY OF CHANGES AND TECHNICAL ADJUSTMENTS TO THE FY2008/09 APPROVED OPERATING AND CIP BUDGETS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Utilities	Water (413)	272,000	-	-	-	Adjustment for repayment of SMUD back bill
Utilities	Water (413)	162,000	-	-	-	Adjustment for vehicle traps (Regulatory)
Utilities	Water (413)	(2,325,120)	-	-	-	Reduce water revenue commensurate with the proposed rate increase that has been postponed.

**FY2008/09 OPERATING BUDGET – SCHEDULE 8 ADDITIONS**

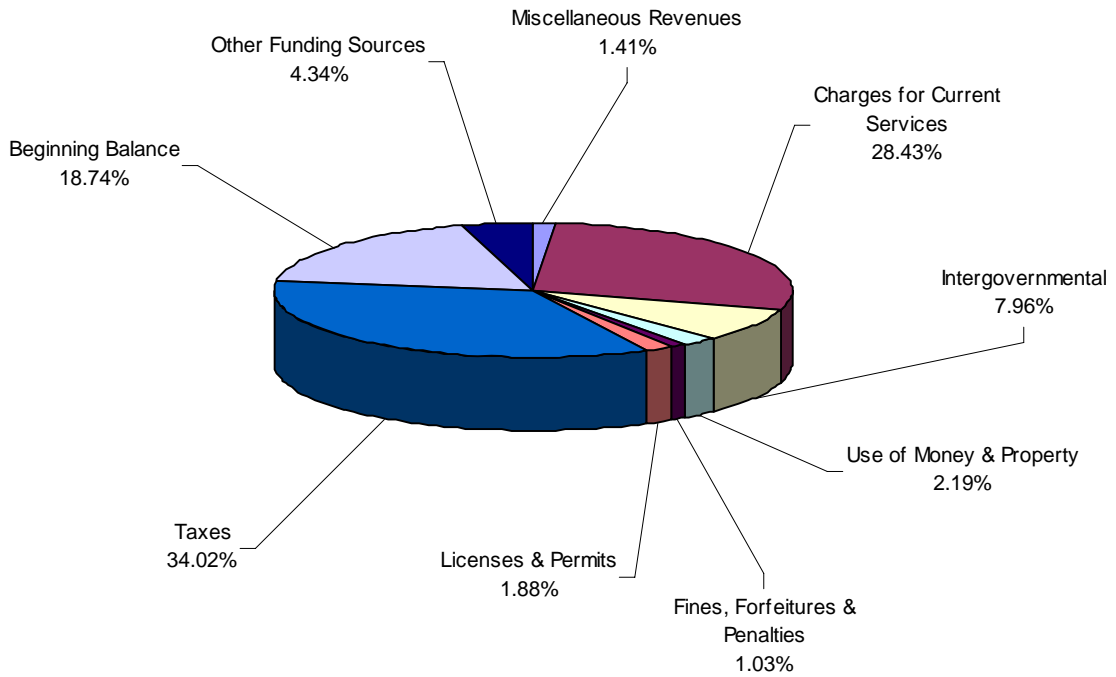
Department	Original Classification	Revised Classification	Proposed Reclassification	FTE
General Services	Equipment Maintenance Supervisor	Equipment Body Mechanic II	Fleet Management Technician	1.00
Information Technology	IT Support Specialist I	Request Removed	Not Applicable	-
Transportation	Street Construction Laborer	no change	Senior Engineer	1.00
Transportation	Secretary	no change	Senior Architect	1.00

**FY2008/09 CAPITAL IMPROVEMENT ADJUSTMENTS**

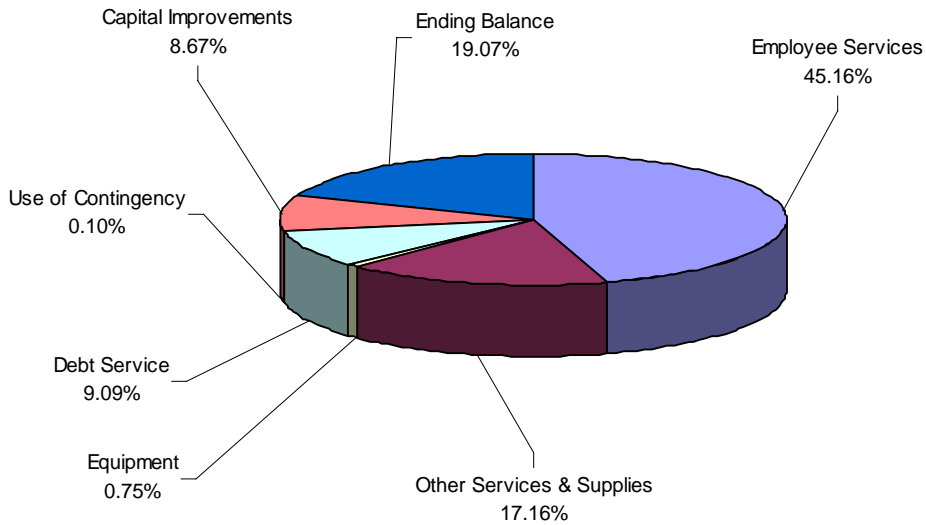
Program	Fund	CIP	Net \$ Change	Description
Utilities	Water (413/6005)	Z14005400	\$1,462,000	Increase funding for the South Sacramento 3mg Reservoir Project
Utilities	Water (413/6005)	Z14010001	(\$50,000)	Reduce funding for the RWM Project Management
Utilities	Water (413/6005)	Z14010003	(\$50,000)	Reduce funding for the RWM Retrofit Project
Utilities	Water (413/6005)	Z14010011	(\$215,000)	Reduce funding for RWM PR 4 PR3A So Land Park Project
Utilities	Water (413/6005)	Z14010012	(\$215,000)	Reduce funding for RWM Retro 5M1 City Farms Project
Utilities	Water (413/6005)	Z14010013	(\$215,000)	Reduce funding for RWM 7M4 Pocket Project
Utilities	Solid Waste (415/6007)	Y14000600	(\$200,000)	Reduce funding for Solid Waste Vehicles

**Total Approved City Budget: \$965.6 Million**

**Revenues**

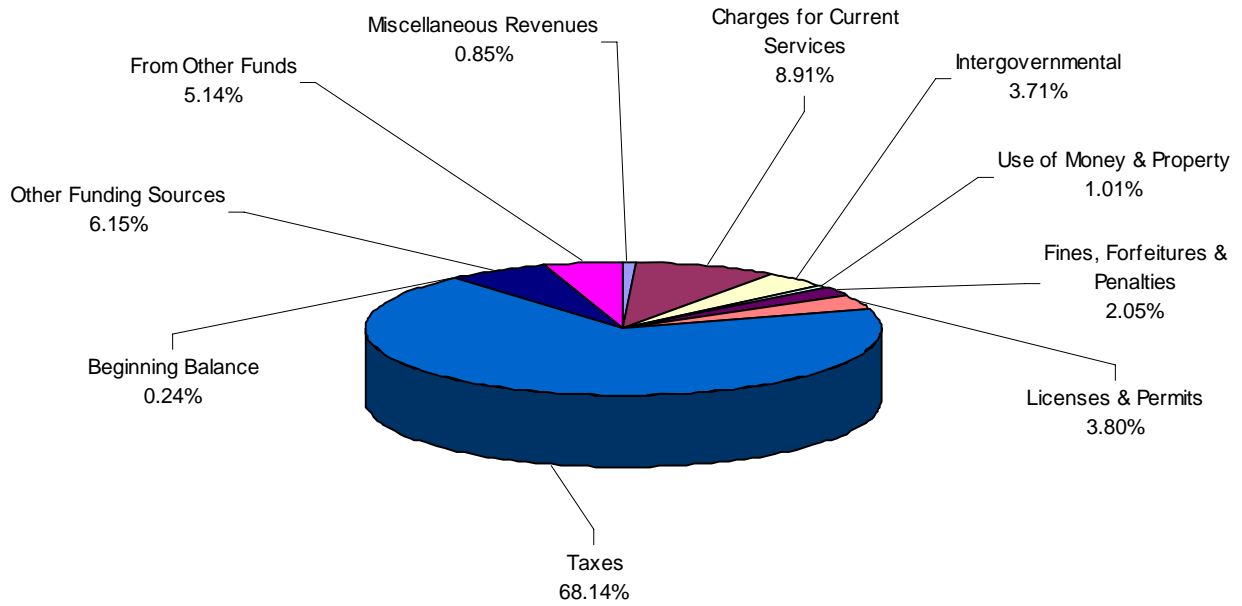


**Expenditures**

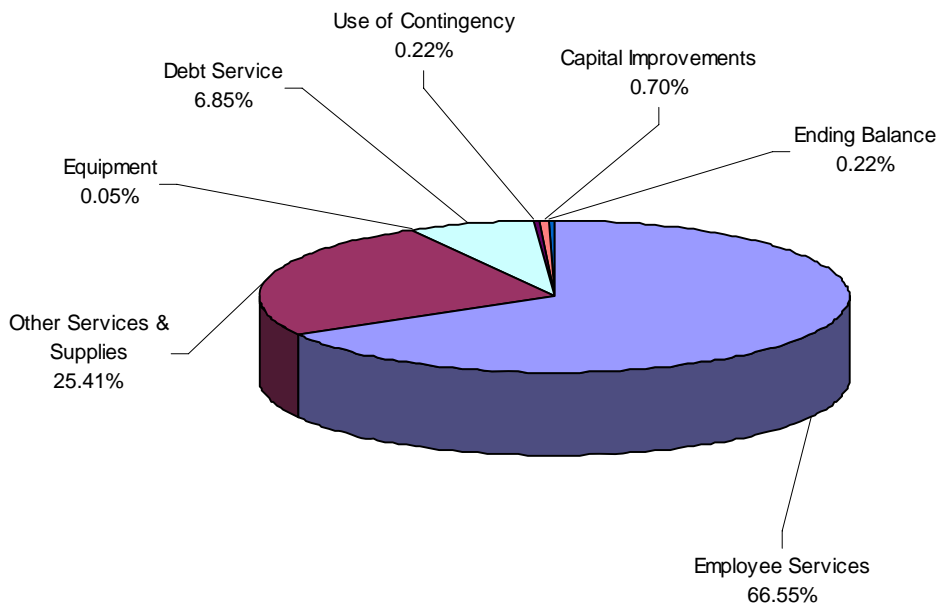


**Total Approved General Fund Budget: \$423.9 Million**

**Revenues**



**Expenditures**



## PROPOSED BUDGET OVERVIEW (As written on May 1, 2008)

### INTRODUCTION

The FY2008/09 Proposed Budget for the City of Sacramento is balanced, totaling \$964.3 million from all funding sources. Proposed staffing for FY2008/09 includes 5,294 authorized full time equivalent (FTE) positions citywide of which 3,943 FTE positions are authorized in the General Fund. The General Fund portion of the Proposed Budget is \$420.3 million. The General Fund deficit was estimated to be \$58 million for FY2008/09. The Proposed Budget reduces expenses by \$35.1 million, including the unfunding of 338 FTE, the addition of \$3.7 million in new revenues, and \$20 million in one-time resources to close the gap for the fiscal year.

While the budget is balanced in the sense that the various funding sources support the expenditures, there is a gap in the budget plan between ongoing revenues and expenditures, a gap closed through the use of reserves. In recent years the Mayor and City Council have grown the City's Economic Uncertainty Reserve to be available to provide time to implement long-term reduction strategies in the face of an economic slowdown. However, the use of these one-time resources will invariably lead to the need to make further budget reductions in coming years if the economy does not pick up.

The Proposed Budget is a starting point, the basis, and framework for conducting the public Budget Hearings in May and June. The Proposed Budget was developed in the context of the Mayor and Council's adopted Strategic Planning-Strategic Budgeting model. The Council provided policy direction in Council hearings in December 2007 and January 2008 and during a Budget Workshop held in March 2008. The Proposed Budget reflects the Council's direction to keep public safety and core services a high priority. Police and Fire Department budgets have been reduced by approximately 8%. In order to balance the budget, most other department operating budgets have been reduced by 20%. Overall, these reductions will likely result in lower service levels, however, core services are being maintained and funded. Specific service level impacts are included in the departmental sections of this document.

### THE PROBLEM

The demand for City services continues to grow, as do the costs of providing services. At the same time, City revenues are declining. Many other cities and counties across the United States are facing similar "structural deficit" problems as revenue growth cannot keep pace with compounding expenditure growth caused by increasing service demands, escalating personnel costs, and the ongoing operations and maintenance of aging infrastructure. The City's challenge for FY2008/09 is to put into action a multi-year plan to:

- Close the gap between revenues and expenses in the General Fund, achieving a fiscally sustainable budget;
- Address the service demands of a growing City; and
- Fund the replenishment of reserves, facility maintenance, and the retiree medical benefit.

The capacity to deal with these fiscal challenges is determined, ultimately, by the condition of the local, statewide and national economy and the generation of discretionary tax revenues. The "housing crisis" and the general malaise in the economy has led to an extensive slowing of the City's major General Fund tax revenues, which are the City's main source of discretionary revenue. These major revenue

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sources represent 72% of the City’s discretionary revenues, and these revenues are declining in FY2008/09 by nearly two percent when compared to the budget for the prior fiscal year. The following table summarizes the estimated major revenue sources for FY2008/09 compared to current year revenue estimates (dollars in thousands):

	<b>Amended FY2007/08</b>	<b>Proposed FY2008/09</b>	<b>Difference</b>	<b>Percentage</b>
<b>Property Taxes</b>	137,898	138,738	840	0.61%
<b>Sales &amp; Use Taxes</b>	69,500	70,325	825	1.19%
<b>Utility Users Tax</b>	59,740	57,000	(2,740)	-4.59%
<b>Other Taxes</b>	23,401	19,350	(4,051)	-17.31%
<b>Total</b>	<b>290,539</b>	<b>285,413</b>	<b>(5,126)</b>	<b>-1.76%</b>

The largest reductions in the “Other Taxes” are in Transfer Taxes and Public Safety Sales Taxes. Transfer Taxes, imposed on all transfers, by deed or any other documents, when property located in the City is sold, are estimated to decrease by \$3 million, a 33% reduction from the prior year budget. Revenues associated with the Public Safety Sales Tax, a half cent sales tax approved by voters in 1993 and dedicated to local public safety to mitigate the impact of the State imposed shift of local property taxes to support schools, are estimated to decline by \$600,000, or 11% from the prior year.

From FY2003/04 through FY2005/06, the City experienced strong revenue growth as a result of the double digit growth in property values and the continued overall growth of the City. However, as demonstrated in the table above, the current reality is that City revenues have essentially ceased to grow, while expenditures necessary to maintain staffing levels and fund prior commitments in the upcoming fiscal year continue to grow. In the current year, the Adopted Budget relies on nearly \$30 million in one-time resources to bridge the gap between revenues and expenditures. Due to the combination of no revenue growth and cost increases in FY2008/09, the gap between revenues and expenditures would grow to \$58 million absent significant measures to address this issue.

**BUDGET BALANCING**

The Proposed Budget is balanced; the expenditures are matched with funding sources. The \$58 million gap between ongoing revenues and expenditures has been closed with a combination of ongoing expenditure reductions (\$32.5 million), the implementation of new revenues, and one-time funding (\$20 million). Roughly two-thirds of the funding gap is closed with ongoing measures and one-third will be pushed into FY2009/10 with the use of reserves. Following is a high level overview of the reductions to the City’s General Fund operating departments included in the Proposed Budget. In some departments, additional FTE have been identified as unfunded to reflect rightsizing efforts currently underway and previously unfunded positions:

- \$26.6 million reduction in labor costs, including the unfunding of 338 FTE
- \$5.9 million reduction in services and supplies
- \$2.6 million increased reimbursements from other sources
- \$3.7 million in new revenues are included to help offset the cost of maintaining service levels. Additional options for fee/revenue increases may be presented during the course of the budget hearing process or as information becomes available.

The use of one-time resources to bridge the gap between revenues and expenditures defers, but does not eliminate the need to make cost reductions. In future years these reductions will be deeper and more difficult since many of the non-essential services are already proposed to be eliminated in FY2008/09.

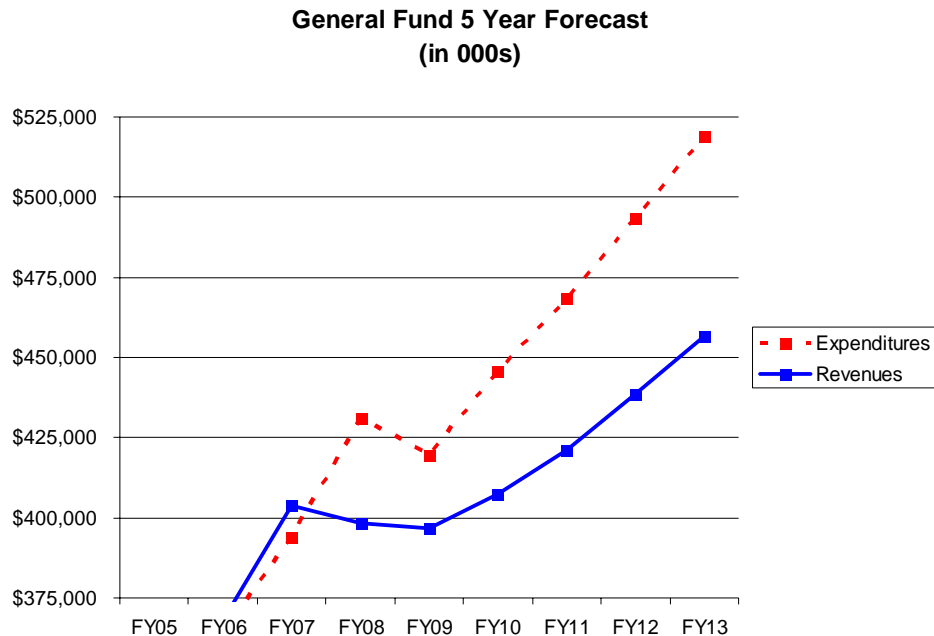
Detailed information on the proposed reductions and the associated service level impacts is included in each department's section of the Proposed Budget.

It is important to note that the Proposed Budget does not include adjustments that may be necessary as a result of State or County budget actions. Proposition 1A, approved by the voters in 2004, allows a borrowing of City Property Tax with a three year pay back requirement. The State's Legislative Analyst has proposed ongoing, rather than one-time, revenue shifts which would impact the City, if implemented, by approximately \$8 million per year. The Mayor and City Council will adopt a balanced budget in June; it is, however, highly unlikely that the Legislature will do the same, which may necessitate additional budget adjustments after the State Budget is adopted.

**GENERAL FUND – FIVE-YEAR FORECAST**

The five year forecast reflects the depth and magnitude of the current economic downturn. For the coming two fiscal years in particular, the level of expenditure increase will be significantly greater than the level of revenue increase and an ongoing gap will remain due to the use of one-time funding in the budget plan and anticipated expenditure growth. As a result, the City will need to continue to reduce expenditures in both FY2009/10 and FY2010/11 in order to backfill the use of one-time resources and account for anticipated expenditure growth not supported by revenues. The current level of annual funding commitments is clearly not sustainable; indeed, the five year forecast shows a cumulative funding gap of \$200 million over next five fiscal years.

The following graph depicts the ongoing gap in the General Fund, and the growth over the five year forecast period:



The Proposed Budget includes a combination of one-time and ongoing strategies. However, as outlined above, to the extent the Proposed Budget for FY2008/09 utilizes one-time resources to allow time to implement strategies for permanent reductions, the City is postponing and effectively carrying over a portion of the shortfall to the next fiscal year.

Once the City is past the current labor contract cycle in 2010, the return to budget sustainability and the fiscal capacity to address longer-term fiscal issues requires that annual base operating cost increases must be held to a level below annual revenue growth. If the City is successful in efforts to implement ongoing reductions in expenditures in FY2008/09 and FY2009/10 and can minimize labor cost growth in FY2010/11 and FY2011/12 with the new labor contracts, we expect the structural gap to be tightened. This cannot happen, however, without concerted efforts to realign revenues and expenditures on an ongoing basis.

### **MULTI-YEAR PLANNING**

The City began efforts to address the growing gap in October 2007 through the initiation of hiring controls to reduce General Fund labor expenses, and by limiting all other discretionary expenditures. Had the City experienced a less severe economic downturn, these measures would have been enough to balance the budget, as was the case in the aftermath of the “dot com” bust. Unfortunately, given the magnitude of the projected budget shortfall, and the likelihood that revenues will not recover to the level necessary to cover growing expenses over the next five years, the strategies implemented in the current year are simply not enough to address the estimated budget shortfall in FY2008/09 and beyond.

Fortunately, the Mayor and City Council were prudent by establishing an economic uncertainty reserve, the use of which will provide time to implement long-term reduction strategies. However, as stated above, the use of one-time funds is not a long-term solution; the very use of one-time funding for FY2008/09 pushes the gap into FY2009/10.

The Proposed Budget is the first, and major, step in a multi-year plan to close the budget gap with **ongoing** measures. Dealing with the funding gap over a multi-year perspective will require hard decisions relative to program and service priorities and discipline to ensure that we are implementing long-term solutions versus short-term band aids to address the City’s financial problem. The long-term plan will include the following primary cost reduction strategies:

- Additional staffing reductions
- Maintaining strict hiring controls
- Identification of new revenue sources
- Continued management of discretionary expenditures
- Continuation of the City Manager’s Budget Advisory Committee

One way to reduce the impact of budget reductions on service levels is an examination of the fundamental organization of service provision. At least four potential departmental consolidations will be evaluated for implementation prior to the start of FY2009/10:

- General Services and Information Technology
- Human Resources and Labor Relations

- Development Services, Planning, and Economic Development
- Treasurer and Finance

The criteria applied to evaluating potential departmental consolidations will include customer service enhancements, consistency in service delivery, efficiencies, and cost reductions. Any recommendations for changes in departmental organization will be presented to the Mayor and City Council for approval.

There are two other areas in the General Fund which merit further examination with a goal of reducing costs – the vehicle fleet and facility operating costs.

### **FUTURE FISCAL CHALLENGES**

There are several important fiscal challenges which must be addressed when the General Fund budget reaches stability. These include:

- Restoration of service levels through the funding of staff and other expenditures in the base budget;
- Replenishing reserves;
- Funding the maintenance of aging and deteriorating facilities; and
- Funding the retiree medical benefit.

These problems cannot be addressed unless, beginning in FY2010/11, annual base operating cost increases, particularly labor costs, are held to a level below annual revenue growth. If base operating costs are allowed to continue to increase at a rate greater than revenue, then service and staffing reductions will continue to be a necessary consideration during the annual budget process.

### **GENERAL FUND CONCLUSION**

The FY2008/09 Proposed Budget includes the unfunding of hundreds of jobs and requires remaining staff to do more with fewer resources. Service levels will be reduced. This proposal represents the first phase of a multi-year plan to return to budgetary sustainability. Nearly \$40 million of the funding gap has been closed with permanent measures, primarily through reductions in budgeted positions. The continuing use of reserves to fund ongoing program costs is justifiable in the context of a multi-year plan to align ongoing expenditures and revenues, returning the budget to sustainability after the City emerges from the current economic downturn.

### **ENTERPRISE FUNDS**

Revenues and expenses in the Enterprise Funds are consistent with ongoing Council direction relative to operational and capital plans. Rate adjustments for the Water and Solid Waste Funds are proposed as part of the FY2008/09 Proposed Budget in order to ensure continued program delivery and to address service level costs, including the cost of Council approved labor agreements. A noticed rate hearing will be held during the budget hearings.

The Proposed Budget for the Enterprise Funds includes expenditure adjustments to address base budget issues such as increasing chemical, electrical, and gas costs related to growth of the City and its infrastructure. Enterprise Fund augmentations are identified below, totaling \$3 million.

Updates of each of the City's Enterprise Funds, including a five-year forecast reflecting proposed rate and expenditure changes are included at the end of the Overview.

**AUGMENTATIONS**

Several Departments have identified program and service needs that benefit City residents and customers, which result in no impact on the General Fund. These are identified in the charts below.

**General Fund, Fee Supported or Cost Offset** – The proposed augmentation will be funded with new revenues:

Department	Net Cost	FTE	Description
Parks and Recreation	-	1.50	Add 1.50 FTE Park Safety Officer (Program Coordinator classification) for \$112,000 to be offset by increased youth and adult athletic field use fees and increased picnic area reservations fees.
<b>Total</b>	<b>\$ -</b>	<b>1.50</b>	

**Enterprise, Special Revenue and Internal Service Funds, Fee Supported or Cost Offset** – These augmentations would be funded with either the recognition of new revenues or the reallocation of funding within the budget:

Department/Fund	Net Cost	FTE	Description
Planning (North Natomas Fund)	442,000	-	Adjust multiyear operating project budgets to reflect administrative expenses and scheduled transportation agreements.
Planning (North Natomas Fund)	350,000	-	Adjust reimbursements to the General Fund to reflect administrative expenses already included in the Planning Department's proposed operating budget.
Utilities (Water)	1,330,043	-	Increase the service and supply budget for cost of living adjustments by \$1,120,043 and increase the corrective maintenance budget (previously funded through CIP ZB31/Z14000100) by \$210,000.
Utilities (Sewer)	55,344	-	Increase the service and supply budget for cost of living adjustments.
Utilities (Solid Waste)	1,428,096	-	Increase the service and supply budget for cost of living adjustments.
Utilities (Storm Drainage)	225,196	-	Increase the service and supply budget for cost of living adjustments by \$140,136 and increase the budget for ongoing maintenance costs for hardware and software programs by \$85,060.
<b>Total</b>	<b>\$ 3,830,679</b>	<b>-</b>	

Departmental budgets have not been adjusted to include these augmentations. Any budget changes will be included in the City Budget only after Mayor and City Council approval in the budget hearings.

**2008-2013 CAPITAL IMPROVEMENT PROGRAM (CIP)**

The Proposed FY2008/09 CIP Budget totals \$99.2 million, funding 194 projects in all program areas in various geographic areas of the City. The General Fund total for capital expenditures in FY2008/09 is \$3 million. The FY2008/09 CIP is nearly \$30 million less than the prior year, funding 58 fewer projects. This reflects the overall decline in available resources that the City faces in the context of the decline in the local, State and national economy. The five-year program totals \$297.7 million from all funding sources. The General Fund portion of the five-year program is \$19.5 million.

**ENTERPRISE FUND FIVE-YEAR FORECAST**

Updates of each of the City's Enterprise Funds are shown on the following pages, including a five-year forecast reflecting proposed rate and expenditure changes.

**Parking Fund (412)**

The City of Sacramento operates nine parking facilities and seven surface parking lots for a total of over 10,000 parking spaces. These include surface parking lots that are managed for the Crocker Art Museum and Thomas Enterprises, and the newly acquired Sacramento Valley Station parking lot. The Parking Services Division also manages over 67,000 square feet of retail space within the various City parking structures.

Based on FY2007/08 budgeted revenues, fees from city parking facilities are projected to increase 3.8 percent for FY2008/09. For FY2009/010 through FY2012/13, parking revenues are expected to grow at a rate less than two percent annually with annual operating expenses increasing at approximately the same rate.

**Parking Fund (412)  
Revenue and Expenditure Forecast  
Dollars in Thousands**

	2008/09 Proposed	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
<b>REVENUES</b>					
Parking Fees	16,543	16,823	17,107	17,396	17,691
Interest	952	650	600	600	600
Real Property Rental	1,656	1,741	1,837	1,869	1,910
<b>TOTAL REVENUES</b>	<b>19,151</b>	<b>19,214</b>	<b>19,544</b>	<b>19,865</b>	<b>20,201</b>
<b>EXPENDITURES</b>					
Employee Services	4,289	4,460	4,636	4,818	5,004
Other Services & Supplies	7,343	7,416	7,491	7,566	7,641
Operating Transfer Out/(In)	1,479	1,463	1,461	1,454	1,371
<b>Subtotal Operating Expenses</b>	<b>13,111</b>	<b>13,339</b>	<b>13,588</b>	<b>13,837</b>	<b>14,017</b>
Debt Service	2,944	2,944	2,944	2,944	2,944
Other Uses/CIP	2,878	2,878	2,878	2,878	2,878
<b>Subtotal Other Uses</b>	<b>5,822</b>	<b>5,822</b>	<b>5,822</b>	<b>5,822</b>	<b>5,822</b>
<b>TOTAL EXPENDITURES</b>	<b>18,933</b>	<b>19,161</b>	<b>19,410</b>	<b>19,659</b>	<b>19,839</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>218</b>	<b>52</b>	<b>134</b>	<b>206</b>	<b>362</b>
Beginning Fund Balance	3,095	3,313	3,366	3,500	3,706
<b>ENDING FUND BALANCE</b>	<b>3,313</b>	<b>3,366</b>	<b>3,500</b>	<b>3,706</b>	<b>4,069</b>

### **Water Fund (413)**

Revenue earned by the City for the purpose of providing water service to its customers is deposited in the Water Enterprise Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services performed by or paid by the Fund. Water Fund revenues are structured to cover the costs of providing water service to its customers which includes costs for water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service, the City-County Office of Metropolitan Water Planning, and the Water Fund capital improvement program. Expenses of the Fund are summarized and reflected as operating costs, debt service, and capital improvement costs. While the Water Fund faces some significant challenges over the next five years, it is anticipated that the fund will remain financially sound and able to meet those challenges with moderate rate increases over the next several years. Key issues for the Water Fund over the next five years include:

- Ongoing replacement and maintenance of aging infrastructure to provide a safe and reliable drinking water supply to the community, and meet state and federal standards.
- Continued compliance with the state mandate requiring installation of 100,000 water meters by the year 2025.
- Maintaining state and federal regulatory compliance.
- Development of an aggressive water conservation program consistent with the Water Forum Agreement (WFA). The WFA consists of integrated actions necessary for providing a regional solution to water shortages, environmental damage, groundwater contamination, and limited economic prosperity.
- Support of regional, long-term water supply planning.
- Development of wholesale and wheeling agreements in support of effective regional water management.
- Meeting future debt service requirements related to the rehabilitation and improvement of intake structures and treatment plants.

The following chart provides a five-year budget and rate forecast for the Water Fund, including the following assumptions:

- System growth will approximate zero percent annually over the next five years due to decreased development.
- Annual operating costs will continue to rise above inflation as a result of rising labor, chemical, fleet, and utilities, and implementation of Water Forum programs.
- Future capital spending will reflect a balance between modest future rate increases and a reasonable level of infrastructure repair and rehabilitation spending.

**Water Fund (413)  
Revenue and Expenditure Forecast  
Dollars in Thousands**

	2008/09	2009/10	2010/11	2011/12	2012/13
	Estimate	Estimate	Estimate	Estimate	Estimate
Projected Rate Increase	3.75%	7.25%	7.25%	7.25%	7.25%
<b>REVENUES</b>					
User Fees	64,328	68,992	73,993	79,358	85,111
Interest	1,433	1,476	1,520	1,566	1,613
Other	5,213	5,290	5,369	5,451	5,535
Development Fees	2,000	2,000	2,000	2,000	2,000
<b>TOTAL REVENUES</b>	<b>72,974</b>	<b>77,758</b>	<b>82,882</b>	<b>88,375</b>	<b>94,259</b>
<b>EXPENDITURES</b>					
Operating	45,774	50,941	54,489	57,685	61,061
Debt Service	11,219	11,195	11,177	11,170	12,355
e-CAPS Obligation Loan	349	349	349	349	349
CIP	13,596	14,894	16,192	17,492	18,795
Augmentations	1,330	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>72,268</b>	<b>77,379</b>	<b>82,207</b>	<b>86,696</b>	<b>92,560</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>706</b>	<b>379</b>	<b>675</b>	<b>1,697</b>	<b>1,699</b>
Beginning Fund Balance	6,133	6,839	7,218	7,893	9,572
<b>ENDING FUND BALANCE</b>	<b>6,839</b>	<b>7,218</b>	<b>7,893</b>	<b>9,572</b>	<b>11,271</b>

## **Sewer Fund (414)**

Revenue earned by the City for the purpose of providing sewer collection service to its customers is deposited in the Sewer 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. Sewer Fund revenues cover the cost of wastewater collection and maintenance, storage and treatment of wet weather combined sewage, installation of new services, the operation of 44 sanitary pumping stations, related engineering services, customer service, and the monitoring of discharge into the sewer collection system. Expenses of the Fund are generally divided among operating costs, debt service, and capital improvement costs.

The sewer system is a “contained system” in that very little expansion, other than in-fill projects, is possible. The City-operated sewer collection system serves approximately 60 percent of the City, primarily the central and older sections of the City. The SRCSD, through its County Sanitation District (CSD-1), serves the other areas of the City. The City’s sewage is treated by the SRCSD, while the City provides the SRCSD with billing and collection services for properties within the City service area.

The Sewer Fund presents unique challenges due to the system’s minimal growth potential and the age and nature of the system’s infrastructure. Issues facing the Sewer Fund include:

- Compliance with state and federal regulations.
- Rehabilitation of the central City’s combined sewer and storm drainage system (CSS). A combined drainage system collects wastewater from homes and businesses, plus storm water and urban runoff for treatment at a regional sewage treatment facility.
- Continued rehabilitation of the City’s separated sewer service area. A separated sewer system collects wastewater from homes and businesses and does not collect storm water.
- Limited growth in new 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 Combined Sewer System.

The following chart provides a five-year budget and rate forecast including the following assumptions:

- Future growth in the system will approximate zero percent annually over the next five years due to decreased development.
- Annual operating costs will continue to rise substantially more than inflation as a result of increases in labor, inflation and fleet costs.
- Future capital spending will reflect a balance between modest future rate increases and a reasonable level of infrastructure repair and rehabilitation spending.

**Sewer Fund (414)**  
**Revenue and Expenditure Forecast**  
**Dollars in Thousands**

	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Projected Rate Increase	0.00%	4.50%	4.50%	4.50%	4.50%
<b>REVENUE</b>					
User Fees	19,278	20,145	21,052	21,999	22,989
Interest	299	308	317	327	337
Other	773	800	828	858	887
Development Fees	1,048	334	345	356	368
<b>TOTAL REVENUES</b>	<b>21,398</b>	<b>21,587</b>	<b>22,542</b>	<b>23,540</b>	<b>24,581</b>
<b>EXPENDITURES</b>					
Operating	16,731	16,881	17,905	18,569	19,483
Debt Service	859	859	859	859	859
eCAPS Obligation Loan	114	114	114	114	-
CIP	4,101	4,163	4,225	4,288	4,353
Augmentations	55	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>21,860</b>	<b>22,017</b>	<b>23,103</b>	<b>23,830</b>	<b>24,695</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(462)</b>	<b>(430)</b>	<b>(561)</b>	<b>(290)</b>	<b>(114)</b>
Beginning Fund Balance	2,911	2,449	2,019	1,458	1,168
<b>ENDING FUND BALANCE</b>	<b>2,449</b>	<b>2,019</b>	<b>1,458</b>	<b>1,168</b>	<b>1,054</b>

**Solid Waste Fund (415)**

The Solid Waste Fund is financially responsible for the activities of collecting garbage, recyclables and garden refuse, sweeping streets, removing illegally dumped materials from throughout the City, and waste reduction. These solid waste activities serve three types of customers – residential, commercial and City facilities. Issues facing the Solid Waste Fund include:

- Increasing need to develop a facility north of the American River to address existing routes and new growth in the north area of the City.
- Funding increasing costs for new equipment.
- Meeting state mandated diversion goals.

The following chart provides a five-year budget and rate forecast including the following assumptions:

- Future growth in the system will approximate zero percent annually over the next five years due to decreased development.
- Operating costs will rise substantially more than inflation as a result of cost of living increases, inflation, and increased fleet and tipping costs.

**Solid Waste Fund (415)  
Revenue and Expenditure Forecast  
Dollars in Thousands**

	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Projected Rate Increase	9.23%	4.75%	4.00%	4.00%	4.00%
<b>REVENUE</b>					
User Fees	53,991	56,556	58,818	61,171	63,618
Interest	-	-	-	-	-
Other/Misc.	2,128	2,199	2,272	2,347	2,424
<b>TOTAL REVENUES</b>	<b>56,119</b>	<b>58,755</b>	<b>61,090</b>	<b>63,518</b>	<b>66,042</b>
<b>EXPENDITURES</b>					
Operating	50,134	54,474	57,349	59,997	62,941
Debt Service	2,546	2,509	2,141	1,973	1,971
eCAPS Obligation Loan	261	261	261	261	-
CIP	417	417	417	417	417
Augmentations	1,428	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>54,786</b>	<b>57,661</b>	<b>60,168</b>	<b>62,648</b>	<b>65,329</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>1,333</b>	<b>1,094</b>	<b>922</b>	<b>870</b>	<b>713</b>
Beginning Fund Balance	(1,157)	176	1,270	2,192	3,062
<b>ENDING FUND BALANCE</b>	<b>176</b>	<b>1,270</b>	<b>2,192</b>	<b>3,062</b>	<b>3,775</b>

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### **Marina Fund (417)**

The Sacramento Marina has over 475-berths and is located on the Sacramento River at Miller Park. The Marina is a full service, 7-day-a-week operation that includes a fuel dock, security gates, and parking. Revenues from berth rentals and fuel sales offset costs of operation, debt service and capital improvements.

In April 2008, the City Council approved revised berth fee rates that aligned the rate structure to reflect slip size, provide sufficient revenue to meet operations, debt service and capital project needs, and still maintain a competitive edge with comparable facilities in nearby urban areas.

The Sacramento Marina is also nearing completion of a \$10.5 million renovation that includes replacement of the 45-year old deteriorating South Basin docks, providing covered berths for nearly all slips, complete replacement of the fuel dock, and reconfiguring the berth sizes to reflect market demand and ensure higher annual occupancy rates. The project was primarily financed through a loan from the State Department of Boating and Waterways.

The five-year expense and revenue forecast reflects the financial analysis prepared for the recently approved rate increases and the new berth configurations. Berth fees reflect expected berth occupancy levels of 95 percent and are expected to increase an average of 12 percent annually through FY2010/11 and 6 percent across-the-board annually thereafter. Operating expenses are expected to increase annually by 5 percent for labor and 1 percent for non-labor costs. Interest-only payments for the South Basin loan continue in FY2008/09 with full payments beginning in FY2009/10. The Marina is also establishing an operational reserve beginning in FY2010/11 to address unanticipated or emergency needs.

**Marina Fund (417)**  
**Revenue and Expenditure Forecast**  
**Dollars in Thousands**

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>Proposed</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>REVENUES</b>					
Berth Rentals	1,951	2,178	2,434	2,578	2,730
Interest	16	25	24	23	24
Gas and Oil Sales	289	303	318	334	351
Miscellaneous	26	26	26	26	26
<b>TOTAL REVENUES</b>	<b>2,282</b>	<b>2,532</b>	<b>2,802</b>	<b>2,961</b>	<b>3,131</b>
<b>EXPENDITURES</b>					
Operating	1,266	1,335	1,410	1,477	1,546
Debt Service	751	1,166	1,166	1,166	1,166
CIP	175	200	200	300	300
Other Fund Uses	17	17	17	17	17
<b>TOTAL EXPENDITURES</b>	<b>2,209</b>	<b>2,718</b>	<b>2,793</b>	<b>2,960</b>	<b>3,029</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>73</b>	<b>(186)</b>	<b>9</b>	<b>1</b>	<b>102</b>
Operational Reserve			(100)	(100)	(100)
Beginning Fund Balance	499	572	386	295	196
<b>ENDING FUND BALANCE</b>	<b>572</b>	<b>386</b>	<b>295</b>	<b>196</b>	<b>198</b>

### **Community Center Fund (419)**

The Community Center Fund funds the operation, debt service and capital improvement program for the Sacramento Convention Center, Memorial Auditorium, and Community Center Theater. The Center's goals include maintaining successful financial performance as an enterprise fund, optimizing facility utilization through aggressive marketing, exceeding industry standards for service and facility maintenance, stimulating hotel market demand to generate Transient Occupancy Tax (TOT) revenues, and offering a premier venue to contribute to the economic vitality of the Downtown and Sacramento region.

The main sources of revenue for the Community Center Fund are the TOT and fees paid by users of the facility. TOT revenues are expected to grow by approximately 4 percent annually over the next five years. During that same time, user fees will grow from 2-4 percent annually.

The Convention Center has hired a consultant to perform an analysis of future TOT performance. That study should be completed later this summer and will result in further refinement of the TOT growth projections.

Beginning in FY2008/09, the Convention Center will begin levying Facility Fee on tickets sold to performances at the Community Center Theater. Revenue generated by the Facility Fee will be used to pay for improvements to the Theater.

Labor costs will grow by 4 percent during this time and non-labor costs by 1 percent. The Center is also establishing an operational reserve beginning in FY2009/10 to address unanticipated or emergency needs.

In 1997, to maintain the financial integrity of the Community Center Fund, the City Council approved the use of up to \$12 million in inter-fund loans, if needed, to offset any year-end deficit. Total borrowing was just over \$7.5 million – approximately \$4.5 million less than originally authorized. Repayment of the inter-fund loan began in FY2005/06 and will continue this year with a payment of \$1.5 million. Repayment of the loan will continue throughout the next five years

**Community Center Fund (419)**  
**Revenue and Expenditure Five Year Forecast**  
**Dollars in Thousands**

	2008/09	2009/10	2010/11	2011/12	2012/13
	Proposed	Estimate	Estimate	Estimate	Estimate
<b>REVENUE</b>					
Transient Occupancy Tax	17,819	18,532	19,273	20,044	20,846
User Fees	6,957	7,095	7,273	7,448	7,671
Interest	740	750	750	750	800
Other (Facility Fee)	500	1,000	1,000	1,000	1,000
<b>TOTAL REVENUES</b>	<b>26,016</b>	<b>27,377</b>	<b>28,296</b>	<b>29,242</b>	<b>30,317</b>
<b>EXPENDITURES</b>					
Operating	13,808	14,266	14,675	15,098	15,543
Debt Service	10,399	10,399	10,399	10,399	10,399
Capital Improvements	2,420	2,020	2,850	2,950	3,000
Facility Fee Improvements	500	1,000	1,000	1,000	1,000
<b>TOTAL EXPENDITURES</b>	<b>27,127</b>	<b>27,685</b>	<b>28,924</b>	<b>29,447</b>	<b>29,942</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	(1,111)	(308)	(628)	(205)	375
Operational Reserve		(30)	(30)	(30)	(30)
Other Fund Uses (Risk Loan Payback)	(1,000)	(250)	(250)	(250)	(500)
Beginning Fund Balance	4,374	2,263	1,675	767	282
<b>ENDING FUND BALANCE</b>	<b>2,263</b>	<b>1,675</b>	<b>767</b>	<b>282</b>	<b>127</b>

### **Storm Drainage Fund (425)**

Revenue earned by the City for the purpose of providing storm drainage service to its customers is deposited in the Storm Drainage Fund. Revenues are generated primarily from customer service charges and interest earnings. Storm Drainage Fund revenues cover the cost of storm drainage pumping operations, wet weather treatment and storage, collection system maintenance, related engineering services, flood plain management, customer service, and the Storm Drainage Fund capital improvement program. Expenses are divided among operating costs, debt service, and capital improvements. Current issues for the Storm Drainage Fund include:

- Upgrading drainage service to areas outside of the City's combined sewer and storm drainage system (CSS) to meet citywide standards.
- Supporting regional flood control efforts.
- Improving drainage system reliability.
- Operating under Proposition 218 restrictions.

The following chart provides a five-year budget and rate forecast including the following assumptions:

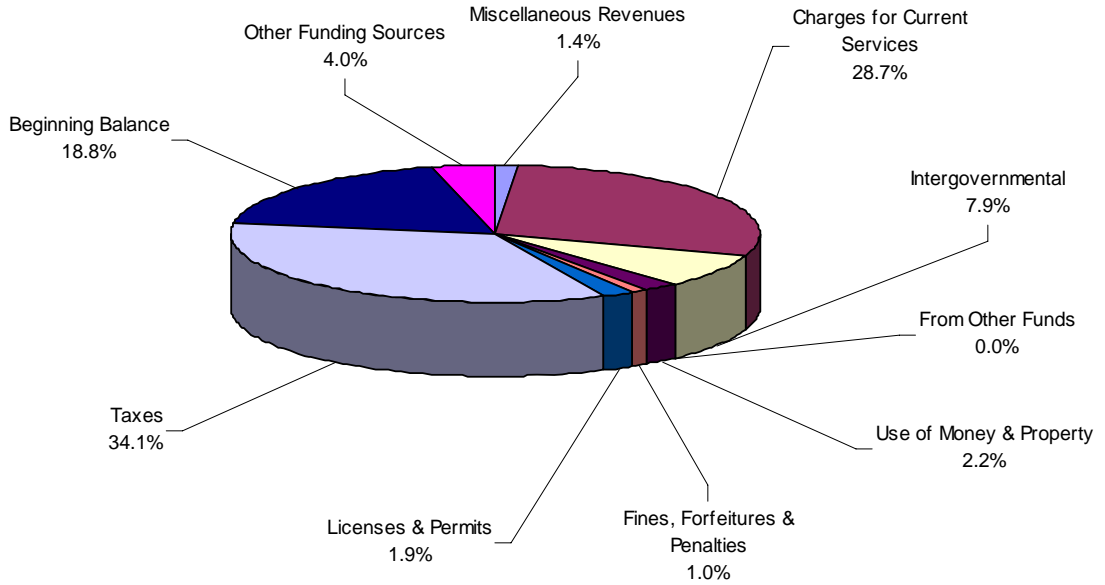
- System growth will approximate zero percent over the next five years due to decreased development.
- Annual operating costs will rise substantially more than inflation as the result of increased labor, fleet and utility costs.
- Projections of future capital improvement projects in the Storm Drainage Fund reflect decreased spending due to insufficient available funding.

**Storm Drainage Fund (425)**  
**Revenue and Expenditure Five Year Forecast**  
**Dollars in Thousands**

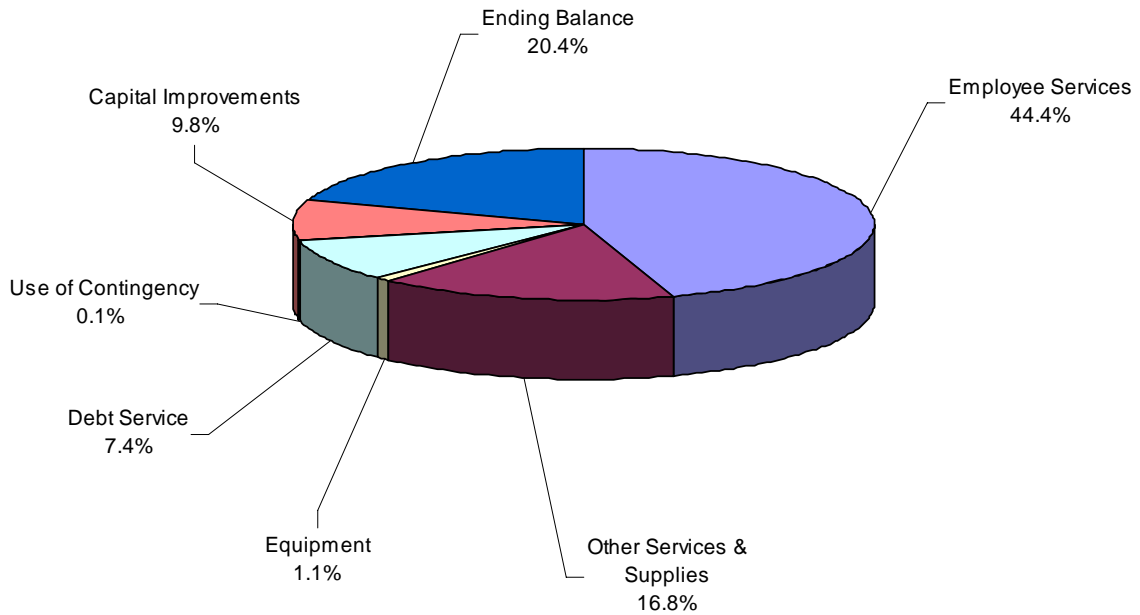
	2008/09	2009/10	2010/11	2011/12	2012/13
	Estimate	Estimate	Estimate	Estimate	Estimate
Projected Rate Increase	0%	0%	0%	0%	0%
<b>REVENUE</b>					
User Fees	32,456	32,456	32,456	32,456	32,456
Interest	1,106	1,139	1,173	1,208	1,245
Other	426	446	468	490	514
Compliance Fee	96	96	96	96	96
<b>TOTAL REVENUES</b>	<b>34,084</b>	<b>34,137</b>	<b>34,193</b>	<b>34,250</b>	<b>34,311</b>
<b>EXPENDITURES</b>					
Operating	31,428	33,840	34,010	37,875	39,854
Debt Service	3,397	3,397	3,397	3,396	3,395
eCAPS Obligation Loan	234	234	234	234	-
CIP	1,000	-	-	-	-
Augmentations	225	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>36,284</b>	<b>37,471</b>	<b>37,641</b>	<b>41,505</b>	<b>43,249</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(2,200)</b>	<b>(3,334)</b>	<b>(3,448)</b>	<b>(7,255)</b>	<b>(8,938)</b>
Beginning Fund Balance	8,427	6,227	2,893	(555)	(7,810)
<b>ENDING FUND BALANCE</b>	<b>6,227</b>	<b>2,893</b>	<b>(555)</b>	<b>(7,810)</b>	<b>(16,748)</b>

**Total Proposed City Budget: \$964.3 Million**

**Revenues**

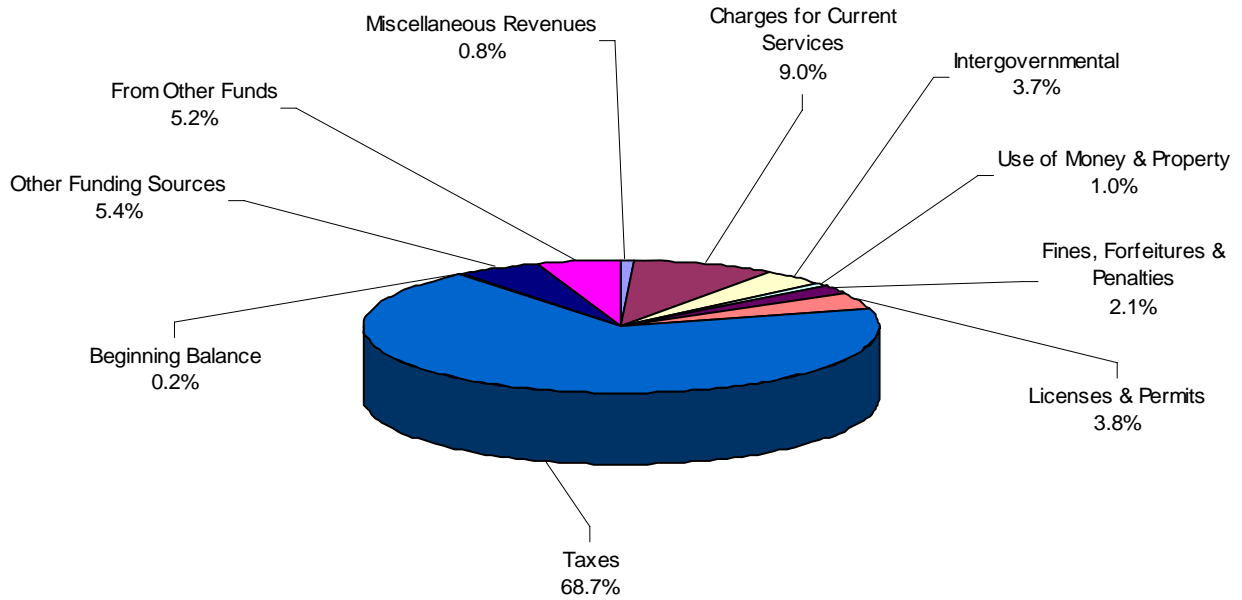


**Expenditures**

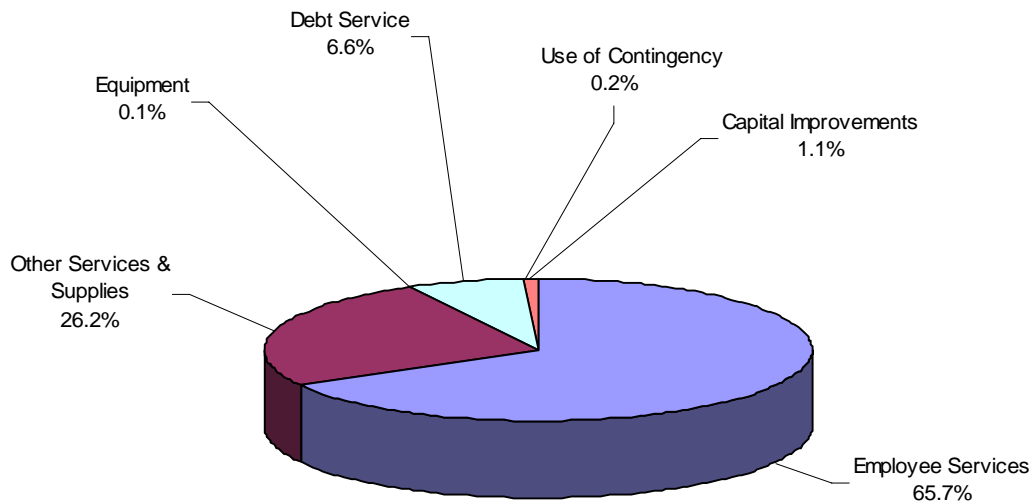


**Total Proposed General Fund Budget: \$420.3 Million**

**Revenues**



**Expenditures**



## **BUDGET STATEMENT**

### **General Information**

The City of Sacramento was established in 1849 and in 1854 became the capital for the State of California. Sacramento also serves as the seat of Sacramento County government. It is the seventh largest populated city in California. The State of California, Department of Finance, estimates the population on January 1, 2007, to be 467,343 for the City and 1,406,804 for the County of Sacramento. Sacramento encompasses 99 square miles and is located in the northern section of California's Central Valley.

Sacramento is a charter city and operates under a Council-Manager form of government that currently provides for a nine-member elected City Council, including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, City Attorney, City Clerk and the City Treasurer to carry out its adopted policies. Members of the City Council serve alternating terms of four years, with the Mayor and four Council Members up for reelection in calendar year 2008, and the remaining Council Members up for reelection in calendar year 2010. The Mayor is chairperson of the City Council and is elected in at-large City elections. City Council members are elected by eight individual districts.

The City provides a full range of municipal services including police, fire, water, sewer, storm drainage, solid waste, code enforcement, construction and maintenance of parks and streets, planning and development, recreation and cultural activities, and general administration.

The Sacramento City Charter requires that the City Manager submit a proposed budget to the City Council at least 60 days prior to the commencement of each fiscal year. Once approved by City Council, this annual budget serves as the foundation for the City of Sacramento's financial planning and control. Budgetary control is maintained at the department level, by fund. Budgetary control for capital improvement projects is maintained at the individual project level, by fund.

### **Budget Presentation**

The presentation of the FY2008/09 Approved Budget is included in three documents: Approved Operating Budget, Approved Capital Improvement Program (CIP) Budget and the Blueprint for Strategic Budgeting. The Blueprint is designed to provide highlights and general information relative to the Approved Operating and CIP Budgets. Both the Proposed and Approved budget documents are available on the City's Web site at the following Web address: [www.cityofsacramento.org/finance/budget](http://www.cityofsacramento.org/finance/budget).

The Approved Operating Budget includes the technical information concerning operating departments and estimated citywide revenues and expenses. The Overview section provides an outline of anticipated revenue, including an explanation of assumptions and a five-year General Fund forecast (revenues and expenditures). The department sections provide a summary of appropriations and source of funds including change to the prior year budget, as well as a summary of full time equivalent (FTE) by department division. The Budget Schedules include a detailed estimate of staffing, revenues and expenditures for the General Fund, the Enterprise Funds, and other special revenue funds. The Staffing section provides a list of authorized positions for each department, by classification, including the additions and/or deletions of FTE, and unfunded/funded FTE.

## Financial Policies

The City of Sacramento operates under the following financial policies:

- 1) Budgetary Practices
  - A) Approved Budget Resolution
  - B) Financial Planning Policy
  - C) Budget Development Policy
  - D) Budget Basis
- 2) Investment Policy
- 3) Debt Management
- 4) Risk Management
- 5) General Fund Reserves
- 6) Fees and Charges

### 1) Budgetary Practices

#### A) Approved Budget Resolution (2008-423)

The Approved Budget Resolution is the primary financial policy document for the City of Sacramento. These policies are reviewed annually during the budget process and shared with the City Council during the review of the proposed budget.

On June 17, 2008, the City Council approved the FY2008/09 Budget and Capital Improvement Program (Resolution 2008-423). The FY2008/09 Approved Budget Resolution can be found in Section 29 of this document.

The budget resolution governs the following financial management areas:

- Section 1. Scope
- Section 2. Definitions
- Section 3. Authorized Staffing and Appropriations
- Section 4. Appropriation Increases/Decreases
- Section 5. Staffing Changes
- Section 6. Appropriation Transfers from Contingency/Reserve Funds
- Section 7. Other Appropriation Transfers
- Section 8. Unspent Appropriations and Encumbrances
- Section 9. FY2008/09 Revenue Budget
- Section 10. Capital Improvements
- Section 11. Operating Grants and Externally Funded Programs
- Section 12. Multi-Year Operating Projects
- Section 13. In-Lieu Property Taxes and In-Lieu Franchise Fee
- Section 14. Appropriation Limits
- Section 15. Midyear Financial Reporting
- Section 16. Miscellaneous Controls/Considerations

#### B) Financial Planning Policy

The City of Sacramento develops its annual budget according to Council-adopted sustainable budget policies. These policies call for one-time funding sources to be used for only one-time

operating and capital expenditures. Ongoing expenditures are to be matched with ongoing financing sources. Reserves are to be used in a planned and strategic manner only. Five-year forecasts of the General Fund are to be constantly updated as new information becomes available. Full reviews of revenue receipts in comparison to the budgetary estimates are to be performed and corrective actions recommended, if necessary.

The ongoing core of the Mayor and Council's budget philosophy continues to be sustainability. The City Council has adopted the following objectives and principles to support this philosophy:

#### Budget Objectives

- Develop a fiscally sustainable spending plan by July 1<sup>st</sup>
- Align the City Council's strategic plan with the budget
- Provide funding to deliver services and infrastructure to the community
- Communicate Council's vision to the community

#### Budget Principles

- 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

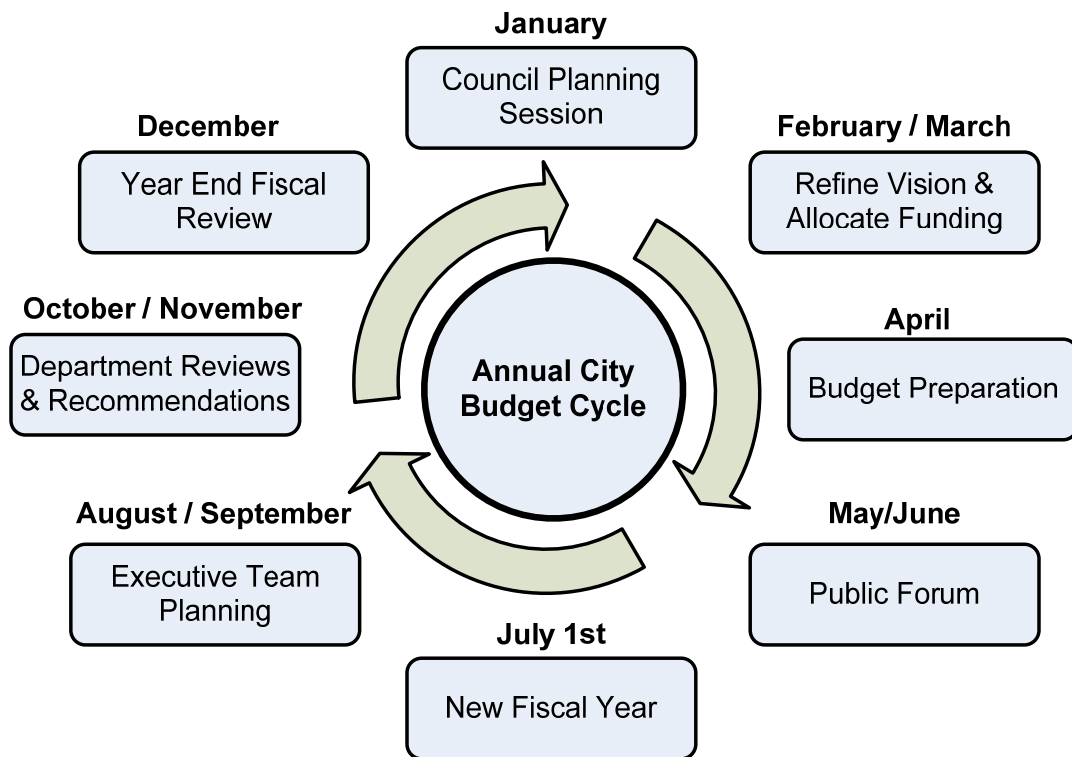
The Mayor and City Council adopted specific guidelines for the development of the FY2008/009 budget:

- Preserve the delivery of City services to residents and businesses to the extent possible
- Use a mix of reserves, new revenues and citywide departmental reductions consistent with a sustainable budget approach
- Evaluate new ways to do business, including organizational efficiencies
- Pursue new, and enhance existing revenue sources, where appropriate, to recover costs of programs and services
- Preserve employment for career employees
- Engage the public, unions, City staff and City Partners on an ongoing basis

### **C) Budget Development Policy**

The Mayor and City Council formally adopted the Strategic Planning – Strategic Budgeting process in June 2006, which allows the Mayor and City Council to incorporate priorities as identified in their strategic plan into the budget process. Strategic Planning – Strategic Budgeting allows the Mayor and City Council to focus funding on specific, priority programs and services. This planning model allows the integration of short and long-term budget planning into the annual budget cycle and is used for both financial expansion in good economic times or for balancing and budget reductions in the case of a declining economy.

The figure following represents the City's budget/program planning cycle:



The City's fiscal year is July 1 through June 30. As such, the City Council annually adopts the City's operating and capital budgets for a single fiscal year beginning July 1 and ending June 30 in the subsequent calendar year.

To establish the annual budget, the Budget Division of the Finance Department develops a plan for expenditure of projected available resources for the coming Fiscal Year. Labor costs are updated to reflect salary and benefit changes called for in union contracts, and estimates for unrepresented employees are also updated. A five-year revenue model is developed based on prior year actual revenue receipts and economic and revenue forecasts to determine what resources, tax revenues, and other discretionary revenues will be available to support operating requirements. Similarly, Capital Improvement Program priorities are married with available funds from over 22 different funding sources.

A base budget is prepared from this information. This base budget updates the costs of maintaining service and staffing levels into the new budget year. The base budget also includes the updated estimates of revenues and other financing sources. The base budget contains the operating and capital budgets.

Proposed operating and capital budget documents are prepared and transmitted to the Mayor and City Council as required by City Charter on or before May 1 of each year. The Mayor and Council review the proposed operating and capital improvement budget in public hearings. The budget is formally adopted by the vote of City Council on or before June 30 of each year. Any changes to the proposed budget, as considered and approved by the City Council during budget hearings, are included in the Approved Budget document.

The Council adopted Strategic Planning – Strategic Budgeting process is reflected in the following timeline:

January – Council Planning Session

- Establish budget objectives and principles
- Provide policy direction for year-end results
- Consider policy direction for marginal budget adjustments

February/March – Refine Vision & Allocate Funding

- Integrate budget with strategic plan
- Refine policy direction for marginal budget adjustments

April – Budget Preparation

- Staff develops base budget and Council vision document

May/June – Public Forum

- City Council hearings on the proposed budget documents

July 1<sup>st</sup> – New Fiscal Year

August/September – Executive Team Planning

- Staff planning for budget implementation
- Identification of issues to be considered for future budget development

October/November – Department Reviews and Recommendations

- Administrative work related to close of prior fiscal year
- Staff briefs Council on critical fiscal issues for future budget development

December – Year End Fiscal Review

- Completion of year end review
- Staff briefs Council on prior fiscal year end results

**D) Budget Basis**

Annual budgets are adopted for the General Fund, Enterprise Funds, Internal Service Funds, and a variety of other Governmental Funds. In all funds appropriations for expenditures are established using the modified accrual basis of accounting, adjusted for the following:

- Purchase order encumbrances are budgeted as expenditures in the year of commitment.
- Repayments of interfund loans are budgeted as expenditures in the year of repayment.
- Capital outlay is budgeted as expenditures in the fiscal year appropriated.
- Payments in lieu of taxes in proprietary funds are budgeted as expenditures instead of interfund transfers.

The City utilizes multi-year budget appropriations for grants, capital projects, and other multi-year projects. Multi-year budget appropriations are automatically carried into the next fiscal year. Unencumbered annual budget appropriations lapse at fiscal year-end.

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The City budgets for revenue in Governmental Funds using the modified accrual basis of accounting. Governmental Fund revenues are recognized as soon as they are measurable and available. The City considers all revenues reported in the Governmental Funds to be available if the revenues are collected within sixty days of fiscal year-end. Payments in lieu of taxes in the General Fund are budgeted as revenue instead of interfund transfers. The City budgets for revenue in Proprietary Funds using the accrual basis of accounting.

The City Manager is authorized to administratively amend the budget during the year for transactions up to \$100,000 without City Council approval. All other appropriation adjustments during the year require City Council approval.

## **2) Investment Policy**

The investment policy of the City of Sacramento is established in the Sacramento City Code and authorizes the City Treasurer to make investments deemed wise and prudent. As it pertains to City Investment Pool A and public funds invested with the City of Sacramento, the Treasurer with the approval of the City Council, will determine that the investment would be consistent with California Government Code Sections 53600.5 and 53601. The city investment policy was last reaffirmed on May 15, 2007 (Resolution 2007-282).

## **3) Debt Management**

The City currently operates under the State of California debt requirements. The California Constitution requires that long-term debt pledged by the full faith and credit of the City can only be approved by voter referendum. Per State of California statute, the City's debt limit is set at 15 percent of total assessed valuation for purposes of City taxation of all the real and personal property within the City. The City also carries debt secured by specific revenue sources, and Certificates of Participation secured by interests in City assets.

## **4) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Internal Service Funds have been established to account for and finance the uninsured risks of loss. Various insurance policies are carried by the City to cover risks of loss beyond self-insured amounts covered by the Internal Service Funds.

## **5) General Fund Reserves**

The City of Sacramento does not have a formal General Fund reserve policy. Each fiscal year the City Council establishes a General Fund reserve based on the availability of funds. This reserve is intended to provide a cushion against fluctuations in revenue and expenses.

## **7) Fees and Charges**

The City Council evaluates all City fees on an annual basis to determine the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

## Fund Structure

### Overview

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City budget includes the following major Enterprise Funds:

- The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.
- The Sewer Fund accounts for the operation and maintenance of the City's sewer system.
- The Storm Drainage Fund accounts for the operation and maintenance of the City's surface drainage system.
- The Solid Waste Fund accounts for the collection and disposal of refuse throughout the City and for landfill closure.
- The Marina Fund accounts for the operation and maintenance of the Sacramento Marina. The Sacramento Marina has 475 berths and is located on the Sacramento River at Miller Park.
- The Community Center Fund accounts for the operation and maintenance of the City's Community Center, including the theater and exhibit halls.

Internal Service Funds account for the financing of fleet and risk management services to other departments on a cost reimbursement basis.

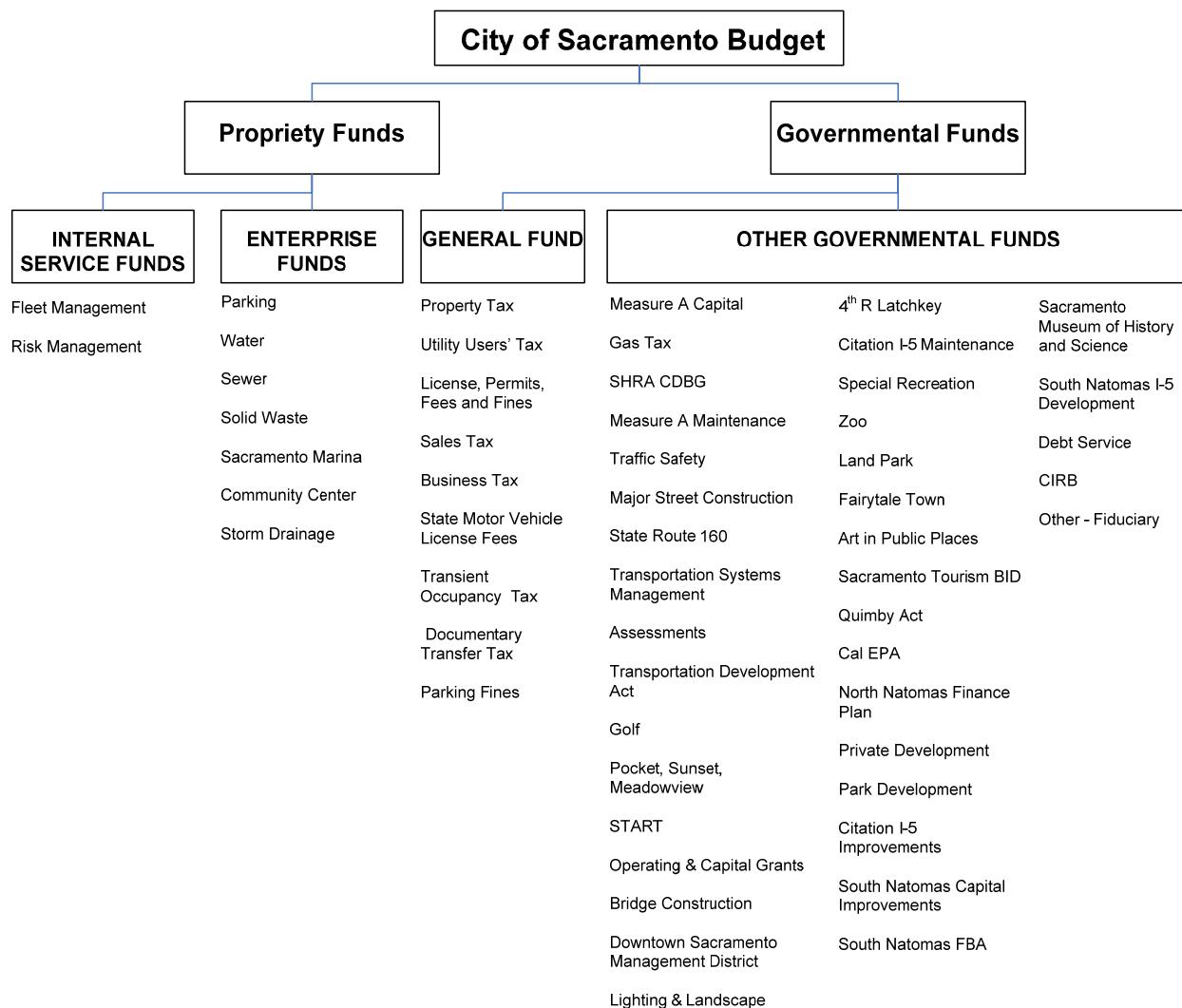
### Structure

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. A fund is defined as a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources together with related liabilities. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. The City has three types of funds:

- *Governmental Funds* — Account for activities which are primarily supported by taxes or other mandatory payments. Most of the City's basic services are included in governmental funds.
  - The General Fund is the primary operating fund of the City and accounts for all financial resources except for those that are required to be accounted for in separate funds. Sources of General Fund revenues include taxes, licenses, permits, fees, fines, intergovernmental revenues, and charges for services, special assessments, interest income, and other resources available for discretionary funding.
  - The General Fund reserve is established to provide resources for the Mayor and Council to manage the impact of economic fluctuations that negatively impact the City's revenues.
- *Proprietary Funds* — Account for services for which customer fees are intended to finance the costs of operations. There are two types of Proprietary Funds:
  - Enterprise Funds account for programs and services financed and operated similar to business-type activities which include services rendered to the general public on a fee basis.

- Internal Service Funds account for the activities that provide services delivered by one department to another department on a cost reimbursement basis, such as the City's Fleet Fund and Risk Management Fund.
- *Fiduciary Funds* — Account for activities that most closely resemble not-for-profit organizations, including trusts and agency activities. The City is the trustee, or *fiduciary*, for its employees' pension plan (SCERS). It is also responsible for other assets, reported in an investment trust fund, which because of trust agreements, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Annual budgets are adopted for the General Fund, Enterprise Funds and Special Revenue funds, and Internal Service Funds. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders and contracts are treated as expenditures in the year of commitment.



**Debt**

As stated in the Financial Policies section, the City of Sacramento does not currently have an adopted Debt Policy. In the absence of an adopted debt policy the City currently operates under the State of California debt requirements.

The City's legal debt limit is set by State of California Statute at 15% of the City's adjusted assessed valuation. Of the \$1.07 billion in debt currently outstanding, the City of Sacramento does not have any general obligation debt subject to the legal debt limit. The City's net assessed valuation as of June 30, 2007 is \$36.7 billion, resulting in a debt limit of \$5.5 billion.

**LEGAL DEBT LIMIT CALCULATION**  
(in thousands)

	<u>As of June 30, 2007</u>
FY2006/07 Assessed Valuation	35,687,712
Exemptions	509,257
Debt Limit Percentage	<u>0</u>
<b>Legal Debt Limit (15% Adjusted Assessed Valuation)</b>	<b>5,501,116</b>
 <b>Less: Outstanding General Obligation Debt Payable</b>	 <u>-</u>
 <b>Remaining Debt Capacity</b>	 <u><u>5,501,116</u></u>

During FY2007/08 there were no significant debt issues completed. The FY2008/09 Approved Budget includes \$56.5 million in principle and \$44.8 million in interest payments. A summary of debt principle and interest payments is available in Schedule 9.

The City continues to maintain excellent credit ratings on all of its debt issues. The following are the ratings at April 1, 2008, as determined by Moody's Investors Service and Standard & Poor's. These ratings have not changed subsequent to year-end.

	<u>Moody's</u>	<u>S &amp; P</u>
Insured issues:		
• 1993 Refunded Lease Revenue Bonds, Series A	Aaa	Aaa
• 1995 Gas Tax Revenue Bonds, Series A	Aaa	AAA
• 1997 Lease Revenue Bonds	Aaa	AAA
• 1999 Capital Improvement Revenue Bonds	Aaa	AAA
• 2002 Capital Improvement Revenue Bonds	Aaa	AAA
• 2002 Certificate of Participation	Aaa	AAA
• 2003 Capital Improvement Revenue Bonds	Aaa	AAA
• 2005 Refunding Revenue Bonds	A1	A
• 2006 Capital Improvement Revenue Bonds, Series A and B	Aaa	AAA
• 2006 Capital Improvement Revenue Bonds, Series C, D and E	Aaa	AAA

Uninsured issues:

- 1993 Refunded Lease Revenue Bonds, Series B Aa A+
- 2002 Refunding Revenue Bonds A1 AA-

**OTHER FINANCIAL INFORMATION**

**Employee Retirement Benefits**

The City of Sacramento provides defined benefit retirement benefits through the California Public Employees' Retirement System (PERS) and the Sacramento City Employees' Retirement System (SCERS). PERS is an agent multiple-employer public employee defined benefit pension plan. SCERS, a closed system, is a single-employer defined benefit pension plan. There are approximately 1,150 retirees covered by SCERS and 120 active employees covered by the plan. All other retirees and active employees are covered under CalPERS.

All full-time and certain part-time City employees hired after January 28, 1977, and City safety employees, regardless of date of hire, are eligible to participate in PERS. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance.

All full-time, non-safety employees hired before January 29, 1977, were eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The City reports SCERS as a pension trust fund.

Participants are required to contribute a percentage of their annual covered salary, as follows:

PERS - Miscellaneous	7%
PERS - Safety	9%
SCERS - (varies with entry age)	3-10%

The City makes the following participant contributions on their behalf and for their account (percent of annual covered payroll):

PERS - Certain miscellaneous employees	3%
PERS - Safety	9%

The City is required to contribute at actuarially determined rates. Rates for the Proposed FY2008/09 Budget are (percent of annual covered payroll):

PERS - Miscellaneous	11.216%
PERS - Safety	22.279%

PERS contribution requirements are established and may be amended by PERS. SCERS contribution requirements are established by City Code.

### **Annual Pension Cost**

For the fiscal year ended June 30, 2007, the City's annual PERS pension cost of \$41.2 million was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation, using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.25 percent to 14.45 percent. Both (a) and (b) included an inflation component of 3.0 percent and an annual production growth of 0.25 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Unfunded actuarial accrued liabilities and excess assets as of June 30, 2004, are being amortized, using the level percentage of payroll method, over a closed period that depends on the plan's date of entry into PERS. The remaining amortization period at June 30, 2005, was 31 years for the safety employees' plan and 26 years for the miscellaneous employees' plan. Subsequent plan amendments are amortized as a level percentage of projected payrolls over a closed 20-year period. Annual gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year.

The City had no required contributions or actual pension cost for SCERS for the fiscal year ended June 30, 2007. In fact, the City has not made an employer contribution to SCERS since 1992; however, active employees have been making their contribution. The Proposed FY2008/09 budget contains a \$3.2 million contribution to SCERS from both the General Fund and Enterprise funds, which is necessary to ensure the ability of the fund to pay the estimated benefits of current and future retirees. The actuarial assumptions included (a) 6.50% investment rate of return (net of administrative expenses), (b) 3% projected annual salary increases, (c) an inflation component of 3%, and (d) 3.25% per year social security wage base adjustments. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Unfunded liabilities are being amortized over a 15 year rolling period, as a level dollar amount of projected payrolls.

The City Treasurer is responsible for investing and managing the accumulated employee and employer contributions until the funds are paid out to the retirees. Because SCERS is a closed retirement system, the investment of trust funds must be more conservative than is the case with an open system such as CalPERS.

### **Other Post Employment Benefits (OPEB)**

Recent changes to State and Local Government employers reporting requirements related to the cost of retiree medical benefits represent a very serious fiscal challenge to the City. The City currently provides a medical insurance subsidy to retirees who meet certain longevity standards. The City has been budgeting and reporting the cost of the retiree medical benefit on a pay-as-you-go basis. Only the regular payments to the vested retirees are included in the Budget reported in the City's Financial Statements. This contrasts with the pension benefit which is included in the Budget and the Financial Statement on a different basis. With pensions, the long-term costs of providing the benefit for vested retirees and employees is calculated and the annual cost of fully providing the benefit is determined and included in the Budget and reported in the Financial Statements.

The Governmental Accounting Standards Board (GASB) set new standards which went into effect for FY2007/08 and requires reporting of the cost of the retiree medical benefit on an accrued actuarial basis and to put forward a plan to fund the benefit.

In anticipation of the implementation of this new standard, the City began working with an outside expert to develop actuarial estimates to determine the magnitude of these benefits that will be reported on the financial statements in the summer 2007. A draft actuarial report was prepared in fall 2007. Based on this draft report, the unfunded accrued liability for retiree benefits is estimated to be \$380 million. This total amount will be disclosed in the footnotes of the City's financial statements. The annual cost of funding the retiree medical benefit on the same basis as pension benefit, also known as the annual required contribution (ARC), is approximately \$31.5 million. The current pay-as-you-go cost in the Budget is approximately \$9.8 million. The difference between the ARC and the pay-as-you-go amount of \$21.5 million will be recorded as a liability on the City's financial statements. This information was communicated to City Council as part of the Midyear FY2007/08 Budget Council Report dated January 22, 2008.

A City working group has been formed to gather facts and explore the City's options for dealing with the new accounting standard. The working group consists of representatives of the Finance Department, Human Resources, Labor Relations, and representatives from employee unions. Due to the City's current finances, it is the taskforce recommendation to continue to pay-as-you-go for the short term due to the current fiscal restraints on the City's budget.

The taskforce recognizes that there are some long-term decisions that will have to be made that will include consideration of alternative funding options, such as the issuance of pension obligation bonds or changes to the benefit plans. While the City will continue funding the retiree medical benefit on a pay-as-you-go basis on a short-term basis, continuing with the status quo practice may present the City with a risk to its credit rating. The credit rating agencies have indicated that failing to fully fund the retiree medical benefit on an accrued actuarial basis could be an adverse factor in determining credit ratings, particularly if a significant number of local governments in California do not fully fund the benefit on an actuarial basis. This is only one of several risks to the City's credit ratings. In the short run, the City's deteriorating budgetary situation and the likely development restrictions in the Natomas Basis are a more significant risk to our credit rating.

In December 2006 Governor Schwarzenegger convened the Public Employee Post-Employment Benefits Commission (Commission) to study the statewide impact of these reporting standards. The Commission issued a report on January 7, 2008, "Funding Pensions and Retiree Health Care for Public Employees Report" (Report). The report estimates a statewide OPEB liability of \$118 Billion, which includes the State and all California public agencies collective liability. The State's unfunded accrued liability is estimated to be \$47.9 billion. While the Report recommended that the State and public agencies identify and pre-fund the OPEB liability, the issue remains how the State and other public agencies will be able to do so in light of the many unmet services needs and the projected budget deficits. We see continuing pressure on State and local agencies to reduce benefits, raise employee contributions or close benefits to new employees to fund the liability.

This is a work in progress. The taskforce will analyze the Commission's report and the recommendations it includes in meetings, and will continue to monitor what the State and other local agencies are doing. In the on-going budget process the taskforce will provide the Mayor and Council with recommendations and updates.

