

# 2

## **SECTION – 2**

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**APPROVED BUDGET OVERVIEW**

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**APPROVED BUDGET OVERVIEW**

The FY2009/10 Operating and Capital Improvement Program (CIP) Budgets were approved by Council on June 16, 2009. At that time, the City was still in active negotiations with a number of our labor unions, with the goal of achieving labor savings in lieu of program and staffing reductions. In addition, the Council had not yet taken final action on utility rate increases for FY2009/10.

In order to appropriately reflect the legislative record, amendments related to successfully negotiated labor agreements and Council adoption of FY2009/10 utility rates are not reflected in the “Approved Budget” numbers in these documents. Rather, these changes are reflected as amendments to the Approved Budget. However, in order to accurately reflect Council’s intent to implement the amendments as part of the FY2009/10 budget package, the following summary reflects both the FY2009/10 Approved and Amended Operating and CIP Budgets. In addition, Department sections have been updated to include an explanation of Council approved amendments to the Approved Budget.

**Summary of Approved Budget**

The FY2009/10 Approved Budget totals \$874.7 million from all funding sources and supports 4,548 authorized full time equivalents (FTE) positions. The General Fund totals \$386.1 million and 3,183 authorized FTE positions.

The following chart summarizes the changes to the FY2009/10 Proposed Budget released on May 1, 2009.

**FY2009/10 OPERATING BUDGET ADJUSTMENTS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
City Manager / Mayor & City Council	General Fund (1001)	-	-	-	-	Transfer the Office of the City Auditor from the City Manager's Office to the Mayor & City Council consistent with the direction provided by the City Council on April 7, 2009 (Item 19)
Code Enforcement	General Fund (1001)	-	-	(1.00)	1.00	Restore the Program Manager position originally reflected as unfunded. This position provides management support for business compliance activities as well development of the department master plan and annual strategic plans. Revenues generated from the business compliance activity including entertainment permits as well as overall department cost recovery efforts will offset the cost of this position.
City Treasurer	General Fund (1001)	-	-	(1.00)	1.00	Restore a Treasury Analyst position originally reflected as unfunded. This position will be used across business lines in the department; in both debt financing and cash management/investment operations. Investment revenues (\$67.5K) and department reimbursements (\$20K) will offset the cost of this position.

**FY2009/10 OPERATING BUDGET ADJUSTMENTS**

Department	Fund	Net \$ Change	Authorized FTE Changes	Unfunded FTE Change	Funded FTE Change	Description
Convention, Culture & Leisure	Convention Center (6010)	(\$500,000)	-	-	-	Reduce revenue in the fund to correct overstated revenue projections.
Convention, Culture & Leisure	General Fund (1001)	\$211,000	-	-	-	Transfer \$211,000 from the Arts Stabilization carryover to the Convention, Culture and Leisure operating budget.
Convention, Culture & Leisure	Marina (6009)	\$179,000	-	-	-	Increase understated fuel expense budget.
Human Resources	General Fund (1001)/ Risk Fund (6502)	-	-	-	-	Transfer 2.00 General Fund Program Specialist FTE to the Risk Fund consistent with the Department's reduction plan. Associated labor funding adjustments are already reflected in the budget.
Human Resources	General Fund (1001)	-	-	(0.05)	0.05	Adjust the partial unfunding of a Human Resources Manager from 0.25 FTE to 0.20 FTE consistent with the Department's reduction plan. Associated labor funding adjustments are already reflected in the budget.
Parks and Recreation	General Fund (1001)	-	-	(1.00)	1.00	Restore a Community Center Attendant I position originally reflected as unfunded. The position will be offset by additional recreation fee revenues.
Parks and Recreation	General Fund (1001)	-	-	-	-	Unfund an Accounting Technician position and restore an Administrative Analyst position. The analyst will ensure the Department maintains compliance with existing grant funded projects and seek additional external funds. Position to be fully reimbursed from capital improvement offsets.

**Summary of Amendments to the Approved Budget**

**Fire Department**

On July 28, 2009 the City Council approved an agreement with the Firefighter's Unit (Sacramento Area Firefighters Local 522) to save \$5 million in FY2009/10, which included "freezing" step increases and deferring the FY2009/10 five percent salary adjustment for two and a half years (January 2012).

Given the significance of the concessions reached, the reduction of 50 FTE and service level reductions identified for FY2009/10 were not implemented. However, the continuation of the rotational workforce reduction of one fire company implemented in FY2008/09 will remain in effect.

**Utilities Department**

The City Council formed a Utilities Rate Advisory Commission (Commission) in FY2008/09 to provide advice and recommendations to the Mayor and City Council on the City's utility service rates. The Commission is made up of community members, some of whom have expertise in the Utilities field. The Department consulted with the Commission during the development of the proposed rates. The Commission is also charged with holding a public hearing required by Proposition 218 (passed by California voters on November 5, 1996), when the City proposes to impose or increase utility service rates.

The City's Utilities Rate Advisory Commission held a public hearing on May 27, 2009, on the following proposed rate increases to the City's utility service rates:

	<u>FY2009/10</u>	<u>FY2010/11</u>
Water service rates:	25%	25%
Sewer service rates:	15%	15%
Solid Waste rates:	15%	15%

Upon the conclusion of the public hearing, the City's Utilities Rate Advisory Commission approved the following revised increases to the City's utility service rates:

	<u>FY 2009/10</u>	<u>FY 2010/11</u>
Water service rates:	19%	19%
Sewer service rates:	10%	12%
Solid Waste rates:	12%	11%

The Department of Utilities presented the Utilities Rate Advisory Commission's recommendation for increases to the City Council on June 9, 2009. At that time City Council adopted an intent motion directing the Department of Utilities to return to the City Council on June 23, 2009, with a recommendation for lower rate increases that would result in a 9% overall rate increase in FY2009/10 and a 9% overall rate increase in FY2010/11 for a typical residential customer receiving water, sewer, solid waste, and storm drainage services.

On June 23, 2009, City Council approved a revised two-year overall rate increase for a typical residential customer for City water, sewer, solid waste, and storm drainage service of 9%. No rate increase was adopted for storm drainage services. The approved rate increases effective July 1, 2009, are as follows:

	<u>FY 2009/10</u>	<u>FY 2010/11</u>
Water service rates:	15%	15%
Sewer service rates:	5%	5%
Solid Waste rates:	9%	9%

As a result of the reduced revenues, the Department of Utilities implemented the following operational and programmatic changes:

- Reduced funding for water meter program from 5% to 3%;
- Suspended water and sewer funding for economic development CIP;
- Reduced baseline CIP program;
- Suspended the Neighborhood Cleanup Program;
- Reduced illegal dumping program; and
- Reduced monthly street sweeping services to annual service.

The following charts are the amended budgets for each of the funds (water, sewer, solid waste, and storm drainage) that reflect the reduced revenues and corresponding service level reductions, and provide a five-year forecast for the Utility funds based on the revised rates:

**Water Fund (6005)**  
**Revenue and Expenditure Five Year Forecast**  
**Dollars in Thousands**

	2009/10 Approved Budget	2009/10 Amendments	2009/10 Amended Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Projected Rate Increase			15.00%	15.00%	13.00%	12.00%	12.00%
<b>REVENUE</b>							
Charges, Fees and Services	77,657	(6,851)	70,806	81,426	92,012	103,053	115,420
Interest	2,398	(1,071)	1,327	1,000	1,455	1,455	1,455
Other/Misc.	1,069	1,636	2,705	2,557	2,653	2,754	2,866
Development Fee	-	-	-	250	250	250	250
<b>TOTAL REVENUES</b>	<b>81,124</b>	<b>(6,286)</b>	<b>74,838</b>	<b>85,233</b>	<b>96,370</b>	<b>107,512</b>	<b>119,991</b>
<b>EXPENDITURES</b>							
Operating	56,578	(2,928)	53,650	56,896	61,859	67,041	73,300
Debt Service	11,544	48	11,592	11,639	11,633	12,521	12,616
CIP	13,523	(2,204)	11,319	16,410	19,632	24,389	32,125
<b>TOTAL EXPENDITURES</b>	<b>81,645</b>	<b>(5,084)</b>	<b>76,561</b>	<b>84,945</b>	<b>93,124</b>	<b>103,951</b>	<b>118,041</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(521)</b>	<b>(1,202)</b>	<b>(1,723)</b>	<b>288</b>	<b>3,246</b>	<b>3,561</b>	<b>1,950</b>
Beginning Fund Balance	1,804	-	1,804	81	369	3,615	7,176
<b>ENDING FUND BALANCE</b>	<b>1,283</b>	<b>(1,202)</b>	<b>81</b>	<b>369</b>	<b>3,615</b>	<b>7,176</b>	<b>9,126</b>

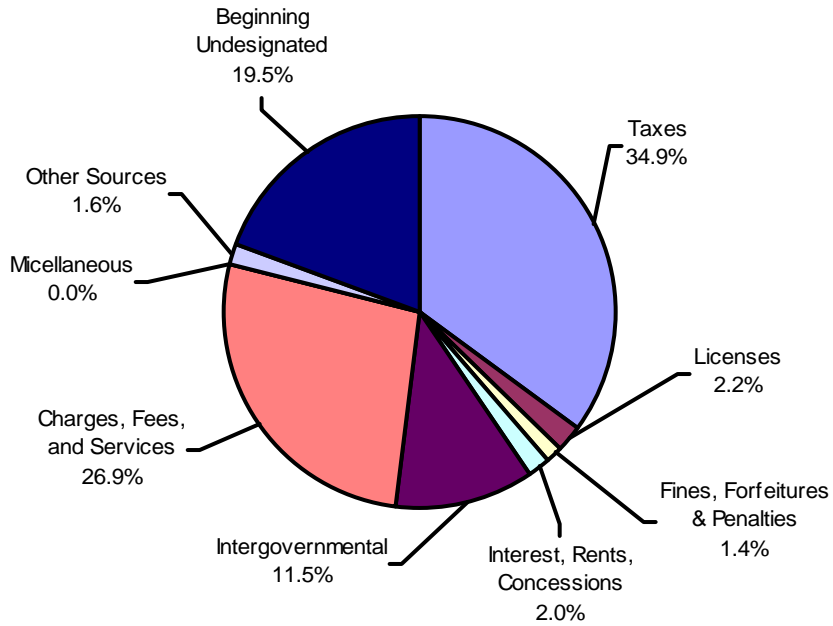
**Sewer Fund (6006)**  
**Revenue and Expenditure Five Year Forecast**  
**Dollars in Thousands**

	2009/10 Approved Budget	2009/10 Amendments	2009/10 Amended Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Projected Rate Increase			5.00%	5.00%	25.00%	15.00%	15.00%
<b>REVENUE</b>							
Charges, Fees and Services	22,149	(1,926)	20,223	21,234	26,543	30,524	35,103
Interest	665	-	665	665	665	665	665
Other	1,286	-	1,286	1,225	1,225	1,225	1,225
Development Fees	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>24,100</b>	<b>(1,926)</b>	<b>22,174</b>	<b>23,124</b>	<b>28,433</b>	<b>32,414</b>	<b>36,993</b>
<b>EXPENDITURES</b>							
Operating	18,894	(949)	17,945	18,569	19,917	21,227	23,099
Debt Service	973	24	997	997	883	883	883
CIP	3,315	(200)	3,115	5,225	7,407	9,667	12,005
<b>TOTAL EXPENDITURES</b>	<b>23,182</b>	<b>(1,125)</b>	<b>22,057</b>	<b>24,791</b>	<b>28,207</b>	<b>31,777</b>	<b>35,987</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>918</b>	<b>(801)</b>	<b>117</b>	<b>(1,667)</b>	<b>226</b>	<b>637</b>	<b>1,006</b>
Beginning Fund Balance	2,706	-	2,706	2,823	1,156	1,382	2,019
<b>ENDING FUND BALANCE</b>	<b>3,624</b>	<b>(801)</b>	<b>2,823</b>	<b>1,156</b>	<b>1,382</b>	<b>2,019</b>	<b>3,025</b>

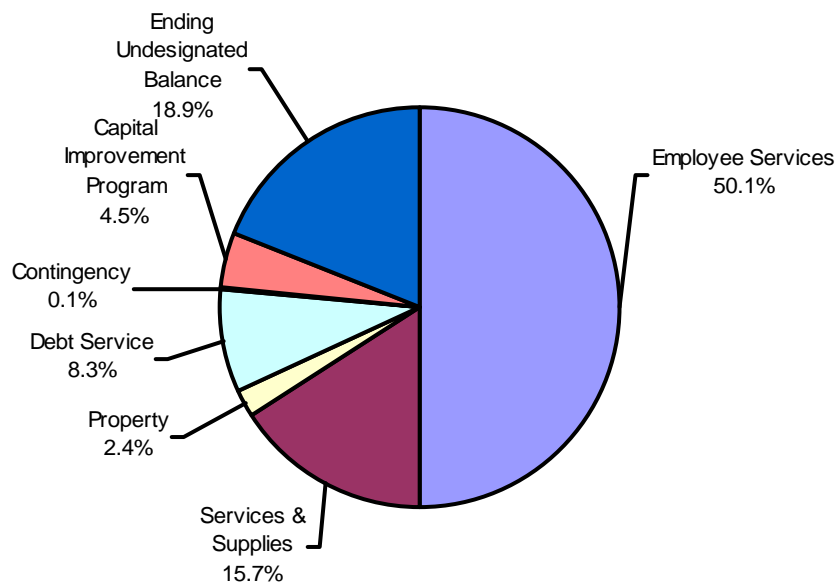


**Total Approved City Budget: \$874.7 Million**

**Revenues**

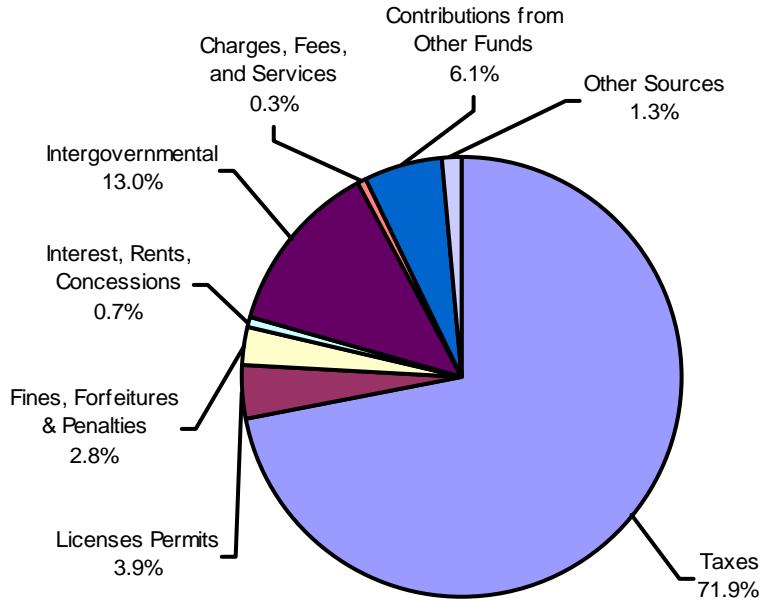


**Expenditures**

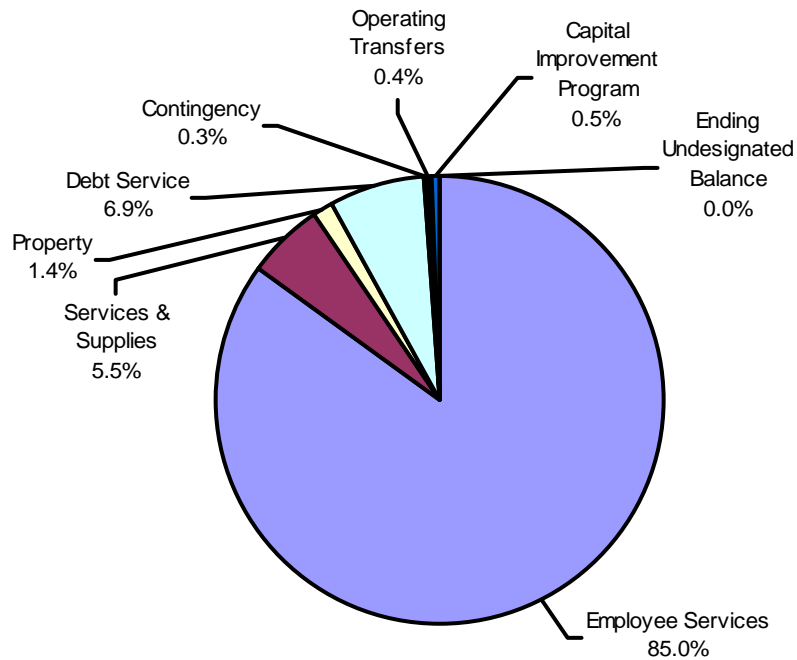


**Total Approved General Fund Budget: \$386.1 Million**

**Revenues**



**Expenditures**



## PROPOSED BUDGET OVERVIEW

(As written on May 1, 2009)

### INTRODUCTION

The FY2009/10 Proposed Budget for the City of Sacramento is balanced, totaling \$875.1 million from all funding sources. Proposed staffing for FY2009/10 includes 4,545 funded full time equivalent (FTE) positions citywide of which 3,180 FTE positions are funded from the General Fund. The General Fund portion of the Proposed Budget is \$385.9 million. The General Fund deficit is estimated to be \$50 million for FY2009/10. The Proposed Budget reduces expenses by \$41.7 million, including the unfunding of 387 FTE, and the use of \$8.3 million in one-time resources to close the gap for the fiscal year.

The Proposed Budget was developed in the context of the Mayor and Council's Strategic Planning-Strategic Budgeting policies. In this context the City Manager has led proactive efforts to address our financial challenges in an open and transparent way, and as a result of this process, the Proposed Budget reflects the Council's direction. The Council provided policy direction at Budget workshops held in January and February 2009. Additionally, five community meetings were held to discuss the budget with interested residents. The programs and services included in the Proposed Budget reflect the City Council's commitment to keeping Sacramento a full service City, and maintain the structural framework necessary to position the City when the economy recovers.

The following table summarizes the FY2009/10 Proposed General Fund Budget for operating departments and capital projects:

Department	Gross GF Expenditures	Reimbursements	Net GF Expenditures	Department Revenues	Net Cost	Funded FTE
CCL	9,420,826	(4,754,622)	4,666,204	1,698,146	2,968,058	105.26
City Attorney	6,980,696	(2,628,963)	4,351,733	10,000	4,341,733	49.00
City Clerk	1,442,866	(281,148)	1,161,718	2,000	1,159,718	11.00
City Manager	4,042,542	(1,537,239)	2,505,303	-	2,505,303	24.00
City Treasurer	2,088,189	(18,483)	2,069,706	2,425,000	(355,294)	12.00
Code Enforcement	10,533,162	(470,940)	10,062,222	6,282,939	3,779,283	89.00
Community Development	14,632,259	(1,354,041)	13,278,218	7,927,751	5,350,467	106.50
Economic Development	4,749,608	(190,087)	4,559,521	3,651,251	908,270	22.00
Finance	8,631,682	(3,039,852)	5,591,830	2,246,500	3,345,330	75.50
Fire	100,954,628	(1,373,731)	99,580,897	21,217,740	78,363,157	582.00
General Services	20,099,544	(8,313,211)	11,786,333	1,160,000	10,626,333	153.00
Human Resources	3,138,215	(996,557)	2,141,658	152,066	1,989,592	27.75
Information Technology	9,188,481	(3,461,590)	5,726,891	-	5,726,891	54.00
Labor Relations	1,146,230	(316,138)	830,092	120,000	710,092	8.00
Mayor/Council	3,088,943	(626,599)	2,462,344	125,000	2,337,344	28.50
Neighborhood Services	956,380	6,000	962,380	-	962,380	9.00
Parks & Recreation	29,687,092	(12,341,979)	17,345,113	515,212	16,829,901	367.70
Police	138,222,208	(8,420,556)	129,801,652	4,328,832	125,472,820	1,091.36
Transportation	53,114,545	(43,251,897)	9,862,648	14,837,104	(4,974,456)	364.75
Utilities	-	67,410	67,410	-	67,410	-
CIP	1,818,000	-	1,818,000	-	1,818,000	-
<b>General Fund Total</b>	<b>\$423,936,096</b>	<b>(\$93,304,223)</b>	<b>\$330,631,873</b>	<b>\$66,699,541</b>	<b>\$263,932,332</b>	<b>3,180.32</b>

Overall gross expenditures in the General Fund total \$423.9 million. These expenditures are funded with department revenues, discretionary taxes, other revenues, and reimbursements from other funds (grants, work on capital improvement projects, and the City's cost recovery plan). The City's Gross General Fund expenditures for operating departments and the capital budget totals \$423.9 million, of

which \$93 million (22 percent) is recovered through reimbursements and \$66.7 million (16 percent) is recovered from department revenues, resulting in a \$263.9 million Net General Fund cost.

While the budget is balanced in the sense that the various funding sources support the expenditures, there continues to be a structural gap between ongoing revenues and expenditures, currently closed through a combination of ongoing reductions, new revenues, the use of reserves, and the use of other one-time funding sources. As such, the Proposed Budget is somewhat fragile, requiring continued restraint on spending in order to preserve the delicate balance.

#### FY2009/10 Budget Reductions

In the past several years, no one predicted the breadth and depth of the current economic crisis. The City's budget problems emerged and became progressively worse when revenue growth failed to keep pace with expenditure growth. Now the problem is more severe and longer in duration because major General Fund tax revenues, property taxes and sales tax are in significant year to year decline. In addition, General Fund expenditures continue to grow as a result of increases in personnel costs and the operating costs of new facilities. The unfortunate result is that the gap between ongoing expenditures and revenues continues to widen even after very deep expenditure reductions were included in the Approved FY2008/09 Budget.

In recent years, without an understanding of the duration of the unprecedented economic downturn, the City has used a substantial portion of the General Fund Economic Uncertainty Reserve to provide the time necessary to implement long-term reduction strategies, and to mitigate even greater reductions in services. At this time, \$10.5 million remains. However, the use of \$8.3 million in one-time resources will ultimately require further budget reductions in FY2010/11 as it is apparent that the stalled economy and additional expenditure obligations will not provide the revenue growth necessary to close the gap.

Given that labor costs account for nearly 85 percent of all expenses of the General Fund, one of the central strategies to close the gap between revenues and expenses in the FY2009/10 Proposed Budget is to minimize growth in the City's personnel costs. In order to do so, the City has asked our labor unions to consider freezing salaries and step increases; and in the case of non-public safety employees, to take one furlough day per month for the fiscal year. In addition, all unrepresented employees will continue to furlough one day per month and will not be receiving cost of living adjustments (COLAs) in FY2009/10.

To date the City has been able to successfully conclude negotiations with only one of the City's labor unions, the Sacramento Police Officer's Association (SPOA). SPOA members have agreed to a salary freeze in FY2009/10. As a result, the Proposed Budget does not include any additional reductions to the Police Department. However, because negotiations with most of the City's labor unions are still in process, the Proposed Budget reflects a "reduction only" proposal for all other departments, versus savings from any negotiated concessions. Should the negotiations prove to be successful, there could be an opportunity during the budget hearings to substitute the labor savings for some of the proposed reductions.

However, it is important to remember that due to the significant reductions in property tax and sales tax revenues, even with salary freezes, extensive reductions in services and the use of one-time funding sources are necessary to balance the FY2009/10 Budget. This is in addition to the 20 percent reduction that most departments sustained in the development of the current year budget. The table below shows the cumulative impact of the current and Proposed Budget reductions.

Department	Budget Reduction FY2008/09	Budget Reduction FY2009/10	Cumulative Reductions
Mayor & Council	394,805	266,809	661,614
City Attorney	1,079,000	(183,825)	895,175
City Clerk	114,100	-	114,100
City Manager	701,739	597,000	1,298,739
City Treasurer	416,637	468,140	884,777
Code Enforcement	1,243,800	1,720,716	2,964,516
C C & L	823,000	1,355,363	2,178,363
Community Development	882,603	2,610,825	3,493,428
Economic Development	323,800	669,274	993,074
Finance	1,197,600	1,890,123	3,087,723
Fire	2,331,040	5,117,181	7,448,221
General Services	2,867,800	4,743,812	7,611,612
Human Resources	644,000	1,027,866	1,671,866
Information Technology	1,812,600	1,361,369	3,173,969
Labor Relations	165,960	40,000	205,960
Neighborhood Services	300,400	492,470	792,870
Parks & Recreation	4,966,247	8,297,002	13,263,249
Planning <sup>1</sup>	608,644	-	608,644
Police <sup>2</sup>	10,109,000	6,360,244	16,469,244
Transportation	1,015,448	2,576,098	3,591,546
Utilities	16,800	-	16,800
<b>Totals:</b>	<b>\$ 32,015,023</b>	<b>\$ 39,410,467</b>	<b>\$ 71,425,490</b>

<sup>1</sup> FY2009/10 Planning Department reductions are included in the Community Development and Finance Department.

<sup>2</sup> FY2009/10 Police Department reductions reflect new revenues and the deferral of COLA and step increases for sworn personnel.

In many cases these reductions will change what we do and how we do it, ultimately resulting in additional changes in levels of service or when possible, increased cost recovery for fee related programs and services. While every effort has been taken to maintain existing programs and service levels, the reality is that the City will be forced to do less with less, relative to programs and services and available resources. However, core services are being maintained and funded. Specific service level impacts are included in the departmental sections of this document.

## THE CHALLENGE

Budget development is both difficult and contentious as it requires leaders to make tough choices: Which programs should be funded and at what level? At the same time these decisions are being made, there is much uncertainty about future revenue levels. What we do know is that the City of Sacramento's financial condition continues to worsen as a result of the significant decline in the City's real estate market, the national credit crisis and the overall decline of the local, state and national economy.

Housing values in the Sacramento Region have fallen by over one-third since the market peak in 2005. For the past year, the typical real estate transaction has been the sale of a foreclosed home at a value significantly less than the prior sale. These sales of foreclosed properties result in a reduction in values

on the Assessor’s Tax Roll. In 1978, California voters passed Proposition 8, a constitutional amendment that allows a temporary reduction in assessed value when a property suffers a “decline-in-value.” A decline-in-value occurs when the current market value of your property is less than the current assessed value as of January 1. As a result of this legislation, the Sacramento County Assessor is proactively reducing the tax roll values of tens of thousands of parcels within the City. Both the sale of foreclosed homes and the proactive revaluation of properties result in reductions in property tax revenue.

The resulting “structural budget deficit” is inevitable as there is no revenue growth to keep pace with compounding expenditure growth caused by increasing service demands, escalating personnel costs, and the ongoing operations and maintenance of aging infrastructure. Expenditures must be reduced to cover the multi-years commitments to the workforce and new facilities and to cover the declining revenue base. While the City Manager took immediate steps to reduce discretionary spending and implemented hiring controls to reduce personnel costs, the structural budget deficit the City faces cannot be solved with temporary or one-time solutions. The use of one-time or short term resources only prolongs the budget crisis. Unless ongoing corrective actions are taken, the deficit will persist.

The City’s challenge for FY2009/10 is to effectively implement a multi-year plan to close the gap between revenues and expenses in the General Fund, achieving a fiscally sustainable budget. Unfortunately, the capacity to deal with this fiscal challenge is determined, ultimately by a number of factors completely out of our control, including the condition of the local, statewide and national economies and the impact on the generation of discretionary tax revenues. The downturn of the economy has led to a continuing decline in the City’s major General Fund Tax revenues, the City’s main source of discretionary revenue. Property and Sales and Use Taxes are the City’s two largest major revenue sources, representing 62 percent of the City’s discretionary revenues. These revenues are declining in FY2009/10 by nearly 5 percent (-\$9.9 million) when compared to the budget for the prior fiscal year.

The following table summarizes the estimated major revenue sources for FY2009/10 compared to the estimates of the current year revenues (dollars in thousands):

	<b>Amended FY2008/09</b>	<b>Proposed FY2009/10</b>	<b>Difference</b>	<b>Percentage</b>
<b>Property Taxes</b>	138,738	130,416	(8,322)	-6.00%
<b>Sales &amp; Use Taxes</b>	63,800	62,205	(1,595)	-2.50%
<b>Utility User Taxes</b>	58,000	60,320	2,320	4.00%
<b>Other Taxes</b>	23,650	24,482	832	3.52%
<b>Total</b>	<b>284,188</b>	<b>277,423</b>	<b>(6,765)</b>	<b>-2.38%</b>

As demonstrated in the table above, 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 \$8.3 million in one-time resources to bridge the gap between revenues and expenditures.

**BUDGET BALANCING**

The gap between ongoing revenues and expenditures has been closed with a combination of ongoing expenditure reductions (\$36.7 million), new revenues (\$5.1 million), and one-time funding (\$8.3 million).

In November and December 2008 the City's operating departments undertook a comprehensive review of programs and services, Essential Services Planning (ESP), to identify the following information in order to better understand the City's budget:

- Cost and current FTE to deliver programs and services
- Alternative models for delivering programs and services
- Opportunities for increased cost recovery
- Priority of programs and services based on criteria such as:
  - Council Focus Areas
  - Legislative Mandate

The ESP information was reviewed and refined at the City Manager's Office in efforts to address the growing gap between revenues and expenses; all operating departments were asked to prepare reduction proposals based on the work done for the ESP, looking to reduce or eliminate lower priority services, redefining service levels or alternative models for service delivery or options for off-setting costs by increasing cost recovery. All non-public safety departments submitted proposals outlining plans to reduce spending or raise revenue to meet a 15 percent, 25 percent or 35 percent reduction in their department's funding. Public safety departments proposed 3 percent, 7 percent and 10 percent reduction proposals. Reduction proposals included different options such as full cost recovery of fees and charges, while others focused on preserving core department functions and reducing programs and services that did not reflect City Council priorities.

In addition to department specific operating reductions, the Proposed Budget reflects continuing efforts to reduce costs on a citywide basis, including reductions in internal service fund costs for fleet and workers' compensation that result in lower costs in nearly all funds citywide.

Approximately eighty percent, \$41.7 million of the funding gap is closed with ongoing measures, the combination of department and citywide reductions. However, \$8.3 million will be pushed into FY2010/11 through the use of one-time funding. Following is a high level overview of the reductions to the City's General Fund operating departments included in the Proposed Budget:

- \$28.9 million reduction in labor costs, including the unfunding of 387 FTE
- \$6.0 million reduction in service and supplies expenses
- \$5.1 million in new revenues to help offset the cost of maintaining service levels. Additional options for fee/revenue increases will be presented as information becomes available.

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

The \$8.3 million in one-time funding included in the Proposed Budget is from the following sources:

- \$2.7 million in excess bond proceeds and interest earnings from the 2002 Capital Improvement Revenue Bond Fund to offset General Fund debt (\$2.2 million) and provide funding (\$500,000) for the City's Deferred Maintenance Program included in the deferred maintenance funding in the capital improvement program (CIP).
  - \$1.1 million from the Advanced Life Support reserve for the purchase of vehicles and defibrillators.
  - \$3.6 million of designated for FY2009/10 labor costs per Council Resolution 2008-245.
-

- \$500,000 savings related to the one-year suspension of funding for Americans with Disabilities Act projects in the CIP to allow time for nearly \$2 million in General Funds already appropriated to be spent.
- \$400,000 returned to General Fund resources from the City Treasurer's capital improvement project.

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, as we are already experiencing, these reductions will be deeper and more difficult since many of the non-essential services were already eliminated in FY2008/09 or are already proposed to be eliminated in FY2009/10.

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, nor any additional contributions that could be required by the California Public Employee Retirement System to make up for investment losses in the City's retirement portfolio. The Mayor and City Council will adopt a balanced budget in June; it is, however, highly unlikely that the Legislature will do the same and it may be necessary to make further budget adjustments to account for the actions of these external entities.

### **GENERAL FUND – FIVE-YEAR FORECAST**

The five-year forecast of the General Fund is an important fiscal planning tool. The forecast is based on the current budget and projects future expenditures, revenues, and other funding sources over a multi-year horizon. Under the sustainable budget policy of the Mayor and City Council, proposed fiscal actions are evaluated in a longer term, rather than a short term context.

The five-year forecast is based on a set of point-in-time assumptions. The projected expenditure growth is a reality, particularly through the term of the current labor contracts, the increased costs necessary to make up for investment losses in the City's retirement funds, and the costs to bring new facilities on-line. Revenues are derived from economically sensitive sources and the five-year revenue forecasts are subject to the same uncertainty and downside risk surrounding national economic forecasts and will be subject to revision, especially if the current economic situation worsens over the coming months. Should this be the case, revenue growth for the City will have to be adjusted downward. It is important to note that the City's major tax revenues, property and sales taxes, trail economic trends. Even when national and regional economic conditions begin to improve, tax revenue growth will lag.

National and state economic forecasts overall are negative and predicting the timeframe for stabilization, let alone growth, is unrealistic. Even the economists at the University of California Los Angeles Anderson School of Business, nationally recognized experts in economic forecasting, are uncertain about the future and are quoted in the Los Angeles Times saying, "There's nothing like it in the historical records (re: current economic variables). The bottom line is we're not having a forecast, we're having hunches."

Based on current trends, the forecast reflects negative revenue growth for the coming fiscal year and minimal revenue growth over the next five years. Locally the City has experienced a surge in foreclosures, a decline in residential sales and lower property values in certain areas of the City. As stated earlier, the overall decline in the real estate market marks a salient reality of significant reductions in the number and value of both the sale of new homes and the resale of existing homes. The market value of both residential and commercial properties has declined significantly, affecting the value of the overall property tax roll, and thus the City's revenue base as Property Tax, at 42 percent, is the City's largest source of discretionary tax revenues.

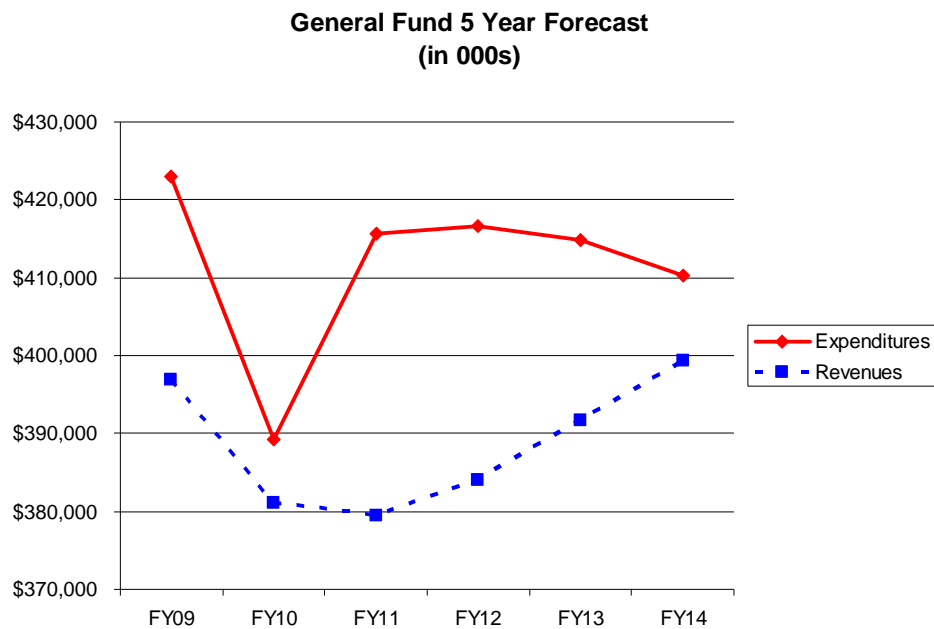
As such, the five-year forecast estimates are based on the reality that overall revenues will continue to be significantly lower than in recent years and there will be no growth over the five-year period. In fact, based on the overall decline in the property tax roll, property taxes are forecast to decline in FY2010/11 by an additional 2 percent, further decreasing base revenues.

Trends in employment and payrolls continue to demonstrate the overall decline in the local economy. Unemployment in California rose to 10.5 percent in February, the highest in 26 years, with unemployment in the Sacramento region increasing to 10.8 percent. Payrolls are also decreasing as overall there are more employed people earning less money. Most economic forecasts state that statewide unemployment will remain above 10 percent through calendar year 2011.

Budget sustainability and the fiscal capacity to address longer-term fiscal issues require 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 FY2009/10 and can minimize labor cost increases in the future we expect the structural gap will be tightened, but not eliminated, as there are anticipated expenditure increases and continued revenue decline in FY2010/11 that will have to be addressed through expenditure reductions in other areas.

For example, since the fall of 2008 the weakening stock market has been detrimental for the Sacramento City Employee Retirement System (SCERS), causing substantial losses in the value of the fund. Given that this is a closed system, those losses must be compensated for through increased contributions from the City in FY2010/11, estimated to be \$8 million. Similarly, we expect that the Public Employee Retirement System (PERS) will require the City to make a larger annual contribution, between three and five percent of total salaries, to make up for investment losses in City funds held by PERS, currently estimated at \$12 million.

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



Given these realities, the current level of annual funding commitments is not sustainable as the five-year forecast reflects a cumulative deficit of \$102 million over the next four fiscal years if further reductions are not implemented in FY2010/11. As a result, the City will need to continue to reduce expenditures or implement long-term revenue growth strategies in FY2010/11 in order to backfill the use of one-time resources and account for anticipated expenditure growth not supported by revenues and anticipated revenue decline.

### **LONG-TERM STRATEGY**

The City is clearly facing a substantial challenge in returning to a long-term structurally balanced General Fund budget. Successfully addressing this financial challenge will require increased flexibility, new ways of delivering programs and services and extreme fiscal discipline. We have already taken many actions, including aggressively managing hiring, cutting and deferring expenses, moving towards full cost recovery of fee-supported services and scrubbing all opportunities to identify unspent dollars to address the gap between revenues and expenditures. The deepening recession has made it impossible to close the emerging budget shortfall solely through actions designed to make government more efficient.

Had the City experienced a less severe economic downturn, these measures would have been enough to balance the budget. However, knowing that revenues will not recover to the level necessary to cover growing expenses in the next two years, and likely not even over the next five years, the strategies implemented in the Proposed Budget are simply not enough to address the estimated budget shortfall in FY2010/11 and beyond.

The Proposed Budget represents a significant step in a multi-year plan to close the budget gap with **ongoing** measures and minimal use of remaining reserves. Further, staff will continue to aggressively pursue all available federal, state and local funding to offset operating and capital costs. However, permanently closing the gap 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.

Reflecting the direction provided by the Mayor and City Council at the budget development workshops, the City Manager's Office has identified the following long-term General Fund budget strategies that should be evaluated for implementation. It is important to note that, in the case of citywide revenue increases these measures require voter approval, for which the earliest opportunity to place the measures on the ballot for consideration is June 2010.

The long-term plan will consider the following strategies to close the gap between revenues and expenditures:

- Alternative Revenue Options
- Staffing and Labor Cost Reductions
- Financial/Operational Review

#### Alternative Revenue Options

As major discretionary tax revenues decline and residents continue to demand additional programs and services, staff has been asked to identify potential opportunities to grow citywide revenues to offset the costs of programs and services. Three such proposals are outlined below:

- Public Safety Assessment – The City continues to work on developing Police and Fire Master Plans that will create a ten-year blueprint for each department’s operational and infrastructure needs. Implementing the Master Plans will require dedicating new funding to address these needs. Other California cities have adopted local public safety funding measures to increase officer staffing levels, reduce rising crime trends, acquire life saving communication tools, and fund rehabilitation/replacement of aging facilities. The City is considering a Public Safety Initiative that is suitable for funding the needs identified in our Master Plans.
- Parking Assessment – The City Council adopted the Central City Parking Master Plan (CCPMP) in September 2006. One of the 80+ recommendations of the CCPMP included exploring the possibility of a commercial parking surcharge (aka parking tax). More specifically, it was recommendation 7.4.3 which reads “Consider a parking surcharge on all commercial parking to provide funding for increased enforcement and promotion of alternative modes.” This specific recommendation made it to the final report based on intense discussion during one of our *many* CCPMP stakeholder group meetings. The stakeholders strongly advocated the implementation of a parking tax as a way of generating additional revenue for the City to increase parking enforcement, and to help achieve various planning objectives, which included increasing the use of alternative modes of transportation.

While there are many strategies for implementing a parking tax, the most common approach is to levy a tax on parking operations based on gross revenue. Some of the cities that currently have a parking tax are as follows:

Los Angeles, 10%	Oakland, 10%
Miami, 27.8%	Pittsburgh, 37.5%
New Orleans, 12%	San Francisco, 25%
New York, 18.5%	Santa Monica, 10%

If the City were to pursue a general tax, a simple majority vote of the Council is required to place the measure on the ballot and a simple majority of the electorate is required to implement a parking tax for general purpose expenditures.

- Business Operations Tax Modernization – The City’s Business Operations Tax (BOT) was adopted in 1984 and was adjusted in 1991. It has remained unchanged since. Consequently the BOT’s contribution to the General Fund has diminished as the share of General Fund revenues derived from this revenue has declined from 2.19 percent in FY2004 to 1.76 percent in FY2008. Annually the City collects approximately \$7 million in BOT revenue.

General law and charter cities in California are authorized to levy a tax on business activity. The tax may be fixed based on a per unit basis, or may be based on the number of employees, gross receipts, net business income, and/or the number of rental units (for landlords). There appears to be no consistent structure amongst municipalities across the state. However, in comparable cities such as Berkeley, Long Beach, Oakland, San Diego, and San Jose the minimum tax is greater. The maximum and rate charged also tend to be greater.

If the City were to adjust our taxing criteria, the revenues generated are estimated as follows:

- Minimum tax from \$30 to \$50 = \$384,000 increase;
- Maximum from \$5,000 to \$10,000 = \$940,000 increase; and
- Increase the rate from 0.0004 to 0.0005 = \$1.875 million increase.

These changes are estimated to generate an additional \$3.2 million to the City's General Fund. A majority vote of the Council is required to place the measure on the ballot and a majority electoral vote is required to implement changes to the BOT.

### Staffing and Labor Cost Reductions

Although wage freezes can slow the growth of payroll overall, such steps will not be enough to achieve the longer term savings in the City's employment costs that the City's financial situation requires. Ultimately, achieving a balance between the employment needs of workers and the City's ability to continue to provide key services to the public requires an actual reduction in the per-employee cost of wages and benefits or the reallocation or redeployment of existing labor.

Toward that end, the City should study opportunities that that will further reduce labor costs as part of the overall strategy to reduce the expenditure side of the budget deficit. Such strategies could include: alternative staffing models for labor intensive programs and services; changes in health benefit plans to reduce costs in both the short and long-term, relief from current and future pension liability by imposing higher levels of contributions by existing employees towards future pension benefits, and consideration of a two-tiered benefit package offering an alternate benefit package for future employees. These strategies reflect comprehensive efforts to lower overall costs to maximize the opportunities to retain as many employees as possible to enhance our opportunities related to City programs and services.

### Financial/Operational Review

As the City works to identify cost savings and right-size the organization to meet reduced revenue trends, an independent financial/operational review could offer additional recommendations for cost-savings, efficiencies and improved service to citizens. This type of review would be distinct from the formal audit processes the City conducts (e.g. required annual financial attestation performed in accordance with Generally Accepted Accounting Principles and internal audit examinations performed in accordance with Generally Accepted Government Auditing Standards). The City also anticipates the management audit would prioritize recommendations yielding the greatest potential for cost savings and/or revenue enhancements. Procurement of audit services will require the development and issuance of a request for proposals designed to solicit proposals from a broad array of experienced audit/performance review related consulting services. The cost of a citywide operational review will depend on the scale and focus of the scope of work desired by Council. Funding would need to be identified to pay for the cost of contracted services.

The criteria applied to evaluating potential long-term strategies will be considered by the City Manager's Office in coordination with the Mayor and Council and will be presented to the Mayor and City Council for approval over the next several months.

### **ENTERPRISE FUNDS**

Revenues in the Enterprise Funds are also significantly down as a result of the economic crisis. In the Utilities Enterprise Funds, the cost for a number of critical items necessary to deliver services, such as labor, fuel, chemicals, and utilities, have increased much more than expected. The downturn of the

housing market has also created shortfalls in projected revenues and the increase in foreclosures has dramatically increased the number of unpaid utility bills that the Department is forced to write off as bad debt. Finally, the Department has obligations to pay for regulatory requirements that apply to the operation of water, sewer and solid waste collection systems, such as the water meter retrofit program, regulatory permit requirements for the sewer systems, and landfill closure costs. As such, rate adjustments for the Water, Sewer and Solid Waste Funds are proposed as part of the FY2009/10 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.

Revenues for the City’s Community Center Fund and Marina Fund are also down, reflecting the economic reality of less discretionary spending on hotels and leisure activities. The Proposed Budget for the Enterprise Funds includes expenditure and staffing adjustments to address base budget issues such as increasing chemical, electrical, and gas costs, as well as adjustments to reflect changing revenue trends.

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 needs that benefit City residents and customers, which result in no fiscal impact on the General Fund. These are identified in the chart below.

<b>General Fund</b>				
<b>Department</b>	<b>Fund</b>	<b>Net Cost</b>	<b>FTE</b>	<b>Description</b>
Transportation	General Fund (1001)	-	8.00	Add Parking Enforcement Officers, costs to be fully offset by revenues.
<b>Enterprise, Special Revenue and Internal Service Funds</b>				
<b>Department</b>	<b>Fund</b>	<b>Net Cost</b>	<b>FTE</b>	<b>Description</b>
Utilities	Water (6005)	7,443,000	0.00	Increase the expenditure budget to cover the cost of labor, chemicals, utilities, sludge dewatering, and bad debt due to the foreclosure crisis.
Utilities	Sewer (6006)	1,852,000	0.00	Increase the expenditure budget to cover the cost of labor, chemicals, utilities, and bad debt due to the foreclosure crisis.
Utilities	Solid Waste (6007)	2,224,000	0.00	Increase the expenditure budget to cover the cost of labor, fleet (operation, maintenance and replacement of vehicles), post closure activities of landfills, and bad debt due to the foreclosure crisis.
Utilities	Storm Drainage (6011)	2,310,000	0.00	Increase the expenditure budget to cover the cost of labor, fleet (operation, maintenance and replacement of vehicles), regulatory compliance, utilities and bad debt due to the foreclosure crisis.
Utilities	Storm Drainage (6011)	-	11.00	Add 11.0 FTE requested by and fully reimbursed by the Sacramento Area Flood Control Agency (SAFCA). Establish revenue and expenditure budgets for these 11.0 FTE in the amount of \$1.428 million to reflect the SAFCA funding.

**2009-2014 CAPITAL IMPROVEMENT PROGRAM (CIP)**

The Proposed FY2009/10 CIP Budget totals \$50.1 million, funding 155 projects in all program areas in various geographic areas of the City. The General Fund total for capital expenditures in FY2009/10 is \$1.8 million. The FY2009/10 CIP is nearly \$49 million less than the prior year, funding 39 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 \$219.2 million from all funding sources. The General Fund portion of the five-year program is \$17.9 million.

## **FUTURE FISCAL CHALLENGES**

There are several important fiscal issues that were identified in the FY2008/09 budget that continue to present challenges for the City 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 annual base operating cost increases, particularly labor costs, are held to a level below annual revenues. Until the City regains fiscal sustainability (base operating costs are less than base revenues), service and staffing reductions will continue to be a necessary consideration during the annual budget process.

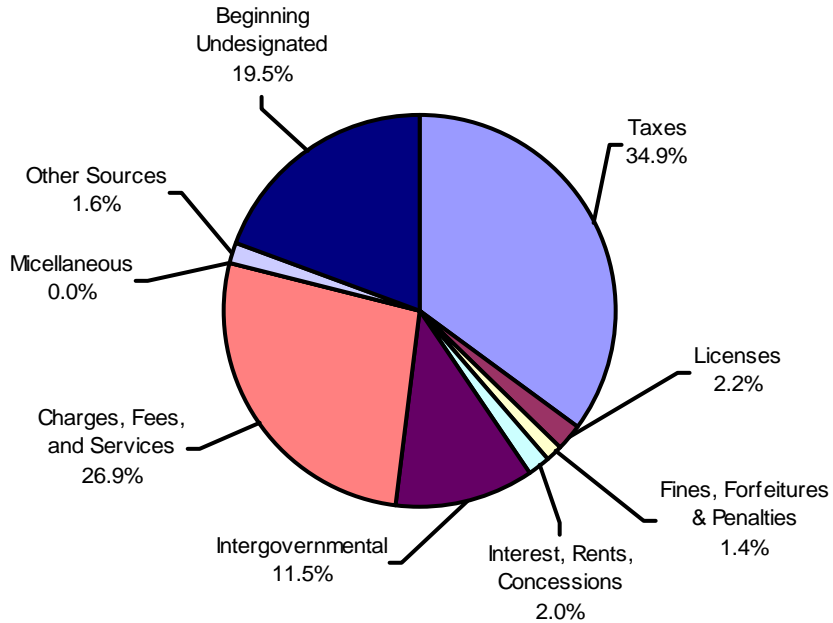
## **CONCLUSION**

The Proposed Budget reflects the significant fiscal challenges the City is facing including the unfunding of hundreds of jobs, saving nearly \$42 million in ongoing costs. The Proposed Budget ensures that the City will continue providing core services. However, it is important to recognize that due to reduced levels of funding provided in the Proposed Budget, on top of the reductions already implemented in the FY2008/09 budget, the City will have to change what we do and how we do it in order to continue providing major programs and services citywide. Even with these changes, the programs and services included in the Proposed Budget reflects the City Council's commitment to keeping Sacramento a full service city. Given the multi-year nature of the current economic decline, restoring the City's fiscal stability must continue to be our top priority. This proposal represents continuing efforts to align ongoing expenditures and revenues to ultimately return the budget to sustainability.

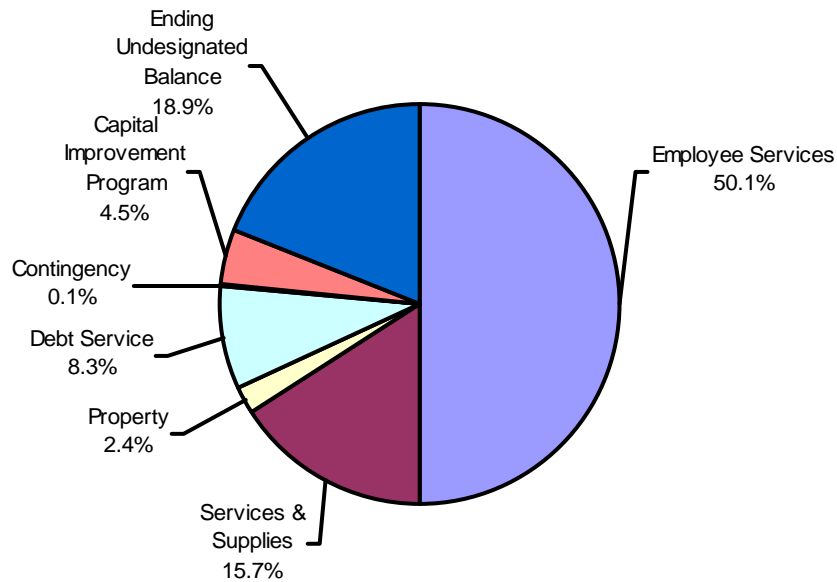
### OTHER FINANCIAL INFORMATION

Total Proposed City Budget: \$875.1 Million

#### Revenues

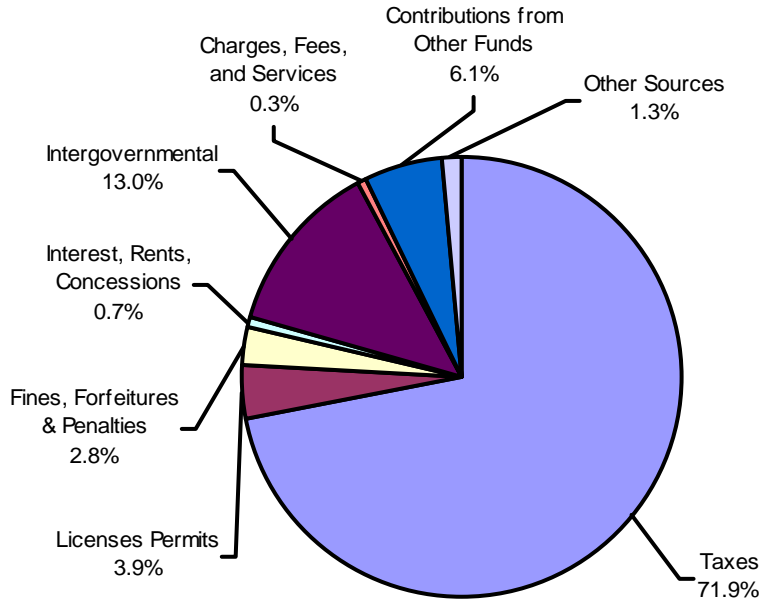


#### Expenditures

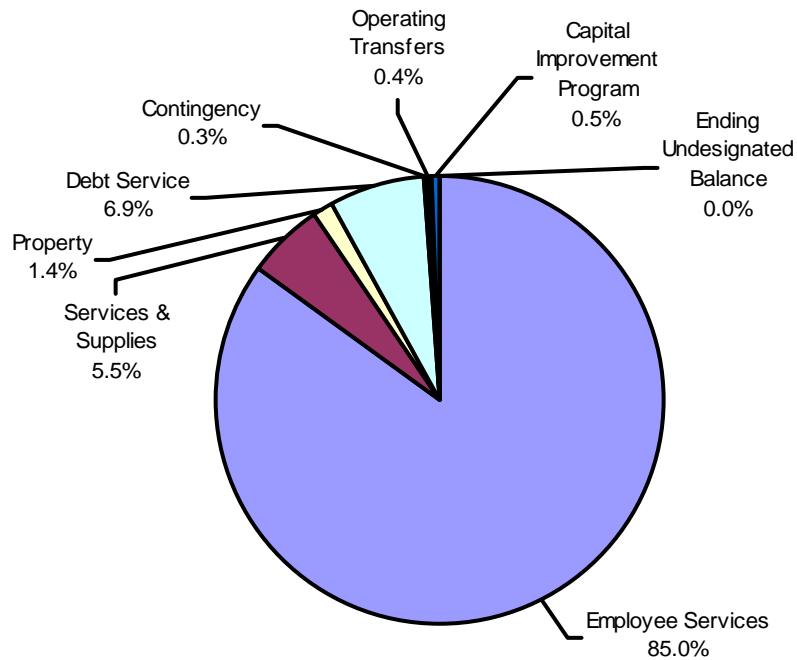


**Total Proposed General Fund Budget: \$385.9 Million**

**Revenues**



**Expenditures**



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**ENTERPRISE FUND FIVE-YEAR FORECAST**

Operational descriptions and 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 (6004)**

The City of Sacramento operates nine parking garages 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 in the Railyards, as well as two lots leased from the State of California. The Parking Services Division also manages over 65,000 square feet of retail space within the various City parking structures.

Parking fee revenues are projected to decrease 4.6 percent for FY2009/10 due to the downturn in the economy. The revenue is expected to increase one percent annually beginning in FY2011/12 through FY2013/14. Rental income is based on current and anticipated leases. Operating expenses are projected to grow at approximately one percent annually.

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

	<b>2009/10 Proposed Budget</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>	<b>2013/14 Estimate</b>
<b>REVENUE</b>					
Parking Fees	15,501	15,501	15,655	15,811	15,969
Interest - Operating Funds	600	600	600	600	600
Real Property Rental	1,379	1,541	1,573	1,614	1,659
<b>TOTAL REVENUES</b>	<b>17,479</b>	<b>17,641</b>	<b>17,828</b>	<b>18,025</b>	<b>18,228</b>
<b>EXPENDITURES</b>					
Employee Services	4,305	4,433	4,564	4,698	4,834
Other Services & Supplies	7,343	7,380	7,417	7,454	7,491
Operating Transfer Out/(In)	1,500	1,461	1,454	1,371	1,371
<b>Subtotal - Operating</b>	<b>13,148</b>	<b>13,274</b>	<b>13,435</b>	<b>13,522</b>	<b>13,696</b>
Debt Service	2,944	2,944	2,944	2,944	2,944
Other Uses/CIP	3,114	2,878	2,878	2,878	2,878
<b>Subtotal - Other Uses</b>	<b>6,058</b>	<b>5,822</b>	<b>5,822</b>	<b>5,822</b>	<b>5,822</b>
<b>TOTAL EXPENDITURES</b>	<b>19,206</b>	<b>19,096</b>	<b>19,257</b>	<b>19,344</b>	<b>19,518</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(1,727)</b>	<b>(1,454)</b>	<b>(1,429)</b>	<b>(1,319)</b>	<b>(1,290)</b>
Beginning Fund Balance	7,431	5,941	4,487	3,058	1,739
<b>ENDING FUND BALANCE</b>	<b>5,704</b>	<b>4,487</b>	<b>3,058</b>	<b>1,739</b>	<b>449</b>

## **Utilities Rate Advisory Commission**

The City Council formed a Utilities Rate Advisory Commission (Commission) last year to provide advice and recommendations to the Mayor and City Council on the City's utility service rates. The Commission is made up of community members, some of whom have expertise in the Utilities field. The Department consulted with the Commission during the development of the proposed rate changes that are reflected in the following charts for the Water, Sewer and Solid Waste funds. The Commission is also charged with holding a public hearing required by Proposition 218 when the City proposes to impose or increase utility service rates.

## **Water Fund (6005)**

Revenue generated by the City for the purpose of providing water service to its customers is deposited in the Water Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs of providing water service to our customers. Services include water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service and billing, the City-County Office of Metropolitan Water Planning, and capital improvements. Fund expenditures 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, with appropriate rate increases over the next several years, it is anticipated that the fund will remain financially sound and able to meet those challenges. Key issues for the Water Fund over the next five years include:

- Ongoing replacement and maintenance of aging infrastructure to provide safe and reliable drinking water to the community and meet state and federal standards.
- Continued implementation of the Residential Water Meter Installation Program in compliance with the state mandate requiring installation of water meters citywide by the year 2025.
- Maintaining state and federal regulatory compliance.
- Continued implementation of an aggressive water conservation program consistent with the Water Forum Agreement, integrating actions necessary for providing a regional solution to water shortages, environmental damage, and groundwater contamination.
- Support of regional, long-term water supply planning.
- Development of wholesale and wheeling agreements in support of effective regional water management.
- Meeting future debt service requirements related to the rehabilitation and improvement of intake structures and treatment plants.
- Continued revenue shortfalls and substantially increased bad debt expense as a result of the economic recession.

The following chart provides a five-year budget forecast for the Water Fund with proposed rate increases of 25 percent for FY 2009/10 and FY2010/11 to address anticipated cost increases, meet regulatory requirements and sustain a positive fund balance, and includes the following assumptions:

- System growth will approximate zero percent annually over the next five years due to decreased development.

- Future capital spending will reflect continued implementation of the mandated water meter program and a reasonable appropriation for infrastructure repair and rehabilitation.
- Costs for items that are vital to the collection, purification, and delivery of water, and to meet levels of service, continue to rise at rates exceeding general inflationary costs. The most significant cost increases are for labor, chemicals, utilities, sludge dewatering, and installation and maintenance of water meters, including a substantial increase to the meter replacement budget.
- In an effort to encourage water conservation, additional funds are budgeted for water conservation programs and education and outreach. Additionally, funding is included to cover costs incurred for increasingly stringent regulatory water quality testing.
- The fund realized a dramatic increase in the amount of bad debt due to the foreclosure crisis and has significantly increased the bad debt expense budget to cover those costs.

**Water Fund (6005)  
Revenue and Expenditure Five Year Forecast  
Dollars in Thousands**

	2009/10 Base Budget	2009/10 Proposed Augmentations	2009/10 Proposed Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Projected Rate Increase			25.00%	25.00%	*	*	*
<b>REVENUE</b>							
Charges, Fees and Services	62,697	14,960	77,657	96,203	105,823	114,289	128,004
Interest	2,398		2,398	2,433	2,433	2,433	2,433
Other/Misc.	780	289	1,069	1,336	1,336	1,336	1,336
Development Fee	-	-	-	250	250	250	250
<b>TOTAL REVENUES</b>	<b>65,875</b>	<b>15,249</b>	<b>81,124</b>	<b>100,222</b>	<b>109,842</b>	<b>118,308</b>	<b>132,023</b>
<b>EXPENDITURES</b>							
Operating	49,135	7,443	56,578	64,393	68,195	73,143	78,629
Debt Service	11,544	-	11,544	11,526	11,518	12,355	12,441
Proposed CIP	13,523	-	13,523	21,886	24,831	31,490	40,143
<b>TOTAL EXPENDITURES</b>	<b>74,202</b>	<b>7,443</b>	<b>81,645</b>	<b>97,805</b>	<b>104,544</b>	<b>116,988</b>	<b>131,213</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(8,327)</b>	<b>7,806</b>	<b>(521)</b>	<b>2,417</b>	<b>5,298</b>	<b>1,320</b>	<b>810</b>
Beginning Fund Balance	1,804	-	1,804	1,283	3,700	8,998	10,318
<b>ENDING FUND BALANCE</b>	<b>(6,523)</b>	<b>7,806</b>	<b>1,283</b>	<b>3,700</b>	<b>8,998</b>	<b>10,318</b>	<b>11,128</b>

\*Rate increases are projected between 8-12% in each fiscal year from 2011/12 to 2013/14 to meet operational expenses, address deferred CIPs and accelerate implementation of the mandated water meter program.

## **Sewer Fund (6006)**

Revenue generated 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, operation of 46 sanitary pumping stations, related engineering services, customer service and billing, and the monitoring of discharge into the sewer collection system. Fund expenditures 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 Sacramento Area Sanitation District is the sewer collection system provider for 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, including state mandated rehabilitation of the central City’s combined sewer and storm drainage system (CSS). The CSS collects both waste water from homes and businesses as well as storm water and urban runoff.
- 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 CSS.
- Continued revenue shortfalls and substantially increased bad debt expense as a result of the economic recession.

The following chart provides a five-year budget forecast for the Sewer Fund with proposed rate increases of 15 percent for FY2009/10 and FY2010/11 to address anticipated cost increases, meet regulatory requirements and sustain a positive fund balance. The forecast includes the following assumptions:

- Future growth in the system will approximate zero percent annually over the next five years due to decreased development.
  - Future capital spending will reflect a reasonable appropriation for infrastructure repair and rehabilitation. In addition, the Department of Utilities must comply with state mandates to accomplish \$10 million per year in improvements to the CSS, and the forecast includes an increase to the capital budget to meet this mandate.
  - Annual operating expenditures such as labor, chemical and utilities costs continue to rise at rates exceeding general inflationary costs. Additionally, bad debt expense is anticipated to increase by \$950,000 based on the foreclosure crisis.
-

**Sewer Fund (6006)**  
**Revenue and Expenditure Five Year Forecast**  
**Dollars in Thousands**

	2009/10 Base Budget	2009/10 Proposed Augmentations	2009/10 Proposed Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Projected Rate Increase			15.00%	15.00%	*	*	*
<b>REVENUE</b>							
Charges, Fees and Services	19,260	2,889	22,149	25,471	28,528	31,951	35,785
Interest	665		665	665	665	665	665
Other	1,189	97	1,286	1,225	1,225	1,225	1,225
Development Fees	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>21,114</b>	<b>2,986</b>	<b>24,100</b>	<b>27,361</b>	<b>30,418</b>	<b>33,841</b>	<b>37,675</b>
<b>EXPENDITURES</b>							
Operating	17,042	1,852	18,894	20,443	21,426	22,563	23,903
Debt Service	973	-	973	973	973	859	859
CIP	3,315	-	3,315	5,765	7,985	10,219	12,468
<b>TOTAL EXPENDITURES</b>	<b>21,330</b>	<b>1,852</b>	<b>23,182</b>	<b>27,181</b>	<b>30,384</b>	<b>33,641</b>	<b>37,230</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(216)</b>	<b>1,134</b>	<b>918</b>	<b>180</b>	<b>34</b>	<b>200</b>	<b>445</b>
Beginning Fund Balance	2,706	-	2,706	3,624	3,804	3,838	4,039
<b>ENDING FUND BALANCE</b>	<b>2,490</b>	<b>1,134</b>	<b>3,624</b>	<b>3,804</b>	<b>3,838</b>	<b>4,039</b>	<b>4,484</b>

\*Rate increase projected to be 12% in each fiscal year from 2011/12 to 2013/14 to meet operating expenses, address deferred CIPs and comply with National Pollutant Discharge Elimination System combined sewer system permit.

### **Solid Waste Fund (6007)**

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 new disposal/facility plan that:
  1. Incorporates areas north of the American River that reduces mileage;
  2. Brings City of Sacramento solid waste back into the area for disposal; and
  3. Stabilizes tipping fees for long-range planning.
- Funding increasing costs for new/replacement equipment.
- Meeting state mandated diversion goals.
- Continued revenue shortfalls and substantially increased bad debt expense as a result of the economic recession.

Costs for items vital to providing solid waste services and compliance with regulatory mandates continue to rise. The most significant cost increases are labor, fleet (operation, maintenance and replacement of vehicles), and bad debt resulting from the foreclosure crisis. Additionally, costs are being incurred for post-closure activities of landfills and additional green waste containers. While costs in many areas are rising, Solid Waste continues to look for efficiencies and has identified considerable savings in the proposed budget as it plans to reroute solid waste services to reduce overtime, vehicle maintenance, and fuel costs.

To achieve financial stability and restore a positive fund balance, a 15 percent rate increase in FY2009/10 and FY2010/11 is being proposed.

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

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

	<b>2009/10 Base Budget</b>	<b>2009/10 Proposed Augmentations</b>	<b>2009/10 Proposed Budget</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>	<b>2013/14 Estimate</b>
Projected Rate Increase			15.00%	15.00%	*	*	*
<b>REVENUE</b>							
Charges, Fees and Services	54,712	5,878	60,590	68,758	68,758	68,758	68,758
Other/Misc.	735		735	1,535	1,535	1,535	1,535
Development Fees	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>55,447</b>	<b>5,878</b>	<b>61,325</b>	<b>70,293</b>	<b>70,293</b>	<b>70,293</b>	<b>70,293</b>
<b>EXPENDITURES</b>							
Operating	52,026	2,224	54,250	60,363	61,832	60,658	65,697
Debt Service	3,334	-	3,334	3,859	3,691	3,448	3,449
Proposed CIP	717	-	717	2,417	2,017	2,017	2,017
<b>TOTAL EXPENDITURES</b>	<b>56,077</b>	<b>2,224</b>	<b>58,301</b>	<b>66,639</b>	<b>67,540</b>	<b>66,123</b>	<b>71,163</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(630)</b>	<b>3,654</b>	<b>3,024</b>	<b>3,654</b>	<b>2,753</b>	<b>4,170</b>	<b>(870)</b>
Beginning Fund Balance	(2,539)	-	(2,539)	485	4,139	6,892	11,062
<b>ENDING FUND BALANCE</b>	<b>(3,169)</b>	<b>3,654</b>	<b>485</b>	<b>4,139</b>	<b>6,892</b>	<b>11,062</b>	<b>10,192</b>

\*Rate increases are expected to be nominal (0-5%) in each fiscal year from 2011/12 to 2013/14 to meet operating expenses, debt service obligation and capital projects including landfill post closures.

**Marina Fund (6009)**

The Sacramento Marina is a 475-berth marina located on the Sacramento River at Miller Park. The Marina is a full service, seven day-a-week operation that includes a fuel dock, security gates, and parking. 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 nearby urban area comparable facilities. Revenues from berth rentals and fuel sales offset costs of operation, debt service and capital improvements.

The Sacramento Marina completed a \$10.5 million renovation in FY2008/09 that included 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 new berth configurations. Berth fees reflect an average increase of 12 percent annually through FY2011/12 and six percent annually thereafter, as well as berth occupancy of 80 percent for FY2009/10 and FY2010/11 and 95 percent for FY2011/12 and FY2013/14. Operating expenses reflect a five percent increase in labor expenses and one percent increase for non-labor costs. Interest-only payments for the South Basin loan continue in FY2009/10 with full payments beginning in FY2011/12. Principal and interest payments continue on the two pre-existing debt obligations.

**Marina Fund (6009)  
Revenue and Expenditure Five-Year Forecast  
Dollars in Thousands**

	2009/10 Proposed Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
<b>REVENUE</b>					
Berth Rentals	1,810	2,027	2,696	2,858	3,029
Interest	18	20	23	24	25
Gas and Oil Sales	250	250	300	300	300
Miscellaneous	78	26	26	26	26
<b>TOTAL REVENUES</b>	<b>2,156</b>	<b>2,323</b>	<b>3,045</b>	<b>3,208</b>	<b>3,380</b>
<b>EXPENDITURES</b>					
Operating	1,052	1,218	1,364	1,446	1,501
Debt Service	604	751	1,165	1,165	1,165
CIP	200	200	200	200	200
<b>TOTAL EXPENDITURES</b>	<b>1,856</b>	<b>2,169</b>	<b>2,729</b>	<b>2,811</b>	<b>2,866</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>300</b>	<b>154</b>	<b>316</b>	<b>397</b>	<b>514</b>
Beginning Fund Balance	739	1,039	1,193	1,509	1,906
<b>ENDING FUND BALANCE</b>	<b>1,039</b>	<b>1,193</b>	<b>1,509</b>	<b>1,906</b>	<b>2,420</b>

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### **Community Center Fund (6010)**

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 Transient Occupancy Tax (TOT) and fees paid by users of the facility. TOT revenues are expected to end FY2008/09 with an approximate 4 percent decline. FY2009/10 is expected to see a modest improvement with a projected 2 percent increase. During that same time, user fees will also decline from FY2007/08 proceeds by approximately 5 percent. User fees are expected to be flat in FY2009/10.

Beginning in FY2008/09, the Convention Center began levying a 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. The fee was initiated in FY2008/09 at \$1.50 per ticket and will increase to the full amount of \$3.00 per ticket in FY2009/10.

Labor costs are budgeted to grow by four percent during this time and non-labor costs by one percent. Cost savings are being pursued and implemented due to uncertainty in the overall economy and the potential negative impact on revenues. The Community Center is also establishing an operational reserve beginning in FY2012/13 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 with a payment of \$100,000 in FY2009/10. Repayment of the loan will continue throughout the next five years. Through FY2008/09, \$3.03 million will be repaid.

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

	2009/10 Proposed Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
<b>REVENUE</b>					
Transient Occupancy Tax	17,000	17,510	18,210	19,121	20,077
User Fees	7,322	7,446	7,707	8,015	8,335
Interest	600	750	750	800	800
Other (Facility Fee)*	1,350	1,000	1,200	1,000	1,000
<b>TOTAL REVENUES</b>	<b>26,272</b>	<b>26,706</b>	<b>27,867</b>	<b>28,936</b>	<b>30,212</b>
<b>EXPENDITURES</b>					
Operating	14,211	14,471	14,762	15,135	15,579
Debt Service	10,389	10,692	10,680	7,970	7,964
Capital Improvements	1,650	1,475	1,200	1,950	2,950
Facility Fee Improvements	-	1,000	1,200	1,000	1,000
Other Fund Uses	-	224	224	224	224
<b>TOTAL EXPENDITURES</b>	<b>26,250</b>	<b>27,862</b>	<b>28,066</b>	<b>26,279</b>	<b>27,717</b>
<b>SURPLUS/(DEFICIT)</b>	<b>22</b>	<b>(580)</b>	<b>(199)</b>	<b>2,656</b>	<b>2,496</b>
Operational Reserve	-	-	-	(50)	(50)
Other Fund Uses (Risk Loan Payback)	(100)	(100)	(100)	(1,000)	(1,500)
Beginning Fund Balance	2,518	2,440	1,760	1,461	3,118
<b>ENDING FUND BALANCE</b>	<b>2,440</b>	<b>1,760</b>	<b>1,461</b>	<b>3,118</b>	<b>4,613</b>

\*The FY2009/10 number is overstated by \$500,000. A technical adjustment is proposed to reduce this expense to \$850,000.

## **Storm Drainage Fund (6011)**

Revenue generated by the City for the purpose of providing storm drainage service to its customers is deposited in the Storm Drainage Fund. Revenues are derived primarily from customer service charges and interest earnings. Storm Drainage Fund revenues cover the cost of storm drainage operations at 103 pumping stations, wet weather treatment and storage, collection system maintenance, related engineering services, flood plain management, customer service and billing, education programs, water quality monitoring and other regulatory compliance issues, and a capital improvement program. Fund expenditures are divided among operating costs, debt service, and capital improvements. Challenges facing 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 (outlined below).
- Maintaining State and federal regulatory compliance, i.e. National Pollution Discharge Elimination System.
- Continued revenue shortfalls and substantially increased bad debt expense as a result of the economic recession.

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

- No rate increases and continued use of fund reserves. Expenditures continue to exceed revenues and the fund is projected to be in a deficit position in the near-term. Per Proposition 218, a voter approved ballot measure is required to increase Storm Drainage rates. The department intends to recommend moving forward with the ballot measure process.
  - System growth will approximate zero percent over the next five years due to decreased development.
  - Annual operating expenditures will increase more than inflation as the result of rising labor, fleet, regulatory compliance, and utility costs. Electrical and chemical costs relating to storm water collection are anticipated to increase approximately 10 percent and State agencies fees to regulate discharges into the rivers, delta, and the bay estuaries will increase \$180,000.
  - Bad debt expense resulting from the economic downturn is anticipated to increase more than \$500,000.
  - Projections of future capital improvement projects in the Storm Drainage Fund reflect decreased spending due to insufficient available funding.
  - Increase in Sacramento Area Flood Control Agency (SAFCA) costs: The City of Sacramento provides support and assistance to SAFCA by providing a salary and benefit framework for SAFCA staff. City positions are filled with SAFCA staff and are fully reimbursed by SAFCA for all associated salary and benefit costs. There are 5.0 FTE SAFCA staff positions currently funded within the City's budget in Utilities. SAFCA has requested an additional 11.0 FTE positions costing approximately \$1.6 million in FY2009/10. These costs will be fully offset by reimbursement from SAFCA.
-

**Storm Drainage Fund (6011)  
Revenue and Expenditure Five Year Forecast  
Dollars in Thousands**

	2009/10 Base Budget	2009/10 Proposed Augmentations	2009/10 Proposed Budget	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Projected Rate Increase*			0%	0%	0%	0%	0%
<b>REVENUE</b>							
Charges, Fees and Services	33,117	-	33,117	33,117	33,117	33,117	33,117
Interest	387	-	387	387	387	387	387
Other	3,502	-	2,712	2,796	2,886	2,977	3,074
Compliance fee	80	-	80	50	50	50	50
<b>TOTAL REVENUES</b>	<b>37,086</b>	<b>-</b>	<b>36,296</b>	<b>36,350</b>	<b>36,440</b>	<b>36,531</b>	<b>36,628</b>
<b>EXPENDITURES</b>							
Operating	33,057	2,310	35,367	35,649	36,732	38,345	40,584
Debt Service	3,827	-	3,827	3,826	3,825	3,590	3,589
CIP	1,425	-	1,425	1,000	1,000	1,000	1,000
<b>TOTAL EXPENDITURES</b>	<b>38,309</b>	<b>2,310</b>	<b>40,619</b>	<b>40,475</b>	<b>41,557</b>	<b>42,935</b>	<b>45,173</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	<b>(1,223)</b>	<b>(2,310)</b>	<b>(4,323)</b>	<b>(4,125)</b>	<b>(5,117)</b>	<b>(6,404)</b>	<b>(8,545)</b>
Beginning Fund Balance	8,212	-	8,212	3,889	(236)	(5,353)	(11,757)
<b>ENDING FUND BALANCE</b>	<b>6,989</b>	<b>(2,310)</b>	<b>3,889</b>	<b>(236)</b>	<b>(5,353)</b>	<b>(11,757)</b>	<b>(20,302)</b>
 Additional SAFCA Positions - Fully Offset	 -	 11.0	 11.0 FTE				

\*Voter approval is required for rate adjustments to the Storm Drainage Fund. This forecast assumes no rate increases for FY10-14.

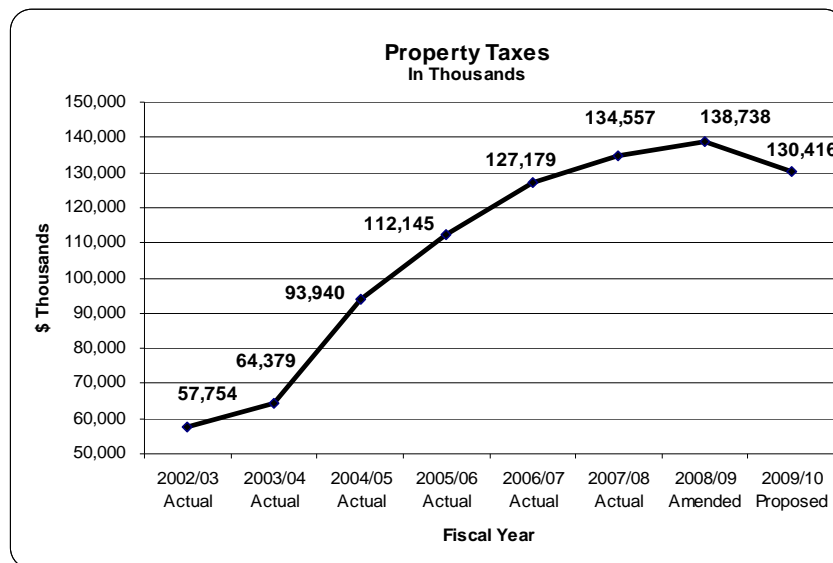
## Revenue Overview

### Property Taxes

Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the base and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

Property Taxes are levied annually by the Sacramento County Assessor on July 1 and become a lien on property on January 1. The City participates in an alternative method of distribution of property tax levies and assessments known as the “Teeter Plan.” The Teeter Plan payment, which includes 95 percent of the outstanding accumulated delinquency, is included in property tax revenue. Under the Teeter Plan code, 5 percent of the delinquency must remain with the County as a reserve for Teeter Plan funding.

Property Taxes are the largest General Fund revenue source, accounting for approximately 36 percent of all General Fund revenues. Revenues related to Property Taxes are affected by fluctuations in the real estate market, levels of new construction activity, and the corresponding changes to the tax rolls. Not included in the graphic below is the property transfer tax, imposed on all transactions when property located in the City is sold.



## Sales and Use Tax

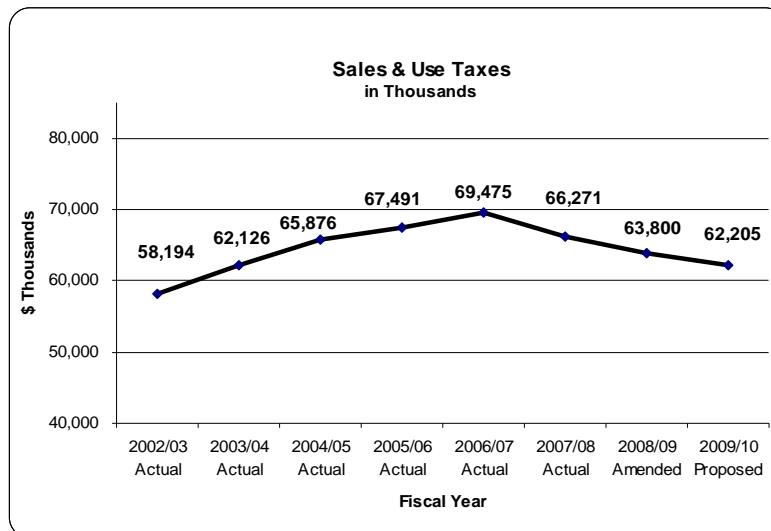
The City of Sacramento has adopted a Bradley-Burns Sales Tax Ordinance, which allows the City to receive one cent of the overall sales tax imposed in the City. The State Board of Equalization collects and distributes sales and use tax for the state, cities, counties, and other entities receiving sales tax revenue.

Sales and Use Taxes make up approximately 16 percent of General Fund revenues and are expected to decrease by approximately 2.5 percent as a result of the effects of the slowing real estate market, workforce reductions and the tightening credit market.

The 2003/04 State budget implemented what is commonly called the “triple flip,” whereby \$15 billion of voter approved economic recovery bonds to finance the State’s FY2002/03 and FY2003/04 budget deficits, would be payable from a fund established by the redirection of one-quarter of local governments’ 1 percent share of the sales tax imposed on taxable transactions within their jurisdiction to the state, commencing July 1, 2004. The portion of sales and use tax that otherwise would have been allocated to local governments, including the City, would be decreased by a commensurate amount. Commencing in FY2004/05, local governments’ share of local property tax revenues was restored by an amount equal to the one-quarter cent reduction in the local sales and use tax, creating a revenue neutral effect on local governments for the FY2004/05 and subsequent fiscal years.

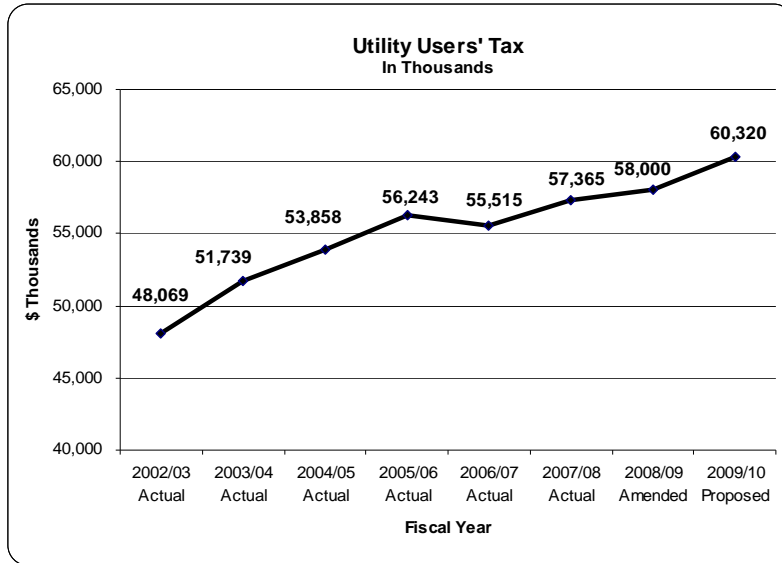
Since FY2004/05, this revenue exchange has been implemented with the City receiving less sales tax and greater property tax allocations. This will remain in effect until such time as the state’s economic recovery bonds have been retired.

The City’s sales tax receipts peaked at \$69.5 million in FY2007/08. For FY2009/10 sales tax is estimated to be \$62.2 million, or 10.5 percent less than the peak and a 2.5 percent reduction from the current approved budget.



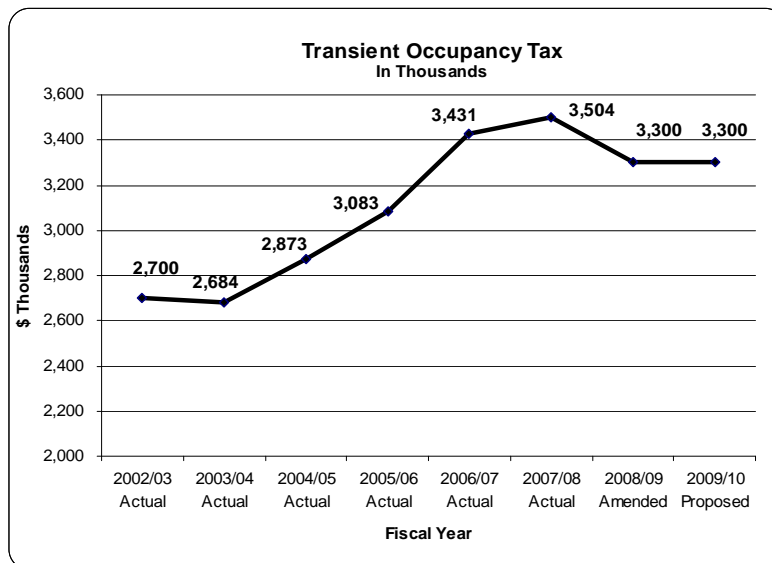
### Utility Users Tax (UUT)

Measure O was approved by the voters on November 4, 2008, and reduced the 7.5 percent tax rate to 7.0 percent on telecommunication services but expanded to include Voice over Internet Protocol (VoIP), text messaging and many other previously excluded technologies. The 7.5 percent tax rate continues to be in effect for gas, electric, and cable services. Current UUT revenue is approximately 16 percent of General Fund revenues and is expected to increase by 4 percent.



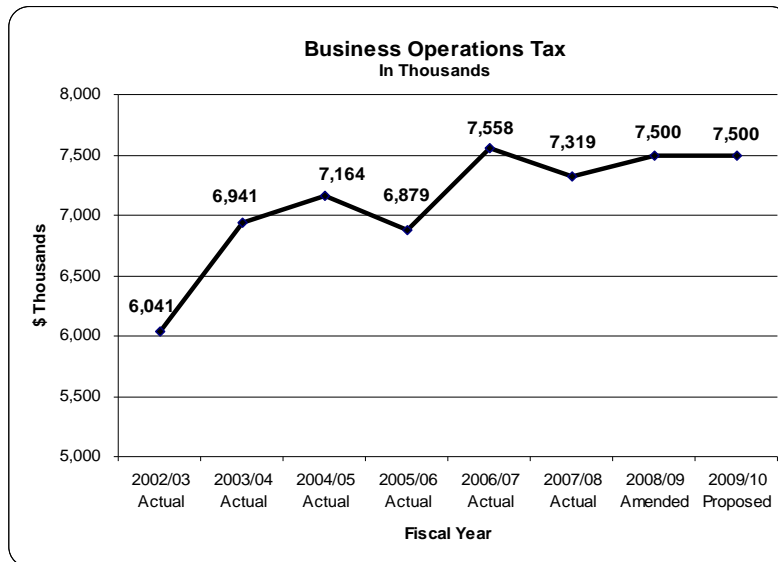
### Transient Occupancy Tax (TOT)

The current rate of 12 percent is charged to all transient guests of hotels, motels, inns, and bed and breakfasts within the City limits. The General Fund portion of TOT revenues is equal to 2 percent of the 12 percent rate of total TOT revenues. The remaining TOT revenues collected are for use by the Community Center Fund.



## Business Operations Tax

Business Operations Taxes are remitted annually by individuals and businesses that commence, transact, engage in or carry on any business, trade, profession, calling, occupation or gainful activity in the City. Business Operations Taxes make up approximately 2 percent of General Fund revenues and are expected to remain at a stagnant level for FY2009/10.



## Motor Vehicle License Fee (MVLFF)

An annual license fee equal to 2 percent of the market value of the vehicle as determined by the Department of Motor Vehicles is imposed on any vehicle, of a type which is subject to registration under the Vehicle Code. Monthly MVLFF apportionments are based on two percent of the market value of all vehicles licensed. The state currently backfills two-thirds of the total amount.

## Fees and Charges

Local government has the ability to implement fees to fund City facilities, infrastructure, programs, and services. There are five main categories of fees that the City currently implements:

- Impact/development fees
- Service fees
- Regulatory fees
- Rental fees
- Penalties/Fines

The Council has an adopted fee policy which sets forth guidelines for establishing cost recovery goals determining the categories of cost recovery levels in which to categorize/organize fees, methods for determining which category a fee falls under, and establishment and modification of fees and charges.

Fees and Charges make up approximately 10 percent of General Fund revenues and are expected to grow approximately 10 percent. Annually, Council considers adjustments to fees and charges as part of the budget process.

Note: Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and are considered available if received within 60 days of year end. Federal and state grants are considered receivable and accrued as revenue when all eligibility requirements have been met under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available.

### **Employee Retirement Benefits**

The City of Sacramento provides defined benefit retirement benefits through PERS and the 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 PERS.

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	11.222%
PERS - Safety	22.584%

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

### **Annual Pension Costs**

For the fiscal year that ended June 30, 2008, the City's annual PERS pension cost of \$41.7 million was equal to the City's required and actual contributions. The required contribution was determined as part

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of the June 30, 2006, 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, 2006, 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, 2006, was 31 years for the safety employees' plan and 27 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 percent of unamortized gains and losses each year.

For the fiscal year ended June 30, 2008, the City's annual SCERS pension cost of \$3.5 million was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The Proposed FY2009/10 budget contains a \$3.4 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 percent investment rate of return (net of administrative expenses), (b) 3 percent projected annual salary increases, (c) an inflation component of 3 percent, and (d) 3.25 percent 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 require reporting of the cost of the retiree medical benefit on an accrued actuarial basis and to put forward a plan to fund the benefit.

An actuarial report was finalized in June 2008. Based on this 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 the 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 \$10 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 Basin are a more significant risk to our credit rating. 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.

## **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, 2008 to be 475,750 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. 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 FY2009/10 Proposed Budget is included in three documents: Proposed Operating Budget, Proposed Capital Improvement Program (CIP), and the Blueprint for Strategic Budgeting. The Blueprint is designed to provide highlights and general information relative to the Proposed Operating and CIP Budgets. The Proposed 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 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.

### **City Council Budget Hearings**

Starting on May 19, 2009 the City Council will hold hearings on the FY2009/10 Proposed Budget. These hearings provide the public the opportunity to provide their input on the budget. The preliminary hearing schedule is provided on the following page:

Date	What	When
Week of April 27	Budget Briefings (Mayor/Council and Unions)	
Friday May 1	<b>Release Proposed Budget</b>	
Weeks of May 4-18	Mayor/Council Review Budget	
Tuesday, May 19	<b>FY2009/10 Proposed Operating Budget Five-Year Long-term Forecast/Strategy</b>	Evening 2 hours
Tuesday, May 26	<b>Budget Update</b> Hold for Hearing if Necessary	2-4 p.m. Hold for Budget as Needed 6-9 p.m. Council Business
Tuesday, June 2	<b>CIP Budget Update</b> Hold for Hearing if Necessary	Evening 1 hour
Tuesday, June 9	<b>Utility Rate Hearing Budget Update</b> Hold for Hearing if Necessary	2-4 p.m. Council Business 6-9 p.m. Rate Hearing and Budget as Needed
Tuesday, June 16	<b>Budget Adoption</b>	Evening 1 hour
Thursday, June 18	<b>Hold for Budget Adoption</b> if Necessary	Evening 1 hour

### 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) Budget Resolution

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

The FY2009/10 Budget Resolution can be found in Section 30 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. 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

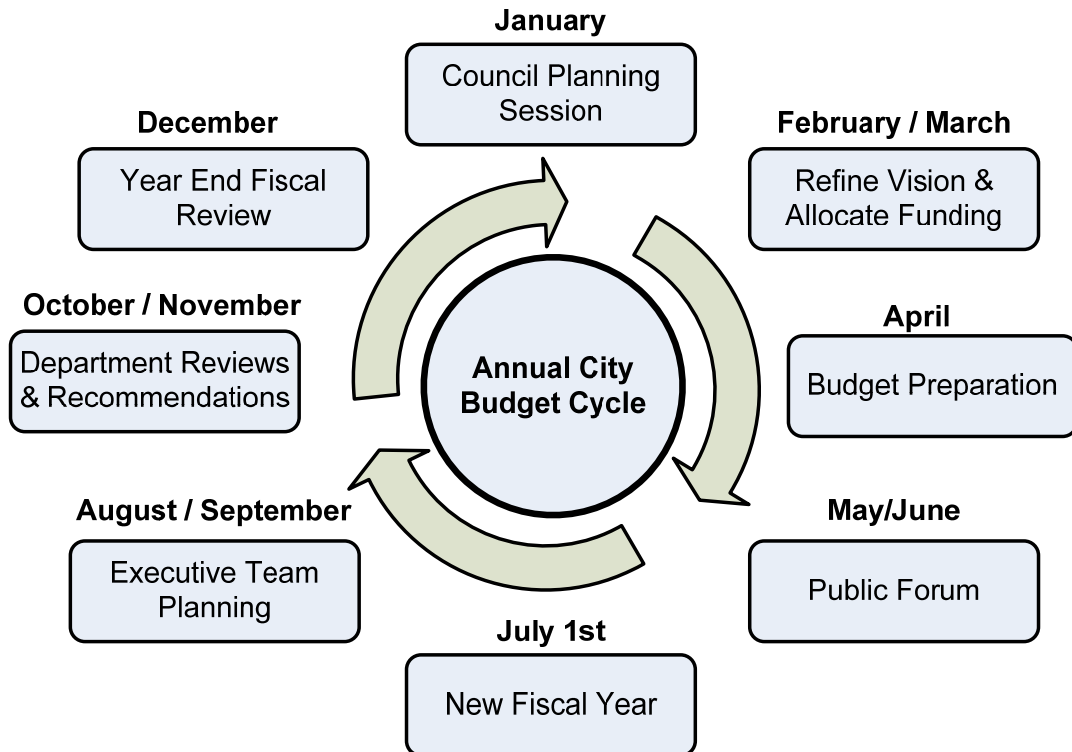
The Mayor and City Council adopted specific guidelines for the development of the FY2009/10 budget:

- 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
- Remain a full service city

**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 following figure 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 matched 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 a vote of the 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.

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 investments are consistent with California Government Code Sections 53600.5 and 53601.

## **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.

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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.

#### **6) 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, 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 Community Center Fund accounts for the operation and maintenance of the City's Community Center, including the theater and exhibit halls.

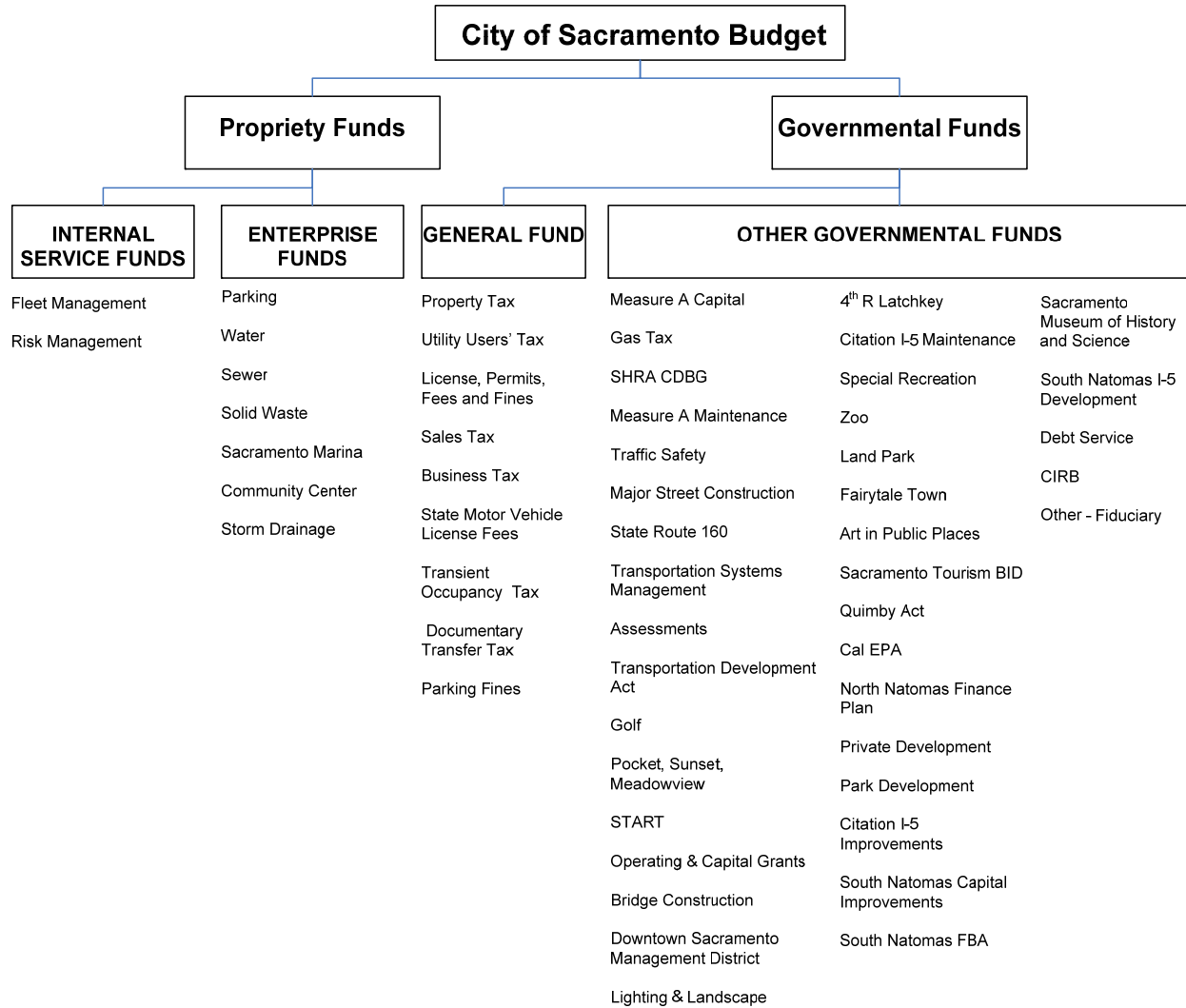
Internal Service Funds account for the financing of fleet and risk management services to other departments on a cost reimbursement basis.

## 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:

1. *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.
2. *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.
3. *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

The City of Sacramento is currently developing a Debt Policy and anticipated adoption in early FY2009/10. 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 percent of the City's adjusted assessed valuation. Of the \$1.06 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, 2008 is \$40.3 billion, resulting in a debt limit of \$6.1 billion.

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

	<b>As of June 30, 2008</b>
FY2007/08 Assessed Valuation	40,851,124
Exemptions	505,519
Debt Limit Percentage	-
<b>Legal Debt Limit (15% Adjusted Assessed Valuation)</b>	<b>6,051,841</b>
<b>Less: Outstanding General Obligation Debt Payable</b>	<b>-</b>
<b>Remaining Debt Capacity</b>	<b>6,051,841</b>

The FY2009/10 Budget includes \$31.9 million in principal and \$39.8 million in interest payments.

The following are the ratings at April 6, 2009, as determined by Moody's Investors Service and Standard & Poor's.

	<b>S&amp;P</b>	<b>Moody's</b>
<b>Insured issues:</b>		
• 1993 Lease Revenue Bonds, Series A	A+	A1
• 1994 Lease Revenue Series B	A+	Aa
• 1996 Landscaping & Lighting	AA	Baa1
• 1997 Lease Revenue Bonds (ARCO)	AA	Baa1
• 1999 Capital Improvement Revenue Bonds (CIRBS)	AA-	Baa1
• 2002 CIRBS	AAA	Aa3
• 2002 Certificate of Participation (COP)	A	Baal
• 2003 CIRBS	AA-	Aa3
• 2005 Refunding Revenue	A	A1
• 2006 CIRBS A, B	AA-	Aa3
• 2006 CIRBS C, D, E	AA-	Aa3
<b>Ratings:</b>		
• Best quality companies	AAA	Aaa
• Quality companies	AA	Aa1, Aa2, Aa3
• Economic situation can effect finance	A	A1. A2. A3
• Medium class companies	BBB	Baa1, Baa2, Baa3