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SECTION – 1

BUDGET MESSAGE

Proposed Budget Message
(As written on May 1, 2006)

Mayor and City Council
Sacramento, California

Honorable Members in Session:

I respectfully submit the Fiscal Year 2006/07 Proposed Budget for the City of Sacramento. The Proposed Budget is balanced and totals \$849.7 million from all funding sources and supports 5,033 full time equivalent (FTE). The General Fund totals \$390.4 million and 3,746 FTE. These figures reflect the City's Base Budget requirements, consistent with the Mayor and City Council's recently adopted strategic budgeting process. Also identified in the Overview, but not included in the Proposed Base Budget, pending Mayor and City Council approval, are augmentations totaling \$10.4 million and 61 FTE.

"Strategic Planning – Strategic Budgeting"

At the direction of the Mayor and City Council, fundamental changes to the City's budget process are being made with the FY2006/07 budget. In February 2006, the Mayor and City Council formally adopted the new budget cycle which allows the Mayor and City Council, through a series of planning sessions, to direct the development of the proposed budget: Strategic Planning – Strategic Budgeting. The revised strategic budgeting process incorporates the Mayor and City Council's priorities as identified in their strategic plan, facilitates coordination within operating departments to deliver on specific Council initiatives, and organizes the budget hearings using the Council's strategic planning focus areas as topics for discussion. Additionally, the process provides a public forum component that better encourages participation by citizens during the budget hearings. The sustainable budget policies which have served the City well throughout the years continue to provide the framework for a balanced and responsible budget.

Strategic Planning and the Budget

In an effort to guide the future of the City, the Mayor and City Council are engaged in an ongoing strategic planning process. As a result of this process they have identified five strategic planning focus areas:

1. Culture and Entertainment;
2. Economic Development;
3. Public Safety;
4. Safe and Affordable Housing; and
5. Sustainability and Livability.

These strategic planning focus areas represent aspects of City government or life in the City which the Mayor and City Council desire to improve and enhance. After the Mayor and City Council identified the focus areas and specific goals, teams of City Departments have been assembled to both identify current efforts toward achieving the goals and gaps in the City's ability to address these goals. For the FY2006/07 budget process, the top two or three goals within each focus area, as identified by the Mayor and City Council in their strategic planning sessions, have received full analysis by the inter-departmental teams.

From the FY2004/05 fund balance, \$7.5 million for one-time and ongoing costs has been set aside for the strategic budgeting process. Funding opportunities relative to specific goals within focus areas will be discussed during the public budget hearings in May and June. Prioritization of these specific goals and the allocation of funding toward achieving these goals becomes a key to the real decision making in the strategic budgeting process.

Community Reinvestment Capital Improvement Program

An example of the strategic planning – strategic budgeting decision-making process has been the Community Reinvestment Capital Improvement Program (CRCIP). The CRCIP financing will provide for development and improvement of community facilities. Through a series of public meetings and hearings, the Mayor and City Council made a decision to focus the allocation of funds for capital projects citywide. The CRCIP list was prioritized through City Council discussions and the approved project list includes: libraries, museums, community facilities, and improvements to existing City parks, community centers and neighborhood infrastructure. Reflecting the citywide focus, non-profit community organization projects including the Sacramento Unity Center, Children's Theater of California and the Natomas Charter School Performing Arts Center will also receive funding.

The funding opportunity for the CRCIP is the result of prior Council budget actions. When the State took approximately \$6.0 million of the City's property tax revenue in the FY2004/05 and FY2005/06, the City budgeted for this impact as if the revenue diversion were permanent. With the return of the revenue in FY2006/07, revenue is available to support the CRCIP without impacting other areas of the budget. The funds from the financing will be available at the start of FY2006/07, and the annual debt service is included in the Proposed Base Budget.

Sustainable Budget Concept

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

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

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

Budget Documents and Budget Hearings

There are very significant changes to the budget process as a result of strategic budgeting. These changes are reflected in both the budget documents and how the annual budget hearings will be conducted. The budget document is being segregated into two pieces:

1. The Proposed Base Budget – Appropriations and estimated revenues included in the Proposed Base Budget reflect the allocation of resources necessary to maintain staffing levels and fund prior commitments in the new year.
2. Changes to the Base Budget– Any budget changes, including those funded with new revenues or cost offsets within the budget will be included in the City Budget only after Mayor and City Council approval in the budget hearings.

In addition to the Proposed Base Budget, a companion document, the Blueprint for Strategic Budgeting (Blueprint), has been prepared. The Blueprint includes both a summary of the Proposed Base Budget and an outline of the integration of the Strategic Planning – Strategic Budgeting processes. In addition, the Blueprint contains information for the public on the strategic plan focus areas and goals, proposed offset adjustments and the budget hearing schedule.


The budget hearings will also reflect the new budget process. The Proposed Base Budget will be presented in summary at the start of the hearings. Following will be a series of hearings on each of the strategic plan focus areas and operating department initiatives which will replace the separate departmental hearings that were held in the past. There will also be a hearing providing an overview of the City's Enterprise Funds which will include a Solid Waste Enterprise rate hearing.

Past Accomplishments – Looking to the Future

Through the leadership and fiscal foresight of the Mayor and City Council, the City of Sacramento has been able to come through the economic slowdown in the early years of this decade avoiding service level impacts and staffing reductions while expanding services to meeting the needs of a growing City. The impact of long-term labor contracts has been addressed through the strategic use of previously set aside reserves. The implementation of these long-term contracts allows for better planning for the future as the City can better estimate labor expenses, which represent a major portion of the City's budget. These are major budget accomplishments, and as a result, Sacramento is now poised for significant positive change.

Both the CRCIP and redevelopment debt issues will provide for significant capital improvements. The City, in partnership with community groups, is providing new civic amenities and enhancing existing facilities. Public investment is fostering private investment and development which will in turn generate more resources for City services. High profile projects such as the Railyards development, high rise residential and office buildings and development of Delta Shores are progressing from plans to reality and will change the very nature of Sacramento. These changes will produce challenges as well as opportunities, yet with the sound fiscal direction of the Mayor and City Council, the City of Sacramento has the capacity to weather the challenges and embrace the opportunities.

Respectfully submitted,



RAY KERRIDGE
City Manager