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SECTION – 2

PROPOSED BUDGET OVERVIEW

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The FY2006/07 Proposed Budget is balanced and totals \$849.7 million from all funding sources. The Proposed Budget includes 5,033 full time equivalent (FTE) positions. The General Fund totals \$390.4 million and 3,746 FTE positions.

OVERALL FINANCIAL OUTLOOK FOR THE CITY OF SACRAMENTO

The overall financial outlook for the City of Sacramento continues to improve. The City has addressed one of the major sources of budget uncertainty in past budget development. Specifically, in FY2005/06 the City successfully negotiated and implemented long-term labor contracts. This provides a solid baseline for the development of future expenditure estimates and facilitates planning from a multi-year perspective.

Economic growth in the City continues, with plans for several major business and housing developments currently in progress. However, the challenge of providing programs and services for these new growth areas while maintaining current service levels for existing City programs will continue. The Mayor and City Council's fiscally responsible and sustainable budget philosophy and direction have allowed the City to continue to grow and prosper in times of uncertainty and to be well positioned to continue to build on this momentum.

STRATEGIC PLANNING – STRATEGIC BUDGETING

The Mayor and City Council formally adopted the new Strategic Planning – Strategic Budgeting process 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. As part of the FY2006/07 planning process, the Mayor and City Council 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 reflect citywide priority programs and services that will be considered for additional resources during the budget hearings.

MAJOR BUDGET ASSUMPTIONS

GENERAL FUND EXPENDITURES

The General Fund is the largest fund in the City budget. The FY2006/07 Proposed Budget reflects expenditures necessary to maintain staffing levels and fund prior commitments in the new year. The General Fund is comprised of the City's tax and other discretionary revenues (fees, fines, penalties) and the departments and activities funded with those revenues. Roughly three quarters of the City's employees work in Departments funded by the General Fund. The three largest General Fund supported departments are Police, Fire and Parks and Recreation, consistent with City Council Priorities.

GENERAL FUND REVENUES

A budget is a plan based on many assumptions regarding expenditures and revenues. Given that labor is approximately 75 percent of all budgetary expenditures, the recent settlement of labor contracts provides the capacity to do extensive modeling of ongoing expenses. However, that same level of certainty over time is not as clear-cut relative to revenue estimates. Revenues are derived from economically sensitive sources and while assumptions and estimates can be made at a point in time, the reality is that actual revenues are subject to change as a result of national, state and local economic developments. The growth assumptions for the major tax revenues for the FY2006/07 Proposed Budget are summarized below.

- **Property Taxes** are the largest General Fund revenue source, accounting for approximately 32 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.
 - ✓ Main roll property taxes are estimated to grow by 15 percent. Growth in FY06 is 13.8 percent; however supplemental information from Sacramento County indicates that the main roll will continue to grow in FY2006/07.
 - ✓ Supplemental roll property taxes, additional secured taxes related to the change in property values when a property in the City is sold, are expected to decline by approximately \$850,000 or 22 percent due to a slowing real estate market.
 - ✓ The property transfer tax, imposed on all transfers when property located in the City is sold, is estimated to decline by \$3.5 million or 26 percent due to a slowing real estate market.
- **Sales and Use Taxes** make up approximately 20 percent of General Fund revenues and are expected to increase by 6 percent. This is less than actual growth of 7.3 percent in calendar year 2005.
- **Utility Users' Tax** includes taxes received on the use of electricity, natural gas and telephone and cable services. The Utility Users' Tax is approximately 15 percent of General Fund revenues and is expected to grow by 4 percent, roughly proportional to inflation and population growth.

ENTERPRISE FUNDS

Revenues and expenses of the Enterprise Funds are consistent with ongoing Council direction relative to operational and capital plans. A rate adjustment for the Solid Waste Fund is proposed as part of the FY2006/07 Base Budget in order to ensure continued program delivery and service levels. A noticed rate hearing will be held during budget hearings. Water and Sewer Funds were approved for a two year rate increase during the FY2005/06 budget process. Further action will be required in future years to ensure that revenues are at appropriate levels to pay for the costs of the labor agreements and ongoing cost of service. In the Water Fund, the state's water meter mandate has a significant cost and must be addressed.

Along with General Fund changes, Enterprise Fund augmentations are identified. The Water, Storm Drainage, and Sewer Utilities have expenditure and staffing adjustments address base budget issues such as increasing chemical, electrical, and gas costs relating to growth of the City and its infrastructure. The augmentations total \$1.3 million and 6 FTE. The Convention Center is proposing to add an events coordinator position to service the increasing number of events. The position is funded through a reallocation of an existing position and reallocation of other expenditures in the Convention Center Fund.

FIVE-YEAR GENERAL FUND FORECAST

The five-year General Fund budget forecast has been updated to reflect the FY2006/07 Proposed Budget. Major assumptions and conclusions are as follows:

- Expenditure levels in the FY2006/07 Proposed Budget are sustainable into the future including annual increases in base operating costs due to higher employee compensation and benefit costs and increases in other operating costs.
- The property tax revenue estimates in years two through five of the forecast assume lower growth rates.
- The return of the \$6 million property tax shift in FY2006/07 is not needed to fund operating costs and is available for the Community Reinvestment Capital Improvement Program.
- The five-year model assumes the end of federal grant funding for 67 police officers at a cost of \$8.5 million in FY2010/11.
- As planned, one-time reserves are released in years one through three to fund expenditure increases related to increased labor costs. Expenditures and revenues are expected to realign in year four.
- The Economic Uncertainty Reserve, currently at \$30 million (7.8 percent of General Fund revenues) has not been included as a funding source in the budget forecast.

FIVE-YEAR GENERAL FUND FORECAST FY07 to FY11

	FY2006/07 PROPOSED	FY2007/08 ESTIMATED	FY2008/09 ESTIMATED	FY2009/10 ESTIMATED	FY2010/11 ESTIMATED
Beginning Fund Balance	2,900	1,774	1,579	1,241	2,363
Expenditures					
Department Operating	359,278	375,221	387,043	399,499	415,966
Capital Debt & Other	29,339	29,755	29,839	29,717	29,886
Base Expenditures	388,617	404,976	416,882	429,216	445,852
CRCIP	0	1,000	2,000	3,000	4,000
Total Expenditures	388,617	405,976	418,882	432,216	449,852
Revenues					
Taxes	287,372	301,471	315,631	329,605	343,157
Other Discretionary	34,017	35,332	36,706	38,142	39,643
Department Operating	59,202	60,978	62,807	64,691	66,632
Total Revenues	380,591	397,781	415,144	432,438	449,432
Revenues - Expenditures	(8,026)	(8,195)	(3,738)	221	(421)
Reserves & Other Sources/(Uses)	6,900	8,000	3,400	900	900
Ending Fund Balance	\$1,774	\$1,579	\$1,241	\$2,363	\$2,842

AUGMENTATIONS

Consistent with the revised budget process, the FY2006/07 Proposed Budget reflects only those expenditures necessary to maintain staffing levels and fund prior commitments. However, Departments have identified programs and services that could be expanded, for the benefit of City residents and customers. These identified augmentations total \$10.4 million and 61 FTE and are included in the charts below.

General Fund, Fees Supported or Cost Offset – These augmentations would be funded with either the recognition of new revenues or the reallocation of funding within the budget:

Department	Net Cost	FTE	Description
Code Enforcement	\$ 265,000	3.00	Rental Inspection Pilot Program
Convention, Culture & Leisure	201,667	1.00	Historic City Cemetery maintenance, increase Marina and Old Sacramento service and supply revenue and expense budgets, right size Community Center and Metro Arts staff
Development Services	246,000	2.00	Expand Facility Permit Program
Fire	5,926,725	27.00	Conversion of overtime to FTE, expansion of EMS and Fire Prevention Inspections, and equipment and technology replacement
General Services	337,614	4.00	Fleet service and maintenance & Traffic signal maintenance for Department of Transportation
Parks and Recreation	296,805	4.91	Reservation system support and right sizing staffing for Recreation programs (Skateboard Park, Triple R, Access Leisure, START and 4th R Programs)
Police	755,628	4.00	One-time service and supply expenses and expansion of public safety IT division.
Transportation	412,409	5.00	Street construction, traffic signal maintenance and ADA compliance
Utilities	1,323,159	6.00	Infrastructure maintenance and water meter retrofit
Total	\$ 9,765,007	56.91	

High Priority net General Fund – These augmentations would be funded with a portion of the \$7.5 million set aside in the General Fund Reserve:

Department	Net Cost	FTE	Description
Information Technology	\$ 88,000	1.00	Citywide IT support
Labor Relations	112,040	1.00	Citywide labor relations support
Police	475,775	2.00	Deputy Chief, Captain and equipment
Total	\$ 675,815	4.00	

Departmental budgets have not been adjusted to include these augmentations. 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.

2006/2011 CAPITAL IMPROVEMENT PROGRAM

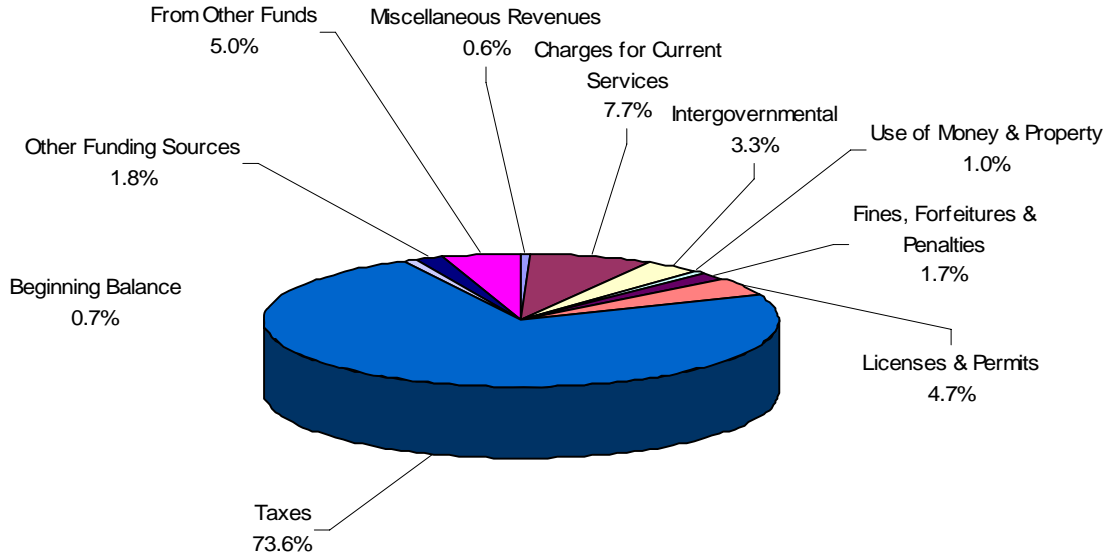
The City's five-year Capital Improvement Program (CIP) is presented in a companion document to the FY2006/07 Proposed Budget. Summary for the overall CIP and detail for individual projects can be found in the Proposed 2006-2011 CIP. The overall funding in FY2006/07 for the various capital projects is \$105.6 million.

SUMMARY

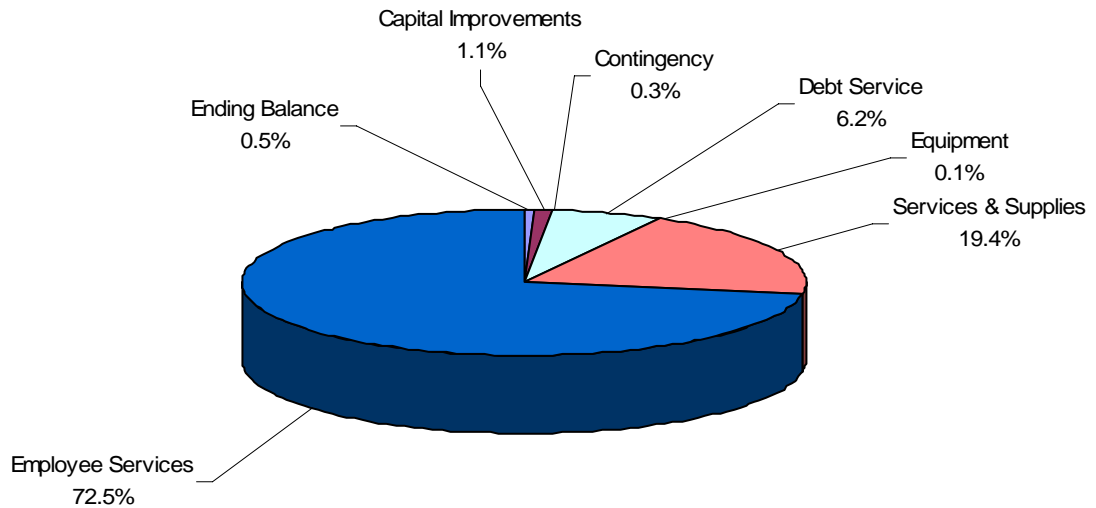
As planned, the FY2006/07 Proposed Budget is balanced using a combination of new revenues and one-time reserves. The sustainable budget policies which have served the City well throughout the years continue to provide the framework for a balanced and responsible budget. In addition, through the Strategic Planning – Strategic Budgeting process the Mayor and City Council will have the opportunity to focus resources for targeted program outcomes, reflecting the City's strategic priorities and goals.

Total General Fund Budget: \$390.4 Million

Revenues

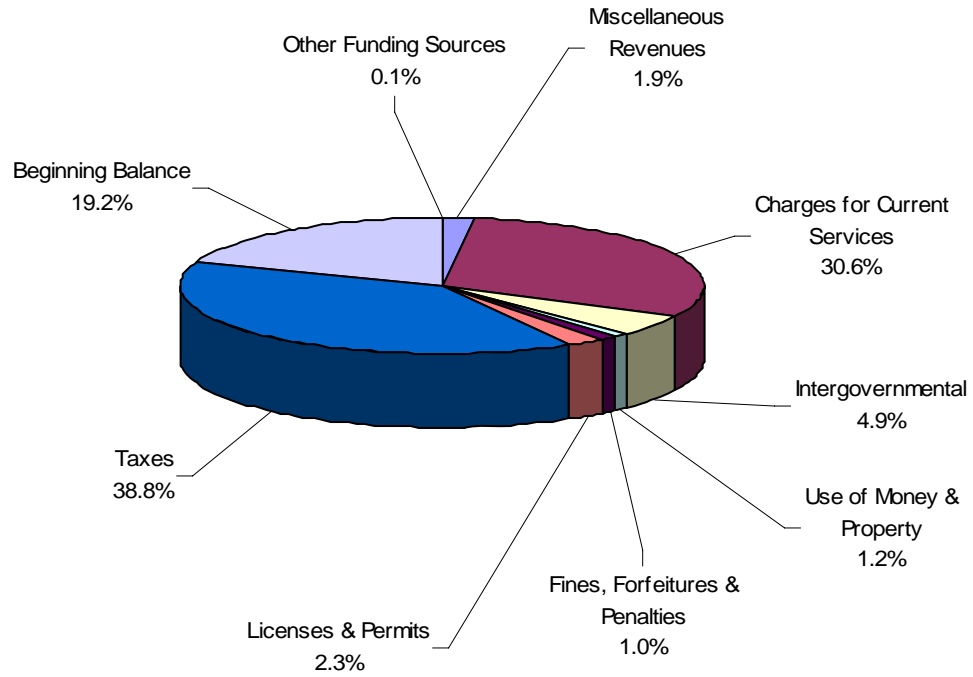


Expenditures



Total City Budget: \$849.7 Million

Revenues



Expenditures

