

***1***

SECTION – 1

**Budget Message**



# FY2010/11 PROPOSED BUDGET

## Unprecedented Times Require Extraordinary Actions

Like other government agencies locally and across the country, the City of Sacramento continues to face significant budget challenges. With the nation facing what is frequently referred to as the most significant economic downturn since the Great Depression, it is very apparent that the economic decline is not short-term. Many have referred to this unprecedented change of the economy at all levels as the “new normal.” For the City of Sacramento, the “new normal” requires that we define a new organization that reflects the changed economy and work towards a sustainable budget. To achieve this, we must take bold measures to rightsize the organization and position the City to continue services to the community.

Faced with an estimated \$43 million gap in its General Fund budget, the City must take a different approach to allocating resources and use creative solutions to minimize service impacts. To that end, over the past six months, staff has undertaken a comprehensive review and evaluation of current services and programs which categorized each program or service as mandatory, essential or existing. The purpose of the process was to present the City Council with an inventory and hierarchy of current services and programs to assist in decision-making. Concurrently, a Citywide Financial and Operational Review commissioned by the City Council will provide recommendations and strategies for consideration in closing the budget gap.

### City Council Adopted Strategies and Principles:

#### Budget Development Strategies

- Alternative Service Delivery
- Streamlining the Organization
- Revenue Improvements
- Planned Use of One-time Reserves

#### Fiscal and Organizational Principles

- Develop a Sustainable Budget Plan
- Balanced Budget for FY2010/11
- Use One-time Resources Strategically
- Balance Layoff Impacts with Service Level Decisions
- Address “Full Service City” Status

The Proposed Budget provides a plan for achieving a sustainable budget over the next three years. This three-year rightsizing of the organization incorporates a balanced approach of reductions, revenues, cost savings measures and strategic use of one-time funds.

Sincerely,



Gus Vina,  
Interim City Manager



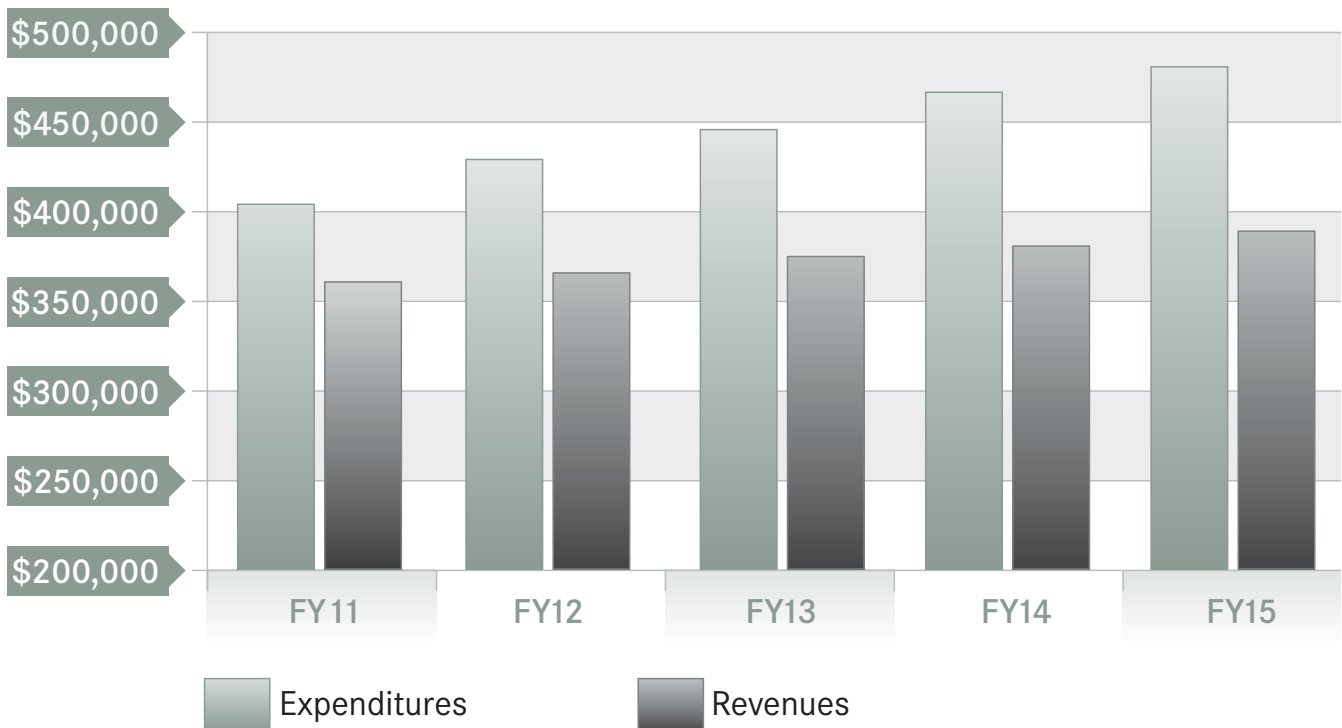
# THE CHALLENGE

## Balance a Budget in the Face of the Most Severe Economic Downturn Since the Great Depression

Major General Fund tax revenues are in significant year-to-year decline resulting in a continuing decline in City revenues. Property tax revenues have declined by approximately 9%, or \$12 million, since the peak in FY2008/09 while sales tax receipts have declined by approximately 22%, or \$15.5 million, from the high in FY2006/07. The resulting “structural budget deficit” is inevitable, as there is not adequate revenue capacity over the next five years to fund existing costs and future increasing expenditure requirements.

It is important to understand the unprecedented nature of the revenue loss the City has experienced as it means that recovery to pre-2007 levels will take a long time. Over the past several years we have reduced General Fund expenditures by \$108 million using a combination of across the board cuts, use of reserves, labor concessions and one-time funds. In many areas the cumulative reduction is over 50% from three years ago. Despite these efforts, the economic picture indicates a long-term condition which requires a change in approach to achieve fiscal balance.

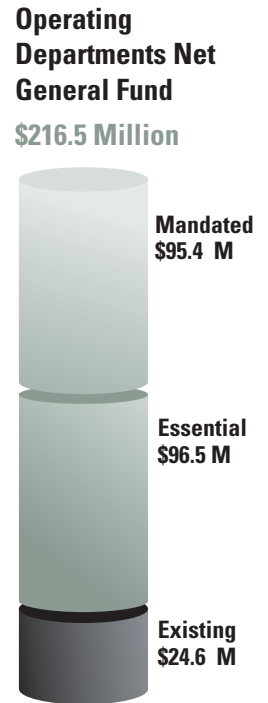
### General Fund Five-Year Forecast (\$ in 000s)



# COMPREHENSIVE REVIEW AND EVALUATION OF EXISTING SERVICES AND PROGRAMS

Over the past six months, staff has undertaken a comprehensive review and evaluation of current services and programs which categorized each service as mandatory, essential or existing. The purpose of the process was to present the City Council with an inventory and hierarchy of current services and programs to assist in decision-making. This process, referred to as Program Oriented Development (POD) focused on the fundamental question of government in general - why are we here? We inventoried and reviewed every program and service in the City - from police patrol to after-school programs to building code enforcement - to document what we do, why we do it, and how we do it.

In response to the long-term outlook, in some areas the City will need to change what we do and/or the way we do it. This will require fundamental changes in the programs and services we deliver, and in some cases, in the way we fund and deliver those services.



## FOCUSING ON SERVICES THAT MATTER MOST

<b>Mandated Services</b>	<b>\$95.4 M</b>
Does the City have the authority to stop doing it? <ul style="list-style-type: none"> <li>Is it required by law (Federal or State) to provide this service?</li> <li>Is it required by the City Charter?</li> <li>Is there an irrevocable agreement from which the City has no relief?</li> </ul>	
<b>Essential Services</b>	<b>\$96.5 M</b>
<b>Level 1 - Life/Safety:</b> Does someone risk bodily harm or death if we stop doing it? <ul style="list-style-type: none"> <li>Is it critical that we provide the service to prevent death or injury?</li> <li>Is there an urgency factor to providing the service to prevent death or injury?</li> </ul>	\$67.2 M
<b>Level 2 - Public Health:</b> Is there a significant public health risk if the service is not provided? <ul style="list-style-type: none"> <li>Is it critical that we provide the service in a timely manner to avoid a major health risk to the community?</li> </ul>	\$3.3 M
<b>Level 3 - Risk/Liability</b> - Is there a significant risk/liability exposure to the City if the service is not provided? <ul style="list-style-type: none"> <li>Is it critical to provide the service in a timely manner to avoid significant liability exposure to the City?</li> <li>Would the likely level of exposure exceed the cost of providing the service?</li> </ul>	\$26 M
<b>Existing Services</b>	<b>\$24.6 M</b>
All other programs and services.	

## CLOSING THE GAP - A BALANCED APPROACH

The Proposed Budget provides a plan for achieving a sustainable budget over the next three years. This three-year rightsizing of the organization incorporates a balanced approach of reductions, revenues, cost savings measures and strategic use of one-time funds.

The Proposed Budget balances the estimated \$43 million General Fund gap through: \$14.6 million in program and service level reductions based on the POD effort; \$19.6 million in reductions related to employee service costs, and the use of \$8.8 million in one-time resources. The \$19.6 million in labor costs were reduced through unfunding all current vacant positions and capturing approximately \$5.6 million in savings from labor concessions. This strategy also includes a framework for additional adjustments to be implemented during the coming budget year to offset the use of one-time funding and begin to address the FY2011/12 budget.

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 to achieve a long-term sustainable budget.

Strategies	FY2010/11	FY2011/12	FY2012/13
<b>Deficit</b>	(43.00)	(63.30)	(74.80)
Eliminate Vacancies	14.00	14.00	14.00
Labor Concessions	5.60	5.60	5.60
POD Reductions (July 1)	10.20	10.20	10.20
POD Reductions (Midyear)	4.40	8.80	8.80
One-Time Resources	8.80	-	-
New Revenues	-	15.00	15.00
Other Strategies	-	9.70	21.20
<b>Total (\$ in millions)</b>	-	-	-

### Looking Ahead...

The budget process includes a series of budget hearings that provide the public the opportunity to speak on budget issues and priorities. All hearings will be held at City Hall Council Chambers (915 I Street, Sacramento CA 95814) starting at 6:00 PM.

Friday, April 30	Release of Proposed Budget
Tuesday, May 11	FY2010/11 Budget Kickoff
Tuesday, May 18	Budget Hearings
Tuesday, May 25	Budget Hearings
Tuesday, June 1	Budget Hearings
Thursday, June 10	Budget Hearings
Tuesday, June 15	Budget Hearings
Thursday, June 17	Hold if Necessary
Tuesday, June 22	Budget Adoption