

2

SECTION – 2

Budget Overview

PROPOSED BUDGET OVERVIEW

INTRODUCTION

The City of Sacramento, like most other state and local governments across the country, continues to face significant budget challenges. As the community struggles to emerge from the severe national recession, what many are referring to as the “Great Recession,” City General Fund expenditures are forecast to exceed available revenues for the fifth year in a row. Despite significant expenditure reductions in prior years, including the elimination of over 900 positions, consolidations, and renegotiated labor agreements, the City faces a projected General Fund budget gap of \$39 million for FY2011/12.

The projected gap is the result of both expenditure increases, and decreases in major tax revenues used to support General Fund programs and services. The chart below outlines the major drivers of the General Fund budget deficit:

(\$ in 000s)	FY2010/11	FY2011/12	Deficit
Revenues	362,787	353,526	(9,261)
Labor	342,056	362,200	(20,144)
Service and Supplies	92,551	97,924	(5,373)
Capital Improvement Program	69	4,290	(4,221)
			(38,999)

- Major General Fund tax revenues continue to be affected by the ongoing recession. Property taxes continue to decline, while sales tax is expected to remain flat based on FY2009/10 actual results.
- Increased labor costs reflect the renegotiated labor contracts, required payments to the Public Employee Retirement System (PERS) and the addition of staffing for the new fire station in Natomas.
- Increased expenditures for services and supplies reflect the one-time deferral of replacement fleet in the FY2010/11 Approved Budget. Replacement of vehicles for the Police and Fire Departments constitute the majority of these costs.
- Funding for the Capital Improvement Program (CIP) reflects the necessary replacement to maintain essential public safety equipment including ambulances, fire trucks, defibrillators and fire station generators. Also included is funding for deferred maintenance of City assets.

The projected gap equates to nearly a 20% reduction in discretionary costs in the General Fund. The FY2011/12 Proposed Budget closes the budget gap and continues a multi-year effort to right-size the organization in order to achieve a sustainable budget. Overall, the FY2011/12 Proposed Budget totals \$812.1 million from all funding sources. The General Fund portion of the Proposed Budget is \$362.2 million, however the discretionary portion is only \$222.1 million.

FY2011/12 Citywide Proposed Budget

\$ in millions

Citywide Proposed Budget All Funds	812.1
Enterprise/All Other Funds CIP	(50.7)
Enterprise/All Other Funds Operating	(399.3)
Operating Budget General Fund	362.1
Debt Service/Non-Department	(70.2)
Department Revenue	(66.5)
General Fund CIP	(3.3)
FY2011/12 Discretionary General Fund	222.1

THE GENERAL FUND

Budget Balancing

The gap between ongoing revenues and expenditures has been closed with a combination of ongoing expenditure reductions, new/revised revenues and one-time funding/reduction strategies. It is important to note that the Economic Uncertainty Reserve was not used in developing the budget and remains at \$14.3 million.

Since the FY2010/11 budget was adopted, staff has continued to update and refine the Program Oriented Development (POD) inventory of City services and programs. One of the goals of POD was to identify critical/core programs and services, categorizing each service as mandatory, essential or an existing program, in order to develop a hierarchy of current services and programs to assist in prioritizing and decision-making.

The most significant difference between the budget development process for the current year (FY2010/11) and the FY2011/12 Proposed Budget is that for the current year, the POD prioritization was used to identify reductions, and for the proposed budget, the POD priorities were utilized to build the budget within available resources. Essentially, the Proposed Budget reflects and balances the Council and community's priorities by continuing to fund a wide spectrum of programs and services ranging from public safety to programs for teens and older adults.

However, given our fiscal constraints, the budget does not fund all current programs and services, and for those that are funded, in many cases, service levels have been reduced to a level that the City can afford to provide.

Following is a high level overview of the reductions to the City's General Fund included in the Proposed Budget:

Strategies	\$ in millions
Labor Reductions	27.1
Service & Supply/CIP Reduction:	4.8
Increased Revenues	2.4
Use of One-Time Funding	4.6
	38.9

The \$4.6 million use of one-time funding or one-time reduction strategies included in the Proposed Budget is from the following sources:

One-Time Funding (\$ in millions)	Source
2.0	Redirect Railyards Parcel B sale proceeds to retain 20 police officers to continue the “cease fire” program as directed by the City Council as part of the FY2010/11 Adopted Budget. Lowers reductions in the Police Department by a like amount.
1.0	Use excess bond proceeds and interest earnings to offset debt service expenses.
1.0	Reduce deferred maintenance funding (\$500K) and suspend funding for Americans with Disabilities Act (ADA) projects (\$500) in the CIP.
0.5	Use remaining Sheraton sale proceeds authorized in the FY2010/11 Approved Budget to offset a portion of costs associated with the addition of ten police officers.
0.1	Use of Arts Stabilization designation to offset costs for the arts re-granting program.
4.6	

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 as we will need to continue to reduce our budget in FY2012/13 to address the use of these one-time resources and additional growth in expenditures. It should also be noted that some of these resources will be available for another year or two, but are not available on a permanent basis and these assumptions have been included in the five-year General Fund forecast.

The labor reductions in the General Fund include the elimination of 250.9 FTE identified through the POD process. Overall the FTE in the General Fund will be reduced by a net total of 294.72. This reflects the addition of 20.0 FTE associated with planned expenses in FY2011/12 and the elimination of an additional 63.82 FTE associated with the loss of grant funding or the use of one-time funding in the current year. Detailed information on the proposed reductions and the associated FTE and service level impacts is included in each department’s section of the Proposed Budget. At this time, with the exception of the City Manager’s Office, there are no specific program reductions identified for the Mayor and Council and Charter Offices. Options and alternatives will be identified and discussed during the budget hearings.

It is important to note that the proposed budget does not reflect any effects of unanticipated employee compensation changes resulting from potential labor concessions, the potential relocation of the Sacramento Kings NBA franchise, and the proposed elimination of redevelopment agencies in Governor Brown's budget proposal, or any other unexpected state or county budget actions.

Tools and Opportunities

The City continues to face significant challenges in returning to a long-term structurally balanced General Fund budget. Achieving a sustainable General Fund budget for FY2011/12 will require difficult decisions about which programs and services are funded and at what level. Since FY2008/09 the Council has implemented numerous actions, including cutting 900 positions and deferring maintenance 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 following chart provides a summary of how Departments' net General Funding and FTE have already been reduced over the past three years.

Department	%Funding Reduction FY2008/09 to FY2010/11	% FTE Eliminated FY2008/09 to FY2010/11
Mayor and Council	23.71%	3.33%
Charter Offices	43.61%	23.21%
Convention, Culture and Leisure	62.10%	15.62%
Community Development	77.33%	52.53%
Economic Development	75.81%	33.33%
Finance	56.41%	33.95%
Fire	14.60%	6.43%
General Services	62.51%	27.92%
Human Resources	51.56%	26.67%
Information Technology	36.79%	24.66%
Parks and Recreation	55.18%	40.12%
Police	18.52%	19.18%

The Transportation and Utilities Departments are not included as they currently have no net General Fund costs.

In addition to the potential strategies already adopted by the Council for FY2011/12 budget development, the City has been considering several revenue options to provide needed resources to maintain or restore service levels, including: modernizing the business operations tax, exploration of a citywide parcel tax, and expanding the City's community facilities assessment districts. Staff also continues to aggressively pursue all available federal, state and local funding to offset operating and capital costs. For example, should the Council accept the Staffing for Adequate Fire and Emergency Response (SAFER) grant it would provide funding of \$5.6 million over two years to restore 27.0 FTE previously eliminated due to budget reductions. Staff is continuing to work with the federal government on the options available to allow the acceptance of the SAFER grant. Staff will bring a recommendation to the City Council regarding the grant at the Fire budget hearing.

Finally, we must continue to consider new ways of delivering programs and services and continue efforts to identify and implement operational efficiencies, including alternative service delivery through contracted services, consolidations to eliminate redundancy as well as opportunities to implement best practices to minimize risk and increase efficiency. Some of these strategies are included in the Proposed Budget, others will require additional consideration.

For example, the Proposed Budget includes the recommendation to contract out the maintenance operation of the City's golf courses based on the continued downturn in fee revenue, decreased rounds, and infrastructure requirements. This imbalance between revenues and expenditures for the Golf program reflects what has been a four-year trend for courses throughout the Sacramento region. This change would address the structural imbalance in Golf operations while still maintaining the City's Golf program.

On the efficiency side, staff is working to identify opportunities to implement administrative changes that will provide increased oversight of City programs. One example is the identification of a citywide “grant administrator” responsible for improving grant administration citywide, by establishing consistent administration and reporting practices and procedures in order to minimize risk while maximizing expertise, and increasing consistency and accountability relative to the City’s grant funding. Given the recent focus on accountability for the use of government funds, grantors are becoming significantly more stringent relative to grantees compliance with the terms and conditions of the grant.

While some of these strategies have been included in the Proposed Budget, the opportunities for implementing additional potential long-term strategies will be considered in coordination with the Mayor and City Council and will be presented for discussion in the coming months.

There continues to be opportunities for consolidation of the citywide program structure, combining operating departments with similar programs and services to reduce administrative redundancy and overall costs, and increase expertise and efficiency while maximizing the span of control. We are currently working with Management Partners to complete a span of control review which will inform future consolidations and changes to the management structure.

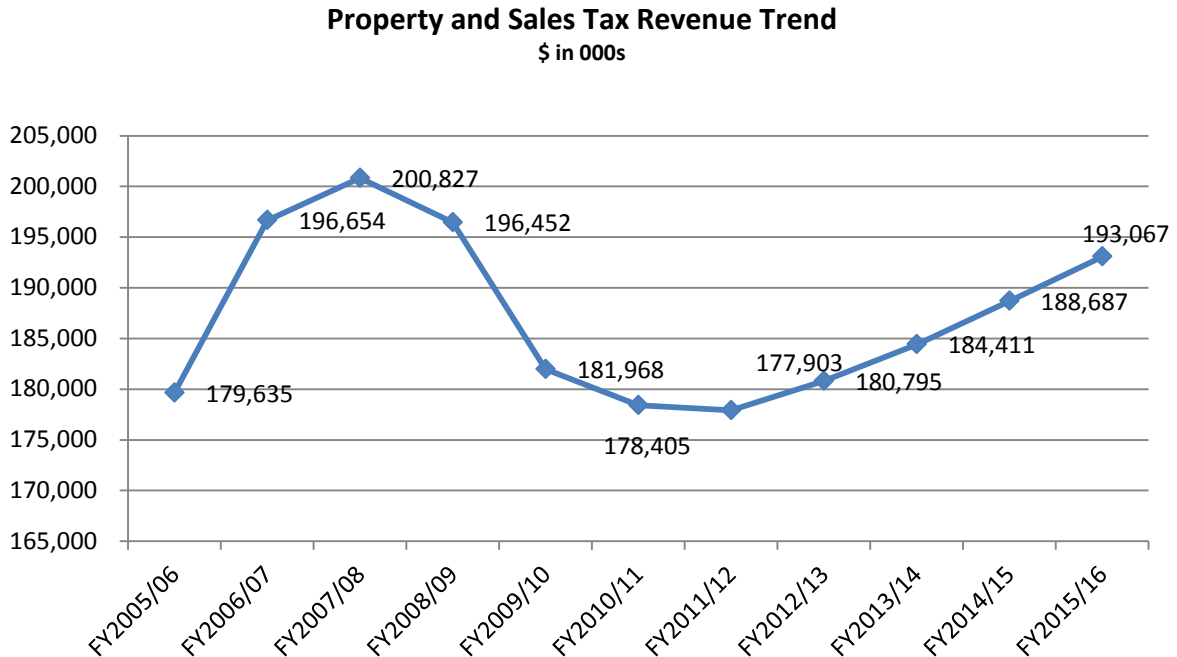
Finally, we continue to pursue recommendations resulting from the Management Partners operational review and the strategies approved by Council in early March and will provide a status update during budget hearings.

The Economy and the Five-Year Forecast

As the U.S. economy slowly recovers from the Great Recession, California’s economic recovery is sluggish and forecasts call for weak growth for the next couple years. According to the latest projections from the University of California, Los Angeles Economic Forecast, the state’s economic recovery will be slow and unemployment will remain above 10% through the end of 2012. The high level of unemployment is constraining consumer confidence and, as a result, consumer spending. When consumer confidence is high, people spend more on goods and services and local government reaps the benefits through increases in sales tax revenue. When consumer confidence is lower, because of unemployment or fear of losing a job, people spend less on goods and services and local governments experience reductions in sales tax revenue.

The sluggish housing market is also constraining consumer spending, and poses a significant hurdle to the state’s overall economic recovery. Housing starts are often a leading indicator of a recovery. However, there is still little residential building permit or construction activity in California. The problem is compounded for the City by the building moratorium in the Natomas Basin area in the northern part of the City. The California State University Sacramento (CSUS) College of Business Administration local forecast predicts continued weakness in the local housing market resulting from excess supply. This excess supply drove housing prices lower and resulted in lower assessed values upon which property taxes are derived. Because of the housing market’s effect on property and sales tax revenues, the CSUS forecast expects local governments to remain under financial strain until the housing market improves.

As a result of the Great Recession, General Fund tax revenues, primarily property taxes and sales taxes, have experienced significant declines in recent years as compared to pre-2006 levels.



Although these tax revenues are finally stabilizing, albeit at reduced levels, prior commitments for labor contracts, increasing retirement costs associated with prior year market losses, and the costs to implement the Proposition 218 changes (the City’s General Fund operating department full costs for water, sewer, solid waste and storm drainage paid to the City’s Enterprise Funds) continue to add significant costs to the City’s General Fund budget over the next several fiscal years.

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

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Total Revenues/Resources	362,180	365,294	372,108	377,812	384,691
Total Expenditures	362,155	377,031	395,069	396,585	398,312
Annual Operating Results	25	(11,737)	(22,961)	(18,773)	(13,621)
Cumulative Operating Results	25	(11,712)	(34,673)	(53,446)	(67,067)

Given the lack of any significant revenue growth in the forecast, the current level of annual expenditure commitments is not sustainable. The five-year forecast reflects a cumulative deficit of \$67 million through FY2015/16 if further reductions are not implemented.

Program Oriented Development (POD) Review

The POD Review process was developed during FY2010/11 budget development, and updated for FY2011/12 budget development, as across the board reductions are no longer effective means of expenditure reductions. When a program has been reduced by over 50%, additional cuts likely render it ineffective. In addition, it is important to note that there are several areas of expense that Council does not have discretion to reduce, including debt service, payments for taxes and services to the County of Sacramento, and contributions to the Sacramento City Employee Retirement System. These “required” expenditures effectively limit the discretionary portion of the budget, or those programs and services that can be reduced. Thus, in order to achieve budget sustainability, the City must change what we do and/or how we do it. This requires fundamental changes in the programs and services we deliver and in some cases in the way we deliver and pay for those services.

This review was introduced as a method of strategic analysis to identify and inventory the City’s programs and services and establish a starting point of hierarchy. The information is critical to thoughtfully determine which programs and services must be provided, which can be modified, and which we can no longer afford. The outcome of the analysis is the consideration of the role of city government and a renewed focus on the delivery of the most essential/core services. This type of review requires that we return to the service focus of government in general – why are we here?

In addition, programs were also evaluated to ensure that proposed funding reflects the Council’s desire to remain a full service city. For example, consistent with the criteria above, a number of the Parks and Recreation Department’s programs fell into the Existing category. Recognizing that we must continue to invest in the operations and maintenance of our park facilities, funding for park maintenance is included in the Proposed Budget, although it was categorized in the strictest sense as Existing. This type of consideration is essential in order to ensure that the Proposed Budget also reflects the Council’s and community’s priorities.

Use of Reserves

The City used a substantial portion of the General Fund Economic Uncertainty Reserve during the recession to provide the time necessary to implement long-term reduction strategies, and to mitigate even greater reductions in services. This use of one-time resources to bridge the gap between revenues and expenditures deferred, but did not eliminate, the need to reduce costs. As a result, to the extent one-time funding is utilized, the City will need to continue to reduce expenditures or implement long-term revenue growth strategies in order to backfill the use of one-time resources. The current balance in the Economic Uncertainty Reserve is \$14.3 million, approximately four percent of the estimated FY2011/12 General Fund revenues. The historic goal for the Economic Uncertainty Reserve has been up to 10%, highlighting the need to preserve what remains in the reserve.

This reserve will be maintained for the purpose of bridging a gap between projected revenue and expenditures during periods of significant revenue declines and/or expenditure growth and to ensure the City has adequate resources in case of emergency or unforeseen events. In order to report this reserve as a commitment of fund balance according to new governmental accounting standards (Governmental

Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*), parameters for using the Economic Uncertainty Reserve must be established. The recommended parameters under which the Economic Uncertainty Reserve may be used are as follows:

- (1) The City Manager may recommend the use of the Economic Uncertainty Reserve when the gap between projected revenue and expenditures is greater than \$1 million.
- (2) Any use of the Economic Uncertainty Reserve is subject to approval by the City Council.
- (3) These parameters may be changed by the City Council by resolution.

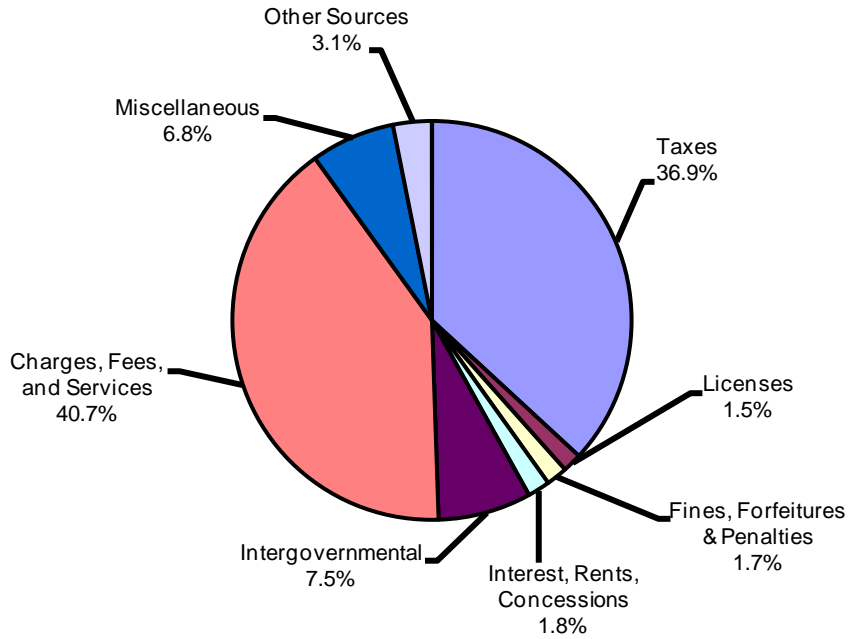
These proposed parameters have been added as Section 6.1 of the FY2011/12 Proposed Budget Resolution included as an attachment to the Proposed Budget.

General Fund – Summary

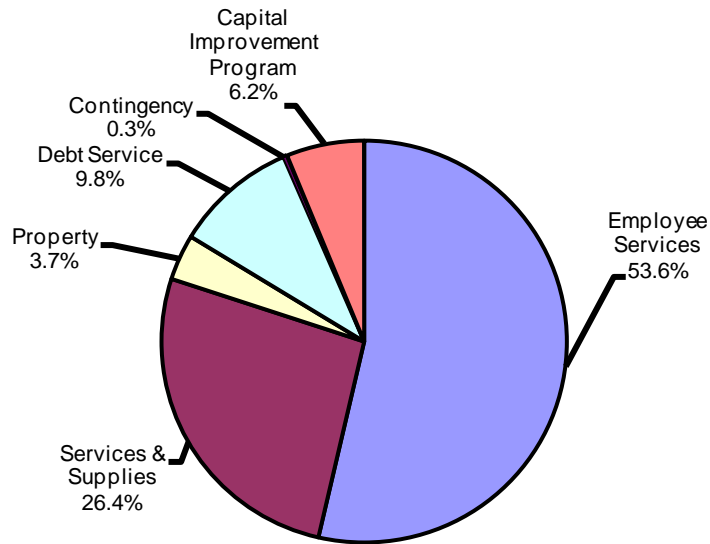
The City must close the gap between revenues and expenses in the General Fund to achieve a fiscally sustainable budget. The deficit will persist unless permanent corrective actions are taken to change the City's revenue and cost structures as well as the complement of services delivered in order to create a financially sustainable way to meet the most critical needs of our community. Closing the gap will require difficult decisions about program priorities and levels of service, and will require discipline to ensure that the solutions implemented address the City's long-term financial challenges. This process has been and will continue to be extremely difficult as we move forward in our efforts to redefine, restructure, and resize the services the City of Sacramento can afford to provide to its residents.

Total Proposed City Budget: \$812.1 Million

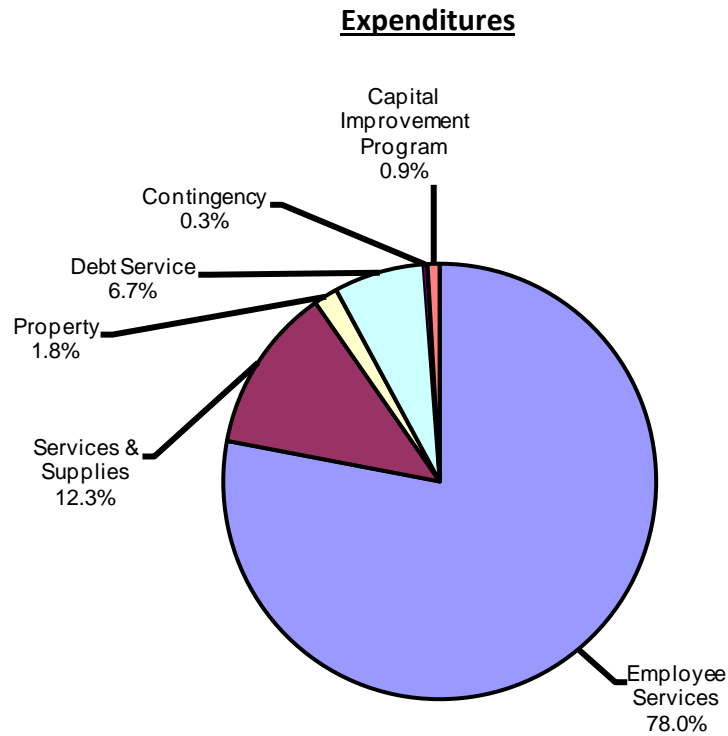
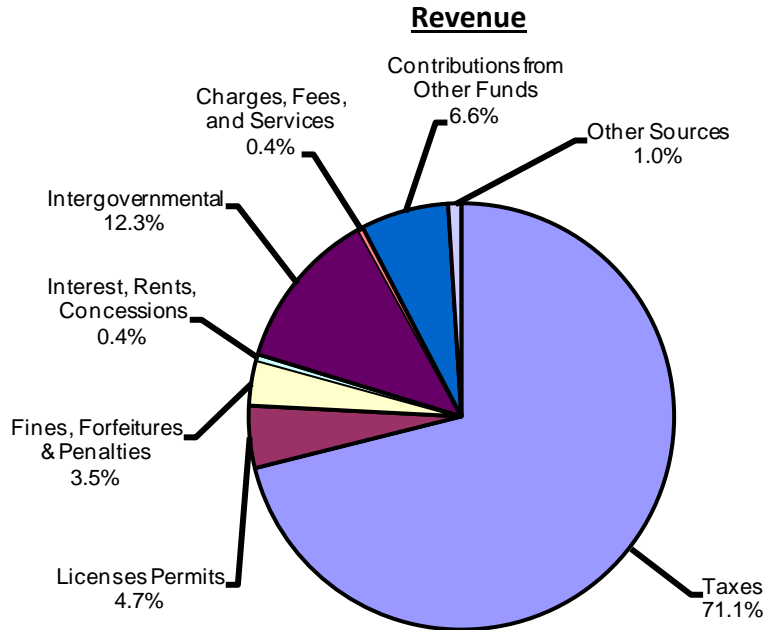
Revenue



Expenditures



Total Proposed General Fund Budget: \$362.2 Million



THE ENTERPRISE FUNDS

The City’s Enterprise Funds are also challenged as a result of the economic crisis. In the Utilities Enterprise Funds, the primary cost drivers into the future are associated with meeting regulatory requirements, financing major capital projects, such as the Water Treatment Plants Rehabilitation Project, and addressing the aging infrastructure. The Proposed Budget also reflects additional appropriations to meet regulatory requirements, such as the Water Meter and Water Conservation Programs. In addition, costs continue to increase for a number of critical items necessary to deliver services such as labor, fuel, chemicals, and electricity. In addition, revenues are falling short of projection as the effects of the recession continue. The amount of bad debt write-off has stabilized, however, this may increase if unemployment in the region grows and the number of foreclosures increases.

The Proposed Budget for the Enterprise Funds includes expenditure adjustments to address base budget issues such as increasing employee retirement contributions, chemical, and electrical costs, as well as adjustments to reflect changing revenue trends. The chart below summarizes the status of each of the Enterprise Funds:

Fund	Status
Water, Sewer, Solid Waste	Although the five-year forecast assumes no rate increases, rate adjustments will be necessary in order to sustain operational and capital requirements and the overall fiscal sustainability of the funds. Proposals for a multiyear rate plan will be brought to Council for consideration this summer.
Storm Drainage	No rate increase is included for FY2011/12. As such, the budget continues to rely on the use of reserves. Per Proposition 218, a voter approved ballot measure is required to increase rates and will be necessary in the near future to sustain operational, capital and regulatory requirements as fund reserves are nearly depleted.
Parking	This fund is balanced over the five-year period of the forecast.
Marina	Rates for the Marina Fund are proposed to increase three percent for FY2011/12 and six percent annually over the next four years. This reflects the need to increase revenues while occupancy at the Marina continues to be a challenge. Measures to reduce expenses will remain in place in order to maintain a positive fund balance. The proposed rate increase will be brought to Council for consideration during budget
Convention Center	Revenues in this fund are forecast to grow by five percent FY2011/12 after two years of substantial decline. Measures to reduce expenses will remain in place in order to maintain a positive fund balance.

In some cases, out-years of the five-year forecasts indicate that the fund balance will be negative, as expenses will exceed available resources. Absent changes, increased revenues, or decreased expenditures in future forecasts, additional operating or capital reductions will be required in order to bring the fund into balance. Performance of these funds will be monitored and recommendations to maintain the fiscal sustainability of each fund will be made during future budget processes as necessary. Operational descriptions and updates of each of the City’s Enterprise Funds are shown on the following pages, including a five-year forecast for each fund.

FY2011/12 Proposed Budget

Water Fund (Fund 6005)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	6,527	6,494	(5,234)	(31,098)	(61,555)
Revenue	79,418	239,604	79,783	79,921	79,996
Expenditures	79,452	251,332	105,648	110,378	115,864
ENDING FUND BALANCE	6,494	(5,234)	(31,098)	(61,555)	(97,423)

Sewer Fund (Fund 6006)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	3,600	4,089	(170)	(10,175)	(20,731)
Revenue	21,191	21,191	21,191	76,191	21,191
Expenditures	20,702	25,450	31,197	86,747	37,614
ENDING FUND BALANCE	4,089	(170)	(10,175)	(20,731)	(37,154)

Solid Waste Fund (Fund 6007)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	8,292	9,974	10,759	9,448	5,817
Revenue	64,617	64,674	64,674	64,674	64,674
Expenditures	62,935	63,889	65,985	68,306	70,777
ENDING FUND BALANCE	9,974	10,759	9,448	5,817	(287)

Storm Drainage Fund (Fund 6011)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	13,849	8,398	3,834	(4,222)	(13,231)
Revenue	37,618	37,952	38,069	106,191	38,318
Expenditures	43,069	42,516	46,124	115,200	58,923
ENDING FUND BALANCE	8,398	3,834	(4,222)	(13,231)	(33,836)

Parking Fund (Fund 6004)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	7,136	7,908	8,751	9,618	10,648
Revenue	17,854	18,037	18,211	18,561	18,900
Expenditures	17,082	17,194	17,344	17,531	17,680
ENDING FUND BALANCE	7,908	8,751	9,618	10,648	11,868

Marina Fund (Fund 6009)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	525	478	19	(308)	(595)
Revenue	1,711	1,898	2,117	2,359	2,624
Expenditures	1,758	2,357	2,444	2,646	2,706
ENDING FUND BALANCE	478	19	(308)	(595)	(677)

Community Center Fund (Fund 6010)

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Beginning Fund Balance	113	4	325	565	14
Revenue	24,170	23,407	24,761	26,115	27,473
Expenditures	25,849	22,836	24,271	26,416	26,830
Other Source/Use	1,570	(250)	(250)	(250)	(250)
ENDING FUND BALANCE	4	325	565	14	407

Utilities Funds - Overview

The major factors and assumptions used in developing the five-year budget forecast of the Department of Utilities (DOU) are the following:

- Major cost drivers such as fuel, electricity, and chemicals will increase each year. This assumption is based on historical trends and past performance of the various indices used to project utility cost growth.
- Labor costs will increase to meet additional Public Employee Retirement System (PERS) obligations and to comply with current labor contracts.
- Nominal growth in development in the latter part of the five-year period will occur.
- Bond issuance will be pursued in the Water, Sewer, and Storm Drainage Funds to fund the water treatment facility project and other projects to address aging infrastructure.
- Additional appropriations will be required in future years in order to meet regulatory requirements such as the Water Meter Program and rebuild the reserves of the DOU funds to maintain their financial health.

The five-year budget forecast assumes no rate increases in FY2011/12 and for future years. However, rate adjustments will be necessary to sustain operational needs, address aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the utility funds. A multi-year rate plan will be brought forward to the Utilities Rate Advisory Commission (discussed below) for review and recommendation and to the City Council for approval later this summer.

Utilities Rate Advisory Commission

The City Council formed the 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 Commission is also charged with holding a public hearing required by Proposition 218 when the City proposes to impose or increase utility service rates.

Multi-Pronged Utilities Audit Strategy

DOU is working closely with the City Manager's Office and the Internal City Auditor to implement a multi-pronged audit strategy to ensure the Utilities Department operates as efficiently and effectively as possible. The audit strategy involves three separate tracks: Operational/Efficiency Focus, City Auditor Focus and Ongoing Studies.

Consistent with the first track, an operational/efficiency audit, conducted under the direction of the Internal City Auditor, was conducted and key findings from the audit will be incorporated during the FY2011/12 budget hearings. The second prong of the strategy is the City Auditor Focus element which will occur in FY2011/12 as part of the City Auditor's work plan to audit DOU's billing operation. The third track includes the integration and coordination of the following studies into the respective audits:

- Cost of Service (Utility Rate) Study – FCS Group
- Capital Improvement Program (CIP) Programming Guide – FCS Group
- Infrastructure Financing – Treasurer’s Office/Banking Community

The results of the operational/efficiency audit, the Utility Rate Study, the CIP Programming Guide, and Infrastructure Financing strategy will be used to help guide and inform the development of a multi-year utility rate plan that reflects adjustments necessary to generate revenues sufficient to meet the City’s utility infrastructure, regulatory, and operational needs. DOU anticipates bringing the rate plan forward for consideration during FY2011/12.

Water Fund (Fund 6005)

Revenue generated by the City for the purpose of providing water service to its customers is deposited in the Water Enterprise Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs of providing water service to its customers which 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, capital improvement costs, and multi-year operating projects.

The Water Fund faces some significant challenges over the next five years. To meet those challenges the fund will require rate increases over the next several years. Key issues for the Water Fund over the next five years include:

- Ongoing replacement and maintenance of aging infrastructure to provide 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 mandates requiring full meter installation by 2025 and 20% water conservation by the year 2020.
- Maintaining state and federal regulatory compliance.
- Continued implementation of an aggressive water conservation program consistent with the Water Forum Agreement (WFA), 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 bad debt expense as a result of the economic recession.

The following chart provides a five-year budget forecast for the Water Fund to address anticipated cost increases, meet regulatory requirements and includes the following assumptions:

- Future capital spending will reflect continued implementation of the mandated water meter program (3% of User Fee revenues annually) and reasonable appropriations for ongoing infrastructure repair and rehabilitation.
 - Bond issuance of \$160 million will be pursued in FY2012/13 to finance the Water Treatment Facility rehabilitation project and help smooth rate increases to implement this project. While prior rate adjustments have helped address operational costs, they have not provided sufficient resources to fund major capital projects.
 - 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, electricity, sludge dewatering, and replacement and maintenance of water meters.
- In an effort to encourage water conservation, additional funds are budgeted for water conservation programs and education and outreach. Additionally, costs are also being incurred to pay for increasingly stringent regulatory water quality testing.

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

	FY2011/12	FY2011/12	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
	Base	Augmentations/	Proposed	Estimate	Estimate	Estimate	Estimate
	Budget	Reductions	Budget				
Projected Rate Increase *			0.00%	*	*	*	*
Beginning Fund Balance	6,527	-	6,527	6,494	(5,234)	(31,098)	(61,555)
REVENUE							
Charges, Fees and Services	77,870		77,870	77,453	77,632	77,770	77,845
Other/Miscellaneous	1,548		1,548	162,151	2,151	2,151	2,151
TOTAL REVENUE	79,418	-	79,418	239,604	79,783	79,921	79,996
EXPENDITURES							
Operating	53,939	55	53,994	59,136	60,344	62,091	64,321
Debt Service	11,846		11,846	13,032	23,825	23,829	23,824
CIP	13,612		13,612	179,164	21,478	24,458	27,720
TOTAL EXPENDITURES	79,397	55	79,452	251,332	105,648	110,378	115,864
NET ACTIVITY	22	(55)	(33)	(11,728)	(25,864)	(30,457)	(35,868)
ENDING FUND BALANCE	6,549	(55)	6,494	(5,234)	(31,098)	(61,555)	(97,423)

*Forecast assumes 0.00% rate adjustment and a bond issuance of \$160M for the water treatment facility project in FY2012/13.

Sewer Fund (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 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, capital improvement and multi-year operating costs.

The wastewater system is a “contained system” in that very little expansion, other than in-fill projects, is possible without upsizing the system and increasing its capacity. The City-operated wastewater collection system serves approximately 60% of the City, primarily the central and southern sections of the City. The Sacramento Area Sanitation District (SASD) is the wastewater collection system provider for the other areas of the City. While the City is responsible for limited treatment of its wastewater, it partners with SRCSD to treat the majority of the City’s wastewater. The City provides SRCSD with billing and collection services for properties within the service area in which wastewater collection is provided by the City.

The Sewer Fund presents unique challenges due to the system’s 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 wastewater from homes and businesses as well as storm water and urban runoff.
- Continued rehabilitation of the City’s separated wastewater service area. A separated wastewater system collects wastewater from homes and businesses and does not collect storm water.
- Incorporating growth in new wastewater 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 bad debt expense as a result of the economic recession.

The following chart provides a five-year budget forecast for the Sewer Fund to address anticipated cost increases, meet regulatory requirements and includes the following assumptions:

- Future capital spending will reflect a reasonable appropriation for infrastructure repair and rehabilitation. In addition, DOU must comply with state mandates to accomplish significant improvements to the CSS, and the forecast includes increasing the capital budget to meet this mandate. It is anticipated that DOU will pursue issuing bonds in the amount of \$55 million in FY2014/15 to finance CSS improvements and other wastewater repair and rehabilitation projects. While prior rate adjustments have helped address operational costs, they have been insufficient to meet the capital needs of the City’s

- wastewater systems; and therefore, a backlog of critical projects exists. Issuing bonds will provide the resources necessary to repair and rehabilitate aging infrastructure while smoothing in rates increases.
- Annual operating expenditures such as labor, fuel, chemical and electricity costs are anticipated to increase.

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

	FY2011/12 Base Budget	FY2011/12 Proposed Augmentations/ Reductions	FY2011/12 Proposed Budget	FY2012/13 Estimate	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate
Projected Rate Increase *			0.00%	*	*	*	*
Beginning Fund Balance	3,600	-	3,600	4,089	(170)	(10,175)	(20,731)
REVENUE							
Charges, Fees and Services	19,788		19,788	19,579	19,579	19,579	19,579
Other/Miscellaneous	1,403		1,403	1,612	1,612	56,612	1,612
TOTAL REVENUES	21,191	-	21,191	21,191	21,191	76,191	21,191
EXPENDITURES							
Operating	17,979	38	18,017	19,540	20,287	20,823	21,486
Debt Service	910		910	910	910	924	4,604
CIP	1,775		1,775	5,000	10,000	65,000	11,524
TOTAL EXPENDITURES	20,664	38	20,702	25,450	31,197	86,747	37,614
NET ACTIVITY	527	(38)	489	(4,259)	(10,006)	(10,556)	(16,423)
ENDING FUND BALANCE	4,127	(38)	4,089	(170)	(10,175)	(20,731)	(37,154)

*Forecast assumes 0.00% rate adjustment and a bond issuance of \$55M for infrastructure in FY2014/15.

Solid Waste Fund (Fund 6007)

The Solid Waste Fund is financially responsible for the activities of collecting garbage, recyclables and garden refuse, sweeping streets, post-closure monitoring of landfills, and waste reduction. Issues facing the Solid Waste Fund include:

- Implementing the approved in-region disposal agreements and pursuing opportunities that would enable the City to attain the most favorable pricing tier for disposal costs.
- Funding increasing costs for new/replacement equipment (fleet and containers).
- Meeting state mandated diversion goals.

Costs for items vital to providing solid waste services and complying with regulatory mandates continue to rise. The most significant cost increases are labor, fleet (fuel and maintenance and replacement of vehicles), and disposal fees. Additionally, costs are being incurred for post-closure activities of landfills, and container replacements. While costs in many areas are rising, Solid Waste operations have realized significant savings by rerouting its operations and modifying schedules to reduce labor, overtime, vehicle maintenance, and fuel costs, and will continue to look for additional efficiencies.

The following chart provides a five-year budget forecast for the Solid Waste Fund to address anticipated cost increases, meet regulatory requirements, and includes the following assumptions:

- Provide resources for the replacement of the aging vehicles to reduce significant ongoing maintenance costs.
- Fund the ongoing post-closure costs associated with City landfills and establish resources to cover potential liabilities associated with the landfills.
- Provide funding for the replacement of aging containers.

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

	FY2011/12	FY2011/12	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
	Base	Proposed	Proposed				
	Budget	Augmentations	Budget	Estimate	Estimate	Estimate	Estimate
		/Reductions					
Projected Rate Increase *			0.00%	*	*	*	*
Beginning Fund Balance	8,292	-	8,292	9,974	10,759	9,448	5,817
REVENUE							
Charges, Fees and Services	63,387		63,387	63,387	63,387	63,387	63,387
Other/Miscellaneous	1,230		1,230	1,287	1,287	1,287	1,287
TOTAL REVENUES	64,617	-	64,617	64,674	64,674	64,674	64,674
EXPENDITURES							
Operating	57,585	-	57,585	59,101	61,088	63,631	66,350
Debt Service	3,333		3,333	3,354	3,355	3,049	2,714
CIP	2,017		2,017	1,435	1,541	1,625	1,713
TOTAL EXPENDITURES	62,935	-	62,935	63,889	65,985	68,306	70,777
NET ACTIVITY	1,682	-	1,682	785	(1,311)	(3,632)	(6,103)
ENDING FUND BALANCE	9,974	-	9,974	10,759	9,448	5,817	(287)

*Forecast assumes 0.00% rate adjustment.

Storm Drainage Fund (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 for 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 and multiyear operating projects. Challenges facing the Storm Drainage Fund include:

- Declining reserves, as the existing revenue is not sufficient to cover current operating and capital expenses.
- Upgrading drainage service to areas outside of the City's CSS to meet citywide standards.
- Improving drainage system reliability and contributing to the combined sewer system repair, rehabilitation and improvements.
- Maintaining State and federal regulatory compliance, i.e., National Pollution Discharge Elimination System (NPDES), and supporting regional flood control efforts.

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

- No rate increases with 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. DOU intends to recommend moving forward with the ballot measure process in future years.
 - Annual operating expenditures such as labor, fuel, chemical, and electricity costs are anticipated to increase.
 - Bond issuance of \$65 million in FY2014/15 will be pursued to meet future capital improvement projects needs in the Storm Drainage Fund. As there have been no rate increases in recent years, the capital program has been severely curtailed creating a significant backlog of repair and rehabilitation projects. Issuing bonds will help provide the resources necessary to address the aging infrastructure while smoothing in rate increases.
 - Reflects increased capital improvement project spending in the out-years to fund critical storm drain infrastructure and CSS projects.
-

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

	FY2011/12	FY2011/12	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
	Base	Proposed	Proposed	Estimate	Estimate	Estimate	Estimate
	Budget	Augmentations/ Reductions	Budget	Estimate	Estimate	Estimate	Estimate
Projected Rate Increase*			0.00%	*	*	*	*
Beginning Fund Balance	13,849	-	13,849	8,398	3,834	(4,222)	(13,231)
REVENUE							
Charges, Fees and Services	33,026		33,026	33,026	33,026	33,026	33,026
Other/Miscellaneous	4,592		4,592	4,926	5,043	73,165	5,292
TOTAL REVENUES	37,618	-	37,618	37,952	38,069	106,191	38,318
EXPENDITURES							
Operating	35,363	184	35,547	37,012	38,561	40,185	41,964
Debt Service	3,674		3,674	3,673	3,671	3,692	8,039
CIP	3,848		3,848	1,832	3,892	71,323	8,920
TOTAL EXPENDITURES	42,885	184	43,069	42,516	46,124	115,200	58,923
NET ACTIVITY	(5,267)	(184)	(5,451)	(4,564)	(8,055)	(9,010)	(20,605)
ENDING FUND BALANCE	8,582	(184)	8,398	3,834	(4,222)	(13,231)	(33,836)

*Voter approval is required for rate adjustments to the Storm Drainage Fund. This forecast assumes 0.00% rate adjustment and a bond issuance of \$65M for infrastructure in FY2014/15.

Parking Fund (Fund 6004)

The City of Sacramento operates nine parking garages and nine surface parking lots for a total of over 10,000 parking spaces in the downtown core. These include surface parking lots that are managed for the Crocker Art Museum and Inland American Real Estate Trust. 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 less than one percent for FY2011/12 based on FY2010/11 activities. Revenue is expected to increase one percent annually beginning in FY2012/13 through FY2015/16. Rental income is based on current and anticipated leases. There are no rate increases included in this forecast. Operating expenses are projected to grow at approximately two percent annually.

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

	FY2011/12 Proposed	FY2012/13 Estimate	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate
Beginning Fund Balance	7,136	7,908	8,751	9,618	10,648
REVENUE					
Parking Fees	15,925	16,084	16,244	16,549	16,860
Interest--Operating Funds	600	600	600	600	600
Real Property Rental	1,329	1,353	1,367	1,412	1,440
TOTAL REVENUE	17,854	18,037	18,211	18,561	18,900
EXPENDITURES					
Employee Services	4,459	4,536	4,672	4,812	4,956
Other Services & Supplies	5,012	4,935	4,935	4,935	4,935
Operating Transfer Out/(In)	1,160	1,276	1,293	1,341	1,350
Subtotal--Operating	10,631	10,747	10,900	11,088	11,241
Debt Service	3,573	3,569	3,566	3,565	3,561
OTHER USES/CIP	2,878	2,878	2,878	2,878	2,878
Subtotal--Other Uses	6,451	6,447	6,444	6,443	6,439
TOTAL EXPENDITURES	17,082	17,194	17,344	17,531	17,680
NET ACTIVITY	772	843	867	1,030	1,220
ENDING FUND BALANCE	7,908	8,751	9,618	10,648	11,868

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Marina Fund (Fund 6009)

The Sacramento Marina is located on the Sacramento River at Miller Park. The Marina is a full service, seven-day-a-week operation that includes 475 berths, a fuel dock, security gates, and parking. 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. The project was primarily financed through a low interest loan from the State Department of Boating and Waterways (DBAW). Debt payments for the South Basin project are included in the FY2012/13 budget; this is the first year of a 30-year term. This assumes a deferral of the DBAW loan payment in FY2011/12. At this time, future payments are being negotiated.

The five-year expense and revenue forecast reflects the financial analysis based on the significant impact to the boating industry from the economic downturn. Berth fees reflect a three percent increase for FY2011/12 and six percent annually thereafter. These rates a change from what was approved in June 2010, and staff will be proposing new rates in a report to Council in May 2011.

Current occupancy is at 46%. This forecast assumes occupancy will grow to 54% for FY2011/12, 60% for FY2012/13, 65% for FY2013/14, 70% for FY2014/15, and 75% for FY2015/16. Operating expenses have been reduced to reflect efficiencies and service level reductions due to reduced revenue.

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

	FY2011/12 Proposed	FY2012/13 Estimate	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate
Beginning Fund Balance	525	478	19	(308)	(595)
REVENUE					
Berth Rentals	1,283	1,469	1,687	1,926	2,187
Interest	23	24	25	28	32
Gas and Oil Sales	324	324	324	324	324
Miscellaneous	81	81	81	81	81
TOTAL REVENUE	1,711	1,898	2,117	2,359	2,624
EXPENDITURES					
Operating	1,103	1,142	1,179	1,231	1,286
Debt Service*	605	1,165	1,165	1,165	1,165
CIP	50	50	100	250	255
TOTAL EXPENDITURES	1,758	2,357	2,444	2,646	2,706
NET ACTIVITY	(47)	(459)	(327)	(287)	(82)
ENDING FUND BALANCE	478	19	(308)	(595)	(677)

* Assumes deferral of DBAW loan payment in FY2011/12 and payments of \$560,000 annually thereafter. FY2012/13 through FY2015/16; payment amounts are currently being negotiated.

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

The main sources of revenue for the Community Center Fund are the TOT and fees paid by users of the facilities. From FY2008/09 through FY2009/10, the TOT revenue reflected the down economy and had its worst two year decline in the history of the TOT. FY2010/11 is projecting an increase of six percent from FY2009/10 and the projections for FY2011/12 are based on a five percent increase from FY2010/11. To maintain a positive fund balance, and continue to operate the Sacramento Convention Complex at an acceptable level, staff continues the actions taken in FY2010/11 to freeze vacant positions, reduce expenses, as well as reduce Box Office and security hours. FY2014/15 anticipates the beginning of new debt payments for the proposed Theater Renovation project, thus expenditures may rise above revenues in that year; however, the fund balance is forecasted to cover any shortfall.

In FY2010/11, user fees are projected to decline from FY2009/10 proceeds by approximately seven percent. FY2011/12 is expected to increase by three and a half percent.

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 \$250,000 in FY2011/12. Repayment of the loan will continue throughout the next fifteen years. Through FY2010/11, \$3.2 million has been repaid.

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

	FY2011/12 Proposed	FY2012/13 Estimate	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate
Beginning Fund Balance	113	4	325	565	14
REVENUE					
Transient Occupancy Tax	15,841	16,006	16,806	17,646	18,529
User Fees	5,979	6,351	6,605	6,869	7,144
Interest	400	400	600	800	800
Other (Facility Fee)	1,950	650	750	800	1,000
TOTAL REVENUE	24,170	23,407	24,761	26,115	27,473
EXPENDITURES					
Operating	14,021	13,492	13,833	14,278	14,742
Debt Service	10,354	7,970	9,814	11,464	11,464
Capital Improvements	1,250	1,150	400	450	400
Other Fund Uses	224	224	224	224	224
TOTAL EXPENDITURES	25,849	22,836	24,271	26,416	26,830
NET ACTIVITY	(1,679)	571	490	(301)	643
Other Fund Uses (Risk Loan Payback)	1,570	(250)	(250)	(250)	(250)
ENDING FUND BALANCE	4	325	565	14	407

