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SECTION – 2

Proposed Budget Overview

INTRODUCTION

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 and as such, the City can no longer afford the status quo. Many have referred to this monumental contraction 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.

Early estimates indicated the FY2010/11 budget gap would be approximately \$40 million. However, with the continued decline in both property and sales tax revenues and increased expenditures, including adjustments necessary to reflect increased utility costs for General Fund programs required by Proposition 218 and the addition of the Office of the Independent Budget Analyst, this estimate has increased to \$43 million. This budget gap represents the third consecutive year of reductions in the General Fund.

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% of the General Fund budget from three years ago. Despite these efforts, the economic picture indicates a long-term condition that requires a change in approach to achieve fiscal balance.

The proposed budget is 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.

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 an existing program. 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), is described in further detail below.

The proposed budget balances the General Fund 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.

These reductions represent permanent and ongoing cost reductions, a key element of implementing a sustainable budget. The chart below outlines the Proposed Budget and the initial steps in the three-year plan to close the budget gap:

(\$ in Millions)

Strategies	FY2010/11	FY2011/12	FY2012/13
Deficit	(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
Total	-	-	-

Detailed information on the proposed POD reductions and the associated impacts will be provided during the May budget hearings.

Overall, the FY2010/11 Proposed Budget totals \$885.7 million from all funding sources. The General Fund portion of the Proposed Budget is \$360.3 million. It is important to note that the Proposed Budget does not include FTE adjustments associated with POD reductions. As such, final FTE will be adjusted to reflect actual approved reductions and will be included in the Approved Budget. A summary of changes in appropriations reflecting new and changes to existing multi-year projects is included as Exhibit 1 to the budget resolution.

THE GENERAL FUND

FY2010/11 Budget Development: A Balanced Approach to a Sustainable Budget

On February 11, 2010, as part of the budget development process, the City Council held a workshop to discuss the status of the City’s budget and potential strategies to rightsize the organization. As part of the workshop, the Council adopted both strategies and fiscal and organizational principles to guide the development of the FY2010/11 Proposed Budget. These strategies and principles reflect the overarching goal of a balanced approach to a sustainable budget.

Given this concept of fiscal sustainability, Council adopted the following strategies and principles for the development of the FY2010/11 Proposed Budget:

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

It is within this context, after two consecutive years of reductions, that we continue the monumental task of rightsizing the organization. Given the size of the challenge, and the fact that on-going efforts to align revenues and expenditures have not been able to keep pace with the significant year-to-year revenue decline, it is critical that future reduction efforts reflect the need to initiate major changes or we will not be successful in reaching our goal of fiscal sustainability.

Program Oriented Development (POD) Review

Trimming at the margins, incremental decisions implemented over the past two fiscal years, and 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 response to the “new normal,” 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.

The need to change the way we do business is reflected in the December 2009 Government Finance Review, “The current budget crises faced by all levels of government today are as urgent and provocative a call as any for government innovation...Governments will need to find ways to cut costs by doing things differently.”

At the February workshop the City Manager introduced the POD Review as a method of strategic analysis to identify/inventory the City’s programs and services, establish a starting point of hierarchy and to ultimately determine which programs and services must be provided, which can be modified and what we can no longer afford. The outcome 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?

As part of the POD Review, City departments were asked to provide the following information relative to all programs and services:

- ▣ What we do?
- ▣ Why we do it?
- ▣ How we do it?

Programs and services were then prioritized based on the following criteria:

Mandated Services

Does the City have the authority to stop doing it?

- Is it required by law (Federal or State) to provide this service?
- Is it required by the City Charter?
- Is there an irrevocable agreement from which the City has no relief?

Essential Services

Level 1 – Life/Safety

Does someone risk bodily harm or death if we stop doing it?

- Is it critical that we provide the service to prevent death or injury?
- Is there an urgency factor to providing the service to prevent death or injury?

Level 2 – Public Health

Is there a significant public health risk if the service is not provided?

- Is it critical that we provide the service in a timely manner to avoid a major health risk to the community?

Level 3 – Risk/Liability

Is there a significant risk/liability exposure to the City if the service is not provided?

- Is it critical to provide the service in a timely manner to avoid significant liability exposure to the City?
- Would the likely level of exposure exceed the cost of providing the service?

Existing Services

All other programs and services

A summary of the inventory of programs and services in each priority category is included for review at the end of this document. The information is grouped by department and includes a brief description, the number of FTE and the net General Fund cost. While this inventory provides the basis for the initial consideration of reductions, consideration of levels of service, alternative delivery models, and cost recovery will also be included in the final evaluation and recommendation of reductions.

In some cases, there will be programs and services that the City will no longer be able to fund and deliver. The reality is that the City will be forced to do less with less, relative to programs and services and available resources.

The Proposed Budget includes \$14.6 million in reductions based on the POD Review, \$10.2 million to be implemented effective July 1, 2010, and an additional \$4.4 million to be implemented January 1, 2011. Specific service level impacts related to the July 1, 2010, POD reductions will be discussed during the budget hearings in May and June. Midyear reductions will be presented to Council in fall 2010.

The Economy and the General Fund Five-Year Forecast

Foreclosures continue, unemployment is increasing and incomes continue to fall. As the revenues associated with the “wealth effect” (increasing home values provided borrowing capacity that increased both property and sales tax receipts) evaporated, state and local government property tax and sales tax revenues plunged, resulting in the need for governments to reduce spending, further reducing jobs and salaries, leading to additional reductions in local government revenues. This spiraling effect continues to impact the City’s budget situation. In this “new normal” effectively, two of the most significant drivers of the economy, jobs and salaries have been changed forever. The unfortunate result is that the gap between ongoing expenditures and revenues continues, even after very deep expenditure reductions were implemented in the prior two fiscal years.

Major General Fund tax revenues, primarily property taxes and sales taxes, are in significant year-to-year decline. The resulting “structural budget deficit” is inevitable as there is not adequate revenue capacity over the next five years to address existing and future expenditure requirements.

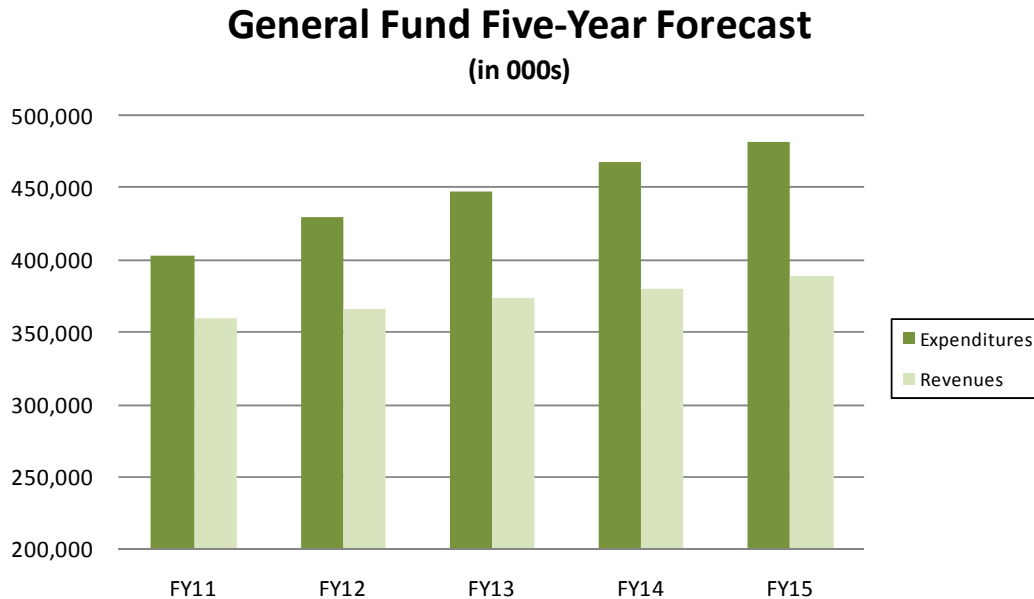
According to the latest projections from the University of California Los Angeles (UCLA) Economic Forecast, the state’s economic recovery will be slow and unemployment will remain above 10 percent through the end of 2011. UCLA economists believe that the lag in consumer spending, as consumers remain heavily in debt, is one of the main reasons that the recovery will be further protracted. The sluggish recovery of the housing market is another factor in the economic recovery. Where new home starts are often a leading indicator of a recovery, to date there is no significant increase in construction activity. In Sacramento, this is further exacerbated by the building moratorium in the northern part of the City.

What we do know is that the recovery will be slow. When consumer confidence is high, more is spent on goods and services and local government reaps the benefits through increases in sales tax collections. The declining real estate market, coupled with the struggling economy has effectively stymied consumer confidence, resulting in less consumer spending and in the City, resulted in a significant decline in sales tax revenues. Further, as businesses rebuild and start to grow again, many jobs may never be restored. The State of California Department of Finance noted the disparity between the numbers of long-term unemployed and the mismatch between their skills and available jobs. As a result, many economists are estimating that California’s unemployment rate will stay in the double digits well into 2012. The impact of this new economy on the City’s revenue base has been dramatic.

The following table summarizes the estimated major revenue sources for FY2010/11 compared to the FY2009/10 Approved Budget estimates (dollars in thousands):

Revenue Type	Approved FY2009/10	Proposed FY2010/11	\$ Change	% Change
Property Taxes	130,416	124,410	(6,006)	-5%
Sales & Use Taxes	62,205	53,995	(8,210)	-13%
Utility User Taxes	60,320	57,820	(2,500)	-4%
Other Taxes	24,482	21,917	(2,565)	-10%
Total:	277,423	258,142	(19,281)	-7%

It is important to note that revenue decline is not the only factor in the continued structural deficit. Prior commitments for labor contracts, increasing retirement costs associated with prior year market losses, and the loss of substantial grant funding will continue to add significant costs to the City's budget over the next several fiscal years. 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. The five-year forecast reflects a cumulative deficit of \$100 million if further reductions are not implemented in FY2011/12 and beyond. In addition, the Proposed Budget does not include adjustments that may be necessary as a result of state or county budget actions. As such, it may be necessary to make further budget adjustments to account for the actions of these external entities.

Tools and Opportunities

The City will continue to face substantial challenges in returning to a long-term structurally balanced General Fund budget. As discussed above, addressing this challenge will require difficult decisions relative to which programs and services are funded and at what level. We must also consider new ways of delivering programs and services. 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.

In November 2009, the City Council authorized an independent financial and operational review to identify additional opportunities to further maximize resources through cost-savings measures, efficiencies and revenue opportunities. Management Partners was engaged to complete this scope of work and has been working closely with City staff to gather information and develop

recommendations. Management Partners presented a status report to the Council in February, and will bring final recommendations to Council for consideration in May as part of the budget hearings. Staff anticipates that the recommendations will be prioritized with those strategies yielding the most immediate potential for cost savings and/or revenue enhancements for earliest consideration.

In addition, the City has been considering several revenue options including: modernizing our business operations tax, adopting a parking tax, adoption of a parcel tax, and expanding the City's community facilities assessment districts citywide as cuts alone will not balance our future budgets.

According to the Government Finance Officers Association, consideration of new taxes, with a strong nexus to benefit is a "...very fair way to finance public services when (the) tax burden is borne by those who receive the benefit." These options will be outlined for Council consideration during budget hearings.

In recent years, 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. The use of one-time resources to bridge the gap between revenues and expenditures defers, but does 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 \$10.5 million, approximately 3% of the estimated FY2010/11 General Fund revenues.

The General Fund – Moving Forward

The City's challenge for FY2010/11 is to effectively implement a multi-year plan to close the gap between revenues and expenses in the General Fund, thus achieving a fiscally sustainable budget. The deficit will persist unless ongoing corrective actions are taken. As we have discussed above, permanently closing the gap will require difficult decisions relative to program and service priorities and discipline to ensure that we are implementing long-term solutions to address the City's financial challenges. There are no easy answers. However, it is our responsibility as the leadership of the City of Sacramento, to formulate a balanced, sustainable organization that will weather these difficult times and be poised to move forward when the economy improves.

THE ENTERPRISE FUNDS

The City's Enterprise Funds are also challenged as a result of the economic crisis. In the Utilities Enterprise Funds, the costs continue to increase for a number of critical items necessary to deliver services such as labor, fuel, chemicals, and utilities. 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.

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 adjustments to address base budget issues such as increasing chemical, electrical, and gas costs, as well as adjustments to reflect changing revenue trends.

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.

Parking Fund (6004)

The City of Sacramento operates nine parking garages and nine 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, as well as one lot 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 increase three percent for FY2010/11 based on FY2009/10 activities. The revenue is expected to increase one percent annually beginning in FY2011/12 through FY2014/15. Rental income is based on current and anticipated leases. The operating expenses are projected to grow at approximately two percent annually.

Parking Fund (6004)
Revenue and Expenditure Five Year Forecast
(in 000s)

	2010/11 Proposed	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
REVENUES					
Parking Fees	16,000	16,160	16,321	16,483	16,793
Interest--Operating Funds	600	600	600	600	600
Real Property Rental	1,329	1,344	1,369	1,384	1,429
TOTAL REVENUES:	17,929	18,104	18,290	18,467	18,822
EXPENDITURES					
Employee Services	4,857	4,534	4,667	4,803	4,941
Other Services & Supplies	4,929	7,380	7,417	7,454	7,491
Operating Transfer Out/(In)	3,366	1,461	1,454	1,371	1,371
Subtotal--Operating Expenses:	13,152	13,375	13,538	13,628	13,803
Debt Service	3,575	2,944	2,944	2,944	2,944
OTHER USES/CIP	2,978	2,878	2,878	2,878	2,878
Subtotal--Other Uses:	6,553	5,822	5,822	5,822	5,822
TOTAL EXPENDITURES:	19,705	19,197	19,360	19,450	19,625
CURRENT SURPLUS/(DEFICIT)	(1,776)	(1,093)	(1,070)	(983)	(803)
Beginning Fund Balance	11,059	9,283	8,190	7,120	6,137
ENDING FUND BALANCE:	9,283	8,190	7,120	6,137	5,334

Utilities Funds - Overview

The Department of Utilities (DOU) develops the five-year budget forecast for all of its funds based on the assumption that the major cost drivers (labor, fuel, utilities, chemicals, etc.) will increase each year. This assumption is based on historical trends and past performance of the various indices used to project utility cost growth. DOU has also made the assumptions that its Public Employee Retirement System (PERS) contribution will increase substantially over the next few years and there will be nominal growth in development in the later part of the five-year period. In addition, DOU has made an effort to rebuild the dwindling reserves of each fund to maintain their financial health and ability to sustain their operational and capital needs over the next five years. Compliance with the provisions in Proposition 218 was also a consideration in the development of the five-year budget projection. DOU developed the five-year forecast with the intent that it will recover the full cost of all the services it provides.

The five-year budget forecast also assumes DOU will receive rate increases appropriate to maintain the financial stability of the utility funds. All rate adjustment proposals are brought forward to the Utilities Rate Advisory Commission (discussed below) for review and recommendation and to the City Council for approval.

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.

Proposition 218

On January 6, 2010, the Sacramento County Grand Jury issued a Grand Jury Report (entitled “The City of Sacramento and Proposition 218 – *The Law Is the Law*”) regarding City practices pertaining to the use of utility enterprise funds that potentially do not comply with Proposition 218.

In response to this Report, and the City’s continual review of programs and services for compliance with Proposition 218, the City proposes the items listed below in the FY2010/11 budget.

Fund Name (Fund Number)	Proposed Service Changes	FY2011 Budget Adjustment
Solid Waste (6007)	Solid Waste garbage, recycling and street sweeping services will be provided to City departments at standard rates with the exception of the Parks and Recreation Department which will receive a phased-in rate.	\$ 186,717
Solid Waste (6007)	Solid Waste will no longer provide illegal dumping services for Code Enforcement activities.	\$ 934,716
Solid Waste (6007)	Recycle bins will be removed from City parks as Solid Waste will no longer fund the recycling program.	\$ 317,220
Solid Waste (6007)	Downtown Leaf pickup if eliminated would create a significant impact on the City’s storm drainage system and could result in flooding. Therefore, the cost of green waste seasonal leaf pickup in the Downtown area will be absorbed by the Drainage Fund.	\$ -
Subtotal Solid Waste Fund:		\$ 1,438,653
Storm Drainage (6011)	City parks will be billed for drainage services utilizing the cemetery drainage rate.	\$ 295,726
Subtotal Storm Drainage Fund:		\$ 295,726
Water (6005)	The Department will phase-in the standard rate for the Parks & Recreation and Convention, Culture and Leisure departments, and will charge the full standard water rates for all other City departments.	\$ 193,364
Subtotal Water Fund:		\$ 193,364
Water (6005), Sewer (6006), Storm Drainage (6011)	The Department will increase fees for development review that reflect full cost recovery rates.	\$ 100,000
Subtotal Water, Sewer, and Storm Drainage Funds:		\$ 100,000
Net Impact to Utility Funds:		<u>\$ 2,027,743</u>

FY2010/11 Proposed Budget

The fiscal impacts to the other City departments have resulted in an increase in budgeted expenditures to the General Fund (1001) in the amount of approximately \$471,000 and minimal impacts to other City funds as shown in the following chart.

Fund Name (Fund Number)	Proposed Funding Recommendations	FY2011 Budget Adjustment
General (1001)	City parks will be billed for drainage services utilizing the cemetery drainage rate (requires Council approval of amended rate).	\$ 295,726
General (1001)	Recycle bins will be removed from City parks as Solid Waste will no longer fund the recycling program.	\$ -
General (1001)	Solid Waste services (garbage, recycling and street sweeping) will be provided to City departments at standard rates with the exception of the Parks and Recreation Department which will receive a phased-in rate.	\$ 174,768
General (1001)	Solid Waste will no longer provide illegal dumping services for Code Enforcement activities.	\$ -
Subtotal General Fund:		\$ 470,494
Lighting & Landscape (2232)	The Department of Transportation has budgeted for water costs in the Lighting & Landscape Fund.	\$ 188,726
Marina (6009)	The Department will phase-in the standard rate for the Parks and Recreation and Convention, Culture and Leisure Departments, and will charge the full standard water rates for all other City departments.	\$ 4,638
Fleet (6501)		\$ 176
Golf (2603)	Solid Waste garbage, recycling and street sweeping services will be provided to City departments at standard rates with the exception of the Parks and Recreation Department which will receive a phased-in rate.	\$ (16,736)
Parking (6004)		\$ 5,177
Marina (6009)		\$ 2,775
Community Center (6010)		\$ 6,183
Subtotal Various Fund:		\$ 190,939
Net Impact to Funds:		\$ 661,433

City staff continues to monitor for potential Proposition 218 issues and will bring forward any issues should they arise.

Utilities Rate Hike Roll Back Act of 2010 Initiative (Initiative)

The Sacramento County Taxpayers League currently is gathering signatures to place the above Initiative on the November 2010 ballot. If the Initiative qualifies for the ballot and receives voter approval, the Initiative would amend the Sacramento City Code to repeal the rate increases for monthly water, sewer, and solid waste services that are scheduled to take effect on July 1, 2010. These rate increases were approved by the City Council in June 2009.

This rate roll-back would take effect on July 1, 2011 (FY2011/12), and the monthly water, sewer and solid waste service rates would be set at the rates in effect as of February 10, 2010 (the City's current rates for FY2009/10). Finally, the Initiative would limit the City's ability to increase monthly rates for these services without voter approval in the future.

If the Initiative is approved by the voters, the following 5-year forecast for each of the three funds (water, sewer and solid waste services) would be significantly impacted. The proposed Initiative does not apply to the City of Sacramento's storm drainage rates.

Cost Saving Measures

As part of DOU's continual review of its programs and services for cost saving measures and efficiencies, the current fluoride treatment of the water supply has been identified as a non-mandated service that would result in significant cost savings if suspended. While all water is fluoridated, only a small amount is actually consumed by the targeted population. Due to the continued escalating costs to provide water with fluoride, the City may need to consider raising utility rates, finding an alternate funding source or suspending the fluoridation of the water. DOU will continue its review of all utility programs and services and bring forward identified cost saving measures for Council's consideration.

Water 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, and capital improvement costs.

While the Water Fund faces some significant challenges over the next five years, it is anticipated that the fund will remain financially sound and able to meet those challenges with appropriate 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 mandate requiring 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 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 the adopted rate increase of 15% in FY2010/11 to address anticipated cost increases, meet regulatory requirements and sustain a positive fund balance, and includes the following assumptions:

- 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, costs are also being incurred to pay for increasingly stringent regulatory water quality testing.
- Annual operating expenditures such as labor, chemical and utilities costs are anticipated to remain fairly constant from FY2009/10 to FY2010/11 with minimal augmentations. Costs in the subsequent years assume a 6% increase per year for the Water Meter Program.

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

	2010/11 Base Budget	2010/11 Proposed Augmentations	2010/11 Proposed Budget	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Projected Rate Increase			15.00%	*	*	*	*
REVENUE							
Charges, Fees and Services	70,644	9,095	79,739	90,105	101,818	114,037	127,721
Interest	1,096		1,096	1,096	1,096	1,096	1,096
Other/Misc.	1,755	-	1,755	1,668	1,771	1,878	1,988
TOTAL REVENUES	73,495	9,095	82,590	92,869	104,685	117,011	130,805
EXPENDITURES							
Operating	55,896	1,059	56,955	59,394	63,474	68,500	72,911
Debt Service	11,215	-	11,215	11,527	13,032	13,118	13,122
Proposed CIP	13,612	-	13,612	19,591	26,237	33,577	41,692
Proposed MYOP	808		808	833	864	842	867
TOTAL EXPENDITURES	80,723	1,059	82,590	91,345	103,607	116,037	128,592
CURRENT SURPLUS/(DEFICIT)	(7,228)	8,036	-	1,524	1,078	974	2,213
Beginning Fund Balance	2,522	-	2,522	2,522	4,046	5,124	6,098
ENDING FUND BALANCE	(4,706)	8,036	2,522	4,046	5,124	6,098	8,311

*Rate increases are projected between 11-13% in each fiscal year from 2011/12 to 2014/15 to meet operational expenses, address deferred CIPs, and fund water meter program at 6% of total rate increases.

Sewer Fund (6006)

Revenue generated by the City for the purpose of providing wastewater 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 wastewater collection system. Fund expenditures are generally divided among operating costs, debt service, and capital improvement 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 percent 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 the SRCSD to treat the majority of the City’s wastewater. The City provides the 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 substantially increased bad debt expense as a result of the economic recession.

FY2010/11 Proposed Budget

The following chart provides a five-year budget forecast for the Sewer Fund with the adopted rate increase of 5% in FY2010/11 to address anticipated cost increases, meet regulatory requirements and sustain a positive fund balance, 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 combined sewer system, and the forecast includes increasing the capital budget to meet this mandate.
- Annual operating expenditures such as labor, chemical and utilities costs are anticipated to remain fairly constant from FY2010/11 to FY2011/12 with minimal augmentations.

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

	2010/11 Base Budget	2010/11 Proposed Augmentations	2010/11 Proposed Budget	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Projected Rate Increase			5.00%	*	*	*	*
REVENUE							
Charges, Fees and Services	19,740	1,072	20,812	27,472	31,043	34,458	38,248
Interest	392	-	392	392	392	392	392
Other	1,288	-	1,288	1,128	1,128	1,128	1,128
TOTAL REVENUES	21,420	1,072	22,492	28,992	32,563	35,978	39,768
EXPENDITURES							
Operating	19,701	354	20,055	21,911	22,517	23,921	25,213
Debt Service	910	-	910	910	910	910	923
CIP	3,875	-	3,875	6,011	8,221	10,509	12,877
MYOP	175	-	175	77	79	81	83
TOTAL EXPENDITURES	24,486	354	25,015	28,909	31,727	35,421	39,096
CURRENT SURPLUS/(DEFICIT)	(3,066)	718	(2,523)	83	836	557	672
Beginning Fund Balance	2,899	-	2,899	376	459	1,295	1,852
ENDING FUND BALANCE	(167)	718	376	459	1,295	1,852	2,524

*Rate increases are projected between 10-13% in each fiscal year from 2012/13 to 2014/15 to meet operational expenses and deferred CIPs after structural deficit in FY2011/12 is addressed.

Solid Waste 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:

- Developing a new disposal/facility plan that: 1) incorporates areas north of the American River that reduce mileage; 2) increases sustainability, which may include bringing the City of Sacramento solid waste back into the region for disposal; and 3) stabilizes tipping fees for long-range planning.
- Funding increasing costs for new/replacement equipment.
- 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 (operation, maintenance and replacement of vehicles), and disposal fees. 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 has 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 with the adopted overall rate increase of 9% in FY2010/11 to address anticipated cost increases, meet regulatory requirements, generate a positive fund balance, and includes the following assumptions:

- Provide sufficient resources for the replacement of the aging vehicles to reduce the significant ongoing maintenance costs.
- Provide sufficient resources for the ongoing post-closure costs associated with the City landfills and for facility rehabilitation and repair.

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

	2010/11 Base Budget	2010/11 Proposed Augmentations	2010/11 Proposed Budget	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Projected Rate Increase			9.00%	*	*	*	*
REVENUE							
Charges, Fees and Services	57,760	4,555	62,315	66,677	69,344	72,118	75,003
Interest	-	-	-	44	44	44	44
Other/Misc.	804	-	804	719	719	719	719
TOTAL REVENUES	58,564	4,555	63,119	67,440	70,107	72,881	75,766
EXPENDITURES							
Operating	54,595	1,084	55,679	61,710	62,713	65,613	68,089
Debt Service	3,762	-	3,762	3,336	3,354	3,356	3,050
Proposed CIP	1,457	-	1,457	2,000	2,063	2,135	2,210
MYOP	-	-	-	-	-	-	-
TOTAL EXPENDITURES	59,814	1,084	60,898	67,046	68,130	71,104	73,349
CURRENT SURPLUS/(DEFICIT)	(1,250)	3,471	2,221	394	1,977	1,777	2,417
Beginning Fund Balance	-	-	-	2,221	2,615	4,592	6,369
ENDING FUND BALANCE	(1,250)	3,471	2,221	2,615	4,592	6,369	8,786

*Rate increases are projected between 2-7% in each fiscal year from 2011/12 to 2014/15 to meet operational expenses and address deferred CIPs.

Marina Fund (6009)

The Sacramento Marina is located on the Sacramento River at Miller Park. The Marina is a full service, 7-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.

The five-year expense and revenue forecast reflects the financial analysis based on the significant impact to the boating industry from the economic downturn. Based on City Council approval of rate revisions in April 2010, the new berthing fees will reflect a flat 8% increase in FY2010/11 and FY2011/12 and 6% annually thereafter, as well as occupancy of 65% in FY2010/11, 68% in FY2011/12, 75% in FY2012/13, 77% in FY2013/14 and 80% in FY2014/15. Operating expenses have been reduced to reflect efficiencies and service level reductions due to reduced revenue. Debt payments for the South Basin project are included in the FY2010/11 budget; this is the first year of a 30-year term.

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

	2010/11 Proposed	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
REVENUES					
Berth Rentals	1,588	1,794	2,098	2,283	2,514
Interest	18	23	24	25	28
Gas and Oil Sales	324	324	324	324	324
Miscellaneous	81	81	81	81	81
TOTAL REVENUES	2,011	2,222	2,527	2,713	2,947
EXPENDITURES					
Operating	1,120	1,154	1,205	1,239	1,289
Debt Service	1,165	1,165	1,165	1,165	1,165
CIP	50	150	200	200	250
Other Fund Uses	-	-	-	-	-
TOTAL EXPENDITURES	2,335	2,469	2,570	2,604	2,704
CURRENT SURPLUS/(DEFICIT)	-324	-247	-43	109	243
Beginning Fund Balance	709	385	138	95	204
ENDING FUND BALANCE	385	138	95	204	447

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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 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 facility. The TOT has been impacted by the downturn in the economy. Projections for FY2010/11 are based on a 13% decline in FY2009/10; this is in addition to a 10% decline in FY2008/09. This is the worst two-year decline in the history of the TOT. To maintain a positive fund balance and continue to operate the Sacramento Convention Complex at an acceptable level, actions have been taken to freeze vacant positions, reduce expenses, reduce Box Office and security hours, defund existing Capital Improvement Projects, and manage revenue.

FY2010/11 TOT revenue is expected to see a stable performance with projected receipts at the same level as FY2009/10. In FY2009/10, user fees are projected to decline from FY2008/09 proceeds by approximately 1.8%. FY2010/11 is expected to increase by 2.0%.

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 FY2010/11. Repayment of the loan will continue throughout the next five years. Through FY2009/10, \$3.10 million has been repaid.

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

	2010/11 Proposed	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
REVENUES					
Transient Occupancy Tax	13,738	14,150	14,575	15,304	16,069
User Fees	7,458	7,707	8,015	8,335	8,669
Interest	300	400	400	600	800
Other (Facility Fee)	1,660	1,900	1,000	1,000	1,200
TOTAL REVENUES	23,156	24,157	23,990	25,239	26,738
EXPENDITURES					
Operating	14,032	12,966	13,300	13,641	14,088
Debt Service	10,364	7,477	7,970	11,664	11,664
Capital Improvements	900	1,050	1,150	650	700
Facility Fee Improvements	-	-	-	-	-
Other Fund Uses	224	224	224	224	224
TOTAL EXPENDITURES	25,520	21,717	22,644	26,179	26,676
CURRENT SURPLUS/(DEFICIT)	-2,364	2,440	1,346	-940	62
Operational Reserve	-	-	-	-	-
Payback)	-100	-100	-250	-250	-250
Beginning Fund Balance	4,002	58	2,398	3,494	2,304
ENDING FUND BALANCE	1,538	2,398	3,494	2,304	2,116

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:

- 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.
- Supporting regional flood control efforts.
- Improving drainage system reliability.
- Maintaining State and federal regulatory compliance, i.e. National Pollution Discharge Elimination System (NPDES).

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. DOU intends to recommend moving forward with the ballot measure process.
- Annual operating expenditures such as labor, chemical and utilities costs are anticipated to remain fairly constant from FY2010/11 to FY2011/12 with minimal augmentations.
- Projections of future capital improvement projects in the Storm Drainage Fund reflect decreased spending due to insufficient available funding.

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

	2010/11 Base Budget	2010/11 Proposed Augmentations	2010/11 Proposed Budget	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Projected Rate Increase*			0.00%	0.00%	0.00%	0.00%	0.00%
REVENUE							
Charges, Fees and Services	33,330	329	33,659	33,659	33,659	33,659	33,996
Interest	422	-	422	400	-	(100)	(200)
Other	3,650		2,860	3,177	3,339	3,539	3,692
TOTAL REVENUES	37,402	329	36,941	37,236	36,998	37,098	37,488
EXPENDITURES							
Operating	33,221	508	33,729	33,882	35,355	37,468	38,907
Debt Service	3,675	-	3,675	3,673	3,650	3,671	3,693
CIP	1,148	-	1,148	1,309	1,230	1,273	1,317
MYOP	-	-	1,305	1,188	1,313	1,337	1,341
TOTAL EXPENDITURES	38,044	508	39,857	40,052	41,548	43,749	45,258
CURRENT SURPLUS/(DEFICIT)	(642)	(179)	(2,916)	(2,816)	(4,550)	(6,651)	(7,770)
Beginning Fund Balance	9,895	-	9,895	6,979	4,163	(387)	(7,038)
ENDING FUND BALANCE	9,253	(179)	6,979	4,163	(387)	(7,038)	(14,808)

*Voter approval is required for rate adjustments to the Storm Drainage Fund. This forecast assumes no rate increases for the fiscal years 2010/11 through 2014/15.

2010-2015 CAPITAL IMPROVEMENT PROGRAM (CIP)

The Proposed FY2010/11 CIP Budget totals \$69.7 million, funding 174 projects in all program areas in various geographic areas of the City. The General Fund total for capital expenditures in FY2010/11 is \$68,856. The five-year program totals \$318.7 million from all funding sources. The General Fund portion of the five-year program is \$17 million.

Given the challenges the City has faced over the past two years in all capital funding sources, we have worked towards maximizing all available capital resources including the identification of alternative funding opportunities, limiting General Fund contributions to projects/programs if available resources exceed the annual budget for the program, leveraging existing City resources with grant funds, and closing completed projects and returning remaining funds to fund balance. In FY2010/11 the City will begin operating new facilities (one new library, the final phases of two community center expansions, and the Crocker Art Museum expansion), funded through the City's Community Reinvestment Capital Improvement Program (CRCIP), state grants, and private development contributions.