



# City of Sacramento City Council

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**Meeting Date:** 5/3/2011

**Report Type:** Staff/Discussion

**Title:** Transmittal of the Fiscal Year (FY) 2011/12 Proposed Operating and Capital Improvement Program Budgets

**Report ID:** 2011-00431

**Location:** Citywide

**Recommendation:** Receive and File

**Contact:** Leyne Milstein, Finance Director, (916) 808-8491, Finance Department

**Presenter:** Bill Edgar, Interim City Manager, (916) 808-1228; Betty Masuoka, Interim Deputy City Manager, (916) 808-7942, Office of the City Manager; Russell Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer

**Department:** Finance

**Division:** Budget Office

**Dept ID:** 06001411

**Attachments:**

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1-Description/Analysis  
Attachments 1 and 2

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**City Attorney Review**

Approved as to Form  
Larry Duran  
4/28/2011 8:57:05 AM

**City Treasurer Review**

Prior Council Financial Policy Approval or  
Outside City Treasurer Scope  
Russell Fehr  
4/27/2011 3:54:54 PM

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 4/27/2011 5:17:18 PM

Assistant City Manager: Patti Bisharat - 4/28/2011 8:51:43 AM



**Description/Analysis**

**Issue:** This report transmits the FY2011/12 Proposed Operating and Capital Improvement Program Budget Documents in accordance with City Charter, Article IX, Section III, which requires the City Manager to deliver budget recommendations no later than 60 days prior to the start of the new fiscal year.

Operating Budget Overview:

The FY2011/12 Proposed Budget is balanced, totaling \$812.1 million from all funding sources and 4,078.21 full time equivalent (FTE) positions. The General Fund portion of the Proposed Budget is \$362.2 million and includes 2,777.52 FTE; however it is important to note that the discretionary portion of the General Fund is only \$222.1 million. The calculation of the discretionary General Fund is shown in the table below.

**Calculation of FY2011/12 Discretionary General Funds**

\$ in millions

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

The General Fund deficit for FY2011/12 was estimated to be \$39 million. The gap between ongoing revenues and expenditures has been closed with a combination of ongoing expenditure reductions (\$31.9 million), new revenues (\$2.4 million), and one-time funding/reduction strategies (\$4.6 million). One-time strategies do not include the use the Economic Uncertainty Reserve (balance remains at \$14.3 million). The Proposed Budget also includes the elimination of programs restored in FY2010/11 with one-time funding (Parks and Recreation) and the loss of grant funds (Police).

While the Proposed Budget closes the gap for the coming fiscal year, over the next five years the structural deficit persists, growing to a peak of \$23 million in FY2013/14. The following chart reflects the ongoing deficit 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 Surplus/(Deficit)	25	(11,737)	(22,961)	(18,773)	(13,621)
<b>Cumulative Operating Results</b>	<b>25</b>	<b>(11,712)</b>	<b>(34,673)</b>	<b>(53,446)</b>	<b>(67,067)</b>

The projected peak deficit, in addition to the \$39 million gap addressed in the Proposed Budget, reflects a structural gap of \$62 million (\$39m+\$23m) that must be addressed on a permanent ongoing basis, in order to move past what have become perpetual reduction efforts and move forward with the business of the City.

#### Major General Fund Budget Impacts:

The Police, Fire and Park and Recreation Departments represent the bulk of the General Fund budget. (For specifics on all the departments' reductions, see the Proposed Budget document.) The major reductions proposed in these departments include:

##### **Police**

- Elimination of 167 FTE of which 98.0 are Sworn (including 35 FTE related to the potential loss of grant funding). This reduction will result in the loss of the special units in order to protect patrol as much as possible.

##### **Fire**

- A net reduction of 49 FTE includes staffing for one company at Station 43 but increases the number of company brownouts to 6 (currently there are 2) and require reduction in staffing to two more fire companies to 3-person crews. The number of brownouts may be mitigated if the Council approves the SAFER Grant.

##### **Parks and Recreation**

- All but 3 Community Centers will be closed, and all but 3 swimming pools will be closed starting the summer of 2012.
- Significant reductions to youth and senior programs.

#### Utility Funds:

The budgets for Water, Sewer, Drainage, and Solid Waste do not include any rate adjustments or significant budget proposals. A multi-year rate strategy and recommendations from the efficiency audits will be brought back to City Council in late summer.

#### Capital Improvement Program Budget Overview:

The FY2011/12 Proposed Capital Improvement Program (CIP) Budget for the City of Sacramento totals \$56.5 million and includes funding for 157 citywide programs and projects. The General Fund portion of the Proposed CIP Budget is \$3.3 million.

#### Budget Hearings:

A series of public hearings and special reports will be heard by City Council during May and June, with final budget adoption scheduled for June 21, 2011. A tentative hearing schedule is included as Attachment 1.

**Policy Considerations:** On March 1, 2011, the City Council approved potential strategies to be incorporated into the budget development process. These strategies to guide the development of the FY2011/12 Proposed Budget addressed labor costs, new revenue sources, and operational efficiencies. These strategies reflect the overarching goal of a balanced approach to a sustainable budget.

After three consecutive years of reductions, the City continues the monumental task of rightsizing the organization. Given the size of the challenge, and the fact that ongoing efforts to align revenues and expenditures have not been able to keep pace with the revenue declines in prior years and significant year-to-year expenditure increases, it is critical that future reduction efforts reflect the need to initiate major permanent changes to ensure long-term fiscal sustainability.

**Environmental Considerations: California Environmental Quality Act (CEQA):** This report concerns administrative activities that will not have a significant effect on the environment, and that do not constitute a “project” as defined by CEQA Guidelines Sections 15061(b)(3); 15378(b)(2). CEQA review for any project, which utilizes funds allocated under the FY2011/12 CIP budget, has been or will be performed in conjunction with planning, design and approval of each specific project as appropriate.

**Sustainability:** Not applicable.

**Commission/Committee Action:** Sacramento City Code Section 2.112.060 requires the Planning Commission to review the City’s 5-year CIP for consistency with the City’s General Plan and to report its finding to the City Council. The 2011-2016 CIP will be presented to the Planning Commission on May 12, 2011, and the Commission’s determination will be provided to Council during the budget hearings.

**Rationale for Recommendation:** The severe economic downturn impacting the nation, State and City require that significant budget reductions be implemented in order to stabilize the City’s budget and continue the process of returning the General Fund budget to sustainability.

**Financial Considerations:** Despite significant expenditure reductions in prior years, including the elimination of over 900 positions, consolidations, and renegotiated labor agreements. The table below outlines the challenges and strategies used to address prior year and the Proposed Budget deficits:

<b>Reduction Strategy</b>	<b>FY2007/08</b>	<b>FY2008/09</b>	<b>FY2009/10</b>	<b>FY20010/11</b>	<b>Proposed FY2011/12</b>
General Fund Deficit (\$ in 000s)	<b>\$ 29,000</b>	<b>\$ 58,000</b>	<b>\$ 50,000</b>	<b>\$ 43,000</b>	<b>\$ 39,000</b>
One-Time Funding	29,543	19,000	8,300	17,511	4,600
New/Increased Revenues	-	3,700	5,100	1,000	2,400
Labor Reductions	-	30,200	28,900	12,367	27,100
Other Reductions/Reimbursements	-	5,100	7,700	12,400	4,800
	<b>\$ 29,543</b>	<b>\$ 58,000</b>	<b>\$ 50,000</b>	<b>\$ 43,278</b>	<b>\$ 38,900</b>
<b>FTE Reductions</b>	-	<b>359.01</b>	<b>360.26</b>	<b>207.50</b>	<b>294.72</b>

Budget sustainability requires that annual base operating costs must be held to a level below annual revenue growth. If the City is successful in efforts to implement ongoing reductions in expenditures in FY2011/12 and can minimize cost increases in the future the structural gap will be tightened, but not eliminated, as there are anticipated expenditure increases that will have to be addressed in future years.

It is important to note that the Proposed Budget does not include adjustments that may be necessary as a result of State or County budget actions, nor any further decline in revenues that the City may experience during the fiscal year. As such, the Mayor and City Council will adopt a balanced budget in June and may need to make further budget adjustments during the fiscal year to account for the actions of these external entities or the impact of further decline in revenues.

**Emerging Small Business Development (ESBD):** Not applicable.



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## Attachment 1

### Draft FY2011/12 Budget Hearing Schedule As of April 21, 2011 (Subject to Change)

Date	What	Time
Week of April 25	Budget Briefings (M/CC, Unions, Media)	
Friday April 29	Release Proposed Budget	
Tuesday, May 3	Proposed Budget Transmittal	90 minutes
Thursday, May 12	Proposed Budget Kickoff	2 hours
Tuesday, May 17	Afternoon Budget Hearing	3 hours
Tuesday, May 17	Evening Budget Hearing	3 hours
Tuesday, May 24	Afternoon Budget Hearing	3 hours
Tuesday, May 24	Evening Budget Hearing	3 hours
Tuesday, May 31	Budget Hearing	3 hours
Thursday, June 2	Hold for Hearing if Necessary	
Tuesday, June 7	Budget Hearing	2 hours
Thursday, June 9	Hold for Hearing if Necessary	
Tuesday, June 14	Budget Hearing	2 hours
Tuesday June 21	Budget Adoption	1 hour

## **Attachment 2**

### **FY2011/12 Proposed Operating and Capital Improvement Program Budgets (To Be Delivered)**