



BUDGET MESSAGE



OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL

730 I STREET
SACRAMENTO, CA
95814-2684

PH 916-808-5704
FAX 916-808-7618
TDD (ONLY) 916-264-7227

May 1, 2004

Honorable Members in Session:

It is my pleasure to respectfully submit to you the Fiscal Year 2004/05 Proposed Budget for the City of Sacramento. This budget is balanced and totals \$711 million from all funding sources and includes 4,695 full time equivalent (FTE) positions. The General Fund portion of the budget includes \$329 million and 3,384 FTE positions. The Budget Overview section of the budget document includes additional detail for the FY2004/05 Proposed Budget.

“Staying the Course...Prepared not panicked”

In spite of the many fiscal challenges in the Sacramento region today, our organization has been able to “stay the course”, preparing and not panicking, by continuing to implement a strong sustainable budget vision.

In the FY2004/05 Proposed Budget, “Staying the Course” means that:

- The FY2004/05 Proposed Budget is balanced and continues to reflect a sustainable budget;
- The Economic Reserve continues to work towards the Mayor and City Council’s goal of 10%;
- A \$12.5 million fix has been achieved through organizational efficiencies and reorganizations, new revenues, and some department reductions;
- \$6 million is anticipated for State Budget impacts to City revenues and is included in the FY2004/05 Proposed Budget;
- The City continues to maximize the use of grant funding; and
- A second year of organizational efficiencies, revenue enhancements, and possible department reductions will be needed to fully implement the fixes to the City’s structural imbalance of \$25 million.

The Sustainable Budget Concept – *centerpiece of a balanced budget*

Over the last four to five years, the Mayor and City Council have developed and adopted a sustainable budget concept for the City that is largely responsible for the fiscal stability in our organization today. This concept is used in developing the City’s fiscal plan and is consistent with: 1) on-going costs not

exceeding on-going revenues – “a balanced budget”; 2) one-time spending opportunities funded with one-time revenues; 3) Economic Reserve balances that help minimize impacts to community service delivery during recessions and economic downturns; and 4) Mayor and City Council goals and objectives.

Given the uncertain economy in our region and at the State level, and the many budget pressures the City has faced over the last several years, it has only been through the sustainable budget approach that this organization and the Mayor and City Council have been able to meet numerous community needs and goals, including, but not limited to:

- A Capital Improvement Program that has funded a new 911 Dispatch center, replacement of Southside Fire Station 5 and North Sacramento Fire Station 20, a new North Natomas Fire Station 30, the Pannell Meadowview pool, South Natomas Community Center/Library, Oak Park Community Center expansion, Max Baer Club House, Southside Park Club House, and Sutter’s Landing Park improvements;
- Community Schools Partnership program;
- Street Light Matching program;
- Deferred Maintenance program;
- Citywide Energy Efficiency program;
- New City Hall;
- Acquisition of the North Area Corporation yard;
- 7th Street Extension project
- A \$200 million infrastructure investment for Water Supply Improvement and Expansion project; and
- Arena Boulevard Interchange project.

The sustainable budget plan has also allowed for an economic reserve that has grown from 4 percent to 7 percent and currently totals \$25.5 million. The present budget could not have been balanced without the continued discipline of a sustainable budget, and future budgets must follow this same course.

The Past...Structural Imbalance identified

As part of last year’s budget, staff identified a structural imbalance of \$25 million in the General Fund five-year forecast. Primarily this financial gap was created by projected increases in such areas as worker’s compensation, liability insurance, health benefits, retirement plans, and growth in labor costs. This deficit also reflected a slowdown in the economy that led to a lag in revenue growth. Thus, revenue growth has not kept up with the increased costs of delivering service in our community.

In addition to the \$25 million “local” deficit, the City’s budget has been impacted by State Budget actions. For example, the City lost \$5 million in motor vehicle license fees in FY2003/04 when the State did not pay the City during the months of July, August, and September of 2003. Our fear of losing local government revenues through further State Budget actions is still very real and more will be known when the revised Governor’s Proposed Budget is released in May 2004.

The Present...Creating a balanced budget

The FY2004/05 Proposed Budget is balanced using a combination of on-going savings from operational efficiencies and reorganizations, new revenues, department reductions, and use of

reserves. This budget reflects the two-year financial strategy plan introduced last year to eliminate the fiscal gap and stabilize the City's budget. This strategic plan achieves: 1) a first year local fix of \$12.5 million towards the \$25 million gap; 2) maintaining a sustainable budget that continues to include one-time spending opportunities; 3) an Economic Reserve of \$25.5 million (7%) and an operating department carryover reserve of \$10 million; 4) capacity to continue service delivery at existing levels; 5) implementation of several Sacramento Organizational Assessment Project (SOAP) ideas that will save money and improve business practices; 6) maintaining Public Safety as the Mayor and City Council's number one priority; 7) including a \$6 million reduction to City revenues due to State Budget impacts; and 8) Mayor and City Council goals.

The first year goal of decreasing the financial gap by \$12.5 million has been exceeded and we have achieved \$12.7 million through:

- \$4.5 million in reorganizations and operational efficiencies
- \$4.5 million in new revenue opportunities
- \$3.7 million in department reductions

Detail for each of these financial "bucket" fixes is included in the Budget Overview of the budget document. Despite the many budget challenges, the recommendations in the proposed budget successfully minimize impacts to City programs and services while at the same time avoid any employee layoffs.

Reorganizations and operational efficiencies: The Sacramento Organizational Assessment Project (SOAP) was implemented in order to identify best practices and ideas that would allow the organization to reduce costs and improve service delivery. This process generated over 1,500 ideas from the workforce, many of which we have begun to implement.

The reorganizations and operational efficiencies included in the proposed budget, work towards providing better service to our community by implementing better business practices and in some cases spending one-time funds in order to generate on-going savings. Overall, the reorganizations and operational efficiencies allowed for a total reduction of 12 FTE. Examples include the implementation of the Development Services Department and the creation of a General Services and Transportation Departments. In both cases, administrative efficiencies have been achieved to reduce costs with a focus on better customer service. Another example is the elimination of the obsolete municipal fire alarm system which will save \$400,000 annually after an initial investment of \$500,000 to remove the system.

New Revenues: Included in the two-year fiscal strategy are opportunities to increase existing revenues as well as implement new revenues. The first year effort on new revenues focused primarily on code enforcement and development related fees. Increased revenues are recommended in a number of areas with primary focus on services where the City is not currently recovering full cost of the service provided. Additionally, new revenues are included as fees or penalties to better enforce compliance of City regulations and code.

In the first phase of looking at revenue opportunities, the FY2004/05 Proposed Budget includes additional recovery of costs from planning fees and fees to cover the updating of the City's General Plan; increasing audit efforts and including a fee for processing Business Operations Tax certificates; increasing fees for code enforcement compliance; increasing plan check fees for parks and recognizing additional recreation revenues; and introducing a residential parking permit fee to reduce the abuse related to residential parking. Additional revenue opportunities will be evaluated in next year's budget.

Department reductions: The two-year strategy was developed with a focus on creating operational efficiencies and savings along with identifying new revenue opportunities in order to minimize department reductions. The success of this strategy has resulted in less than a 2% reduction in operating departments. This effort nets a total reduction of 31 FTE. Furthermore, any reductions in positions (FTE) are accommodated by the fact that the City's hiring controls have generated over 350 vacant positions; thus, no employee layoffs are anticipated. The department reductions also reflect the Mayor and City Council's number one priority, public safety. Minimizing these reductions and the SOAP ideas generated to help balance the budget continue to reflect the creativity, dedication, and hard work of our City employees.

The Future...Prepared and cautious

Balancing the FY2004/05 Proposed Budget by closing the gap by \$12.5 million is only the first phase towards a continued sustainable budget. The remaining \$12.5 million gap will need to be fixed as part of the FY2005/06 Budget. To achieve this second phase, staff will continue to look for additional organizational efficiencies, new revenues, and as a last resort, propose additional reductions to operating department budgets.

Unfortunately, the local economy problem is not the only pressure our budget faces. Pending still are possible impacts from the adoption of a State Budget. While an initial \$6 million State Budget impact has been included in the FY2004/05 Proposed Budget, additional State Budget actions could further impact City revenues. Additional impacts will not be known until such time as the State Budget is adopted.

Serving new growth areas: The City of Sacramento continues to grow and service demands need to be met. During the hearings on the Proposed FY2004/05 Budget, a list of potential augmentations will be discussed that includes the need to fund more police officers, a fire medic unit, code enforcement officers, park maintenance, and an interim library facility in North Natomas. Implementation of these increases will depend on the final action taken by the State on its budget and any pending impacts to the City's revenues.

Hiring Controls: In FY2003/04, hiring controls were implemented in order to address the fiscal gap in that year and to offset the State Budget impact of \$5 million in vehicle license fee revenue loss. In total, the organization was able to generate approximately \$13 million in salary savings through this effort. Hiring controls could be extended into the 2004/05 fiscal year in order to address:

- State Budget impacts above the \$6 million already included in the FY2004/05 Proposed Budget, and
- Growth related augmentations.

Other Issues

- The City is looking into the feasibility of implementing a 911 Fee that could be used to offset costs related to the 911 Center.
- In the Solid Waste Fund, a 7% overall rate increase is proposed for garbage and commingled recycling collection, lawn and garden refuse collection, and street sweeping. In the Utilities Funds, the FY2004/05 Proposed Budget includes the second year of a two-year Mayor and

Council approved rate increase of 6% for water and sewer, with no increases for storm drainage. Based on these rate increases, it is estimated that the average monthly residential bill will increase by about \$3.50 per month.

Specific Initiatives

- “Green Building” – included in the FY2004/05 Proposed Budget is funding to begin looking at the possible efficiencies and best practices associated with designing city facilities within the green building concept. Implementing this concept will help achieve long term savings in operating costs.
- Public Safety reorganization efforts – over the next couple of years public safety management will be looking at the existing Police and Fire operations with a focus on: 1) increasing the number of police officers on the street, 2) consolidating certain redundant specialty public safety units with Sacramento County and other jurisdictions, 3) strategies to absorb the eventual elimination of federally funded police officer grants, 4) evaluating the use of advanced life support funding and making timely fee adjustments that support growth efforts, and 5) identifying deployment and staffing strategies to maximize service delivery.

In closing...Prepared not panicked

The FY2004/05 Proposed Budget works diligently towards the significant milestone of closing our \$25 million deficit. This budget minimizes impacts to City programs and service delivery to our community while at the same time avoids employee layoffs. It continues to warn of further State Budget impacts that could put city services at risk if additional local revenues are shifted to solve the State Budget crisis. In spite of these local economic disruptions, this budget focuses on continued improvement of productivity, business practices, innovations, and streamlining of City operations.

“Prepared...not panicked” has been possible for the City of Sacramento through the direction and support of its Mayor and City Council with long term vision for a sustainable budget that supports a city where its citizens enjoy Sacramento as the City of choice to live, work, learn, and play.

Respectfully submitted,



Robert P. Thomas
City Manager