

PROPOSED BUDGET OVERVIEW

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The Proposed FY2004/05 Budget is balanced and totals \$711 million from all funding sources. It includes 4,695 full time equivalent (FTE) positions. The General Fund portion of the Budget represents \$329 million and 3,384 FTE positions. The Proposed Budget includes a net decrease of 35 FTE positions after investments required to achieve efficiencies and new revenues.

OVERALL FINANCIAL OUTLOOK FOR THE CITY OF SACRAMENTO

The City has successfully weathered a number of financial challenges over the past year. Thanks to the foresight and proactive planning of the Mayor and City Council, the City of Sacramento has been much more strongly positioned to deal with these challenges than many other California cities facing similar financial hurdles.

Unfortunately, the City's financial status and budget continue to be affected by factors whose impact and timing are out of our control. These factors are like rings surrounding the City, putting financial pressure on the budget. Specifically:

- The State continues to face significant budget challenges. Final action on the State's FY2004/05 budget may not occur until this fall. At risk are Vehicle License Fee (VLF) revenues, Booking Fee Reimbursement, property tax revenues or other City revenues totaling potentially \$18 to \$20 million annually.
- The County is facing large budget reductions and is considering closure of clinics, elimination of probation officers and reduced funding to our joint powers/partners activities. These actions will eliminate services to City residents and create additional demands on City fire and police services.
- Although the City continues to grow both in population and in service demands, General Fund staffing levels have remained relatively static. The modest staff increases over the past few years have allowed us only to regain some of the staffing eliminated over the past decade, but not keep pace as the City's population has continued to grow.
- The City continues to experience a structural imbalance in the General Fund, with the cost for current service levels growing faster than revenues. Major factors in the imbalance are slow revenue growth and increased costs for services due in part to the higher-than-expected retirement costs resulting from poor investment returns experienced by the California Public Employees Retirement System (PERS).

GENERAL FUND REVENUES

National economic growth over the next two to three years should remain fairly steady, but not robust. The Anderson Forecast (a quarterly forecast published by the University of California, Los Angeles) predicts 3.5% average annual growth in Real GDP through 2006. While the Forecast estimates positive growth of approximately 125,000 payroll jobs per month over the intermediate term, it is less than many others are projecting. However, it is estimated that inflation will remain steady or decline slightly in the goods, services, and construction sectors through 2005.

Statewide economic growth over the next two to three years should also remain fairly stable, with some modest growth projected. The Anderson Forecast predicts 3.4% average annual growth in Real Gross State Product now through 2006. After experiencing negative payroll job growth in 2002 and 2003, the State can expect positive 0.5% job growth in 2004 and even better growth in 2005 and 2006. Statewide unemployment has trended downward from 7.1 percent to 6.5 percent over the Feb 2003 to Feb 2004 period.

FY2004/05 General Fund revenues and resources are estimated to be a net \$308.9 million, which is \$19.7 million greater than the FY2003/4 approved budget. While taxes are projected to increase by \$19.0 million over the FY2003/04 budget, other General Fund revenues are expected to increase by \$0.7 million. The \$308.9 million General Fund revenue projection includes a \$6 million component for lower revenues due to potential State impacts affecting property taxes, booking fees and motor vehicle license fees.

Taxable sales in Sacramento have improved overall by approximately 3.0% from the 4th quarter 2002 to the 4th quarter 2003, with the construction and transportation components showing the greatest strength. Projected FY2004/05 total sales tax revenues of \$65.8 million are \$2.7 million higher than the FY2003/04 approved budget.

Property taxes are projected to be \$67 million in FY2004/05, representing a \$9.4 million increase over the FY2003/04 approved budget, while other property related taxes (transfer and residential development) are expected to increase by approximately \$5 million over the \$8 million FY2003/04 approved budget. In the Sacramento area, the median price of homes increased by 20.7% in March 2004 from the year earlier period, according to the Sacramento Association of Realtors. While new construction remains strong, the resale market for homes has also shown significant strength, with the dollar value and number of closed escrows increasing by 45.9% and 33.3% respectively over the past year.

Utility user tax (UUT) revenues have been improving in FY2003/04 after experiencing negative to flat growth the past few years. FY2004/05 UUT revenues are expected to be \$1.5 million over the FY2003/04 approved budget. While the telecommunications portion, representing 23% of total UUT revenues, is down 11.7% from year earlier periods, the remaining gas, electric, cable, and wireless components representing 77% of UUT revenues are up 16% during the same period.

State motor vehicle license fee (VLF) revenues are budgeted at \$25.8 million for FY2004/05, up \$1.3 million from the FY2003/04 approved budget. This projection assumes the State will not withhold any backfill funds during the year. Statewide new car registrations are expected to increase slightly from 2004 to 2005.

GENERAL FUND EXPENDITURES

Proposed FY2004/05 Budget:

The Proposed FY2004/05 Budget reflects recommendations consistent with the two-year strategy for addressing the imbalance in the City’s General Fund. Specific recommendations for balancing the budget fall in to three general categories: reorganizations/efficiencies; new revenues; and reductions. A summary of the recommendations in each of these categories is shown below.

Reorganizations/Efficiencies

- **City Manager** – transfer Assistant City Manager position to new Development Services Department
- **City Treasurer** – reorganize and reduce the number of business units for improved efficiency
- **Convention, Culture and Leisure** – achieve efficiencies through sharing of equipment among divisions
- **Finance** – consolidate Procurement Division and Office of Small Business Development and consolidate a portion of the Central Stores function with Fleet inventory management
- **Information Technology** – remove Municipal Fire alarm system. After an initial year investment of \$563,000, this project will save nearly \$400,000 annually in unnecessary maintenance costs
- **Parks and Recreation** – transfer a position from the General Fund to the START fund to improve operations
- **Police** – reorganize positions to take advantage of dedicated funding sources for specific programs such as the Tow Program and the Emergency Vehicle Operations Center (EVOC). Reorganize management duties across the department.
- **Transportation** – improve efficiency to provide additional funding from outside sources. Also, begin a program to provide concrete maintenance services in-house to achieve additional administrative efficiencies.
- **Utilities** – Reduce General Fund contribution for City Operator program.

New Revenues

- **City Treasurer** – Achieve additional fee revenues from managing investments for the City's retirement system
- **Convention, Culture and Leisure** – increase fees for Archives operations
- **Development Services** – implement additional recovery of costs from Planning fees and implement a fee to cover costs associated with updating the City's General Plan.
- **Finance** – Increase audits; implement a fee for processing Business Operations Tax certificates and increase fee for returned checks.
- **Neighborhood Services** – increase fees for code enforcement compliance
- **Parks and Recreation** – increase plan check fees associated with development and recognize additional recreation revenue.
- **Transportation** – implement a Residential Parking Permit fee to increase the level of service related to residential permit parking in order to reduce fraud and abuse and help protect preferred parking benefits for residents.

Reductions

- **City Attorney** – reduce funding for technology related capital expenditures
- **City Clerk** – reduce funding for contract support for the City's online campaign filing program
- **City Manager** – reduce operating budget expenses
- **Convention, Culture and Leisure** – reduce outreach and marketing, reduce cultural awards grants and reduce support to Old Sacramento
- **Finance** – eliminate one Special Projects Manager position

- **Fire** – eliminate Deputy Chief and Fitness coordinator positions
- **Human Resources** – eliminate career development support and reduce one additional management position
- **Information Technology** – Eliminate two positions; reduce funding for training; reduce consulting expenses
- **Labor Relations** – continue to hold Labor Relations Manager position vacant
- **Mayor/Council** – reduce operations budget by \$80,000
- **Neighborhood Services** – reduce Neighborhood Service area administrative and support staff
- **Parks and Recreation** – Reduce support for Special Events; reduce consulting support; reduce Special Program Leader work hours by 30 minutes per day; reduce park maintenance services by approximately 3-4 hours per week.
- **Police** – eliminate some staffing support for report-writing; eliminate equestrian and marine units

The Proposed Budget also continues the Mayor and City Council policy of maintaining a strong Reserve for Economic Uncertainty. The proposed level for FY2004/05 is \$25.5 million (7 percent of General Fund revenues).

FIVE-YEAR GENERAL FUND FORECAST

Table 1 provides a projection of General Fund revenues and expenditures over the next five years.

Highlights of the Five-Year Projection:

- The General Fund’s financial condition faces some challenges over the next several years.
- Ongoing operating expenditures are growing at an average rate of 3 to 4 percent per year and there will be significant pressure on operating costs as new development continues in the City requiring new infrastructure such as fire stations and libraries.
- General Fund labor costs in FY2004/05 are affected by not only the normal upward pressure on salaries due to CPI increases, but also by 1) poorer-than-expected investment returns by PERS (which increases the cost to the City of approved retirement benefits), and 2) increases in the costs for workers compensation.
- Consistent with Mayor and City Council Policy, the FY2004/05 Proposed Budget maintains the Reserve for Economic Uncertainty at 7 percent of revenues, or \$25.5 million.
- Given the additional costs described above, as well as the existing structural imbalance in the City’s General Fund budget, the Proposed FY2004/05 Budget is balanced with:
 - \$4.5 million in savings from departmental reorganizations and efficiencies. Many of the recommended changes came about as the result of employee suggestions developed during the Sacramento Organizational Assessment Project (SOAP). In future years, the value of these recommendations grows to approximately \$5 million after all improvements have been phased in.

- \$4.5 million in new revenues are proposed to help offset the cost of maintaining service levels. Specific reports on proposed fee/revenue increases will be presented during the course of the budget hearing process.
- \$3.7 million in operating department reductions. In order to begin to bring the General Fund back in balance for the long-term, the budget reflects the first year of a two-year strategy to reduce expenses and increase revenues. More detail on the specific reductions proposed is included in the each departmental section.
- \$12.5 million in a reserve previously set aside for increases in retirement costs is the final piece of balancing the Proposed FY2004/05 Budget.

To Achieve a Long-Term Sustainable Budget

The five-year projection shows that in order to bring the General Fund budget back into balance, further efficiencies, new revenues and reductions will be needed. Without those adjustments, current spending levels are not maintainable.

Part of achieving those reductions will come from following up further on ideas developed and submitted during the organizational assessment process begun in July 2003. The assessment identified opportunities for savings through the evaluation of best practices, overlapping services, centralization vs. decentralization, span of control, etc.

Table 1						
General Fund Five-Year Forecast (\$ in thousands)						
	FY2003/04 Midyear	FY2004/05 Proposed	FY2005/06 Estimated	FY2006/07 Estimated	FY2007/08 Estimated	FY2008/09 Estimated
Beginning Fund Balance	6,380	5,987	553	1,634	1,974	1,654
Revenues						
Taxes	193,932	205,025	212,754	220,931	229,472	235,481
Department Operating Revenues	50,012	51,945	51,937	52,379	52,830	54,679
Other (VLF, interest etc...)	46,812	49,160	49,985	50,853	51,783	53,649
Total Revenues	290,756	306,130	314,676	324,163	334,085	343,809
Expenditures						
Department Operating	293,321	340,846	345,311	352,905	361,658	370,888
Capital & Other Expenditures	5,776	(7,653)	(2,626)	(456)	2,517	2,990
Total Expenditures	299,097	333,193	342,685	352,449	364,175	373,878
Revenues - Expenditures	(8,341)	(27,064)	(28,009)	(28,286)	(30,091)	(30,069)
Balancing the Budget						
Efficiencies/ Reorganizations	-	4,511	5,055	5,257	5,468	5,686
New Revenues	-	4,454	5,054	5,256	5,467	5,685
Reductions	-	3,728	18,377	18,112	18,837	19,590
Total New Revenues/Savings	-	12,693	28,486	28,625	29,772	30,961
Other Sources/ Use of Reserves	7,948	8,937	603	0	0	0
ENDING BALANCE	5,987	553	1,634	1,974	1,654	2,547

IMPACT OF STATE BUDGET

The State of California continues to face financial challenges. Although the successful passage of a \$15 billion bond measure in the March elections relieves some of the immediate pressure on the State's budget, there are still long-term structural issues that must be addressed. The State's current budget gap is estimated at between \$5 and \$15 billion. The Governor's Proposed FY2004/05 Budget proposed a further shift of property taxes from local government to schools as well as eliminating the state subvention for jail booking fees. Together, these two proposals could cost the City \$6 million per year in revenue. This potential loss of \$6 million has been incorporated into the Proposed Budget, and the overall budget is balanced with state revenue reductions up to \$6 million.

Proposals being discussed by the Governor's administration near the end of April 2004 indicate that a revised strategy is likely to be unveiled with May revision of the Governor's Budget. The current proposals would likely increase the amount of revenue the City could lose in FY2004/05 and FY2005/06, but this might be matched with guarantees against raiding local government funds in future years beyond FY2005/06.

If the state budget impacts are less than \$6 million for FY2004/05, no further action will be required by City Council. If the reductions are between \$6 million and approximately \$10 million, it is recommended that hiring controls be extended to generate the additional savings – up to \$4 million. If the loss of State revenues exceeds \$10 million, staff will return to the City Council with recommendations regarding further action.

ENTERPRISE FUND OVERVIEW

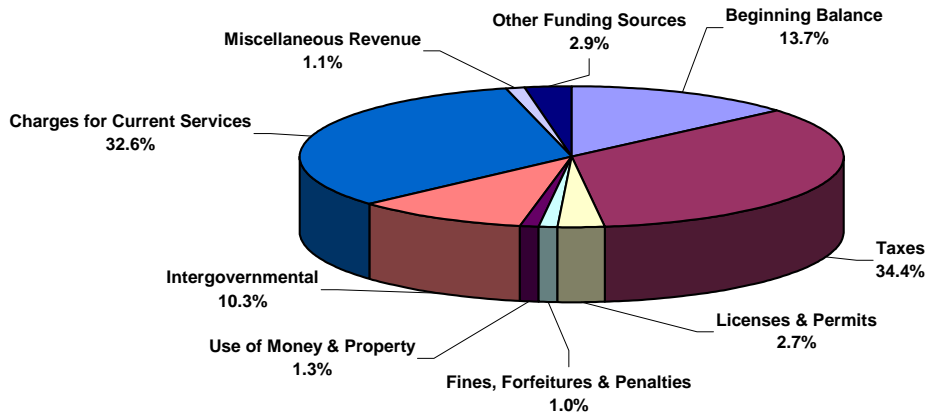
In order to meet the needs of utility customers, comply with mandated programs and account for capital improvement and operational costs, the City last year approved a two-year rate increase for the water and sewer funds. At that time, the Mayor and Council approved a one-year rate increase for Solid Waste with a request to return to the Mayor and City Council with additional information for any rate increases in the FY2004/05.

SUMMARY

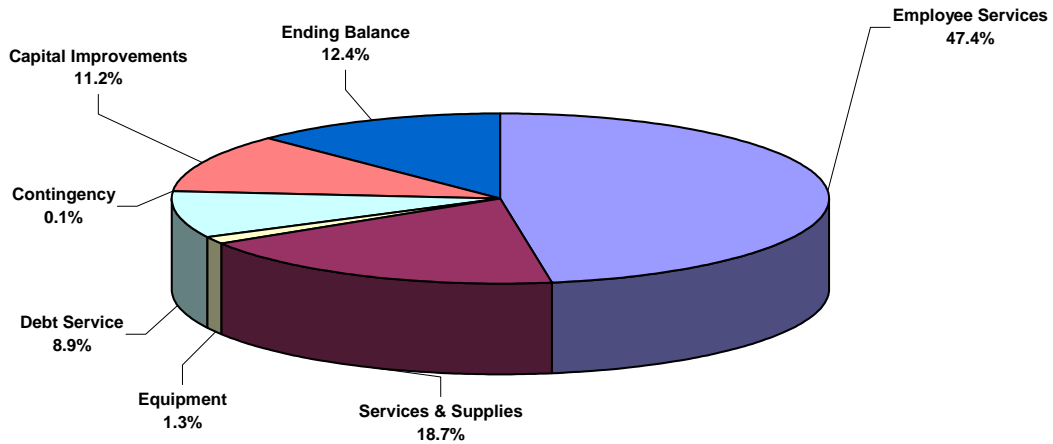
The next several years will be financially challenging for the City, likely requiring further reductions and reallocations in spending. The Mayor and City Council's leadership will once again ensure that the City has a plan for prudently managing its resources in the coming year, as well as position the City of Sacramento for the future.

**Proposed
Total City Budget: \$711 Million**

Resources

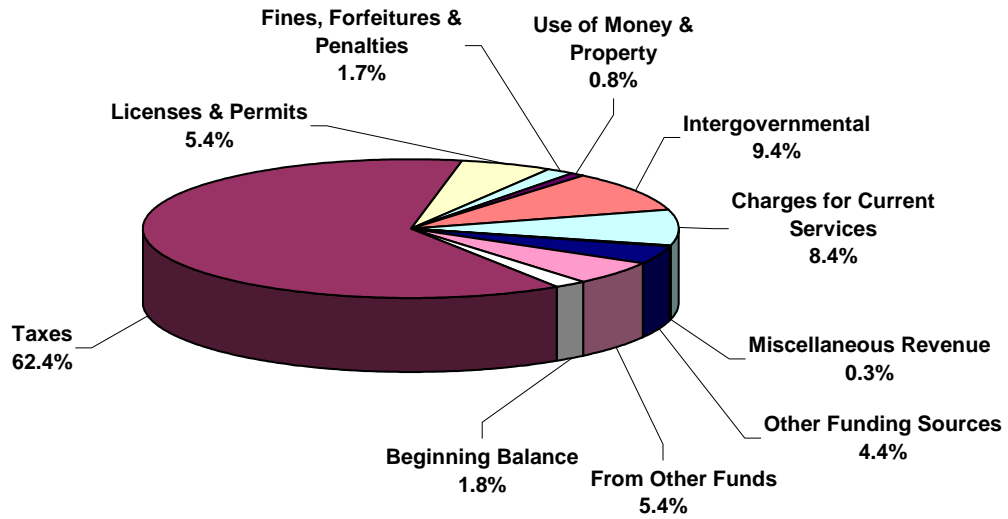


Expenditures



**Proposed
General Fund: \$329 Million**

Resources



Expenditures

