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Honorable Members in Session:

It is my pleasure to submit to you the Fiscal Year 2005/06 Proposed Budget for the City of Sacramento. The Proposed FY2005/06 Budget is balanced and totals \$787.9 million from all funding sources. The Budget funds 4,865 full time equivalent (FTE) positions. The General Fund totals \$351.9 million and 3,594 FTE positions. Also identified are augmentations totaling \$10.8 million and 67 FTE. Of these only \$1.3 million and 7 FTE are funded with General Fund discretionary resources; the remainder are funded with new revenues or cost offsets within the budget.

“Financial Stability through Reinvestment”

The Mayor and City Council’s sustainable budget vision continues to serve our community well by providing long term fiscal stability. The FY2005/06 Proposed Budget is balanced with strategies that are consistent with this vision. The strategies include:

- Addressing and including the Mayor and City Council’s Strategic Plan;
- Using new growth revenues to eliminate the remaining structural gap of \$12.5 Million;
- Identifying growth related augmentations but not funding them until labor contracts have been settled;
- Critical thinking on fiscal actions needed should labor contracts settle above what is budgeted;
- Continuing our citywide Organizational Assessment process in an effort to identify both better business practices and savings to reinvest in new service demands; and
- Recommending strategic reorganizations that provide operational and service improvements with a focus on customer service.

Fiscal Sustainability

The Mayor and City Council have been on a path to mend the City’s structural imbalance over the last couple of years. In FY2003/04, staff identified a structural gap estimated at \$25 Million. The Mayor and City Council approved a two year fix of this gap beginning in FY2004/05. The first year included increased revenues, cost savings strategies, and some minor departmental reductions. The second year plan, in FY2005/06, called for an additional \$12.5 Million in reductions or increased revenues in order to close the remaining gap. Due in large part to the new growth in Sacramento, sufficient new revenues are projected that will allow for a balanced budget without further reductions or use of reserves.

It is critical to understand that assumptions used to balance the FY2005/06 Proposed Budget and to maintain a sustainable budget course include:

- New growth revenues are used to close the remaining \$12.5 Million of the structural imbalance;
- Costs for labor above what is included in the budget will require reductions sufficient to cover any deficits;
- Augmentations identified with this budget will not be implemented until labor contracts settle and only if labor contracts settle within budget;
- Reserves for increasing retirement costs have been used to smooth in continuing increases in pension rates;
- Revenue projections in the five year General Fund Forecast have been adjusted for new growth that allows for base budget increases; and
- Growth related service demands will continue to place cost pressures on the City's budget in the coming years.

Sustainable Budget Concept

Through the leadership and foresight of the Mayor and City Council, the City of Sacramento has maintained a sustainable budget philosophy which has resulted in fiscal stability for the City in times when many other jurisdictions are facing serious budget deficits.

The sustainable budget concept calls for:

1. Incorporating the Mayor and City Council goals and objectives through the City's Strategic Plan;
2. Assuring that on-going costs do not exceed on-going revenues;
3. Using one-time funding opportunities for one-time projects and expenditures;
4. Establishing an Economic Uncertainty Reserve for use in recessions or economic downturns to minimize impact on services to the community;
5. Strategic uses of reserves when necessary; and
6. Developing a balanced budget.

The guidance and direction of the Mayor and City Council has resulted in the adoption of balanced budgets without negative impacts on city services and augmentations critical to meeting the demands of a growing City. To successfully continue on our sustainable budget course, it is imperative that we maintain vigilance over:

Labor costs – Interest arbitration is in progress with one employee union and all the remaining contracts expire at the end of the current fiscal year. Labor costs above budget will require further consideration and possible reductions to meet any labor driven deficits.

Health costs – Not unlike the rest of the nation or state, the City faces higher costs in providing health insurance for employees and retirees. The Proposed Budget is based on the current subsidy levels and cash back payments. Efforts and recommendations to reinvest in health plans will need to continue with a goal to spend health care dollars on health care for our employees.

State Budget actions – Proposition 1A provides the City and all local government a high degree of protection from further state diversions of local tax revenues and a return on one-time and on-going revenue in Fiscal Year 2006/07. But the State may still take actions impacting revenues. At risk is grant funding for various programs, both operating and capital, and jail booking fee reimbursements of

approximately \$2.0 million per year. In the FY2005/06 Proposed Budget \$2.0 million is set aside for potential loss of jail booking fees.

Federal Budget actions – At risk in Federal Budget proposals is Community Development Block Grant Funding (CDBG). The President’s budget proposal called for a 50 percent reduction in funding. This would result in a \$3.3 million loss for SHRA and City programs.

Augmentations Pending – “the labor contract trigger”

The same good news that provides sufficient new growth revenues to close the City’s structural imbalance presents a service demand challenge. The City is growing at a faster rate than expected bringing with this growth demands for services. Because a significant portion of new revenues are being used to fix the structural gap, future revenue growth will be needed to meet increasing service demands. Thanks to some advance planning and the strategic use of grants, the public safety operations have increased over the last couple of years. However, other services such as code enforcement, park maintenance, libraries, road and traffic maintenance, and other general fund activities still need to be increased in our growth areas.

Included in the FY2005/06 Proposed Budget document are augmentations that are considered high priority in addressing service demands. These augmentations will only be implemented or “triggered” if labor contracts settle within our budgeted resources. A detail listing of these augmentations is included in the “Budget Overview” section of the proposed budget. Since labor contract costs cross all departmental lines, all the recommended augmentations, General Fund as well as non General Fund, will not be implemented until labor costs are known.

If labor costs settle above what is budgeted, the following criteria will be necessary to eliminate any deficits:

- Departments will need to cover labor costs above budget using their own resources;
- Funding for augmentations will be used for labor costs and augmentations will not be “triggered”;
- Department savings through the Organizational Assessment process will need to be used for labor;
- State legislation provides for the return of \$6.0 Million (State shift of property taxes) that may be needed for labor in lieu of the anticipated General Fund Capital Improvement Program; and
- Reserves will be needed to smooth in departmental reductions.

Improved Customer Service through Reinvestment

Several reorganizations have been identified and are recommended with the FY2005/06 Proposed Budget. These reorganizations have been developed with the goal of improving customer service and include:

1. Consolidation of solid waste collection and utility billing into the Department of Utilities;
2. Transfer of City Operator to the Department of General Services as the first phase towards developing a citywide 311 operation;
3. Police and Fire administrative support consolidation;
4. Business improvements in the Development Services Department;
5. Creation of a Code Enforcement Department; and
6. Implementing a new division in Parks and Recreation for Urban Forestry and continued support for the City’s reforestation plan.

Sacramento Organizational Assessment Process (SOAP)

The organizational improvement process identified with the FY2004/05 Budget, known as SOAP, is an on-going effort by all operating departments that identifies savings through improved business practices that allows for reinvestment at the department level. Because one of the major challenges for departments is the ability to provide services in growth areas, all departments continue using the SOAP process to achieve savings and reinvest in new service demands. Within each of the department detail sections of the budget is information related to such efforts.

Pending Opportunities

New capital improvement project funding – The state’s diversion of \$6 million in city property tax revenue for two years presents the City with a funding opportunity. The property taxes are to be returned to the City in Fiscal Year 2006/07. It is appropriate to consider using the returned tax revenue to support a debt financing to secure capital improvement funding of approximately \$60 - \$70 million for neighborhood and citywide reinvestment. In the fall of 2005, the process for identifying potential for this funding will be done in a comprehensive manner with extensive community outreach and City Council involvement. This initiative; however, is pending the outcome of labor negotiations and contract settlements.

Additionally, the opportunity to evaluate the creation of a Waterfront Improvement Team to further the adopted Waterfront Master Plan will be presented to the Mayor and City Council in the coming months.

Accomplishments

Due to the leadership and fiscal foresight of the Mayor and City Council, the City has been able, in the past year and with the Proposed Budget, to meet very difficult budget challenges. The City is not in a crisis reaction mode of fiscal operation; we are proactive in meeting past and future fiscal issues. Budget gaps have been closed with a broad approach including use of funds previously set aside, staffing costs have been reduced when necessary through hiring controls rather than layoffs, new revenue opportunities have been identified and implemented, organizational improvements have enhanced service delivery and reduced costs.

Over the last two years the Mayor and City Council have been able to expand services to meet the needs of a growing City. Real strides have been and are being made to provide services to the tens of thousands of new city residents. The Police Department has added 67 officers. Two fire companies have been funded. Parks maintenance funding has been increased to provide for all the new parks. The fiscal vision that has allowed us to accomplish so many critical initiatives will be necessary to assure our citizens continued quality of life in the City of Sacramento.

Respectfully submitted,



Robert P. Thomas
City Manager