

PROPOSED BUDGET OVERVIEW

The FY2005/06 Proposed Budget is balanced and totals \$787.9 million from all funding sources. The Budget includes 4,865 full time equivalent (FTE) positions. The General Fund totals \$351.9 million and 3,594 FTE positions.

OVERALL FINANCIAL OUTLOOK FOR THE CITY OF SACRAMENTO

The overall financial outlook for the City of Sacramento is improving. In developing the FY 2005/06 Proposed Budget and planning from a multi-year perspective, the City has to deal with both known financial challenges and major budget uncertainty. The Mayor and City Council's fiscally responsible and sustainable budget philosophy and direction have allowed the City to deal with known financial challenges and to be well positioned to cope the major budget uncertainty.

STRATEGIC PLAN

The Mayor and Council have adopted a Strategic Plan for the City of Sacramento. Set forth is a Vision Statement, Three-Year Goals, and Core Values. The summary of the Strategic Plan is attached to this Budget Overview.

GENERAL FUND REVENUES

The City has managed the financial challenges and prepared for the budget uncertainty through a combination of fiscal discipline and very strong growth in General Fund revenues. Over 70 percent of all General Fund spending is supported with major tax revenues. These tax revenues, and the annual changes to these tax revenues, are rooted in the overall performance of the economy.

Both California and the Sacramento Region are experiencing economic growth. Decline, stagnation, and then growth have been the trend since 2001. According to published economic evaluations and forecasts, trends in the statewide and local economies are positive. Employment, which declined from 2001 to 2003, has been increasing resulting in declining unemployment rates. Statewide unemployment has decreased from 7 percent to 5.4 percent. Statewide taxable sales mirror the trends in employment. Statewide taxable sales increased by over 10 percent in the fourth quarter of 2004 and 8.7 percent in calendar 2004. .

Within the Sacramento Region, overall employment growth has come in the private sector with an average annual increase of 13,000 jobs in the past year. After reductions since 2003, recently there has been a slight increase in public sector employment.

Within the Sacramento Region there has been unprecedented growth in home prices, developable land prices, and new construction. This has resulted in double digit growth in values on the County Assessor's Tax Roll for four years.

For FY2005/06 General Fund revenues are estimated at \$347.2 million, an increase of \$38 million, or 12.6 percent over the levels in the current year Approved Budget. This growth is fueled by the physical expansion of the City and the rapidly escalating market values of homes and other real estate in the City and the Sacramento Region. The growth is spread over two years, with new revenues being recognized in the FY2004/05 Midyear Review as well as in the FY2005/06 Proposed Budget. The annual changes and growth rates in property taxes, sales tax, and vehicle license fees (VLF) are skewed by the state's redistribution of local revenue as ratified in Proposition 1A.

The property tax estimates are based on a projected 14 percent increase in the Assessor's Tax Roll within the City. Growth was 8.4 percent in FY2003/04 and 12 percent in the current year. Tax roll values of property within the City have increased over one-third in just three years.

It is important to note that these growth rates are not sustainable. Over the next few years, within the time frame of the Five Year General Fund Forecast, it is likely that the increases in market values of homes and other properties will slow as will the overall rates of new construction and property resale.

Taxable sales within the City are projected to grow by 5 percent in both the current year and FY2006. This matches the actual growth in calendar year 2004. This growth is consistent with inflation and population growth, but no more. The growth rate is well below regional and statewide levels. Sales tax is a weak area in the City's revenue stream with per capita sales tax below regional averages, and growth less than both statewide (8.7 percent) and regional (10 percent) averages.

Utility User Tax (UUT) revenues are growing due to both utility rate increases and a growing number of utility users within the City. For the FY2005/06 Proposed Budget, UUT is expected to grow by \$2.1 million from projected current year collections, or 4 percent.

VLF, or car tax, revenue has declined in importance due to the VLF rate reduction and the replacement of the backfill direct payments from the State with an increased share of local property taxes. The FY2005/06 estimate is \$4.7 million, with \$24.8 million in backfill included in the property tax estimates.

IMPACT OF STATE BUDGET

The potential impacts of State Budget actions on the City are much less than in recent years due to the limits Proposition 1A places on the State's ability to shift tax revenues and the requirement that any shifts be treated as loans to be repaid. But grants to the City and the jail booking fee reimbursements are still at risk. Proposition 42 funding for transportation is being withheld again in the budget year and is not included in the FY2005/06 Proposed Budget. The General Fund revenue estimates include an assumed \$2 million loss of jail booking fee reimbursement. Until such time as the State solves its budget structural gap, funding for the City will continue to be at risk.

GENERAL FUND EXPENDITURES

The year to year General Fund expenditures reflect both an annual increase in operating costs due to higher levels of employee compensation and benefits and significant growth in staffing levels due to midyear actions and implementation of multi-year plans. Since the FY2004/05 Budget was approved, 97 public safety positions have been added to the budget, 67 police officers and 30 fire staff in two fire companies. The second fire company is included in the Fire Department in the FY2005/06 Proposed Budget.

RESERVE FOR ECONOMIC UNCERTAINTY

The FY2005/06 Proposed Budget continues the Mayor and City Council policy of maintaining a strong Reserve for Economic Uncertainty. The current reserve level is \$29.15 million (8.4 percent of General Fund budgeted revenues). The target level for this reserve is 10 percent of General Fund revenues.

ORGANIZATIONAL AND SERVICE IMPROVEMENTS THROUGH ORGANIZATION CHANGES

The organizational framework for service delivery is not and should not be static. The Proposed Budget includes some organizational changes which will improve service delivery with no new costs. In time, these changes will result in savings or the potential to further enhance service delivery at no new cost. The implementation of these organizational changes is reflected in the FY2005/06 Proposed Budget through the transfer of positions and funding among departments, the reclassification of positions, the reallocation of resources within departments and higher revenues.

Utility Service Consolidation into the Department of Utilities

The Departments of Utilities (water, sewer and drainage), General Services (solid waste collection and garden refuse) and Finance (utility billing services) provide collective administrative, operations and customer services for approximately 123,000 residential and commercial accounts. To eliminate redundancies and improve service coordination these functions will be consolidated into the Department of Utilities. This consolidation will improve service delivery and increase customer service quality, and will ultimately reduce costs.

City Operator Transfer to the Department of General Services

In order to centralize city call centers the City Operator will be transferred from the Department of Utilities to the Department of General Services. This is part of an ongoing effort to improve access to City services for residents and businesses. The City operator (311) will provide accurate after-hour information about City services, locations, telephone numbers, hours of operation and general information. This consolidation will also ease the number of non-emergency calls currently received through the 9-1-1 emergency system. By reducing this burden on 9-1-1, emergency operations will be able to handle an increased number of calls that need an immediate response.

Police and Fire Administrative Support Consolidation

The Police and Fire Departments, whose headquarters are in the same facility have similar needs in managing payroll, information technology, vehicle fleets, supply and equipment ordering and other administrative and support functions. In the Proposed Budget, a combined administrative unit has been created through the transfer of four Fire Department positions into a consolidated unit in the Police Department. The needs of two growing departments may be met with no new resources.

Development Services Business Improvements

The Development Services Department is developing business improvement practices which will culminate in a new service delivery model. Functional integrated geographic area teams will replace functionally based work units. This team based concept will improve customer service and partnerships with stakeholders by having improved timeliness and predictability of the review and approval processes. The new processes will be seamless and embody a concept to completion process and a team review where all those responsible for various project "sign-offs" are present on the same team and are working together.

Creation of New Code Enforcement Department

The budget includes a new Code Enforcement Department. This will result in a more focused approach to Code Enforcement and more efficient operation of this service.

Urban Forest Division in Parks and Recreation Department

To emphasize the importance of the preservation, restoration, and proactive maintenance of Sacramento's Urban Forest, this function is being elevated to division status within the Parks and Recreation Department. Increased funding for the urban forest is included in the budget augmentations.

ORGANIZATIONAL ASSESSMENT

Each General Fund Department was given a cost reduction target of 2 percent of expenditures to be generated through an organizational assessment. Departments were to examine span of control, reporting hierarchies, alternative staffing patterns, and other ways of operating more efficiently without impacting service levels. The specific actions are identified in the departmental sections of this budget document. Department budgets have not been adjusted to reflect cost reductions resulting from the organizational assessment; rather, the organizational assessment gives budget flexibility by making the resulting savings available for future reallocation within department budgets or to address budget uncertainties.

Implementation of the organizational assessment changes is subject to the "labor contract trigger." Departments will either reinvest the savings into high priority departmental needs or will be used to fund higher costs depending on the settlement of labor contracts.

AUGMENTATIONS

The Proposed Budget identifies a series of budget augmentations; however, actual implementation of these augmentations is being deferred until after labor costs and other budget uncertainties are known. It may be necessary to reconsider implementation of these augmentations. The identified augmentations total \$10.7 million and 67 FTE. The net General Fund portion is \$1.3 million and 7 FTE. The remainder of the potential augmentations would be funded with new revenues or the reallocation of resources within the budget.

Departmental budgets have not been adjusted to include these augmentations, but the financing for them has been identified. The General Fund includes a \$1.3 million set aside for the net cost of the augmentations. The potential augmentations fall into three general categories:

High Priority Net General Fund – These augmentations would be funded with the \$1.3 million set aside in the General Fund Proposed Budget:

Department	Net Cost	FTE	Description
City Attorney	\$405,000	4.0	Recommendation of Staffing Study
Code Enforcement	154,000	1.0	Department Head
Development Services	97,500	1.0	Department Head ½ year
Neighborhood Services	75,360	1.0	Equalize Area Team Staffing
Downtown Ice Rink	50,000	0.0	City Funding
Urban Forest	100,000	0.0	Restoration & Maintenance
Urban Forest Division	15,000		Division Status
Library Maintenance	400,000	0.0	Facility Maintenance
Subtotal Net General Fund	\$1,296,860	7.0	

General Fund, Fee Supported or Cost Offset – These augmentations would be funded with either the recognition of new revenues or the reallocation of funding within the budget:

Department	Augmentation	FTE	Description
General Services	\$850,000	4.5	City Hall Operation
Code Enforcement	1,355,740	13.0	Enhanced Enforcement
Development Services	2,021,900	22.5	Reorganization & New Service Model
Economic Development	234,265	2.0	Program Staff
Parks & Recreation	689,282	6.3	Project Support & Summer Program Support
Transportation	926,224	6.0	Traffic Operations & Parking Enforcement
Subtotal Other General Fund	\$6,077,411	54.3	

Enterprise Fund Augmentations – These would be funded with restricted revenues

Department	Augmentation	FTE	Description
Utilities Base Issues	\$2,837,218	0.0	Cumulative Supply & Energy Costs
Utilities Growth	495,562	5.0	Infrastructure Maintenance
Convention Center	0.00	1.0	Event Coordination
Subtotal Enterprise Funds	\$3,332,780	6.0	

Implementation of these augmentations is subject to the “labor contract trigger.” If the contracts may be funded within available resources, then these augmentations would be implemented. If the contracts exceed available resources, then the augmentations would be reconsidered. Some or all of the resources available for the augmentations could be diverted to fund higher labor costs.

GRANT FUNDED POSITIONS

Grants from the federal and state governments, and other sources support 189 positions in the Police and Parks and Recreation Departments. Attachment A of the Budget Overview lists the grants, the job titles, and the staffing levels associated with the 189 grant funded positions. The expiration of some grants and the replacement of grant funding with City funding is part of the multi-year planning built into the Five Year Forecast. An example is the addition of 67 police officers with partial funding coming from a federal grant. Over time the General Fund will assume the full cost of these positions.

FIVE-YEAR GENERAL FUND FORECAST

The five-year General Fund budget forecast has been updated to reflect the FY2005/06 Proposed Budget. Major assumptions and conclusions follow:

- Expenditure levels in the FY2005/06 Proposed Budget are sustainable into the future including annual increases in base operating costs due to higher employee compensation and benefit costs and some increases in other operating costs.
- The tax revenue estimates in future years are conservative. The tax revenue projections in years two through five of the forecast assume annual reductions in the growth rates of property taxes. The longer term estimates are not based on a continuing real estate boom. The General Fund should have the capacity to support either higher base costs or some service augmentations.
- The return of the \$6 million property tax shift in FY2006/07 is not needed to fund operating costs. This revenue would be available for a neighborhood and community reinvestment debt issue for capital improvement projects.
- The loss of federal grant funding for the new police officers is assumed. The General Fund can absorb this revenue loss.
- The forecast assumes a permanent loss of state funding of \$2 million per year.
- The Economic Uncertainty Reserve has not been included as a funding source in the budget forecast. Other reserves are available for one-time needs or to provide transition funding.

FIVE-YEAR GENERAL FUND FORECAST					
	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10
	PROPOSED	ESTIMATED	ESTIMATED	ESTIMATED	ESTIMATED
Beginning Fund Balance	3,837	215	813	556	363
Revenues					
Taxes	272,714	288,607	297,294	307,160	317,134
Department Operating Revenues	62,273	63,518	64,789	66,085	67,406
All other (VLF, interest etc...)	12,256	12,674	13,059	13,456	13,861
Total Revenues	347,243	364,800	375,142	386,700	398,401
Expenditures					
Department Operating	349,135	358,347	368,987	379,922	391,114
Capital & Other Expenditures	2,590	4,506	5,009	5,512	5,850
Total Expenditures	351,725	362,853	373,997	385,434	396,964
Revenues - Expenditures	(4,482)	1,947	1,146	1,266	1,438
Reserves & Other Sources/(Uses)	2,157	0	0	0	0
Ending Fund Balance	\$1,512	\$2,162	\$1,959	\$1,822	\$1,801
Reserve Pending Year End Results					
Augmentations in FY2005/06	\$1,297	\$1,349	\$1,403	\$1,459	\$1,517
Revised Fund Balance	\$215	\$813	\$556	\$363	\$284

ENTERPRISE FUND OVERVIEW

Rate increases are being proposed for City Utility services in order to meet the needs of utility customers, comply with mandated programs, and fund increasing capital and operating costs. New rate increases are proposed, and a noticed rate hearing will be held during budget hearings. Two year rate increases for Water, Sewer, and Storm Drainage and a one year rate increase for Solid Waste are recommended.

Along with General Fund changes, Enterprise Fund augmentations are identified. The Water, Storm Drainage, and Sewer Utilities have expenditure and staffing adjustments to deal with base budget issues such as increasing chemical, electrical, and gas costs and to deal with the growth of the City and its infrastructure. The augmentations total \$3.3 million and 5 FTE.

The Convention Center is adding an events coordinator position to service the increasing number of events. The position is funded through the reduction of other expenditures in the Convention Center Fund.

2005/2010 CAPITAL IMPROVEMENT PROGRAM

The City's five-year Capital Improvement Program (CIP) is presented in a companion document to the FY2005/06 Proposed Budget. Summary for the overall CIP and detail for the individual projects may be found in that document. The overall funding in FY2005/06 for the various capital projects from is \$105.4 million.

SUMMARY

The Mayor and City Council's leadership have enabled the City to meet three major budget challenges with the FY2005/06 Proposed Budget. The City has closed the structural budget gap, funded significant base budget increases, and addressed high priority growth needs, particularly in public safety. The City is well positioned to meet future budget uncertainty as we move into FY2005/06.

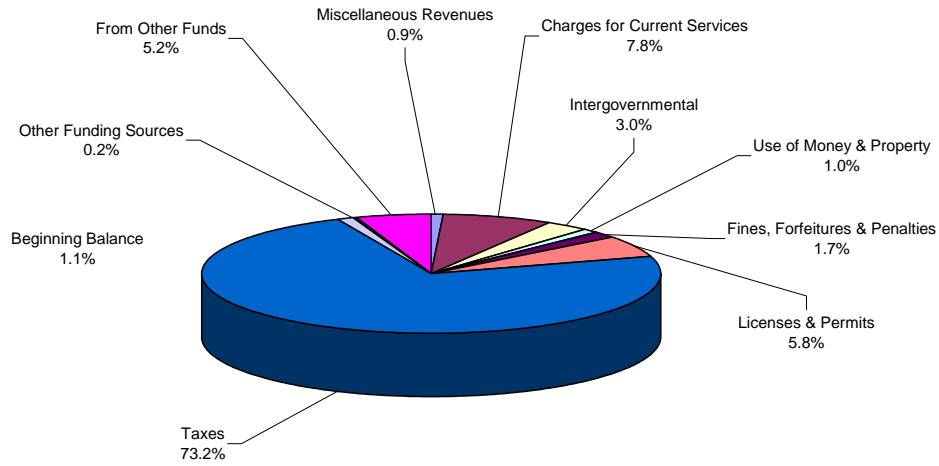
Attachment A

FY2005/06 PROPOSED BUDGET- GRANT FUNDED POSITIONS		
DEPARTMENT OF RECREATION AND PARKS		
Grant	Job Title	FTE
WIA	Human Services Program Coordinator	0.50
WIA	Youth Aide	3.13
Workreation	Human Service Program Coordinator	0.41
Workreation	Sp. Program Leader	1.97
Workreation	Youth Aide	10.56
Summer Food	Clerical Assistant	0.33
Summer Food	Senior Recreation Aide	1.95
Summer Food	Sp .Program Leader	0.46
Summer Food	Program Coordinator	0.50
School Crossing Guard	School Crossing Guards	1.00
School Crossing Guard	School Crossing Guards	3.47
Cover the Kids	Non Career	2.00
Regional Children's Health Project	Non Career	5.50
Regional Children's Health Project	Non Career	5.00
Access Leisure Teen Program	Non Career	5.50
Access Leisure Teen Program	Non Career	9.84
PASSage	Human Services Program Coordinator	3.25
PASSage	Rec. Aide	4.25
START	Program Supervisor	1.00
Department Grand Total:		60.62
POLICE DEPARTMENT		
Grant	Job Title	FTE
Universal Hiring Grant II (Motors)	Sergeant	1.00
Universal Hiring Grant II (Motors)	Police Officers	7.00
Regional Transit (E251)	Lieutenant	1.00
Regional Transit (E251)	Police Officers	6.00
Universal Hiring Grant II (Police Officers)	Police Officers	27.00
Universal Hiring Grant (Police Officers)	Police Officers	40.00
Regional Transit (E270)	Sergeant	1.00
Regional Transit (E270)	Police Officers	7.00
Natomas Resource Officer Program (E252)	Police Officer	1.00
Regional Transit District Program (E238)	Sergeant	1.00
Regional Transit District Program (E238)	Police Officer	6.00

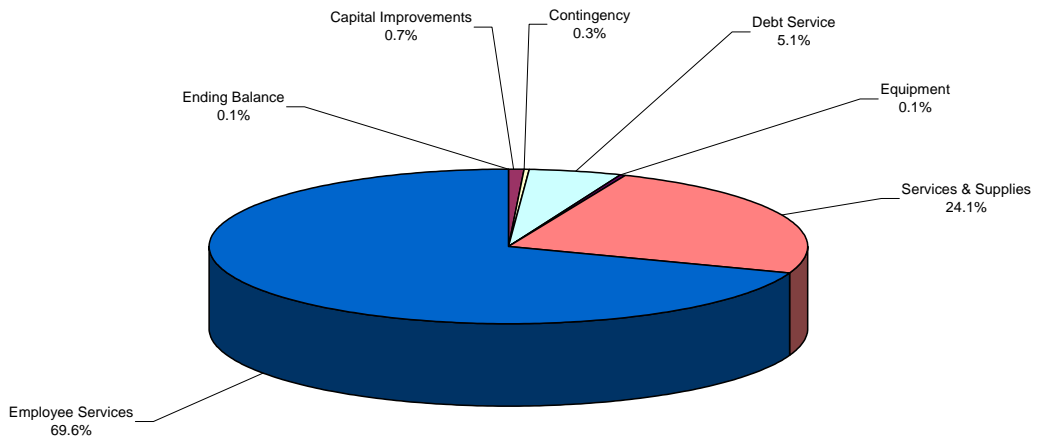
Grant	Job Title	FTE
DMV Vehicle Anti-theft Program	Detectives	2.00
DMV Vehicle Anti-theft Program	Identification Technician III	1.00
Tenant Screening Program	Security Officers	2.50
Kaiser/Wyndham Drive Grant	Police Officer	2.00
River Oaks/New Helvetia Program	Police Officer	2.00
Juvenile Gang Violence Suppression	Detectives	1.00
Franklin Villa Program	Sergeant	1.00
Franklin Villa Program	Police Officer	4.00
SCUSD Resource Officer Program	Sergeant	1.00
SCUSD Resource Officer Program	Police Officer	7.00
USAI #1 - Homeland Security	Administrative Analyst	1.00
USAI #2 - Homeland Security	Applications Development	1.00
USAI #2 - Homeland Security	Administrative Analyst	2.00
USAI #2 - Homeland Security	Police Clerk II	1.00
USAI #2 - Homeland Security	Fire Battalion Chief	1.00
USAI #2 - Homeland Security	Fire Captain	1.00
Department Grand Total:		128.50
GRAND TOTAL		189.12

**Total General Budget:
\$352 Million**

Resources

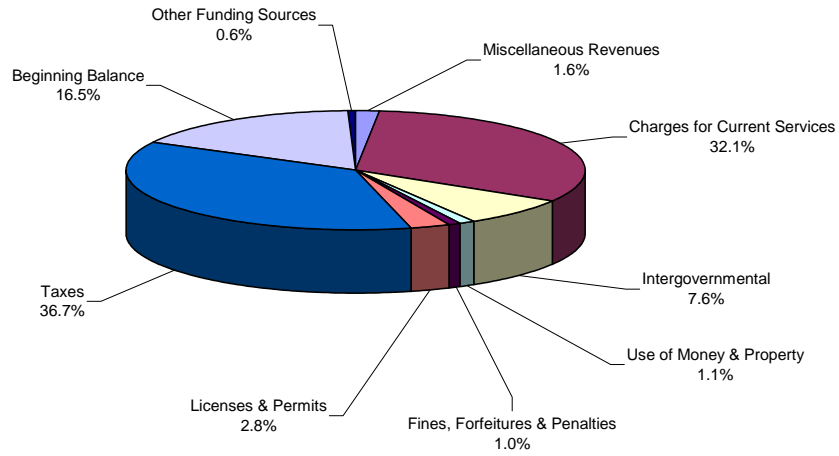


Expenditures

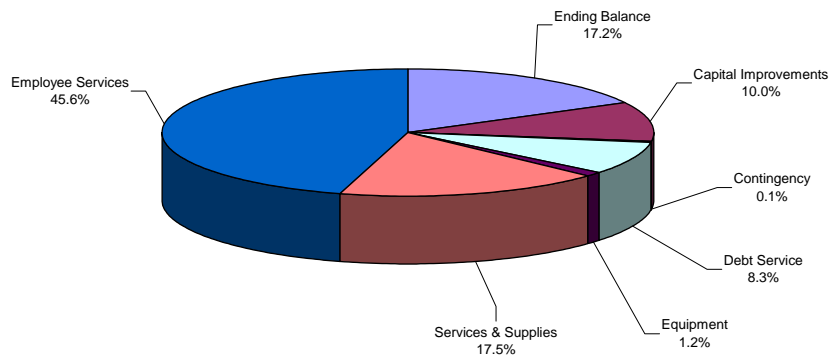


**Total City Budget:
\$788 Million**

Resources



Expenditures



STRATEGIC PLAN

The City of Sacramento's mission is to protect, preserve and enhance the quality of life for present and future generations.

VISION STATEMENT

Sacramento will be the most livable city in America.

THREE-YEAR GOALS

- Improve and expand public safety.
 - Achieve sustainability and livability.
 - Increase opportunities for all Sacramento residents to live in safe and affordable housing.
 - Expand economic development throughout the city.
-

CORE VALUES

The City of Sacramento values (not in priority order):

OUR CUSTOMERS

- We are here to serve our customers. We treat our customers with respect, concern, and appreciation.

OUR EMPLOYEES

- We treat each other with respect. We actively seek employee involvement, commitment and ideas for positive change. We genuinely encourage employees to have balanced lives.

DIVERSITY

- We recognize, respect, and honor our differences.

INCLUSIVENESS

- We respect and honor the interests of diverse groups and individuals. Everyone's opinion has value.

TEAMWORK

- We achieve common goals through cooperation.
- We recognize our strengths and use them for the benefit for all.

COMMUNITY PARTICIPATION AND INPUT

- Our team includes the community. We encourage community members to be a genuine part of the process and we truly seek and value community input and involvement.

FISCAL RESPONSIBILITY

- We safeguard and manage the public's resources with integrity, prudence, and efficiency, to ensure that the City maintains its ability to provide needed services through a balanced and sustainable budget.

INTEGRITY

- We are committed to honesty, fairness, and doing what's right and earning the public's trust.

EXCELLENCE

- We are committed to providing excellent service.

INNOVATION

- We value the freedom to be creative in serving our community. We are willing to take risks.

ACCOUNTABILITY

- We work to enhance the public's trust by accepting ownership and responsibility for our actions.
-