2

SECTION – 2
Budget Overview

APPROVED BUDGET OVERVIEW

The FY2013/14 Operating and Capital Improvement Program (CIP) Budgets were approved by the City Council on June 11, 2013. The Approved Budget totals $838.6 million from all funding sources and supports 4,095.07 authorized full-time equivalent (FTE) positions. The General Fund totals $372.7 million and 2,896.17 authorized FTE, and the Enterprise and other Funds total $465.9 million and 1,198.90 FTE. In the General Fund an $8.9 million budget gap was closed through a combination of workforce reductions (40.0 FTE) and the utilization of $4.2 million in Measure U resources to retain grant-funded police-officer and firefighter positions that would have been eliminated when grant funding expired. The Approved Budget also includes the move of the Marina Fund from an enterprise fund to a special revenue fund and a reduction of 5.0 FTE in the enterprise and other funds.

The following charts summarize the changes to the FY2013/14 Proposed Budget as released on April 29, 2013.

FY2013/14 Appropriation/Augmentation Summary

Department/ Designation	Fund(s)	Fund #	Revenue/ Offset Adjustment	Expenditure Adjustment	Net Change / Savings	Funded FTE Change	Description
Citywide and Community Support	General	1001	$ -	$ (391,500)	$ (391,500)	-	Reduce fund balance
Mayor and City Council	General	1001	$ -	$ 391,500	$ 391,500	-	Increase Mayor and Council operating budgets by $391,500 ($43,500 per member and the Mayor)
Mayor and City Council	General	1001	$ -	$ 88,200	$ -	1.00	Transfer of 1.0 vacant FTE to the Mayor's Office for two-years.
Public Works	General	1001	$ -	$ (88,200)	$ -	(1.00)	Transfer of 1.0 vacant FTE to the Mayor's Office for two-years.
Public Works	General	1001	$ -	$ -	$ -	-	Change two 1.0 FTE Parking Enforcement Officers to four 0.5 FTE Parking Enforcement Officer positions to provide staffing flexibility.
City Treasurer	Assessment Bond Registration	2210	$ (52,207)	$ -	$ (52,207)	-	Reduce revenues in the fund based on anticipated expenditures included in the Proposed Budget.
Utilities	Water	6005	$ -	$ 177,972	$ 177,972	-	Remove labor adjustment that was carried over from prior year in error
Utilities	Wastewater	6006	$ -	$ 108,632	$ 108,632	-	Remove labor adjustment that was carried over from prior year in error
Utilities	Storm Drainage	6011	$ -	$ 951,301	$ 951,301	-	Remove labor adjustment that was carried over from prior year in error
Total Change[1]			**$ (52,207)**	**$ 1,237,905**	**$ 1,185,698**	**-**	

[1]Total reflects the changes from the Proposed FY2013/14 Operating Budget.

FY2013/14 CIP Budget Amendments
(projects and adjustments identified on this schedule will be included in the Approved 2013-2018 CIP)

Project Number	Project Name	Fund	Fund #	Revenue	Expenditure	Net Change	Funding Details
A13000200	Fleet Management Technology Program	Fleet	6501	$ -	$ (75,000)	$ (75,000)	Reduce the FY2013/14 CIP by $75,000 and increase the CIP programming in FY2017/18 by $50,000
B13000100	Fleet Facilities Program	Fleet	6501	$ -	$ -	$ -	Increase the FY2015/16 through FY2017/18 CIP by $325,000 each year
C13000100	Fuel Management & Support Equipment Program	Fleet	6501	$ -	$ (50,000)	$ (50,000)	Reduce the FY2013/14 CIP by $50,000 and increase the CIP programming in FY2017/18 by $100,000
D13000200	Fleet Alternate Fuel Equipment Replacement Program	Fleet	6501	$ -	$ (50,000)	$ (50,000)	Reduce the FY2013/14 through FY2016/17 CIP programming by $50,000 and increase the CIP programming in FY2017/18 by $50,000
L19165100	Sundance Park Improvements	Park Development Impact Fee	3204	$ -	$ (78,400)	$ (78,400)	Delete project from the FY2013/14 CIP as project scope is still being developed
			Total	**$ -**	**$ (253,400)**	**$ (253,400)**	

Essential Services Protection Measure (Measure U)

Voter approval of Measure U in November 2012 authorized an additional one-half cent transaction and use tax effective April 1, 2013. In FY2013/14 Measure U revenues are approximately $27 million based on existing transaction volume and Board of Equalization sourcing rules with receipt of monthly revenues beginning in late June 2013.

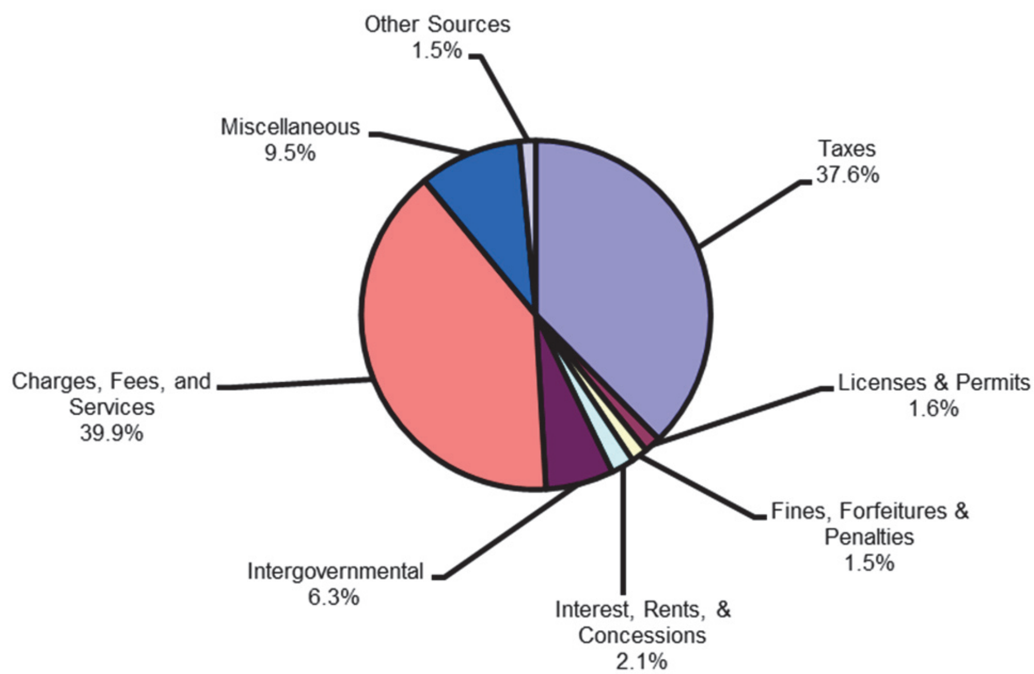
On June 11, 2013, the City Council adopted a six-year Measure U expenditure plan. The restorations in the FY14 column on the following chart are included in the FY2013/14 Approved Budget. Restorations reflected in years FY15 through FY19 are for planning purposes and will be considered with the adoption of the fiscal year budget. Detailed information on the FY2013/14 restorations is provided in the Fire, Police, Parks and Recreation, General Services, and Citywide and Community Support sections of this document.

Measure U Restorations	Cumulative FTE*	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Total
FIRE DEPARTMENT									
SAFER Grant Retention	27.00	-	1,503	2,803	2,803	2,803	2,803	2,803	15,518
January 2013 Brownout - Restoration	12.00	690	1,380	1,449	1,521	1,598	1,677	1,677	9,993
Fire Company Restoration - April 2013	12.00	435	1,652	1,735	1,821	1,821	1,821	1,821	11,106
Fire Company *(Engine 1)* Restoration-July 2013 *(1/2 year funding, revisit FY14 Midyear)*	12.00	-	826	1,735	1,821	1,821	1,821	1,821	9,845
Two Medic Units - January 2014	12.00	-	690	1,450	1,522	1,598	1,678	1,678	8,616
Technology	4.00	-	479	461	461	461	461	461	2,784
Fiscal Support	2.00	-	204	194	194	194	194	194	1,174
Fire Prevention	1.00	-	165	145	145	145	145	145	890
Human Resources	1.00	-	100	100	100	100	100	100	600
Recruit Academy	-	285	570	-	-	-	-	-	855
Additional Medic Revenues	-	-	(300)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(6,300)
Grant Retention for Future Years	-	-	1,300	-	-	-	-	-	1,300
Fire Department Subtotal	**83.00**	**1,410**	**8,569**	**8,872**	**9,189**	**9,341**	**9,500**	**9,500**	**56,381**
POLICE DEPARTMENT									
COPS' Universal Hiring Program Retention	60.00	-	2,734	4,983	5,483	5,483	5,483	5,483	29,649
Field & Operations	46.00	1,500	4,467	5,057	5,283	5,521	5,771	5,771	33,370
Police Officers *(cadets)* - January 2014	15.00	-	604	1,422	1,490	1,638	1,720	1,720	8,594
Investigations	8.00	-	716	850	890	932	976	976	5,340
Forensics	6.00	-	300	621	650	680	712	712	3,675
Communications	4.00	-	200	361	378	396	414	414	2,163
Crime Analysis	1.00	-	100	105	110	115	121	121	672
Grant Retention for Future Years	-	-	2,749	500	-	-	-	-	3,249
Police Department Subtotal	**140.00**	**1,500**	**11,870**	**13,899**	**14,284**	**14,765**	**15,197**	**15,197**	**86,712**
Public Safety Total:	**223.00**	**2,910**	**20,439**	**22,771**	**23,473**	**24,106**	**24,697**	**24,697**	**143,093**
PARKS DEPARTMENT									
Aquatics *(includes the Junior Lifeguard program, added revenues and YMCA savings)*	28.00	406	1,558	1,558	1,558	1,558	1,558	1,558	9,754
Community Centers/Teen Services	22.40	-	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Park Maintenance	21.00	-	1,600	1,600	1,600	1,600	1,600	1,600	9,600
Senior Programs *(Arms, Caring Neighborhoods, Hart Center)*	1.00	-	172	172	172	172	172	172	1,032
Teen Services *(includes Summer at City Hall and 2 additional Hot Spots)*	0.55	-	100	100	100	100	100	100	600
Gang Prevention	1.00	-	50	100	100	100	100	100	550
Capital Investment	-	600	250	-	-	-	-	-	850
Parks Department Subtotal	**73.95**	**1,006**	**4,730**	**4,530**	**4,530**	**4,530**	**4,530**	**4,530**	**28,386**
MISCELLANEOUS RESTORATIONS									
Animal Control Officer	1.00	-	85	85	85	85	85	85	510
Library Restoration	-	506	506	506	506	506	506	506	3,542
Miscellaneous Total	**1.00**	**506**	**591**	**591**	**591**	**591**	**591**	**591**	**4,052**
Total Measure U Restorations	**297.95**	**4,422**	**25,760**	**27,892**	**28,594**	**29,227**	**29,818**	**29,818**	
Annual Reserve		578	1,240	(892)	(1,594)	(2,227)	(2,818)	(7,818)	
Grant Retention for Future Years		-	4,049	500	-	-	-	-	
Cumulative Reserve		**578**	**5,867**	**5,475**	**3,882**	**1,655**	**(1,163)**	**(8,982)**	

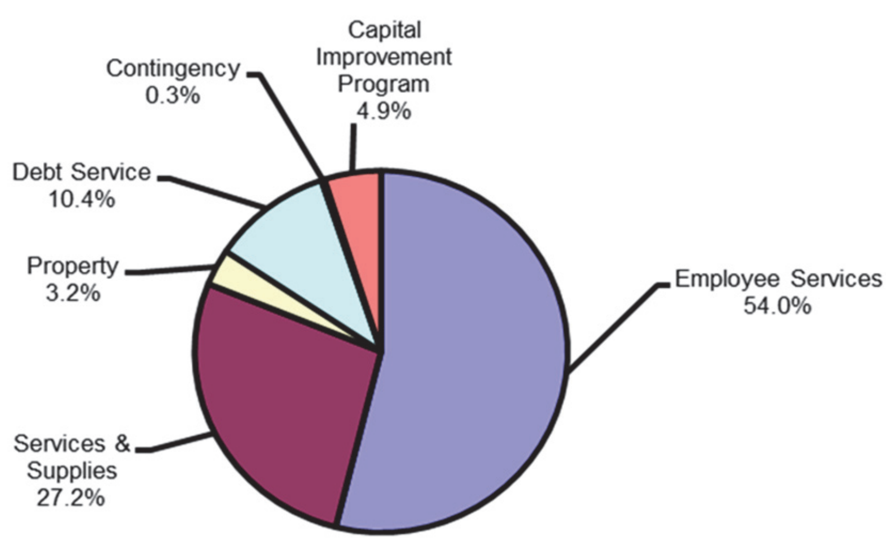
*231.95 FTE are recommended in FY2013/14 in addition to 25.0 FTE approved in FY2012/13 *(1.0 in Parks-Aquatics and 24.0 in Fire)* and 41.0 proposed FTE in future years *(27.0 in Fire and 14.0 in Police)*

Total Approved Amended City Budget: $838.6 Million

Revenue

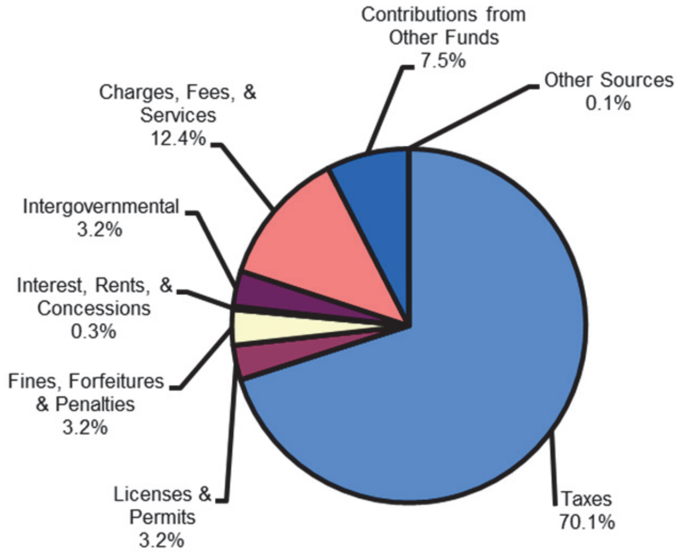


Expenditures

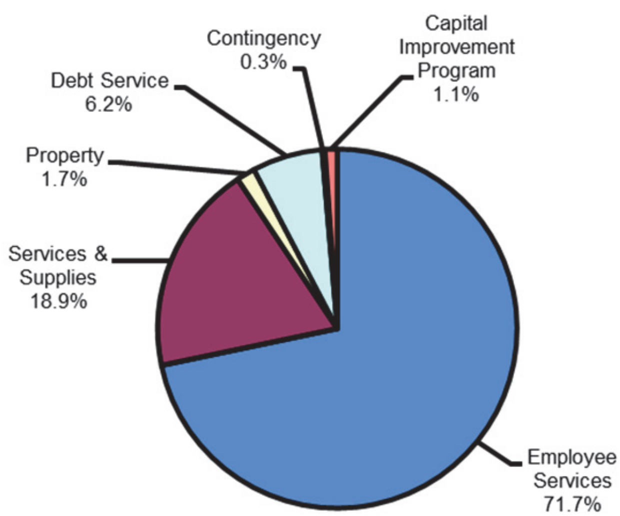


Total Approved General Fund Budget: $372.7 Million

Revenue



Expenditures



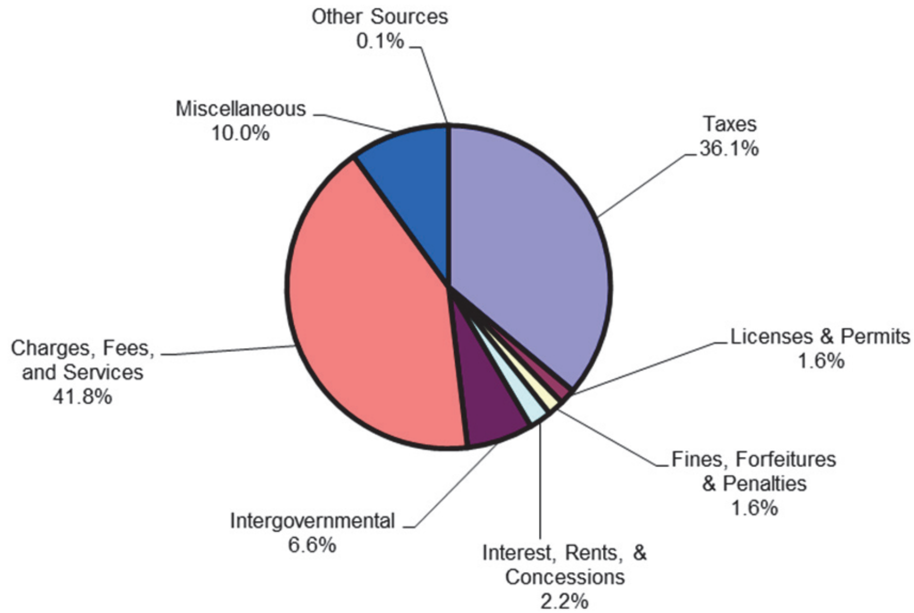
PROPOSED BUDGET OVERVIEW
(As written on April 29, 2013)

INTRODUCTION

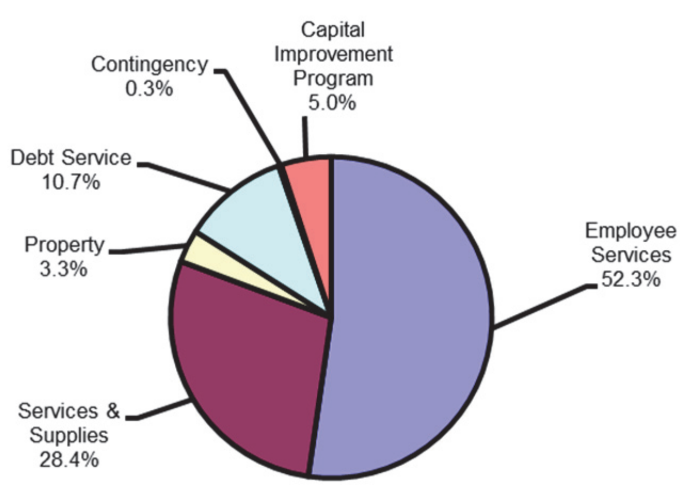
The total budget proposed for FY2013/14 is $819 million from all funding sources and supports 3,831.52 FTE positions. This includes $376 million for General Fund operations and capital projects, and $443 million for operations and capital projects for the City's Enterprise Funds and other fund activities. The budget as proposed does not include the use of the Economic Uncertainty Reserve (EUR).

The following charts provide a summary of the FY2013/14 Proposed Budget of $819 million:

Revenues



Expenditures



Since 2008 the City's General Fund has faced significant challenges as revenues declined precipitously as a result of the Great Recession, while contractually obligated expenditures continued to increase. In response, over the last five years the City has employed a variety of strategies, including the elimination of nearly 1,300 FTE positions, department consolidations, and renegotiated labor agreements, to reduce expenses in order to achieve a sustainable balance.

While there is much anticipation of economic recovery and growth, recent economic data indicate that economic growth in the Sacramento region will be slow, and will generally lag behind national trends and other areas of California. It is encouraging that the latest edition of the Brookings Institution MetroMonitor (March 2013) showed growth in employment in the fourth quarter of 2012; however, unemployment rates remain high, consumer spending is sluggish, and home values are just recently beginning to rise.

Further, while revenues are beginning to grow, personnel costs – the largest expense in the City's budget – continue to grow. California Public Employees' Pension System (CalPERS) has proposed changes in actuarial assumptions and methodology that will cost all CalPERS member agencies millions of dollars in additional costs which are not yet factored into our forecast. A detailed summary of the potential effect associated with these proposals that are currently being considered by the CalPERS Board are outlined in the "On the Horizon – Future Fiscal Challenges" section of this report.

As such, even with the overwhelming support of Sacramento citizens in approving Measure U and the opportunity to restore some of the programs and services that have been cut over the last five years, we will be forced to continue to reevaluate not only how we deliver services and meet citizen needs, but also which programs and services the City can afford to deliver if expenditure growth continues to outpace that of revenue.

THE GENERAL FUND

Base General Fund expenditures absent Measure U resources are forecast to exceed projected revenues for the seventh year in a row resulting in a projected General Fund budget deficit of $8.9 million for FY2013/14.

$ in 000s	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Total Revenues	371,971	379,486	386,044	392,451	399,049
Total Expenditures	380,921	391,761	399,888	407,293	414,246
Annual Operating Surplus/(Deficit)	**(8,950)**	**(12,276)**	**(13,843)**	**(14,842)**	**(15,197)**

Unlike prior years, when the gap resulted from both a decline in revenues and an increase in expenditures, this year the projected gap is exclusively the result of expenditure growth exceeding revenue growth. The chart below outlines the major drivers of the deficit:

	$ in 000s
Major General Fund Revenue Increases	2,710
Employee Services	(4,908)
Fleet Replacement	(2,858)
Expiration of Grant Funding	
Police Officers	(2,734)
Firefighters	(1,503)
Services and Supplies	745
Debt Service	(228)
Capital Improvement Program	(174)
Deficit	**(8,950)**

This estimate is lower than projected in January as the Fire Department was notified of a grant extension that will provide grant resources that were previously thought to be expiring.

Budget Balancing

The primary function of the City is the provision of services to our residents. As a result, the largest portion of the budget is tied to the cost of our employees who provide these services. The Proposed Budget is balanced with a combination of expenditure reductions and the use of Measure U resources to maintain public safety positions, specifically 60.0 police officer and 27.0 firefighter positions that would otherwise be eliminated because of the loss of grant funding.

As identified in the chart below outlining the drivers of the deficit, the cost to the General Fund to continue to fund previously grant-funded positions accounts for $4.2 million of the deficit. As such, the Proposed Budget includes the use of $4.2 million in Measure U resources to fund the previously grant-funded public safety positions to avoid more public safety employee and service reductions.

	$ in 000s
FY2013/14 Deficit	(8,950)
All Employees Pay PERS	5,000
Other Sources/Uses - Arts Stabilization	105
Measure U - Restoration of Grant-funded FTE	
Police Officers	2,734
Firefighters	1,503
Ending Fund Balance	**392**

Currently, 70.9% of the net General Fund budget is dedicated to funding employee services. Aside from the outright elimination of funded positions, the City has a very limited ability to reduce the cost of labor absent the cooperation of the City's employee groups.

As we approach our employee groups relative to cost reduction options, we are committed to the principles of fairness and consistency to all of our employees. As such, the Proposed Budget continues to pursue the guiding principle that all of our bargaining groups should share equally in contributing to a solution to the City's immediate and long-term fiscal challenges by asking all employees to pay the employee share of the required retirement contributions to CalPERS.

As of July 31, 2012, the following groups have agreed to pay their required CalPERS contribution, effectively saving the City $9.2 million in the current year and in every succeeding fiscal year:

- Mayor and City Council (unrepresented)
- Executive Management (unrepresented)
- Sacramento Area Fire Fighters, Local 522
  (*except for the cost associated with reporting the employee share as salary*)
- Sacramento City Exempt Employees Association (SCXEA)
- Stationary Engineers, Local 39

However, to date, the following labor groups have not yet agreed to pay the entire employee cost of the required contribution. As identified in the chart above outlining the drivers of the deficit, the expense associated with the City continuing to pay for this benefit for these employees amounts to $5.0 million of the budget deficit.

- Auto, Marine and Specialty Painters, Local 1176
- International Association of Machinists and Aerospace Workers
- Sacramento Police Officers Association
- Sacramento Sierra Building and Construction Trades Council
- Western Council of Engineers

As was pursued in the development of the FY2012/13 budget and in the spirit of the guiding principles outlined above, each of these organizations has been asked to have their members begin paying the employee contribution effective July 1, 2013, saving the General Fund $5.0 million and effectively reducing the forecasted deficit by a like amount. This proposal would also minimize workforce reductions.

However, when this Proposed Budget was prepared, no agreements with the above groups had been reached. Therefore, the Proposed Budget includes the workforce reductions necessary to close approximately $5 million of the budget gap. If agreements are reached quickly, the City Council can restore all or most reductions related to closing the budget gap, identified as "Budget Reductions" in the chart below, at the time of final budget adoption.

The following chart provides an overview of the General Fund FTE changes included in the Proposed Budget by department:

Department	Budget Reductions	Reorganizations, Grant & Other Changes	FY2013/14 Proposed Changes
Mayor/Council	-	1.00	1.00
City Attorney	-	(1.00)	(1.00)
City Clerk	-	2.00	2.00
City Manager	-	1.00	1.00
City Treasurer	-	-	-
Citywide & Community Support	-	-	-
Community Development	-	(2.00)	(2.00)
Convention Culture & Leisure	-	2.57	2.57
Economic Development	-	-	-
Finance	-	6.00	6.00
Fire	(4.00)	-	(4.00)
General Services	(1.00)	(5.50)	(6.50)
Human Resources	-	1.00	1.00
Information Technology	-	1.00	1.00
Parks & Recreation	-	(2.94)	(2.94)
Police[1]	(33.00)	(73.00)	(106.00)
Public Works	(2.00)	(2.00)	(4.00)
Grand Total	**(40.00)**	**(71.87)**	**(111.87)**

[1] includes 60.0 FTE Police Officers funded by CHRP/CHP grants that can be restored upon demonstration of citywide reductions.

The following chart provides an overview of the General Fund FTE changes included in the Proposed Budget by bargaining unit:

Bargaining Unit	Change in FTE
Auto, Marine, and Specialty Painters, Local 1176	(1.00)
Sacramento - Sierra Building and Construction Trades Council	(1.00)
Sacramento City Exempt Employees Association (SCXEA)	(1.50)
Sacramento Firefighters, Local 522	(4.00)
Sacramento Police Officers Association[1]	(100.00)
Stationary Engineers, Local 39	(3.20)
Unrepresented	(0.17)
Western Council of Engineers	(1.00)
Grand Total	**(111.87)**

[1] includes 60.0 FTE Police Officers funded by CHRP/CHP grants that can be restored upon demonstration of citywide reductions.

Detailed information on the proposed reductions and the associated positions and effects on service levels is included in each department's section of the Proposed Budget.

The Proposed Budget also includes limited expenditure increases to fulfill prior contractual obligations with SCXEA ($1.0 million), address rising utility and energy costs ($150,000), and funding for the following strategic initiatives:

- Account Based Health Plan (ABHP) incentive – The ABHP is one of the City's solutions to lowering future healthcare costs, as employees will share in the risks/rewards of healthcare choices. ABHPs allow employees to make tax-free contributions to a Health Savings Account (HSA) in order to offset eligible medical expenses allowing employees to make decisions about how their healthcare dollars are spent. The goal is that employees as consumers with choices will look for alternatives to minimize costs. As an incentive to encourage employees to participate in an ABHP, the FY2013/14 budget includes funding ($600,000) to help employees pay part of the deductibles they face with the ABHP. This contribution would be made only to the employee's HSA. Additional information is included in the On the Horizon-Future Fiscal Challenges section below.
- Affordable Health Care Act (ACA) implementation – Staff (1.0 FTE) has been added to address the significant amount of compliance involved to avoid penalties for failure to offer eligible employees affordable health care coverage.
- City Clerk – Staff (2.0 FTE) have been added to address workload associated with responding to citywide Public Records Act requests which now average 2,900 annually, management of citywide records, and efforts associated with contract streamlining.
- City University – Staff (1.0 FTE) has been added to reestablish the City's internal training program to ensure that City staff continues to be current and properly trained in their positions, enabling the workforce to perform at maximum capacity. City University will provide proactive supervisory and management training programs and offer subject specific training by employees for employees on the City's operational and business processes. Additionally, City University will be responsible for ensuring that all City staff meets the regulatory training requirements pertinent to their specific positions, thereby minimizing risk to the City.
- Executive Management – Resources ($184,000) are included to address salary/equity issues similar to resources set aside for the SCXEA.
- Mayor and City Council - Staff (1.0 FTE) has been added to coordinate public outreach efforts for the Mayor. Additionally, resources ($60,000) are included to address salary/equity issues similar to resources set aside for the SCXEA.
- Procurement Services – Moves Procurement Services from the Department of General Services to the Department of Finance. Alignment of procurement within Finance will streamline the procure-to-pay process under a single management structure. This will allow better coordination and customer service to better serve our internal customers and vendors.

Detailed information on the proposed changes is included in each department's section of the Proposed Budget.

We have also reallocated existing expenditure requirements to reflect actual costs of health care benefits by using the City's contractual contributions rather than utilizing employee paycheck information and updated workers' compensation (WC) rate methodology based on WC losses over the past five years to the FY2013/14 payroll by job classification. Based on this analysis, the City's WC collection requirement as recommended by an independent actuary, was redistributed to more effectively target higher at-risk job classifications. These changes have resulted in variations in department labor budgets from the current year.

FY2013/14 Measure U Restorations

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of an additional one-half cent transaction and use tax effective April 1, 2013. While the Measure U funds will provide the resources to protect vital services and begin to restore, on a limited basis, some programs and services, it is important to recognize and understand the financial reality that our community's needs and priorities continue to eclipse available resources.

The Proposed Budget for Measure U resources reflects the annual costs of programs and services Council approved on March 12, 2013, as well as the addition of substantial resources to the Fire, Police, and Parks and Recreation Departments. The following chart summarizes the proposed restorations and associated FTE for FY2013/14:

Proposed FY2013/14 Measure U Restoration Plan

Department/Agency	FTE	FY2013/14
Fire[1]	20.00	7,458
Police[2]	46.00	11,266
Parks and Recreation	74.90	4,408
General Services	1.00	85
Sacramento Public Library Authority	-	506
Total Proposed Restorations	**141.90**	**23,723**
Reserve		3,277
Total Allocation		**27,000**

[1] Includes $1.5 million reserve for restoration of grant-funded FTE (SAFER)

[2] Includes $2.7 million reserve for restoration of grant-funded FTE (CHRP/CHP)

The multi-year proposal outlined on the following page provides for the reasonable phase-in of services to reflect recruiting and training timelines as recommended by Police and Fire Department management. Reserving dollars in early years and setting aside funding that will be required in future years, provides for the accumulation of Council's approved reserve levels and provides a resource for the inevitable transition to the base General Fund when Measure U expires in FY2019/20. This issue is discussed in further detail below.

Aside from the allocation of resources to preserve previously grant-funded positions, no additional Measure U resources are recommended to be allocated to the Police Department until such time as employees not paying the employee share of the required CalPERS contribution do so.

MEASURE U RESTORATION PLAN

Growth in Revenues and/or Expenditures is not included - all dollars are based on FY2012/13 values
FTE represent the total positions to be added and will be phased in over multiple fiscal years.

Measure U Revenues (***$s in 000s***)		5,000	27,000	27,000	27,000	27,000	27,000	22,000
Measure U Restorations	**FTE**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
FIRE DEPARTMENT								
SAFER Grant Buyback	24.00		1,503	2,803	2,803	2,803	2,803	2,803
Recruit Academy	-	285	285	285	-	-	-	-
January 2013 Brownout - Restoration	12.00	690	1,380	1,449	1,521	1,598	1,677	1,677
Fire Company Restoration - April 2013	12.00	435	1,652	1,735	1,821	1,821	1,821	1,821
Fire Company Restoration - July 2014[1]	12.00	-	-	826	1,735	1,821	1,821	1,821
Grant Retention for Future Years	-	-	1,300	-	-	-	-	-
Fire Prevention	1.00	-	165	145	145	145	145	145
Fiscal Support	2.00	-	204	194	194	194	194	194
Human Resources	1.00	-	100	100	100	100	100	100
Technology	4.00	-	479	461	461	461	461	461
Two Medic Units - January 2014	12.00	-	690	1,450	1,522	1,598	1,678	1,678
Additional Medic Revenues	-	-	(300)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)
Fire Department Subtotal:	**80.00**	**1,410**	**7,458**	**8,248**	**9,103**	**9,341**	**9,500**	**9,500**
POLICE DEPARTMENT								
Field & Operations[2]	49.00	1,500	4,813	5,371	5,639	5,921	6,217	6,217
Investigations	9.00	-	320	1,023	1,022	1,073	1,126	1,126
Forensics	6.00	-	650	650	650	650	650	650
Grant Retention for Future Years	-	-	2,749	500	-	-	-	-
COPS' Universal Hiring Program Retention	60.00	-	2,734	4,983	5,483	5,483	5,483	5,483
Police Department Subtotal:	**124.00**	**1,500**	**11,266**	**12,527**	**12,794**	**13,127**	**13,477**	**13,477**
Public Safety Total:	204.00	2,910	18,724	20,774	21,897	22,468	22,977	22,977
PARKS DEPARTMENT								
Aquatics[3]	32.00	406	1,644	1,644	1,644	1,644	1,644	1,644
Capital Investment[4]	-	600	250	-	-	-	-	-
Community Centers/Teen Services	21.90	-	1,000	1,000	1,000	1,000	1,000	1,000
Gang Prevention	1.00	-	50	100	100	100	100	100
Park Maintenance	21.00	-	1,600	1,600	1,600	1,600	1,600	1,600
Additional Pool Revenues[5]	-	-	(50)	(50)	(50)	(50)	(50)	(50)
Operational Savings[6]	-	-	(86)	(86)	(86)	(86)	(86)	(86)
Parks Department Subtotal:	75.90	1,006	4,408	4,208	4,208	4,208	4,208	4,208
MISCELLANEOUS RESTORATIONS								
Animal Control Officer	1.00	-	85	85	85	85	85	85
Library Restoration	-	506	506	506	506	506	506	506
Miscellaneous Total:	**76.90**	**1,512**	**4,999**	**4,799**	**4,799**	**4,799**	**4,799**	**4,799**
Total Measure U Restorations	280.90	4,422	23,723	25,573	26,696	27,267	27,776	27,776
Annual Reserve		**578**	**3,277**	**1,427**	**304**	**(267)**	**(776)**	**(5,776)**
Grant Retention for Future Years		-	4,049	500	-	-	-	-
Cumulative Reserve		578	7,904	9,831	10,135	9,868	9,092	3,316

[1] Fire currently has 32.0 firefighter vacancies, in addition to 24.0 FTE added in March 2013. Given hiring/academy timelines, full staffing can't be achieved until 2014.
[2] Police currently has 29.0 sworn vacancies. Given hiring/academy timelines full staffing can't be achieved until 2015.
[3] Restoration of 11 pools and 5 wading pools
[4] Fountains, picnic tables, irrigation improvements
[5] Assumes an increase in pool fees which will be recommended during budget discussions.
[6] Staff is working with the YMCA on partnerships for operating up to three city pools.

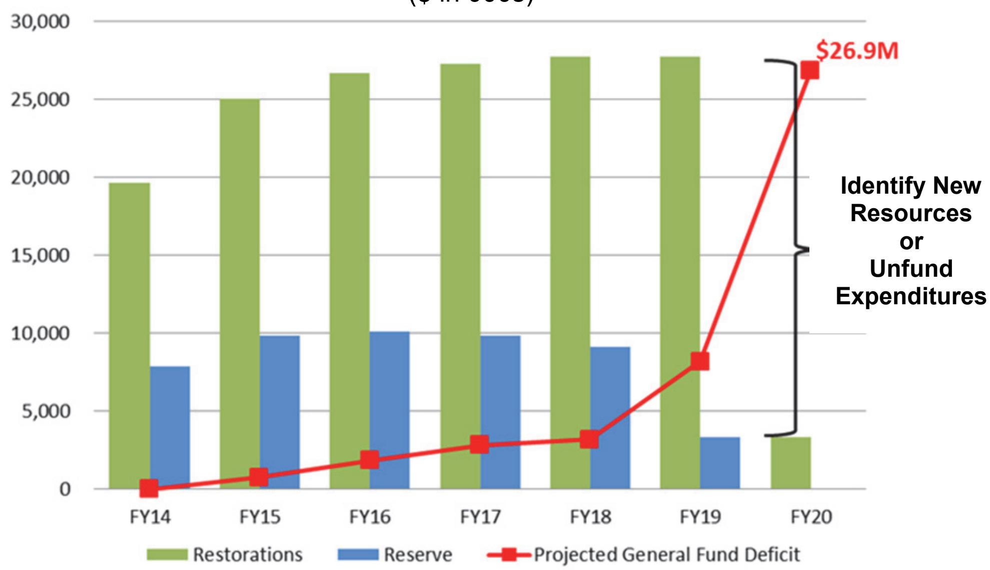
The following outlines the programmatic restorations by Department, additional detail will be provided during budget hearings:

- **Fire** – Funding for the Fire Department in the amount of $6.2 million and restoration of 80.0 FTE will provide the department resources to improve response time by increasing the number of fire companies opened daily (reducing the number of browned out fire companies to one) and the addition of two medics units in the system to address the increasing needs of emergency medical transports. Additionally, the funding provides for the restoration of resources for the coordination of fire prevention services as well as department administrative infrastructure for daily support for field operations.
- **Police** – Funding for the Police Department in the amount of $11.3 million will provide resources for two recruit academies and 64.0 FTE for the restoration and protection of police services. Of this amount, $2.7 million is included in the Proposed Budget to retain previously grant-funded police officers. An additional $2.7 million will be held in reserve to address future year retention requirements. The balance of 5.9 million will be used to restore critical public safety services.
- **Parks and Recreation** – Funding for the Parks and Recreation Department in the amount of $4.4 million and restoration of 75.90 FTE will provide the department the resources to improve park maintenance operations by increasing response times to irrigation system breaks and play equipment repairs, the frequency of litter pickup and restroom cleaning, and turf edging and tree/shrub pruning. As approved in March 2013, these resources will allow the department to continue the operation of eleven City swimming pools and five stand-alone wading pools and provide an additional investment in the capital improvements for park amenities. Additionally, the funding provides for the extension of hours and programs at the City's community centers for youth services as well as grants management and coordination of services related to gang prevention.
- **General Services** – As a result of prior year budget reductions, animal control operations have been reduced while at the same time the population in the City (people and animals) has increased, reducing coverage across the City. The restoration of one animal control officer ($85,000) will provide resources to address critical public safety challenges including animal bites, animal cruelty, and rabies control.
- **Sacramento Public Library Authority Maintenance of Effort (MOE)** – The City's parcel tax for library services (originally approved by voters in 1996 and reauthorized in 2006) provides approximately $4.5 million annually for library services. The voter approved measure includes an MOE that requires prior year reductions to library funding to be restored should the City's non-public safety General Fund programs receive additional funding. Given the above funding recommendations, $506,000 is recommended to be added to the existing General Fund budget of $7.13 million, thereby restoring the Library to the required MOE level of $7.636 million.

It's also important to recognize that any ongoing General Fund reliance on these temporary resources could create an enormous burden when the discretionary tax expires on March 31, 2019, if base General Fund revenues do not grow to exceed forecasted expenditures.

As demonstrated by the chart below, absent significant growth in base General Fund revenues, the City will be challenged with a "fiscal cliff," in FY2019/20 as we will be unable to sustain funding for the proposed restorations. During the development of the FY2016/17 Proposed Budget the City will need to develop a plan to roll back restorations to a sustainable level if actual revenue growth does not exceed expenditures.

Expiration of Measure U Resources
($ in 000s)



The Five-Year Forecast

The forecast provides a multi-year view of revenues and expenditures allowing us to see the fiscal consequences of both prior and current funding decisions in the context of forecasted revenues. Given the Council's sustainable budget policy, proposed fiscal actions are evaluated in a longer-term, rather than a short-term context. As such, the FY2013/14 Proposed Budget for the General Fund must be considered within the context of the five-year forecast.

The following graph depicts the ongoing gap in the General Fund and the growth over the five-year forecast period:

$ in 000s	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Total Revenues	371,971	379,486	386,044	392,451	399,049
Total Expenditures	380,921	386,761	394,888	402,293	409,246
Revenues less Expenditures Subtotal	**(8,950)**	**(7,276)**	**(8,843)**	**(9,842)**	**(10,197)**
Budget Reductions (40.0 FTE)	5,002	-	-	-	-
Other Sources and (Uses)	105	(1,379)	(1,379)	(1,379)	(1,379)
Measure U - Grant Retention (Police/Fire)	4,235	7,891	8,391	8,391	8,391
Annual Operating Surplus/(Deficit)	**392**	**(764)**	**(1,831)**	**(2,830)**	**(3,185)**

General Fund Expenditures

The projected expenditure growth reflects the terms of the current labor contracts relative to lowest cost health care contributions, required step true-ups and compensation increases and anticipated growth related to CalPERS-approved pension cost increases. Revenues are derived from economically sensitive sources, and the five-year revenue forecasts are subject to the same uncertainty and downside risk surrounding national economic forecasts. It is important to note that the City's two major tax revenues, property and sales taxes, trail economic trends.

Finally, the forecast does not include the growth in the 11% general tax on the utility funds resulting from the second year of the rate increase approved in March 2012. Rather, these funds have been set aside for an increase to the Utility Rate Assistance (I14130100) program to offset the additional rate increases for low-income customers. In the current year, these revenues are estimated at $1.1 million, to which an additional $1.4 million will be added in the budget year.

The largest expenditure increase over the five-year period is related to labor expenditures, specifically the City's required pension contributions to CalPERS. The FY2017/18 contribution is expected to be $13 million higher than FY2013/14. This forecast does not include additional CalPERS rate increases that are being discussed at the statewide level that could affect local government in FY2015/16. Additional detail on pending CalPERS increases is provided in the "On the Horizon – Future Fiscal Challenges" section below.

Even with Measure U resources to assist with the restoration of previously grant funded public safety positions, the City will continue to struggle with the challenge to return to long-term structural stability in the General Fund. At this point in time, given current economic trends, it appears that revenue growth will barely keep pace with compounding expenditure growth caused by increasing service demands, escalating personnel costs, and the ongoing operations and maintenance of aging infrastructure.

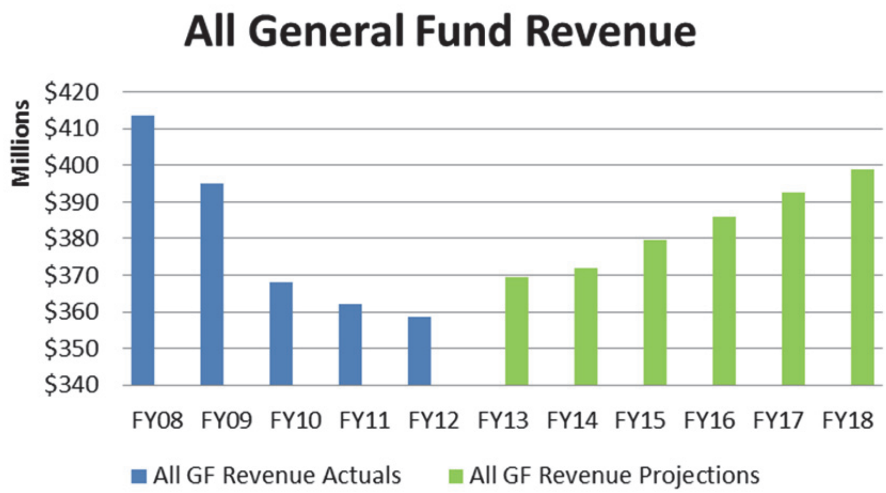
Budget sustainability and the fiscal capacity to address longer-term fiscal issues require that annual base operating cost increases be held to a level below annual revenue growth. The fiscal reality is that given the lack of significant revenue growth in the forecast, current expenditure commitments and anticipated growth are unsustainable.

As a result, the City will need to identify more opportunities to reduce expenditures and/or implement long-term revenue growth strategies in order to address expenditure growth not supported by revenues. It is important to note that the Proposed Budget does not reflect any changes resulting from state and/or county budget actions. Further budget adjustments may be necessary depending on the outcome of those budget processes.

General Fund Revenues

Because the local economy is only just beginning to improve, it is expected that increases in the City's primary revenues, property tax, sales tax, and utility user tax (UUT), will be modest in the coming fiscal year. The revenue portion of the General Fund five-year forecast is projected to grow by approximately two percent per year over the term of the forecast. In the FY2013/14 Proposed Budget, 30% of General

Fund revenues come from property taxes, 17% from sales taxes, and 16% from UUT revenue. The following provides a brief summary of the City's major revenue sources and the current indicators guiding the development of the forecast for that specific revenue type:



Revenue Source	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Property Tax[1]	114,482	116,772	119,107	121,489	123,919
Sales Tax	65,306	67,918	70,634	73,107	75,665
Utility User Tax	58,982	59,572	60,168	60,769	61,377
Other Revenue	133,201	135,224	136,135	137,086	138,088
Total General Fund Revenue	**371,971**	**379,486**	**386,044**	**392,451**	**399,049**

[1]Property tax is defined as current secured, current unsecured, prior secured, prior unsecured, property taxes in lieu of vehicle license fees, and supplemental property taxes.

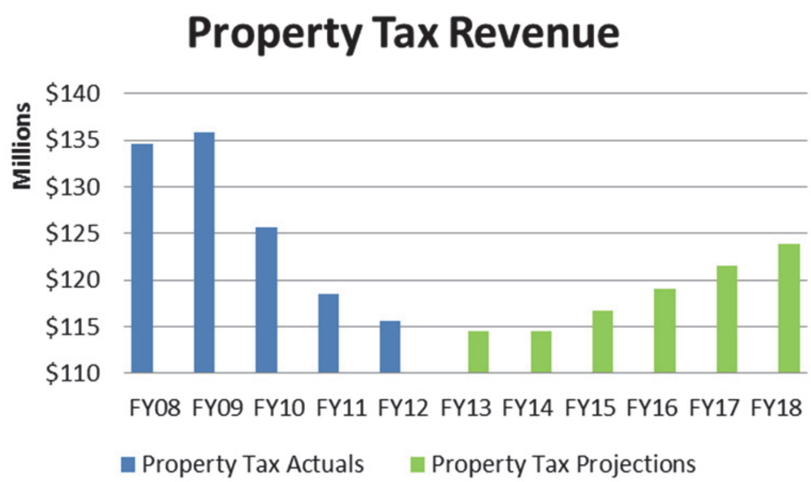
Property Tax

Revenues related to property taxes are affected by fluctuations in the real estate market, levels of new construction activity, and the corresponding changes to the assessed value of those properties on the tax roll. The majority of current secured property tax revenues are received in mid-December and mid-April, while the balance of current secured, current unsecured, supplemental, and miscellaneous property tax revenues are received in late January and late May.

Over the past three fiscal years, property taxes have declined by 2%, 4%, and 3%, respectively. Values in many hard-hit markets, including the City of Sacramento, remain well short of their pre-recession peak prices. When comparing the current value of the property tax roll to the City's peak valuation in 2008, it has declined by more than 15%.

Based on early indications from the Sacramento County Assessor (Assessor), when the 2013 property tax roll closes in June, the City could see Proposition 8 values increase. Proposition 8 requires the county assessor to annually enroll either a property's adjusted base year value (Proposition 13 value) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value on the assessor's roll, that lower value is commonly referred to as a "Prop 8" value.

However, any potential increase may be tempered by pending Proposition 8 appeals, which if approved, will not only reduce the roll by the annual value of the reduction, but by as much as the value of two additional fiscal years as property owners are allowed to appeal the property tax assessment for the prior three years. As of April 2013, the normal roll growth data currently available resulted in no property tax increase for FY2013/14, but should Proposition 8 values increase above the liabilities for new Proposition 8 appeals, adjustments will be included in the Midyear Budget report. This cautious view is supported by the Assessor's 2012 Annual Report which stated that the City's 2012/13 Proposition 8 reductions could total $1.3 billion from the gross roll values when compared to 2011/12.



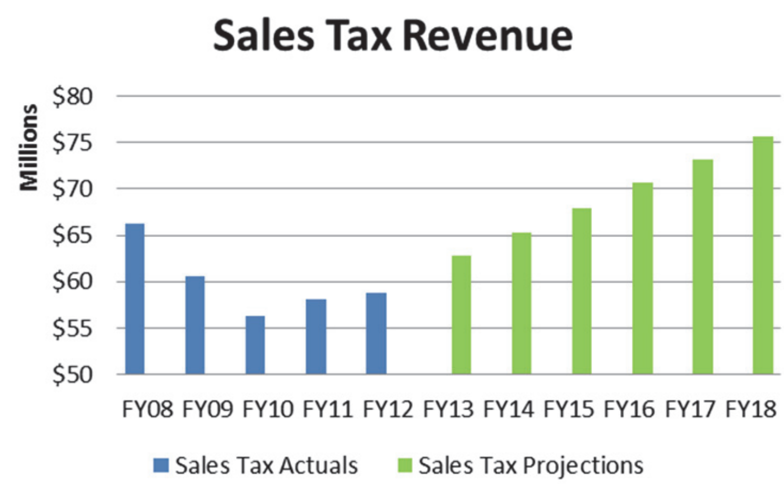
While the Proposed Budget for property taxes is flat, the estimates for FY2014/15-FY2017/18 have been increased to a 2% growth rate assumption annually. One of the major barometers used to gauge property taxes is the Property Transfer Tax. This tax monitors the transaction activity and value of those transactions. Through the first nine months of FY2012/13, transaction activity is up 5% while revenue has increased by 25% when compared to the same nine months in FY2011/12.

Sales Tax

Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas the use tax is imposed on the purchase for storage, use, or other consumption of tangible personal property purchased from any retailer.

Over the previous four quarters (calendar year 2012), the City's sales tax increased by 2.6% compared to the prior four quarters. Statewide sales tax increased by 6.8% during the same period. New car dealerships have been the biggest source statewide as the economy has recovered. The City continues to lag in the new car segment because of lack of dealerships within the City limits and no central auto mall location, resulting in sales tax leakage to surrounding jurisdictions.

Construction is another area that has rebounded statewide while Sacramento lags other jurisdictions, likely due to the building moratorium in the Natomas Basin. Growth in the construction segment has surpassed 10% in other jurisdictions whereas the City is projecting just 2% growth in FY2013/14.



Based on the most recent information from the City's sales tax consultant, growth projections are currently estimated at 3-4% annually from FY2014/15-2017/18.

UUT

UUT is the City's third largest revenue source and has been the most consistent revenue stream over the past five years. Below is a breakout of the five components that comprise the UUT.

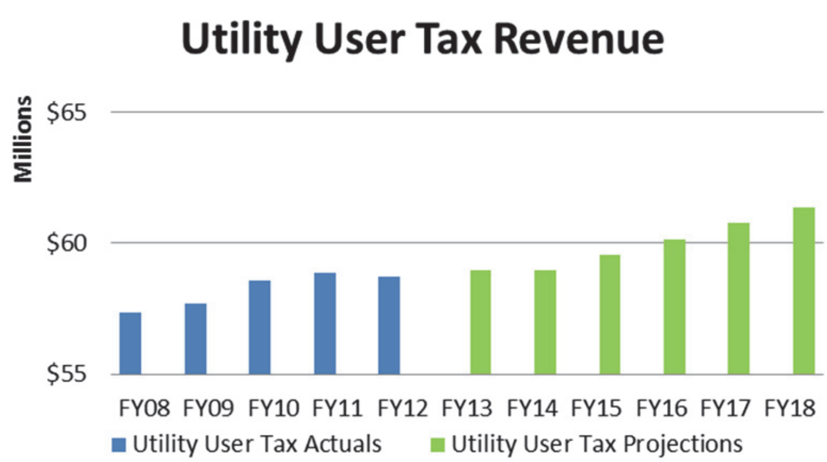
Electricity – According to the U.S. Energy Information Administration (EIA), residential sales of electricity in the US fell by 3.5% in 2012. The decline in residential sales in 2012 reflects the mild winter temperatures in the first quarter of last year. For all of 2013, EIA is projecting flat growth in U.S. residential electricity sales as cooler summer weather and the associated reduction in electricity consumption for space cooling offsets the projected increase in winter electricity consumption. The City has seen one to four percent increases in electricity revenue for the past seven years.

Natural gas, which is used to produce nearly a third of the country's power is significantly cheaper than a year ago. As a result, the City experienced its fourth consecutive year of usage and revenue declines. In FY2008/09 the City collected $8.4 million versus $6.0 million in FY2011/12.

Wired Telecommunications – Customers continue to switch from the traditional, standalone wired phone "landline" service to wireless or Voice over Internet Protocol (VoIP). AT&T lost five million landlines between the second and third quarters of 2012. Telecom usage peaked in FY2009/10 at $10.7 million versus $9.9 million in FY2011/12. The reduction in landline revenue is occurring at a slower than projected rate. Industry analysts believe this is due to the bundling of services including phone, internet and cable as customers are retaining the landline as part of a larger package. If customers begin to unbundle services, it could cause UUT revenues to decline as customers drop individual services.

Wireless Telecommunications – Voice usage for cellular phones peaked in 2011 and despite the City's effort to modernize the UUT with the passage of Measure O in 2008 to include additional forms of communication, revenue has declined from $14.2 million in FY2009/10 to $12.2 million in FY2011/12. The City's Revenue Division continues to audit both wired and wireless providers' UUT remittances to ensure that providers are forwarding all taxes due to the City.

Cable revenue has been the strongest component of the UUT. This revenue stream has grown for eight consecutive years despite the ongoing predictions that customers will move away from traditional cable in favor of satellite service, which is currently exempt from the UUT. The main assumption for this reverse trend is more customers are bundling services together with phone and internet and it will end up costing more if they unbundle their services.



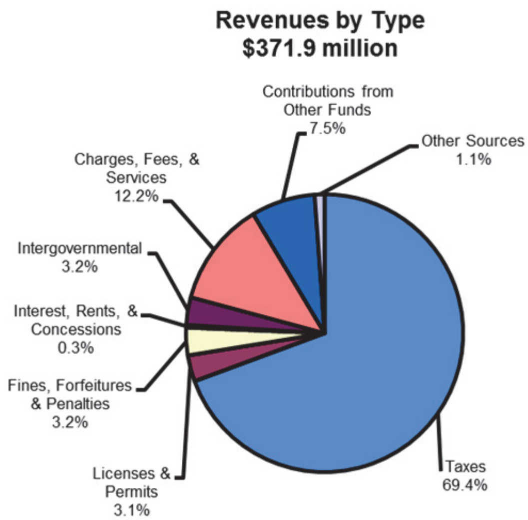
The five components of UUT revenue have resulted in minimal growth over the past five years as industry trends and regulations have changed. Based on actual revenues collected over the past five years UUT growth has been revised down to zero in FY2013/14 and the annual growth from FY2014/15-FY2017/18 has been reduced from 2% to 1%.

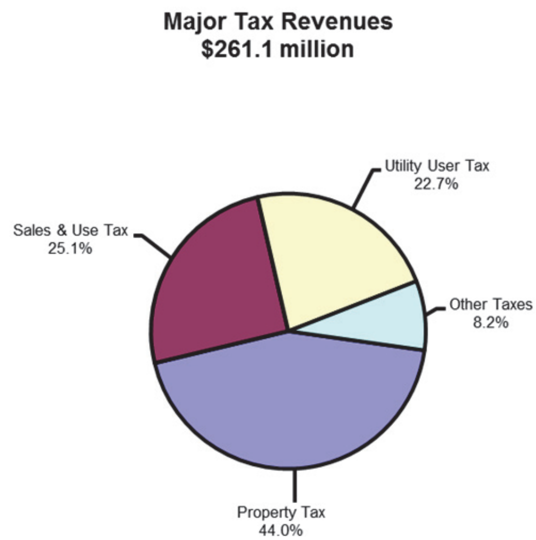
__Use of Reserves__

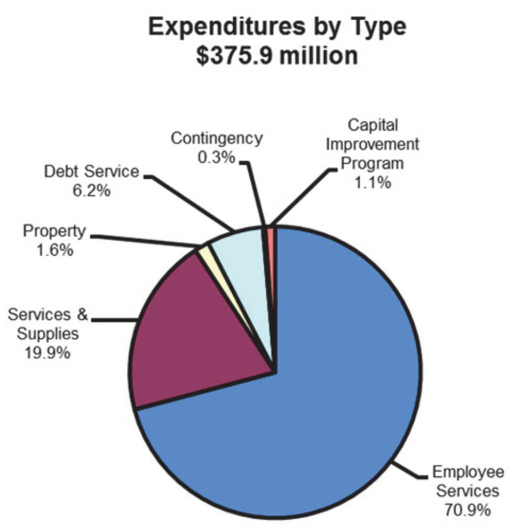
The current balance in the Economic Uncertainty Reserve (EUR) is $24.4 million, approximately 6.6 percent of estimated FY2013/14 General Fund revenues. The Council's stated goal is to gradually achieve a 10 percent reserve balance. This reserve is maintained for the purpose of bridging a gap between projected revenue and expenditures during periods of significant revenue declines and/or expenditure growth and to ensure the City has adequate resources in case of an emergency or unforeseen events. The FY2013/14 Proposed Budget does not include the use of the EUR.

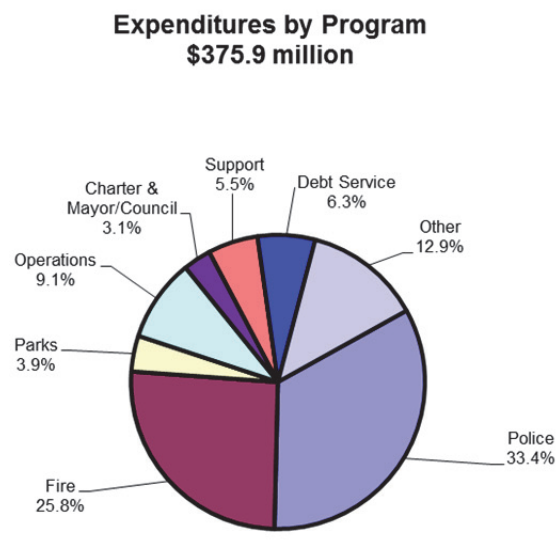
The following charts provide a summary of the FY2013/14 Proposed General Fund revenue and expenditure budgets:

Total Proposed General Fund Budget
$372 million









ON THE HORIZON – FUTURE FISCAL CHALLENGES

Along with the severe short-term fiscal challenges brought on by the deep and prolonged recession, the City also faces long-term financial issues. In developing the immediate and shorter-term budgetary plans, it is also important to consider and plan for long-term financial issues. Three key fiscal issues continue to present challenges for the City as follows:

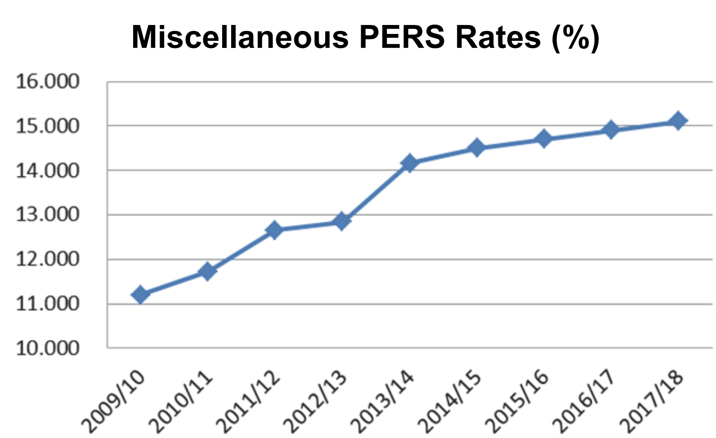
- Additional changes to CalPERS actuarial assumptions and methodologies
- Reducing growing healthcare costs
- Reducing the retiree medical benefit (OPEB) liability of $440 million

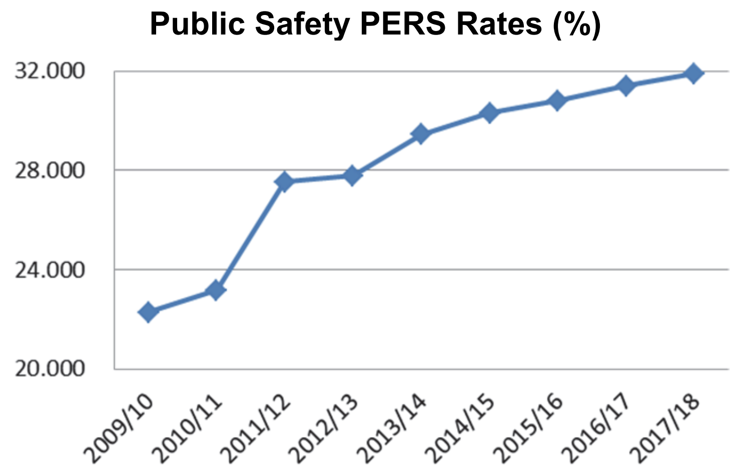
A brief summary of each issue and potential effect on the City's finances is outlined below.

Changes to CalPERS Actuarial Assumptions and Methodologies
Pension debt is not a fixed amount like bonds and mortgages. Instead, pension debt varies with earnings forecasts, the actuarial or market value of assets, amortization periods for paying off unfunded liability, pay and inflation forecasts, demographic assumptions, and other factors. The proposed changes currently being considered by the CalPERS board will have a significant impact on state and local governments if adopted, resulting in higher employer contribution rates over the five-year period beginning in FY2015/16 for local agencies. CalPERS has stated that the primary reason for these changes is to improve the funding levels of the retirement plans and reduce the overall funding level risk to the retirement plans. Following is background information and a brief summary of the potential effects of these changes.

From mid-1990 to 2004, CalPERS applied both shorter smoothing and amortization periods resulting in significant volatility in employer rates year-to-year. In 2004 smoothing and amortization periods were extended in order to reduce the volatility in employer contribution rates.

Use of the current method was no longer feasible with the FY2008/09 negative 24% investment return (PERS lost $100 billion, and funding levels went from 101% to 60.8%). The following charts reflect the changes in the employer CalPERS rates from FY2009/10 through FY2017/18 using estimates provided by CalPERS.





While CalPERS attempted to minimize rate changes to reduce impact on employers' budgets, as reflected above, employer rates have continued to increase based on current actuarial methods. The proposed changes outlined below will require employers to pay significantly higher rates to restore funding levels and minimize risk to the plans. It is important to note that the following assumptions have not been included in the five-year forecasts included with this FY2013/14 Budget. The forecast will be updated when final actions are taken by the CalPERS Board of Directors.

Change in Smoothing and Amortization Periods

CalPERS reviewed several methodologies to look for a compromise between smoothing contribution rates and getting the plans back to being fully funded over the next 30 years. Based on actuarial scenarios, the changes proposed below will shorten the smoothing and the amortization periods with the goal of achieving full funding in 30 years.

Method	Pre-2004	2004 to Present
Asset Smoothing Period	3 Years (Rolling)	15 Years (Rolling)
Actuarial Value of Assets Corridor	90-110% of Market Value of Assets	80 - 120% of Market Value of Assets
Amortization Period of Gains and Losses	10% Each Year (equivalent to 13-year rolling amortization)	30 Years (Rolling)

As reflected below, if the Board adopts the methodology as currently recommended, the result would be an increase in rates over a five-year period beginning in FY2015/16 of 6.2 percentage points, or 44% above the FY2013/14 rate of 14.16% for miscellaneous employees (approximately $6.3 million) and 10.2 percentage points, or a 35% increase above the FY2013/14 rate of 29.46% for public safety employees (approximately $10.6 million).

Projected Funding Rates: Sample Public Agency Miscellaneous Plan

Method	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Current	16.8%	16.9%	18.1%	19.0%	19.6%
Proposed	17.8%	19.0%	20.2%	21.5%	23.0%

Projected Funding Rates: Sample Public Agency Safety Plan

Method	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Current	29.3%	29.4%	31.5%	33.0%	33.9%
Proposed	30.8%	32.8%	34.8%	36.9%	39.5%

Reducing the Discount Rate (Interest Earnings)

Investment returns for CalPERS have averaged 7.7% over a 20-year period. The current investment rate assumption is 7.5%. CalPERS is recommending lowering the interest earnings rate assumption by 0.25 of a percentage point, bringing the rate to 7.25% to provide a margin of safety. The impact to the City would be a 2-3% increase in costs (approximately $5.1 million) based on payroll spread over a five-year period, with half of the impact in year 1 and the remaining half spread over years 2-4. It is unclear at this time when CalPERS intends to implement this change, but the FY2015/16 fiscal year has been mentioned in conference calls on this proposal.

If the discount rate is reduced by the Board, the result would be an increase in rates over the five-year period beginning in FY2015/16 of 2.5 percentage points, or 18% above the FY2013/14 rate of 14.16% for miscellaneous employees (approximately $2.5 million) and 2.5 percentage points, or a 8% increase above the FY2013/14 rate of 29.46% for public safety employees (approximately $2.6 million).

Updating the Actuarial Assumptions

In spring 2014, CalPERS will be reviewing their assumptions for mortality, retirement, and disability rates. The estimated effect on employer rates is a 2-4% increase in costs (approximately $6 million) based on payroll and would be spread over a five-year period starting in FY2016/17. If the assumption changes are implemented, the result would be an increase in rates over the five-year period beginning in FY2016/17 of 3.0 percentage points, or 21% above the FY2013/14 rate of 14.16% for miscellaneous employees (approximately $2.9 million) and 3.0 percentage points, or a 10% increase above the FY2013/14 rate of 29.46% for public safety employees (approximately $3.2 million).

Cumulative Impact on Rates for CalPERS Proposed Changes

The chart below shows the fiscal year impact for each of the changes discussed above and the cumulative impact on rates and cost of the benefit:

Proposed CalPERS Rate Changes
($ in 000s)

Miscellaneous	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	Total
Rate Smoothing %	1.2	1.2	1.2	1.2	1.4	-	6.2
$ value	1,190	1,190	1,190	1,190	1,389	-	6,149
Discount Rate %	1.25	0.313	0.313	0.313	0.313	-	2.5
$ value	1,240	310	310	310	310	-	2,480
Actuarial Assumptions %	-	1.5	0.375	0.375	0.375	0.375	3.0
$ value	-	1,488	372	372	372	372	2,976
Total	**2,430**	**2,988**	**1,872**	**1,872**	**2,071**	**372**	**11,605**

Safety	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	Total
Rate Smoothing %	2.0	2.0	2.0	2.1	2.1	-	10.2
$ value	2,120	2,120	2,120	2,226	2,226	-	10,812
Discount Rate %	1.25	0.313	0.313	0.313	0.313	-	2.5
$ value	1,325	331	331	331	331	-	2,649
Actuarial Assumptions %	-	1.5	0.375	0.375	0.375	0.375	3.0
$ value	-	1,590	398	398	398	398	3,182
Total	**3,445**	**4,041**	**2,849**	**2,955**	**2,955**	**398**	**16,643**

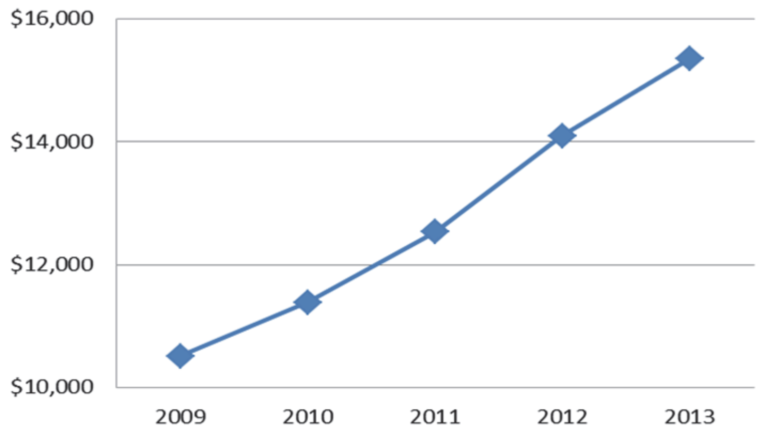
Note: the estimates above are based on preliminary information and do not reflect compounding.

Should the CalPERS Board approve all of the changes as outlined above, the result would be an increase in rates over the five-year period beginning in FY2015/16 of 11.7 percentage points, or 83% above the FY2013/14 rate of 14.16% for miscellaneous employees (approximately $11.6 million) and 15.7 percentage points, or a 53% increase above the FY2013/14 rate of 29.46% for public safety employees (approximately $16.6 million). Based on the current General Fund five-year forecast, these cost increases are not sustainable.

Reducing Growing Healthcare Costs

The City has capped contributions for all but “employee only” (employee only is provided the lowest cost HMO health plan). However, the average cost per employee for healthcare has grown 46% over the past five years the burden of which has fallen on employees with dependents.

Cost Per Employee
(includes employer and employer cost - $ in 000s)



In 2013, the City began offering an Account Based Health Plan (ABHP) to unrepresented and SCXEA employees which includes a Health Savings Account (HSA) that allows employees to make tax-free contributions in order to offset eligible medical expenses. The ABHP allows employees to make decisions about how their healthcare dollars are spent, making employees true consumers of healthcare programs and services. The goal is that employees as consumers with choices will look for alternatives to minimize costs. However, very few employees have established new savings accounts.

As an incentive to encourage employees to participate in an ABHP, the FY2013/14 budget includes funding ($600,000) to help employees pay part of the deductibles they face with the ABHP. This contribution would be made only to the employee's HSA. The ABHP is one of the tools available to lower future healthcare costs as employees share in the risks/rewards of healthcare choices. This will be discussed during negotiations with employee groups.

Reducing the OPEB Liability

The City has $440 million in unfunded long-term liabilities associated with the retiree medical benefit. While the benefit is currently funded on a pay-as-you-go (pay-go) basis, paying only the actual cost of the benefit in the current fiscal year, financial accounting standards require the City to account for the benefit as if it were actuarially funded. This results in an unfunded liability currently of $440 million, which has grown by $60 million since FY2007/08 and continues to grow.

While pay-go provides a means to maximize cash flow in the short-term, the reality is that pay-go does nothing to address the continually growing liability associated with the cost of future benefits and benefit payments are made from principal, never with investment income. In the long run, the actuarial method of funding the benefit will be less expensive as investment income will provide a means to reduce cash contributions in the future by offsetting required contributions with interest earnings. A rule of thumb is that earnings from invested retirement contributions should cover $3 of every $4 spent in pension benefits. Prefunding the healthcare benefit would generate similar investment earnings to apply toward OPEB obligations.

In addition to the budgetary reality of paying for this growing liability on an annual basis, Government Accounting Standards Board Statement 45 now requires governments to report the unfunded actuarial accrued liabilities in the financial statements. The reportable annual expense for an unfunded benefit plan could be as much as twice the annual expense for a funded plan. This disclosure could affect the City's standing in the financial markets – potentially lowering credit ratings. This ultimately could affect the City's ability and cost to borrow money.

The City has initiated a three-pronged approach to address the unfunded OPEB liability. First, to stem the growth in future costs, the recently negotiated contracts with Local 39 and SCXEA, as well as the Resolution covering unrepresented employees, eliminates the retiree medical benefit for new City employees effective June 30, 2012 (Local 39 and SCXEA) and July 20, 2012 (unrepresented employees). This strategy is included in negotiations with the City's other bargaining groups. By reducing the number of employees eligible for the benefit, we slow the growth of the liability. Secondly, in January 2013, the City Council took a first step towards addressing the unfunded liability of current employees by setting aside $2 million in an OPEB Trust. While this is only a small amount, if the City continues building the value of the trust over time, interest earnings will eventually provide resources to offset required contributions. Finally, reducing the value of the benefit to future eligible retirees is the simplest way to reduce the long-term liability.

As the City Treasurer reported to Council in January 2013, "From the long-term fiscal perspective, the status quo for the retiree medical benefit is not sustainable. Costs will grow, and the City's failure to make a change, the benefit will become a credit rating problem." To Council's credit, we have made progress on both of the recommendations included in the Treasurer's report "1. Alter the benefit; and 2. Establish a trust fund and begin to make contributions from employer and employees," but we must continue to be vigilant in our efforts to address this liability.

THE ENTERPRISE FUNDS

The City's Enterprise Funds continue to be challenged primarily because of aging infrastructure. The Utilities Enterprise Funds reflect increased expenditures necessary to sustain operational needs, replace aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the utility funds. The increase in expenditures is supported by an increase in revenues as a result of Council-adopted rate increases for FY2012/13 through FY2014/15 in both the Water and Wastewater Funds to address the increased operational and capital costs of providing utility services.

The Proposed Budget for the Enterprise Funds includes expenditure adjustments to address the items discussed above, as well as adjustments to reflect changing revenue trends and the incorporation of the Council-approved rate increases in the Utilities Funds.

Revenues for the Marina Fund have been affected by lower demand. As a result, an amended agreement with the State Department of Boating and Waterways will be necessary to adjust current debt service obligations and reflect the continued decrease in revenues.

In the Marina Fund, out-years of the five-year forecast indicate that the fund balance will be negative as expenses will exceed available resources absent a change in debt service.

The following chart provides an overview of the Enterprise Fund's FTE changes included in the Proposed Budget by department:

Department	Budget Reductions	Reorganizations, Grant & Other Changes	FY2013/14 Proposed Changes
Public Works (Parking)	-	1.00	1.00
Utilities	(3.00)	2.00	(1.00)
Grand Total	**(3.00)**	**3.00**	**-**

The following chart provides an overview of the Enterprise Fund's FTE changes included in the Proposed Budget by bargaining unit:

Bargaining Unit	Change in FTE
Sacramento Sierra Building and Construction Trades Council	(2.00)
Sacramento City Exempt Employees Association (SCXEA)	2.00
Stationary Engineers, Local 39	1.00
Western Council of Engineers	(1.00)
Grand Total	**-**

Operational descriptions and updates of each of the City's Enterprise Funds are shown on the following pages, including a five-year forecast for each fund.

The chart below summarizes the status of these funds:

Fund	Status
Community Center	Revenues are projected to grow by four percent; this is primarily due to user fee growth. Measures to reduce expenditures remain in place in order to maintain a positive fund balance and to prepare for the Community Center Theater Renovation project.
Marina	Based on the significant economic downturn which continues to affect boat sales, it is recommended that the Marina Fund change to a special revenue fund, thereby eliminating in-lieu and indirect costs to the fund. To help stabilize the fund, the City submitted a restructing of the loan to the State Department of Boating and Waterways on October 15, 2012, to which no response has been received.
Parking	The fund is balanced over the five-year period based on amending the 2013-2018 Capital Improvement Program during the budget process. Revenues and expenditures are projected to grow by approximately two percent annually.
Solid Waste	The five-year forecast anticipates cost increases, implements the Solid Waste Business Plan recommendations, meets regulatory requirements, and holds rates flat for two more years.
Storm Drainage	No rate increase is included in the five-year forecast. As such, the budget continues to rely on the use of reserves. Per Proposition 218, a voter-approved ballot measure is required to increase rates and will be necessary in the near future to sustain operational, capital, and regulatory requirements as fund reserves are nearly depleted.
Wastewater, Water	On March 27, 2012, Council adopted increases to the wastewater and water rates for FY2012/13 through FY2014/15 in order to continue critical infrastructure repair and rehabilitation, as well as to ensure compliance with state and federal regulations.

The following chart provides a snapshot of the five-year forecast for each of the Enterprise Funds. Additional information for each of the forecasts can be found in the following pages.

Community Center Fund (Fund 6010)

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	1,619	1,912	2,369	3,466	5,363
Revenue	23,861	24,427	25,294	26,258	27,380
Expenditures	23,318	23,570	23,797	23,961	24,531
Other Source/(Use)	(250)	(400)	(400)	(400)	(400)
ENDING FUND BALANCE	1,912	2,369	3,466	5,363	7,812

Marina Fund (Fund 6009) - Forecast B

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	(528)	(1,144)	(1,704)	(2,287)	(2,894)
Revenue	1,316	1,443	1,452	1,462	1,667
Expenditures	1,932	2,003	2,035	2,069	2,092
ENDING FUND BALANCE	(1,144)	(1,704)	(2,287)	(2,894)	(3,319)

Parking Fund (Fund 6004)

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	5,468	5,475	5,939	6,423	6,901
Revenue	17,892	18,132	18,377	18,625	18,878
Expenditures	17,885	17,669	17,893	18,147	18,408
ENDING FUND BALANCE	5,475	5,938	6,423	6,901	7,371

Solid Waste Fund (Fund 6007)

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	15,402	13,426	9,753	7,921	7,402
Revenue	59,223	59,237	62,825	66,407	70,556
Expenditures	60,699	62,410	64,158	66,426	67,685
Other Source/(Use)	(500)	(500)	(500)	(500)	(500)
ENDING FUND BALANCE	13,426	9,753	7,920	7,402	9,773

Storm Drainage Fund (Fund 6011)

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	11,568	9,126	9,226	9,083	8,073
Revenue	36,235	35,444	36,147	36,865	37,597
Expenditures	38,677	35,344	36,290	37,875	39,304
ENDING FUND BALANCE	9,126	9,226	9,083	8,073	6,366

Wastewater Fund (Fund 6006)

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	11,071	12,062	11,417	11,672	11,213
Revenue	28,468	32,148	35,549	39,324	43,509
Expenditures	27,477	32,793	80,922	39,783	44,454
Other Source/(Use)			45,628		
ENDING FUND BALANCE	12,062	11,417	11,672	11,213	10,268

Water Fund (Fund 6005)

$ in 000s	Proposed FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Beginning Fund Balance	23,021	29,876	33,316	34,064	40,328
Revenue	96,112	105,572	115,242	125,808	137,356
Expenditures	89,257	102,132	330,494	119,544	131,509
Other Source/(Use)			216,000		
ENDING FUND BALANCE	29,876	33,316	34,064	40,328	46,175

Community Center Fund (Fund 6010)

The Community Center Fund supports the operation, debt service, and capital improvement program for the Sacramento Convention Center Complex, which includes the Convention Center, Memorial Auditorium, and Community Center Theater. The Community Center Fund's goals include maintaining successful financial performance as an enterprise fund, optimizing facility utilization through aggressive marketing, exceeding industry standards for customer service and facility maintenance, stimulating hotel market demand to generate Transient Occupancy Tax (TOT) revenues, and offering a premier venue to contribute to the economic vitality of the Downtown and Sacramento region.

The primary sources of revenue for the Community Center Fund are TOT and fees paid by users of the facilities. Following a two-year decline, TOT rebounded in FY2010/11 with an increase of eight percent and FY2011/12 grew by another two-and-one-half percent. FY2012/13 is currently four percent ahead of last fiscal year for the first half of the fiscal year. A one percent increase is projected in FY2013/14. User fees have increased by seven percent from FY2010/11 to FY2011/12. FY2013/14 is projected to realize revenue growth over FY2012/13 budget of approximately four percent.

In 1997, to maintain the financial integrity of the Community Center Fund, the City Council approved the use of up to $12 million in inter-fund loans, if needed, to offset any year-end deficit. Total borrowing was just over $7.5 million, approximately $4.5 million less than originally authorized. Repayment of the inter-fund loan began in FY2005/06 and will continue with a payment of $250,000 in FY2013/14 and beyond. Through FY2011/12, $3.7 million in payments have been made.

A Theater Renovation Reserve has been added to the five-year forecast for the funds associated with the Community Center Theater renovation. The Theater was built in 1974 and has not had a major renovation since. In 2007, Council approved pursuing a renovation project to address the Americans with Disabilities Act (ADA) accessibility, critical needs of the building's mechanical and electrical systems, and patron and client required improvements. In 2008, the City Council approved a facility fee of $3.00 per ticket to fund approximately one-third of the anticipated debt service financing of the $50 million renovation project. The facility fee has generated approximately $3.1 million to date. The $2.0 million schematic design phase of the project has been completed. However, the next phase, while funded and under contract, is the construction document phase. This phase is time sensitive and tied closely to securing financing. To begin construction, the project requires identifying funds and securing financing of $48 million. The City has remained committed to providing an accessible, modernized theater for the community. The debt obligation for this project will be supported by the Community Center Fund.

The fund balance projections do not include the debt obligation.

Community Center Fund (Fund 6010)
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Transient Occupancy Tax	16,181	16,383	16,875	17,550	18,252
User Fees	6,605	6,869	7,144	7,358	7,653
Interest	425	475	525	550	575
Other (Facility Fee)	650	700	750	800	900
TOTAL REVENUES	**23,861**	**24,427**	**25,294**	**26,258**	**27,380**
EXPENDITURES					
Operating - Employee Services	5,889	6,006	6,186	6,372	6,627
Operating - Other	7,465	7,658	7,867	8,098	8,325
Debt Service	8,214	8,206	8,194	8,191	8,179
Capital Improvements	1,750	1,700	1,550	1,300	1,400
TOTAL EXPENDITURES	**23,318**	**23,570**	**23,797**	**23,961**	**24,531**
CURRENT SURPLUS/(DEFICIT)	**543**	**857**	**1,497**	**2,297**	**2,849**
Other Fund Uses	(250)	(400)	(400)	(400)	(400)
NET ACTIVITY	**293**	**457**	**1,097**	**1,897**	**2,449**
Beginning Fund Balance	1,619	1,912	2,369	3,466	5,363
ENDING FUND BALANCE	**1,912**	**2,369**	**3,466**	**5,363**	**7,812**

Marina Fund (Fund 6009)

The Sacramento Marina is located on the Sacramento River at Miller Park. The Marina is a full service, seven-day-a-week operation that includes 475 berths, a fuel dock, security gates, and parking. Revenues from berth rentals and fuel sales are intended to offset costs of operation, debt service, and capital improvements.

The five-year revenue and expense forecasts reflect the financial analysis based on the significant impact from the economic downturn on the boating industry. According to the latest Recreational Boating Statistical Abstract Report provided by the National Marine Manufacturers Association, the boating industry continues to be affected by the economic downturn, reducing new boat sales by over 50% since 2008 as well as boat-related merchandise sales and used boat sales for boats under 45 feet in size. The City's marina occupancy decline is consistent with other non-coastal marinas in California. The Marina occupancy rate has declined to a record low since FY2004/05 – from 95% to the current year's rate of 44%. Due to the lack of demand, the forecasts include no berth fee increases through FY2016/17 and then, if the boating economy recovers, a six percent increase in FY2017/18. The City's goal is to provide stable rates in response to the low demand as the economy recovers, at which time, rate increases would resume.

Due to the decreased Marina-related revenue and a predicted very slow recovery in the foreseeable future, it is recommended that the Marina Fund be changed from an enterprise fund to a special revenue fund. Enterprise funds are used to account for self-supporting City programs that provide services on a user-fee basis to the public; special revenue funds are used to account for activities supported by specific taxes or other revenue sources. Special revenue funds also do not have indirect costs or in-lieu fees attributed to them. The fund type change would eliminate the burden of these costs on Marina operations. However, this results in an increased cost to the General Fund of $295,798 in FY2013/14.

In FY2008/09, the Marina completed a $10.5 million renovation of the South Basin that included replacement of the 45-year old deteriorating wooden docks and provided covered berths for nearly all slips. The project was primarily financed through a low interest loan from the State Department of Boating and Waterways (DBW). The loan is funded exclusively through the State's Harbors and Watercraft Revolving Fund, which is derived from the gasoline taxes paid by boaters in California. Due to record low occupancy levels at the Marina, in October 2012 the City requested that DBW reduce the FY2012/13 debt service payment of $1.1 million to $204,000. DBW has accepted the reduced payment for FY2012/13 in-lieu of its regular scheduled payment with the condition that the City provides DBW with a long-term repayment plan. A detailed restructuring plan was submitted to DBW in October 2012. However, no response has been received as of April 2013. Because we do not yet have a final decision from the State, three forecast scenarios have been prepared to reflect potential outcomes as follows:

- ***Forecast A*** (as an enterprise fund with the current loan schedule) – Results in an unsustainable fund with no ability to make the loan payment from Marina-related revenue.
- ***Forecast B*** (as a special revenue fund with the current loan schedule) – Assumes elimination of in-lieu and indirect costs, without a change in the DBW loan structure. Results in the inability to make the loan payments from Marina-related revenue.

- ***Forecast C*** (as a special revenue fund and DBW accepting the City's loan restructuring proposal) – Includes the elimination of in-lieu and indirect costs and the DBW approval of the City's October 2012 loan restructuring plan, which is based on the City's ability to pay from the annual Marina-related revenue after minimal operating and capital costs. Fund stabilization would take approximately seven to eight years and then full loan payments could resume.

All three versions acknowledge that Marina operating expenses have been reduced to the minimal level necessary to support basic capital programs and operations. In addition, the forecasts assume the occupancy rate will be 45% in FY2013/14, 50% in FY2014/15 to FY2016/17, and 55% in FY2017/18. Staff recommends changing the fund type to a special revenue fund as the Marina is no longer self-supporting. As ***Forecast C*** illustrates, should DBW accept the City's proposed loan restructure the fund will be able to retain a minimal, but positive, fund balance.

Marina Fund - Forecast A
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Charges, Fees, and/or Services	1,070	1,188	1,188	1,188	1,386
Interest	18	18	20	22	23
Other (Fuel)	228	237	244	252	258
TOTAL REVENUES	**1,316**	**1,443**	**1,452**	**1,462**	**1,667**
EXPENDITURES					
Operating - Employee Services	390	399	411	423	440
Operating - Others	548	569	575	583	611
Debt Service	1,239	1,239	1,239	1,239	1,239
Capital Improvements	50	100	115	130	130
TOTAL EXPENDITURES	**2,227**	**2,307**	**2,340**	**2,375**	**2,420**
CURRENT SURPLUS/(DEFICIT)	**(911)**	**(864)**	**(888)**	**(913)**	**(753)**
Beginning Fund Balance	(528)	(1,439)	(2,303)	(3,191)	(4,104)
ENDING FUND BALANCE	**(1,439)**	**(2,303)**	**(3,191)**	**(4,104)**	**(4,857)**

Marina Fund - Forecast B

Revenue and Expenditure Five-year Forecast

Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Charges, Fees, and/or Services	1,070	1,188	1,188	1,188	1,386
Interest	18	18	20	22	23
Other (Fuel)	228	237	244	252	258
TOTAL REVENUES	**1,316**	**1,443**	**1,452**	**1,462**	**1,667**
EXPENDITURES					
Operating - Employee Services	390	399	411	423	440
Operating - Others	252	265	270	276	282
Debt Service	1,239	1,239	1,239	1,239	1,239
Capital Improvements	50	100	115	130	130
TOTAL EXPENDITURES	**1,932**	**2,003**	**2,035**	**2,069**	**2,092**
CURRENT SURPLUS/(DEFICIT)	**(616)**	**(560)**	**(583)**	**(607)**	**(425)**
Beginning Fund Balance	(528)	(1,144)	(1,704)	(2,287)	(2,894)
ENDING FUND BALANCE	**(1,144)**	**(1,704)**	**(2,287)**	**(2,894)**	**(3,319)**

Marina Fund - Forecast C

Revenue and Expenditure Five-year Forecast

Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Charges, Fees, and/or Services	1,070	1,188	1,188	1,188	1,386
Interest	18	18	20	22	23
Other (Fuel)	228	237	244	252	258
TOTAL REVENUES	**1,316**	**1,443**	**1,452**	**1,462**	**1,667**
EXPENDITURES					
Operating - Employee Services	390	399	411	423	440
Operating - Others	252	265	270	276	282
Debt Service	790	666	655	632	794
Capital Improvements	50	100	115	130	130
TOTAL EXPENDITURES	**1,482**	**1,430**	**1,451**	**1,461**	**1,646**
CURRENT SURPLUS/(DEFICIT)	**(166)**	**13**	**1**	**1**	**21**
Beginning Fund Balance	297	131	144	145	146
ENDING FUND BALANCE	**131**	**144**	**145**	**146**	**167**

Parking Fund (Fund 6004)

The City of Sacramento operates nine parking garages and twelve surface parking lots with over 10,000 parking spaces in the downtown core. The Parking Services Division also manages over 65,000 square feet of retail space within the various City parking structures.

Parking fee revenues are projected to increase one percent for FY2013/14 as compared to the FY2012/13 budget. Revenue is expected to increase annually thereafter between one to two percent, depending on the garage location. Rental income is based on current and anticipated leases with no rate increases included in this forecast. Operating expenses are projected to grow at approximately two percent annually.

Parking Fund (Fund 6004)
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Parking Fees	16,161	16,390	16,623	16,860	17,101
Interest (Operating Funds)	600	600	600	600	600
Real Property Rental	1,131	1,142	1,154	1,165	1,177
TOTAL REVENUES	**17,892**	**18,132**	**18,377**	**18,625**	**18,878**
EXPENDITURES					
Employee Services	4,261	4,389	4,521	4,656	4,796
Other Services & Supplies	6,155	6,249	6,345	6,443	6,544
Operating Transfer Out/In	1,849	1,880	1,903	1,927	1,951
Debt Service	4,634	4,651	4,624	4,621	4,617
Other Uses/CIP	986	500	500	500	500
TOTAL EXPENDITURES	**17,885**	**17,669**	**17,893**	**18,147**	**18,408**
CURRENT SURPLUS/(DEFICIT)	**7**	**463**	**484**	**478**	**470**
Beginning Fund Balance	5,468	5,475	5,939	6,423	6,901
ENDING FUND BALANCE	**5,475**	**5,939**	**6,423**	**6,901**	**7,371**

UTILITIES FUNDS - OVERVIEW

The five-year budget forecast for the Utilities Enterprise Funds reflects increased expenditures necessary to sustain operational needs, address aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the utility funds. The five-year forecast also reflects increased revenues as a result of Council adopted rate increases for FY2012/13 through FY2014/15 in both the Water and Wastewater Funds to address the increased operational and capital costs of providing utility services.

The rate increases were adopted as part of a Utilities' Water and Wastewater Program (Program), which is a long-term strategy of investing in the City's water and wastewater capital and regulatory programs. The Program includes a three-year specific capital and finance plan which uses a mix of bond and cash financing that allows the City to invest in its infrastructure, meet regulatory requirements and maintain daily operations while smoothing rate increases and avoiding rate spikes for utility customers.

While costs continue to increase for a number of critical items necessary to deliver daily services such as electricity and chemicals, there is evidence that the negative financial affects of the recession are improving, namely bad debt write-offs are declining and usage is stabilizing. The key cost drivers affecting the rising utility bill trend for customers include the following:

- *Meeting Regulatory Requirements and Mandates*. Continuing and increasing regulatory requirements and mandates such as the Water Meter Program continue to direct investments.
- *Financing Major Capital Projects*. Projects such as the water treatment plants rehabilitation will require a significant investment.
- *Complying with Wastewater Consent Decrees*. Significant capital programs are being implemented to comply with a recent consent decree regarding the performance of the City's wastewater system.
- *Addressing Aging Infrastructure*. Rehabilitation and replacement of aging infrastructure remain a significant liability, and funding this liability creates inflationary pressure now and for the foreseeable future.
- *Increasing Commodity Prices*. This is particularly acute in the area of electricity, chemicals and fuel.
- *Lowering Consumption and Increasing Fixed Costs*. In general, usage is declining and as pricing structures include usage-based charges, revenues are affected.

The major factors and assumptions used in developing the five-year budget forecast of the Department of Utilities (DOU) are the following:

- Major cost drivers such as fuel, electricity, and chemicals will increase each year. This assumption is based on historical trends and past performance of the various indices used to project utility cost growth.
- Labor costs have been adjusted to comply with current contracts, increased staffing, and to reflect labor cost savings, as appropriate.

- Use of bond financing, which was secured in FY2012/13, will be used in the Water and Wastewater Funds to finance the water treatment rehabilitation facility project as well as other projects, which will address aging infrastructure and comply with regulatory requirements.
- Additional appropriations will be required in future years in order to continue to meet regulatory requirements, such as the Residential Water Meter Program, to comply with consent decrees, and to invest in aging infrastructure.

DOU continues to work closely with the City Manager's Office and the Internal City Auditor to ensure that DOU operates as efficiently and effectively as possible. DOU has addressed the majority of the recommendations in the Operational Efficiency and Cost Savings Audit conducted in FY2010/11 and the Utilities Billing Operations audit performed in FY2011/12. In addition, DOU recently completed an organizational assessment to identify how it can better perform its services and position Sacramento for the challenges facing water utilities now and in the foreseeable future. The outcome of the assessment is an updated five-year strategic plan, with updated priorities, and a revised organization structure targeted to go into effect the beginning of FY2013/14. The proposed budget reflects the revised organization structure and funding to address the near-term priorities of the strategic plan.

Solid Waste Fund (Fund 6007)

The Solid Waste Fund is financially responsible for the activities of collecting garbage, recyclables and yard waste, sweeping streets, removing illegal dumping, post-closure monitoring of landfills, and waste reduction education. Issues facing the Solid Waste Fund include:

- Implementing the following changes to the City's residential solid waste collection services effective July 1, 2013, consistent with the 2012 Solid Waste and Recycling Business Plan recommendations approved by City Council:
    - Implement year-round containerized yard waste collection on a weekly basis for all City residential solid waste customers
    - Provide seasonal Loose-in-the-Street yard waste collection for all City residential solid waste customers annually in November, December, and January
    - Restore the Appointment Based Neighborhood Cleanup Program annually from February through October
    - Implement a "dump coupon" program allowing residents to deliver up to five cubic yards of waste to the Sacramento Recycling and Transfer Station at no charge to the resident
    - Shift the curbside recycling program from weekly to bi-weekly collection

- Keeping solid waste utility rates flat through June 30, 2015, despite significant operating cost increases and programmatic changes

- Funding the illegal dumping collection program through non-garbage rate revenue sources in order to comply with State law

- Exploring new initiatives to ensure continued compliance with state-mandated diversion goals

Costs for items vital to providing solid waste services and complying with regulatory mandates continue to rise. The most significant cost increases are in-region disposal fees, fleet fuel, post-closure activities of landfills, and container replacements. While costs in many areas are rising, Solid Waste operations will achieve labor and fleet savings through rerouting its operations, stabilizing collection programs, and implementing a long-term fleet replacement program that retires aging refuse trucks on schedule and funds new, energy efficient trucks with cash reserves.

The following chart provides a five-year budget forecast for the Solid Waste Fund to address anticipated cost increases, implement business plan recommendations, meet regulatory requirements, and includes the following assumptions:

- Implement revised residential service programs in FY2013/14 without a change in the solid waste utility rate

- Provide resources for the replacement of aging refuse trucks and refuse containers through budgeted replacement dollars

- Fund the ongoing post-closure costs associated with city landfills, and provide resources to mitigate the loss of trees at the 28th Street Landfill

- Provide funding for the construction of a new liquefied natural gas fueling station at the Meadowview City Service Complex

Solid Waste Fund (Fund 6007)
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Charges, Fees, and/or Services	58,536	58,536	62,109	65,676	69,809
Interest					
Other	687	701	716	731	747
TOTAL REVENUES	**59,223**	**59,237**	**62,825**	**66,407**	**70,556**
EXPENDITURES					
Operating - Employee Services	15,130	15,862	16,471	17,164	17,888
Operating - Other	32,659	33,725	35,119	36,647	38,281
Debt Service	4,433	4,119	3,788	3,784	2,685
Multi-Year Operating Projects	7,841	7,741	7,791	7,841	7,841
Capital Improvements	1,137	1,463	1,489	1,490	1,490
TOTAL EXPENDITURES	**61,199**	**62,910**	**64,658**	**66,926**	**68,185**
CURRENT SURPLUS/(DEFICIT)	**(1,976)**	**(3,673)**	**(1,833)**	**(519)**	**2,371**
Beginning Fund Balance	15,402	13,426	9,753	7,921	7,402
ENDING FUND BALANCE	**13,426**	**9,753**	**7,921**	**7,402**	**9,773**

Storm Drainage Fund (Fund 6011)

Revenue generated for the purpose of providing storm drainage service to its customers is deposited in the Storm Drainage Fund. Revenues are derived primarily from customer service charges and interest earnings. Storm Drainage Fund revenues cover the cost of storm drainage operations for pumping stations, wet weather treatment and storage, collection system maintenance, related engineering services, flood plain management, customer service and billing, education programs, water quality monitoring and other regulatory compliance issues, and a capital improvement program. Fund expenditures are divided among operating costs, debt service, and capital improvement and multi-year operating projects. Challenges facing the Storm Drainage Fund include the following:

- Declining reserves, as the existing revenue is not sufficient to cover current operating and capital expenses
- Upgrading drainage service to areas outside of the City's Combined Sewer System (CSS) to meet citywide standards
- Improving drainage system reliability and contributing to the combined wastewater system repair, rehabilitation, and improvements
- Maintaining state and federal regulatory compliance, e.g., National Pollution Discharge Elimination System (NPDES), and supporting regional flood control efforts

The following chart provides a five-year budget, which includes the following assumptions:

- No rate increases with continued use of fund reserves. Expenditures continue to exceed revenues and the fund is projected to be in a deficit position in the near-term. Per Proposition 218, a voter-approved ballot measure is required to increase storm drainage rates.
- Annual operating expenditures such as fuel, chemical, and electricity costs are anticipated to increase.

As there have been no rate increases in recent years, the capital program has been severely curtailed creating a significant backlog of repair and rehabilitation projects. A rate increase is necessary to address aging infrastructure and is likely to be recommended in the future.

Storm Drainage Fund (Fund 6011)
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Charges, Fees, and/or Services[1]	34,722	34,722	35,416	36,125	36,847
Interest	422	422	422	422	422
Other (Intergovernmental)	1,091	300	309	318	328
TOTAL REVENUES	**36,235**	**35,444**	**36,147**	**36,865**	**37,597**
EXPENDITURES					
Operating - Employee Services	18,745	18,932	19,936	20,992	22,105
Operating - Other	11,136	9,381	9,252	9,600	9,817
Debt Service	3,640	3,693	3,693	3,692	3,691
Multi-Year Operating Projects	2,502	3,088	3,159	3,341	3,441
Capital Improvements	2,654	250	250	250	250
TOTAL EXPENDITURES	**38,677**	**35,344**	**36,290**	**37,875**	**39,304**
CURRENT SURPLUS/(DEFICIT)	**(2,442)**	**100**	**(143)**	**(1,010)**	**(1,707)**
Beginning Fund Balance	11,568	9,126	9,226	9,083	8,073
ENDING FUND BALANCE	**9,126**	**9,226**	**9,083**	**8,073**	**6,366**

[1]Voter approval is required for rate adjustments to the Storm Drainage Fund. Nominal growth is expected in the latter part of the five-year forecast.

Wastewater Fund (Fund 6006)

Revenue generated by the City for the purpose of providing wastewater collection service to its customers is deposited in the Wastewater Fund. Revenues are derived from customer service fees, recovery of Sacramento Regional County Sanitation District (SRCSD)-related operation and maintenance costs paid for by the Fund, interest earnings, and connection charges. Wastewater Fund revenues cover the cost of wastewater collection and maintenance, storage and treatment of wet weather combined sewage, installation of new services, operation of sanitary pumping stations, related engineering services, customer service and billing, and the monitoring of discharge into the wastewater collection system. Fund expenditures are generally divided among operating costs, debt service, capital improvement and multi-year operating projects.

The wastewater system is a "contained system" in that very little expansion, other than in-fill projects, is possible without upsizing the system and increasing its capacity. The City-operated wastewater collection system consists of a combined sewer system and a separated sewer system that, combined, serve approximately 60% of the city, primarily the northeastern, central, and southern sections of the city. The Sacramento Area Sanitation District is the wastewater collection system provider for the other areas of the city. While the City is responsible for limited treatment of its combined wastewater, it partners with SRCSD to treat the majority of the city's wastewater. The City provides SRCSD with billing and collection services for properties within the service area in which wastewater collection is provided by the City.

The Wastewater Fund presents unique challenges due to the system's growth potential and the age and nature of the system's infrastructure. On March 27, 2012, Council approved increases to the wastewater rates for FY2012/13 through FY2014/15. Issues facing the Wastewater Fund include:

- Compliance with state and federal regulations, including state-mandated rehabilitation of the Central City's CSS. The CSS collects wastewater from homes and businesses, as well as storm water and urban runoff.
- Increased costs associated with the California Sportfishing Protection Alliance Consent Decree to ensure minimization of wastewater overflows
- Continued rehabilitation of the City's separated wastewater service area. A separated wastewater system collects wastewater from homes and businesses and does not collect storm water.
- Incorporating growth of new wastewater services and the increasing costs for repair and reconstruction of the aging system
- Maintaining the financial strength of the fund for the purpose of raising sufficient capital to finance rehabilitation of the CSS

The following chart provides a five-year budget forecast for the Wastewater Fund to address anticipated cost increases and meet regulatory requirements, and includes the following assumptions:

- Use of Bond Financing, which was secured in FY2012/13 to finance CSS improvements and other wastewater repair and rehabilitation projects. The rate adjustments adopted for FY2012/13 through FY2014/15 will allow the City to invest in mandated system improvements as required, as well as make progress towards reaching a reasonable replacement schedule for aging pipes.
- Annual operating expenditures such as fuel, chemical, and electricity costs are anticipated to increase.

Wastewater Fund (Fund 6006)
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
Charges, Fees, and/or Services[1]	26,856	30,616	33,983	37,722	41,871
Interest	392	392	392	392	392
Other (Intergovernmental)	1,220	1,140	1,174	1,210	1,246
TOTAL REVENUES	**28,468**	**32,148**	**35,549**	**39,324**	**43,509**
EXPENDITURES					
Operating - Employee Services	8,894	8,983	9,459	9,960	10,488
Operating - Other	13,005	12,326	13,191	14,056	14,993
Debt Service[2]	910	2,160	2,915	2,915	2,915
Multi-Year Operating Projects	4,168	6,272	6,480	6,852	7,058
Capital Improvements	500	3,052	48,877	6,000	9,000
TOTAL EXPENDITURES	**27,477**	**32,793**	**80,922**	**39,783**	**44,454**
CURRENT SURPLUS/(DEFICIT)	**991**	**(645)**	**(45,373)**	**(459)**	**(945)**
Other Fund Uses (Use of Bonds)[2]			45,628	-	
Beginning Fund Balance	11,071	12,062	11,417	11,672	11,213
ENDING FUND BALANCE	**12,062**	**11,417**	**11,672**	**11,213**	**10,268**

[1]City Council approved 16%, 15%, and 14% rate increases for FY2012/13, FY2013/14, and FY2014/15 respectively.

[2]The Utilities Department is proposing to issue bonds as part of its financing plan.

Water Fund (Fund 6005)

Revenue generated by the City for the purpose of providing water service to its customers is deposited in the Water Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs of providing water service to customers. Services include water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service and billing, the City-County Office of Metropolitan Water Planning, and capital improvements. Fund expenditures are summarized and reflected as operating costs, debt service, capital improvement costs, and multi-year operating projects.

The Water Fund faces significant challenges over the next five years. On March 27, 2012, Council adopted increases to the water rates for FY2012/13 through FY2014/15 to begin to address these challenges. Key issues for the Water Fund over the next five years include the following:

- Ongoing replacement and maintenance of aging infrastructure to provide safe and reliable drinking water to the community and meet state and federal standards
- Continued implementation of the Residential Water Meter Installation Program in compliance with the state mandates requiring full meter installation by 2025 and 20% water conservation by the year 2020
- Maintaining state and federal regulatory compliance
- Continued implementation of an aggressive water conservation program consistent with the Water Forum Agreement, integrating actions necessary for providing a regional solution to water shortages, environmental damage, and groundwater contamination
- Support of regional, long-term water supply planning
- Development of wholesale and wheeling agreements in support of effective regional water management
- Meeting future debt service requirements related to the rehabilitation and improvement of intake structures and treatment plants
- Costs for items that are vital to the collection, purification, and delivery of water, and to meet levels of service, continue to rise at rates exceeding general inflationary costs. (The most significant cost increases are for chemicals, electricity, sludge dewatering, and replacement and maintenance of water meters.)

Bond Financing, which was obtained in FY2012/13 to finance the water treatment facility rehabilitation and other infrastructure projects, will help smooth rate increases to implement these projects. The rate adjustments adopted for FY2012/13 through FY2014/15 will allow the City to invest in one of its most critical assets, the water treatment plants, as well as make progress towards reaching a reasonable replacement schedule for aging pipes.

The chart below provides a five-year budget forecast for the Water Fund to address anticipated cost increases and meet regulatory requirements.

Water Fund (Fund 6005)
Revenue and Expenditure Five-year Forecast
Dollars in Thousands

	FY2013/14 Proposed	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate	FY2017/18 Estimate
REVENUES					
Charges, Fees, and/or Services[1]	94,637	104,115	113,753	124,287	135,801
Interest	400	400	400	400	400
Other (Intergovernmental)	1,075	1,057	1,089	1,121	1,155
TOTAL REVENUES	**96,112**	**105,572**	**115,242**	**125,808**	**137,356**
EXPENDITURES					
Operating - Employee Services	24,892	25,141	26,473	27,876	29,354
Operating - Other	35,243	36,824	38,323	40,444	42,781
Debt Service[2]	22,849	27,133	27,135	39,069	40,149
Multi-Year Operating Projects	2,273	3,034	3,063	3,155	3,250
Capital Improvements	4,000	10,000	235,500	9,000	15,975
TOTAL EXPENDITURES	**89,257**	**102,132**	**330,494**	**119,544**	**131,509**
CURRENT SURPLUS/(DEFICIT)	**6,855**	**3,440**	**(215,252)**	**6,264**	**5,847**
Other Fund Uses (Use of Bonds)[2]			216,000		
Beginning Fund Balance	23,021	29,876	33,316	34,064	40,328
ENDING FUND BALANCE	**29,876**	**33,316**	**34,064**	**40,328**	**46,175**

[1]City Council approved 10% rate increases for FY2012/13, FY2013/14, and FY2014/15.

[2]The Utilities Department is proposing to issue bonds as part of its financing plan.