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SECTION – 1

Budget Message

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City Manager

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July 1, 2017

Honorable Mayor and City Council
Sacramento, California

Dear Mayor and Members of City Council:

I am pleased to present the fiscal year (FY) 2017/18 Approved Budget (Budget) totaling \$1.0 billion for operations and capital improvement projects. The Budget represents the City's financial plan for the upcoming year and reflects an increase of \$67 million, or 6.9% compared to the FY2016/17 Adopted Budget. The operating budget of \$954 million for all funds, increased by \$47 million, or 5.2% over the prior fiscal year. The total General Fund budget of \$459.2 million represents an increase of \$20 million, or 4.6% compared to FY2016/17. With very management of expenses and robust revenue growth that reflects a stronger economy, this budget is balanced.

Our key economically sensitive revenue sources (i.e., sales tax, property tax, and transient occupancy tax) continue to experience strong growth, which has allowed the City to build reserves, increase staffing levels, and restore General Fund services over the last several years. However, this year the budget was developed with the goal of limiting the addition of ongoing costs in the General Fund to a bare minimum in light of imminent cost increases related to our pension benefits and the impact of these increases on the long-term stability of the General Fund. As such, the increase in General Fund expenditures is largely due to higher salary and benefit costs for existing positions.

Over the course of five public meetings the City Council discussed and considered the City's budget and Council priorities. The funding priorities identified by Council provided significant funding to:

- Invest in our Youth
- Increase Transportation Opportunities
- Enhance Neighborhood Services and citywide Economic Development
- Strengthen Public Safety and Good Governance

The Budget includes \$12.5 million in General Funds and \$3.8 million in Measure U Funds to address these citywide priorities. Additionally, consistent with these policies the Budget includes the establishment of the Office of Economic Growth and the transfer of the Office of Emergency Services to the City Manager's Office. This move reflects the City's commitment toward Economic Development and Public Safety.

I remain optimistic as the city continues to benefit from a strong economic recovery that I believe is truly at an unprecedented time in its history. Sacramento is amid a dynamic transition and has the potential to reset our economic position and cultural identity in the nation and around the globe. Downtown Sacramento continues to see positive economic growth with the opening of the Golden 1 Center and the surrounding building activity. This activity has led Downtown Sacramento to rank 8th nationally in office vacancy rate decline. Additionally, in 2016 the city experienced its highest building permit valuation (\$783 million) since 2007.

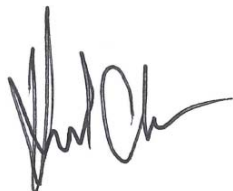
Our city was founded on discovery, built on leadership, and fueled by innovation – all of which can still be seen throughout our city today. Sacramento brings together the competitive benefits of an affordable, talented, and quality marketplace. Over the last year, we've seen several technology businesses choose Sacramento to scale their companies, including Support Pay, Parable, Fanta, Top Grade, and the new McClatchy Video Lab West. The Power Inn area remains a driving force in the city, accounting for nearly 58,000 jobs and \$3.2 billion in wages. North Natomas is seeing increased development with over 1,300 new single-family home building permits issued since April 2017. In the south area, Delta Shores is actively being developed with over \$100 million of commercial development currently underway.

Sacramento continues to be a hub for business and development activity and we aren't stopping there. Over the next year, we will advance opportunities to leverage public investments that promote neighborhood economic vitality, spur job growth, diversify revenue sources for the City, and stimulate new investment in businesses and development throughout the city.

Sacramento has worked hard to stabilize our budget and continue providing core services. I'm proud of our fiscal responsibility and the progress we've made as Sacramento continues to live within its means by facing challenges in a responsible and fiscally prudent manner. Even with the progress we've made, significant work toward long-term fiscal sustainability remains. As we move forward it is important to remember that our growing infrastructure needs, continuing labor negotiations, retirement costs and our OPEB (other post-employment benefits) health benefit liabilities continue to put pressure on the City's limited resources.

I would like to thank Council for your leadership and continued commitment to the budget process and I look forward to working with you as we continue to watch our beautiful city grow and prosper.

Respectfully submitted,



HOWARD CHAN
City Manager

Operating Budget Excellence Award



The City's FY2016/17 Approved Operating Budget received the Operating Budget Excellence Award from the California Society of Municipal Finance Officers (CSMFO). The award process includes peer reviews of cities' operating budget. Peer review methods are employed to maintain standards, improve performance, and provide credibility.

In preparing the FY2017/18 Budget document, the award criteria were followed and prepared in accordance with generally accepted accounting principles. This document will be submitted to the CSMFO for consideration for the Fiscal Year 2017/18 Operating Budget Excellence Award.

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SECTION – 2 **Budget Overview**

Approved Budget Overview

The FY2017/18 Operating and Capital Improvement Program (CIP) Budgets were approved by the City Council on June 13, 2017. The Approved Budget is \$1 billion from all funding sources and supports 4,469.95 authorized full-time equivalent (FTE) positions. The General Fund totals \$459.2 million and 3,330.97 authorized FTE, and Enterprise and other Funds total \$586.5 million and 1,138.98 FTE.

The City Council held four meetings during May and June to review and discuss the Proposed Budget. Following those discussions, the changes as summarized in the following charts were approved by the City Council.

Operating Budget Adjustments

Department	Fund Name (Number)	Revenue Adjustment	Expenditure Adjustment	Description
Office of the City Manager	General Fund (1001)	-	36,000	Salary adjustment for the Director of Economic Development change to an Assistant City Manager.
Community Development	General Fund (1001)	185,643	185,643	Adjust budget for 2.0 FTE added in February 2017, offset by revenues (R2017-0082).
Citywide and Community Support	General Fund (1001)	-	(808,351)	Transfer budget from the Citywide and Community Support budget (Detox Program and Motel/Voucher Program) to the Homeless Housing Initiative MYOP (I02000200).
Subtotal General Fund (Fund 1001):		\$ 185,643	\$ (586,708)	
Office of the City Manager	Innovation & Growth (Fund 2031)	-	475,000	Establish budget for 3.0 FTE and services and supplies for Office for Innovation and Entrepreneurship.
Parks and Recreation	START (Fund 2501)	(2,075,158)	(2,075,158)	Adjust budget to reflect the loss of 18 START sites (Sacramento City and Twin Rivers Unified School Districts).
Citywide and Community Support	City/County Office-Water Planning (Fund 7103)	-	(37,793)	Adjust budget based on May 9, 2017, Water Forum budget report.
Citywide and Community Support	Habitat Management Element (Fund 7104)	-	130,725	Adjust budget based on May 9, 2017, Water Forum budget report.
Subtotal Other Funds:		\$ (2,075,158)	\$ (1,507,226)	
Net Operating Changes:		\$ (1,889,515)	\$ (2,093,934)	

FY2017/18 Approved Budget

Multi-year Project Appropriations

Project Name (Number)	Fund Name (Number)	Expenditure Adjustment	Description
Arts Education and Community Outreach (I17001100) ¹	General Fund (1001)	200,000	Program to support community outreach and arts education programs, including Any Given Child.
Bikeway Improvements & Alternative Modes (K15185100) ¹	General Fund (1001)	2,250,000	Improve and expand bikeways and alternative modes of transportation citywide.
Business Incentives Program (I020001300) ¹	General Fund (1001)	500,000	Create business incentive zones to spur investment in the city.
Central City Street Lights Ph2 (T15185000) ¹	General Fund (1001)	500,000	Add streetlights throughout the City's Downtown and Midtown areas.
City Facility Reinvestment Program (C13900000)	General Fund (1001)	100,000	Maintenance and renovation funding for the Oak Park Community Center.
Community Investment Program (I02001200) ¹	General Fund (1001)	250,000	Create a community investment program, to be matched by the Mutual Assistance Network.
Community Nonprofit Assistance (I02001000) ¹	General Fund (1001)	200,000	Assist nonprofits that provide at-risk youth programs.
Community Outreach and Enhanced Services (I02001100) ¹	General Fund (1001)	200,000	Community engagement funding to enhance existing programs, including the Parks Leadership Academy for Youth, the Youth Action Corps, and innovative community initiatives serving residents of all ages.
Cultural Arts Awards (I17000700)	General Fund (1001)	100,000	Program to provide general operating or project support grants to arts organizations.
Cultural and Economic Vitality (I17001000)	General Fund (1001)	200,000	Program to expand neighborhood arts programs, arts marketing, creative placemaking, and neighborhood arts programs.
Economic Development (I02001400) ¹	General Fund (1001)	2,000,000	Funding to address citywide economic development efforts.
Gang Prevention and Intervention (I02000600)	General Fund (1001)	300,000	Provide funding for Gang Prevention Intervention Task Force activities.
Homeless Housing Initiative (I02000200)	General Fund (1001)	808,351	Transfer funds from the Citywide and Community Support budget (Detox and Motel/Voucher Programs) to this MYOP.
Impact Teams (I11002400) ¹	General Fund (1001)	990,000	Funding to increase Impact Teams from four days to seven days a week.
Pedestrian Crossings (S15181700) ¹	General Fund (1001)	50,000	Estimated cost to install flashing beacons at 14th and 60th Streets (District 6).
Police Observation Devices (PODs) (I11002300) ¹	General Fund (1001)	75,000	Reduce crime and violence with the installation of PODs in District 7.
Safe Haven (I02000800) ¹	General Fund (1001)	300,000	Resources for residents addressing immigration status issues.
Oak Park Community Enhancement (I19708000)	General Fund (1001)	100,000	Funding "summer night lights" type youth programs in Oak Park (District 5).
Thousand Strong (previously ETP Pilot Program - I01000300)	General Fund (1001)	950,000	Provide an investment in our youth by providing internships. It is expected that matching funds will be provided through the state and participating school districts.
Water Conservation Rebates (I14120400)	General Fund (1001)	100,000	Aesthetic improvement program in District 8, focused on the removal of front yard chain link fences.
Youth Engagement and Summer Programs (I01000100) ¹	General Fund (1001)	400,000	Funding to provide activities and programs, aimed at youth development (\$50,000 per Council District), that aligns with the City's overall youth strategic plan.
Subtotal General Fund (Fund 1001): \$10,573,351			

1 – New Project