3

SECTION – 3
The Forecast

Revised Financial Forecast

General Fund: The changes to the FY2018/19 Proposed Budget as summarized in the Budget Overview resulted in changes to General Fund revenues and expenditures. The General Fund forecast as shown below has been updated to reflect the budget as approved.

FY2018/19 General Fund Forecast

General Fund ($ in 000s)	FY19 Approved	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection	FY24 Projection
Beginning Fund Balance	**8,784**	**2,880**	**1,203**	-	-	-
Revenues	493,549	498,653	503,670	511,752	520,201	528,933
Total Resources	**502,333**	**501,533**	**504,873**	**511,752**	**520,201**	**528,933**
Expenditures						
Operations	468,259	487,335	502,902	515,090	529,225	538,976
Capital/Multi-year Projects	20,194	18,995	19,266	19,825	19,820	19,820
Total Expenditures	**488,453**	**506,330**	**522,168**	**534,915**	**549,045**	**558,796**
Annual Surplus/(Deficit)[1]	**5,096**	**(7,677)**	**(18,498)**	**(23,163)**	**(28,844)**	**(29,863)**
Commitments/Transfers						
Commitment for Pension Liabilities (existing balance is $5 million)	(8,500)	6,000	7,500	-	-	-
Economic Uncertainty Reserve	(2,500)					
Ending Fund Balance	**2,880**	**1,203**	**(9,795)**	**(23,163)**	**(28,844)**	**(29,863)**
Loss of Measure U / Measure U Reserve	-	(48,589)	(49,885)	(50,842)	(51,997)	(53,152)
Ending Fund Balance w/Loss of Measure U	**2,880**	**(47,386)**	**(59,680)**	**(74,005)**	**(80,841)**	**(83,015)**

[1]Revenues less Total Expenditures

Measure U: No changes were made between the FY2018/19 Proposed Budget to the Approved Budget for programs and projects supported by the Enterprise Funds.

Enterprise Funds: No changes were made between the FY2018/19 Proposed Budget to the Approved Budget for programs and projects supported by the Enterprise Funds.

Proposed Financial Forecast

(As written on April 23, 2018, with technical adjustments as necessary to reflect Council intent.)

Financial Forecast

The purpose of financial forecasting is to evaluate current and future fiscal trends and conditions to serve as a guide for policymakers in the consideration and prioritization of policy and programmatic decisions. The financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This tool helps identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services.

This section includes five-year forecasts for the General, Measure U, and Enterprise Funds. The information in these forecasts provides a current picture of the fiscal condition of the fund, establishing an important context to the decision-making necessary in efforts to maintain both essential community services and fiscal stability.

General Fund Overview

With conservative management of expenses and robust revenue growth that reflects a stronger economy, the General Fund budget is balanced with ongoing General Fund expenditures expected to be below projected revenues in the budget year. Revenues are projected to grow by 6.0% compared to the FY2017/18 Approved Budget, while expenditures are expected to grow by 5.5%. This positive balance is the result of significant growth in major tax revenues, particularly property taxes, described in the General Fund Revenue section.

Council approved labor agreements with eight of the City's nine recognized employee organizations (REOs) in FY2017/18, the majority of which were two-year contracts expiring at the end of FY2018/19. The existing contract with the Sacramento City Exempt Employees Association (SCXEA) will expire in June 2018 and contracts with the Auto, Marine and Specialty Painters (Local 1176) and Sacramento Area Firefighters (Local 522) will expire in December 2018. In FY2018/19 employee service costs increased by $38.8 million over the prior year, $11.9 million (31%) of this increase is related to increased payments to CalPERS.

The five-year forecast has identified fiscal challenges beginning in FY2019/20 when expenditures (primarily due to CalPERS discount rate changes) are predicted to surpass revenues. Any salary increases beyond those already included in the approved REO agreements will further increase the gap between revenues and expenses in future years.

The Five-Year General Fund Forecast

Given the Council's sustainable budget policy, proposed fiscal actions are evaluated in both a short and longer-term context. The five-year forecast is an essential tool in the City's long-range financial planning process, providing a multi-year view of revenues and expenditures, allowing an assessment of the fiscal consequences of both prior and current funding decisions in the context of forecasted revenues and expenditures. The forecast is based on the most recent national, state, regional and local economic data and changes in both economic conditions and anticipated future costs are key components of the long-range forecasting process. The forecast is developed during the annual budget process and updated at midyear based on identified changes to revenue and expenditure indicators and trends. Additionally, if there were significant changes to either revenues and/or expenditures during the year the impact of those changes would be reported to Council as soon as practicable.

The FY2018/19 General Fund forecast anticipates a $4.8 million surplus at the end of FY2018/19. This can mainly be attributed to strong revenue growth, 6% above FY2017/18 across several revenue sources. While General Fund revenues increased by $27.8 million from the FY2017/18 Approved budget, expenditures grew by $25.2 million, and overall expenditures are projected to surpass revenues in all future years of the five-year model.

The five-year forecast allows the City to anticipate potential challenges and make course corrections via budget and operational adjustments. While we will operate with a structurally balanced budget again this year, our five-year budget outlook continues to show that the City will face increasing cost pressures going forward that must be addressed in future years. The most pressing challenges in the forecast are familiar:

- CalPERS pension costs will increase by $47.3 million or 58% over the next five years.
- Labor contracts settled with eight REOs during FY2017/18 added significant ongoing costs. One contract will be negotiated over the next few months for the remaining unit and could add additional ongoing expenditures to the General Fund.
- Rising OPEB costs as the City sees more of the baby boomer generation begin retirement.

The Budget includes the addition of $8.5 million to the existing $5 million commitment of General Fund resources to address future pension increases. These resources will be used to address a portion of the annual pension increases anticipated as a result of the CalPERS discount rate change. Commitments of General Fund resources and existing fund balance, while one-time in nature, will provide the City with the opportunity to address projected deficits in FY2019/20 and help in reducing the deficit in FY2020/21. However, consistent with Council’s adopted policies and guidelines relative to the use of one-time funding, it will be necessary to align ongoing expenditures and revenues over the long-term.

The chart below reflects the variance between ongoing revenues and ongoing expenditures over the term of the forecast. It is essential to understand and evaluate indicators/issues that affect the assumptions included in the forecast. The model used to develop the forecast relies on detailed assumptions related to both revenues and expenditures, distinguishing between ongoing and one-time revenue and costs to further refine the estimates. Details on the assumptions used to develop the forecast are also outlined below.

FY2018/19 General Fund Forecast

General Fund ($ in 000s)	FY19 Projection	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection	FY24 Projection
Total Revenues	**491,128**	**495,532**	**500,249**	**507,731**	**515,980**	**524,712**
Operations	466,400	485,216	500,704	513,015	527,106	536,857
Capital/Multi-year Projects	19,978	19,039	19,389	19,825	19,864	19,864
Total Expenditures	**486,378**	**504,255**	**520,093**	**532,840**	**546,970**	**556,721**
Annual Surplus/(Deficit)	**4,750**	**(8,723)**	**(19,844)**	**(25,109)**	**(30,990)**	**(32,009)**

Consistent with the Council adopted Measure U Policy, the City Manager was directed to prepare a transition plan to address the expiration of Measure U in March 2019. Unfortunately, given the significant growth in General Fund expenditures, adequate resources have not been available to transition Measure U programs to the General Fund with the exception of minor adjustments needed to maintain fiscal balance in the Measure U Fund. The following table depicts the current five-year forecast, including the expiration of Measure U in March 2019.

FY2018/19 General Fund Forecast Including Measure U and Fund Balance

General Fund ($ in 000s)	FY19 Projection	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection	FY24 Projection
Beginning Fund Balance	**8,784**	**2,534**	311	-	-	-
Revenues	491,128	495,532	500,249	507,731	515,980	524,712
Total Resources	**499,912**	**498,066**	**500,560**	**507,731**	**515,980**	**524,712**
Operations	466,400	485,216	500,704	513,015	527,106	536,857
Capital/Multi-year Projects	19,978	19,039	19,389	19,825	19,864	19,864
Total Expenditures	**486,378**	**504,255**	**520,093**	**532,840**	**546,970**	**556,721**
Annual Surplus/(Deficit)	**4,750**	**(8,723)**	**(19,844)**	**(25,109)**	**(30,990)**	**(32,009)**
Commitments/Transfers						
Commitment for Pension Liabilities (existing balance is $5 million)	(8,500)	6,500	7,000	-	-	-
Economic Uncertainty Reserve	(2,500)					
Ending Fund Balance	**2,534**	**311**	**(12,533)**	**(25,109)**	**(30,990)**	**(32,009)**
Loss of Measure U / Measure U Reserve	-	(48,589)	(49,885)	(50,842)	(51,997)	(53,152)
Ending Fund Balance w/Loss of Measure U	**2,534**	**(48,278)**	**(62,418)**	**(75,951)**	**(82,987)**	**(85,161)**

While the City continues to benefit from the economic recovery with revenues growing at a substantial rate, the level of revenue growth forecast for FY2018/19 is unsustainable over the long-term and as stated previously, expenditures are expected to outpace revenues in FY2019/20. Escalating employee salary and benefit costs and the increasing costs of operations and maintenance of aging infrastructure continue to be a challenge.

The strategic use of one-time resources provides a tool to bridge the gap, however, the use of one-time funding for ongoing expenses over the long-term is inconsistent with adopted budget policies and guidelines. Further, this will require extraordinary discipline to ensure those resources remain available for future year budget balancing. Budget sustainability requires that annual operating cost increases be held to a level at or below annual revenue growth and/or cutting or eliminating specific expenditures.

General Fund Expenditures

The single largest expenditure in the General Fund is the cost of our employees who support department operations through the delivery of programs and services to the community. The Budget and forecast include scheduled salary increases based on existing labor agreements. As mentioned above, the forecast does not include future labor cost growth related to upcoming contract negotiations. In FY2018/19 labor costs increased by approximately 8.5% the result of approved salary increases, movement of employees through salary steps and cost increases associated with pension benefits.

The Budget includes two new fiscally responsible actions aimed at addressing known fiscal challenges:

- Commitment for future pension increases: $8.5 million will be set-aside as a commitment to future pension liabilities bringing the pension reserve to $13.5 million. These resources will be used in FY2019/20 and FY2020/21 to offset the known CalPERS cost increases.
- Economic Uncertainty Reserve (EUR): $2.5 million will be added to the EUR. Resources to fund this transfer are offset by an increase in General Fund revenues from the City/County sales tax sharing agreement. Transfer of these resources to the EUR on a one-time basis will maintain the EUR at 10% of revenues over the term of the five-year forecast.

California Public Employees' Retirement System (CalPERS)

On December 21, 2016, the CalPERS Board of Administration (Board) voted to lower the discount rate from 7.5% to 7%. The discount rate reduction was approved after review by the Board of the current funding status of the retirement fund, projected investment return rates over the next decade, an overview of CalPERS assets and liabilities, and discussions with stakeholders. The CalPERS Board last lowered the discount rate, from 7.75% to 7.5%, in 2012.

The reduction plan is as follows, with each change phased in over five years:

FY2018/19: 7.375%
FY2019/20: 7.250%
FY2020/21: 7.000%

The effect of this change will be an increase in employer rates and the associated cost increases will be phased in over an eight-year period. The pension cost (normal cost and unfunded liability combined) in the General Fund alone is projected to be $134 million in FY2024/25 when the rate change is completely phased in. This reflects an increase of more than $66.9 million over the eight years which is a 99.6% cost increase from FY2017/18 to FY2024/25. This is equivalent to an 18.3% salary increase over the eight-year phase in, or 2.3% per year.

In addition, in February 2018, CalPERS changed their amortization policy effective 6/30/2019. The amortization policy change is summarized below:

- Shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years. This change applies only to new gains/losses established on or after the effective date of the policy change.

- Amortization payments for all unfunded accrued liability (UAL) bases will be computed to remain a level dollar amount throughout the amortization period. This change applies only to new UAL bases established on or after the effective date of the policy change.

- Remove the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses established on or after the effective date of the policy change.

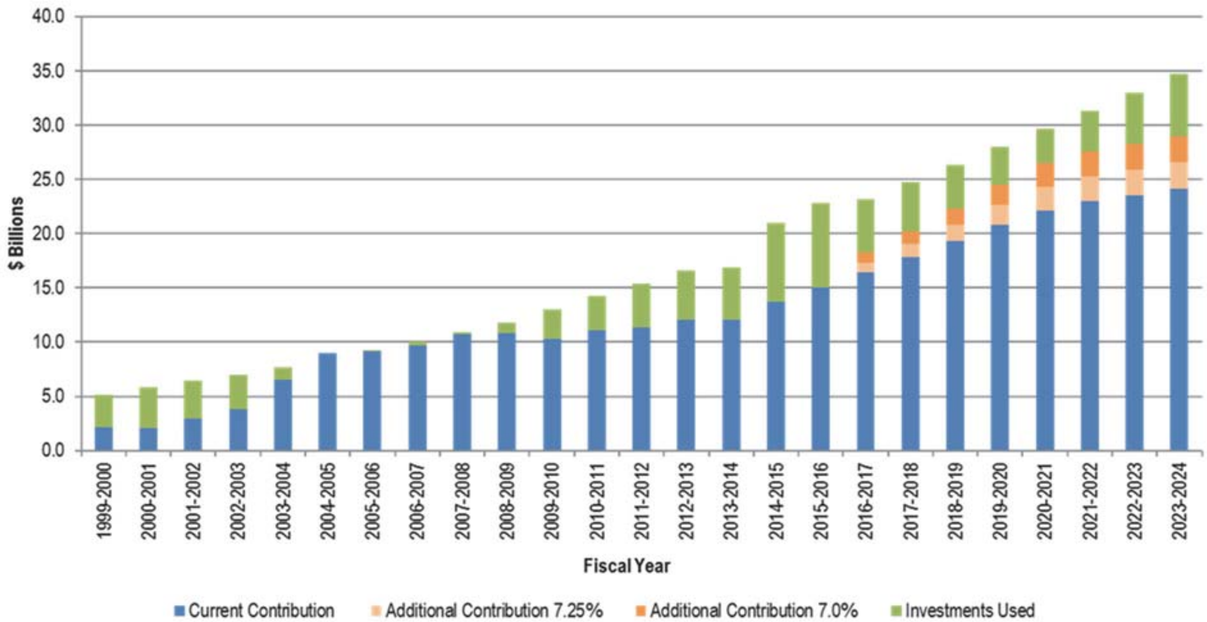
- Remove the 5-year ramp-down on investment gains/losses established on or after the effective date of the policy change.

CalPERS also recently completed a review of the assumptions used in the actuarial valuations through a process called an experience study. An experience study is a summarization of actual system experience over a defined period and, along with future expectations, is used in setting new actuarial assumptions. Experience studies which include reviews of both economic and demographic assumptions are required at least every four years under the Public Employees' Retirement Law. The last study was conducted in 2013 and approved in March 2014.

The experience study resulted in several assumption changes including: mortality, retirement rates (service and disability), salary scale and inflation. All changes will affect the calculation of the required employer contribution. These assumptions will be implemented in the June 30, 2017 Public Agency actuarial valuation, setting employer contribution requirements effective July 1, 2019 for the FY2019/20 budget year.

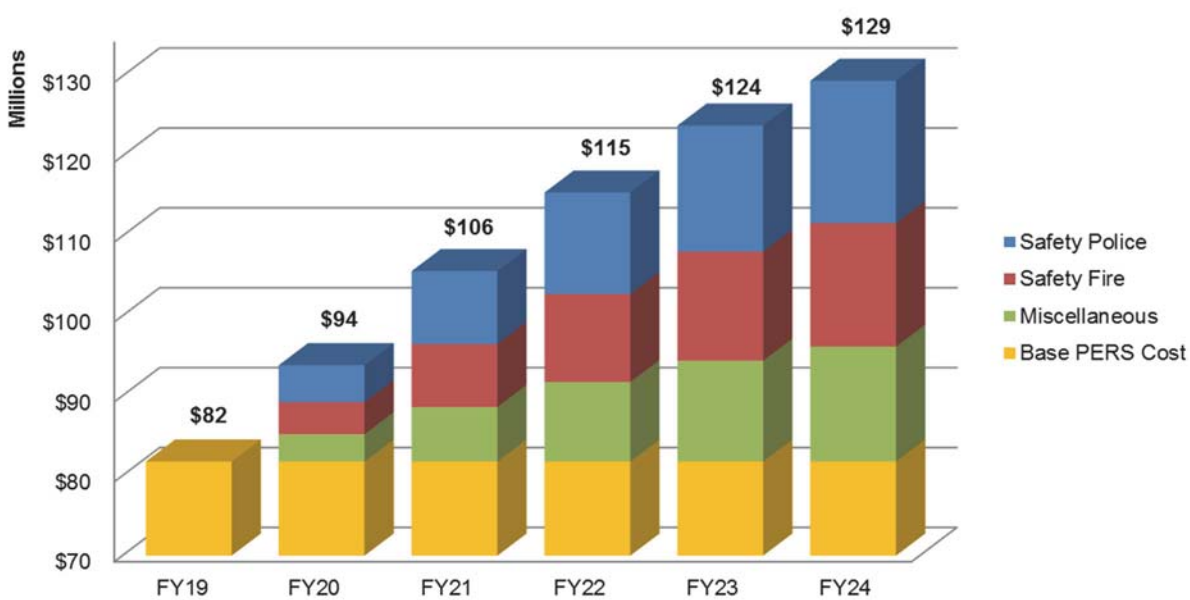
The chart below demonstrates the need for CalPERS to increase contributions to continue to fund pension obligations. Without additional contributions CalPERS will be forced to increase the rate of liquidation of investments to pay benefits ($9 billion in assets are currently being sold annually), further eroding the sustainability of the fund as represented in the following CalPERS graphic.

Historical & Projected Public Employee Retirement Contributions and Investments for Benefit Payments



The following chart demonstrates the anticipated General Fund cost increases for the City's CalPERS pension benefit.

Approved CalPERS Increases in Pension Costs for City of Sacramento Employees



Based on estimated rate increases provided by CalPERS, the City will experience a $47 million increase in pension costs over the term of the forecast from the $82 million budgeted in the General Fund for the current fiscal year to $129 million in FY2023/24. The final year of the phase in for this change is FY2024/25 when the budgeted amount is estimated to be $134 million. These estimates do not include changes related to the amortization policy change or recent experience study. Additional information on the impact of these changes will be known in early fall when the City receives valuation reports for FY2019/20 budget development.

Pension cost increases of this magnitude are unsustainable despite 16% revenue growth over the past two fiscal years. Given the current revenue forecast, the City alone cannot absorb the increased costs of providing retirement benefits. Staff will continue to work on strategies to address these cost increases that balances the City's financial capacity with the value of the benefit to our employees. Additional and or updated information will be provided to Council when becomes available.

- **PERS Contributions:** In FY2017/18 PERS also implemented a significant change in how employers remit required contributions. This change establishes how employers will pay for their pension plans. The following explains the two pieces and the change in budgeting.

  - **Normal Cost (NC) Rate**, represents the annual cost associated with service accrual for the upcoming fiscal year, for active employees. This is paid biweekly through payroll based on filled positions:
    - NC rates are 8.252% for non-sworn (miscellaneous) employees and 18.693% for sworn plus any incentives.
    - The FY2018/19 estimated payment for the NC is $45.4 million for all funds, $39.4 million in the General Fund.
  - **PERS Contributions - Unfunded Accrued Liability (UAL),** represents the amortized dollar amount needed to fund past service credit earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date. This must be paid in a lump sum either annually or monthly.
    - **Miscellaneous plan UAL annual contribution requirement is:**
      - $19.9 million (if paid monthly)
      - $19.2 million (if paid by July 31, 2018)
    - **Safety plan UAL annual contribution requirement is:**
      - $32.3 million (if paid monthly)
      - $31.2 million (if paid by July 31, 2018)

The City Treasurer has confirmed that there is a financial advantage to the City for making a single lump sum payment for the unfunded liability. Accordingly, the lump sum payment has been included in the Budget as in the previous year. This will be evaluated annually as the time will come when there will be insufficient cash available at the beginning of the fiscal year to make the lump sum payment.

Workers' Compensation/General Liability & Auto Liability (GL&AL) Insurance

The City contracts with Bickmore Risk Services (Bickmore) to develop an actuarial estimate which establishes the appropriate amount to budget for claim costs for the coming fiscal year as well as the program's liability for outstanding claims. Bickmore utilizes historical City loss data to forecast the upcoming fiscal year's cost of claims and expenses and the City utilizes the actuary's forecast at the recommended 80% confidence level when budgeting for claim costs and expenses. This means that the calculated amounts should be sufficient 80% of the time to cover the fiscal year's costs for the Workers' Compensation (WC) and GL&AL Funds. Consistent with Council's adopted policy, to maintain this funding level, the General Fund contribution to the GL&AL Fund was increased from $12.71 million in FY2017/18 to $15.71 million in FY2018/19.

Insurance premiums have been rising in recent years, primarily excess liability premiums. These increases are driven by the City's loss history, which has seen an increase in large liability losses since FY2011/12. Additionally, the excess liability insurance market for public entities has tightened nationwide due to challenges related to recent highly publicized liability claims.

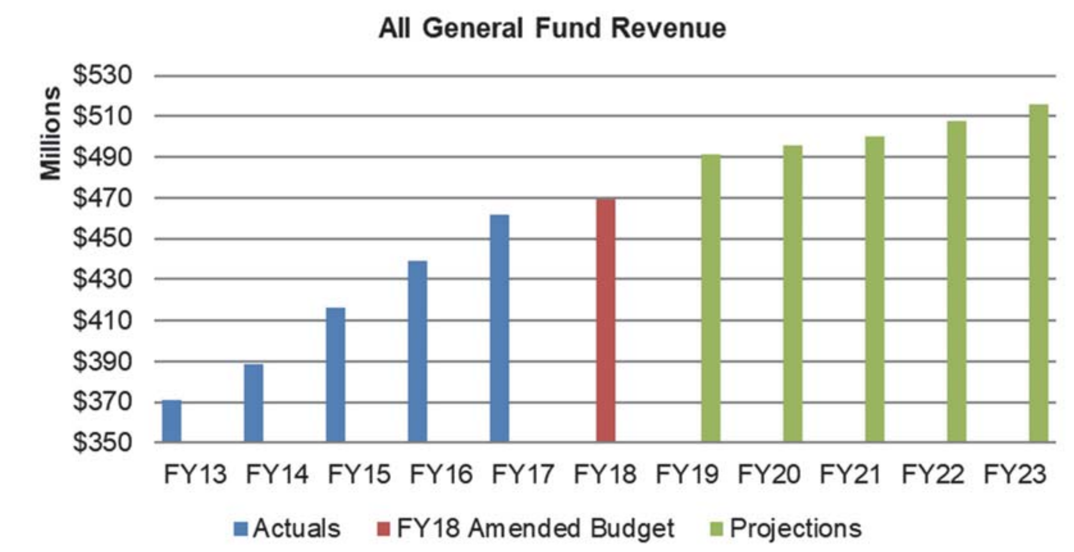
The City Auditor's audit of the Risk Management Division in November 2016, recommended the General Fund pay 100% of its portion of the GL&AL and WC actuarial cost allocations. The City began fully funding the requirement in FY2016/17 on a go forward basis. In addition, the auditor's report recommended increasing General Fund contributions at a greater rate than budgeted in the FY2016/17 five-year forecast to ensure sufficient funding levels in the GL&AL Fund and WC Fund. The FY2018/19 budget includes $3.7 million above the FY2017/18 funding level and the five-year forecast includes an additional $3 million over the term of the forecast.

The graph below details the general liability, auto liability and workers' compensation cost allocations for the General Fund over the past five fiscal years.

Insurance Cost Allocation for the General Fund

General Fund Revenues

A major highlight in the Budget is that the City's General Fund revenue stream continues to grow across most categories. The two major drivers of the City's improved economic condition continue to be exceptional property and sales tax growth. These two taxes comprise 49% of all General Fund revenue (32% property taxes, 17% sales taxes) and are anticipated to grow 6% and 3.4% respectively in the budget year. Rounding out the top three revenue sources is UUT, at 13%, with estimated growth of just 0.59% for reasons detailed in the UUT section below. Overall General Fund revenues are projected to grow in FY2018/19 by 5.9% compared to the FY2017/18 Approved Budget.



The following charts provide a summary of the City's major revenue sources. A detailed explanation, including the current indicators guiding the development of the forecast for specific revenues is included below.

Revenue Source	FY2018/19 Proposed	FY2019/20 Projected	FY2020/21 Projected	FY2021/22 Projected	FY2022/23 Projected
Property Tax	157,875	162,387	167,035	171,824	176,757
Sales Tax	81,271	84,035	86,976	89,759	92,901
Utility User Tax	62,539	62,851	63,165	63,481	63,799
Other Revenue/Other Sources	189,443	186,259	183,073	182,667	182,523
Total General Fund Revenue	**491,128**	**495,532**	**500,249**	**507,731**	**515,980**

Property Tax

Property taxes account for 32% of all General Fund revenues. 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.

According to the Urban Land Institute 2018 Emerging Trends in Real Estate, the Sacramento local economy is still improving, and the real estate market shows potential. The National shift towards urban living and the synergetic growth in downtown Sacramento have created a new market for development. The lack of affordability in the Bay Area/Silicon Valley has had a significant effect on the Sacramento market, with more Bay Area transplants moving to Sacramento thereby increasing rent and housing costs.

Overall Real Estate Prospects for the Sacramento Region

Category	National Rank
Median Homes Price 2017-2018 % Change	4th
Development/Redevelopment Opportunities	37th
3 Year Projected Growth	T39th
Investor Demand	40th
Homebuilding Prospects	43rd
Overall Real Estate Prospects	47th
Data provided by the Urban Land Institute 2018 Emerging Trends in Real Estate	

The Sacramento Business Review (January 2018), reported that vacancy rates continue to decline, and rental rates are increasing for both commercial and industrial properties. Investing demand remains high, however supply in the region is limited. A tight labor pool, along with regulatory compliance, permits and fees are key barriers to allowing for more speculative construction. Median homes prices are expected to continue to increase but may be more tempered than last year. Sacramento is still experiencing moderate and continued growth and absorption (the rate at which homes are sold) across all property types and in many different sectors.

Consistent with current Council budget guidelines, property tax growth in the former redevelopment areas will accrue to the Innovation and Growth Fund, except for the possessory interest tax paid on the Golden 1 Center, which will be used for the associated debt service.

Total assessed value for Sacramento County's 2017-18 secured and unsecured roll surpassed $157 billion, an increase of 6.41% countywide. Additionally, the Sacramento County Assessor's (Assessor) 2017 Annual Report and monthly reports have highlighted several positive barometers for the City of Sacramento as follows:

- Total gross assessed value of secured/unsecured properties in the city grew 7% from FY2016/17 to FY2017/18.

- Number of city parcels increased from 169,264 in FY2016/17 to 170,712 in FY2017/18.

- City properties with Proposition 8 assessments (temporary reduction in property taxes due) decreased from 16,161 in March 2017 to 11,409 in March 2018, a 29.4% decrease.

The graph below illustrates the assessed roll value that remains to be restored because of the housing crash during the recession. Restoration of Proposition 13 values happens annually, while reductions as the result of a Proposition 8 appeal can be applied to the tax roll at any time during the year.

Summary of Proposition 8 Assessments by Land Use

Property Type	Prop 8	Prop 13	% of Full Value
Single-Family Residence	3,190,557,722	4,028,092,230	79%
Commercial	1,998,893,702	2,817,330,509	71%
Multi-Family Residence	592,418,722	820,330,357	72%
Industrial	374,604,823	503,398,416	74%
Others	134,580,908	194,960,970	69%
City Total	**6,291,055,877**	**8,364,112,482**	**75%**

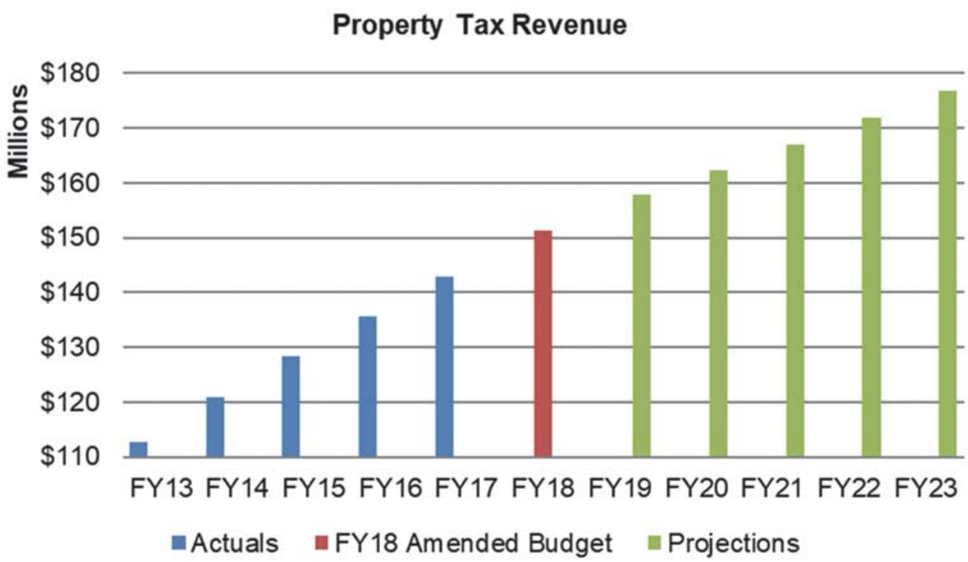
Early indications from the Assessor are once again positive and when the 2018 property tax valuations are finalized in early July the City will continue to see Proposition 8 values return to their higher Proposition 13 values. Because the Assessor does not complete the work on the tax roll until after the Budget is adopted, the forecast for property tax revenues is based on the Assessor's "work in progress" and will be re-evaluated when final information is received in July. Any significant variance will be reported as part of the FY2018/19 Midyear Review.

Based on the most recent data from the Assessor and the improving economy in the region, the property tax secured forecast for FY2018/19 is 6% higher than the FY2017/18 Amended Budget and estimates over the term of the forecast include annual growth of 3% assuming the application of the full 2% Proposition 13 growth factor and that Proposition 8 properties will continue to be restored to their Proposition 13 values on the tax roll over time.

The two property tax categories below increased by $5.3 million from the FY2017/18 Approved Budget to the FY2018/19 Proposed Budget. These increases account for 19% of the entire FY2018/19 General Fund revenue growth.

Property Tax Revenue Changes ($ in 000s)

Tax Category	FY2017/18 Approved	FY2017/18 Amended	FY2018/19 Proposed
Property Tax In Lieu of Vehicle License Fees	39,867	41,487	42,259
Property Transfer Tax	11,500	14,100	14,375
Total Change	**51,367**	**55,587**	**56,634**

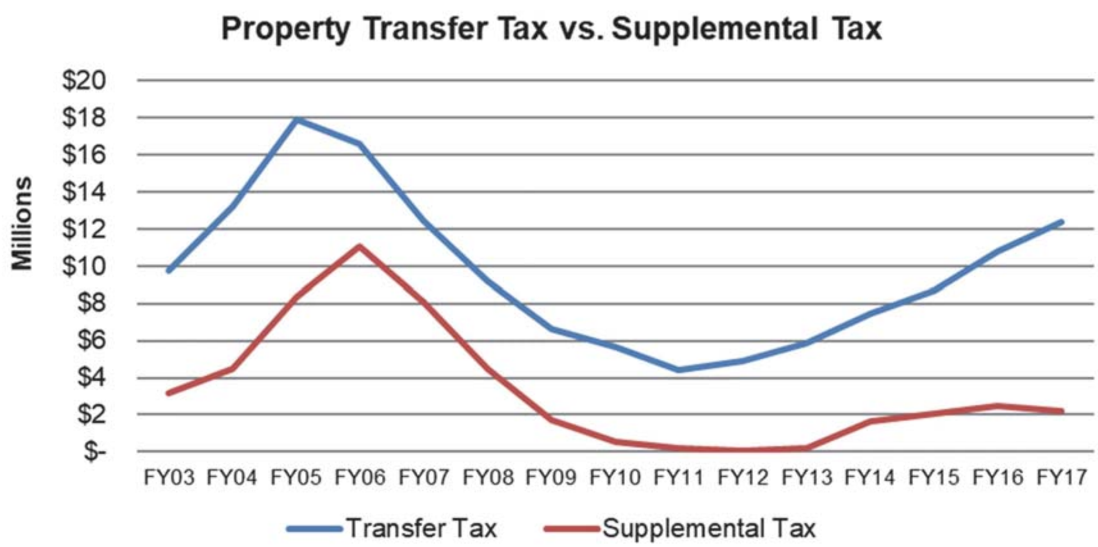


What are Property Transfer Tax and Supplemental Property Tax?
Real Property Transfer Tax - A charge imposed by the City upon the passing of title from one owner to another. The City charges $2.75 for every $1,000 of the property's sale price (0.00275%). This revenue stream has fluctuated significantly ranging as high as $18 million in FY2004/05 to a low of $4.4 million in FY2010/11.

Supplemental Property Tax - A supplemental tax bill is generated when a property is reassessed due to a change in ownership (a sale, transfer, or transfer of fractional interest) or the result of new construction. The supplemental tax bill reflects any increase or decrease in property tax generated by the supplemental event.

These two sources of revenue can be very volatile, fluctuating with the housing market, reaching a combined high of $27.7 million in FY2005/06 and a low of $4.6 million in FY2010/11. While we remain confident that Property Transfer Tax and Supplemental

Property Tax will continue to rebound from their FY2010/11 low points, the volatility of these revenues make them very challenging to forecast. Both revenue streams are experiencing their seventh consecutive year of growth but remain just 53% of their highs in FY2005/06. The graph below reflects the significant effect the recession had on these revenue sources and the gradual rebound over the past four years. Given the volatility of these revenues it is especially important to be aware of market trends and adjust early should overall sales volume and price decrease dramatically.



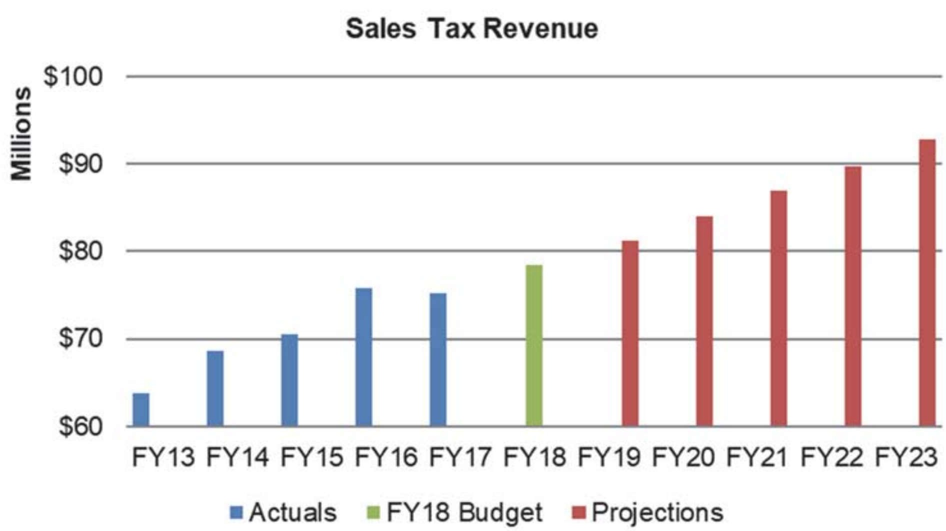
Sales and Use Tax (Sales Tax)

Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas use tax is imposed on the purchase for storage, use, or other consumption of tangible personal property purchased from any retailer within the city. Sales tax accounts for 17% of all General Fund revenue. The General Fund receives only 1 cent of every 8.25 cents paid per dollar sale in Sacramento.

Over the last four quarters (1st Quarter 2017 – 4th Quarter 2017), the City's sales tax has increased 5.9% compared to the prior four quarters. Statewide sales tax increased by 3.6% during the same period. For the benchmark year ending 4th Quarter 2017 the City has seen its highest level of sales tax receipts compared to the previous seven benchmark years across several economic segments including restaurants, wholesale building materials, food markets, retail building materials, auto repair, used auto sales, leasing and electronic equipment.

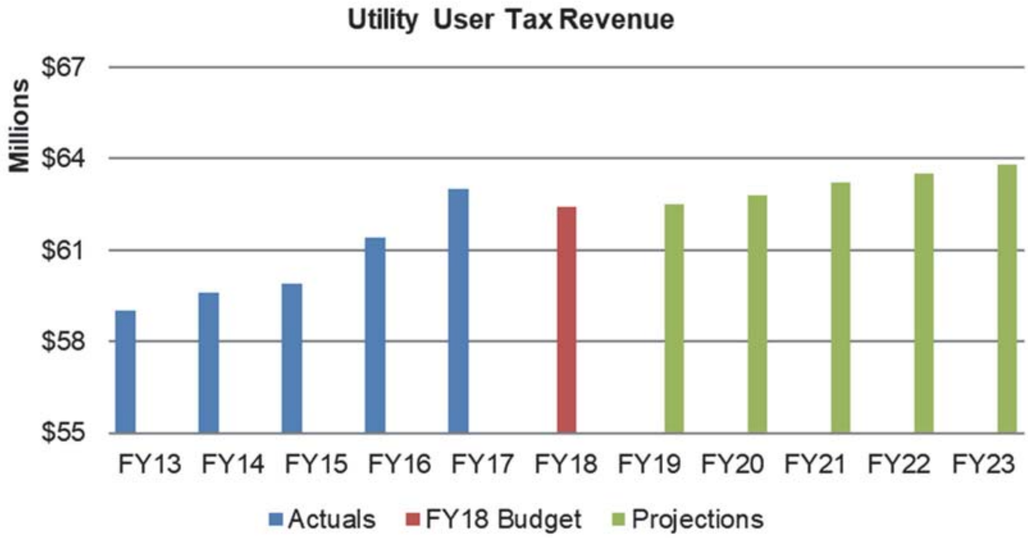
Sales Tax Breakdown by Economic Segment	
General Retail	26.7%
Food Products	23.7%
Transportation	19.5%
Business to Business	14.5%
Construction	13.7%
Miscellaneous	1.9%
Total	**100.0%**

Based on the most recent information from MuniServices, the City's sales tax consultant, growth projections are estimated at 3.5% in FY2018/19 and 3.2% - 3.5% annually from FY2019/20 through FY2023/24.



UUT

UUT is a usage tax on communication, electric and gas charges billed to a billing or service address in the City as authorized by City Code (Section 3.40). Measure O was approved by the voters in November 2008, reducing the 7.5% tax rate to 7% on telecommunication services, but was expanded to include Voice over Internet Protocol (VoIP), text messaging and many other previously excluded technologies. The 7.5% tax rate continues to be in effect for gas, electric, and cable services. UUT is the City's third largest revenue source, accounting for 13% of all General Fund revenue. UUT has been the most consistent revenue stream over the past five years but also faces the most adversity with industry regulation and the market growth of unregulated media platforms.



Following are details on the five components that comprise the UUT.

Cable Subscriptions – Cable revenues fell 5% during FY2016/17. Based on recent market surveys the number one reason for cutting the cord was due to increasing cable prices. Fed up with high-prices and bloated packages millions of Americans "cut the cord" on cable television in 2017 and found a growing list of streaming services which deliver lower prices and competitive channel offerings over the internet and are not currently subject to the UUT. Projections for subscribers cancelling subscriptions in 2018 are expected to reach 31 million with California among the top five states among cord-cutters. The City's cable revenue has increased by 4.7%, or $281,000, during the first six months of FY2017/18 versus the same period in FY2016/17. Over the long-term customers will likely continue to seek cheaper alternatives as prices continue to rise.

Electricity – According to the most recent data from the Energy Information Administration (EIA), the average U.S. retail price of electricity to the residential sector is projected to be 13.2 cents per kilowatt hours (kWh) in 2018 compared to 12.5 cents in 2017. The EIA projects that retail sales of electricity to the residential sector in 2018 will be 2.9% higher than last year. During the first six months of FY2017/18, the City's electricity UUT revenue increased by 3.8% compared to the same period in FY2016/17. Electricity is the largest component of UUT revenue, accounting for approximately 46% of the revenue stream.

Natural Gas – The EIA forecasts residential natural gas prices to be 11% higher than last year. Although natural gas prices decreased to record levels last year, it did not have a significant impact on the rates charged by the utility providers. According to the EIA, natural gas has surpassed coal as the number one source of fuel generation and will continue to grow in importance. The City's UUT revenue associated with natural gas represents 13% of the total and has increased by 1% through the first six months of FY2017/18.

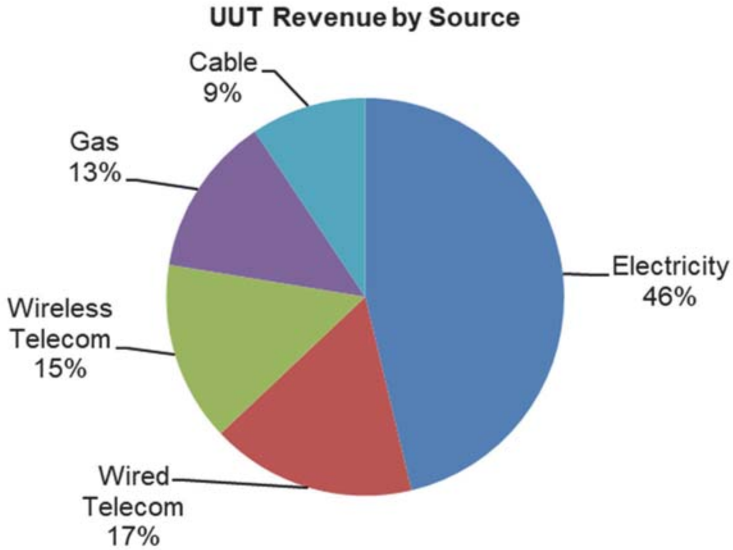
<u>Wired Telecommunications</u> – Wired telecom revenues decreased by 4% in FY2016/17 and this trend is expected to continue. Wired revenues are forecasted to decrease 5-6% nationally in 2018 due to increased competition and the commoditization of services. Revenue forecasts could be affected if any major merger and acquisition activity takes place through a more supportive regulatory environment in Washington.

Customers will continue to switch to wireless and move to cable for Voice Over Internet Protocol {VOIP} as less expensive alternatives. In the business sector, it is expected that wireline companies will continue to face aggressive competition from the cable operators which are building their market share through modernizing their underlying infrastructure via cable/fiber placement and software updates. Wired UUT revenue accounts for approximately 15% of the total UUT base; however, the revenue stream has decreased by 42% since FY1999/00.

<u>Wireless Telecommunications</u> – Wireless revenue decreased by 10% in FY2016/17 or $935,000. For 2018, the outlook is a continuation of developments that took place in 2017 such as intensified market competition and the increased commoditization of services. The regulatory environment favoring more competition will limit industry consolidation and market share imbalances will prevent significant improvements in short-term industry profitability.

Providers like T-Mobile and Sprint continue to drive the industry by offering lower pricing and unlimited data which has taken a toll on both postpaid and prepaid subscription rates. In addition, cable operators began offering wireless services in the 2nd Quarter of 2017 and will compete to increase their market share in 2018. While the bundling of broadband, wired, wireless and cable TV services allows these providers to sell more products, the price erosion per product typically ensues (given bundle discounts) which then requires growth of multi-play penetration to avoid losing market share. Industry predictions of low-single digit percent revenue declines in 2018 are based on very limited subscriber growth and lower than average revenue per unit (APRU).

If there is a silver lining for Wireless UUT, it will be AB 1717 that went into effect in January 2016. AB 1717 provides a collection mechanism for prepaid (non-contract) wireless services. During the first six months of FY2017/18, wireless UUT revenues have decreased by 10.3% or $826,000 versus the same period in FY2016/17. Revenues from prepaid wireless have increased by 5.4% or $62,000 during the same six-month period.



Ups and downs within the five components of UUT revenue have continued to offset each other negating significant losses or gains over the past few years. Based on actual revenues collected over the past five years, UUT is projected to grow by 2.0% in FY2018/19 with annual growth projected from FY2019/20 through FY2021/24 at 0.5% annually. However, three of the five UUT components declined last year and industry trends and regulations have changed and gas/electricity may not be able to continue to sustain growth to offset losses by cable, wired and wireless communications.

Fees and Charges
Local government has the ability to implement fees to fund City facilities, infrastructure, and services. There are five main categories of fees that the City currently implements:

- Impact/development fees
- Penalties/Fines
- Regulatory fees
- Rental fees
- Service fees

On February 7, 2006 (Resolution 2006-106), the Council formally adopted a citywide Fees and Charges Policy. This policy ensures that fees and charges reflect the Council's direction regarding recovery of costs related to providing programs and services. The policy sets the guidelines for cost recovery goals, determines the categories of cost recovery levels and allows for establishment and modification for fees and charges. If a fee is not adjusted in the budget process, to the extent feasible and/or appropriate, it should be increased biennially by a CPI factor to keep pace with inflation.

Beginning in FY2014/15 the City used the State of California Department of Industrial Relations CPI, which is the same index used by the County Assessor to adjust the annual property tax roll for inflation. As part of the annual budget process, the Finance Department takes a report to the Budget and Audit Committee in early May to discuss proposed changes to citywide fees and charges. After the Committee's feedback is incorporated, the report goes to the Council for adoption as part of the budget hearings. The annual review of citywide fees and charges helps to ensure that the City's recovery of costs for services keeps pace with changes in the cost-of-living index, as well as changes in methods or levels of service delivery. Fees and charges make up approximately 12% of General Fund revenues.

Measure U Fund

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of a six-year, one-half cent transaction and use tax effective April 1, 2013, which expires on March 31, 2019. A reserve has been established to provide contingency funding to address unanticipated revenue changes and to continue to provide sufficient funding for the programs through the end of FY2018/19.

FY2018/19 Measure U Fund Forecast

Revenues and Expenditures (in 000s)	FY19 FTE Proposed	FY2017/18 Amended	FY2018/19 Proposed	FY2019/20 Projection	FY2020/21 Projection
BEGINNING FUND BALANCE		**35,650**	**15,753**	**4,968**	**(43,621)**
Revenues		**46,542**	**36,543**	**-**	**-**
Expenditures					
Fire Department	90.00	13,139	13,271	13,669	14,079
Police Department	195.00	23,910	23,921	24,640	25,379
Youth, Parks, & Community Enrichment	137.08	9,768	9,630	9,774	9,921
Miscellaneous Restorations	-	668	506	506	506
Total Measure U Expenditures	422.08	47,485	47,328	48,589	49,885
One-time Uses					
Total Measure U One-time Funding		18,954	-	-	-
ENDING FUND BALANCE		**15,753**	**4,968**	**(43,621)**	**(93,506)**

The Measure U forecast has been updated to reflect the following:

- FY2017/18 – Budget as approved to date by Council
- FY2018/19 – Budget including:
  - Transfer of $2.7 million in expenditures funding 42.5 FTE positions to the General Fund.
  - No additional capital projects or one-time funding added.
- FY2019/20 – FY2020/21 – forecast assumes:
  - The expiration of the Measure U one-half cent transaction and use tax, but ongoing expenditures.

Revenues: Based on a true up of three quarters of annual receipts for FY2017/18, revenues are projected to be $36.5 million and reduced to zero for FY2019/20 and beyond given the expiration of the tax in March 2019.

Programs and Services:
The Budget includes $47.3 million for the restoration of ongoing programs and services in the Fire, Police, and Youth, Parks, & Community Enrichment (YPCE) departments as well as funding for the Sacramento Public Library Authority.

Fire Department – $13.3 million

- Resources to staff all companies and retain positions associated with the staffing for Fire Emergency Response (SAFER) grant.

Police – $23.9 million

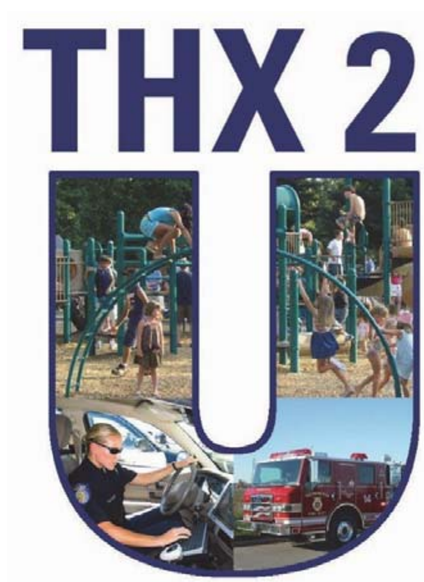
- Match/retention funding associated with grant-funded police officer positions and continued funding of the ShotSpotter audio gunfire detection system.

YPCE– $9.6 million

- Resources to restore park maintenance operations and park security, operation of 12 City swimming pools and five stand-alone wading pools, children's summer programs, and year-round sports camps, extension of hours, and programs at the City's community centers for youth and older adults.

Sacramento Public Library Authority (SPLA) - $0.5 million

- Restoration of the General Fund Maintenance of Effort (MOE) requirement. Additional information on the MOE is provided in the Citywide and Community Support section of the Budget.



Measure U Restoration Plan

Revenues and Expenditures ($ in 000s)	FY19 FTE Proposed	FY2017/18 Amended	FY2018/19 Proposed	FY2019/20 Projection	FY2020/21 Projection
BEGINNING FUND BALANCE		**35,650**	**15,753**	**4,968**	**(43,621)**
REVENUES		**46,542**	**36,543**	**-**	**-**
EXPENDITURES					
Fire Department					
SAFER Grant Retention	27.00	2,803	2,803	2,887	2,974
Fire Company Restorations	63.00	9,308	10,468	10,782	11,105
Two Medic Units - January 2014 *(partially offset by $1.2 million in new revenues)*	-	875	-	-	-
Fire Prevention	-	152	-	-	-
Capital Investment and Equipment	-	5,186	-	-	-
Fire Subtotal	**90.00**	**18,324**	**13,271**	**13,669**	**14,079**
Police Department					
COPS Hiring Program Match and Retention *(CHP and CHRP)*	60.00	5,483	5,483	5,648	5,817
COPS Hiring Program (CHP) Match and Retention FY13 - New in FY15	10.00	1,214	1,435	1,478	1,522
COPS Hiring Program *(CHP)* Match and Retention FY14 and 15 vehicles in FY16	15.00	1,134	1,920	1,978	2,037
COPS Hiring Program *(CHP)* Match and Retention FY15 and 15 vehicles in FY17	15.00	1,051	1,370	1,411	1,453
Police Officers	15.00	1,648	1,872	1,928	1,986
Body Worn Cameras (BWC)	-	1,201	-	-	-
ShotSpotter	-	180	180	185	190
Public Safety Counter *(Kinney Station)*	-	247	-	-	-
Field & Operations *(12.0 new FTE in FY15)*	61.00	8,539	9,115	9,389	9,671
Investigations (*2.0 new FTE in FY15*)	8.00	1,131	1,382	1,423	1,466
Forensics	6.00	608	636	655	675
Communications	4.00	359	409	422	435
Crime Analysis	1.00	115	119	123	127
Hiring Pipeline	-	1,000	-	-	-
Vehicles and Equipment	-	1,642	-	-	-
Police Subtotal	**195.00**	**25,552**	**23,921**	**24,640**	**25,379**
Public Safety Total	**285.00**	**43,876**	**37,192**	**38,309**	**39,458**
Youth, Parks, and Community Enrichment					
Aquatics	38.85	2,153	2,145	2,177	2,210
Community Centers	24.70	1,494	1,691	1,716	1,742
Park Maintenance (*includes Park Rangers*)	53.00	4,242	4,180	4,243	4,307
Senior Programs	4.48	371	367	373	378
Teen Services	11.30	660	896	909	923
Neighborhood Services	1.00	535	128	130	132
Other Recreation Programs	3.75	313	223	226	230
Capital Investment and Equipment	-	7,246	-	-	-
Youth, Parks, and Community Enrichment Subtotal	**137.08**	**17,014**	**9,630**	**9,774**	**9,921**
MISCELLANEOUS RESTORATIONS					
Animal Control Officer	-	262	-	-	-
Capital Investment - Sacramento River Bike Trail	-	2,300	-	-	-
Library Restoration and Capital Investment	-	2,987	506	506	506
Miscellaneous Subtotal	**-**	**5,549**	**506**	**506**	**506**
Total Measure U Restorations	**422.08**	**66,439**	**47,328**	**48,589**	**49,885**
ENDING FUND BALANCE		**15,753**	**4,968**	**(43,621)**	**(93,506)**

Enterprise Funds

The Enterprise Funds reflect the anticipated revenues and expenditures necessary to sustain operational needs, replace aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the funds.

The following chart provides an overview of the proposed changes included in the FY2018/19 Budget for the Enterprise Funds:

Department	Description	Fund	Expenditure Change	FTE Change
Public Works	Add a position (1.0 FTE Program Analyst) to support compliance with statewide mandates to reduce organic waste.	Solid Waste	115,577	1.00
Utilities	Add staffing to maintain generators, complete the Security Master Plan, and maintain regualtory compliance.	Storm Drainage	907,664	5.00
Utilities	Add staffing and services and supplies to meet customer service performance goals and regulatory requirements, and to support the Asset Management Program.	Water	1,750,629	9.00
		Total Change	**$ 2,773,870**	**15.00**

Additional information on each of these initiatives can be found in the related department sections.

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 the Enterprise Funds.

Fund	Status
Community Center	Transient Occupancy Tax (TOT) revenues are projected to grow by 15% in FY2018/19 compared to FY2017/18 approved budget. Expenditures are continually monitored to ensure prudent use of resources and an appropriate fund balance.
Parking	The fund is balanced over the five-year period based on stable revenue growth due to expected occupancy increases and anticipated revenues from the Golden 1 Center. Revenues are projected to remain steady in FY2018/19 and then increase by 1% annually. Expenditures are projected to grow by approximately 2% annually. Debt service costs are expected to decrease beginning in FY2020/21.
Solid Waste	The anticipated revenue from the three-year rate adjustment approved in FY2015/16 did not meet the City's 2035 General Plan growth forecast. As a result, expenditures are continuing to exceed revenues. The use of fund balance is helping to bridge the gap, however, as reflected in the forecast, fund balance will be depleted in FY2020/21 unless rate increases or program changes are approved.
Storm Drainage	No rate increase is included in the five-year forecast. As such, the budget continues to rely on the use of reserves to cover expenditures that exceed revenues. Pursuant to Proposition 218, a voter-approved ballot measure is required to increase rates, which will be necessary in the near future to sustain operational, capital, and regulatory requirements as fund reserves are diminishing.
Wastewater, Water	The anticipated revenue from the four-year rate increased approved by Council beginning in FY2016/17 (10% per year for Water and 9% per year for Wastewater) are included in the forecast. The additional revenues will provide sufficient resources to continue critical infrastructure repair and rehabilitation, as well as to ensure compliance with state and federal regulations.

The following charts provide 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

	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
Beginning Fund Balance	8,929	14,168	21,090	36,603	54,653
Revenue	34,607	32,075	36,439	39,732	42,809
Expenditures	29,038	25,112	28,574	21,432	21,743
Other Source/(Use)	(330)	(41)	7,648	(250)	(250)
Ending Funding Balance	**14,168**	**21,090**	**36,603**	**54,653**	**75,469**

Parking Fund

	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
Beginning Fund Balance	5,235	4,454	3,737	3,465	4,080
Revenue	19,818	20,081	20,331	20,530	20,732
Expenditures	20,586	20,798	20,604	19,915	20,168
Other Source/(Use)	(14)	-	-	-	-
Ending Funding Balance	**4,454**	**3,737**	**3,465**	**4,080**	**4,644**

Solid Waste Fund

	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
Beginning Fund Balance	19,125	15,325	9,118	700	(10,852)
Revenue	63,412	63,881	64,353	64,828	65,307
Expenditures	66,997	70,088	72,770	76,380	80,366
Other Source/(Use)	(215)	-	-	-	-
Ending Funding Balance	**15,325**	**9,118**	**700**	**(10,852)**	**(25,911)**

Storm Drainage Fund

	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
Beginning Fund Balance	18,969	16,987	14,002	9,632	6,753
Revenue	37,589	37,606	37,610	37,615	37,619
Expenditures	39,438	40,591	41,980	40,493	41,838
Other Source/(Use)	(133)	-	-	-	-
Ending Funding Balance	**16,987**	**14,002**	**9,632**	**6,753**	**2,534**

Wastewater Fund

	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
Beginning Fund Balance	11,542	12,241	15,805	13,348	14,699
Revenue	40,875	45,724	45,947	46,037	46,129
Expenditures	40,153	42,161	48,404	44,686	42,743
Other Source/(Use)	(23)	-	-	-	-
Ending Funding Balance	**12,241**	**15,805**	**13,348**	**14,699**	**18,085**

Water Fund

	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
Beginning Fund Balance	64,199	75,325	96,203	104,593	112,619
Revenue	127,223	138,424	138,479	138,536	138,597
Expenditures	115,722	117,545	119,841	130,510	134,211
Other Source/(Use)	(374)	-	(10,248)	-	-
Ending Funding Balance	**75,325**	**96,203**	**104,593**	**112,619**	**117,005**

Community Center Fund (6010)

The Community Center Fund supports the operation, debt service, and CIP for the Sacramento Convention Center Complex, which includes the Convention Center, Memorial Auditorium, and Community Center Theater. The fund also provides support to cultural partners and the General Fund. The operational/financial goals for the Community Center Fund 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.

TOT revenues have experienced significant growth in recent years. Revenues are projected to grow by 15% compared to the FY2017/18 Approved Budget.

In 1997, to maintain the financial integrity of the Community Center Fund, the Council approved a loan of up to $12 million from the Risk Fund to offset any year-end deficit. Total borrowing was $10.4 million, including interest. Repayment of the interfund loan began in FY2005/06 and has continued each year. An annual payment of $250,000 is budgeted in FY2018/19 with payments continuing in future years. As of the beginning of FY2017/18, there is a remaining balance due of approximately $5.6 million.

The City remains committed to providing an accessible, attractive and competitive complex for clients and patrons. On October 18, 2016, Council directed staff to move forward with the Community Center Theater Renovation and Memorial Auditorium Upgrade projects, and to continue to refine the concept plans for the Convention Center Expansion project. Funding for these projects will be through the Convention Center Complex Renovation Program (M17100100).

In FY2016/17, a total of $11 million was transferred to the Convention Center Complex Renovation Program (M17100100) through interfund loans ($3.8 million from the General Fund, $3.8 million from the Innovation and Growth Fund, and $3.4 million from the Community Center Fund). It is anticipated that the interfund loans will be paid back through financing received from IBank loans and/or bond proceeds for the Convention Center Complex Renovation project.

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

	FY18 Approved	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
BEGINNING FUND BALANCE	**4,344**	**8,929**	**14,168**	**21,090**	**36,603**	**54,653**
REVENUES						
TOT[1]	22,563	26,033	26,324	27,553	30,530	33,299
Charges, Fees, and/or Services[2]	7,644	7,725	4,937	8,112	8,274	8,440
Interest	67	200	159	127	275	410
Other (Facility Fee)	628	649	655	647	653	660
TOTAL REVENUES	**30,902**	**34,607**	**32,075**	**36,439**	**39,732**	**42,809**
EXPENDITURES						
Operating - Employee Services	7,264	7,499	5,873	8,408	8,828	9,270
Operating - Other	8,955	8,780	8,630	9,693	9,954	10,223
Debt Service[3][4]	8,179	8,170	8,159	8,148	250	250
Multi-Year Operating Projects	-	-	-	-	-	-
Capital Improvements	3,450	4,589	2,450	2,325	2,400	2,000
TOTAL EXPENDITURES	**27,848**	**29,038**	**25,112**	**28,574**	**21,432**	**21,743**
ANNUAL SURPLUS/(DEFICIT)	**3,054**	**5,569**	**6,963**	**7,865**	**18,300**	**21,066**
Other Source/(Use)	(250)	(330)	(41)	7,648	(250)	(250)
ENDING FUND BALANCE[5]	**7,148**	**14,168**	**21,090**	**36,603**	**54,653**	**75,469**

(1) TOT amounts based on information provided by CBRE on 1/25/2018.

(2) The Convention Center and Community Center Theater are anticipated to be closed for most of FY2019/20 for renovation.

(3) This does not include any potential increases in debt service due to bonds/loans received for the Convention Center Complex Renovation project.

(4) The final debt service payments of the 1993 Series A & B bonds on 5/1/2020 and 11/1/2020 w ill be offset by the Reserve Fund.

(5) The difference betw een FY2017/18 ending fund balance and FY2018/19 beginning fund balance is due to budget amendments not included in this forecast.

Parking Fund (Fund 6004)

The City of Sacramento operates five City parking garages and 43 surface parking lots. These include garages and surface parking lots that are managed for the State of California and numerous private owners to increase parking availability for residents and visitors. The Parking Services Division also manages over 60,000 square feet of retail space within the various City parking structures.

Parking fee and administrative fee revenues are not projected to change in total from FY2017/18, however a 1% annual increase is included beginning in FY2019/20. The steady increase in parking fees for FY2019/20 through FY2022/23 is due to expected occupancy increases and anticipated revenues from Golden 1 Center events. Rental revenue is based on current and anticipated leases with no change projected in FY2018/19 but an 11% increase in FY2019/20 due to future anticipated leases and CPI increases to current rents, then an 8% increase in FY2020/21 and 1% increases annually thereafter. Expenses have a 6% increase in FY2018/19, a 3% increase in FY2019/20 and are projected to grow at 2% annually thereafter. Debt service will remain fairly constant at $7 million per year until FY2020/21 when debt service will begin to decrease as a result of debt retirement.

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

	FY18 Approved	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
BEGINNING FUND BALANCE	**3,658**	**5,235**	**4,454**	**3,737**	**3,465**	**4,080**
REVENUES						
Parking Fees	18,195	18,120	18,307	18,495	18,686	18,879
Administrative Fees	350	424	424	424	424	424
Interest (Operating Funds)	600	600	600	600	600	600
Real Property Rental	674	674	750	812	820	829
TOTAL REVENUES	**19,818**	**19,818**	**20,081**	**20,331**	**20,530**	**20,732**
EXPENDITURES						
Operating - Employee Services	4,929	5,225	5,396	5,504	5,614	5,726
Operating - Other	7,155	7,258	7,323	7,455	7,810	7,947
Debt Service	7,073	7,045	7,043	6,609	5,676	5,680
Multi-Year Operating Projects	100	321	321	321	100	100
Capital Improvements	991	737	715	715	715	715
TOTAL EXPENDITURES	**20,249**	**20,586**	**20,798**	**20,604**	**19,915**	**20,168**
ANNUAL SURPLUS/(DEFICIT)	**(431)**	**(768)**	**(717)**	**(273)**	**615**	**564**
Other Source/(Use) [1]	-	(14)	-	-	-	-
ENDING FUND BALANCE[2]	**3,228**	**4,454**	**3,737**	**3,465**	**4,080**	**4,644**

[1] Other source/(uses) reflect required SCERS payment in FY2018/19.

[2] The difference betw een FY2017/18 ending fund balance and FY2018/19 beginning fund balance is due to budget amendments not included in this forecast.

Solid Waste Fund (6007)

The revenues in the Solid Waste Fund are generated through user service fees collected for residential solid waste management services. The Recycling and Solid Waste Division (RSWD) manages the collection and disposal of garbage, yard waste, and recyclables. In addition to direct solid waste services the RSWD provides on-going post closure monitoring of landfills, street sweeping, hazardous waste disposal services, code enforcement services, and illegal dumping cleanups. To meet the state mandated waste diversion requirements the RSWD provides public outreach to educate residents on recycling to reduce contamination, composting and proper disposal of household hazardous waste.

The five-year budget forecast for the Solid Waste Fund includes the following assumptions:

- Projecting lower than anticipated revenue growth in reflecting slower residential development growth (versus that included in the General Plan) and no approved rate increases. This growth pattern will continue to impact Solid Waste revenue projections in the out-years of the forecast.
- Declining reserves as existing revenues are not sufficient to cover current operating and capital expenses.
- Rising legacy landfill related expenses over the next three to five years as the City implements a compliance plan to address mandated State post-closure regulatory requirements. Over $11 million is included in the forecast to fund these landfill projects.
- Increasing labor costs due to labor contract increases, growing pension costs, and high premiums on general/auto liability and workers' compensation insurances.
- Increasing general inflation on items critical to providing solid waste services such as vehicle operations and maintenance, fuel, and in-region disposal fees.
- New costs associated with securing long-term yard waste and organics disposal locations to meet State diversion requirements.
- Providing new funding for the replacement of the City's Utility Billing System and construction of a Compressed Natural Gas (CNG) facility at the Meadowview City Service Complex.
- Establishing inter agency partnerships and implementing new collection strategies to address illegal dumping issues.

As the cost of solid waste and recycling operations continue to rise and state and federal governments add more stringent regulations, RSWD will continue to evaluate opportunities and collaborate with regional solid waste agencies to increase efficiencies and reduce costs by continual assessment and modifications to daily collection routes, procurement of cost efficient CNG vehicles, and developing a robust safety training program.

The following chart provides a five-year forecast, which assumes no rate adjustments and continued use of fund reserves. However, as stated above, expenditures continue to exceed revenues and the fund is projected to be in a deficit position in the near-term.

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

	FY18 Approved	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
BEGINNING FUND BALANCE	**19,189**	**19,125**	**15,325**	**9,118**	**700**	**(10,852)**
REVENUES						
Charges, Fees, and/or Services	62,155	62,467	62,936	63,408	63,883	64,362
Interest	-	-	-	-	-	-
Other (Intergovernmental)	845	945	945	945	945	945
TOTAL REVENUES	**63,000**	**63,412**	**63,881**	**64,353**	**64,828**	**65,307**
EXPENDITURES						
Operating - Employee Services	17,207	17,828	18,809	19,843	20,934	22,086
Operating - Other	42,113	42,775	44,347	47,224	51,254	54,088
Debt Service	2,299	1,732	1,693	1,688	1,677	1,678
Multi-Year Operating Projects	1,025	1,000	1,025	1,025	1,025	1,025
Capital Improvements	4,040	3,662	4,215	2,990	1,490	1,490
TOTAL EXPENDITURES	**66,685**	**66,997**	**70,088**	**72,770**	**76,380**	**80,366**
ANNUAL SURPLUS/(DEFICIT)	**(3,685)**	**(3,586)**	**(6,207)**	**(8,417)**	**(11,552)**	**(15,059)**
Other Source/(Use) (1)	-	(215)	-	-	-	-
ENDING FUND BALANCE(2)	**15,504**	**15,325**	**9,118**	**700**	**(10,852)**	**(25,911)**

(1) Other source/(uses) reflect required SCERS payment in FY2018/19.

(2) The difference between FY2017/18 ending fund balance and FY2018/19 beginning fund balance is due to budget amendments not included in this forecast.

Storm Drainage Fund (Fund 6011)

Revenue generated for the purpose of providing storm drainage services is deposited in the Storm Drainage Fund. Revenues are derived primarily from customer service fees 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, innovative "green" infrastructure programs, regulatory compliance, 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 existing revenues are 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.
- Implementing low impact development standards, green infrastructure, to further minimize urban runoff, conserve water, and preserve resources.

Unlike the water and wastewater utilities, any rate adjustments for the storm drainage utility are subject to a citizen vote. Storm drainage user charges have not been increased since 1996, prior to the implementation of Proposition 218. For this reason, revenue collection has not kept pace with storm drainage system costs, and the utility has been historically underfunded. The City has delayed repair and replacement of critical infrastructure in order to bridge this funding shortfall.

The following chart provides a five-year forecast, which assumes no rate adjustments and continued use of fund reserves. However, as stated above, 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.

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

	FY18 Approved	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
BEGINNING FUND BALANCE	**26,694**	**18,969**	**16,987**	**14,002**	**9,632**	**6,753**
REVENUES						
Charges, Fees, and/or Services	36,062	37,142	37,159	37,163	37,168	37,172
Interest	422	422	422	422	422	422
Other (Intergovernmental)	25	25	25	25	25	25
TOTAL REVENUES	**36,509**	**37,589**	**37,606**	**37,610**	**37,615**	**37,619**
EXPENDITURES						
Operating - Employee Services	15,440	16,628	17,459	18,507	19,247	20,017
Operating - Other	15,554	16,613	17,278	17,969	18,688	19,435
Debt Service	3,657	3,534	3,509	3,242	235	-
Multi-Year Operating Projects	953	1,839	1,943	2,012	2,074	2,136
Capital Improvements	6,205	824	402	250	250	250
TOTAL EXPENDITURES	**41,809**	**39,438**	**40,591**	**41,980**	**40,493**	**41,838**
ANNUAL SURPLUS/(DEFICIT)	**(5,300)**	**(1,849)**	**(2,985)**	**(4,370)**	**(2,879)**	**(4,219)**
Other Source/(Use)(1)	-	(133)	-	-	-	-
ENDING FUND BALANCE(2)	**21,394**	**16,987**	**14,002**	**9,632**	**6,753**	**2,534**

(1) Other source/(uses) reflect required SCERS payment in FY2018/19.

(2) The difference between FY2017/18 ending fund balance and FY2018/19 beginning fund balance is due to budget amendments not included in this forecast.

Wastewater Fund (Fund 6006)

Revenue generated for the purpose of providing wastewater collection service 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.

As the City continues its innovative water quality programs under the Municipal Stormwater NPDES permit, “green infrastructure” will continue to become much more prominent features. Green infrastructure strives to prevent and reduce stormwater pollution, flooding, and water use through water management practices that more closely mimic the natural water cycle than typical “grey” infrastructure (pipes, pumps, etc.). Green infrastructure, when used in conjunction with grey infrastructure can be both cost effective and more community friendly. Examples of green infrastructure to be implemented will include conjunctive use storage projects, turf replacement programs, rain barrels, and enhanced water conservation measures.

The City-operated wastewater collection system consists of a combined wastewater system and a separated wastewater system that, together, serve approximately 60% of the City, primarily the northeastern, central, and southern sections of the City. The SRCSD 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 29, 2016, Council approved a four-year rate increase for wastewater services beginning in FY2016/17 through FY2019/20. Issues facing the Wastewater Fund include:

- Compliance with state and federal regulations, including state-mandated rehabilitation of the central city. The CSS collects wastewater from homes and businesses, as well as storm water and urban runoff.
- 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.

In the past, combined system projects were partially funded by the Storm Drainage Fund. However, as the Storm Drainage Fund has become increasingly underfunded the Wastewater Fund has borne more of these costs, increasing pressure on the Wastewater Fund. The following chart provides a five-year forecast for the Wastewater Fund to address anticipated cost increases and meet regulatory requirements, and includes the following assumptions:

- Bond financing will be pursued in FY2018/19 to partially finance the CSS improvements for the McKinley Park Storage Vault project.
- The four-year rate adjustment adopted for FY2016/17 through FY2019/20 will allow the City to invest in mandated system improvements as required, CSS improvements not funded by financing, as well as make progress towards reaching a 100-year replacement schedule for aging pipes.

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

	FY18 Approved	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
BEGINNING FUND BALANCE	**5,818**	**11,542**	**12,241**	**15,805**	**13,348**	**14,699**
REVENUES						
Charges, Fees, and/or Services[1]	36,216	39,471	44,112	44,151	44,191	44,233
Interest	392	392	559	701	707	711
Other (Intergovernmental)	1,013	1,013	1,053	1,095	1,139	1,185
TOTAL REVENUES	**37,620**	**40,875**	**45,724**	**45,947**	**46,037**	**46,129**
EXPENDITURES						
Operating - Employee Services	9,513	9,803	10,293	10,911	11,347	11,801
Operating - Other	17,428	19,655	20,440	21,258	22,108	22,992
Debt Service[2]	2,880	2,841	2,827	2,733	1,999	2,002
Multi-Year Operating Projects	2,838	2,555	3,931	3,500	4,220	3,944
Capital Improvements	2,460	5,299	4,670	10,003	5,012	2,003
TOTAL EXPENDITURES	**35,119**	**40,153**	**42,161**	**48,404**	**44,686**	**42,743**
ANNUAL SURPLUS/(DEFICIT)	**2,501**	**722**	**3,563**	**(2,457)**	**1,352**	**3,386**
Other Source/(Use)[3]	-	(23)	-	-	-	-
ENDING FUND BALANCE[4]	**8,319**	**12,241**	**15,805**	**13,348**	**14,699**	**18,085**

[1] City Council approved 9% rate increases in each of the years from FY2017/18 through FY2019/20.

[2] This forecast does not include future debt service needed for investment in capital replacement.

[3] Other sources/(uses) reflect required SCERS payment in FY2018/19.

[4] The difference betw een FY2017/18 ending fund balance and FY2018/19 beginning fund balance is due to budget amendments not included in this forecast.

Water Fund (Fund 6005)

Revenue generated for the purpose of providing water service 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.

On March 29, 2016, Council approved a four-year rate increase to water services beginning in FY2016/17 through FY2019/20. Key challenges for the Water Fund 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.
- Accelerated implementation of the Residential Water Meter Installation Program in support of full meter installation by December 2020, ahead of the State mandated date of 2025.
- 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.

The chart below provides a five-year forecast for the Water Fund to address anticipated cost increases and meet regulatory requirements. It includes the following assumptions:

- Capital spending reflects continued implementation of the mandated water meter program and ongoing infrastructure repair and rehabilitation.
- Financing from the State Revolving Fund (SRF) loan program and bond proceeds will fund the water meter program. The remaining bond proceeds and pay-go will fund other needed infrastructure repair and rehabilitation projects.

- Due to the nature of the SRF loan, debt service payments consist of interest only until FY2021/22. Estimated debt service payments including principal are estimated to be $10.3 million annually from FY2021/22 through FY2040/41. Proceeds of this loan are reimbursements of actual costs of the project. Accordingly, DOU is required to fund project costs with the Water Fund until reimbursement has been received.
- The rate adjustments for FY2016/17 through FY2019/20 will allow the City to continue with the mandated water meter program, as well as make progress towards reaching a 100-year replacement schedule for aging pipes.
- Costs for items that are vital to the collection, purification, and delivery of water, and to meet levels of service continue to rise. The most significant cost increases are for sludge dewatering and the replacement and maintenance of water meters.

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

	FY18 Approved	FY19 Proposed	FY20 Projection	FY21 Projection	FY22 Projection	FY23 Projection
BEGINNING FUND BALANCE	**60,480**	**64,199**	**75,325**	**96,203**	**104,593**	**112,619**
REVENUES						
Charges, Fees, and/or Services[1]	115,226	126,638	137,439	137,494	137,552	137,612
Interest	400	400	800	800	800	800
Other (Intergovernmental)	185	185	185	185	185	185
TOTAL REVENUES	**115,811**	**127,223**	**138,424**	**138,479**	**138,536**	**138,597**
EXPENDITURES						
Operating - Employee Services	38,998	41,485	43,559	46,173	48,020	49,941
Operating - Other	27,318	29,501	30,681	31,908	33,184	34,512
Debt Service[2]	26,445	29,807	32,249	32,624	40,041	39,399
Multi-Year Operating Projects	2,134	2,895	3,056	3,135	3,261	3,359
Capital Improvements	6,790	12,034	8,001	6,001	6,004	7,001
TOTAL EXPENDITURES	**101,684**	**115,722**	**117,545**	**119,841**	**130,510**	**134,211**
ANNUAL SURPLUS/(DEFICIT)	**14,127**	**11,501**	**20,879**	**18,638**	**8,026**	**4,385**
Other Source/(Use)[3]	-	(374)	-	(10,248)	-	-
ENDING FUND BALANCE[4]	**74,607**	**75,325**	**96,203**	**104,593**	**112,619**	**117,005**

(1) City Council approved 10% rate increases in each of the years from FY2017/18 through FY2019/20.

(2) Debt service payments consist of interest only until FY 2021/22.

(3) Other source/(uses) reflect required SCERS payment in FY2018/19 and deposit to rate stabilization fund in FY2020/21.

(4) The difference between FY2017/18 ending fund balance and FY2018/19 beginning fund balance is due to budget amendments not included in this forecast.