REPORT TO COUNCIL
City of Sacramento

915 I Street, Sacramento, CA 95814-2671
www. CityofSacramento.org

STAFF REPORT
February 10, 2009

Honorable Mayor and Members of the City Council, and
Honorable Chair and Members of the Redevelopment Agency

Title: FY2008/09 Midyear Budget Report

Location/Council District: Citywide

Recommendation: 1) Adopt a **City Council Resolution** approving recommended adjustments to the FY2008/09 Approved Budget necessary to implement the City's financial plan for the remainder of the fiscal year; 2) Adopt a **Redevelopment Agency Resolution** (a) directing the Executive Director to repay $6 million in loaned proceeds from the sale of the Sheraton Hotel/Garage to the City's Parking Fund, and (b) terminating the Loan Agreement dated July 1, 2008 between the Agency and the City of Sacramento; and 3) Adopt a **City Council Resolution** (a) recognizing $6 million in loan proceeds from the Agency to the Parking Fund, (b) authorizing a loan from the Parking Fund to the General Fund to address FY2009/10 year end issues, and (c) terminate the Loan Agreement dated July 1, 2008 between the City of Sacramento and the Agency, and the City return the executed note.

Contact: Leyne Milstein, Director of Finance, 808-8491

Presenters: Leyne Milstein, Director of Finance

Department: Finance

Division: Finance Administration

Organization No: 06001211

Description/Analysis:

The Midyear Report is provided in order to update the City Council on major changes since the adoption of the Approved Budget. This report addresses the current financial condition of the City's General Fund and Enterprise Funds for both revenues and expenditures and includes recommendations necessary to implement the City's

financial plan for the remainder of the fiscal year. The major findings included in this report are:

1) As a result of the continuing decline in several of the City's major General Fund tax revenues, several significant adjustments to the General Fund are recommended to close the gap between revenue and expenditures and reflect a more accurate balance of the General Fund.

2) The following resources have been identified to address projected shortfalls in the FY2008/09 General Fund budget:

   a) $1.5 million in savings from the implementation of unrepresented furloughs (1 day per month for 6 months). Savings are recommended to be used to offset department operating deficits.

   b) $13 million in excess resources identified in the City's Risk Management Fund are recommended to be returned proportionally to the contributing funds.

      - $9.5 million, the proportional share to be returned to the General Fund, is recommended to offset declining revenues and to be set aside to address estimated over expenditures at year end as necessary.

   c) $6 million of the Sheraton Hotel/Garage proceeds were allocated to the Parking Fund and subsequently loaned to the Sacramento Housing and Redevelopment Agency (Agency). The Agency has not currently committed the borrowed funds to any projects and the funds are currently available for repayment of the loan and are recommended to be returned to the Parking Fund.

      - To ensure available resources to address any outstanding issues at the close of the fiscal year, up to $1 million of the $6 million, is recommended to be loaned to the General Fund at year end as necessary.

3) Revenues and expenses of the Enterprise Funds are also challenged as a result of the overall decline in the economy. Specific adjustments are recommended in Exhibit B as necessary to fully implement the FY2008/09 budget.

4) Existing space within City Hall and 300 Richards is available for the relocation of staff from the Plaza Building located at 921 10th Street. This relocation will result in annual savings of approximately $165,000 in ongoing operations and maintenance costs (janitorial, utilities, pest control, etc.) as well as savings from unanticipated repairs to major building systems that have reached the end of their useful life. It is recommended that the City begin the relocation process as soon as possible so that maximum savings from the vacation of this facility can be realized in FY2009/10.

Policy Considerations: The Midyear Budget Report is consistent with Council's adopted budget principles to: maintain a fiscally sustainable, balanced budget; keep the Council informed on the fiscal condition of the City; and continue evaluation for efficiencies and effectiveness.

Environmental Considerations: The ongoing operations funded under the FY2008/09 Budget are not subject to California Environmental Quality Act (CEQA) review. CEQA review for any project, which uses funds allocated within this report, has been or will be reviewed in conjunction with planning, design, and approval of each specific project as appropriate.

Commission/Committee Action: None.

Rationale for Recommendation: The actions recommended in this report address the projected revenue and budget shortfalls in both the General and Enterprise funds in the current fiscal year.

Financial Considerations: The FY2008/09 Midyear Budget Report reflects the City's continuing revenue challenges as well as the need for ongoing efforts to manage expenditures. As a result, staff is recommending the adjustments included in Exhibit B to implement the FY2008/09 Approved Budget. Staff will continue to work with departments to meet budget goals for the remainder of the fiscal year.

Emerging Small Business Development (ESBD): No goods or services are being purchased under this report.

Respectfully Submitted by: ______________________
LEYNE MILSTEIN
Director of Finance

Approved by: ______________________
MARTY HANNEMAN
Assistant City Manager

Recommendation Approved:

____
for RAY KERRIDGE
City Manager

Table of Contents:

Attachment 1

RESOLUTION NO. 2009-XXXX

Adopted by the Sacramento City Council

February 10, 2009

AMENDING THE FY2008/09 APPROVED BUDGET

BACKGROUND

A. The Midyear Report (Exhibit A) provides City Council with an update on the current financial condition of the City's FY2008/09 budget.

B. The continued downward turn of the local, state and national economy has significantly reduced the City's major General Fund tax revenues and overall revenue will continue to be depressed.

C. Based on current trends, the five year forecast reflects virtually no revenue growth for the coming fiscal year and the next five years. Thus, the gap between revenues and expenditures will continue to grow unless measures to reduce expenditure growth are implemented.

D. The Midyear Report includes recommendations on adjustments to the FY2008/09 Approved Budget necessary to implement the City's financial plan for the remainder of the fiscal year.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The FY2008/09 Approved Budget is amended to include the Summary of Adjustments to the FY2008/09 Budget as detailed in Exhibit B.

Section 2. The Director of Finance is authorized to implement the necessary adjustments as approved in Section 1 above.

Section 3. The Department of Utilities is directed to return to the City Council within 60 days with a report realigning capital improvement projects (CIPs) in the Water (6005) and Solid Waste (6007) Funds to address identified shortfalls in these funds.

Section 4. The Director of Finance is authorized to amend the FY2008/09 Convention Center Fund (6010) operating and capital budget up to

$600,000 to address projected deficits in the Transient Occupancy Tax (TOT).

Section 5. The Director of Finance is authorized to amend the FY2008/09 Marina Fund (6009) operating and capital budget up to $580,000 to address projected deficits in berth fees and fuel revenues.

Section 6. The Director of Finance is authorized to amend the FY2008/09 Golf Fund (2601) operating and capital budget up to $328,000 to address projected deficits in golf revenues.

Exhibits:

Exhibit A – FY2008/09 Midyear Report
Exhibit B – Summary of Technical Adjustments
Exhibit C – Summary of Reclassifications

Exhibit A

City of Sacramento, California

FY2008/09 Midyear Budget Report

City of Sacramento
915 I Street, 5th Floor
Sacramento, CA 95814
Phone 916-808-5845 ■ Fax 916-808-5755

Table of Contents

Section 1: Introduction

The FY2008/09 Midyear Budget Report is intended to provide the City Council with an update on the status of the current year budget and an overview of the five year budget horizon. As has been discussed in prior reports, the City is facing significant challenges in both revenues and expenditures. These issues, and recommendations relative to the continued implementation of the FY2008/09 budget, are outlined below.

Section 2: General Fund Financial Report

National Economic Outlook

At the national level, the economy will continue to contract for the foreseeable future. In 2008, the federal government passed several measures to address the subprime mortgage crisis. The largest component of the government's measures was the Troubled Asset Relief Program (TARP). The TARP was created to purchase equity from financial institutions in order to strengthen the financial sector. Despite significant contributions from the TARP, unemployment continues to grow, foreclosures continue to mount and the loss of personal wealth has reached historic proportions causing many to reevaluate long-term financial plans. As Congress pushes forward with the remaining $350 billion of the initial TARP funds and the new administration focuses on the next round of economic stimulus, analysts are quick to point out the results of any new economic stimulus may not be felt at the local level until 2010. When the stimulus eventually reaches the local economy the impact to City revenue sources will be minimal and have a one-time effect.

Local Economic Outlook

The City continues to feel the effects of the economic downturn through the credit crunch, foreclosures and growing unemployment. The table below illustrates the current unemployment levels and projections during calendar year 2009:

	As of 12/08	Projected 2009
United States	7.2%	>8%
State of California	9.3%	>10%
Sacramento County	8.7%	>10%
City of Sacramento	10.2%	>11%

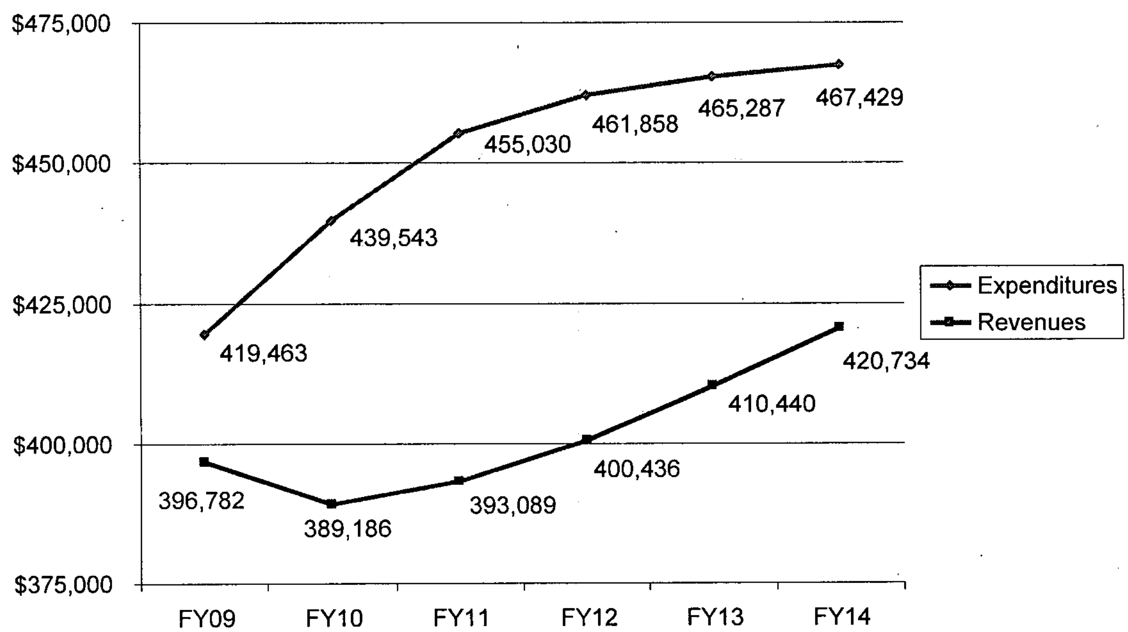
The resulting contraction of the local economy has resulted in reduction in actual revenues across several of the City's major revenue sources. As the State's budget crisis worsens, furloughs and layoffs are imminent. Furloughs will result in less sales tax collected in the downtown area and layoffs could result in additional foreclosures as well as a trickle down effect to other revenue categories.

Five Year Forecast

The five year forecast of the General Fund is an important fiscal planning tool. Under the sustainable budget policy of the Mayor and City Council, proposed fiscal actions are evaluated in a longer term, rather than a short term, context. The five year forecast is based on the current budget and projects future expenditures, revenues, and other funding sources over a multi-year horizon. Given that nearly three-quarters of expenditures are labor costs and nearly three-quarters of all funding is tax revenues, estimating future changes in these categories is the focus of the forecast. All other expenditures and funding sources are also considered.

As reported in January, there is a substantial gap between ongoing expenditures and revenues that must be closed in the FY2009/10 budget process as expenditures continue to grow and revenues continue to decline. The following graph illustrates the five year forecast of the current base budget expenditures as compared with estimated revenues:

General Fund 5 Year Forecast (in 000s)



Staff will continue to monitor revenue results, but additional information on tax results will not be available until mid-March. Based on current trends, the forecast reflects negative revenue growth for the coming fiscal year and weak revenue growth over the next five years. Thus, the gap between revenues and expenditures will continue to grow unless difficult measures to reduce expenditure growth are implemented.

As outlined in the January 29, 2009 Budget Development Workshop, efforts to close the gap in FY2009/10 and beyond will involve a variety of different measures aimed at reducing expenditures and increasing funding sources. Given the fact that labor costs represent the majority of General Fund expenditures, **the primary strategy bas been and will be a reduction in staffing levels**. The City Manager has directed General Fund departments to prepare proposed net cost reductions of 3-35%. Initial recommendations and potential impacts will be brought back to Council at the February 24, 2009 Budget Development Workshop.

FY2008/09 Midyear Revenue Revisions

The table below summarizes the recommended Midyear revenue adjustments. A detailed explanation for each revenue category is included below the table. Through the FY2007/08 year end process, excess resources in the City's Risk Management Fund have been identified based on the actuarial estimates of the City's claims liability. As such, we are recommending reimbursement of $13 million, which will be returned proportionally to the contributing funds. At this time we recommend using the $9.506 million that will be returned to the General Fund to offset the $9.1 million in revenue adjustments outlined below. The remaining resources of $393,000, after revenues are adjusted, will be set aside in a designation to address year end budget issues.

Revenue Type	Approved	Revised	$ Change	% Change
Sales Tax	53,000,000	47,000,000	(6,000,000)	-11%
Interest on Investments	4,037,500	2,037,500	(2,000,000)	-50%
Motor Vehicle License Fees	3,151,000	1,301,000	(1,850,000)	-59%
In Lieu Sales Tax (Triple Flip)	17,325,000	16,800,000	(525,000)	-3%
Transient Occupancy Tax	3,438,000	3,300,000	(138,000)	-4%
Utility User Tax	57,000,000	58,000,000	1,000,000	2%
Property Transfer Tax	6,000,000	7,000,000	1,000,000	17%
Enterprise Funds General Tax	18,127,440	17,527,440	(600,000)	-3%
Total Midyear Revisions	162,078,940	152,965,940	(9,113,000)	-6%

Sales Tax
Sales tax revenue continues to decline across all economic segments. Projections for the current fiscal year are now below the most pessimistic forecast available when current year budget estimates were developed in the spring of 2008. The City has experienced five consecutive negative quarters (3Q/07-3Q/08) of adjusted sales tax collections. The estimate above reflects a 7% decline over the final six months of the fiscal year (-7% from the same quarter of the prior fiscal year) to reflect this continuing decline.

Interest on Investments
Overall investment income has declined substantially for two reasons. First, the prudent investment instruments currently available to the City are generating a significantly smaller return than in past years as a result of the credit crisis. Where Pool A had an average return of 4% from FY2005/06 through FY2007/08 it has earned only 3.3% over the first six months of FY2008/09 and is continuing to decline. Secondly, cash balances

in the City's investment Pool A are significantly lower due to project expenditures and the use of reserves above revenues.

Motor Vehicle License Fees (MVLF)
The volume of auto sales nationally has dropped from a high of 17 million in 2005 to 13 million in 2008. Statewide new sales decreased 23% in 2008 compared to 2007. In the City, auto sales have slowed significantly while existing vehicles continue to depreciate, resulting in significantly less MVLF being collected. The revised $1.3 million collection is based on an extrapolation of MVLF collected through December.

In Lieu Sales Tax (Triple Flip)
The County has first priority on the In Lieu fund pool. After the County is made whole, the City receives its proportioned allotment. Unfortunately the City's portion is percentage based and as the overall size of the pool continues to decrease, so does the City's allotment.

Transient Occupancy Tax (TOT)
The economic downturn has affected vacationers and businesses alike resulting in fewer hotel occupants for business and leisure trips. TOT collections are down 4% through October resulting in a revised projection of $138,000 lower than originally estimated. Additional adjustments to the Convention Center Fund are necessary to account for the decline in revenues. These adjustments are detailed in Section 3 of this report.

Utility User Tax (UUT)
Through the first four months of FY2008/09 gas, electric, cable and wireless UUT revenue is up over 5% while telecom revenues are down 5%. Assuming this trend continues for the remainder of the fiscal year, UUT revenues are estimated to increase $1 million over the estimate included in the Approved Budget.

Property Transfer Tax
Property values in the Sacramento area have been on a steady decline since 2005 and while no quick recovery is expected, the turnover rate of properties at these lower valuations has begun to increase. Based on transfer activity through December 2008, the estimate has been revised to include an additional $1 million above the Approved Budget.

Enterprise Funds General Tax
This 11% general tax is imposed on the city-operated Water, Sewer, Storm and Solid Waste Enterprise Funds. Due to the economic climate, significant numbers of utility bills have gone unpaid and will result in millions of dollars of bad debt expense related to foreclosed property, ultimately resulting in less revenue for the Enterprise Funds and the General Fund. Additional detail is available in Section 3 of this report.

FY2008/09 General Fund Operating Department Updates

The midyear review of department budgets has identified four departments that are projecting budgetary deficits totaling $2.775 million. Following is a brief description of each of the identified issues and strategies to address these issues for the remainder of the fiscal year. The following resources are recommended to address outstanding issues at the close of the fiscal year: savings from the mandatory non-represented furlough; General Funds returned from the Risk Fund, after revenue adjustments; and a loan to the General Fund from the Parking Fund.

Development Services Department (DSD)
Development Services Department (DSD) is projecting to end the fiscal year with a $1 million deficit due to the current economic downturn, declining housing market, and Federal Emergency Management Agency (FEMA) moratorium. DSD has experienced a significant and dramatic decrease in department revenue from $16 million projected in the Approved Budget to $11.4 million based on current trends. This will result in a projected net deficit of $4.6 million dollars. In addition, the FEMA moratorium halted both commercial and residential projects in the Natomas area, which created an additional $2.1 million revenue gap, for a total department revenue shortfall of $6.7 million. To address the revenue shortfall, DSD has aggressively worked to plan and implement cost saving measures that will achieve $5.7 million savings from its operation budget. However, without a clear sign of economic recovery, the department is implementing additional labor reductions over the next two months to ensure that the shortfall does not exceed current estimates.

Fire Department
Due to a delay in the implementation of the second brown out, the Fire Department may need additional funding of $300,000. The Approved Budget for the department included a reduction for a staggered implementation of a two fire company rotational brown out and a commitment to report back to Council prior to the implementation of the second brown out. The rotation of the first fire company began in July 2008 with a second fire company to begin in January 2009. At the direction of the City Manager's Office, the implementation of the second company brown out was delayed pending this report back to Council identifying the impacts for the first fire company brown out. The implementation of the second brown out is estimated to begin March 1, 2009.

To achieve the first rotating brown out, it was necessary to reduce daily staffing by one fire company per day in a rotating manner. This model helped to limit the exposure of any given district in the City to one closure per every 18 days. Whenever a fire company is closed, another fire company, usually from another area, must respond to cover emergency incidents in that district. The company responding for the browned out company frequently had extended response time.

To date, with one fire company browned out daily, the Fire Department is experiencing approximately an average of a *1 minute and 34 second* increase in response time for units covering the closed company. This means that the average overall response times have climbed from a previous level of 5 minutes for the first arriving unit in the affected districts to 6 minutes and 34 seconds. An important point to capture is that these are averages. To date the average number of times another unit has to come from another fire station to cover is approximately 5 times per day.

In the first six months of our current brownout there have been several incidents which require comment. The department responded to about 34,000 calls during this time. Of those calls about 900 occurred in areas where there was a browned out company. Of those 900 calls there are only a handful that warrant being mentioned here. On two occasions over Labor Day the department responded to significant fire incidents. One occurred at a single family dwelling and the other at an apartment complex. Both underscored the importance of quick response and the ability to mitigate an emergency quickly. In both instances the fire spread to nearby dwellings and crews felt that the delay in the "first in" engine company contributed to this situation.

There were also incidents on the American Parkway during the height of fire season. One incident in particular occurred during a time one of our companies which has a grass rig attached to it was browned out. It took approximately 45 minutes to get the company in service and on the fire. This was valuable time lost and the fire grew considerably. There was also the fire on Stilt Court where four firefighters were burned. Both of these incidents presented learning opportunities, at the same time they reminded us of the importance of quick, coordinated fire attack.

Based on the above information, the Fire Department is planning to implement the daily brown out of a second fire company. The impact is expected to be a greater response time, approximately an additional 30 seconds. Also anticipated is an increase in property lost, but it is difficult to quantify the extent at this time. It is important to note that during this six month period there was not a significant increase of injuries to firefighters or citizens, with the exception of the four firefighters injured during the Stilt Court incident.

General Services
While the Department of General Services (DGS) is projected to end FY2008/09 on budget, the need to reclassify three positions in order to address operational needs has been identified. Two of these positions are currently "unfunded" and reimbursements have been identified for all of these positions. City Council authority is required for the reimbursements (Exhibit B) and reclassifications (Exhibit C) as proposed. The issues are outlined below:

<u>SAFCA Position for Director of Planning</u>: The City of Sacramento provides support and assistance to the Sacramento Area Flood Control Agency (SAFCA) by providing a salary and benefit framework for SAFCA staff. City Full Time Equivalent (FTE) positions are filled with SAFCA staff and are fully reimbursed by SAFCA for all associated salary and benefit costs. SAFCA is currently in need of an FTE for its Director of Planning and DGS has identified a vacant Information Technology Supervisor position for reclassification in order to fill this need. The labor costs for the remainder of FY2008/09 ($80,000) will be fully offset by reimbursement from SAFCA. There are currently 4.0 SAFCA staff positions that are funded within the City's budget:

3.0 positions in Utilities and 1.0 position in Parks and Recreation. An additional reclassification for SAFCA staff is included in the Utilities section of this report.

Stationary Generator Maintenance Program: DGS has identified a need for two FTE to provide stationary generator maintenance, repair, and monitoring services. Two vacant positions (one of which is unfunded) have been identified for reclassification to provide this work (an Associate Architect and a Typist Clerk III). The reclassifications are being requested to allow the "in-sourcing" of the work currently performed by outside vendors for the Fleet Division.

The labor costs for these positions will be fully offset by reimbursement from the Fleet Fund. It is anticipated that the positions for the stationary generator maintenance program will be managed by the Department of Utilities (DOU) and as such will be transferred from DGS to DOU as part of the FY2009/10 budget process.

The benefits of the proposed reclassification and subsequent move to DOU include: 1) reduced maintenance cost (City staff are less expensive than outside vendors); 2) improved accountability by using City staff; 3) improved oversight of regulatory compliance; and 4) improved cooperation between City departments and implementation of a uniform city-wide program.

Police Department
The FY2008/09 budget maintained previously existing structural imbalances in key areas: non-career employees, services and supplies, and overtime. These expenditure categories have not been augmented or adjusted in recent years to balance with known fixed and actual expenses. In years past, the Police Department used salary savings to bridge this gap, however, that is no longer an option. As a result, the Department is projected to end the year with a $1.1 million deficit.

Additional contributing factors include:

- Late VSP cancellations
- Costs for licensing fees, sexual assault examinations, radio equipment maintenance
- Unreimbursed facility (Richards and 911 Center) and vehicle expenses
- Overtime expenses associated with homicide call outs and Proposition 8 demonstrations

In an effort to address the projected deficit, the Police Department had identified the following savings options in September 2008. However, further discussion and review were necessary before the reductions could be completed on October 24, 2008. Thus nearly one third of the budget year elapsed before the following measures were implemented:

- Elimination of overtime at the 9-1-1 Center totaling approximately 900 hours per month and the furlough of five non-career employees
- Elimination of Reserve Police Records Specialists through the furlough of 21 non-career employees, forcing the closure of the public counters at the North and South Police Stations (Kinney and Rooney (JERPF)), and displacing roughly 500 customers per week from substations to headquarters
- Elimination of scheduled hours for non-career Reserve Police Officers, making it necessary for career officers to pick up duties including but not limited to academy instruction, security details, and Crime Alert
- Elimination of non-career Background Investigation Unit through the furlough of seven non-career employees
- Limiting call-outs to critical public safety incidents including homicides, barricaded subjects, explosive devices, stranger kidnappings, fatal traffic collisions, and other critical incidents on a case-by-case basis
- Elimination of end of shift overtime totaling approximately 1,322 hours per month, delaying investigative follow up of cases with potential leads, the completion of crime reports, and the gathering of accurate crime trend data.
- Elimination of overtime related to Narcotics, Gangs, and Vice Investigations, limiting the Departments ability to proactively investigate crimes of this nature and reducing multi-jurisdictional, complex criminal investigations

The Police Department continues to seek savings through the active monitoring and adjustment of operations and expenditures while preserving the core function of the Police Department, providing public safety to the citizens of Sacramento.

Treasurer's Office
The departmental revenue for the Office of the City Treasurer is a management fee charged to the various investment pools and funds managed by the Treasurer. This includes City, Library Authority, and Agency Treasury Pools, the Sacramento City Employee Retirement System Retirement Plan (SCERS), and various endowments and trust funds. The management fee ranges from 0.34 percent to 0.10 percent of the average daily cash balance of the fund. There is no charge for the management of some of the special endowments and trust funds, but these make up little of the total assets managed. The management fee revenue is now projected to be approximately $375,000 less than the budgeted amount. This is due to the significant reduction in cash holdings, particularly in the SCERS Retirement Fund and in Treasury Pool A. The revenue estimates were prepared nearly a year ago when the large SCERS investment losses and the other reductions in pools and funds were clearly not anticipated. This revenue shortfall is like the downturns in tax revenues, due primarily to economic circumstances beyond the City's and the Department's control.

Though the cash balances are smaller, managing the cash and daily cash flow requires the same effort. The revenue collected by the Office of the City Treasurer is still larger than the Office's expenditures and represents a net positive contribution to the General Fund.

Section 3: Financial Status - Other Funds

This section provides an overview of the recommended midyear adjustments to programs funded from funds other than the General Fund. As stated earlier, the impact of the housing and credit crisis are impacting the Enterprise Funds as well and as such, adjustments to Enterprise Fund budgets are necessary to realign projected revenues and expenses in the current year. A summary of the Enterprise Fund budget adjustments and reclassifications requiring Mayor and City Council approval are detailed in Exhibits B and C.

Department of Utilities

The DOU consists of the Water, Sewer, Drainage and Solid Waste Funds. While each fund has its own unique challenges, this year, bad debt expense has significantly impacted all four funds due to increased foreclosures from the nationwide mortgage crisis. According to DataQuick, foreclosures in the Capital Region in calendar year 2008 have increased over 100% over calendar year 2007. DOU estimates bad debt expense to exceed the budgeted amount of $820,000 by $3.9 million for a total of approximately $4.7 million across all funds. DOU is closely monitoring the bad debt situation and researching possible action to mitigate its impact. Despite the bad debt issue, the Sewer and the Drainage Funds are able to absorb the variance for bad debt expense as a result of operational efficiencies, salary savings, and additional miscellaneous revenues. The Water and the Solid Waste Funds, however, require corrective action to address this variance as identified below.

Water Fund (6005)
The Water Fund is currently estimated to end the year with an unfavorable variance of approximately $3 million. The variance is primarily due to increased costs of chemicals, bad debt expense, and revenue shortfalls resulting from a decrease in tap and wholesale volume fees. This overall variance would have been greater were it not for the identification and implementation of several DOU efficiencies and cost saving measures including the following:

- Salary savings of $1.37 million by holding non-mission critical positions vacant, implementation of the citywide mandated furloughs, and reduction in Rain Patrol overtime costs.
- Plumbing supply reduction of $176,960 due to inventory/purchasing consolidation.
- Clerical Service reduction of $80,000 from releasing temporary employees.
- Hybrid fuel savings in the amount of $30,000.

- Anticipated increased revenues of $20,000 from the implementation of an "Administrative Fee" for changes in customer account information.

The estimated combined savings of these efforts is approximately $1.7 million.

To further offset the projected variance, DOU proposes to defund approximately $1 million from various capital projects as part of its annual Capital Improvement Program Resource Assessment Report which will be brought forward to Council within 60 days of the Midyear Report. The remaining estimated $2 million variance will be covered through a transfer from the fund balance of the Water Fund, with the unfortunate impact of leaving the contingency reserve below prudent reserve levels.

Solid Waste Fund (6007)
The Solid Waste Fund is currently estimated to end the year with an unfavorable variance of approximately $4 million. The major factors contributing to the variance are increased bad debt expense, overtime expense for leaf season, increased costs for replacement containers and repair and maintenance of older fleet vehicles, unbudgeted debt service for an initial payment on new vehicles and eCAPS loan, and a revenue shortfall in Lawn and Garden fees.

Efficiencies and cost savings measures identified by DOU, which mitigate what would have been an even greater variance, are as follows:

- Salary savings of approximately $400,000 by holding non-mission critical positions vacant and implementing the citywide mandated furloughs.
- Savings of $500,000 by reducing overtime and fuel expense by switching employees shift hours to a 4/10 schedule by March 2009.
- Savings of approximately $1 million in disposal services, fuel and other miscellaneous supplies and services.
- Increased revenues of $20,000 from establishing an "Administrative Fee" for changes in customer account information.

The estimated combined savings from these efforts is approximately $1.9 million.

To further offset the projected variance of $4 million, DOU proposes to defund $200,000 as part of its annual Capital Improvement Program Resource Assessment Report which will be brought forward to Council within 60 days of the Midyear Report. The remaining estimated $3.8 million Solid Waste Fund shortfall for FY2008/09 will need to be addressed through future rate increases as there simply are no reserves in the Solid Waste fund to absorb the remaining projected deficit.

Department of Utilities – Other Items

Reclassifications
The Utilities Department has identified two positions to be reclassified as part of the department's ongoing organizational restructuring. The resulting reorganization was necessary to accommodate changes in regulatory requirements, provide career paths,

and increase department efficiencies. City Council authority is required for the reclassifications and reimbursements as proposed in Exhibits B and C. These issues are outlined below:

SAFCA Position for Deputy Executive Director: DOU has identified a vacant Administrative Officer position for reclassification that is needed to provide a position for the Sacramento Area Flood Control Agency (SAFCA). The labor costs for the remainder of the year ($100,000) will be fully offset by reimbursement from SAFCA.

Stationary Generator Maintenance Program: DOU Plant Services will be maintaining all of the General Services generators and possibly all the generators throughout the City. As part of this reorganization, the Department of General Services agreed to provide two positions to DOU that are necessary to provide stationary generator maintenance, repair, and monitoring services to the Fleet Fund beginning in FY2009/10. In order to expedite the reorganization process, reclassifications of two positions in the Department of General Services and a reclassification of a position in DOU have been proposed for FY2008/09. See additional discussion regarding the reclassification and transfer of positions to DOU in FY2009/10 in the Department of General Services section of this report.

Convention, Culture and Leisure

Convention Center Fund (6010)

As outlined above, TOT revenues are forecasted to end the year $600,000 short of projected estimates. The revenue shortfall is proposed to be offset by increased revenues from Convention Center user fees and transfers from capital improvement projects as necessary.

Marina Fund (6009)

Sacramento Marina berth fees and oil and gas revenues are estimated to end the year under budget by $580,000. The shortfall is proposed to be offset by reductions in labor, services and supplies, capital projects and appropriations from the fund balance of the Marina Fund.

Golf Fund (2603)

Golf Fund revenues are projected to end the year $328,000 under budget primarily because of a decrease in greens fees. The shortfall is proposed to be off offset by reductions in labor and services and supplies.

Section 4: Pending Fiscal Issues

California Public Employee Retirement System (CalPERS)

CalPERS has notified its members that should there be a 20 percent or greater investment loss at the end of FY2008/09, it *may* require employers to increase contributions by 5 percent of payroll to bring it to the 68% funded status (68% for miscellaneous employees, 65% for safety employees). Increases in contributions could be greater than 5 percent should losses continue to grow, while they would be less if the fund shows gains in the coming months. Any decision will be made after CalPERS knows the status of its returns for FY2008/09 (after June 30, 2009).

SCERS

There will be a large increase in the City's employer contribution to the closed SCERS pension plan in FY2010/11. This pension plan was closed to new members in 1977. In the early 1980s safety employees in the SCERS pension plan were moved to CalPERS after voters approved a change to the City Charter. There are currently approximately 1,600 retirees and 100 active members of SCERS.

In the current fiscal year, the loss to the SCERS pension fund has been approximately 20 percent. With SCERS there is only a one year delay between the end of a fiscal year and the adjustment to the employer contribution. The actuary retained by SCERS to perform the annual study of the system informed the pension board (Administrative, Investment, Finance, Management, or AIFM) that if there is no change in the current value of the SCERS portfolio, then the City's employer contribution could increase by as much as $12 million as early as FY2011/12 from the current level of $3.5 million.

Advancing City Funds to Externally Funded Projects

Many cities' capital projects are funded from external sources such as gas tax, Sacramento Transportation Authority (STA) allocations, Proposition 42 sales tax, state bonds, and state federal grants. With the relatively high cash balances of recent years, the City has had the capacity to advance funds to projects and wait for the reimbursement from the external funding source. The practice has always been done in a very careful and deliberative way and has been used sparingly.

With lower cash balances in Treasury Pool A, the City must be even more careful in advancing cash to projects ultimately paid for with external funds, particularly state bond funds. Some state bond issues from which the City is to receive project funds have not yet been sold. It is not an issue of the State holding the funds; the funds are literally not available. It may be years before some bond issues are actually sold.

Cash Flow Borrowing

Mary jurisdictions, including many cities, the State, and Sacramento County issue annual short term notes for cash flow purposes. This form of financing is known as Revenue Anticipation Notes (RANs) or Tax Revenue Anticipation Notes (TRANs). In essence, the borrowing is against the cash surplus in the positive cash months to cover the negative cash months. This is a common practice. The City will be compelled to resort to cash flow borrowing as soon as FY2010/11. Reserves and fund balances will be so depleted by use in the budget that beginning cash balances at the start of a fiscal year will be insufficient to support the first six months of negative cash flow.

Section 5: Capital Improvement Project (CIP) Changes

Relocation of City Offices Project (C130001500)
The Plaza Building located at 921 10th Street is a city owned office building originally constructed in 1906, and last renovated in 1977. Consequently, the major building systems (cooling towers, boiler, fire alarm system, elevators, electrical distribution system, plumbing and sewer) are at the end of their useful life and are in need of replacement or major repair.

In order to save approximately $165,000 annually in utility and ongoing daily maintenance costs, staff recommends relocating 110± staff from the Plaza Building to other existing city facilities. After the relocation is complete, the 34,000 square foot building will be closed. The closure of the building will put the City in the position of being able to move forward with the sale of the building once the economy begins to recover. The projected one-time relocation cost is $150,000 which includes the decommissioning of the building.

It is anticipated that the Plaza Building staff will be relocated to the following locations:

Department / Division	New Location	Projected Completion Date
DOT Parking	300 Richards	3/30/09
Neighborhood Services	3rd floor, City Hall	4/15/09
Organizational Development	300 Richards	5/1/09
eCAPS Development	Various	8/30/09

Funding for the proposed as is "box move" from the Plaza Building as outlined above is available in the Parking Fund ($75,000) and capital bond proceeds ($75,000) available from the 2002 Capital Improvement Revenue Bond issuance related to the construction of City Hall.

City Treasurer Investment Management (D05000100)
The City Treasurer's Investment Management CIP is being reduced by a total of $297,000, reflecting the following adjustments: 1) reduce expenditure budget by $147,000; and 2) transfer $150,000 to the City Treasurer's operating budget to correct projected year-end overspending.

Section 6: Conclusion

Given the significant impact of the current economic decline on the City's operating budget, it is critical that we continue to monitor revenues and expenditures citywide and be prepared to implement additional adjustments if necessary to balance the Approved Budget. In order to realign the FY2008/09 Approved Budget at this time, the following outlines the issues and adjustments that are recommended in the General Fund:

Write Down of Major Tax Revenues	$(9,113)
Department Operating Budget Issues	(2,775)
FY2008/09 Midyear Shortfall	(11,888)
Furlough Savings	1,500
Risk Fund Adjustment	9,506
Parking Fund Loan (Sheraton Proceeds)	882
Midyear Resources	11,888

These adjustments as well as all necessary adjustments to realign revenues and expenditures in the City's other funds are detailed in Exhibit B. Given these budgetary challenges and adjustments necessary to simply realign revenues and expenses in the current year, minimal staffing adjustments as outlined in Exhibit C are also being recommended for Mayor and Council approval.

Exhibit B

Summary of Technical Adjustments

FY2008/09 Midyear Operating Budget Adjustments

Department	Fund	Change	Unfunded FTE Change	Funded FTE Change	Description
City Treasurer	General Fund (1001)	150,000	-	-	Increase the City Treasurer operating budget by $150,000 to correct anticipated shortfall and decrease the City Treasurer CIP (D05000100) expense budget.
City Treasurer	General Fund (1001)	(147,000)	-	-	Reduce overstated operating revenue budget by $147,000.
Fire Department	General Fund (1001)	-	-	-	Adjust department revenue and expenditure budget to recognize $1.3 million associated with the Office of Emergency Services (OES) Strike Team Deployments.
Fund Balance	General Fund (1001), START (2501), Parking (6004), Water (6005), Sewer (6006), Solid Waste (6007), Marina (6009), Community Center (6010), Storm Drainage (6011), 4th R (6012) and Fleet (6501)	13,000,000	-	-	Adjust fund balance for the: General Fund ($9,506,694), START ($39,302), Parking ($116,988), Water ($866,860), Sewer ($426,654), Solid Waste ($750,806), Marina ($10,613), Community Center ($169,329), Storm Drainage ($696,031), 4th R ($31,504), and the Fleet ($385,218) funds to reflect a return of excess resources in the City's Risk Management Fund based on actuarial estimates of the City's claims liability.
General Fund Departments	General Fund (1001)	(1,500,000)	-	-	Adjust department operating budgets to recognize $1.5 million in salary savings from the Unrepresented Staff Furlough (6 days).
General Services	General Fund (1001)	-	(1.00)	1.00	Establish an $80,000 revenue and expenditure budget to provide funding for 1.0 FTE Information Technology Supervisor position which is currently "unfunded" and will be fully offset with a reimbursement from Sacramento Area Flood Control Agency (SAFCA).
General Services	General Fund (1001)	-	(1.00)	1.00	Allow 1.0 FTE Associate Architect position currently "unfunded" to be funded by the Fleet Fund (6501). No cost to the Fleet fund until FY2009/10 when Program is fully operational.
Human Resources	Risk Fund (6502)	(13,000,000)	-	-	Adjust the City's Risk Management fund balance to reflect a return of excess resources in the City's Risk Management Fund on a proportional basis to the contributing City funds based on actuarial estimates of the City's claims liability.
Non-Department	General Fund (1001)	1,500,000	-	-	Adjust department operating budgets to recognize $1.5 million in salary savings from the Unrepresented Staff Furlough (6 days).
Utilities - Storm Drainage	Storm Drainage (6011)	-	-	-	Amend the revenue and expenditure budget by $100,000 to reflect the reimbursement for the Deputy Executive Director of SAFCA position.
Utilities - Water	Water (6005)	(2,000,000)	-	-	Transfer $2 million from the Water fund balance to water operations to cover shortfalls in revenues and anticipated cost increases related to bad debt.

2008-2013 Capital Improvement Program (CIP)

Project	Fund	Change			Description
C13001500	2002 Capital Improvement Revenue Bond (CIRB) Funds (4012)	75,000			Transfer funds from fund balance to the City Hall Moves project for the relocation of city staff from the Plaza Building (921 10th Street).
C13001500	Parking Fund (6004)	75,000			Transfer funds from fund balance to the City Hall Moves project for the relocation of city staff from the Plaza Building (921 10th Street).
D05000100	General Fund (1001)	(150,000)			Decrease the City Treasurer CIP (D05000100) expense budget by $150,000 and increase the City Treasurer operating budget by $150,000 to correct anticipated shortfall.
D05000100	General Fund (1001)	(147,000)			Reduce overstated CIP expense budget by $147,000.

Exhibit C

Summary of Reclassifications

SCHEDULE 8
SUMMARY OF RECLASSIFICATION REQUESTS
All Requests are Subject to HR Approval

Dept ID	Budgeted Classification	Proposed Reclassification	FTE
	City Treasurer		
05001011	Debt Analyst	Senior Investment Officer	1.00
	General Services		
13001021	Information Technology Supervisor	Director of Planning (SAFCA)	1.00 a
13001561	Associate Architect	Generator Mechanic	1.00
13001551	Typist Clerk III	Generator Mechanic	1.00
	Information Technology		
07001021	Information Technology Project Manager	Principal Applications Developer	1.00
	Police		
11001381	Senior Computer Operator	Information Technology Support Specialist II	1.00
11001381	Computer Operator II	Information Technology Support Specialist I	1.00
11001381	Senior Computer Operator	Information Technology Support Specialist II	1.00
11001381	Computer Operator Supervisor	Senior Information Technology Support Specialist	1.00
11001381	Computer Operator II	Information Technology Support Specialist I	1.00
	Planning		
22001111	Neighborhood Resources Coordinator	Associate Planner	1.00 a
22001111	Associate Planner	Assistant Architect	1.00 a
22001111	Associate Planner	Geographic Information Systems Specialist I	1.00
	Transportation		
15001211	Department Systems Specialist I	Parking Facilities Maintenance Supervisor	1.00
	Utilities		
14001711	Security Guard	Support Services Manager	1.00 a
14001621	General Helper	Senior Accountant Auditor	1.00 a
14001761	Sanitation Worker I	Storekeeper	1.00
14001761	Sanitation Worker I	Storekeeper	1.00
14001821	Solid Waste Maintenance Supervisor	Solid Waste Supervisor	1.00
14001411	Administrative Officer	Program Manager	1.00
14001321	Associate Civil Engineer	Senior Management Analyst	1.00 a
14001021	Administrative Officer	Deputy Executive Director (SAFCA)	1.00
14001221	Equipment Mechanic III	Supervising Generator Mechanic	1.00
14001211	Machinist Helper	Warehouse Materials Specialist	1.00
14001131	Senior Maintenance Worker	Warehouse Materials Specialist	1.00

Attachment 2

RESOLUTION NO. 2009-XXXX

Adopted by the Redevelopment Agency of the City of Sacramento

February 10, 2009

AUTHORIZING THE REPAYMENT OF $6 MILLION IN LOANED PROCEEDS FROM THE SALE OF THE SHERATON HOTEL/GARAGE TO THE CITY OF SACRAMENTO PARKING FUND (FUND 6004) AND TERMINATING THE LOAN AGREEMENT DATED JULY 1, 2008 BETWEEN THE AGENCY AND THE CITY OF SACRAMENTO

BACKGROUND

A. On March 25, 2008 the City Council approved the sale of the Sheraton Grand Hotel with 25 percent of the net proceeds to be distributed to the Parking Fund (Fund 6004) and the Redevelopment Agency for investment into income generating projects.

B. Of the 25 percent of net proceeds, funds were envisioned to be distributed to the Parking Fund to replace the revenue lost with the sale of the Sheraton and subsequent termination of the long term garage lease.

C. On June 10, 2008 the Redevelopment Agency entered into a loan agreement with the City of Sacramento to borrow $6 million from the Parking Fund to invest in redevelopment projects in the Merged Downtown Redevelopment Area.

D. The Redevelopment Agency has not currently committed the borrowed funds to any projects and the funds are currently available for repayment of the loan.

E. The City of Sacramento has requested repayment of the $6 million in parking funds loaned to the Agency in an effort to address the continued decline in the economy and its impact on the City.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

Section 1. The Executive Director is authorized to repay $6 million in borrowed funds from the Sheraton Hotel/Garage sale to the City of Sacramento's Parking Fund (Fund 6004).

Section 2. The Loan Agreement dated July 1, 2008 between the Agency and the City of Sacramento is terminated.

Attachment 3

RESOLUTION NO. 2009-XXXX

Adopted by the Sacramento City Council

February 10, 2009

RECOGNIZING $6 MILLION IN LOAN PROCEEDS FROM THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO TO THE PARKING FUND, AUTHORIZING UP TO A $1 MILLION LOAN FROM THE PARKING FUND TO THE GENERAL FUND TO ADDRESS FY2009/10 YEAR END ISSUES, AND TERMINATING THE LOAN AGREEMENT BETWEEN THE CITY OF SACRAMENTO AND THE AGENCY, AND THE CITY RETURN THE EXECUTED NOTE

BACKGROUND

A. On March 25, 2008 the City Council approved the sale of the Sheraton Grand Hotel with 25 percent of the net proceeds to be distributed to the Parking Fund (Fund 6004) and the Redevelopment Agency (Agency) for investment into income generating projects.

B. Of the 25 percent of net proceeds, funds were envisioned to be distributed to the Parking Fund to replace the revenue lost with the sale of the Sheraton and subsequent termination of the long term garage lease.

C. On June 10, 2008 the Agency entered into a loan agreement with the City of Sacramento to borrow $6 million from the Parking Fund to invest in redevelopment projects in the Merged Downtown Redevelopment Area.

D. The Agency has not currently committed the borrowed funds to any projects and the funds are currently available for repayment of the loan.

E. The City of Sacramento has requested repayment of the $6 million in parking funds loaned to the Agency in an effort to address the continued decline in the economy and its impact on the City.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The City Manager is authorized to recognize repayment of the Agency's $6 million loan from the Parking Funds (Fund 6004) proceeds of the Sheraton Hotel/Garage sale.

Section 2. The City Manager is authorized to borrow up to $1 million of the $6 million from the Parking Fund to address FY2008/09 year end issues as necessary.

Section 3. The Loan Agreement dated July 1, 2008 between the Agency and the City of Sacramento is terminated and the City of Sacramento shall return the executed note to the Agency.