# Meeting of Sacramento City Council

# Special Meeting Agenda

## Thursday, February 11, 2010

### City Hall-915 I Street, 1st Floor Council Chamber

*Published by the Office of the City Clerk (916) 808-7200*


**CITY COUNCIL**

Kevin Johnson, Mayor
Raymond L. Tretheway III, District 1
Sandy Sheedy, District 2
Steve Cohn, District 3
Robert King Fong, District 4
Lauren Hammond, District 5
Kevin McCarty, District 6
Robbie Waters, Vice Mayor, District 7
Bonnie Pannell, District 8

**CHARTER OFFICERS**

Eileen Teichert, City Attorney
Shirley Concolino, City Clerk
Ray Kerridge, City Manager
Russell Fehr, City Treasurer


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## NOTICE TO THE PUBLIC

You are welcomed and encouraged to participate in this meeting. Public comment is taken (3 minutes maximum) on items listed on the agenda when they are called. Comments on controversial items may be limited and large groups are encouraged to select 3-5 speakers to represent the opinion of the group.

**Notice to Lobbyists**: When addressing the legislative bodies you must identify yourself as a lobbyist and announce the client/business/organization you are representing (City Code 2.15.160).

**Speaker slips are located in racks inside the chamber and should be completed and submitted to the City Clerk.**

*Government Code* 54956 (The Brown Act) states that SPECIAL MEETINGS require twenty-four hour (24) notice be provided to members of legislative body and media outlets including brief general description of matters to be considered or discussed.

The order of Agenda items are listed for reference and may be taken in any order deemed appropriate by the legislative body.

The Agenda provides a general description and staff recommendations; however, the legislative bodies may take action other than what is recommended. Full staff reports are available for public review on the City's website and include all attachments and exhibits. "To Be Delivered" and "Supplemental" written material will be published as they are received. Hard copies are available at the Office of the City Clerk and written materials received will be available at the meeting for public review.

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# SPECIAL MEETING AGENDA
## Thursday, February 11, 2010
## 9:00 A.M.
***City Hall – 915 I Street- First Floor Council Chamber***

**Open Session - 9:00 am**

**Roll Call**

**Workshop**
Public Comment on Agendized Item Only (2 minutes per person)

1. **Budget Workshop (Estimated Time: 4 Hours )**

   **Location/Council District:** Citywide

   **Recommendation:** Council discussion and direction to: 1) direct staff to forward the FY2009 Comprehensive Annual Financial Report and FY2009/10 Midyear Report to Council; and 2) adopt the strategies and principles for development of the FY2010/11 Proposed Budget.

   Contact: Gus Vina, Assistant City Manager, 808-7138; Leyne Milstein, Finance Director, 808-8491

**Adjournment**

# REPORT TO COUNCIL
# City of Sacramento

**915 I Street, Sacramento, CA 95814-2604**
**www. CityofSacramento.org**

**Staff Report**
**February 11, 2010**

**Honorable Mayor and**
**Members of the City Council**

**Title: Budget Workshop**

**Location/Council District: Citywide**

**Recommendation: Council discussion and direction to: 1) Direct staff to forward the FY2009 Comprehensive Annual Financial Report and FY2009/10 Midyear Report to Council; and 2) Adopt the strategies and principles for development of the FY2010/11 Proposed Budget.**

**Contact: Gus Vina, Assistant City Manager, 808-7138; Leyne Milstein, Finance Director, 808-8491**

**Presenters:** Gus Vina, Assistant City Manager; Leyne Milstein, Finance Director; Dennis Kauffman, Accounting Manager; and Management Partners, LLC.

**Department:** City Manager's Office

**Division:** Executive Office

**Organization No:** 0310

**Description/Analysis**

**Issue:** The annual budget process includes a financial planning workshop with the City Council to consider, discuss and provide direction on the prior year fiscal year-end results, the mid-year report for the current year, and the development of the proposed budget for next fiscal year. Staff will present this material and these reports to the City Council for discussion and direction. Additionally, the City Council has hired Management Partners, LLC to provide an operational and financial review of city departments. Management Partners will provide an update to their progress

in conjunction with staff's presentation of budget development strategies and principles for the FY2011 Proposed Budget.

**Policy Considerations:** Specific and significant policy issues for Council's discussion and direction include:

- ✓ Use of FY2009 year end results to adjust current year projections
- ✓ A balanced approach to a sustainable budget using the following strategies:
  - Alternative Service Delivery
  - Streamlining and Right-Sizing the Organization
  - Revenue Improvements
  - Use of One-time Reserves
- ✓ Fiscal and Organization Principles:
  - Develop a sustainable budget plan
  - A balanced budget for FY2010/11
  - Use one-time resources strategically
  - Balance layoff impacts with service level decisions
  - Address Full Service City status

**Environmental Considerations:** Not applicable to this report.

**Commission/Committee Action:** None.

**Rationale for Recommendation:** As part of the City Manager's Office responsibility for development of the FY2010/11 Proposed Budget, a financial review with the Mayor and City Council is prudent and allows for discussion and direction from the Council. This financial review includes the FY2009 Comprehensive Annual Financial Report, the FY2009/10 Midyear Report, and current fiscal information pertinent to the development of the FY2010/11 Proposed Budget.

**Financial Considerations:** For this workshop, financial information will be provided throughout the presentations for Council's consideration, discussion and direction. Staff reports for the FY2009 Comprehensive Annual Financial Report and the FY2009/10 Midyear Report will be submitted after Council's discussion and direction at the budget workshop. Per Charter requirements, the City Manager will present the FY2010/11 Proposed Budget on May 1, 2010.

**Emerging Small Business Development (ESBD):** Does not apply.

Respectfully Submitted by: _____
for Gustavo F. Vina
Assistant City Manager

_____
Leyne Milstein
Finance Director

Recommendation Approved:

_____
Ray Kerridge
City Manager

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| **2** | PowerPoint: Management Partners | pg. 25-48 |

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# Budget Workshop

## February 11, 2010

# Workshop Objectives

- FY2009:  Year End results
- Current year:  Midyear Report
- FY2011:  Budget Development
  - Fiscal Update
  - Services Review Approach
  - Summary of Strategies and Principles

# FY2009 Comprehensive Annual Financial Report (CAFR):

## FY2009 Audited Year End Results

| | |
|---|---|
| • FY2009 Year End resources available to balance the FY2009/10 budget | 10.8 M |
| • Resources available from FY2008 | .5 M |
| • FY2009 CAFR fund balance designated for FY2009/10 results | $ 11.3 M |

# FY2009/10 Midyear

- Major tax revenues continue to decline
- Recommend adjusting revenues as follows:

| Revenue Type ($ in million) | Approved | Revised | $ Change |
|---|---|---|---|
| Sales and Use Tax | 62.2 | 54.0 | (8.2) |
| Property Tax | 103.9 | 97.7 | (6.2) |
| Utility User Tax | 60.3 | 57.8 | (2.5) |
| Transient Occupancy Tax | 3.3 | 2.6 | (0.7) |
| **Recommended Midyear Adjustments** | **229.7** | **212.1** | **(17.6)** |

# FY2009/10 Midyear (continued)

- Minimal Operating Department adjustments
  - Allows strategic focus on FY2010/11 budget development

| FY2010/11 Midyear Resources | |
|---|---|
| 11.34 | FY2009 CAFR Designation |
| 0.45 | Release of FY2009 Board of Equalization Liability |
| 0.90 | Additional Furlough Savings |
| 1.70 | Release of SB90 Designation at FY2010 Year End |
| 0.79 | Savings from VSP I |
| 15.17 | Million |

# Balancing the Budget

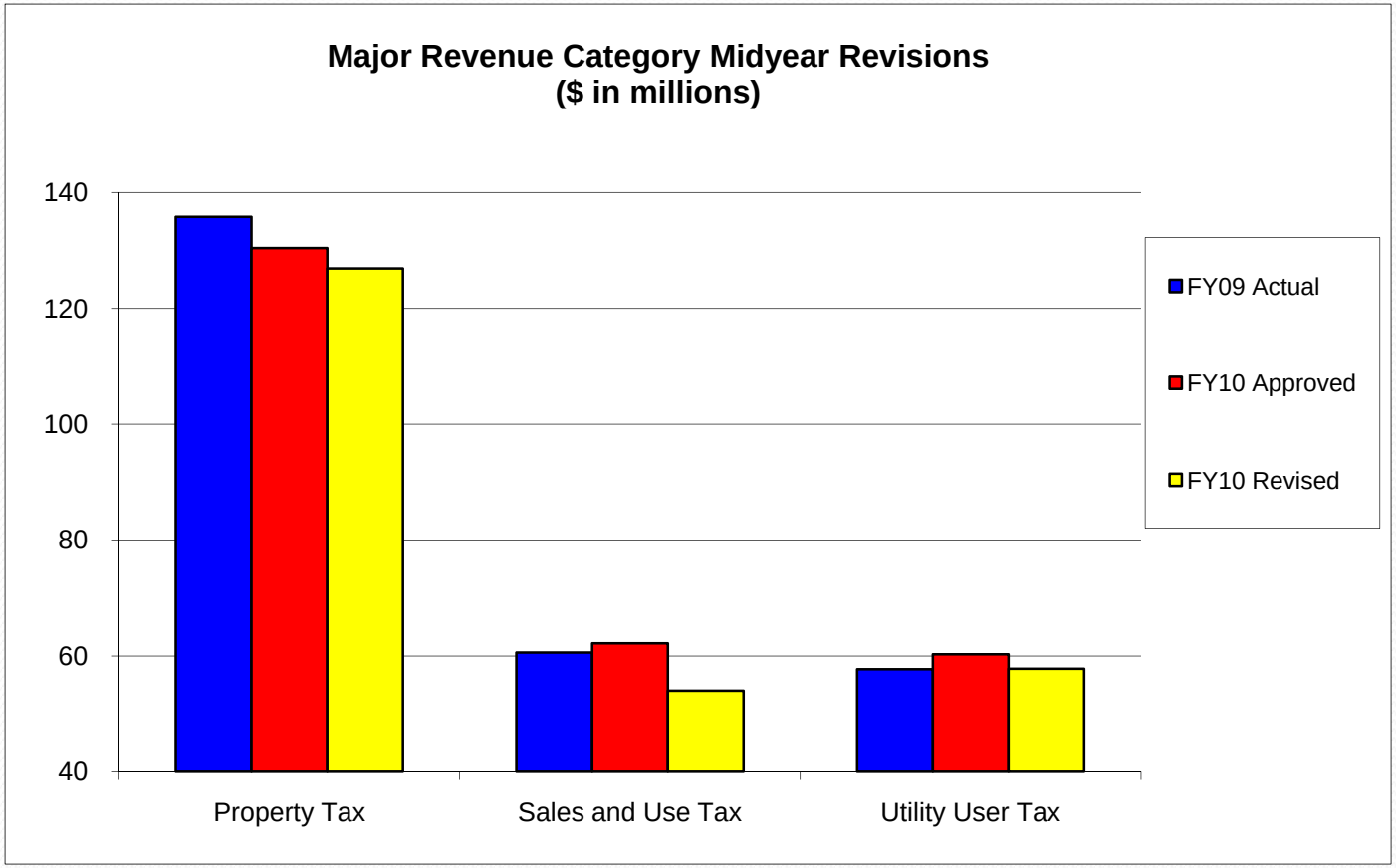
- $108 M deficit over two years
- Across the board reductions
- Some departments at 50%+ reduction
- Revenue increases
- Economic Reserve: $30M to $10.5M
- Labor concessions
- Hiring and other expenditure controls

# Fiscal Update

- Major tax revenues continue to decline
- Pending fiscal hits from the State and PERS
- Restructured labor contract costs
- We are assuming the economy has hit bottom
- Recovery for local government will lag behind private sector
- Current projections predict a budget gap in FY2011 of $35 - $40 M

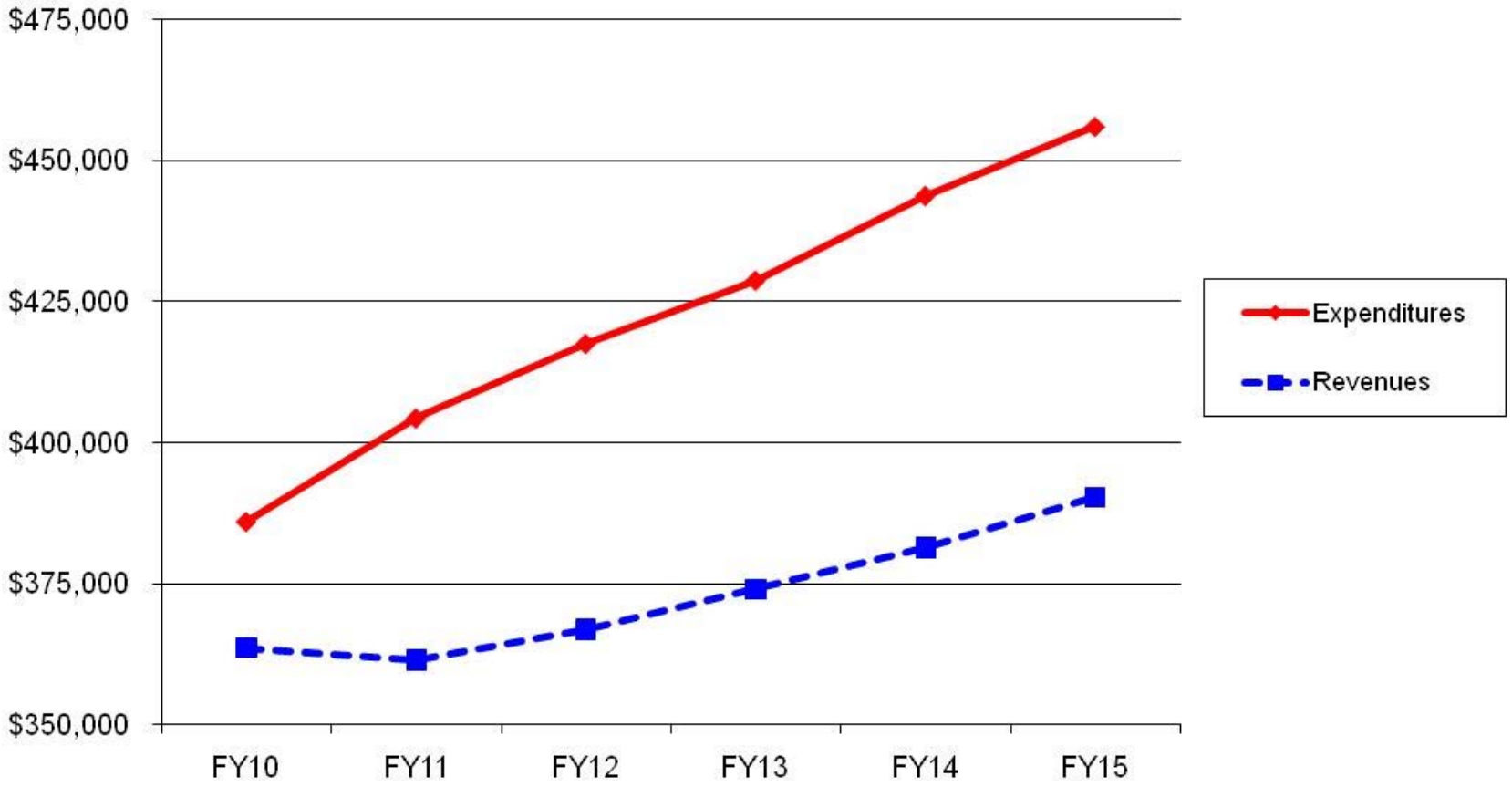
# Fiscal Update (continued)

- Base revenues continue to decline:



# Fiscal Update (continued)

- Revised General Fund 5 Year Forecast (in 000s):



# Services Review Approach

- Across the board will not continue to work
- Need stability in our ability to deliver services
- Need to recognize what we can afford to do

# Program Oriented Development (POD)

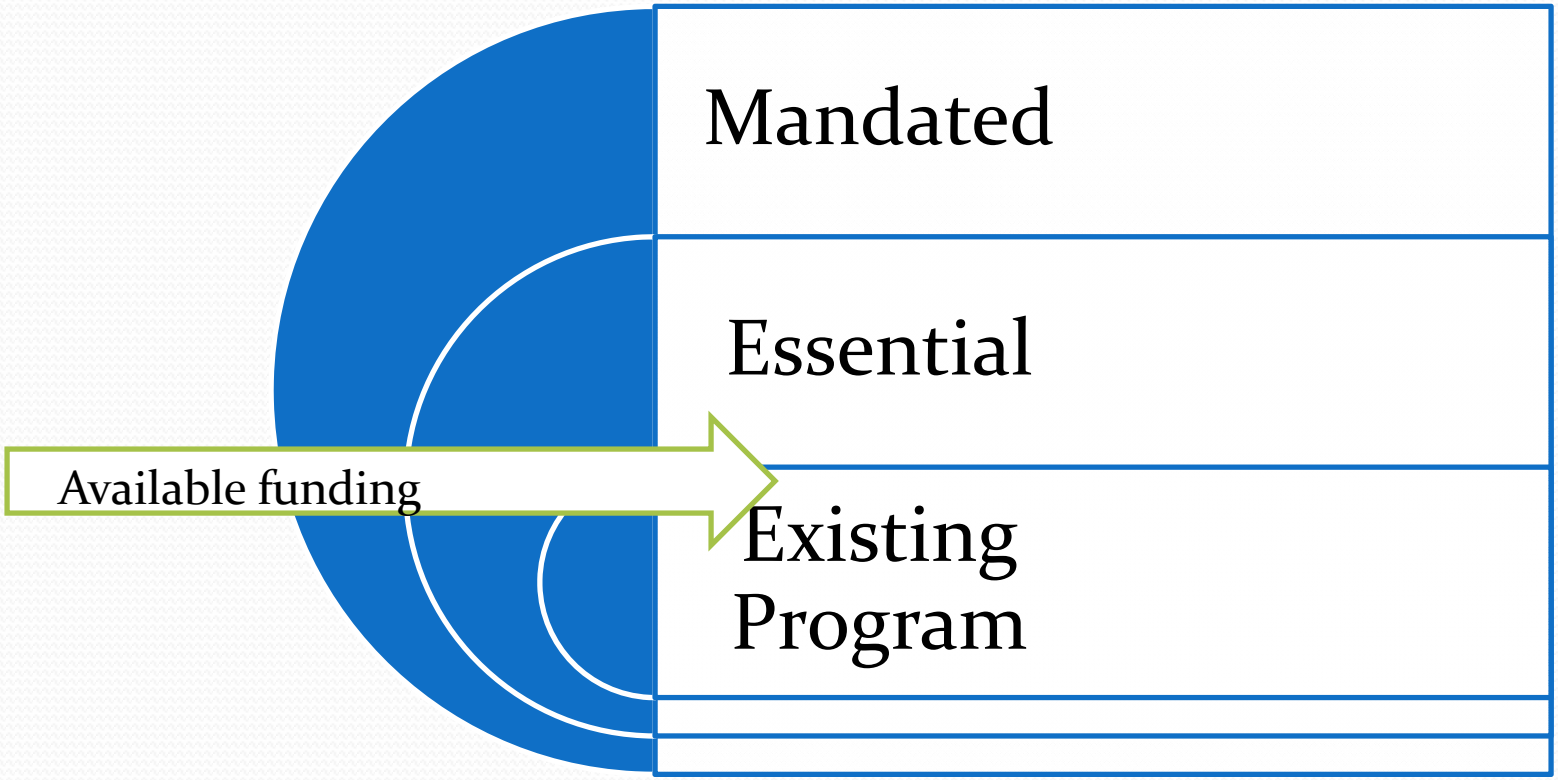
- What we do?
  - Inventory of services
- Why we do it?
  - What tells us to do it?
- How we do it?
  - Efficiencies and effectiveness

# Priority Among Services

- Mandated
  - Federal or State law
  - City Charter
  - Binding Agreement
- Essential
  - Public Health, Risk, Liability
- Existing Program

# The Sustainability Model

- What can we afford?
- What services are eliminated/reduced?



# Budget Development Strategies

- Goal: A Balanced Approach to a Sustainable Budget
  - Alternative Service Delivery
  - Streamlining the Organization
  - Revenue Improvements
  - Planned use of One-time Reserves

# A Sustainable Budget Means:

- Right-size the organization to respond to the "new economy"
- Revenues need to support current and projected expenses
- Determine what services we can afford to provide and which to reduce or eliminate
- Workforce is able to keep up with expected levels of service

# Organizational Right-Sizing

- Smoothing in organizational adjustments within three years
  - Reductions, efficiencies, and alternative service delivery
- Workforce Staffing Plan
  - Organizational adjustments through 2013
- Employee retraining program
  - Vacancies versus reductions
  - Employee Assistance program
  - Reclassifications

# Fiscal and Organizational Principles

- Develop sustainable budget plan
- Balanced Budget for FY2010/11
- Use one-time resources strategically
- Balance layoff impacts with service level decisions
- Address Full Service City status

# Community Outreach Plan

- Organize Neighborhood and Business Meetings:
  - Discuss fiscal condition
  - Explain services review approach
  - Identify community concerns
  - Invite community to budget hearings in May/June

# Summary

- FY2010/11 budget gap at $35 - $40 Million
- Recommend three year sustainability plan
- Develop plan through evaluation of services
- Right size the organization for sustainability
- Maintain fiscal and organizational principles

- Recommendation:
  - ✓ Mayor and City Council adopt the recommended strategies and principles for development of the FY2010/11 Budget and right-sizing of the organization.

# Management Partners

- Presentation
- Next Steps

# Next Steps

- Adopt strategies and principles for FY2010/11 budget development
- Direction on FY2009 CAFR
- Direction on FY2010/11 Midyear

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# City of Sacramento

# Citywide Financial and Operational Review

Mayor and Council Update

February 11, 2010

MANAGEMENT PARTNERS
INCORPORATED

# Presentation Objectives

- Provide an update on Management Partners' work to date
  - Key Observations
  - Preliminary Conclusions
- Outline the framework we are using to prepare our recommendations for the City
- Discuss moving from a tactical approach to a more strategic, balanced, approach

# Management Partners' Review Process

- Independent review by public sector experts
- Conducted interviews with department heads and other senior staff
- Reviewed City documents related to policy, finance and operations
- Conducted benchmarking research on financial and operational issues with peers
  - Peers based on size and capital cities
  - Albuquerque, Austin, Bakersfield, Denver, Fresno, Long Beach, Oakland, Oklahoma City, Phoenix, San Jose, Santa Ana, Stockton

# Background

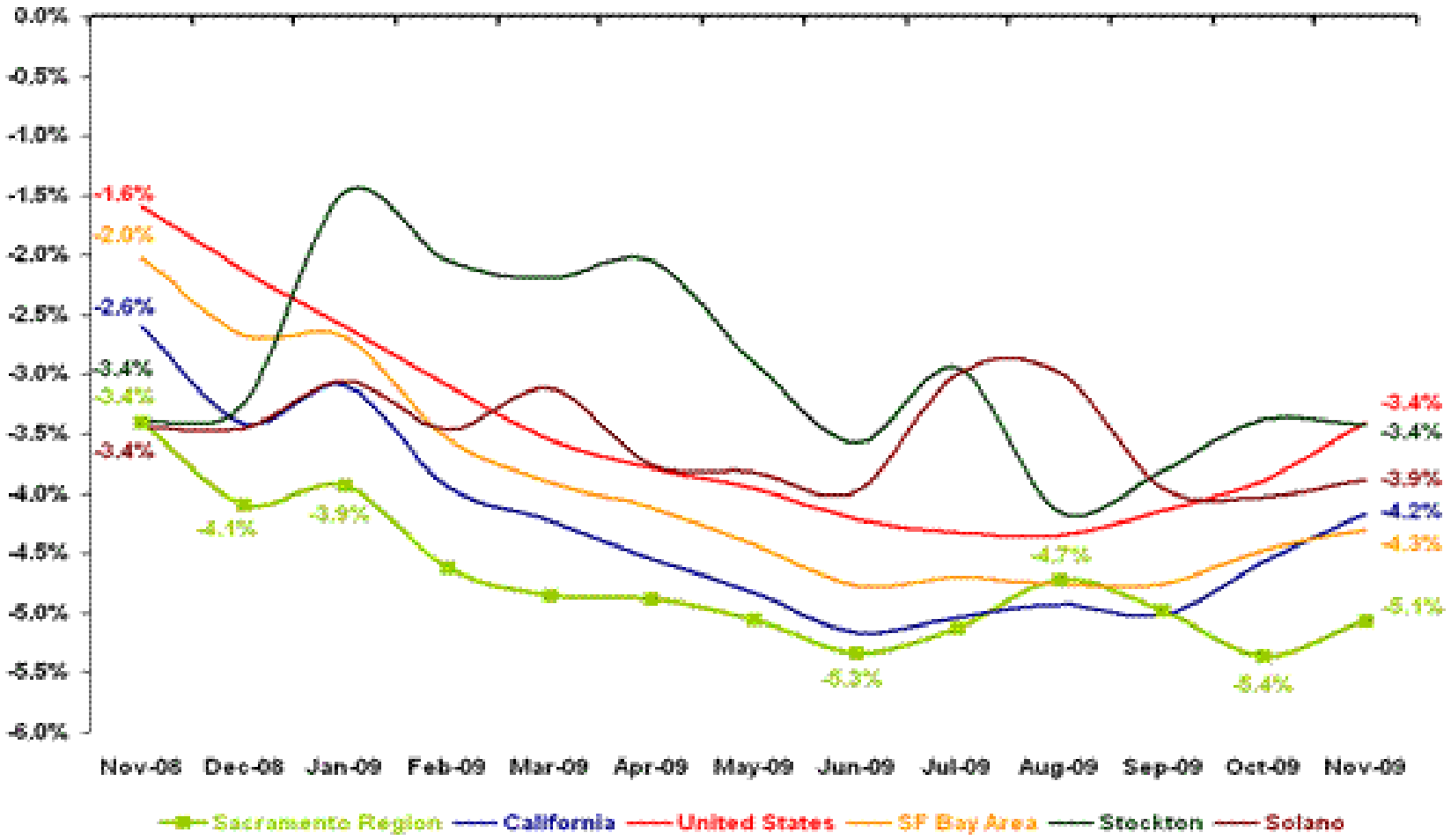
- Sacramento has been cutting the budget since 2008
- $41.7 million in reductions to $386 million dollar budget in 2009-10 alone
- Revenues are still dropping
- Cities are not “islands” in the general economy

# Unprecedented Rapid and Deep Recession Has Led to a Tactical Response

- Has not achieved enough – budget still unbalanced
- Cuts are often one-time or not sustainable
  - Maintenance
  - Repairs and employee training
  - Vacant positions that the City needs
  - Use of fund balance

# Job Losses Have Been Worse Than Average in Sacramento

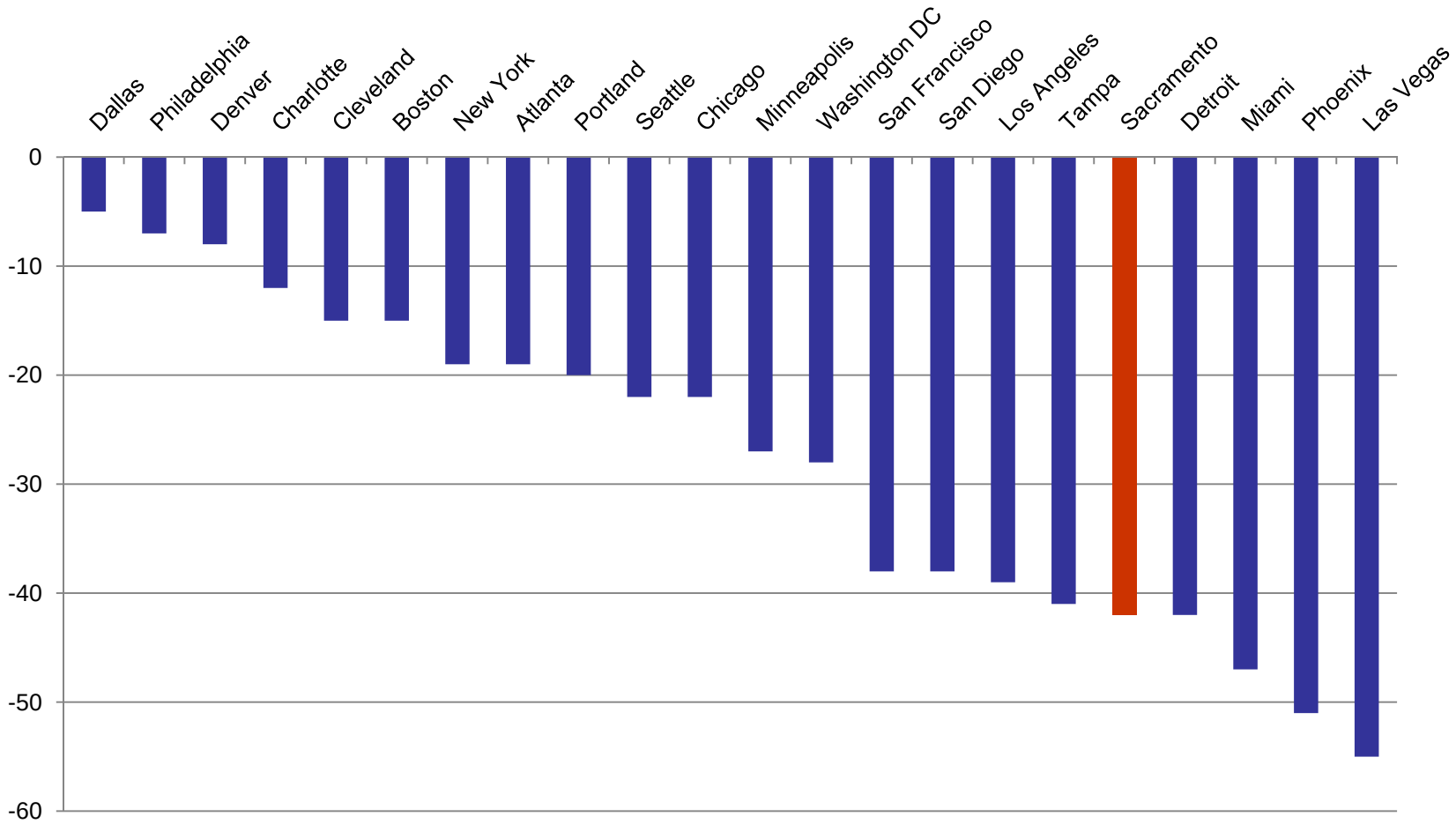
(Center for Strategic Economic Research December 2009)




MANAGEMENT PARTNERS INCORPORATED

# Sacramento Area Property Value Drops Relative to Other Metro Areas

Case Shiller MacroMarkets LLC

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# Significant Observations to Date

## Core Service Revenue

- The City lacks general revenue sources used by other cities to support core services
  - The current allocation of TOT places approximately $3.5 million in the General Fund and $17.5 million in the Community Center Fund
  - The City does not receive a Franchise Fee from SMUD
  - If state-owned property were taxed as Class B office space it would produce approximately $8 million in annual property tax

# Significant Observations to Date

## Core Service Revenue

- Low-cost recovery for service fees result in the use of General Fund revenue to subsidize individual user services  other
  - 60% recovery of planning fees

- The City uses General Fund revenue to support services that can be funded from other sources
  - At least some General Fund revenue used in code enforcement could be replaced by CDBG

# Significant Observations to Date

## Service Delivery

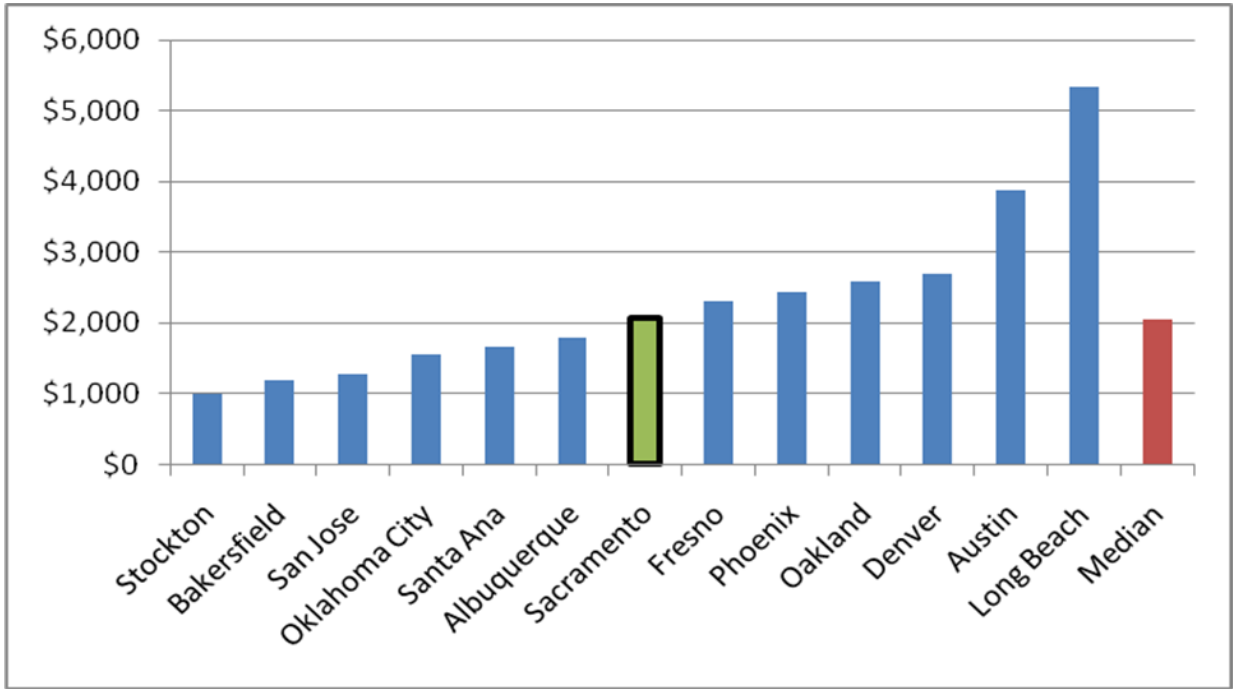
- The City maintains a high level of services with increasingly constrained resources
  - Extensive system of parks and recreation facilities
  - Wide array of cultural and community interest attractions
  - A full service City – from an art museum to a zoo

# Significant Observations to Date

## Service Cost

- Overall operating costs for General Fund-supported services are at (or near) the average for peer cities

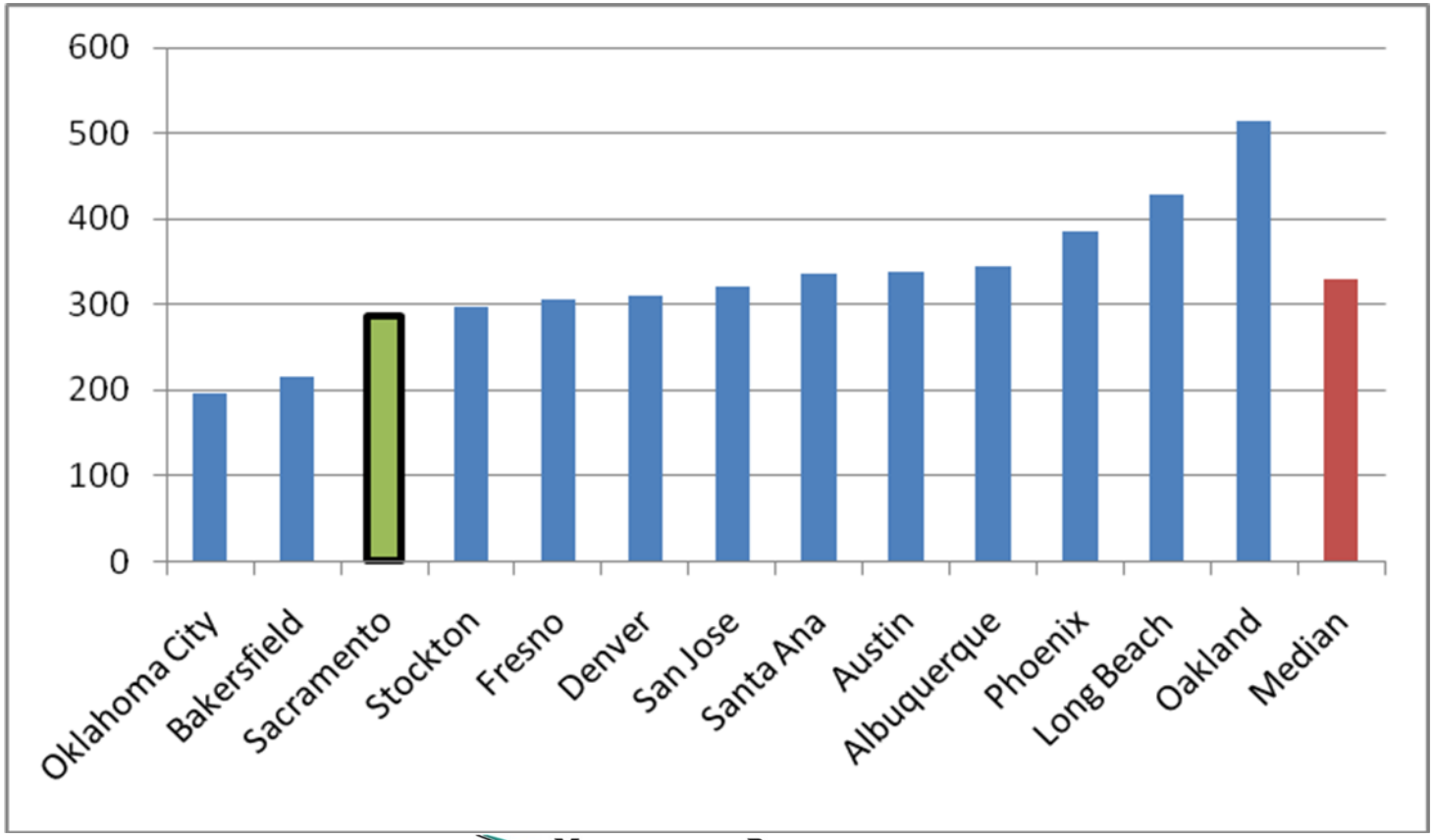
FY 2009-10 Operating Expenditures per Capita



# Significant Observations to Date

## Service Cost

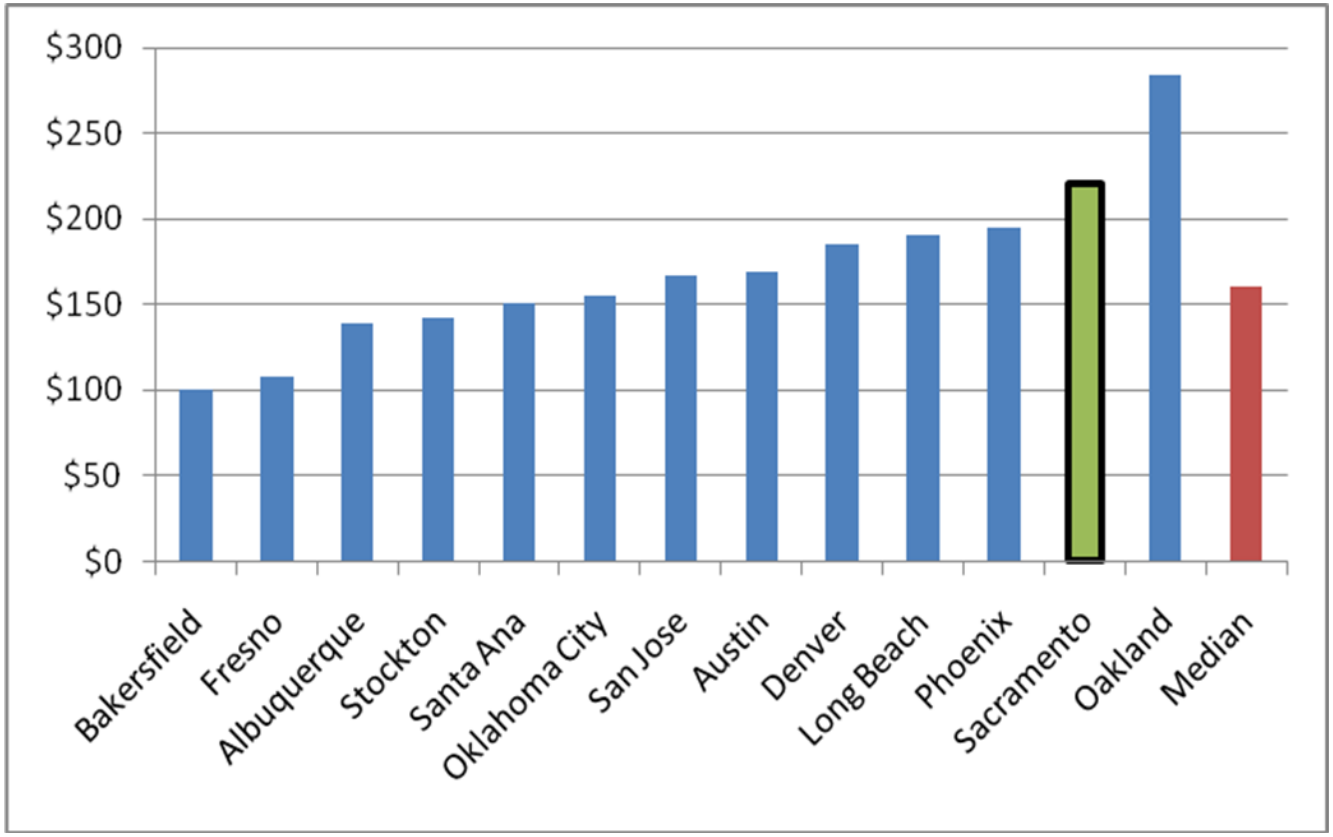
FY 2009-10 Police Operating Expenditures per Capita



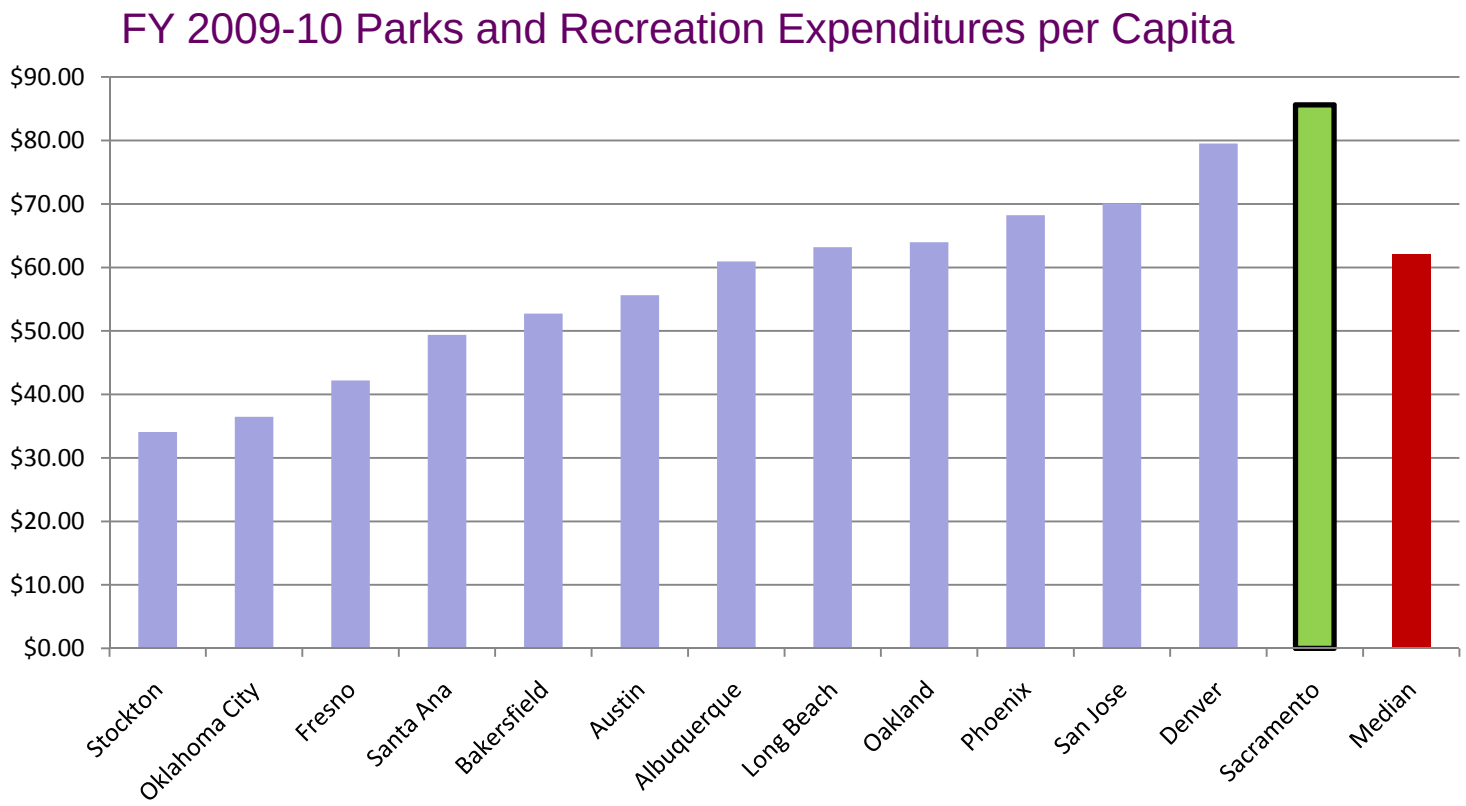
# Significant Observations to Date

## Service Cost

FY 2009-10 Fire Expenditures per Capita



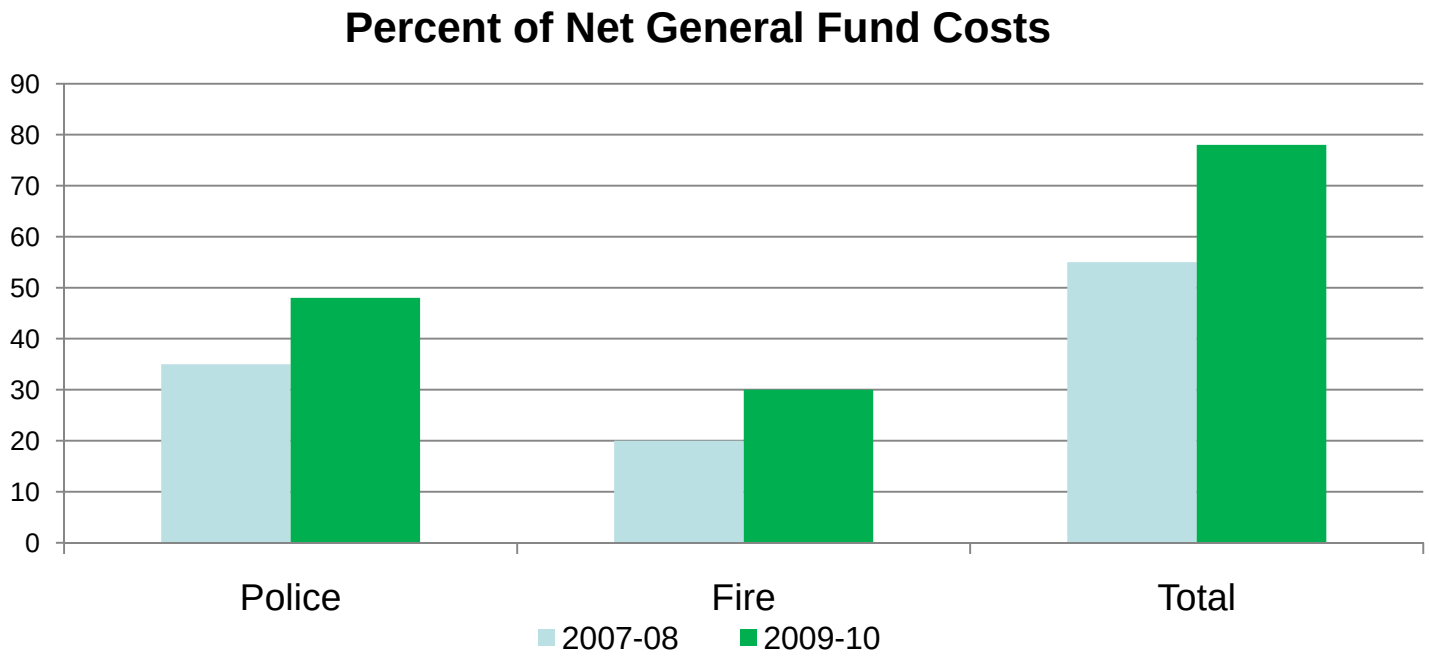
# Significant Observations to Date



# Significant Observations to Date

## Service Cost

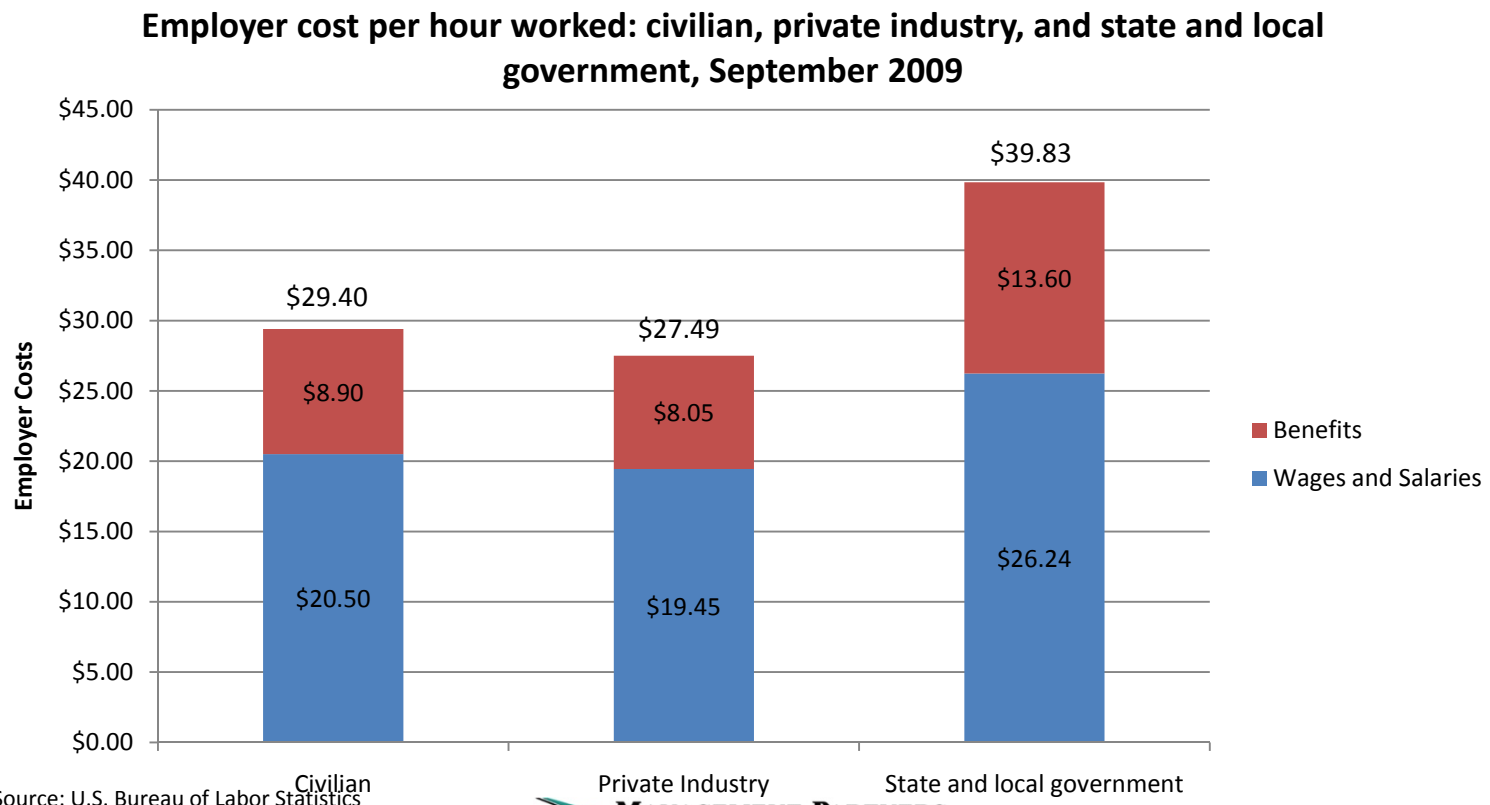
- Public Safety Expenditures are consuming an increasing amount of General Fund Resources



# Significant Observations

## Service Cost

- Personnel costs have continued to increase in Sacramento
- Salaries and benefits for state and local government employees are higher than private sector employees




Source: U.S. Bureau of Labor Statistics

# Significant Observations

## Service Cost

- City continues to construct park, recreation and other facilities in the absence of revenue for the ongoing operation and maintenance of the facilities
- From January 1, 2010 through December 31, 2011 there are approximately 50 new acres in 10 parks scheduled for development

# Significant Observations to Date

## Infrastructure Funding

- Utility funding is at seriously low levels and poses a threat to General Fund revenue and system maintenance
  - Unless sufficient rate increases are approved, utility funds will have negative fund balances

- Ending Fund Balance in Water Fund as a percentage of annual operating expenses

| | | | |
|---|---|---|---|
| Bakersfield | 70% | San Jose | 15% |
| Fresno | 56% | Long Beach | 11% |
| Stockton | 43% | **Sacramento** | **2%** |

# Major Conclusions

*(Preliminary)*

1. Alternative service delivery models including functional consolidations with adjacent jurisdictions and competitively bidding some services can help sustain Sacramento as a full service City.

2. Negotiated changes in current compensation policies and practices are necessary to stem the unsustainable growth of personnel costs.

# Major Conclusions

*(Preliminary)*

3. Continuing to subsidize individual discretionary services will result in further erosion of community wide services.

4. Putting more resources into infrastructure investment and maintenance is required to maintain the quality of life for residents, support local business and attract new business and avoid General Fund subsidies.

# Major Conclusions

*(Preliminary)*

5. Given the lack of several traditional revenue sources available to fund core services, the City will most likely need to go to the voters for a general tax measure or service-specific assessment.

# Balanced Recommendations

- Recommendations will be balanced between a number of strategic categories:

Changing the delivery model for various services:

- Staffing reductions
- Functional consolidation with other agencies
- Seek bids for various services

Streamlining the City organization:

- Consolidating departments and programs
- Maximizing the use of technology

# Balanced Recommendations (continued)

Full cost recovery for services with individual beneficiaries:

- Development fees
- Adult recreation programs
- Cultural and community attractions

Changing compensation policies:

- Retirement plans
- Health benefits
- Establishing salary ranges

Increasing General Fund revenue:

- Reallocation of various existing revenues
- Ballot measures for additional General Fund revenue

# Thank You

*Questions?*

Andrew Belknap, Regional Vice President

Arne Croce, Partner

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