

May 3, 2011



AGENDA

- * Economic Outlook
- * Council's Budget Process
- * Overview of Proposed Budget

May 3, 2011



ECONOMIC OUTLOOK

RUSS FEHR, CITY TREASURER



Local Economic Conditions And The City Budget

Budget Hearing

May 3, 2011

Presentation from the Office of the City
Treasurer



Nationwide Recovery

- Regional differences
- Employment increasing gradually
- Increasing economic activity
- Stock markets have recovered much of lost value
- Stagnant real estate markets
- Increasing inflationary pressure



Dismal Local Picture

- Economic downturn grinds on in Sacramento
- High unemployment
- Declining real estate market
- Low consumer confidence
 - Sense the local economy is dragging along bottom, not improving
 - Wealth effect of real estate market
- Unresolved state and local government budget problems
- High unemployment and declining real estate market will continue be drag on local recovery



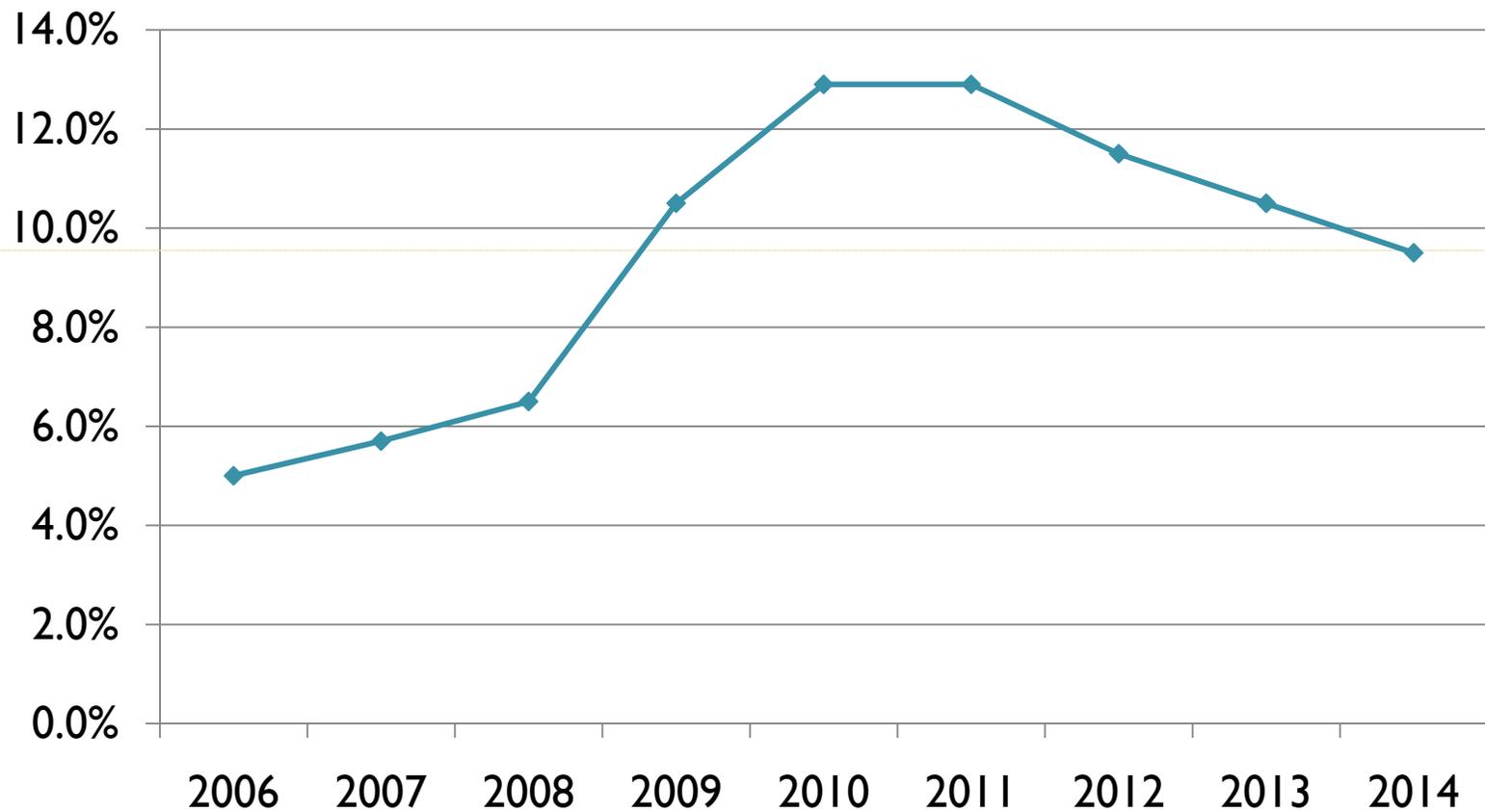
Employment

- The region has lost over 110,000 jobs
- It took over six years before the downturn to add that many jobs
- Structural job losses in construction, government/education and financial services
- Many unemployed lack skills for what jobs exist – structural unemployment

Regional Employment Base

Employment Sector	Percent of Local Economy
Government	29.5 %
Education & Health Care	12.3 %
Business Services	11.9 %
Retail	10.9 %
Financial, Construction & Manufacturing	14.5 %

Regional Unemployment Rate

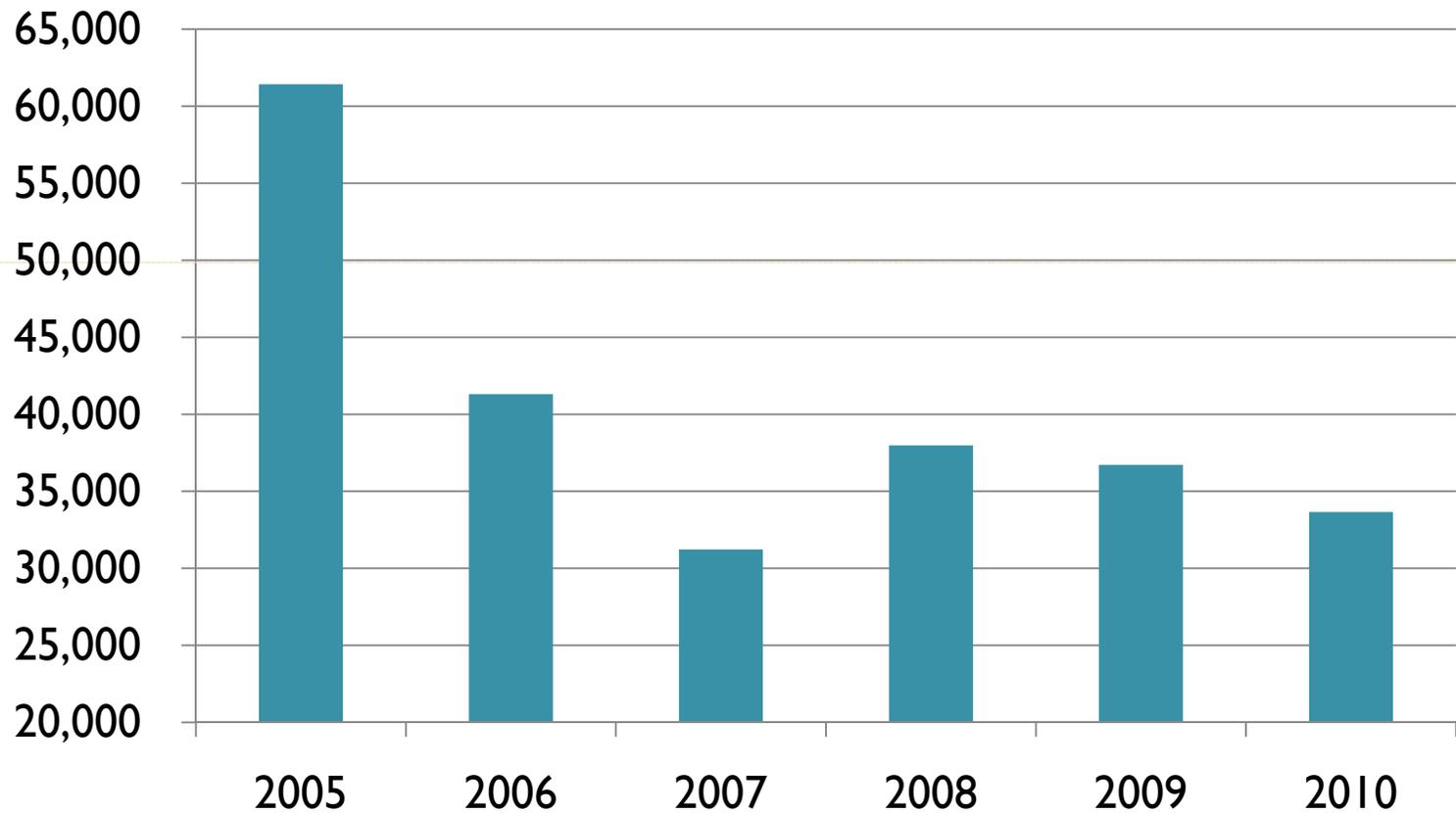




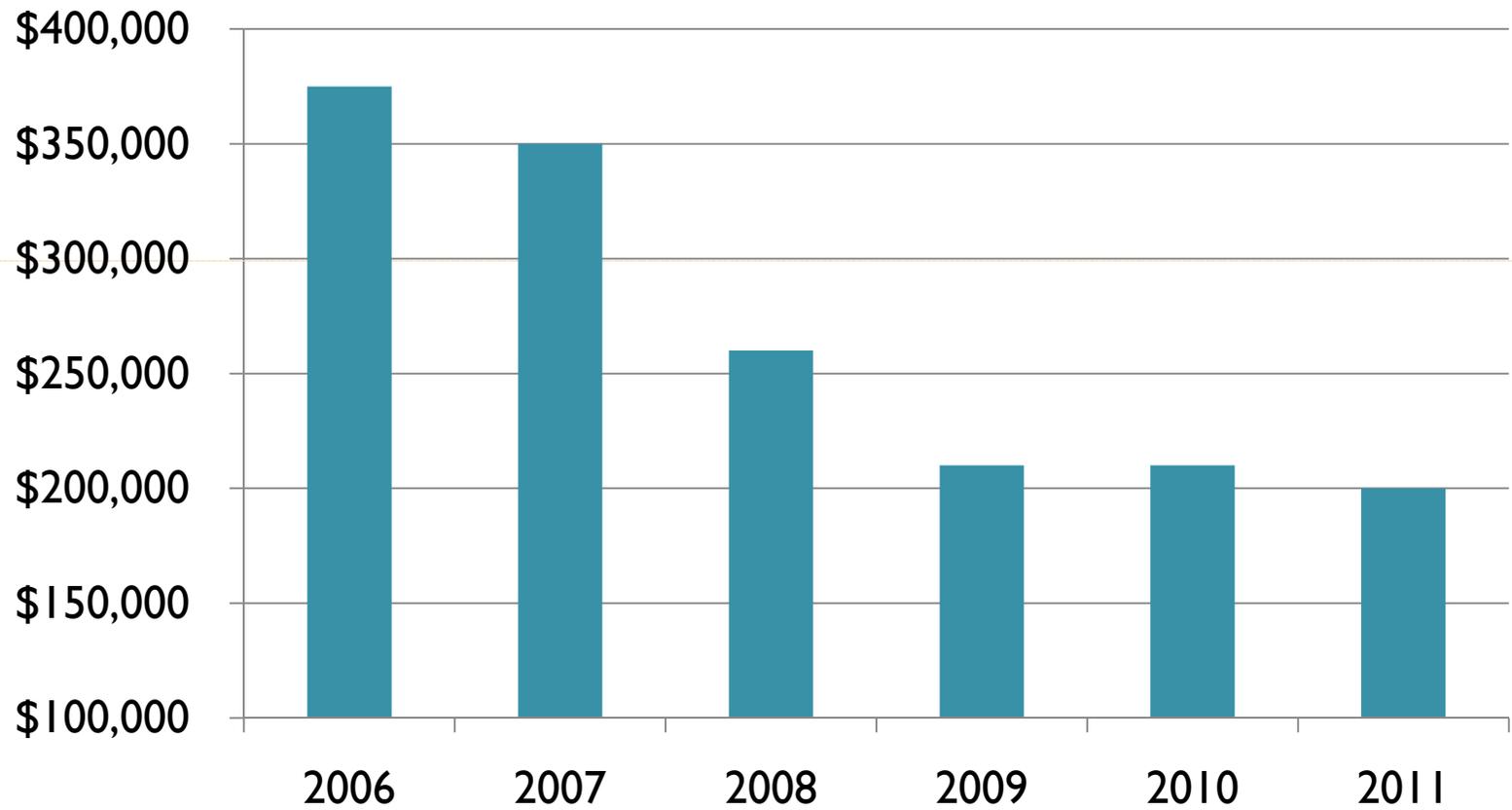
Real Estate

- Housing market increases a feature of prior recoveries from recessionary conditions
- This is unlikely to happen this time
- Foreclosures dominate market by setting values at low level
- High level of excess inventory, approximately 7.5 % of regional housing stock
- Regional office space vacancy rate above 22% with 10% considered “normal”

Declining Home Sales



Home Prices Fall

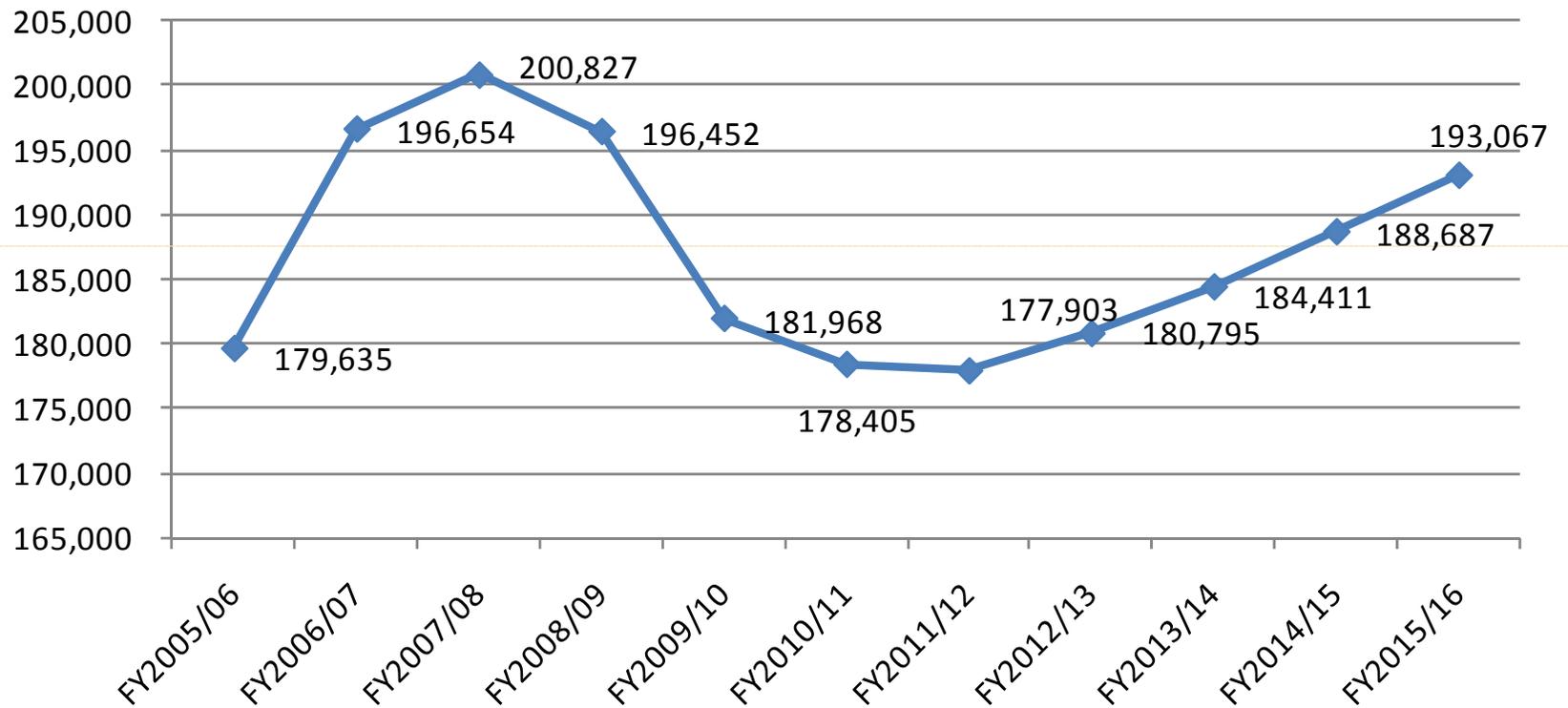




Impact on Major Tax Revenues

- Within a 3 to 5 year horizon recovery will be very slow in the Sacramento Region
- No significant growth in property taxes until foreclosures and excess inventory are worked out
- Growth in sales tax will depend on increasing employment and consumer confidence
- It takes a year or two to see revenue from new development construction

Property & Sales Tax Revenue





Proposed Budget

- Revenue estimates are reasonable and accurate in light of local economic conditions
- Funding gap is real and will continue to grow in the next several years unless permanent structural changes are made
- No comments of specific items in the expenditure plan
 - Permanent cuts must be made to spending
 - Staffing and service level impacts necessary and unavoidable



Budget & Cash Position

- General Fund borrows for cash flow – \$40 million in current year
- Current reserve barely covers 2 weeks labor costs
- Erosion of cash increases need to borrow and longer term risk of insolvency
- Recommend strongly against using the Reserve
 - Reduces cash further
 - Merely defers need to make cuts
- Increasing reserve to 10% of General Fund would end need to borrow and change interest cost to interest earnings

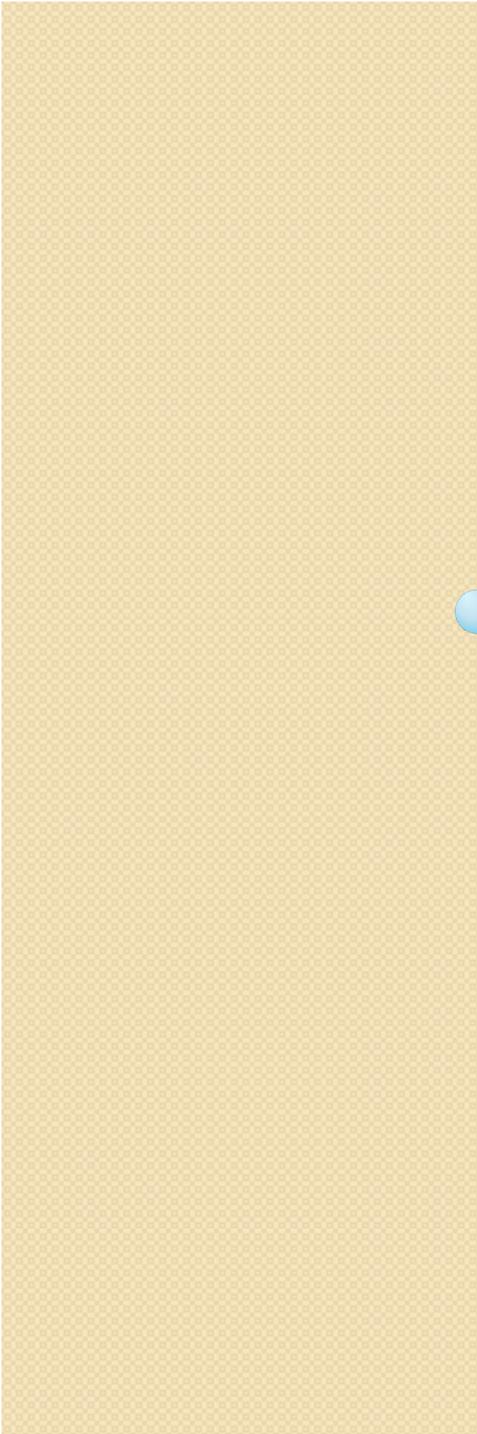


Multiyear Perspective

- For next 3-4 years weak growth in tax revenue at best
- Known increases in pension and retiree medical costs
- Need to reduce expenditure levels to achieve a sustainable budget
- Overall labor costs must be adjusted
 - Staffing levels; and/or
 - Compensation levels

Council Process

- Mayor appointed Vice Mayor Pannell and Councilmember Cohn to work with staff on the agenda for each budget hearing
- Process
 - At end of each meeting, an intent motion will summarize direction to staff including:
 - Requested Reports Back
 - Areas of Reconsideration along with any direction on parameters for funding
- Parameters for Reconsideration of Cuts
 - The Reserve for Economic Uncertainty will not be used
 - One time cuts will not be used to replace permanent cuts
 - Any new revenue proposals will not be used until implemented
 - Any labor concessions will be used to mitigate reductions in that bargaining group only during the concession period



May 3, 2011



**FY2011/12 PROPOSED
BUDGET**



FY2011/12 Proposed Budget

- Total Proposed Budget (all funds): \$812 M
 - General Fund: \$362 M
 - Enterprise Funds: \$450 M
- Focus of this year's hearings will be on General Fund.
- Utility Enterprise Funds to be reviewed in late summer.

General Fund:

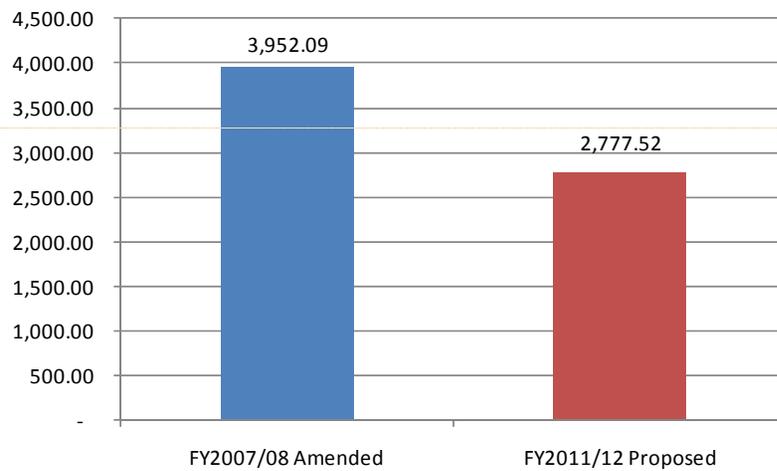
Where We've Been

Reduction Strategy	FY2007/08	FY2008/09	FY2009/10	FY2010/11	Proposed FY2011/12
General Fund Deficit (\$ in 000s)	\$ 29,000	\$ 58,000	\$ 50,000	\$ 43,000	\$ 39,000
One-Time Funding	29,543	19,000	8,300	17,511	4,600
New/Increased Revenues	-	3,700	5,100	1,000	2,400
Labor Reductions	-	30,200	28,900	12,367	27,100
Other Reductions/Reimbursements	-	5,100	7,700	12,400	4,800
	\$ 29,543	\$ 58,000	\$ 50,000	\$ 43,278	\$ 38,900
FTE Reductions	-	359.01	360.26	207.50	294.72

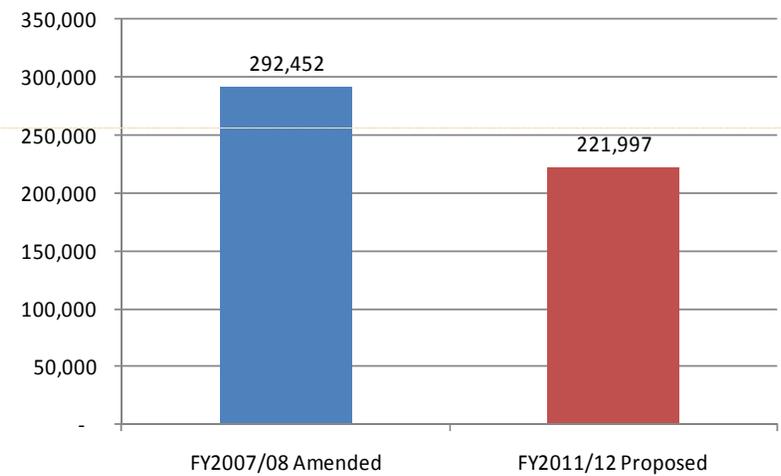
General Fund:

Where We've Been

Change in FTE



Change in \$ (\$ in millions)



General Fund:

Where We've Been

Staffing & Budget Reductions: FY07/08 thru Proposed FY11/12:

Department	Change in FTE	% Change	Change in Budget (000's)	% Change
Mayor/Council	7.00	23.7%	(\$125)	-4%
Charter Offices	(30.00)	-29.0%	(\$3,607)	-24%
General Govt	(140.50)	-32.5%	(\$15,976)	-50%
Dev/Ec Dev	(202.00)	-50.7%	(\$10,849)	-86%
CC&L	(18.40)	-16.5%	(\$1,128)	-26%
Parks	(294.30)	-50.7%	(\$19,325)	-65%
Transportation	(34.50)	-9.0%	(\$8,377)	670%
Police	(370.90)	-29.2%	(\$12,701)	-10%
Fire	(91.00)	-13.9%	\$1,634	2%
Total	(1,174.60)	-28.9%	(\$70,454)	-24%

General Fund:

Where We Are

- To Balance the Budget Needed to Fix \$39M Gap Between Revenues and Costs

(\$ in 000s)	<u>FY2010/11</u>	<u>FY2011/12</u>	<u>Deficit</u>
Revenues	362,787	353,526	(9,261)
Labor	342,056	362,200	(20,144)
Service and Supplies	92,551	97,924	(5,373)
Capital Improvement Program	69	4,290	(4,221)
			(38,999)

General Fund:

Where We're Going

Five Year General Fund Forecast:

\$ in 000s	Proposed				
	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Total Revenues/Resources	362,180	365,294	372,108	377,812	384,691
Total Expenditures	362,155	377,031	395,069	396,585	398,312
Annual Operating Surplus/(Deficit)	25	(11,737)	(22,961)	(18,773)	(13,621)
Cumulative Operating Results	25	(11,712)	(34,673)	(53,446)	(67,067)

Structural Deficit:

$\$39 \text{ M} + \$23 \text{ M} = \$62 \text{ M}$

General Fund:

How Proposed Budget Was Built

- Discretionary General Funds were calculated
- Critical/core programs funded

Calculation of FY2011/12 Discretionary General Funds
\$ in millions

Citywide Proposed Budget All Funds	812.1
Enterprise/All Other Funds CIP	(50.7)
Enterprise/All Other Funds Operating	(399.3)
Operating Budget General Fund	362.1
Debt Service/Non-Department	(70.2)
Department Revenue	(66.5)
General Fund CIP	(3.3)
FY2011/12 Discretionary General Fund	222.1

General Fund:

Proposed Budget Reductions

- General Fund Expenditures Must Be Reduced by \$39 Million

Strategies	\$ in millions
Labor Reductions (250.9 FTE)	27.1
Service & Supply/CIP Reductions	4.8
Increased Revenues	2.4
Use of One-Time Funding	4.6
	38.9

General Fund:

Proposed Budget Reductions

- Overview of Significant Budget Reductions
 - Parks & Rec
 - All but 3 Community Centers Closed
 - All but 3 Swimming Pools Closed
 - Police
 - Reduction of 167 FTE including 35 grant funded FTE.
 - Fire
 - Reduction of 65 FTE resulting in 6 Brownouts (4 if SAFER Grant accepted)
 - Other
 - Contracting out remainder of Golf (maintenance)
 - Library
 - Citywide service level reductions

Proposed FTE Reductions

FY2011/12 FTE Reductions

General Fund	
\$39 million reductions	-250.9
PD grant funded positions (COPS Grant)	-35.00
Additional FTE Fire (Station 43)	15.00
Additional FTE Finance (Delinquent Collections)	2.00
Additional FTE Count (Position Reallocations)	3.00
Parks FY11 one-time positions	-26.82
DGS GF to Fleet	-2.00
Total Proposed Budget General Fund	-294.72
Other Funds	
Fleet (Contract paint/body, PD ready line)	-13.00
Total Proposed Budget All Funds	-307.72
Midyear Reductions¹	
Golf Maintenance	-58.36
Total Reductions All Funds with Midyear	-366.08

¹ FTE will be adjusted if/when contract terms are finalized.

Tentative Budget Hearing Schedule

As of 4/27/11 (Subject to Change)

- Tuesday, May 3rd
 - Overview
- Thursday, May 12th
 - Summary of Reductions
 - Community Survey
 - Parks & Rec
- Tuesday, May 17th (Aft.)
 - ~~Parks & Rec~~
 - CC&L
 - Community Development
- Tuesday, May 17th (Eve)
 - Police
- Tuesday, May 24th (Aft)
 - Transportation, Utilities, Support, Ec. Dev, Gen Svcs, Charter Offices
- Tuesday, May 24th (Eve)
 - Fire
- Tuesday, May 31st
 - Library, Partner Agencies
 - Fees & Charges
- Thursday, June 2nd
 - Options
- Tuesday, June 7th
 - CIP
- Tuesday, June 14th
 - Finalize Reductions
- Tuesday, June 21st
 - Adopt Budget