



**City of Sacramento** 13  
**City Council**

915 I Street, Sacramento, CA, 95814  
[www.CityofSacramento.org](http://www.CityofSacramento.org)

**Meeting Date:** 5/17/2011

**Report Type:** Staff/Discussion

**Title:** FY2011/12 Budget Update and Reports Back

**Report ID:** 2011-00480

**Location:** Citywide

**Recommendation:** Receive and file.

**Contact:** Leyne Milstein, Finance Director, (916) 808-8491, Finance Department

**Presenter:** Leyne Milstein, (916) 808-8491, Finance Director

**Department:** Finance

**Division:** Budget Office

**Dept ID:** 06001411

**Attachments:**

---

1-Description/Analysis

2-Attachment 1

---

**City Attorney Review**

Approved as to Form

Larry Duran

5/13/2011 12:46:24 PM

---

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 5/13/2011 9:40:34 AM

Assistant City Manager: Patti Bisharat - 5/13/2011 10:42:16 AM

**Presenters:** Leyne Milstein

**Department:** Department of Finance

**Division:** Administration

**Organization No:** 06001411

**Description/Analysis:**

**Issue:** The FY2011/12 Proposed Operating and Capital Improvement Program Budget Documents were delivered to the Mayor and City Council on April 29, 2011. This report provides supplemental budget information (SBI) requested during the previous budget hearings (Attachment 1).

**Policy Considerations:** The City is clearly facing a substantial challenge in returning to a long-term structurally balanced General Fund budget. After three consecutive years of reductions, the City continues the monumental task of rightsizing the organization to achieve budget sustainability. This will necessitate difficult decisions that will require careful consideration of the proposed reductions. Successfully addressing this financial challenge will require increased flexibility, new ways of delivering programs and services, and extreme fiscal discipline.

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):** This report concerns administrative activities that will not have a significant effect on the environment, and that do not constitute a "project" as defined by CEQA Guidelines Sections 15061(b)(3); 15378(b)(2). CEQA review for any project, which utilizes funds allocated under the FY2011/12 CIP budget, has been or will be performed in conjunction with planning, design and approval of each specific project as appropriate.

**Sustainability:** Not applicable.

**Commission/Committee Action:** None.

**Rationale for Recommendation:** The severe economic downturn impacting the nation, State and City require that significant ongoing budget reductions be implemented in order to stabilize the City's budget and continue the process of returning the General Fund budget to sustainability.

**Financial Considerations:** Budget sustainability requires that annual base operating costs must be held to a level below annual revenue growth. If the City is successful in efforts to implement ongoing reductions in expenditures in FY2011/12 and can minimize cost increases in the future the structural gap will be tightened, but not eliminated, as there are anticipated expenditure increases that will have to be addressed in future years.

**Emerging Small Business Development (ESBD):** Not applicable.

## Supplemental Budget Information Log

Item	Question	Meeting	District	Status
1	List of revenue options?	5/3	6	6/2 Budget Hearing
2	Can we develop a website where community can get budget information, ask questions, and make recommendations?	5/3	5	Delivered 5/12
3	Identify the components of the \$20m labor increase?	5/3	1	5/17 Budget Hearing
4	What would the budget look like if we didn't cut public safety?	5/3	6	5/17 Budget Hearing
5	What is the break out of the \$222.1m discretionary GF by department: \$ and %?	5/3	6	5/17 Budget Hearing
6	Prior four year reductions by departments \$ and FTE?	5/3	6	5/17 Budget Hearing
7	How many of 250 FTE are vacant?	5/3	8	5/17 Budget Hearing
8	How to better describe how we get to \$222.1?	5/3	1	5/17 Budget Hearing
9	How to show value of union concession over time?	5/3	1	5/17 Budget Hearing
10	Economic development opportunities to grow our revenues?	5/3	Mayor	5/24 Budget Hearing
11	How to and how long to get to beyond a 10% reserve?	5/3	Mayor	5/17 Budget Hearing
12	Over last 4 years how much cut and how has that impacted jobs growth?	5/3	Mayor	5/24 Budget Hearing
13	What is oversight and consequences on overspending?	5/3	Mayor	6/2 Budget Hearing
14	Are there efficiencies and/or consolidations that could provide additional savings?	5/3	Mayor	6/2 Budget Hearing
15	Are there savings if we were to close the Public Safety Center on Freeport Blvd and consolidate staffing at other City facilities?	5/3	1, 6,7	TBD
16	Why can't we change cost allocation to save PS?	5/3	1	5/17 Budget Hearing

# Supplemental Budget Information – Item 4

**Question:**

What would the budget look like if we didn't cut public safety?

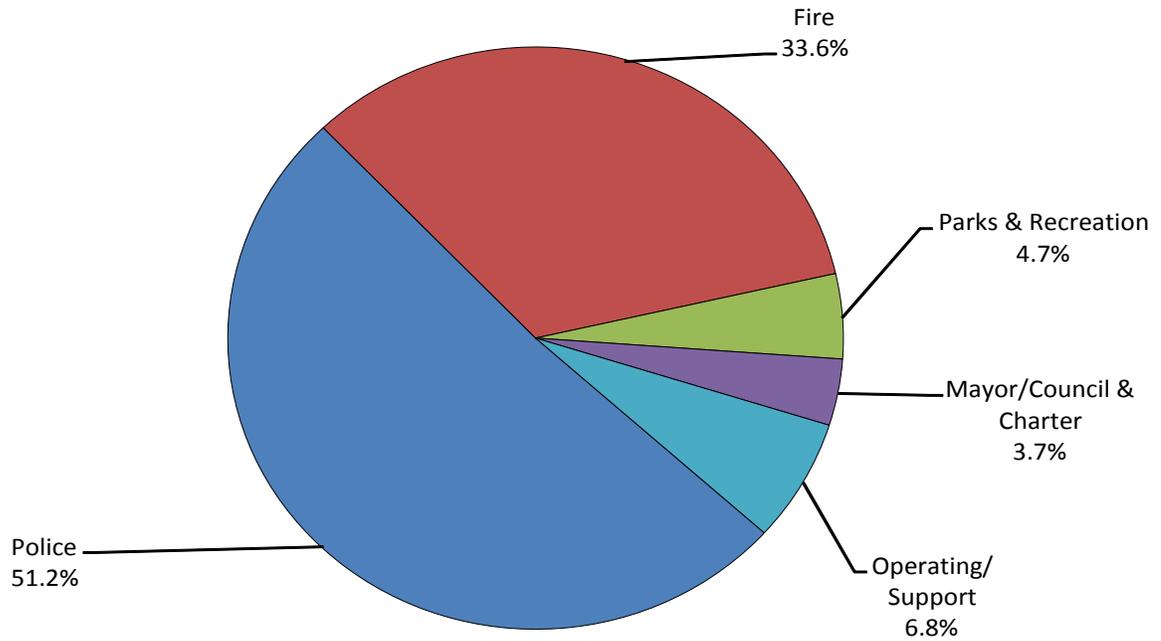
**Response:**

The following chart reflects a restoration to Fire and Police of the proposed \$21.3 million in cuts included in the FY2011/12 Proposed Budget. The revised reductions basically holds Mayor/Council and Charter offices as well as those departments that are positive to the General Fund, to the originally proposed level of cuts and spreads the \$21.3 million across the remaining departments. An additional option would be to completely eliminate departments and/or City operations to achieve \$21.3 million in additional savings.

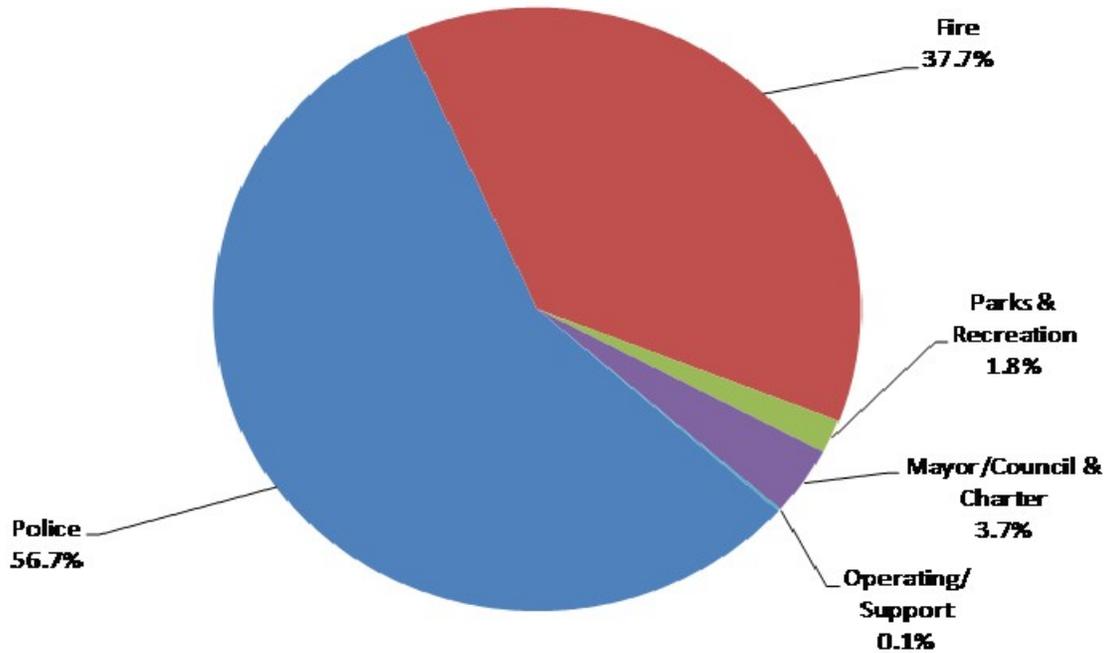
Department	Proposed FY2011/12 Net General Fund	Original Proposed Reductions	Revised Reductions without Public Safety Cuts	Revised Proposed FY2011/12 without Public Safety Cuts
<b>Mayor/Council &amp; Charter:</b>	<b>8,211,913</b>	<b>(955,500)</b>	<b>(955,500)</b>	<b>8,211,913</b>
<b>Parks &amp; Recreation:</b>	<b>10,442,274</b>	<b>(1,786,800)</b>	<b>(8,218,303)</b>	<b>4,010,771</b>
Fire	74,522,407	(9,108,000)	-	83,630,407
Police	113,667,674	(12,197,000)	-	125,864,674
<b>Public Safety:</b>	<b>188,190,081</b>	<b>(21,305,000)</b>	<b>-</b>	<b>209,495,081</b>
Community Development	3,918,872	(1,329,117)	(3,084,240)	2,163,749
Convention, Culture & Leisure	3,147,275	(293,565)	(2,476,976)	963,864
Economic Development	(24,782)	(707,406)	(707,406)	(24,782)
Finance	2,146,770	(592,000)	(1,689,556)	1,049,214
General Services	8,502,610	(1,547,471)	(6,691,744)	3,358,337
Human Resources	2,239,519	(240,000)	(1,762,552)	716,967
Information Technology	4,850,666	(647,000)	(3,817,583)	1,680,083
Transportation	(9,628,072)	(480,458)	(480,458)	(9,628,072)
<b>Operating/Support:</b>	<b>15,152,858</b>	<b>(5,837,017)</b>	<b>(20,710,514)</b>	<b>279,361</b>
<b>Total:</b>	<b>221,997,126</b>	<b>(29,884,317)</b>	<b>(29,884,317)</b>	<b>221,997,126</b>

*\*Excludes additional cuts to Mayor/Council, Charter, Departments that are positive to the General Fund (Economic Development & Transportation), and Utilities which has \$162,410 in General Funds for Backflow Devices*

## FY2011/12 Proposed Net General Fund - \$222.1 million



## FY2011/12 Proposed Net General Fund Without Cuts to Public Safety



# Supplemental Budget Information – Item 5

**Question:**

What is the break out of the \$222.1m discretionary General Fund by department: \$ and %.

**Response:**

The following chart reflects the current allocation of the net General Fund by department.

Department	Net GF \$	% of Net GF
City Attorney	3,430,779	1.50%
City Clerk	1,099,591	0.50%
City Manager	1,926,623	0.90%
City Treasurer	(910,829)	-0.40%
Mayor/Council	2,665,749	1.20%
Finance	2,146,770	1.0%
Human Resources	2,239,519	1.0%
Information Technology	4,850,666	2.20%
CCL	3,147,275	1.40%
Community Development	3,918,872	1.80%
Economic Development	(24,782)	0.00%
Fire	74,522,407	33.50%
General Services	8,502,610	3.80%
Parks & Recreation	10,442,274	4.70%
Police	113,667,674	51.20%
Transportation	(9,628,072)	-4.40%
Utilities	162,410	0.10%
<b>Total</b>	<b>222,159,536</b>	<b>100%</b>

# Supplemental Budget Information – Item 6

**Question:**

Prior four year reductions by department \$ and FTE?

**Response:**

The following charts reflect the FY2008/09 through the Proposed FY2011/12 reductions by department, and the percentage change from FY2007/08.

FY2007/08 - FY2011/12 Net General Fund \$ Change				
Department	3 Year Cumulative	FY2011/12 Proposed	Total \$ Reductions	% Reduction in \$
	\$ Change	\$ Reductions		
<b>Mayor/Council &amp; Charter:</b>	<b>(4,448,706)</b>	<b>(125,000)</b>	<b>(4,573,706)</b>	<b>-38%</b>
<b>Parks &amp; Recreation:</b>	<b>(16,426,585)</b>	<b>(1,786,800)</b>	<b>(18,213,385)</b>	<b>-61%</b>
Fire	(10,640,433)	(9,108,000)	(19,748,433)	-27%
Police	(23,399,349)	(12,197,000)	(35,596,349)	-28%
<b>Public Safety:</b>	<b>(34,039,782)</b>	<b>(21,305,000)</b>	<b>(55,344,782)</b>	<b>-28%</b>
Community Development	(10,149,341)	(1,329,117)	(11,478,458)	-87%
Convention, Culture & Leisure	(2,654,860)	(293,565)	(2,948,425)	-69%
Economic Development <sup>2</sup>	(1,227,290)	(707,406)	(1,934,696)	
Finance	(3,523,712)	(592,000)	(4,115,712)	-66%
General Services	(8,963,069)	(1,547,471)	(10,510,540)	-73%
Human Resources	(2,096,965)	(240,000)	(2,336,965)	-57%
Information Technology	(3,333,969)	(647,000)	(3,980,969)	-44%
Transportation <sup>2</sup>	(5,440,396)	(480,458)	(5,920,854)	
<b>Operating/Support:</b>	<b>(37,389,602)</b>	<b>(5,837,017)</b>	<b>(43,226,619)</b>	<b>-66%</b>
<b>Totals:</b>	<b>(92,304,675)</b>	<b>(29,053,817)</b>	<b>(121,358,492)</b>	

<sup>1</sup> Mayor/Council, CAO, CTO and Clerk reductions TBD. Placeholder reduction of -\$830,500 included in Non-Department.

<sup>2</sup> Treasurer, Economic Development and Transportation are Positive to the GF and % Reductions skew overall reductions.

FY2007/08 - FY2011/12 Net General Fund \$ Change				
Department	3 Year Cumulative	FY2011/12 Proposed	Proposed 4-Year	Proposed 4-Year
	FTE Change	FTE Reductions	Total FTE Reductions	% Reduction in FTE
<b>Mayor/Council &amp; Charter:</b>	<b>(15.50)</b>	<b>(1.00)</b>	<b>(16.50)</b>	<b>-14%</b>
<b>Parks &amp; Recreation:</b>	<b>(249.81)</b>	<b>(49.22)</b>	<b>(299.03)</b>	<b>-51%</b>
Fire	(42.00)	(49.00)	(91.00)	-14%
Police	(204.90)	(167.00)	(371.90)	-29%
<b>Public Safety:</b>	<b>(246.90)</b>	<b>(216.00)</b>	<b>(462.90)</b>	<b>-22%</b>
Community Development	(188.50)	(8.00)	(196.50)	-55%
Convention, Culture & Leisure	(17.43)	(2.00)	(19.43)	-17%
Economic Development	(6.00)	(4.00)	(10.00)	-42%
Finance	(29.50)	2.00	(27.50)	-26%
General Services	(66.50)	(9.50)	(76.00)	-36%
Human Resources	(14.00)	(2.00)	(16.00)	-36%
Information Technology	(19.00)	(5.00)	(24.00)	-33%
Transportation	(28.45)	-	(28.45)	-8%
<b>Operating/Support:</b>	<b>(369.38)</b>	<b>(28.50)</b>	<b>(397.88)</b>	<b>-31%</b>
<b>Totals:</b>	<b>(881.59)</b>	<b>(294.72)</b>	<b>(1,176.31)</b>	<b>-29%</b>

<sup>1</sup> Mayor/Council, CAO, CTO and Clerk FTE reductions TBD.

# Supplemental Budget Information – Item 7

**Question:**

How many of the 250.9 FTE proposed to be eliminated are vacant?

**Response:**

25.9 of the 250.9 positions were vacant as of May 1, 2011.

The chart below provides a summary of the positions proposed to be eliminated in the FY2011/12 budget, including 26.86 FTE in the Parks and Recreation Department that will be eliminated with the expiration of one-time funding provided in the FY2010/11 budget. Of the 307.72 FTE reductions included in the proposed budget, there are approximately 83 vacant positions. An additional 84.31 FTE will need to be eliminated with the privatization of the City’s Golf courses (58.36 FTE) and as a result of the decline in revenues in the Special Recreation Fund and in non-General Fund programs including START, 4<sup>th</sup> R and Cover the Kids (25.95 FTE).

### FY2011/12 FTE Reductions

<b>General Fund</b>	
\$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
<b>Total Proposed Budget General Fund</b>	<b>-294.72</b>
<b>Other Funds</b>	
Fleet (Contract paint/body, PD ready line)	-13.00
<b>Total Proposed Budget All Funds</b>	<b>-307.72</b>
<b>Additional Reductions</b>	
Golf Maintenance <sup>1</sup>	-58.36
Parks Additional Program Reductions <sup>2</sup>	-25.95
<b>Total Reductions All Funds with Midyear</b>	<b>-392.03</b>

<sup>1</sup> FTE will be adjusted at midyear if/when contract terms are finalized.

<sup>2</sup> START, 4th R, Cover the Kids and Recreation fee revenue shortfall.

# Supplemental Budget Information – Item 8

**Question:**

How to better describe how we get to \$222.1 million for the discretionary portion of the General Fund?

**Response:**

The FY2011/12 Proposed Budget includes expenditures of \$362.1 million from the General Fund. In calculating the “discretionary” portion of the General Fund, that portion over which the Council has the opportunity to make funding level decisions, the following expenditure categories are excluded: Debt Service, Non-Department, operating department programs, services fully offset by revenues collected specifically for that purpose, and the City’s Capital Improvement Program (CIP):

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

<b>Operating Budget General Fund</b>	<b>362.1</b>
Debt Service/Non-Department	(70.2)
Department Revenue	(66.5)
General Fund CIP	(3.3)
<b>FY2011/12 Discretionary General Fund</b>	<b>222.1</b>

The following provides a brief definition of each expenditure category and the associated budget.

**Debt Service (\$24.2m)/Non-Department (\$46 m) - \$70.2 m**

**Debt Service (\$24.2)**

The City has financed the cost of capital improvements through general obligation bonds, revenue bonds, certificates of participation, notes payable, or advances from other funds. The debt service payments reflect the City’s obligations to bond holders and are made in annual installments. This includes all major General Fund debt service payments

**Non- Department (\$46 million)**

Citywide program and service costs that are not part of any Departments' direct operating expenditures. A summary of the Non-Department budgeted expenses is included on the next page:

**FY2011/12 Proposed General Fund Non-Department Budget**

\$ in 000s

General & Auto Liability Insurance	9,732	21.19%
Contribution to SCERS	7,671	16.70%
OPEB (Retiree Medical)	7,343	15.99%
Sacramento Public Library	7,130	15.52%
County Charges	5,260	11.45%
Base Labor Adjustments	2,855	6.22%
TOT Partner Contributions	1,076	2.34%
Administrative Contingency	1,000	2.18%
Language Line Service/Detox	780	1.70%
Other Program Support/Miscellaneous	667	1.45%
Muni Services (Sales Tax Consultant)	650	1.42%
Council Discretionary Accts	495	1.08%
Bank Fees	345	0.75%
Campaign Finance Reform	300	0.65%
League of Cities/LAFCO/US Conf. of Mayors	280	0.61%
Facility Leases	225	0.49%
UUT Rebate	125	0.27%
	<b>45,934</b>	<b>100%</b>

**Department Revenue (\$66.5 million)**

Reflects the revenue associated with fees, charges, penalties and fines that offset the cost of specific programs and services within a department. If these programs and services were to be eliminated, the associated revenue would no longer be collected. As such these revenues cannot be redirected to reduce the costs of unrelated programs and services.

**CIP (\$3.3 million)**

Citywide expenditures to fund infrastructure and facility needs. The CIP will be discussed at the June 7<sup>th</sup> Council meeting.

**FY2011/12 Proposed General Fund CIP**

\$ in 000s

Public Safety Generators	150
Ambulances/Defibrillators	1,080
Fire Apparatus	977
<b>Subtotal Public Safety</b>	<b>2,207</b>
Development Plan/Permit IT Network	106
Citywide Phone/V-mail/E-mail	450
Citywide Fiber Replacement	27
<b>Subtotal Fee Related</b>	<b>583</b>
Citywide Deferred Maintenance	500
<b>Total</b>	<b>3,290</b>

# Supplemental Budget Information – Item 11

**Question:**

How to and how long to get to beyond a 10% reserve?

**Response:**

The City does not currently have a policy requiring a minimum contribution or level of savings in the Economic Uncertainty Reserve (EUR) and/or goals to achieve a prudent reserve. In the past 10 years the highest level of reserve was reached in FY2005/06 with \$29.15 million or 8.2% of the General Fund revenues. The following chart provides a ten year history of the Economic Uncertainty Reserve.

**General Fund (GF) Economic Uncertainty Reserve (EUR) \$ in 000's**

Description	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY2010/11
GF EUR Balance	\$ 19,000	\$ 19,100	\$ 22,000	\$ 25,500	\$ 29,150	\$ 30,000	\$ 25,500	\$ 10,500	\$ 10,500	\$ 14,300
EUR % to GF Revenues	6.91%	7.25%	7.63%	8.11%	8.21%	7.75%	6.37%	2.65%	2.75%	3.94%

The City’s Economic Uncertainty Reserve (EUR) is currently \$14.3 million or 3.99% of the General Fund revenues. If Council adopted a policy to increase the EUR to 10% of General Fund revenue, the target based on the proposed FY2011/12 budget would be \$36 million. In order to replenish the reserve to \$36 million within the five year forecast, the Council would need to commit \$4.4 million per year of General Fund resources toward that policy goal.

In addition to committing resources as part of the approved budget to replenishing the EUR, Council could provide direction to the City Manager to replenish the EUR with unexpected one-time revenues and year-end budget surpluses. The Government Finance Officers’ Association (GFOA) considers year-end budget surpluses to be an especially appropriate source for replenishing fund balance. Excess resources in other funds could also be used to replenish the EUR, if legally permissible. The Finance Department is currently researching excess resources in several old special district funds and a couple bond-related funds and plans to present its findings to Council as soon as research is completed and legal determinations are documented.

The Government Finance Officers’ Association (GFOA) recently released a Best Practice white paper titled “Replenishing Fund Balance in the General Fund”. In it, the GFOA recommends that governments adopt a formal fund balance policy that defines the appropriate level of fund balance target levels. This policy could also define the sources of funding that would be looked to for replenishment of fund balance.

The following chart provides reserve information available on comparable cities:

City	Reserve Policy	Actual Reserve	FY11 Planned Usage	Total GF Budget	Population
San Jose	3% GF + 25.8M EUR	29.3M	5M	954M	945K
Long Beach	10% GF	37.1M	None	380M	462K
Anaheim	7-10% GF	11.1M	18.6M	252M	336K
Fresno	5% of General Fund	10.6M	6.3M	213M	494K
Roseville	10% GF	8.9M	8.9M	104M	118K

**Data Source:** Information gathered via review of adopted City FY2010-11 budgets and telephone conversations in May 2011. Source of population data is April 2010 Census data.

**Note:** At mid-year, San Jose established an \$8.5M FY2010-11 Ending Fund Balance Reserve for anticipated challenges in FY2011-12. San Jose's proposed FY2011-12 Gen. Fund budget is \$819M, a reduction of approximately \$135M from the prior year, which includes the planned use of \$47M in Contingency and Encumbrance Reserve funds.

**Acronyms:**

EUR = Economic Uncertainty Reserve  
 GF = General Fund  
 K = Thousand  
 M = Million

# Supplemental Budget Information – Item 16

## **Question:**

Why can't we change the cost allocation to offset the costs public safety and have we reviewed all of the City's funds to determine if there are funds that we can use?

## **Response:**

The City's Cost Allocation Plan (CAP) identifies and distributes the allowable General Fund costs of the operating departments, specifically the support departments such as Mayor/Council, Charter Offices, Finance, Human Resources, Information Technology and General Services, to the Enterprise and Internal Service Funds. This allocation is presented in the Proposed Budget as an expenditure in the "Interdepartmental Service Fund" and represents that portion of the department's costs associated with providing services to the Enterprise and Internal Service Funds. Any services provided by Public Safety to the Enterprise and Internal Service Funds are included in CAP.

The City's CAP is also used to develop indirect cost rates for departments charging labor costs to capital improvement projects. An indirect rate is developed for Public Safety for cost recovery; however, the majority of the external funding received by Public Safety is from federal and State agencies that only allow reimbursement for direct costs.

The development of the CAP is an annual process that reflects prior year supporting transaction and is based upon each department's workload data to develop the cost recovery for the proposed budget year. Detailed data to support the charges is reviewed by the operating departments and the fund managers of the Enterprise and Internal Service Funds to ensure that the charges and reimbursements are accurate and consistent with legal requirements including Propositions 218 and 26.

In addition to the CAP, the budget reflects all allowable reimbursements from grants, capital improvement projects and any other appropriate and available sources of funding. While the City maintains approximately 204 funds, most of these funding sources are restricted for the program or service for which the funds are collected. As examples, individual funds are used to track and report on the revenue and expenditures of special assessment districts, development impact fees, and bond proceeds. As part of the year-end financial audit, the Accounting Division determines the portion of fund balance that is available for Council appropriation in the subsequent year. With Council authorization, contingency balances are adjusted annually in each fund based on the audited available fund balance.

We are currently researching the history of fund balances in several old special district funds to determine whether the resources remain restricted, must be refunded to property owners, or may be transferred to the General Fund as unrestricted resources. After review by the City Attorney and City Treasurer, any one-time resources determined to be unrestricted will be recommended to be added to the Economic Uncertainty Reserve. We will report back to Council as additional information becomes available.