



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
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Meeting Date: 5/1/2012

Report Type: Staff/Discussion

Title: FY2012/13 Budget Introduction: Forecast and Assumptions

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Location: Citywide

Recommendation: Receive and file.

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Department: Finance

Division: Budget Office

Dept ID: 06001411

Attachments:

- 1-Description/Analysis
 - 2-Budget Hearing Schedule
 - 3-FY2012/13 Proposed Operating Budget
 - 4-2012-2017 Proposed Capital Improvement Program
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City Attorney Review

Approved as to Form
Gerald Hicks
4/24/2012 1:34:53 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 4/24/2012 1:16:50 PM

Description/Analysis

Issue: This report transmits the FY2012/13 Proposed Operating and Capital Improvement Program Budget Documents in accordance with the City Charter, Article IX, Section III, which requires the City Manager to deliver budget recommendations no later than 60 days prior to the start of the new fiscal year.

In the General Fund, the \$15.7 million gap between revenues and expenditures has been closed with ongoing expenditure reductions, including the elimination of 231.60 Full-Time Equivalent (FTE) positions. Staffing in the departments has also been affected by reorganizations, the elimination of grant funded positions and movement of positions (and associated funding/reimbursements) from other funds to the General Fund. It is important to note that the Proposed Budget does not include the use of the General Fund Economic Uncertainty Reserve (EUR).

Operating Budget Overview:

The total budget proposed for FY2012/13 is \$1.06 billion from all funding sources and supports 3,791.54 FTE positions. This includes \$365 million for General Fund operations and capital projects, and \$690.5 million for operations and capital projects for the City's Enterprise Funds and other fund activities.

The City's Enterprise Funds are also challenged as a result of the overall economic decline. To address escalating costs and revenue shortfalls in these funds the Proposed Budget includes the reduction of 23.0 FTE, resulting in approximately \$2 million in savings to the Enterprise Funds. Additionally, staffing in these funds has been reduced by an additional 23.0 FTE due to the elimination of commercial refuse and recycling services, the transfer of the Sacramento Area Flood Control Authority (SAFCA) staff and associated reimbursements to the General Fund, and the addition of staff for the utility services marking program and to comply with the California Sportfishing Protection Alliance lawsuit settlement.

While the Proposed Budget closes the gap for the coming fiscal year, over the next five years the structural deficit persists, growing to a peak of \$14.7 million in FY2015/16. The following chart reflects the ongoing deficit in the General Fund and the growth over the five-year forecast period:

\$ in 000s	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Total Revenues/Resources	366,055	370,789	380,356	392,548	409,490
Total Expenditures	365,033	376,727	385,394	392,928	400,905
Othe Sources and (Uses)	(981)	(1,131)	(1,131)	(1,131)	(1,131)
Annual Operating Surplus/(Deficit)	41	(7,069)	(6,169)	(1,511)	7,454
Cumulative Operating Results	41	(7,028)	(13,197)	(14,707)	(7,254)

The above forecast does not include the CalPERS rate increase due to the 0.25% reduction in the assumed investment rate of return. Adjustments for the costs associated with this change will be included in future estimates as additional information becomes available from CalPERS.

Budget sustainability and the fiscal capacity to address longer-term fiscal issues requires that annual base operating cost increases be held to a level below annual revenue growth. The fiscal reality is that, given the lack of significant revenue growth in the forecast, current

expenditure commitments and anticipated growth are unsustainable; as such, the City continues to face significant challenges in returning to a long-term structurally balanced General Fund budget.

Staffing Reductions:

The major FTE reductions in the proposed budget include:

Fire Department: The department's proposed budget includes a net reduction of 64.5 FTE (including 27.0 FTE funded through the Staffing for Adequate Fire Response [SAFER] grant). As a result of the proposed firefighter reductions, the City is no longer eligible to receive funding from this grant pursuant to the no layoff provision stipulated in the grant requirements. Nevertheless, the operational changes proposed in the Fire Department will allow for the elimination of brownouts through more flexible staffing.

Parks and Recreation: The department's proposed budget includes a net reduction of 15.85 FTE. The reduction will significantly reduce levels of service relative to park maintenance and recreational youth and senior programs.

Police Department: The department's proposed budget includes a net reduction of 119 FTE, of which 109 are sworn, including 60 FTE related to the potential loss of grant funding. The Police Department receives funding through the COPS Hiring Recovery Program (CHRP) and the COPS Hiring Program (CHP). These grants require the demonstration of sworn officer reductions in order to be able to request the maintenance of grant funding from the grantor. Upon the adoption of the budget and demonstration that reductions in sworn officer positions are due to citywide budget reductions, the positions will be added back to the Police Department budget. Notwithstanding the restoration of the grant positions these reductions will significantly affect public safety services.

Utilities Department: The department's proposed budget includes a net reduction of 31.5 FTE (including 16 FTE that were transferred to the Citywide and Community Support Department). The Water and Wastewater budgets include rate increases approved by Council in March 2012. In addition to the rate increases, use of bond financing will be pursued in FY2012/13 to finance significant water and wastewater capital improvements.

The Proposed Budget document provides specific details on department reductions.

Capital Improvement Program (CIP) Budget Overview:

The FY2012/13 Proposed CIP Budget for the City of Sacramento totals \$306.6 million and includes funding for 125 citywide programs and projects. The General Fund portion of the Proposed CIP Budget is only \$3.9 million. Subsequent to finalizing the 2012-2017 CIP, staff has identified adjustments necessary in the out years of the CIP for the Parking, Water, and Wastewater Funds. These adjustments will be included in the May 8 CIP report.

Budget Hearings:

The Council will consider the Proposed Budget during regularly scheduled meetings in May and June, with final budget adoption scheduled for June 12, 2012. A hearing schedule is included as Attachment 1.

Policy Considerations: After four consecutive years of reductions, the City continues efforts to right size the organization to achieve budget sustainability. This will necessitate difficult decisions that will require careful consideration of the proposed reductions.

Environmental Considerations: 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 FY2012/13 CIP budget, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.

Sustainability: There are no sustainability considerations applicable to the formation process and administration of a special district.

Commission/Committee Action: Sacramento City Code Section 2.112.060 requires the Planning Commission to review the City’s 5-year CIP for consistency with the City’s General Plan and to report its finding to the City Council. The 2012-2017 CIP will be presented to the Planning Commission on May 10, 2012, and the Commission’s determination will be provided to Council during the budget hearings.

Rationale for Recommendation: The severe economic downturn affecting the nation, State and City require that significant budget reductions be implemented in order to balance 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. Despite significant expenditure reductions in prior years, including the elimination of over 1,200 positions, cost increases continue to outpace revenue growth.

If the City is successful in efforts to implement ongoing reductions in expenditures in FY2012/13 and can minimize cost increases in the future particularly in employee salaries and benefits, the structural gap will be tightened, but not eliminated. Based on current estimates, the FY2013/14 budget gap is approximately \$7-13 million.

It is important to note that the Proposed Budget does not include adjustments that may be necessary as a result of State or County budget actions, nor any further decline in revenues that the City may experience during the fiscal year. As such, the Mayor and City Council could adopt a balanced budget in June but still need to make further budget adjustments during the fiscal year to account for the actions of these external entities or to address any further decline in revenues.

Finally there are several important fiscal issues that will present challenges for the City when the General Fund budget reaches stability. These include the following:

- Funding of the retiree medical benefit for which no funds have been reserved;
- Funding of employee retirement obligations both for SCERS and CalPERS;
- Achieving a 10% reserve in the EUR;
- Restoration of service levels through the funding of staff and other expenditures in the base budget; and
- Funding the maintenance of aging and deteriorating facilities.

These problems cannot be addressed unless annual base operating cost increases, particularly labor costs, are held to a level below annual revenues. Until the City regains fiscal sustainability (base operating costs are less than base revenues), service and staffing reductions will continue to be a necessary consideration during the annual budget process.

Emerging Small Business Development (ESBD): Not applicable.