



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814
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Meeting Date: 1/15/2013

Report Type: Staff/Discussion

Title: City's Five-year Forecast

Report ID: 2013-00048

Location: Citywide

Recommendation: Receive and file.

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

Department: Finance

Division: Budget Office

Dept ID: 06001411

Attachments:

- 1-Description/Analysis
 - 2-Attachment 1-General Fund Revenues
 - 3-Attachment 2-Budget Calendar 2013
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City Attorney Review

Approved as to Form
Grace Arupo
1/8/2013 4:05:58 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 1/8/2013 3:23:53 PM



Description/Analysis Issue:

The General Fund five-year forecast is an important fiscal planning tool. The forecast is based on the current budget and projects future expenditures, revenues, and other funding sources over a multi-year period. Under the sustainable budget policy of the City Council, proposed fiscal actions are evaluated in a longer-term, rather than a short-term context.

Despite significant reductions over the past six years, including the elimination of over 1,200 positions, consolidations and renegotiated labor agreements, the City faces a projected General Fund budget gap of \$9.5 million for FY2013/14. The following chart depicts the ongoing gap 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	FY2017/18
Total Revenues/Resources	369,260	374,517	381,857	389,421	396,861	404,521
Total Expenditures	368,160	382,930	393,799	401,983	409,908	417,775
Other Sources and (Uses)	(980)	(1,131)	(1,131)	(1,131)	(1,131)	(1,131)
Annual Operating Surplus/(Deficit)	120	(9,544)	(13,073)	(13,693)	(14,178)	(14,385)
Cumulative Operating Results	120	(9,544)	(22,617)	(36,310)	(50,488)	(64,873)

The projected deficit is the result of expenditure increases that continue to outpace growth in major tax revenues used to support General Fund programs and Services. The chart below outlines the major drivers of the General Fund budget deficit:

	\$'s in 000's
Major General Fund Revenues	5,256
Employee Services	(5,910)
Fleet Replacement	(1,966)
Cost Recovery from Other Funds	(383)
Expiration of Grant Funding	(5,534)
Police Officers (SPOA)	(2,734)
Firefighters (522)	(2,800)
Debt Service	(344)
Capital Improvement Program	(663)
Total Deficit	(9,544)

It is important to note that the five-year forecast is based on a set of point-in-time assumptions which may necessitate revisions should new/updated information become available. The projected expenditure growth reflects the terms of the current labor contracts and anticipated growth related to pension cost increases. Revenues are derived from economically sensitive sources, and the five-year revenue forecasts are subject to the same uncertainty and downside risk surrounding national economic forecasts.

It is important to note that the City's two major tax revenues, property and sales taxes, trail economic trends. Detailed information on these revenue sources is provided in Attachment 1. Despite the fact that national and state-wide economic conditions are improving, Sacramento's tax revenue growth continues to lag.

Finally, the forecast does not include the growth in the 11% general tax on the utility funds resulting from the first year of the rate increase approved in March 2012. Rather, these funds have been set aside for a life-line program to offset the rate increases for low-income customers. In the current year, these revenues are estimated at \$1.1 million. Council has not yet provided direction on the revenue growth that will result from the rate increases beyond the current fiscal year, which could generate an additional \$1 million in each of the next two fiscal years.

Policy Considerations: As part of the City Manager's responsibility for the development and oversight of the City's budget, an overview of the current fiscal position of the City is prudent and allows for discussion and consideration of Council. A tentative timeline for upcoming budget discussions is included as Attachment 2. The City Manager will be making recommendations relative to addressing the budget deficit in the Proposed Budget that will be delivered May 1.

Economic Impacts: None

Environmental Considerations:

California Environmental Quality Act (CEQA): This report concerns administrative activities that will not have a significant effect on the environment, and 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: None.

Rationale for Recommendation: The City Manager is responsible for reporting in accordance with the authority granted by Section 61 of the City Charter. This report provides transparency to the City Council and public regarding the ongoing fiscal challenges facing the City's General Fund.

Financial Considerations: The General Fund faces a projected five-year funding shortfall of \$65 million from FY2013/14 through FY2017/18. Despite modest revenue recovery, expenditure growth is anticipated to outpace revenues by \$14 million over the five-year period. The largest expenditure increase over the five-year period is related to labor expenditures, specifically the City's required pension contributions to the California Public Employees' Retirement System (CalPERS). The FY2017/18 contribution is anticipated to be \$13 million higher than FY2013/14.

This forecast does not include additional CalPERS rate increases that are being discussed at the statewide level that could affect local government in FY2015/16.

The City continues to struggle with the challenge to return to long-term structural stability in the General Fund. Given current economic trends, the fiscal reality is that expenditures will continue to exceed revenue growth over the term of the forecast if permanent ongoing reductions and/or long-term revenue growth strategies are not implemented.

The City is preparing to begin negotiations with seven employee unions for contracts expiring on June 28, 2013. The strategies outlined below represent opportunities to achieve ongoing savings, a key step in achieving budget sustainability:

	\$'s in 000's
All Employees Pay PERS	5,000
SPOA - 9%	4,391
522 - 0.81%	424
Others	185
Modify Overtime Pay (FLSA)	1,223
SPOA	590
522	470
Others	163
Total Reductions	<u>6,223</u>
Remaining Deficit	(3,321)

Emerging Small Business Development (ESBD): Not applicable.



General Fund Revenues

The City relies on three major revenue sources that collectively account for \$241 million or 65% of all General Fund revenues. Below is a brief summary outlining each of these revenues and the major assumptions used to forecast where these revenue streams are headed over the next five years.

PROPERTY TAX

For purposes of this report “Property Taxes” are defined as current secured, current unsecured, prior secured, prior unsecured, property taxes in lieu of vehicle license fees, supplemental property taxes, and property transfer taxes.

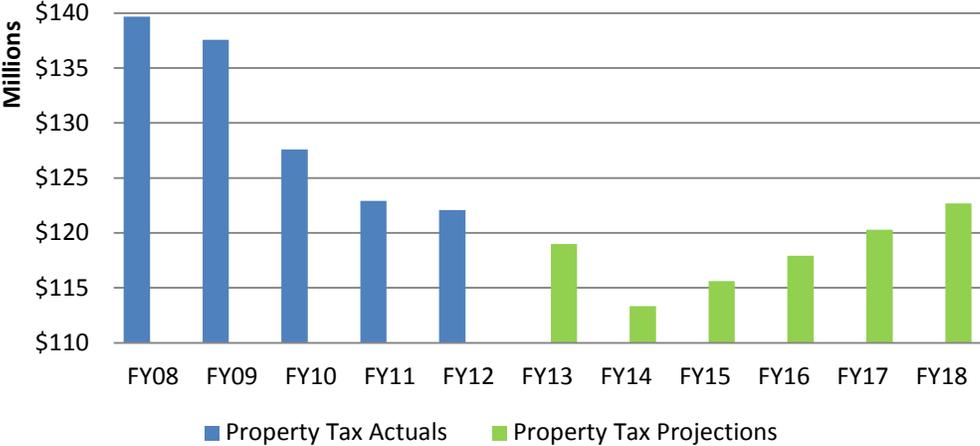
Property taxes are the City’s largest revenue source accounting for \$119 million or 32% of all General Fund revenues. The City continues to face three major challenges in the real estate market:

- The building moratorium in the Natomas area continues to depress development,
- Proposition 8 property reassessments remain at an all-time high and returns to previous market values are not expected until FY2014/15 at the earliest (these reassessments account for a reduction of approximately \$19 million to the City’s property tax roll since FY2007/08), and
- While foreclosures peaked in FY2008/09, they are still a significant factor in the lagging local real estate recovery.

These cumulative factors have resulted in three consecutive years of declining gross property tax roll values. FY2009/10 through FY2011/12 saw property tax declines of -5.6%, -2.3% and -5.0%, respectively.

Further, property taxes are a lagging economic indicator and based on continuing real estate challenges, growth projections over the next five years for the City are expected to be modest ranging from -1% to +2% percent annually if the benefit of the annual inflation adjustment authorized by Proposition 13 is realized.

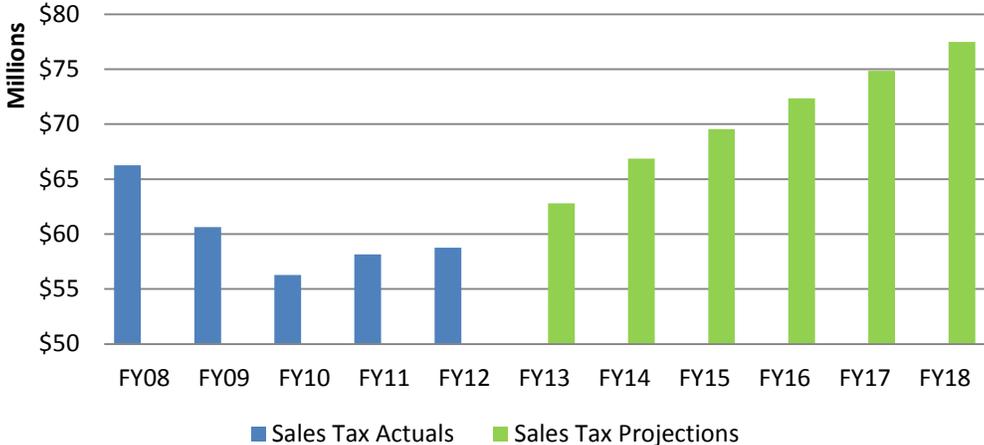
Property Tax Revenue



SALES TAX

The City’s second largest revenue source, sales tax, is estimated at \$63 million or 17% of all General Fund revenues. Sales tax has rebounded significantly over the past two fiscal years and has helped backfill the hole created by additional property tax losses. The City’s most recent quarterly sales tax results continued the positive growth at 1.3%; however, the statewide sales tax increase was 8.1%. Expectations are tempered for sustaining large sales tax increases due to the lack of auto dealerships in the City as well as unemployment levels that are higher than the state and national unemployment rates. Information provided by the City’s sales tax consultant, projects sales tax growth over the next five years to range from 3-4% annually.

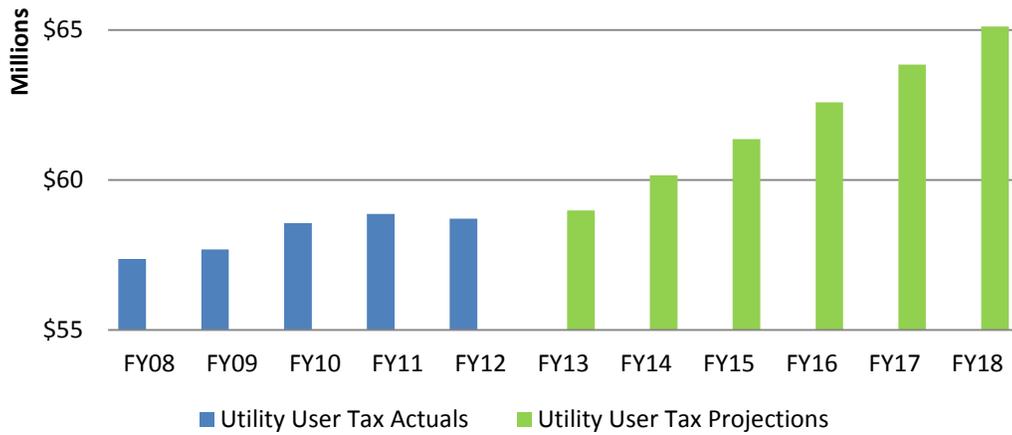
Sales Tax Revenue



UTILITY USER TAX

The utility user tax is the City's third largest revenue source at \$59 million or 16% of all General Fund revenues. Utility user tax has been the most consistent revenue performer of the three major revenue sources. The City's five-year forecast assumes 2% growth annually.

Utility User Tax Revenue





Budget Calendar* 2013

January

- 8 Labor Negotiations (Closed Session)
City Liabilities Report and Presentation
- 15 City's Five-year Forecast
Draft Measure U Principles
- 29 FY2011/12 Comprehensive Annual Financial Report (CAFR)
FY2012/13 Midyear Budget

February

- 5 Capital Investments
- 12 Priority Based Budgeting (PBB)
Budget/Measure U Principles

April

- 1 Measure U Tax Rate Effective (8.5%)

May

- 1 Budget Release
- 7 Budget Hearing
- 14 Budget Hearing
- 21 Budget Hearing
- 28 Budget Hearing
- 30 Budget Hearing (*if needed*)

June

- 4 Budget Hearing
- 6 Budget Hearing (*if needed*)
- 11 **Budget Adoption**
- 17 First Measure U Tax Receipts Due

*Dates are for planning purposes and may change