

**Meeting Date:** 3/17/2015

**Report Type:** Staff/Discussion

**Report ID:** 2015-00288

**Title:** Discussion of Mayor's Message on Budget Priorities for FY2015/16

**Location:** Citywide

**Recommendation:** Pass a Motion approving the Mayor and Council budget priorities memo and transmitting to the City Manager as direction in the development of FY2015/16 budget.

**Contact:** Mayor Kevin Johnson, (916) 808-5300, Office of the Mayor

**Presenter:** Mayor Kevin Johnson, (916) 808-5300, Office of the Mayor

**Department:** Mayor/Council

**Division:** Mayor

**Dept ID:** 01001191

**Attachments:**

1-Mayor's Budget Priorities Memo to City Council

TO: City Council  
FR: Mayor Kevin Johnson  
RE: Mayor's Budget Priorities, Fiscal Year 2015-16  
DA: March 6, 2015

---

## **RECOMMENDATION**

I recommend that the City Council direct the City Manager to submit a proposed budget for fiscal year 2015-16 that is balanced and guided by the core budget policies of the Council and the priorities outlined in this memo.

## **I. INTRODUCTION**

I want to thank our City Manager, Charter Officers and city employees for their hard work and commitment to the City of Sacramento. Their efforts over the last six years have been remarkable in many ways and have led us out of the depths of a debilitating recession onto the road to recovery.

I'd like to start this memo by giving some context for what you'll read in the next few pages. In past years, the role of the Mayor and City Council was to react to, and eventually approve, the budget that was created by the City Manager. However, this process did not give the elected officials of the city (those directly accountable to the residents) the opportunity to ensure the budget was developed based on the priorities of our constituents. Further, it did not allow the public to be engaged in the budgeting process in a robust and meaningful way.

We want to change that. During my State of the City Address<sup>1</sup> this year, I introduced the concept of "Sacramento 3.0", the next generation of our city. In Sacramento 1.0, the community was built around the gold rush and agriculture. Sacramento 2.0 came much later and saw our city develop as a government town completely revolving around the state capitol.

In Sacramento 3.0, the city is a hub of innovation, entrepreneurship, and technology. It's paperless, wireless, and cashless. In order to make this transition, we must focus on three "I's": Innovation, Infrastructure and Inclusion. This means being innovative about new approaches to problems and ways to deliver city services, modernizing our city's infrastructure to ensure we have a strong foundation, and to become truly inclusive especially when it comes to making decisions about how taxpayer dollars are being allocated.

---

<sup>1</sup> Mayor Johnson's 2015 State of the City address:

Video: [https://www.youtube.com/playlist?list=PLOBzbx83\\_YJDr2ZLsJlsuK7JlwOlwYzh1](https://www.youtube.com/playlist?list=PLOBzbx83_YJDr2ZLsJlsuK7JlwOlwYzh1)

Transcript: [http://portal.cityofsacramento.org/~media/Corporate/Files/Districts/Mayor/12915SOTC\\_Distribution.pdf](http://portal.cityofsacramento.org/~media/Corporate/Files/Districts/Mayor/12915SOTC_Distribution.pdf)

### ***New Budget Process***

As such, I've worked with all of you, my Council colleagues and City Manager John Shirey to outline a new process and timeline for budget development.

| <b>BUDGET TIMELINE</b>   |  |
|--------------------------|--|
| <b>January</b>           | Forecast and Development <ul style="list-style-type: none"><li>• Comprehensive Annual Financial Report (CAFR) – Year-end report</li><li>• Midyear Report</li></ul>   |
| <b>February</b>          | Community Input <ul style="list-style-type: none"><li>• Conduct a citywide poll on budget priorities</li><li>• Mayor's Neighborhood Leaders Budget Workshop</li></ul> City Council Collaboration <ul style="list-style-type: none"><li>• Council budget workshops</li></ul>                                      |
| <b>March</b>             | Priority Setting <ul style="list-style-type: none"><li>• Based on community input, Mayor presents budget priorities to Council in Friday memo</li><li>• Mayor and Council discuss and develop city budget priorities</li><li>• Mayor and Council approve budget priorities and present to City Manager</li></ul> |
| <b>April - June</b>      | Budget Delivery, Forum, and Adoption <ul style="list-style-type: none"><li>• Proposed budget, based on Mayor and Council priorities, delivered by City Manager and presented to Council</li><li>• City Council hearings on the proposed budget documents</li><li>• Budget adoption</li></ul>                     |
| <b>July</b>              | New Fiscal Year  |
| <b>August - December</b> | Budget execution and updates   |

Several years ago we added the position of Auditor to the City Staff, reporting to the City Council. To supplement that office, we have two new important features that will ensure that our budget is developed in a responsible way. The first is the Independent Budget Analyst. This position will also report to the Council and allow Council Members and the Mayor to have additional capacity to analyze and impact the city budget. I've also appointed a Budget and Audit Committee of the City Council, which I am chairing, that will help to lead the creation of the budget and oversee its execution over the course of the fiscal year.

I look forward to implementing this new budget process in collaboration with the Council and strongly believe that this modified process will allow for greater transparency and public engagement, which will ensure that the priorities of the residents drive how our city resources are being allocated and spent.

## History

When I was elected to my first term as Mayor in 2008, the city was in the midst of a financial crisis that had many complicating factors.

### Pre-Recession Planning and Controls

From 2001-2007 the city saw an increasing revenue base, which allowed for a greater focus on delivering city services. However, there were a number of actions that, had they been adopted, would have ensured a more stable financial environment during the recession. Specifically, Sacramento could have:

- Had more robust forecasting processes in place
- Implemented tighter financial controls (e.g. not allowing departments to over-expend their budgets)
- Reacted earlier—not continuing to hire staff after seeing financial forecasts
- Created a policy about the over-reliance on one-time funds
- Signaled the need to address the long-term problems of the under-funding of pension funds and not funding retiree medical benefits

By not taking these actions the city's financial system was not strongly positioned when the recession hit, thereby forcing a significant spending down of the reserves.

### Financial Impact of the Recession

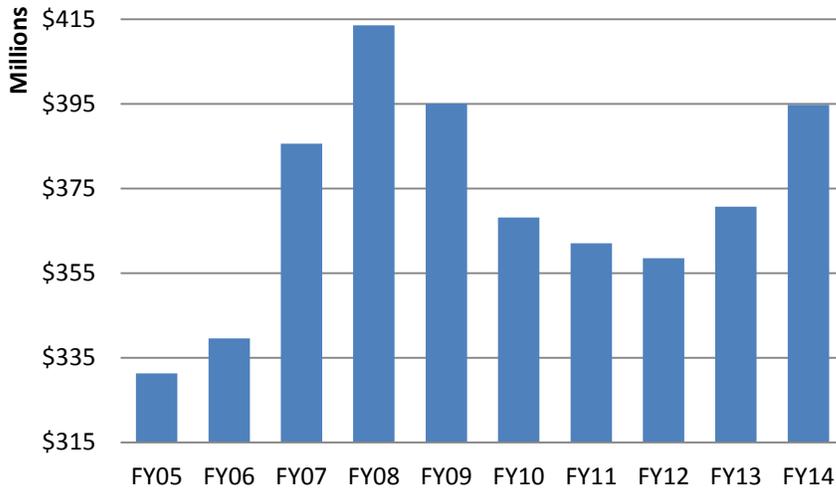
During the declining economy, the city relied heavily on the Economic Uncertainty Reserve, decreasing it from 9.1% of the General Fund in 2004-05 to just 2.7% in 2008-09.

| Fiscal Year          | EUR Changes    | EUR Balance  | General Fund  | % of GF |
|----------------------|----------------|--------------|---------------|---------|
| 2004-05              | \$850,000      | \$30,000,000 | \$331,298,000 | 9.1%    |
| 2005-06              | \$ -           | \$30,000,000 | \$339,574,000 | 8.8%    |
| 2006-07              | \$ -           | \$30,000,000 | \$385,594,000 | 7.8%    |
| 2007-08              | \$3,100,000    | \$33,100,000 | \$413,564,000 | 8.0%    |
| 2008-09              | (\$22,560,000) | \$10,540,000 | \$395,115,000 | 2.7%    |
| 2009-10              | \$ -           | \$10,540,000 | \$368,173,000 | 2.9%    |
| 2010-11              | \$3,800,000    | \$14,340,000 | \$362,047,000 | 4.0%    |
| 2011-12              | \$5,923,000    | \$20,263,000 | \$358,536,000 | 5.7%    |
| 2012-13              | \$7,502,000    | \$27,765,000 | \$370,724,000 | 7.5%    |
| 2013-14              | \$5,949,000    | \$33,714,000 | \$394,798,000 | 8.5%    |
| 2014-15 <sup>2</sup> | \$400,000      | \$34,114,000 | \$385,213,000 | 8.9%    |

The city's General Fund revenue fell by \$60 million from 2008-09 to 2012-13 (from nearly \$415 million to \$355 million) and the deficit rose to a \$50 million mark.

<sup>2</sup> After the FY 2014-15 CAFR is completed, this number will likely rise

10-YEAR GENERAL FUND REVENUE CHART



The declines and deficit were largely due to declining Property Taxes (because the faltering local housing market was impacting tax rolls) and declining Sales Taxes (due to low consumer confidence, retail contraction, higher unemployment and deflation).

Further compounding the issue of lower revenues were other financial challenges the city was facing. Specifically, the city had higher pension costs than anticipated because the catastrophic declines in investment markets reduced pension fund assets, requiring the city to make up unfunded liabilities. Additionally, there was a weakened cash position that was caused by a decline in cash holdings and new limits on capital project funding. And finally, borrowing for both public and private development projects became nearly impossible because of the credit crisis, high interest rates/equity requirements and an inability to finance projects that were dependent on development for generating the revenue for debt service.

Hard But Important Decisions Were Made

Fortunately, over the last several years, we’ve made some difficult decisions and taken decisive actions that have resulted in a “righting of the ship”. Not without significant pain, the city has cut about \$243 million in services and eliminated 1,311 full-time equivalent (FTE) positions, approximately 20% of the workforce. This permanently realigned expenditures and revenues so that we could fund ongoing expenses with ongoing revenue sources. Despite the fact that we were in a struggling economy, we began contributing to the Economic Uncertainty Reserve growing it from 2.9% of the General Fund in 2009-10 to about 8.8% in 2014-15.

Additionally, in 2012 the city’s voters passed Measure U, a temporary sales tax increase that was estimated to generate \$30 million annually to restore City services by funding parks (\$4.9 million), police (\$12.6 million), fire (\$11.7 million), animal care (\$227,000) and libraries (\$506,000), hiring back park maintenance workers, police officers, firefighters and animal control officers. Below you can see its positive impact on our current fiscal year.

Last, we made some important first steps in pension reform by negotiating more sustainable labor contracts. Specifically, the city successfully negotiated changes that require all workers to pay the full employee contribution portion of their pensions. This includes all contracts with major unions representing city employees.

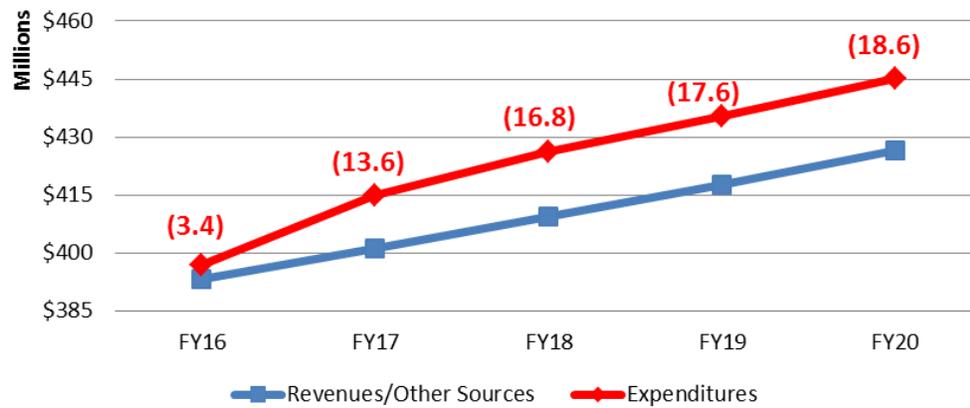
## II. CURRENT CONTEXT

### Current Financial Situation

I'm pleased to say that because of those difficult but necessary decisions, we find ourselves in a much stronger financial position today than we were six years ago. In fact, this year, we were able to balance the budget without further cuts for the first time in 7 years. The CAFR shows that we had a \$22 million surplus (of which approximately \$5 million must be dedicated to the EUR) from 2013-2014 and that we realized \$11 million in unanticipated Measure U revenues.

While this is great news, we should remain cautiously optimistic and continue to operate conservatively. We simply cannot repeat the mistakes of the past, and looking at the 5-year forecast, it's clear that there are trends on the horizon that should concern us.

#### FIVE YEAR GENERAL FUND FORECAST



As you can see from the chart above, the General Fund expenditures continue to exceed revenue growth in future fiscal years. While Measure U provides relief in the short-term, we must consider and plan for the “fiscal cliff” we’ll encounter in fiscal year 2019-20, when Measure U sunsets (see impact below). Additionally, long-term liabilities like pensions and retiree medical costs continue to grow significantly.

| Measure U Revenues and Expenditures (in 000s) | FY14          | FY15          | FY16          | FY17          | FY18          | FY19           |
|---|---------------|---------------|---------------|---------------|---------------|----------------|
| <b>REVENUES</b>                               | 27,000        |               |               |               |               |                |
| FY2014/15 Approved Budget                     |               | 31,824        | 33,097        | 34,421        | 35,798        | 27,922         |
| Proposed Adjustment                           |               | 9,685         | 8,949         | 9,377         | 9,812         | 7,697          |
| <b>FY2014/15 Amended Budget</b>               |               | <b>41,509</b> | <b>42,046</b> | <b>43,798</b> | <b>45,610</b> | <b>35,619</b>  |
| <b>EXPENDITURES</b>                           |               |               |               |               |               |                |
| Fire Department                               | 9,391         | 11,704        | 12,296        | 13,391        | 14,343        | 15,104         |
| Police Department                             | 12,352        | 12,580        | 15,663        | 16,531        | 17,801        | 18,275         |
| Parks Department                              | 5,330         | 4,857         | 4,919         | 4,954         | 5,128         | 5,307          |
| <b>Parks Midyear Adjustment</b>               |               | <b>158</b>    |               |               |               |                |
| Library and Animal Control                    | 591           | 733           | 650           | 659           | 664           | 670            |
| <b>Total Measure U Restorations</b>           | <b>27,664</b> | <b>30,032</b> | <b>33,528</b> | <b>35,536</b> | <b>37,936</b> | <b>39,356</b>  |
| <b>RESERVE</b>                                |               |               |               |               |               |                |
| <b>Annual Reserve</b>                         | <b>(664)</b>  | <b>11,477</b> | <b>8,518</b>  | <b>8,262</b>  | <b>7,674</b>  | <b>(3,737)</b> |
| <b>FY2013/14 CAFR Balance</b>                 | <b>21,500</b> |               |               |               |               |                |

In order to manage the current and future realities, I believe that the core budget policies that the Council and Mayor have developed will be even more critical. Listed below, they are reflective of our broader budget guidelines (see Appendix A).

| CORE BUDGET POLICIES |   |
|----------------------|---|
| <b>1</b>             | City Council must adopt a balanced budget   |
| <b>2</b>             | <p>The Economic Uncertainty Reserve is to be increased gradually to Council’s goal of 10% of the General Fund revenue<sup>3</sup></p> <ul style="list-style-type: none"> <li>• Unbudgeted one-time revenues from an unexpected source must go to the reserve</li> <li>• Unbudgeted one-time revenues from an expected source (surpluses) will be allocated at the discretion of the Mayor and City Council and may be dedicated to the reserve</li> <li>• Council can allocate other sources of revenue to the reserve at any time</li> </ul> |
| <b>3</b>             | <p>Measure U uses</p> <ul style="list-style-type: none"> <li>• Restorations, not new programs</li> <li>• Resources will not be used to balance the General Fund Budget</li> <li>• Resources will not be used to increase employee compensation</li> <li>• Resources will be set aside for contingency funding, one-time expenses, and transition with expiration in 2019</li> </ul>   |
| <b>4</b>             | <p>Economic Development Fund</p> <ul style="list-style-type: none"> <li>• Directed new property taxes resulting from the dissolution of redevelopment to the fund</li> <li>• Directed proceeds from the sale of surplus General Fund properties to the fund</li> <li>• Fund is used to invest in projects and programs that will grow revenue</li> </ul>  |

If we can stay disciplined and manage the budget around these tenets, we can build a strong financial foundation for the future.

***Long-Term Considerations***

Thinking about the future is critical if we’re going to build a vibrant and growing economy that addresses problems and seizes opportunities with equal urgency.

***Challenges Ahead***

Sacramento will not be able to achieve our financial goals without addressing long-term liabilities. Without decisive Council action, these liabilities will continue to eat into our General Fund revenues, thereby crowding out other services and programs. These liabilities include:

- Rising Pension and Labor Costs
- Retirement and Healthcare Costs
- Other Post-Employment Benefits (OPEB)
- Affordable Care Act (ACA)
- Capital Needs / Debt
- Loss of Measure U Funds

---

<sup>3</sup> The City Manager should draft a policy for Council consideration on the receipt of revenues for the Economic Uncertainty Reserve.

Many long-term liabilities are beyond the city's control (for example, the state mandates CalPERS payments); however, Sacramento can approach these liabilities responsibly. By identifying opportunities to put money into the OPEB trust or refinancing debts to improve interest rates, Sacramento can address some of these long-term challenges head on. These actions allow the city to improve its credit rating, which will save hundreds of millions of dollars in reduced interest payments.

Sacramento has a high-grade credit rating (AA-) thanks to recent financial actions taken by the city. Rather than settle with this rating level, however, we must continue to work to improve it. Furthermore, Sacramento must be cautious about its debt planning. The city has limited capacity to take on additional debts because of past obligations and an already high debt ratio. Of course, not all debts should be avoided, but we must understand how these debts provide a return on investment or fulfill a vital community need.

The fact that Measure U funds will sunset in 2019 is also a significant challenge that we must have a plan to address. These revenues have allowed the city to make critical restorations in public safety, parks and animal control. In order to continue to provide these services at a high level to our residents we have to determine a set of next steps that will provide us with information and clarity about the city's options for the future.

Going forward, Sacramento should take a measured, prioritized approach to long-term challenges. By looking at things holistically instead of as one-offs, we can make strategic decisions that will position us strongly for the future.

### *Growing the Pie*

In addition to managing today's issues, we also must increase our revenues, which takes time and planning. As we determine how best to increase our Property and Sales Tax revenues (most importantly, by expanding employment and job opportunities), we must carefully develop a master plan for the Central City that will allow us to best invest in ways that "grow the pie". The components of this plan will include but are not limited to:

- Development of the Downtown Arena and surrounding areas
- Development of the Railyards and a potential MLS stadium
- Transportation including the streetcar and intermodal projects
- New Performing Arts Theater
- Increasing downtown housing

These efforts allow us to create a robust downtown economic engine for the entire region. Each has the ability to help the entire city by significantly and positively impacting revenues in out years in a way that can allow us to restore critical lost city services and ensure the continued growth of our reserves. In order for these projects to be brought to fruition, we must employ business-friendly practices and change the way we think about how the city partners with entrepreneurs, small-business owners, and developers.

As a leadership body, we must balance these short-term needs and demands of the city with longer-term investment opportunities and liability challenges. By doing so, we will not only put ourselves in a strong financial position, but we'll gain the trust of our constituents.

### ***Community Input***

Building trust with those we serve is key. Another step we can take toward this is by insisting upon transparency and meaningful community engagement in the budgeting process. To that end, in February 2015, two important actions were taken: 1) a citywide budget priority poll of 500 residents was conducted; and 2) I hosted the Mayor’s Neighborhood Leaders Budget Workshop.<sup>4</sup>

### ***Citywide Poll***

The polling firm Fairbanks, Maslin, Maulin, Metz, and Associates conducted a 500-person survey during the week of February 16. The poll surveyed residents from each council district in a random sample, reflective of the diversity of our city. Over the course of the poll, respondents were able to give their input on their budget priorities as well other pertinent budget questions.

### **Results:**

- Of those surveyed 87% said that they believe Sacramento is an “excellent/pretty good” place to live. This represents the highest rate of satisfaction in the last seven years in the city. People generally felt positive about their current situation, with 80% feeling positive about their personal finances and 79% feeling positive about the safety in their neighborhood. A full 72% of respondents reported feeling positive about the local economy and 73% felt positive about public safety in the city.
- The highest priorities for Sacramentans in terms of the budget were consistent and very clear. They are:
  - Public Safety (reducing violent crime)- 78%
  - Infrastructure and roads- 73%
  - Jobs and economic development- 71%
- Interestingly, in the open-ended question, the highest response was 24% for education as a top budget priority, despite the city not being responsible for funding education/schools. Also noted in the open-ended question were wanting more police officers and fire fighters (at 20%).

### ***Mayor’s Neighborhood Leaders Budget Workshop***

On Saturday, February 21, I hosted the Mayor’s Neighborhood Leaders Budget Workshop, with over 80 local leaders in attendance. During this workshop, I explained the Sacramento 3.0 vision and the new budget process. I also led a “Budget 101” discussion to inform the public on how the city budget process works. Most importantly, we conducted a survey and discussion on the community’s budget priorities.

---

<sup>4</sup> Data from the Citywide Poll and Neighborhood Leaders Budget Workshop can be found here: <http://portal.cityofsacramento.org/Mayor-Council/Districts/Mayor/Budget>

## Results:

- Neighborhood leaders feel generally positive about their current situation, with 92% rating Sacramento positively as a place to live, 76% positive about the local economy, 72% positive about their personal financial situation, and 61% positive about public safety.
- The group concluded the priorities discussion by exploring 19 possible budget priorities, and ranking each one based on importance. From this discussion, a number of themes emerged as respondents were asked to weigh priorities against each other.
  - Public safety (reducing violent crime)- 82%
  - Infrastructure and roads- 83%
  - Jobs and economic development- 90%
- As in the citywide poll, youth and education emerged as a top priority for workshop participants despite the city's lack of jurisdiction over school budgets. 90% of respondents felt providing after-school programs were important.

## Conclusion of Community Input

Despite many competing and sometimes conflicting priorities, Sacramento residents came to a general consensus after hearing thoughtful arguments for and against different priorities. Additionally, the results of the citywide poll and neighborhood leaders workshop largely complemented each other. I believe these community priorities are accurately reflected in this document.

## **III. MAYOR'S BUDGET PRIORITIES**

While our fiscal situation has improved, it is essential that we take a prudent approach to next year's budget and start planning for the \$19 million deficit projected in fiscal year 2020. To that end, we will be setting aside \$5 million from last fiscal year's surplus in our Economic Uncertainty Reserve.

With the remaining portion of the surplus and the increase to the General Fund in FY 2015-16, we must make decisions to invest strategically. We should primarily focus on one-time expenditures. This approach allows us to address some current critical needs and invest in projects with long-term benefits. To the extent that we incur ongoing expenses, we must ensure they are paired with ongoing revenues and incorporated into the General Fund budget sustainably.

After I received feedback from constituents and reflected on my experiences as Mayor over the last six years, I set about to articulate the "Mayor's Budget Priorities" that are outlined in the remainder of this memo. In doing so, I saw three overarching needs the city has that guided my thinking.

- The first is for **fiscal responsibility**. As our city enters into this phase of economic recovery, it's crucial to adopt financially sound policies and procedures that are prudent and take into account long-term impacts.
- The second is for **growing the economy and jobs**. In Sacramento 1.0 and 2.0 the city was overly reliant on farming and the State Capitol. We have to shift and take the necessary steps to diversify the economy, our revenues and the job base. This means becoming the best city in the state to do business. By creating an environment that is friendly to entrepreneurship and business, we can create a larger tax base and more jobs.
- The last is for **priority neighborhoods**. In order to ensure that our city is serving all citizens well, we need to ensure that services and programs are available in every neighborhood. In order to make this a reality, we will identify communities throughout the city that need special attention and resources to help equalize access for all residents.

If we can address these needs effectively, our city will be a much stronger one in the long-run. Therefore, you'll see each of them reflected in the priorities below.

## 1. Public Safety

- a. **Body Camera Pilot-** While there is heightened discord nationally between police departments and communities of color, we're proud that we've been able to build bridges and engage in productive conversations in Sacramento. But this is only the start. We believe that the use of body cameras can increase trust of our officers in the community. The City Manager is directed to identify costs for funding cameras, docking stations, data storage and staff support to equip 400 officers. Eventual funding may come from the existing budget, grant opportunities or other sources, with dedicated funds from fiscal year 2015-16 to pilot this effort. *(There are both one-time and ongoing expenditures involved in this pilot. The ongoing expenses for this pilot should be absorbed by the police department's existing budget.)*
- b. **Sensitivity Training for Police Officers-** The Sacramento PD is currently pursuing the implementation of additional sensitivity training. There are three components: 1) Biased Based Policing; 2) Emotional Survival for Law Enforcement; and 3) Use of Force Simulator. The City Manager is directed to fund and implement this training. *(This is a one-time expenditure and should be absorbed by the police department's existing budget.)*
- c. **Recruiting a Diverse Police Force-** Sacramento prides itself on being one of the most diverse cities in the country. That diversity should be reflected in every aspect of our city including our police force. Currently, our minority populations are under-represented in the Department. To address this concern, Chief Somers has put together a hiring plan that connects local programs such as the Criminal Justice Magnet Academy (which is 74% diverse) to entry-level police department positions. This plan will add 20 full-time or 55-60 part-time jobs, and we are asking the Chief to set specific goals as to what percentage of those positions will be filled by diversity candidates. The City Manager is directed to build in funding to implement this plan. *(The ongoing expenses should be*

*absorbed by the city's general fund and, where applicable, by the additional Measure U funds.)*

- d. **Community Policing-** Our vision is to be the “Safest Big City” in California and a national model of community policing. This will require increasing police staffing levels to the benchmark of 2 officers per 1,000 residents in the future. We must develop and accomplish this through a 20-year plan that adds approximately 15 officers per year in the long-term. The City Manager is directed to implement this plan. *(This is an ongoing expenditure that must be matched to a sustainable long-term funding stream.)*
- e. **Fire Master Plan-** In order to better provide fire services throughout the city, the Fire Department should create a Fire Master Plan to review and identify needed resources and infrastructure, additional service and revenue generating opportunities, and operational improvements. This plan will improve fire suppression and ambulatory services and potentially include an analysis of facilities, resources, hiring practices, training, and administrative needs. The City Manager is directed to fund and assign staff to the creation of a Fire Master Plan. *(This is a one-time expenditure.)*

## 2. Economic Development

- a. **Central City Master Plan-** The combination of the development of the entertainment and sports complex and the launch of the housing initiative will do much to accelerate and elevate the revitalization of our urban core. But to be a truly world-class city we must have a comprehensive plan that ensures not just future commercial and residential development, but one that incorporates the cultural and civic foundations that make a great city. By catalyzing this development, we can also create more jobs for our residents. As a first step, the City Manager is directed to assign city employees to provide staffing and resources to a blue ribbon committee to provide input and recommendations for the Master Plan. *(This is a one-time expenditure.)*
- b. **Railyards as an Innovation District-** I have proposed that we name the Railyards an “Innovation District” that will be anchored by leading-edge institutions and companies. It will house start-ups, business incubators and accelerators. Most importantly, it will allow us to raise revenue for our city, increase economic activity, and create jobs. The City Manager is directed to assign city staff to help study the creation of an “Innovation District” at the Railyards with a focus on how we can create an environment that incentivizes business creation. *(This is a one-time expenditure.)*
- c. **Downtown Railyards Soccer Stadium Feasibility Study-** Sacramento continues to make swift and substantial progress in its efforts to secure a Major League Soccer (MLS) expansion franchise. As a continued part of the process of securing an MLS team, the city is responsible for producing a Stadium Feasibility Study that will serve as an important resource to answer key questions about the facility's location, design, cost and development timeline. The City Manager is directed to fund this study. *(This is a one-time expenditure.)*
- d. **Streetcar-** Work is underway to construct a Downtown/Riverfront Streetcar System that links West Sacramento to Sacramento's Central City and Midtown. The total cost will be

\$150 million, shared between city, state and federal sources. The city has already allocated \$7 million to this project, which will be leveraged with \$25 million from the City of West Sacramento to attract additional funds from Sacramento County (\$3 million), the State of California (\$10 million), and federal funding through the Sacramento Area Council of Governments (SACOG) (\$75 million). Finally, the City Council voted to ask voters to provide the final \$30 million through a new property tax assessment. The City Manager is directed to continue working with stakeholders to secure funding commitments, address obstacles collaboratively, and continue progress toward the streetcar's construction. *(This is a one-time expenditure that may require additional investments to complete the project.)*

- e. Performing Arts Theater (PAT) Taskforce-** Our current Community Arts Center is ill-equipped to house and showcase the talents of our many arts organizations in the city. While the planning and financing of a new Performing Arts Theater will take time to determine, the City Manager is directed to fund the feasibility study and the continued work of the next phase of the PAT Taskforce. The City Manager should also explore options within the city's broader Capital Improvement Program to support the Performing Arts Theater. *(This is a one-time expenditure.)*
- f. Downtown Housing Initiative-** Downtown Sacramento is at the epicenter of an exciting renaissance in our region. With the business development in our downtown core, housing is the missing component we must address. At the State of the City address, I announced a goal of bringing 10,000 new units to the Central City over the next 10 years. It's estimated that construction of these 10,000 units will create more than 16,000 direct and 12,500 indirect jobs. I have begun engaging with a broad group of stakeholders to provide recommendations about how best to achieve this ambitious yet attainable goal. The recommendations will form the basis of a comprehensive plan that will be overseen by my office and administered by city staff and SHRA. This plan will include several components, including a programmatic EIR to streamline and incentivize the development of these housing units. The City Manager is directed to provide funding for the necessary staffing and components to reach this goal, such as costs of a programmatic EIR and related infrastructure studies. *(Estimated at \$2.1 million, this is a one-time expense.)*
- g. Greater Sacramento Area Economic Council-** As the six-county region's premier economic development organization and successor to SACTO, the Greater Sacramento Area Economic Council will play an important role as the city's partner to help create, attract, grow, and retain sustainable businesses, resulting in real jobs and new careers that benefit everyone. GSAC will be a major partner in ensuring that the city adopts policies to make Sacramento business-friendly. By paying membership dues, Sacramento ensures itself a spot on the GSAC board. Because of these benefits to the city, the City Manager is directed to pay Sacramento's full membership dues to the Greater Sacramento Area Economic Council. *(This is an ongoing but minimal expenditure.)*
- h. Innovation and Growth Fund-** In a 3.0 city, we must have a deliberate and urgent set of actions that we undertake to grow our economy and the number of jobs in the city. The Innovation and Growth Fund, renamed from the Economic Development Fund, is the

city's primary tool for investing public dollars to fund these actions. Resources from this fund must be specifically targeted for projects and programs with a significant return on investment and impact on the city, not just on projects of general interest. The city must adopt additional policies to govern the use of these funds. The City Manager is directed to draft a policy for Council consideration on the use and receipt of revenues for the innovation and growth fund.

- i. **Natomas Site Reuse-** As the city proceeds with building the downtown Entertainment and Sports Center, it is critical to address reuse of the previous arena in North Natomas. The reuse of this 184-acre site is a unique opportunity to catalyze economic progress in Natomas, the city, and the region as a whole. Given the imminent vacancy of this site, the city must work expeditiously with the Kings to complete a comprehensive site analysis and a market study this calendar year, as well as define plan approval and implementation. The City Manager is directed to fund this study and dedicate staff to conduct it. *(This is a one-time expenditure.)*

### 3. Youth and Education

- a. **Summer Night Lights-** The Summer Night Lights program is a violence-reduction program that targets locations disproportionately impacted by violence. Summer Night Lights provides positive summer programming for youth and families, hires and trains young adults from the community who are at-risk for gang involvement and/or gang-violence and focuses on inter-generation activities that fosters a safer community. The Summer Night Lights program focuses on many of our priority neighborhoods and will create 27 seasonal jobs. The City Manager is directed to fund this program in the Oak Park and Valley Hi communities for budget year 2015-16, and with consideration for future growth to the Del Paso Heights community. A yearly evaluation of this program should be made by the City Manager as to its impact on reducing violence, including a recommendation on continued funding. *(This is a one-time investment.)*
- b. **Mayor's Gang Prevention Task Force-** In 2011, I formed a Mayor's Gang Prevention Task Force consisting of city leaders, law enforcement, education, faith and community leaders. This Task Force created a strategic plan that shifts the paradigm toward a comprehensive approach that has proven to be far more successful than enforcement-centered or standalone efforts, but it can also save millions of public dollars. These efforts will have a positive impact on our priority neighborhoods. The City Manager is directed to dedicate \$1.2 million in the budget for a dedicated staff person and the updating and implementation of the Mayor's Gang Prevention Task Force Strategic Plan. *(This is primarily a one-time expenditure, with the possibility of nominal ongoing expenses.)*
- c. **Solutions City Initiative-** The Solutions City Initiative is a partnership between the city and Starbucks Coffee Company to convene youth service organizations with employers, building a coalition of employers who commit to hiring a specific number of young people, and opening a "Community Starbucks Store" in 2015 or 2016. The goal is to create 1,000 jobs by the end of 2015. The City Manager is directed to assign city staff to facilitate the convening of workforce development agencies and community members,

and development of performance metrics necessary to improve youth employment. *(This is a one-time expenditure.)*

- d. **Youth and Education Department-** The city must always look for ways to better serve our youth. By focusing our efforts on youth, we can ensure they have better after-school opportunities to thrive in the short term and better career opportunities in the long term. We must do everything we can to ensure the services we provide are focused on helping our most vulnerable youth avoid traps that would prevent them from meeting their full potential. This means taking a holistic approach to aligning city resources to address the challenges many of our youth face. By creating a Youth and Education Department, we can increase efficiencies and improve service levels to youth. The City Manager is directed to conduct a study on the feasibility of creating a youth and education department within the city. *(This study can be conducted by existing staff.)*

#### 4. Good Governance

- a. **OpenGov-** Sacramento is one of the nation's top cities for transparency. Sacramento can build on these efforts by adopting the OpenGov platform, which allows residents to easily access city financial data. The City Manager is directed to adopt the OpenGov platform at a cost of \$44,500 annually. *(This is an ongoing expense that is a minimal investment.)*
- b. **Cell Tower Revenues-** Each neighborhood has unique needs, and every district needs the flexibility to address those needs. Cell tower revenues total \$560,000 per year, with each Council district receiving \$44,000, and \$160,000 going to the general fund. Given the ongoing need to balance the priorities of each district with those of the broader community, the City Manager is directed to maintain the current funding formula and allocations of the cell tower revenues. The City Manager is further directed to divide, on an ongoing basis, any cell tower revenues not originally directed to Council between the Council districts for use in neighborhood programs and projects. *(This is an ongoing expense that is not a new expenditure for the city.)*
- c. **Economic Uncertainty Reserve-** As explained earlier, growing the Economic Uncertainty Reserve is a vital step in improving Sacramento's fiscal position. By putting away money in the reserve, not only does Sacramento prepare for any economic downturn, but it also improves its credit rating. This allows the city to secure lower interest rates, saving hundreds of millions of dollars on debt service. The City Manager is directed to put money into the Reserve to help achieve the 10% of General Fund goal. *(This is a one-time investment.)*
- d. **OPEB-** The city has \$1.2 billion in unfunded long-term liabilities to be paid to retired employees and their survivors. These benefits include pensions, the retiree medical benefit and payoff of leave balances upon separation or retirement. The unfunded retiree medical benefit, OPEB, is \$452 million. In 2013, the City Council authorized the establishment of an OPEB Trust to begin eliminating this liability. The City Manager is directed to add \$1 million to the trust and to develop a plan for how we are mitigating

this long-term liability. *(This is a one-time investment that will likely require future contributions.)*

- e. **Long-Term Liabilities Report-** Sacramento's long-term liabilities threaten to overwhelm the budget and limit the services the city provides. These challenges must be addressed wisely to ensure service levels are maintained. The City Manager is directed to conduct a study to identify ways the city can address its long-term liabilities challenge. *(This study can be conducted by existing staff.)*
- f. **Independent Budget Analyst-** In order to ensure transparency and efficiency in our budget process, City Council created the Office of the Independent Budget Analyst (IBA). The IBA will provide a formal, comprehensive review and analysis of the proposed annual budget. This effort will include gathering and organizing budget data, engaging in fiscal forecasting and planning, and providing fiscal impact analysis. The IBA is to make recommendations to City Council in connection with the analysis, studies, and reports created. The City Manager is directed to include funding for three new positions in this office. *(This is an ongoing expenditure.)*

## 5. Quality of Life

- a. **Homelessness Initiative-** Homelessness is one of our most pressing problems as a city and as a region, and we have made some progress towards achieving our ultimate goal, which is permanent supportive housing for our homeless population. This pilot program would create 30 jobs, provide additional services and create independent permanent housing solutions. To build upon the outcomes of the city-supported Common Cents Program, the City Manager should provide \$500,000 in funding for the Housing Solutions Program that will create greater efficiencies and capacity to the Continuum of Care. *(This is a one-time expenditure.)*
- b. **Income Inequality Taskforce-** Sacramento is a city of values, and that means ensuring that working adults can earn wages sufficient to support their families and work their way into the middle class. Given the after-effects of the national recession on cities throughout the country, meeting that goal will require a robust series of community discussions, outreach, and study and analysis about that numerous factors impacting poverty and the available solutions, including a possible adjustment to the minimum wage. The Mayor will convene and launch the task force and the City Manager is directed to dedicate staff support sufficient to address these complex questions. *(This is a one-time expenditure.)*
- c. **Green Initiative-** Sacramento leads the nation in promoting sustainability. The "green" investments we've made in our city's alternative-fuel vehicles and energy-efficient municipal buildings promise to lower emissions and save money. The city's green-financing program is helping Sacramento become a national sustainability innovator. The City Manager is directed to continue converting fleet vehicles to alternative fuels, upgrading city facilities with energy-saving technology, and pursuing innovative financing mechanisms for upgrading buildings. *(This will be cost-saving in the long-term.)*

- d. **LED Lighting-** It is now possible for the city to convert its existing Type B street lights to highly energy efficient LED technology. Most of the city's 13,000 Type B lights are at or near the end of their existing service life and will need to be replaced. By converting to LED lighting, the city's energy consumption will be reduced by more than 50%. Maintenance costs will also be significantly reduced because LED fixtures last more than 20 years. As an initial effort, the city should convert 1,300 Type B fixtures to LED. The City Manager is directed to make these replacements, saving the city \$524,000 in energy costs and \$390,000 in maintenance and replacement costs. This project is a continuation of the city's ongoing Street Light LED Conversion effort. *(This will be cost-saving in the long-term.)*

## **CONCLUSION**

I am proud of the progress we've made as a city over the last six years. Despite a challenging economic climate and prior deficiencies in controls and planning, we've made difficult but much needed decisions that have resulted in a stronger financial picture today than what is being seen in other cities.

How our city spends its resources must match the priorities of our residents, the realities of the economic forecast and our vision for the future. By implementing this new, more inclusive and community-driven budgeting process, we are well on our way to ensure this alignment occurs.

I am confident that under the leadership of the City Council, our City Manager and myself, that we can put the city on even stronger economic footing for the future. By investing in current critical needs, future revenue-generating projects and a healthy reserve we can strike a good balance for Sacramento that will ensure a vibrant and healthy economy for generations to come.

I look forward to being a part of this process with you and thank you in advance for your consideration.

## **APPENDIX A: MAYOR'S BUDGET GUIDELINES**

| <b>MAYOR'S BUDGET GUIDELINES</b> |   |
|----------------------------------|---|
| <b>1</b>                         | Maintain a fiscally sustainable, balanced budget  |
| <b>2</b>                         | The Mayor and Council's priorities, based on community input, should drive the budget creation  |
| <b>3</b>                         | Continue a community-based budget process where city residents are engaged and educated on budget processes and provide feedback on budget priorities   |
| <b>4</b>                         | Look for ways to grow the reserve beyond its current goal   |
| <b>5</b>                         | All budget actions must be considered in a multi-year context, with new revenues not counted or spent until realized. One-time resources should be used for one-time needs, not ongoing expenses. |
| <b>6</b>                         | Do not make spending decisions in isolation. Avoid spending money on one-off projects or without looking at the big picture. Understand long-term consequences and opportunity costs.             |
| <b>7</b>                         | Keep Council informed on the fiscal condition of the city and conduct continuous evaluations for efficiencies and effectiveness.  |
| <b>8</b>                         | The city must consistently look for opportunities to proactively grow our revenues instead of simply being reactive.  |
| <b>9</b>                         | Make every effort to identify private financing or federal and state grant opportunities before using city resources. Pursue new and enhance existing revenue sources.                            |
| <b>10</b>                        | Before new expenditures are made, identify return on investments and impacts; fiscal and social benefits  |
| <b>11</b>                        | Address unfunded long-term liabilities  |
| <b>12</b>                        | Remain a full service city  |