

**Meeting Date:** 3/1/2016

**Report Type:** Staff/Discussion

**Report ID:** 2016-00265

**Title:** Adoption of the Mayor and Council Budget Priorities for Fiscal Year 2016/17 [Oral Report]

**Location:** Citywide

**Recommendation:** Pass a Motion approving the Mayor and Council Budget Priorities and transmitting to the City Manager as direction in the development of the Fiscal Year 2016/17 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 Memo FY 16-17 Final

TO: City Council  
FR: Mayor Kevin Johnson  
RE: Mayor's Budget Priorities, Fiscal Year 2016-17  
DA: February 19, 2016

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## **RECOMMENDATION**

I recommend that the City Council direct the City Manager to submit a proposed budget for the 2016-17 fiscal year that is balanced and guided by the approved core budget policies and budget guidelines and the priorities outlined in this memo.

### **I. INTRODUCTION**

First, I want to begin by thanking our City Manager, Charter Officers and city employees for their continued dedication and work on behalf of the City of Sacramento. As I reflect upon my time as mayor, it is clear that our collaborative efforts over the last 7 years have not only allowed us to recover from a devastating recession, but they have led us to an unprecedented level of innovation and expansion as a city. Few would have expected this kind of a turnaround to have taken place in such a short period of time.

Our downtown core is now growing at an unparalleled pace. Neighborhoods and communities across the city are not only seeing the restoration of programs and services that were previously eliminated but they're experiencing the introduction of brand new, modernized services as well. Additionally, we have built a financial reserve that will allow these services to remain uninterrupted even if we were to face another unexpected decline. As Sacramento continues to grow, our continued efforts to "right the fiscal ship" will be critical to the success of the city and its residents.

As you'll remember, last year we implemented a new community-centered budgeting process. In prior years, it was the City Manager who created the budget and led the budget process with the Mayor and Council serving as reactionary agents who asked questions and ultimately approved the budget. The inherent problem with that system was that it did not provide the elected officials of the city the opportunity to ensure that public dollars and resources were

being allocated consistent with the priorities of our constituents. Additionally, it did not allow the public to be engaged in the budgeting process in a robust and meaningful way.

To remedy these shortcomings, we made significant changes last year. The goal in doing so was to modernize and update the budget process to fit our theme of “Sacramento 3.0”, a city that is evolving with the times to better meet the needs of our residents. To that end, we were determined to not only enhance the council’s ability to craft a budget that met constituent priorities, but also provided the public with more opportunities to have their thoughts and ideas heard. While these modifications to the process were a step in the right direction, they weren’t enough. Therefore, we continued conversations with the community, City Council and City staff in an effort to identify additional ways that we could improve our practices to further increase public participation and better define the needs and wants of Sacramento residents.

Hopefully, you’ll see the fruits of those labors within the pages to follow. As I enter into my last year in office, it is my desire to institutionalize a process that the community and elected/city officials alike feel is effective. While good government practices should always be iterated over time to meet new needs and challenges, hopefully this process will serve as a strong foundation on which the city can build for years to come.

### ***The Budget Process***

Over the past year, I’ve worked with all of you, my Council colleagues, and City Manager John Shirey to adjust the new process and timeline for budget development to increase collaboration and public input. In addition to conducting the citywide poll on budget priorities and the Mayor’s Community Leaders Budget Workshop that we introduced last year, this past fall we also implemented four Community Budget Forums hosted throughout Sacramento by the City’s Independent Budget Analyst.

These forums provided the public multiple opportunities to identify the areas in which our residents believe funding should be prioritized for 2016-17. We also accelerated the dates for key deliverables in the budget timeline in an effort to maximize discussion and collaboration between the City Council and myself. I strongly believe that these changes and increased collaboration will result in cohesive budget priorities that can be included in the Proposed Budget.

The new budget timeline and process for the 2016-17 budget creation is as follows:

BUDGET TIMELINE	
<b>January - February</b>	Community Input <ul style="list-style-type: none"> <li>• Community Budget Forums review</li> <li>• Conduct a citywide poll on budget priorities</li> <li>• Mayor’s Community Leaders Budget Workshop</li> </ul> Forecast and Development <ul style="list-style-type: none"> <li>• Comprehensive Annual Financial Report (CAFR) – Year-end report</li> <li>• Midyear Report</li> <li>• Based on community input, Mayor presents budget priorities memo to Council for discussion</li> </ul>
<b>March</b>	Priority Setting <ul style="list-style-type: none"> <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</li> </ul>
<b>July</b>	New Fiscal Year
<b>August – December</b>	Budget execution and updates

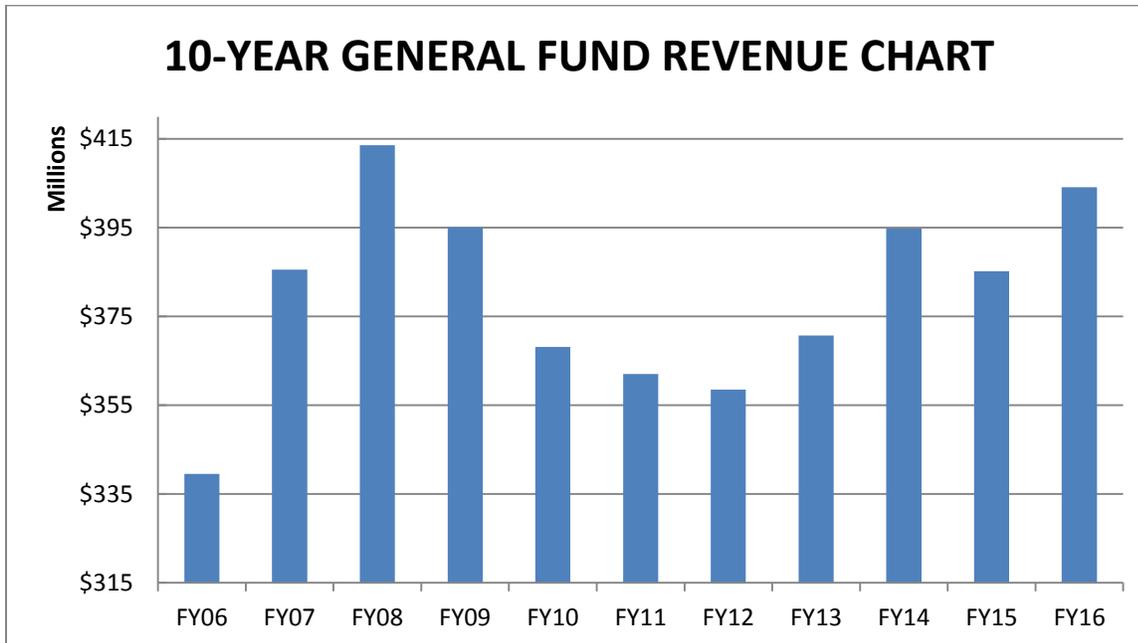
**History**

As I began my first term as Mayor in 2008, the city was challenged with an unprecedented financial crisis that required many difficult decisions. While the city had seen a robust increase in its revenue base for nearly a decade prior to my first term, proper controls and practices were not in place to ensure a stable financial environment once the recession began. We lacked comprehensive forecasting, strict financial discipline, and policies to prevent over-spending. We relied heavily on one-time funds while not addressing long-term liabilities such as the underfunding of the pension funds and retiree medical benefits. Absent strong fiscal controls and proactive planning for the future, the city’s financial system was at a disadvantage when revenues dramatically dropped resulting in a significant spending down of the city reserves.

## Effects of the Recession

As seen in the chart below, the city experienced steep declines in General Fund revenue over four fiscal years from 2008-09 through 2011-12, the time period when the entire country was experiencing a significant financial crisis. This resulted in the loss of approximately \$170 million cumulatively from FY09 through FY12, when compared to the 2007-08 fiscal year.

### 10-YEAR GENERAL FUND REVENUE CHART



The large reduction in revenue was primarily due to declining Property and Sales Taxes caused by dropping real estate values, low consumer confidence, and higher unemployment. However, compounding these issues were other financial challenges such as the city's higher than anticipated pension costs (which resulted from the dramatic decrease in pension fund assets). This required the city to prioritize payment of these unfunded liabilities. Additionally, we experienced a weakened cash position caused by a decline in holdings and new limits on capital project funding, while borrowing for both public and private development projects became nearly impossible.

These factors forced the city to heavily rely on one-time funds and reserves that had been modestly built-up prior to the recession. Specifically, during the declining economy, the city relied heavily on the Economic Uncertainty Reserve (EUR), decreasing it from 9.1% of the General Fund in 2004-05 to a low of 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	\$400,000	\$34,114,000	\$388,616,000	8.7%
2015-16 <sup>1</sup>	\$4,853,000	\$38,967,000	\$399,209,000	9.7%

<sup>1</sup> After the FY 2015/16 CAFR is completed, this number could rise

**Hard but Important Decisions Were Made**

As the EUR was utilized to stay afloat, difficult decisions were required to move us toward fiscal stability. Over several years, the city cut almost \$250 million in services and eliminated approximately 20% of the workforce. These actions allowed the city to permanently realign expenditures and revenues, which right-sized the budget moving forward. Another critical decision was to consistently contribute annually to the EUR growing it from 2.9% of the General Fund in 2009-10 to about 9.7% currently. This persistent and prudent approach has resulted in the largest reserve in Sacramento’s history and has moved us to within striking distance of our adopted EUR goal of 10% of General Fund revenues.

While these critical choices allowed the city to slowly recover from the recession, the availability of discretionary funding for new or additional services was mostly eliminated. Fortunately, in 2012 the city’s voters passed Measure U, a temporary sales tax increase to restore city services. The effect of this additional revenue has provided a tremendous benefit to the city restoring eliminated services to our residents. For example, in the current year Measure U will provide additional funding for police (\$18.6 million), fire (\$16.2 million), parks (\$13.1 million), libraries (\$506,000), and animal care (\$176,000). As I noted in this memo last year, however, Measure U expires in 2019. Knowing that this timeline is looming, it is imperative that we responsibly plan for the future to ensure these critical restored services can continue.

Last year, with the economy improving and a new budget process outlined, we forged ahead with the development of the 2015-16 Budget with the vision of moving the city forward by focusing on fiscal responsibility, growing the economy and jobs, and investments in priority neighborhoods. Guided by the approved core budget policies below, we made it our objective to develop priorities that invested strategically into our city in ways that would grow our revenues in the long-run and by allocating one-time funding to address critical needs and projects that would not require ongoing commitments.

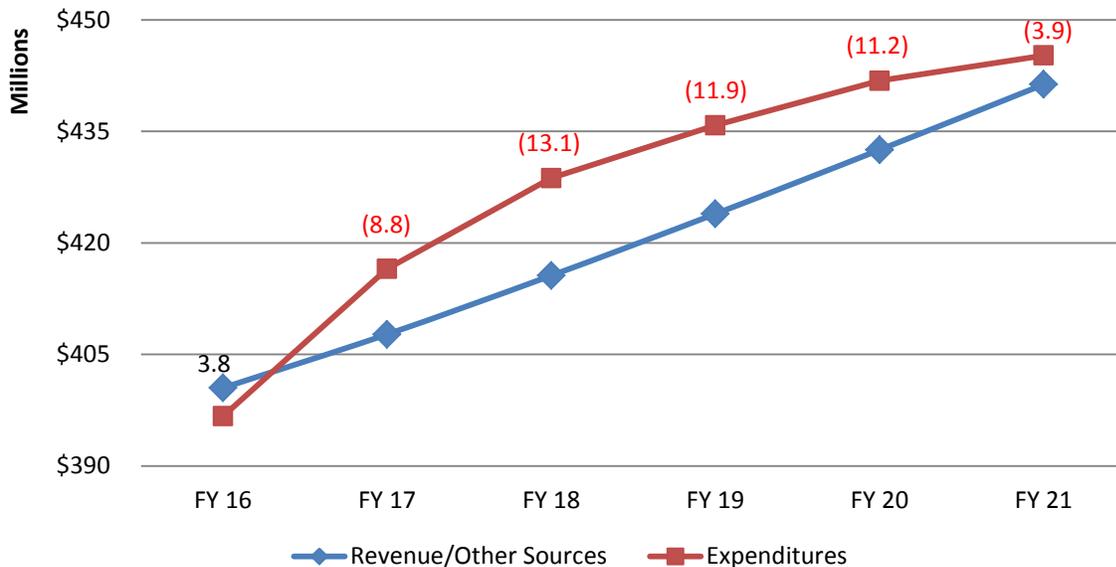
CORE BUDGET POLICIES*	
<b>1</b>	City Council must adopt a balanced budget
<b>2</b>	<p>The Economic Uncertainty Reserve is to be increased gradually to Council’s goal of 10% of the General Fund revenue</p> <ul style="list-style-type: none"> <li>• Unbudgeted one-time revenues from an unexpected source 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>Innovation and Growth 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>
*For a comprehensive list of budget guidelines see Appendix A	

## II. CURRENT FINANCIAL SITUATION

As we continue to hold ourselves accountable for maintaining a balanced budget, we are in a stronger and more stable financial position today than we were seven years ago. Rather than reducing programs and eliminating services, as we were forced to do for many years, last budget cycle we approved a balanced budget that included the allocation of resources to address the Council’s priority initiatives and investments that enhanced services and programs for the residents of Sacramento. We were able to do this while still responsibly contributing additional resources to the EUR. In fact, the 2014-15 CAFR shows that we had a \$21.9 million surplus and of that amount, approximately \$4.9 million was dedicated to the EUR.

After years of difficult decisions to cut costs and eliminate positions, I feel strongly that we are back on the right track and building momentum. However, instead of repeating past mistakes by over-extending our financial resources, I implore us all to maintain our cautious optimism while continuing our conservative approach to fiscal management. By looking at things holistically instead of as one-offs, we can make strategic decisions that will position us strongly for the future. These steps will be necessary if we expect to solve our looming future potential budget deficits without impacting city services.

### Five-Year General Fund Forecast



As you can see from the chart above, General Fund expenditures are expected to exceed revenue growth as early as 2017-18. And while this forecast points to continued growth in revenue, we must remember historical revenue trends which have taught us that years of positive growth (like we are currently experiencing) are typically followed by years of decline.

Fortunately, tighter fiscal controls and the approval of Measure U will continue to provide short-term relief. Additionally, we've started planning for the expiration of Measure U in March of 2019 by maintaining a fund balance of about \$25 million that will provide a transition reserve.

***However, it is critical that we enact policies and strategies now to ensure we can continue to fund services and programs once the Measure U fund balance is exhausted.*** These actions must account for our long-term liabilities such as pensions and retiree medical costs which continue to grow significantly.

*Measure U Revenues and Expenditures*

Measure U: Revenues & Expenditures (in 000s)	FY 16	FY16	FY17	FY18	FY19
	Amended FTE				
<b>BEGINNING FUND BALANCE<sup>2</sup></b>		<b>41,972</b>	<b>34,242</b>	<b>35,856</b>	<b>36,491</b>
<b>REVENUES</b>		<b>42,046</b>	<b>43,798</b>	<b>45,610</b>	<b>35,619</b>
<b>EXPENDITURES</b>					
Fire Department	110.00	16,232	13,429	13,774	14,130
Police Department	205.50	17,792	19,066	21,228	22,890
Parks and Recreation Department	130.80	13,529	9,001	9,280	9,570
Miscellaneous Restorations	2.00	2,223	687	693	698
<b>Total Measure U Expenditures</b>	<b>448.30</b>	<b>49,776</b>	<b>42,183</b>	<b>44,975</b>	<b>47,288</b>
<b>ENDING FUND BALANCE</b>		<b>\$ 34,242</b>	<b>\$ 35,857</b>	<b>\$ 36,491</b>	<b>\$ 24,822</b>

<sup>2</sup> FY16 Beginning Fund Balance reflects an amount based on audited year-end results (FY14/15 CAFR).

*Additional Challenges Ahead*

To achieve financial stability, we must identify our challenges and develop strategies and policies that address our long-term liabilities. These liabilities continue to rely on General Fund revenues that heavily reduce our discretionary resources for other services and programs. By decisive action on the Council's part, we can begin solving these growing problems in the 2016-17 Budget continuing our path toward stability. These liabilities include:

- Rising Pension and Labor Cost
- Retirement and Healthcare Costs
- Other Post-Employment Benefits (OPEB)
- Aging Infrastructure and Capital Needs / Debt
- Expiration of Measure U Funds

Many long-term liabilities are beyond the city's control. Regardless, we must act proactively and approach these liabilities responsibly.

### Necessary Actions and Strategies

If we can approach and address these challenges now, we can take important steps towards reducing our long-term burden, improve our standing in the credit market, open doors for investment, and most importantly, ensure that the city does not have a projected deficit in the future. To that end, below is a list of actions and strategies we must implement or assess this year:

#### 1) Adopt Fiscally Responsible Policies

- a. Reign In Long-Term Commitments - Just this month we passed an OPEB policy that will guide the City Manager in future employment negotiations. The guidance the Council laid out will ensure we are on a course to fully fund our actuarially OPEB costs on an ongoing basis within ten years. We must approach all of our labor negotiations with this goal in mind.
- b. Reaching 10% EUR Goal - With continued prudent planning, it may be possible for the City to reach its long-term goal of having 10% in reserves this year. It will be critical to ensure that this milestone is met.
- c. Midyear Budget Policy - The Council should adopt a policy that would prohibit the approval of one-off funding requests during the course of the year. Instead, potential items should be discussed together during the Midyear process and considered for funding at that time as it ensures decisions are made once available resources are known.

#### 2) Solidify Our Financial Foundation

- a. Refinancing Debts - We currently have the opportunity to aggressively refinance existing debts to find new rates. Some rates are at record lows and experts are anticipating they may go lower still. This provides a significant window of savings for the city.
- b. Improving Our Credit Rating - Over the past year we have been dedicated to improving our credit rating, which has resulted in the favorable refinancing of some existing debt and a current credit rating of AA-. This is great news, especially considering the past high debt ratio we had been faced with and our inability to take on additional debts due to prior obligations. However, while we are trending in the right direction, I stress that we proceed cautiously and plan our debt carefully so that we can satisfy past obligations and leverage our high credit rating and past performance for future development and investment.

Going forward, we must remember how borrowing and investing can fulfill vital community needs and better position the city for the future, and by doing so smartly, we can provide a return on our investment financially and otherwise.

### 3) Future Revenue Opportunities

While building a stronger financial foundation, we must continue to think and plan for the future rather than merely managing expenses. In addition to addressing our long-term liabilities we must also take proactive steps to grow our revenues instead of being reactionary. By aggressively looking for ways to increase revenues, we can create a vibrant and growing city economy that solves problems and provides a return on our investment. To this end we should act to:

- a. Re-approve Measure U - Measure U has provided a great benefit to the city and our residents. We have restored vital programs and services to neighborhoods that desperately needed them. Our careful planning has allowed us to maintain a sizeable transition reserve for when Measure U is set to expire in 2019. However, I believe it is time for us as a Council to proactively decide to propose extending this measure to the public. By doing so, we can ensure that the restored services continue. Furthermore, by resolving Measure U proactively, we can free up future resources to expand and grow programs and services instead of simply maintaining the status quo.
- b. Increase Revenues through Innovation and Investment - Not to be lost in prudently managing expenses must be the commitment to increasing revenues and identifying new revenue opportunities. To achieve success, we must prioritize our time and develop a comprehensive plan that guarantees results. As we determine how best to increase our Property and Sales Tax revenues, focusing on expanding employment and increasing job opportunities, we must move forward with investments that “grow the pie”. As we continue to define what success means, the components of this plan include but are not limited to:
  - Completion of the Downtown Arena and development of surrounding areas
  - Development of the Railyards and construction of an MLS stadium
  - Innovation and Growth Fund
  - Sacramento Employment and Economic Development (SEED) Corporation
  - 10,000 Housing units in Downtown

Concentrating on these efforts will ultimately lead to a self-sufficient downtown economic engine that provides a benefit to the entire region. In order to realize this, we must continue to implement business-friendly practices to foster an environment that welcomes entrepreneurs, small-business owners, and developers. By embracing this model, we will become a global destination for innovation and growth.

It is my goal to continue the momentum we built last year so that we see these strategies, actions and projects brought to fruition. By doing so, we can avoid the projected budget deficit in out-years and support the growth of the vibrant, healthy economy our city deserves.

### **III. COMMUNITY INPUT**

Last budget cycle we embarked on a revised process to increase meaningful community engagement in the budgeting process. The first action we took was to conduct a citywide budget priority poll of 500 residents. I then used the results from that poll to host a Mayor's Community Leaders Budget Workshop. Our goal was to build trust with those we serve and increase transparency in the budgeting process. I am happy to say that for this budget cycle we continued both the polling and the budget workshop. Furthermore, to provide additional opportunities for community engagement, we tasked the City's Independent Budget Analyst (IBA) with holding four Community Budget Forums throughout Sacramento.

#### *Community Budget Forums*

The IBA held four Community Budget Forums over a two-month period beginning this past November. The purpose of the forums was twofold. The first was to provide the public with an overview of the city's budget and its budgeting process. The second was to conduct a survey and roundtable discussion to identify the areas in which the attendees felt city resources should be prioritized for the 2016-17 Budget. The attendees' responses were collected and presented to the City's Budget and Audit Committee in January.

#### *Citywide Poll*

Building off of the success of last year, we again utilized the polling firm of Fairbanks, Maslin, Maulin, Metz, and Associates to conduct a 500-person survey between January 5<sup>th</sup> and 9<sup>th</sup>. 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 as other pertinent budget questions.

## Results:

- Of those surveyed, the vast majority have a positive view of Sacramento as a place to live. 86% said it was an “excellent/pretty good” place to live. The combined positive score is on par with 2015 attitudes, illustrating a consistent satisfaction. The majority of those surveyed have a generally positive feeling about safety in their neighborhoods, 79%. Also, people had a strong positive feeling about their own personal financial situation - 76%, the local economy - 69%, and public safety in the City - 69%.
- The highest priorities in terms of the budget for those surveyed are:
  - Public safety (reducing violent crime) - 81%
  - Jobs and economic development - 74%
  - Infrastructure and roads - 71%
- Additionally, when asked if they would support an extension of Measure U if it were on the next ballot, 72% responded that they would be in favor of extending the measure.

### Mayor’s Community Leaders Budget Workshop

On Wednesday, February 3, I hosted the second Mayor’s Community Leaders Budget Workshop, which was the last community outreach opportunity before drafting this Budget memo. I started the workshop by detailing the focus for the City of Sacramento in the upcoming year. During the workshop, I provided a “Sacramento 101” and “Budget 101” presentation to inform the public about the City and how the new city budget process works. Most important, I led the community leaders survey to get input on their budget priorities.

- Community leaders feel generally positive about their current situation, with 68% rating Sacramento positively as a place to live, 46% positive about the local economy, 61% positive about their personal financial situation, and 54% positive about public safety.
- The group concluded the priorities discussion by exploring 20 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.
  - Jobs and Economic Development - 92%
  - Public Safety (reducing violent crime) - 80%
  - Infrastructure and Roads - 75%

- Interestingly, when community leaders were asked if they would support an extension of Measure U if it were on the next ballot, 78% responded that they would be in favor of extending the measure.

#### Conclusion of Community Input

While there are many competing and conflicting priorities, Sacramento residents had a general consensus when identifying various budget priorities. Overall, input from the budget forums, the citywide poll, and the community leaders workshop was mostly aligned. As such, I strongly believe this document reflects the wants and needs of our community and our city.

#### **IV. Mayor’s Budget Priorities**

As our fiscal position is improving, we must take the actions outlined above to ensure we do not realize the potential deficit projected for future fiscal years. With disciplined planning and decisive action, we can accomplish that goal. Once we have done that, with the discretionary funding we do have available, we must invest in our city wisely. **We should maintain a focus on one-time expenditures allowing us to address our most current critical needs.** We should also prioritize investments in projects with long-term benefits. **Should we have the need to incur ongoing expenses, we must identify ongoing revenue sources to pay for those resources in an effort to keep a stable General Fund budget.**

Similar to last year, I identified the “Mayor’s Budget Priorities” with guidance from three overarching needs the city has:

- **Fiscal Responsibility** – As our city continues with the economic recovery, it’s crucial to adopt financially sound policies and procedures that are prudent and take into account long-term impacts.
- **Growing the Economy & Jobs** – We must continue the shift to “Sacramento 3.0” and take the necessary steps to diversify the economy, our revenues and the job base. We must be the best city in the state to do business. We must create an environment that is friendly to entrepreneurship and business. The results of this shift will be a larger tax base and more jobs.
- **Priority Neighborhoods** – In order to ensure that our city is serving all citizens well, we must have services and programs available in every neighborhood. Let’s identify communities throughout the city that need special attention and resources so that access is equal for all residents.

With the input from our residents, insights from the City Council, and the guidance of the three overarching city needs, I believe the priorities outlined below continue to make strategic investments in our city and begin the transition of Sacramento into a “World Class City”.

**1. Public Safety**

- a. **Community Policing** – As part of our Officer Next Door Initiative, we must continue our quest to be the “Safest Big City” in California and a national model of community policing. To reach this goal, it will require increasing police staffing levels to the nationally recognized 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. This should include renewing our focus on the use of POP officers. The City Manager is directed to continue implementation of this plan by funding 15 FTE officer positions. *(This is a \$1.8 million ongoing expenditure that must be matched to a sustainable long-term funding stream.)*
  
- b. **Recruiting a Diverse Police Force** – Sacramento is one of the most diverse cities in the country, that diversity should be reflected in every aspect of our city including all levels of our police force. As diversity is one of the four pillars of the Officer Next Door Initiative, our minority populations are underrepresented in both command staff and rank and file within the department. To address this concern, we began a hiring plan that connects local programs such as the Criminal Justice Magnet Academy (which is 74% diverse) to entry-level police department positions. The City Manager is directed to build in funding to continue the implementation of this plan. *(This is a \$1 million ongoing expense.)*
  
- c. **Fire Station 10** – The Fire Department’s mission is to protect our community through effective public safety services. Providing service to the southern part of the city, Fire Station 10 is in need of upgrades as the current configuration presents challenges to maintain quick response times. Both the fire engine and the ambulance share the same lane in the garage resulting in the constant shuffling of vehicles so the proper one can respond to a call. Additionally, the dormitories are not properly connected to the garage as diesel exhaust floods into the sleeping quarters. The City Manager is directed to fund the rebuilding of Fire Station 10. *(This is an estimated \$5.2 million one-time expenditure.)*

- d. **Park Safety Rangers** – Park Rangers provide services through the enforcement of codes, ordinances, rules and regulations to protect public parks, park patrons, bicycle trails and recreation facilities within city limits. Building on our vision of being the “Safest Big City,” additional park safety rangers are needed to enhance enforcement at parks to increase the safety of our residents. The City Manager is directed to include funding for two additional park safety ranger FTEs. *(Estimated at \$170,000, this is an ongoing expenditure that must be matched to a sustainable long-term funding stream.)*

## 2. **Economic Development**

- a. **Improving our Business Climate** – During the State of the City Address, I said that Sacramento has to think big, act aggressively, and be proactive. From investing in “500 Startups” to having Flippbox return to the Capital City and Anpac Biomedical choosing Sacramento as its world headquarters, we are developing a world class business climate. However, we must go farther. We should use our current momentum to create an atmosphere that businesses gravitate towards. We should explore the use of tax and fee incentives within our priority neighborhoods to encourage commercial investment. Additionally, we should work collaboratively with our small businesses, especially our minority-owned small businesses. With the co-location of the Asian Chamber, the Black Chamber, and the Hispanic Chamber, our three largest ethnic chambers of commerce can blend knowledge, improve visibility and help our small businesses run more efficiently. By co-locating these three ethnic chambers, they can provide a service to the city that grows revenue and benefits our local economy. As part of the implementation of our Economic Development 3.0 initiative, we must improve our business climate by updating policies and processes, creating a business retention program, and strengthening Sacramento’s brand. The City Manager is directed to fund efforts to establish a fee for service program that encompasses all three Chambers of Commerce for no less than \$100,000. Further, the City Manager is directed to assign city staff to assist in developing these new approaches to improving our business climate and fund \$150,000 in costs associated with marketing. *(This is a \$250,000 one-time expenditure.)*
- b. **Railyards as an Innovation District** – As the Railyards becomes an “Innovation District,” we must continue bringing leading-edge institutions and companies to the area. With a new \$900 million, 18-acre hospital campus, Kaiser is the first

anchor tenant. Our next steps are finalizing a third UC Davis campus and securing a Major League Soccer expansion franchise by implementing our agreement with the Sacramento Republic to build a Downtown Railyards Soccer Stadium. With these three anchor tenants in place, we will be well on our way to a district that raises revenue for our city, increases economic activity, and creates innovation. The City Manager is directed to fund one FTE to continue the advancement of an “Innovation District” at the Railyards with a focus on how we can create an environment that incentivizes high-wage job creation. *(Estimated at \$150,000 for the position, this is an ongoing expenditure.)*

- c. **Sacramento State Center for Innovation** – In partnership with the Power Inn Alliance, the center aims to transform a formerly industrial area into a future hub of clean energy and green technology. Through applied research and developing engineers, the center will help Sacramento State become one of the country’s leaders in net-zero home technology. The City Manager is directed to provide the necessary staff and resources to ensure the Sacramento State Center for Innovation plan is successfully implemented. *(This can be funded with existing resources.)*
  
- d. **MedZone** – By utilizing existing stakeholders – UC Davis, Sutter Health, Dignity Health and Kaiser – Oak Park will become the city’s first medical innovation zone. This zone will be focused on bringing new medical facilities and investments to the region. Currently, the city has set aside funding for the MedZone which is being leveraged to bring up to 12 companies to Sacramento and create over 100 new jobs within a five-year period. The City Manager is directed to provide the necessary staff and resources to ensure the MedZone plan is successfully implemented. *(This can be funded with \$5.2 million in existing redevelopment bond proceeds.)*
  
- e. **Streetcar** – With the commitment of \$75 million from the federal government to construct a Downtown/Riverfront Streetcar System that links West Sacramento to Sacramento’s Central City and Midtown, we must continue identifying opportunities to fund the remainder of the project. The total cost of the project is estimated to 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), and the State of California (\$10 million). 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.)*

- f. **Community Center Theater** – Our current Community Center Theater continues to be ill-equipped to house and showcase the talents of our many arts organizations in the city. We need to provide a venue that will attract both our current organizations and acts from outside that have previously not considered Sacramento. The City Manager is directed to develop a recommendation for how to move forward with the Community Center Theater including the possible funding mechanisms to implement the project. *(This can be completed with existing resources.)*
  
- g. **SEED Corp.** – Research shows that for every dollar of public funds invested in low-income communities, an additional \$9 can be gained in private investments. That additional private investment is what the SEED Corp. is working on to bring to the city. The goal of the SEED Corp. is to attract private sector jobs, investments, and businesses to low-income communities. To initiate this process, we have identified redevelopment bond proceeds to begin investing in SEED Corp. initiatives in the Del Paso Heights area. However, we need to look at ways to expand our investment to include other priority neighborhoods such as Meadowview and Valley Hi and other opportunities such as incentivizing businesses to come to neighborhood commercial centers. The City Manager is directed to identify additional funding opportunities to launch SEED Corp. in the Meadowview and Valley Hi neighborhoods. *(\$1.2 million in existing redevelopment bond proceeds are available for the Del Paso Heights area.)*
  
- h. **Investing in our Riverfront** – Our region has incredible natural resources in the rivers that surround us. However, we can add to those resources by investing in our riverfront and creating an environment that is a global destination filled with various amenities. To begin the process, we must identify ways to clean-up the riverfront and remove abandoned oil tanks. We must engage with land owners to jump start resource planning and identify the steps needed to reenergize our riverfront. The City Manager is directed to identify an investment and implementation strategy to initiate the revitalization of our riverfront. *(This is a one-time expenditure that may require additional investments to complete the project.)*

- i. **Innovation and Growth Fund** – To become a world class city, we must prioritize growing and diversifying our economy and increasing the number of high-wage jobs in our city. The Innovation and Growth Fund is the city’s primary tool to make those lofty aspirations a reality. Resources from this fund must be specifically targeted for projects and programs with a significant return on investment and impact on the city, such as downtown incubators. Through collaboration with the Mayor’s Office of Entrepreneurship and Innovation, we can develop a targeted plan that makes Sacramento the ideal location for new and exciting businesses ensuring a vibrant economy for our city. The City Manager is directed to review and update the proposed programs, application processes, criteria, and timeline for investments related to the Innovation and Growth Fund. *(This can be completed with existing resources.)*
  
- j. **Natomas Site Reuse** – With the opening of the Golden 1 Center this fall, it is critical for us to address the reuse of the current arena in North Natomas. The reuse of this site is a unique opportunity to advance economic progress in Natomas, the city, and our region as a whole. We must continue our work with the Kings to identify the best use of the soon-to-be vacated space, including the potential development of an innovation zone focused on high-wage job creation. The City Manager is directed to provide the necessary staff and resources to ensure the Natomas Reuse plan is successfully implemented this year. *(This can be completed with existing resources.)*

### 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, which focuses on many of our priority neighborhoods, 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 City Manager is directed to fund this program for budget year 2016-17 in the following three communities; Oak Park, Valley Hi, and Del Paso Heights. *(Estimated at \$300,000 total, this is an ongoing expenditure that should be leveraged with additional non-city funding.)*

- b. **Mayor's Gang Prevention and Intervention Task Force** – Last year we set out to renew the task force that had been originally formed in 2011. The task force consists of city leaders, law enforcement, education, and faith and community leaders. The task force developed a multi-year implementation plan that shifts the paradigm toward a comprehensive approach which has proven to be more successful than enforcement-centered or standalone efforts. To ensure the task force succeeds, we allocated \$1.0 million in funding in 2015-16 to hire a Gang Prevention and Intervention Task Force Director and provide grants to community-based organizations to conduct prevention and intervention activities. As a sign of the impact the task force has already had, 36 community-based organizations applied for the available grant funding. The City Manager is directed to fund the ongoing activities of the Mayor's Gang Prevention and Intervention Task Force. *(This is an ongoing expenditure of \$1.0 million that must be matched to a sustainable long-term funding stream.)*
  
- c. **Meadowview Community Development** – To ensure that all of our residents are given every opportunity possible to succeed, we must bolster our investment in at-risk youth and underserved communities within this priority neighborhood. By increasing the programs and funding available through our local community based organizations, we can begin to reverse the trend of certain communities being continually left behind decade after decade. The City Manager is directed to work with the Council district to prioritize requests and identify funding for this priority neighborhood. *(This is an estimated \$525,000 one-time expenditure.)*
  
- d. **City/County African American Child Death Program** – In 2011, Sacramento County released a 20-year report on all child deaths in Sacramento County. The report findings showed that African-American children died at a rate two times higher than that of all other children in the county. Additionally, further investigation shows that many of the neighborhoods with the largest number and percent of African-American child death are those areas we have designated as priority neighborhoods. In an effort to reduce these numbers and foster meaningful community engagement, we should partner with the county to implement strategies and programs that have proved successful at decreasing the African-American child death rate. This past summer the county allocated \$1.5 million in funding to implement a strategic plan to reduce the disproportional death rates. That commitment was in addition to approximately \$3 million in investment from the First Five Sacramento Commission and the county's public health, child welfare, and probation departments. The City

Manager is directed to provide funding to partner with Sacramento County to address the disproportional death rate of African-American children. Further, the City Manager is directed to continue pursuing county funding opportunities that can be used in lieu of city resources. *(\$750,000 was provided at Midyear; the ongoing costs must be matched to a sustainable long-term funding stream.)*

- e. **Youth and Education Department** – It is our responsibility as a city to look for ways to better serve our youth particularly youth who are in priority neighborhoods with limited opportunities and very visible exposure to gangs, violence, and crime. Our future depends on the strength and abilities of our youth which compels us to do everything we possibly can to ensure they reach their full potential and become contributing members of our community. To accomplish this task, we have to take a holistic approach which addresses all the challenges our youth face today. The City Manager is directed to fund and look into the possibility of creating a revenue neutral department which will help streamline processes, better align youth with services, increase efficiencies and measure success rates. *(This is an ongoing expenditure that will be matched to the projected \$5 million in revenue generated by the Sacramento Children’s Fund ballot measure should it pass.)*
  
- f. **4th R and Start** – 4<sup>th</sup> R provides year-round child care at many Sacramento elementary school campuses while START provides free before and after school programs at 38 Schools throughout four school districts. Although the 4<sup>th</sup> R program is funded by participants and grants, expenses have to be offset by general fund monies since many service users qualify for free or reduced costs. For FY16, it is estimated that the General Fund subsidy for 4<sup>th</sup> R will be approximately \$365,000. The START program is funded by grants and contracts with local school districts; however, the General Fund is the primary funding source. For FY16, the START program is expected to require a General Fund subsidy of more than \$800,000. As these two programs are important to the continued success of our youth, we must identify strategies to ensure the programs remain available throughout the city. The City Manager is directed to seek alternative revenue generating methods to reduce dependence on general funds and to collaborate with stakeholders to ensure continued success and funding of these programs. *(This is an estimated \$1.165 million one-time expenditure.)*

#### 4. Good Governance

- a. **Midyear Budget Policy** – As an alternative to approving standalone or one-off projects or programs as they materialize throughout the fiscal year, we should instead follow a comprehensive policy that allows for such items to be discussed and prioritized for funding during the Midyear review. As the city has limited discretionary funding, approving new costs throughout the year hamstrings our ability to react to our changing needs and results in a first-come, first-served approach. The City Manager is directed to draft a Midyear Budget Policy that will provide a process and timeline for funding considerations to ensure all potential items are fairly and properly vetted. *(This can be completed with existing resources.)*
  
- b. **Economic Uncertainty Reserve Policy** – Growing the EUR is critically important to the long-term financial growth of our city. Having a robust reserve prepares Sacramento for future economic downturns, improves our credit rating, and provides stability and confidence for Sacramento residents, investors, and businesses. As we finally cross the finish line to our goal of 10% of General Fund Revenues, it is time for us to take the next step and make that 10% our minimum requirement. The City Manager is directed to provide the remaining funding required to achieve 10% of General Fund revenues. Additionally, the City Manager is directed to develop a policy that requires the city to keep a minimum EUR balance of 10% of General Fund revenues and identify strategies that add resources to the EUR to move the balance beyond 10% in future years. *(This would be an approximately \$954,000 one-time expenditure.)*
  
- c. **OPEB Funding Policy** – Currently, the city’s unfunded OPEB liability is approximately \$363 million. While we have made contributions to our OPEB Trust Fund, we must take a proactive approach to solving this liability rather than passing the problem to our future generations. With our approved OPEB Funding Policy, we can position ourselves to not only reduce the total liability, but also create a path to funding our OPEB costs on an annual basis within ten years and fully funding the total liability within thirty. This will result in a more solid financial foundation for the city while also improving our credit rating. The City Manager is directed to utilize the approved OPEB policy in future employment negotiations and develop a plan to fund our actuarially OPEB costs on an ongoing basis within ten years. *(This does not require additional resources.)*

- d. **City Auditor's Office** – The Auditor's Office Whistleblower Hotline has been a positive addition to the services provided by the city. The success of the hotline has resulted in a significantly increased call volume requiring greater workload. Given the growth of the program, we should add a position to handle the hotline and investigate whistleblower tips. The City Manager is directed to fund one FTE for the City Auditor's Office. *(This is an estimated \$100,000 ongoing expense.)*
  
- e. **311 Call Center Modernization** – As the single point of contact for city services, it is critical that we maintain a 311 Call Center system that is both efficient and accurate. Previously, we added three new positions to help address a call volume that has increased significantly over the years. However, now is the time to focus on finding efficiencies and better service through infrastructure upgrades and relocation of the call center. We must identify system upgrades to expand access to information and increase the resources available online. Additionally, we should look into new technologies such as a more robust 311 App that can provide instant responses and services in lieu of a call to 311. The City Manager is directed to develop and implement strategies to increase the efficiency and effectiveness of the 311 Call Center. *(This is a one-time expenditure.)*

## 5. Quality of Life

- a. **Homelessness Task Force** – Homelessness is one of our biggest and most pressing challenges as a city. While we have started to address the issue by assigning a full-time position to oversee the city's response to homelessness and providing funding to programs like St. John's and Sacramento Steps Forward, we must increase our efforts on solving the problem. To tackle this subject, I created a task force with the Council and Sacramento Steps Forward to work collaboratively on finding solutions that serve our most in-need residents. The City Manager is directed to fund and implement the strategies identified by the task force to create a more efficient and consistent long-term approach to address homelessness and continue our funding commitment to Sacramento Steps Forward who is responsible for leading the regional efforts to prevent and end homelessness in Sacramento. Further, the City Manager is directed to implement the Attended Restroom Pilot Program in areas of the city where feasible. *(This is a \$1.0 million one-time expenditure that will likely require additional investments.)*

- b. **Parks Improvements and Maintenance** – In order to achieve our vision of creating a world class city which attracts new businesses, a talented workforce and families, Sacramento must improve its quality of life and enhance the many amenities it has to offer its residents. While we have an abundance of parks, lush greenery, aquatic facilities, rivers and recreational opportunities, we are falling behind on general maintenance and upkeep. It is critical that we strengthen and maintain a robust and attractive park system to increase the quality of life in Sacramento. Additionally, city staff should explore ways to increase youth activities, programs and team sports within priority neighborhoods. The City Manager is directed to identify funding opportunities for improvements to aquatic facilities, park restrooms, youth activities and community centers. Further, the City Manager is directed to work with each Council district to prioritize requests and identify funding sources with a multi-year approach. *(This is a one-time expenditure.)*
- c. **Bike Trail Funding: 2 Rivers and Sacramento River Parkway Bike Trail** – The completion of these two bike trails will provide both better access to the downtown core and enhance amenities available to city residents. Additionally, the completion of these trails along our rivers will result in creating construction related jobs and a reduction in emissions through increased foot and bike traffic. As these two trails move forward and walking and cycling opportunities increase, it may be necessary to review our traffic enforcement policies to resolve growing conflicts between vehicles, cyclists, and pedestrians, identify low-cost street repairs to improve bike connectivity, and increase signage for designated bike routes and key destinations. The City Manager is directed to ensure adequate funding is provided to move forward with the 2 Rivers and Sacramento River Parkway Bike Trail. *(\$200,000 was provided to the Sacramento River Bikeway Trail at Midyear; future costs will be one-time expenditures.)*
- d. **Infrastructure Improvements** – On our path to creating a world class city, we have been working aggressively on achieving our goals. However, we must not forget to address our existing aging infrastructure and deferred maintenance. From dilapidated buildings to roads, and streetscapes, it is critical that we make the necessary improvements to citywide facilities on a regular basis so that we avoid large costs down the road. The City Manager is directed to assess and analyze the city's current infrastructure needs, as well as work with each Council district to prioritize requests and identify funding sources with a multi-year approach. *(This is a one-time expenditure.)*

- e. **Code Enforcement** – The city’s code enforcement division promotes and maintains a safe and desirable living and working environment for Sacramento’s residents and business owners. Code enforcement staff works with its citizens to handle issues such as illegal dumping, graffiti, and zoning violations while also providing inspection services. To ensure our residents have an environment they are proud of, we need additional code enforcement officers to mitigate recurring issues throughout the city with an emphasis on our priority neighborhoods. The City Manager is directed to fund two additional code enforcement FTEs. *(Estimated at \$200,000, this is an ongoing expenditure that must be matched to a sustainable long-term funding stream.)*
  
- f. **Digital Billboard Revenues** – Throughout the city, there are four digital billboards that generate approximately \$180,000 each in revenue annually. Since 2011, the revenue from the billboards has gone solely to the General Fund in an effort to help maintain a balanced budget. However, as each neighborhood has unique needs, districts with billboards need the flexibility to offset the impacts these billboards have on those communities. The City Manager is directed to implement a digital billboard policy that returns revenues to the impacted districts. *(This can be completed with a redirection of existing resources.)*

**V. Conclusion**

I am proud of the progress we’ve made as a city while I have been in office. I have seen us successfully navigate through a reeling economy, been a part of making the hard decisions to cut programs and eliminate services, and have stood with you all as we prioritized building a reserve rather than spending available resources. While those years were lean and difficult, they have made us stronger. The lessons have provided us, as a city, with a solid foundation.

We have changed our entire budget process in order to receive community input on the front end of our budget cycle. This valuable feedback results in a budget that better reflects the priorities of our residents. The new process moves us from a reactive city to one that proactively plans, implements sound policy and fiscal controls, and increases the quality of life for our residents.

I believe we are on a path to greatness in Sacramento. I am confident that through the changes we have made we have overcome past financial mistakes and positioned ourselves to invest in Sacramento’s future. I ask that we continue this progress by working together for our

constituents, by balancing needs and addressing liabilities, and by seizing opportunities that enhance our strong financial position.

I am confident we can accomplish our goals together and I look forward to our collaboration on this process. Thank you for your time and consideration.

**Appendix A: Mayor & Council’s Budget Guidelines**

<b>MAYOR &amp; COUNCIL’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 5-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