SUPPLEMENTAL MATERIAL

For the Meeting of: May 14, 2019

Item Number: Discussion Item 47

Description of Change: The attached report was not available at the time of publishing.

47. FY2019/20 Proposed Budget Overview and Funding Options for Inclusive Economic Development [To Be Delivered]
File ID: 2019-00514
Location: Citywide
Recommendation: Receive and consider for final budget adoption.
Contact: Howard Chan, City Manager, (916) 808-7488, Office of the City Manager; Dawn Holm, Director, (916) 808-5574, Daniel Choe, Interim Budget Manager, (916) 808-5049, Department of Finance
Title: FY2019/20 Proposed Budget Overview and Funding Options for Inclusive Economic Development [To Be Delivered]

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Presenter: Dawn Holm, Director, (916) 808-5574, Department of Finance; John Colville, City Treasurer, (916) 808-8297; and Susana Alcala Wood, City Attorney, (916) 808-5346

Attachments:
1-Description/Analysis
2-Attachment 1_Budget and Audit Proposed Budget Overview Report
3-Attachment 2_General Fund 5-Year Forecast
4-Attachment 3_Measure U 5-Year Forecast
5-Attachment 4_Innovation and Growth 5-Year Forecast
6-Attachment 5_Goldman Sachs Revenue Bond Estimates
Description/Analysis

Issue Detail: The City Charter, Article IX Section 111, requires the City Manager to deliver budget recommendations to the City Council no later than 60 days prior to the start of the new fiscal year. This report transmits the FY2019/20 Proposed Operating Budget (Budget) and the 2019-2024 Capital Improvement Program (CIP), which includes the FY2019/20 CIP budget. These documents are available at http://www.cityofsacramento.org/finance/budget. The Budget was presented to the Budget and Audit (B&A) Committee on April 30, 2019 (Attachment 1). As proposed, the Budget serves as a framework for the City’s efforts to successfully bolster and expand the delivery of vital core services while also focusing on Council’s commitment to inclusive economic development and increased youth programming.

On April 30, the B&A Committee directed staff to prepare separate forecasts for the General and Measure U Funds. Those forecasts, provided as Attachments 2 and 3, also identify the City Manager’s recommended investments in key Council priorities:

- Inclusive Economic Development
- Investment in Youth
- Public Safety
- Essential Core Services
- Homeless Services

It is important to note that the Measure U forecast has been updated to reflect the growth of the original Council approved Measure U restorations as well as the additional positions approved as part of the FY2018/19 Midyear Budget Report (February 5, 2019). In prior forecasts, growth above revenues was transferred to the General Fund in order to maintain budget sustainability (expenditures below revenues) over the term of the forecast. In prior years 50.5 FTE were transferred from Measure U into the General Fund resulting in increased costs of approximately $4.9 million annually in the General Fund. In addition, the General Fund has absorbed $5.1 million in labor growth for Measure U Police and Fire grant funded FTE (SAFER and COPS). As such, General Fund costs are overstated by $10 million and conversely Measure U costs are understated by a like amount.

The B&A Committee also requested that the City Manager consider alternative means to provide funding for an Inclusive Economic Development Program. In addition to the $51.9 million in one-time resources identified in the Budget, the following resources could be directed to this initiative:

- Innovation and Growth Fund – available one-time resources ($28.3 million) as reflected in the five-year forecast (Attachment 4) and new revenues net of budgeted expenditures; and
Year-end Resources – budgetary resources not needed to close the year including the redirection of annual labor savings previously directed to the City’s OPEB Trust.

The use of the resources outlined above provides flexibility for the City to ensure sustainability in the event of an economic slow-down. This does not include any resources gained as a result of the work underway by Management Partners to identity and implement citywide efficiencies.

However, should the Council choose to consider issuance of debt for one-time resources the City Treasurer has provided preliminary estimates of debt service and available proceeds for both taxable and tax-exempt debt. Information on the potential debt service obligations and associated proceeds is provided in $5 million increments up to $25 million in Attachment 5. The City Treasurer estimates that it will take 4-6 months to complete the appraisals on City assets necessary to support the financing at a cost of approximately $200,000-$250,000. After the appraisal process has been completed it is anticipated that completion of the financing will take an additional 4-6 months.

**Policy Considerations:** Consistent with the Measure U ballot language as reflected in Chapter 3.27 of the City Code, the transactions and use tax revenue from Measure U are reflected in the City’s General Fund. The following table depicts the five-year forecast for the General/Measure U (G/MU) Funds.

<table>
<thead>
<tr>
<th>5-Year Forecast General (G) and Measure U (MU) Funds</th>
<th>FY2018/19</th>
<th>FY2019/20</th>
<th>FY2020/21</th>
<th>FY2021/22</th>
<th>FY2022/23</th>
<th>FY2023/24</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amended</td>
<td>Proposed</td>
<td>Projection</td>
<td>Projection</td>
<td>Projection</td>
<td>Projection</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>551,748</td>
<td>608,962</td>
<td>621,110</td>
<td>631,915</td>
<td>643,016</td>
<td>654,415</td>
</tr>
<tr>
<td>Other Sources¹</td>
<td>59,456</td>
<td>7,399</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Revenues/Resources</td>
<td>611,204</td>
<td>616,361</td>
<td>621,110</td>
<td>631,915</td>
<td>643,016</td>
<td>654,415</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department Operating</td>
<td>525,372</td>
<td>544,427</td>
<td>565,380</td>
<td>586,137</td>
<td>606,240</td>
<td>619,150</td>
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<td>Capital Projects, MYOPs and Debt</td>
<td>43,604</td>
<td>44,048</td>
<td>32,317</td>
<td>30,030</td>
<td>30,732</td>
<td>30,376</td>
</tr>
<tr>
<td>Other Uses¹</td>
<td>32,889</td>
<td>1,595</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Expenditures/Uses</td>
<td>601,865</td>
<td>590,070</td>
<td>597,697</td>
<td>616,167</td>
<td>636,973</td>
<td>649,526</td>
</tr>
<tr>
<td>Contribution to EUR (0.5% of Expenses)</td>
<td>-</td>
<td>2,950</td>
<td>2,988</td>
<td>3,081</td>
<td>3,185</td>
<td>3,248</td>
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<tr>
<td>One-Time Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) FY2018/19 Year-End Fund Balance</td>
<td>-</td>
<td>10,763</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2) Reserve for Pension Growth</td>
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<td>13,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3) Reserve for Approved Labor Agreements</td>
<td>-</td>
<td>4,256</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal One-time Resources</td>
<td>-</td>
<td>28,519</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Resources Available</td>
<td>-</td>
<td>51,859</td>
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<td>12,667</td>
<td>2,859</td>
<td>1,641</td>
</tr>
</tbody>
</table>

¹ Other Sources/Uses include Midyear Actions and use of committed fund balance
The Budget is balanced and reflects the Council’s adopted Budget Policies and Guidelines, with a focus on long-term sustainability. The Budget includes continued resources for Council priorities related to inclusive economic development, youth, public safety, homelessness and essential core services.

**Economic Impacts:** Not applicable.

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):** This report concerns administrative activities that will not have a significant effect on the environment and that do not constitute a “project” as defined by the California Environmental Quality Act (“CEQA”) Guidelines Sections 15061(b)(3) and 15378(b)(2) and are not subject to the provisions of CEQA (CEQA Guidelines15060(c)(2)(3)). CEQA review for any project, which utilizes funds allocated under the FY2019/20 CIP budget, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.

**Sustainability:** None.

**Commission/Committee Action:**

**Budget and Audit Committee:** The Proposed Operating Budget was presented to the Budget and Audit Committee on April 30, 2019. The Committee directed City staff to present the General Fund and the Measure U Fund forecasts separately. This request has been incorporated into this report for City Council consideration.

**Planning and Design Commission:** Sacramento City Code Section 17.912.010 requires the Planning and Design Commission to review the City’s five-year CIP for consistency with the City’s General Plan and to report its findings to the City Council. The 2019-2024 CIP will be presented to the Planning and Design Commission on May 9, 2019.

**Rationale for Recommendation:** The strategies identified above provide the City Council with additional resources to invest in equitable economic development projects and programs, and at the same time ensures the flexibility necessary for the City to be responsive to changing economic conditions.

**Financial Considerations:** To encumber Measure U revenues, requiring $750 million in debt service over thirty years for one-time resources, would severely limit the City’s ability to respond to changing economic conditions. The costs associated with long-term debt are
excessively restrictive when we have the opportunity to address this goal through one-time and ongoing investments.

With prudent management of expenditures and robust revenue growth in key revenue sources, the Budget as presented is balanced. The initiatives included in the Budget are focused on the strategic use of one-time resources reflecting the Council identified priorities outlined above.

**Local Business Enterprise (LBE):** Not applicable.
Title: FY2019/20 Proposed Budget Overview

Location: Citywide

Recommendation: Pass a Motion forwarding to City Council for consideration: 1) the FY2019/20 Proposed Budget, 2) the proposed General/Measure U Fund Economic Uncertainty Reserve Policy; and 3) rescinding the Measure U Financial Management Policy.

Contact: Howard Chan, City Manager, (916) 808-7488, Office of the City Manager; Dawn Holm, Finance Director, (916) 808-5574, Daniel Choe, Interim Budget Manager, (916) 808-5049, Department of Finance

Presenter: Howard Chan, City Manager, (916) 808-7488, Office of the City Manager; Dawn Holm, Finance Director, (916) 808-5574, Department of Finance

Attachments:
1-Description/Analysis
2-General/Measure U Fund Economic Uncertainty Reserve Policy-redlined
3-General/Measure U Fund Economic Uncertainty Reserve Policy
4-Measure U Financial Management Policy
5-FY2019/20 Proposed Budget
6-2019-2024 Proposed Capital Improvement Program
Description/Analysis

**Issue Detail:** The City Charter, Article IX Section II, requires the City Manager to deliver budget recommendations no later than 60 days prior to the start of the new fiscal year. This report transmits the FY2019/20 Proposed Operating Budget (Budget) and the 2019-2024 Capital Improvement Program (CIP), which includes the FY2019/20 CIP budget (Attachments 2 and 3). These documents were delivered to the City Council on April 24, 2019 and are available at <http://www.cityofsacramento.org/finance/budget>.

**Budget Overview**
The total budget proposed for FY2019/20 is $1.2 billion from all funding sources and supports 4,773.24 full-time equivalent (FTE) positions. This includes $588.8 million for General and Measure U (G/MU) Fund operations and capital projects, and $563.2 million for operations and capital projects in the City’s Enterprise Funds and other fund activities. Additional detail on G/MU programming is included in the department sections of the Budget and is summarized below.

**General Fund/Measure U Program and Service Improvements**
The Budget includes the addition of approximately $23.5 million in expenditures and 148.2 FTE positions. The programs/services proposed for funding reflect Council direction on inclusive economic development, youth, public safety, homelessness and core services. The following chart provides an overview of the G/MU initiatives included in the Budget. Detailed information can be found in department sections of the Budget.

<table>
<thead>
<tr>
<th>Department</th>
<th>Request</th>
<th>FTE Change</th>
<th>Net Budget Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Manager</td>
<td>Funding for key programs that focus on inclusive economic development and youth development and violence prevention.</td>
<td>12.00</td>
<td>3,895,020</td>
</tr>
<tr>
<td>Community Development</td>
<td>Funding for inspection services, an electronic application process and Neighborhood Community Economic Development planning.</td>
<td>9.00</td>
<td>1,838,131</td>
</tr>
<tr>
<td>Fire</td>
<td>Restore the 4th Battalion, establish a Bike Medic program, and provide positions (FTE) for the recruit academy, Medic 15 and administrative functions.</td>
<td>30.50</td>
<td>2,656,196</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Funding for recruitment and hiring in all departments, labor negotiations and to conduct a comprehensive citywide classification study that will focus on removing barriers in diversifying our workforce.</td>
<td>4.00</td>
<td>3,608,287</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Funding and staffing to address increasing IT infrastructure costs, maintain the student internship program, and offset reduced reimbursements from the START Fund and Body Worn Cameras Grant.</td>
<td>4.00</td>
<td>1,290,683</td>
</tr>
<tr>
<td>Police</td>
<td>Funding to expand the hiring pipeline by adding community services officers, expand the use of the ShotSpotter gunfire detection system, support the Community Against Sexual Harm (CASH) program, support increasing IT needs and to accept the 2017 COPS Hiring Program grant which will provide funding for 15 new Police Officers.</td>
<td>37.00</td>
<td>5,840,906</td>
</tr>
</tbody>
</table>
Summary of Enterprise and Other Funds
The Budget for Other Funds reflects anticipated revenues and expenditures necessary to expand economic development, sustain operational needs, replace aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the funds. The following chart summarizes the initiatives included in the Budget for these funds.

<table>
<thead>
<tr>
<th>Department</th>
<th>Request (continued)</th>
<th>FTE Change</th>
<th>Net Budget Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works</td>
<td>Funding for the sustainability program, increased maintenance and repair services for City libraries and for homeless mitigation/illegal dumping activities.</td>
<td>-</td>
<td>882,000</td>
</tr>
<tr>
<td>Youth, Parks, and Community Enrichment</td>
<td>Funding to expand youth recreation programs and maintenance of our parks, offset the loss of funding for the 4th R Program due to the inability to meet mandatory state teaching requirements, and to fund a contract for the continued operation of the William Land Park Golf course.</td>
<td>51.70</td>
<td>3,408,648</td>
</tr>
<tr>
<td>Citywide and Community Support</td>
<td>Funding for the City's agreement with the Downtown Sacramento Partnership for ongoing programming and activity along the waterfront.</td>
<td>-</td>
<td>55,000</td>
</tr>
</tbody>
</table>

**Total General/Measure U Funds** 148.20 $23,474,871

**General/Measure U Funds Summary**
Key economically sensitive revenue sources (i.e., sales tax, Measure U transactions and use tax, property tax, and transient occupancy tax) continue to grow, which has allowed the City to build reserves, increase staffing levels, and restore services over the last several years. G/MU revenues are estimated at $609 million in FY2019/20. This positive revenue growth is attributed to the overall growth of property and sales taxes and the renewal and expansion of
the Measure U transactions and use tax from a half-cent to a one-cent in November 2018, effective April 1, 2019.

The following table depicts the current G/MU five-year forecast.

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<td>1,641</td>
</tr>
</tbody>
</table>

1 Other Sources/Uses include Midyear Actions and use of committed fund balance

The FY2019/20 Budget is balanced and provides $23.3 million in one-time resources. In addition to these resources the following one-time resources are available to address one-time needs:

- $10.8 million remaining FY2018/19 year-end fund balance;
- $13.5 million commitment to cover growing pension costs; and
- $4.3 million commitment for approved labor agreements.

Combining the annual one-time resources with prior funds set-aside as described above, total available to address one-time needs is approximately $51.9 million.

On February 5, 2019, the Council directed the City Manager to amend the Economic Uncertainty Reserve (EUR) Policy to include Measure U resources in determining the amount to be set aside in reserves and to develop a strategy to add to the EUR to meet the higher target. In an effort to achieve Council’s direction the forecast includes a recommendation to establish fund balance at 0.5% of budgeted expenditures or $2.95 million in FY2019/20 which will be transferred to the EUR if not needed during the budget year. Based on the forecast
above, this strategy would put the EUR at just above 10%, the currently adopted minimum for the reserve, at the end of FY2023/24.

While we will operate with a structurally balanced budget this fiscal year, this five-year outlook continues to show that the City is facing increasing pressures going forward that must be addressed in future years. These challenges include the following:

- CalPERS pension costs will increase by $39 million, a 42% increase over the next five years;
- Workers’ compensation insurance and self-insurance premiums costs in FY2019/20 increased by $1.7 million and $3.3 million respectively;
- Rising OPEB costs as more employees transition into retirement; and
- Funding for the City’s libraries in FY2019/20 increased by $750,000 and $5.2 million over the term of the forecast to maintain existing services.

It is important to note that the City is currently negotiating with three recognized employee organizations (REOs) and will be negotiating with seven others REOs in the upcoming months. The forecast does not include future labor growth related to these negotiations. Additional information on these issues is provided in the Overview and Forecast sections of the Budget.

In January 2019, the City Council approved a contract between the Office of the City Auditor and Management Partners to conduct a Citywide Innovation and Efficiency Assessment. The purpose of the assessment is to review Citywide operations to identify improvements in efficiency, economy, and customer service levels. The contract also includes a long-term financial forecast and best practices research and survey. As of April 2019, Management Partners has conducted meetings with department directors and staff. Meetings with the Mayor and City Council are scheduled to occur in May. A final report is expected to be released in the summer of 2019. The results of this work will be used to inform future budget discussions.

Capital Improvement Program Overview

The 2019-2024 Proposed CIP totals $284.9 million. The G/MU Fund portion of the CIP is $45.8 million. The FY2019/20 CIP budget totals $77.3 million, including $16.5 million in G/MU Funds, providing resources for 110 programs and projects. The CIP will be presented to the City Council on May 21, 2019.

Economic Uncertainty Reserve Policy Update

As discussed above, an amended EUR policy is attached for consideration. The revised policy changes the recommended reserve levels for the General Fund to the combined value of the General and Measure U revenues:
A minimum reserve level of 10% of budgeted General/Measure U revenues; and

A goal of achieving and maintaining the value of two months of regular ongoing General/Measure U expenditures (approximately 17%) in the reserve.

The revised redlined and cleaned G/MU Fund EUR Policy are included as Attachments 4 and 5. Additionally, staff is recommending that the outdated Measure U Financial Management Policy be rescinded.

Budget Hearings
The Council will consider the Budget during regularly scheduled meetings in May and June, with final budget adoption scheduled for June 11, 2019. The tentative hearing schedule is reflected below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Day</th>
<th>Time</th>
<th>Legislative Body</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/30/19</td>
<td>Tuesday</td>
<td>2:00 PM</td>
<td>Budget and Audit Committee</td>
<td>FY2019/20 Proposed Budget Overview and Fees &amp; Charges Report</td>
</tr>
<tr>
<td>05/14/19</td>
<td>Tuesday</td>
<td>5:00 PM</td>
<td>City Council</td>
<td>(1) FY2019/20 Proposed Budget Overview and (2) Consolidated Department Budgets</td>
</tr>
<tr>
<td>05/21/19</td>
<td>Tuesday</td>
<td>2:00 PM</td>
<td>City Council</td>
<td>(1) 2019-2024 Capital Improvement Program, (2) Citywide Fees and Charges, and (3) YPCE Department budget update</td>
</tr>
<tr>
<td>05/21/19</td>
<td>Tuesday</td>
<td>5:00 PM</td>
<td>City Council</td>
<td>(1) Fire Department budget update, (2) Police Department budget update</td>
</tr>
<tr>
<td>06/04/19</td>
<td>Tuesday</td>
<td>2:00 PM</td>
<td>Budget and Audit Committee</td>
<td>Adoption of the FY2019/20 Budget</td>
</tr>
<tr>
<td>06/11/19</td>
<td>Tuesday</td>
<td>5:00 PM</td>
<td>City Council</td>
<td>Adoption of the FY2019/20 Budget</td>
</tr>
</tbody>
</table>

Policy Considerations: The Budget is balanced and reflects the Council’s adopted Budget Policies and Guidelines, with a focus on long-term sustainability. The Budget includes continued resources for Council priorities related to inclusive economic development, youth, public safety, homelessness and essential core services. However, even with the benefits these investments provide, the City, as a matter of policy, must remain focused on efforts to right-size the organization to achieve budget sustainability (ongoing expenditures below ongoing revenues) over the long-term.

Economic Impacts: Not applicable.
Environmental Considerations:

**California Environmental Quality Act (CEQA):** This report concerns administrative activities that will not have a significant effect on the environment and that do not constitute a “project” as defined by the California Environmental Quality Act (CEQA) Guidelines Sections 15061(b)(3); 15378(b)(2) and are not subject to the provisions of CEQA (CEQA Guidelines15060(c)(2)(3)). CEQA review for any project, which utilizes funds allocated under the FY2019/20 CIP budget, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.

**Sustainability:** None.

Commission/Committee Action:

**Planning and Design Commission:** Sacramento City Code Section 17.912.010 requires the Planning and Design Commission to review the City’s five-year CIP for consistency with the City’s General Plan and to report its findings to the City Council. The 2019-2024 CIP will be presented to the Planning and Design Commission on May 9, 2019, and the Commission’s determination will be provided to Council during the budget hearings.

**Rationale for Recommendation:** With prudent management of expenditures and robust revenue growth in key revenue sources, this budget is balanced. The G/MU Fund initiatives included in the Budget are focused on the strategic use of one-time resources to address critical capital needs and one-time equipment purchases as well as the addition of resources reflecting Council identified priorities outlined above. Initiatives included in this Budget funded by the Enterprise Funds and Other Funds address increased regulatory requirements, preventative maintenance, and operational efficiencies.

Financial Considerations:

**General Fund/Measure U Five-Year Forecast:** The forecast provides a multi-year view of revenues and expenditures, allowing an assessment of the fiscal consequences of both prior and current funding decisions in the context of forecasted revenues and expenditures. G/MU revenues are projected to exceed expenditures in FY2019/20; however, increasing labor and pension costs will challenge G/MU budget sustainability over the long-term. As reflected below employee services make up 53% of the $588.5 million total G/MU expenditure budget *(80% of the gross expenditure budget for City departments).*
Enterprise and Other Funds: The City’s Enterprise and other funds are balanced. Five-year forecasts for each of the Enterprise Funds are available in the Forecast section of the Budget.

Local Business Enterprise (LBE): Not applicable.
General/Measure U (G/MU) Fund Economic Uncertainty Reserve (EUR) Policy

Scope: CITYWIDE

Policy Contact
Leyne Milstein - Finance Director
Department of Finance
(916) 808-58453
Finance@cityofsacramento.org LMilstein@cityofsacramento.org

Table of Contents
1. Purpose
2. Background
3. Policy
   3.1 Minimum and Target Reserve Levels
   3.2 Methods to Achieve Funding Levels
   3.3 Criteria for Expenditure of Reserve Funds
   3.4 Timeline for Replenishment of the EUR

Regulatory References
April 26, 2016 Council Motion 2016-0122

Effective Date: July 1, 2019 April 26, 2016
General/Measure U (G/MU) Fund Economic Uncertainty Reserve (EUR) Policy

1. PURPOSE

To establish the targeted level of G/MU General Fund operating reserves, a basic component of a financially strong city. Adequate reserves help sustain City operations when adverse or unexpected circumstances affect the City, providing resources to minimize service disruption in the event of temporary revenue shortfalls or unpredicted one-time expenditures. This policy establishes the amounts the City will strive to maintain in its Economic Uncertainty Reserve (EUR) and the conditions under which the reserve may be used.

2. BACKGROUND

Financial reserves strengthen the City’s financial status and provide valuable resources for unexpected events. Every fund of the City represents a stand-alone financial set of accounts and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed should be based on the financial and operating characteristics of each fund. In June 2011, the City Council adopted a goal of establishing a General Fund EUR equivalent to 10% of annual General Fund revenues.

According to the Government Finance Officers Association (GFOA), it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) in order to protect taxpayers and employees from unexpected changes in financial conditions.

GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their General Fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures (http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund).

This policy establishes 10% of annual G/MU General Fund budgeted revenues as the minimum level of funding in the City’s General Fund EUR and establishes two months of operating expenditures revenues as a target reserve level. The policy also outlines the methods the City will utilize to achieve the target reserve level, defines the conditions under which these funds can be used and describes how the City’s expenditure and/or revenue levels will be adjusted to match any new economic realities that are causing the use of fund balance reserves as a financing bridge.
3. POLICY

3.1 Minimum and Target Reserve Levels

The City will maintain an EUR at a minimum of 10% of budgeted G/MU General Fund revenues. The City will seek to achieve and maintain a G/MU General Fund EUR equal to two months of regular ongoing G/MU General Fund expenditures, including transfers (i.e. 17% of G/MU General Fund expenditures).

The EUR shall be reported as a commitment of fund balance in the G/MU General Fund for external financial reporting. Appropriations from the EUR may only be made by a vote of the City Council to meet a critical, unpredictable financial need.

3.2 Methods to Achieve Funding Levels

The annual budget will include a minimum fund balance of 0.50% of total budgeted expenditures. If these resources are not required during the fiscal year this amount shall be transferred to the EUR. Additionally, unbudgeted one-time G/MU Fund revenues received in a fiscal year, which are not required to balance the budget as part of the midyear review or fiscal year-end close, shall be added to the EUR until the target reserve level is met.

Funding of the EUR will generally come from excess revenues over expenditures or one-time revenues.

At a minimum, during the budget process, staff shall review the current and five-year projected reserves to ensure that they are appropriate given the economic and financial risk factors the City faces.

3.3 Criteria for Expenditure of Reserve Funds

The EUR is intended to contend with significant short-term issues, inclusive of unexpected revenue shortfalls, higher than anticipated expenditures, or declared emergencies.

It is the intent of the Council to limit use of the EUR to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures. The EUR may, however, be used strategically to allow time for the City to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in the context of a Council-adopted long-term plan.

3.4 Timeline for Replenishment of the EUR

If the EUR is drawn down below the minimum level, a plan will be developed and implemented to replenish the reserve, generally from future surpluses.
Replenishing the EUR will be a priority use of one-time resources. Generally, The City should seek to replenish the EUR to the minimum reserve level within one to three years.
General/Measure U (G/MU) Fund Economic Uncertainty Reserve (EUR) Policy

Scope: CITYWIDE

Policy Contact
Finance Director
Department of Finance
(916) 808-5845
Finance@cityofsacramento.org

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2. Background
3. Policy
   3.1 Minimum and Target Reserve Levels
   3.2 Methods to Achieve Funding Levels
   3.3 Criteria for Expenditure of Reserve Funds
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2. BACKGROUND

Financial reserves strengthen the City’s financial status and provide valuable resources for unexpected events. Every fund of the City represents a stand-alone financial set of accounts and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed should be based on the financial and operating characteristics of each fund. In June 2011, the City Council adopted a goal of establishing a General Fund EUR equivalent to 10% of annual General Fund revenues.

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This policy establishes 10% of annual G/MU Fund budgeted revenues as the minimum level of funding in the City’s EUR and establishes two months of operating expenditures as a target reserve level. The policy also outlines the methods the City will utilize to achieve the target reserve level, defines the conditions under which these funds can be used and describes how the City’s expenditure and/or revenue levels will be adjusted to match any new economic realities that are causing the use of fund balance reserves as a financing bridge.
3. **POLICY**

3.1 Minimum and Target Reserve Levels

The City will maintain an EUR at a minimum of 10% of budgeted G/MU Fund revenues. The City will seek to achieve and maintain a G/MU Fund EUR equal to two months of regular ongoing G/MU Fund expenditures, including transfers (i.e. 17% of G/MU Fund expenditures).

The EUR shall be reported as a commitment of fund balance in the G/MU FUND for external financial reporting. Appropriations from the EUR may only be made by a vote of the City Council to meet a critical, unpredictable financial need.

3.2 Methods to Achieve Funding Levels

The annual budget will include a minimum fund balance of 0.50% of total budgeted expenditures. If these resources are not required during the fiscal year this amount shall be transferred to the EUR. Additionally, unbudgeted one-time G/MU Fund revenues received in a fiscal year, which are not required to balance the budget as part of the midyear review or fiscal year-end close, shall be added to the EUR until the target reserve level is met.

During the budget process, staff shall review the current and five-year projected reserves to ensure that they are appropriate given the economic and financial risk factors the City faces.

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Measure U Financial Management

Scope: CITYWIDE

Policy Contact
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Dawn Holm
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dholm@cityofsacramento.org

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Purpose
Background
Policy

Regulatory References
November 2012 Ballot Measure U
1. PURPOSE

The City’s Measure U Financial Management Policy documents the methods the City will use to demonstrate prudent financial management over Measure U tax revenue. The policy:

- Establishes a Measure U Reserve to address unanticipated revenue reductions and the transition that will occur upon the expiration of the tax;
  - Commits to allocating the additional Measure U resources, above the amount needed to fund the Measure U Reserve and to accommodate growth of already-funded Measure U programs, to one-time expenditures;
  - Prohibits using Measure U resources to increase General Fund non-Measure U employee compensation or to balance the General Fund budget;
- Requires performance audits by the City’s external independent auditor in addition to the City’s annual financial and compliance audits; and
- Requires development of a transition plan to address the expiration of the Measure U tax and the reduction or phase out of services funded by Measure U.

2. BACKGROUND

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of a six-year, one-half cent transaction and use tax effective April 1, 2013, which expires on March 31, 2019. The objectives of Measure U are “to restore and protect essential safety services, including 9-1-1 response, police officers, gang/youth violence prevention, fire protection/emergency medical response, and other essential services including park maintenance, youth/senior services, and libraries…”

3. POLICY

3.1 Measure U Reserve

The City shall maintain a Measure U Reserve dedicated to mitigating the effects of unanticipated revenue reductions and the transition away from Measure U revenue upon the expiration of the tax on March 31, 2019. The Measure U Reserve shall be funded equal to the estimated Measure U program/service costs in FY2020/21 to provide time and adequate funding to phase out the use of Measure U funds.
3.2 Use of Measure U Resources

- Measure U revenue, above the amount needed to fund the Measure U Reserve and to accommodate growth of Council-authorized Measure U programs, will be allocated to one-time expenditures focused on investment in City infrastructure used to deliver Measure U programs/services.

- Measure U revenue shall not be allocated to fund new or expanded programs with ongoing costs after June 30, 2015, as the expiration of the tax measure in 2019 may require those new programs to be reduced or eliminated.

3.3 Prohibited Uses

Measure U resources shall not be used to increase General Fund non-Measure U employee compensation or to balance the General Fund budget, except where funds would provide for the protection of programs/services specifically included in the Measure U ballot language.

3.4 Transparency and Reporting

Measure U revenue and expenditures should be transparent to the City Council, the Measure U Citizens Oversight Committee, and Sacramento residents. In order to achieve this transparency, Measure U resources will be accounted for and reported separately in order to facilitate review by the Council and the Oversight Committee. In addition, the following information shall be available:

- The City’s annual financial and compliance audit will include revenues and expenditures for the Measure U Fund.

- As requested by the Citizens Oversight Committee, the City shall engage its external independent auditors to conduct annual performance audits of Measure U spending by budget allocation.

3.5 Transition Plan

The City Manager will prepare a transition plan as part of the FY2018/19 Proposed Budget to address the expiration of the Measure U tax and the phase out of services funded by Measure U. The transition plan should reduce the reliance on Measure U resources over time by utilizing the Measure U Reserve and converting support for essential programs and services to any alternative sources of funding identified.
### General Fund 5-Year Forecast ($ in 000s)

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<tbody>
<tr>
<td><strong>Revenues</strong></td>
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<tr>
<td>General Fund Taxes</td>
<td>340,004</td>
<td>358,703</td>
<td>367,951</td>
<td>375,789</td>
<td>383,859</td>
<td>392,158</td>
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<td>Department Operating and Miscellaneous</td>
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<td>152,183</td>
<td>152,750</td>
<td>153,325</td>
<td>153,909</td>
<td>154,502</td>
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<td>Other Sources</td>
<td>24,948</td>
<td>5,250</td>
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<td><strong>Total Revenues</strong></td>
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<td>516,136</td>
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<td>529,114</td>
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<td><strong>Expenditures</strong></td>
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<td>Department Operating, Debt and MYOPs</td>
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<td>Other Uses</td>
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<td><strong>Total Expenditures</strong></td>
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<td>504,815</td>
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<td>539,575</td>
<td>559,086</td>
<td>570,320</td>
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<td><strong>Annual Surplus</strong></td>
<td>8,893</td>
<td>11,321</td>
<td>(1,674)</td>
<td>(10,461)</td>
<td>(21,318)</td>
<td>(23,661)</td>
<td>(570,320)</td>
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<td><strong>Contribution to EUR</strong></td>
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<td>2,573</td>
<td>2,656</td>
<td>2,754</td>
<td>2,809</td>
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<td><strong>Estimated Base Budget Surplus/(Deficit)</strong></td>
<td>8,893</td>
<td>8,861</td>
<td>(4,247)</td>
<td>(13,117)</td>
<td>(24,072)</td>
<td>(26,470)</td>
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#### FY2019/20 Proposed Budget Initiatives

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<tr>
<th>Initiative Type</th>
<th>Initiative Details</th>
<th>FY2019/20 Proposed Budget</th>
<th>FY2020/21</th>
<th>FY2021/22</th>
<th>FY2022/23</th>
<th>FY2023/24</th>
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<tr>
<td>Economic Development</td>
<td>Creative Edge</td>
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<td>Public Safety</td>
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<td>6.00</td>
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<td>Essential Core Services</td>
<td>Recruitment and Hiring</td>
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<td>616</td>
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<td></td>
<td>William Land GC</td>
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<td>-</td>
<td>250</td>
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<td>Security and IT Infrastructure</td>
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<td>Homeless Services</td>
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<td>550</td>
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<td>Mitigation/Illegal Dumping</td>
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<td><strong>Subtotal</strong></td>
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<td>6,576</td>
<td>2,685</td>
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<td><strong>Surplus/Deficit</strong></td>
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<td>2,285</td>
<td>(6,931)</td>
<td>(15,811)</td>
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<td>One-time Resources</td>
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<tr>
<td></td>
<td>1) Year-end Resources</td>
<td>-</td>
<td>-</td>
<td>8,893</td>
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<td>2) Reserve for Pension Growth</td>
<td>-</td>
<td>-</td>
<td>13,500</td>
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<td>3) Reserve for Approved Labor Agreements</td>
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<td>4,256</td>
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<td><strong>Subtotal One-time Resources</strong></td>
<td>-</td>
<td>-</td>
<td>26,649</td>
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</tbody>
</table>

1. FY2019/20 (Property Tax-5.5%, Sales Tax-5.1%); FY2020/21 (Property Tax-4%, Sales Tax-3.5%) and out years (Property Tax-3%, Sales Tax-3.2% average for all other years).
2. Other Sources include fund balance, adjustments from the FY2017/18 Comprehensive Annual Financial Report and $5.25 million from Intergovernmental Transfer (IGT) reimbursements.
3. Funding for future negotiated labor increases is not included.
4. This reflects projected fund balance for the fiscal year, if not used this funding will be transferred to the Economic Uncertainty Reserve (EUR) at year-end.
5. The preliminary recommendations reflect City Manager proposed initiatives included in the budget as released on April 24, 2019, see Proposed Budget for details.
6. These are commitments of fund balance from prior years and will require City Council action to redirect these resources.
The preliminary recommendations reflect City Manager proposed initiatives included in the budget as released on April 24, 2019, see Proposed Budget for details.

This reflects projected fund balance for the fiscal year, if not used this funding will be transferred to the Economic Uncertainty Reserve (EUR) at year-end.

Funding is not included for future labor increases and $10 million in expenditures from the original Measure U Restorations has been transferred to the General Fund.

Other Sources include beginning fund balance and adjustments from the FY2017/18 Comprehensive Annual Financial Report.

Measure U Transactions and Use Tax is projected at 2% annually.

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### Measure U Fund 5-Year Forecast

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<tr>
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<tbody>
<tr>
<td><strong>Revenues</strong></td>
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<td>Transactions and Use Tax¹</td>
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<td>97,264</td>
<td>99,598</td>
<td>101,989</td>
<td>104,436</td>
<td>106,943</td>
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<td>Other Sources²</td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td>76,459</td>
<td>97,303</td>
<td>99,598</td>
<td>101,989</td>
<td>104,436</td>
<td>106,943</td>
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<tr>
<td><strong>Expenditures</strong></td>
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<tr>
<td>Department Operating, Debt and MYOPs³</td>
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<td>56,264</td>
<td>57,099</td>
<td>57,952</td>
<td>58,817</td>
<td>59,700</td>
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<tr>
<td>Capital Projects</td>
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<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>74,628</td>
<td>56,264</td>
<td>57,099</td>
<td>57,952</td>
<td>58,817</td>
<td>59,700</td>
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<tr>
<td><strong>Annual Surplus</strong></td>
<td>1,831</td>
<td>41,039</td>
<td>42,499</td>
<td>44,037</td>
<td>45,619</td>
<td>47,243</td>
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<tr>
<td>Contribution to EUR⁴ (0.5% of Expenses)</td>
<td>281</td>
<td>285</td>
<td>290</td>
<td>294</td>
<td>298</td>
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<tr>
<td><strong>Estimated Base Budget Surplus</strong></td>
<td>1,831</td>
<td>40,758</td>
<td>42,214</td>
<td>43,748</td>
<td>45,325</td>
<td>46,945</td>
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**FY2019/20 Proposed Budget Initiatives**³

**Economic Development**
- Inclusive Economic Development: 12.00
- Neighborhood Planning Teams: 4.00
- Financial Empowerment, Waterfront & ED Initiatives: -
- Film Office Staff: 1.00

**Youth**
- Community Centers, Hot Spots/Prime Time Teen: 45.90
- Gang Prevention Program: -
- Youth Sports Programs: 5.00
- Youth Programming Strategic Plan: -
- IT Student Internship Program: -
- 4th R Subsidy: -

**Public Safety (Fire)**
- Restoration of 4th Battalion: 3.00
- Fire Recruit Academy: 15.50
- Civilian Staffing: 6.00

**Public Safety (Police)**
- ShotSpotter, PODs and PD IT/Equipment: -
- Police Hiring Pipeline: 22.00
- COPS Grant: 15.00
- Body Worn Camera Program: -
- Communities Against Sexual Harm (CASH): -

**Essential Core Services**
- City Sustainability Program: -
- City Library Maintenance: -
- 311 Mobile App, START/Body Worn Camera Offset: -
- Park Maintenance Staff: 0.80
- Front Street Animal Shelter Volunteer Coordinator: 1.00

**One-time Resources**
- 1) Year-end Resources: 1,831

---

¹Measure U Transactions and U Tax growth is projected at 2% annually.

²Other Sources include beginning fund balance and adjustments from the FY2017/18 Comprehensive Annual Financial Report.

³This reflects projected fund balance for the fiscal year, if not used this funding will be transferred to the Economic Uncertainty Reserve (EUR) at year-end.

⁴The preliminary recommendations reflect City Manager proposed initiatives included in the budget as released on April 24, 2019, see Proposed Budget for details.
## Innovation and Growth Fund 5-Year Forecast ($ in 000s)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Beginning Fund Balance</td>
<td>13,837</td>
<td>6,094</td>
<td>1,176</td>
<td>1,064</td>
</tr>
</tbody>
</table>

### REVENUES

1. **RPTTF - Distribution 1**
   - FY2018/19: 2,837
   - FY2019/20: 2,922
   - FY2020/21: 3,010
   - FY2021/22: 3,100
   - FY2022/23: 3,193
   - FY2023/24: 3,289

2. **RPTTF - Distribution 2**
   - FY2018/19: 5,054
   - FY2019/20: 5,206
   - FY2020/21: 5,362
   - FY2021/22: 5,523
   - FY2022/23: 5,689
   - FY2023/24: 5,859

3. **Capital Park Hotel (SHRA Loan Repayment)**
   - FY2018/19: 3,800

4. **Convention Center Loan Repayment**
   - FY2018/19: 3,800

Total Revenues: 11,691, 8,128, 21,742, 8,623, 8,882, 9,148

### EXPENDITURES

#### Operating Budget

1. **Program Staff (Employee Services)**
   - FY2018/19: 368
   - FY2019/20: 425
   - FY2020/21: 434
   - FY2021/22: 442
   - FY2022/23: 451
   - FY2023/24: 460

2. **Services & Supplies**
   - FY2018/19: 171
   - FY2019/20: 185
   - FY2020/21: 185
   - FY2021/22: 185
   - FY2022/23: 185
   - FY2023/24: 185

3. **RASA Property Maintenance (future development parcels)**
   - FY2018/19: 125
   - FY2019/20: 125
   - FY2020/21: 125
   - FY2021/22: 125
   - FY2022/23: 125
   - FY2023/24: 125

4. **G1C Possessory Tax**
   - FY2018/19: 2,200
   - FY2019/20: 1,100
   - FY2020/21: 1,100
   - FY2021/22: 1,100
   - FY2022/23: 1,100
   - FY2023/24: 1,100

Subtotal Operating Budget: 2,864, 1,835, 1,844, 1,852, 1,861, 1,870

#### Projects

1. **Capital Park Hotel (SHRA Loan)**
   - FY2018/19: 13,370

2. **Centene Employee Incentive Project (I02180100)**
   - FY2018/19: -

3. **City Hall Technology Program (I02001500)**
   - FY2018/19: -
   - FY2019/20: 125
   - FY2020/21: 125
   - FY2021/22: 125
   - FY2022/23: 125
   - FY2023/24: 125

4. **Forgivable Loan (I02180400)**
   - FY2018/19: 600
   - FY2019/20: 500
   - FY2020/21: 500
   - FY2021/22: 500
   - FY2022/23: 500
   - FY2023/24: 500

5. **Inclusive Economic Development Initiative Project (I02180900)**
   - FY2018/19: 500

6. **Major League Soccer (Commitment)**
   - FY2018/19: -
   - FY2019/20: 1,800
   - FY2020/21: 300
   - FY2021/22: 300
   - FY2022/23: 300
   - FY2023/24: 300

7. **Powerhouse (E180004000)**
   - FY2018/19: 400
   - FY2019/20: 400
   - FY2020/21: 400
   - FY2021/22: 400
   - FY2022/23: 400
   - FY2023/24: 400

8. **RAILS Grant Program (I18000100)**
   - FY2018/19: 1,000
   - FY2019/20: 1,000
   - FY2020/21: 1,000
   - FY2021/22: 1,000
   - FY2022/23: 1,000
   - FY2023/24: 1,000

9. **Sacramento Economic Gardening Two Year Demonstration**
   - FY2018/19: -
   - FY2019/20: 436
   - FY2020/21: 436

10. **Sacramento Entrepreneur Development Academy**
    - FY2018/19: -
    - FY2019/20: 750
    - FY2020/21: 750
    - FY2021/22: 750
    - FY2022/23: -
    - FY2023/24: -

11. **Streetcar (S15131800)**
    - FY2018/19: 700

Subtotal Projects: 16,570, 3,211, 5,011, 5,775, 5,025, 5,025

### TOTAL EXPENDITURES

19,434, 5,046, 6,855, 7,827, 6,886, 6,895

### Estimated Surplus/(Deficit)

(7,743), 3,082, 14,887, 996, 1,996, 2,253

### INCLUSIVE ECONOMIC DEVELOPMENT PROGRAM

- **Economic Development Program**
  - FY2018/19: -
  - FY2019/20: 8,000
  - FY2020/21: 15,000
  - FY2021/22: 1,000
  - FY2022/23: 2,000
  - FY2023/24: 2,250

### ENDING FUND BALANCE

6,094, 1,176, 1,064, 1,060, 1,055, 1,059

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1. Growth in RPTTF is 3% through FY2022/23 and 2% in FY2023/24; and Growth in MOFIE is 2% annually.
2. Funding for future negotiated labor increases is not included.
3. New MYOPs included in the FY2019/20 Proposed Budget.
### Tax-Exempt Bond Proceeds Analysis

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<th>$ 10 mm</th>
<th>$ 15 mm</th>
<th>$ 20 mm</th>
<th>$ 25 mm</th>
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<tbody>
<tr>
<td>Aa3 / A+</td>
<td>$ 88.2 mm</td>
<td>$ 176.4 mm</td>
<td>$ 264.4 mm</td>
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<td>$ 441.0 mm</td>
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<table>
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<th>One Notch Lower:</th>
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<th>$ 175.0 mm</th>
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<th>$ 350.0 mm</th>
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</tbody>
</table>

*Market Conditions as of 3/26/2019 + 50 bps cushion; assumes 30y level debt service structure, *tax-exempt bonds*, 10y par call, and no credit enhancement*

### Taxable Bond Proceeds Analysis

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<th>Current Lease Ratings:</th>
<th>$ 5 mm</th>
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<tbody>
<tr>
<td>Aa3 / A+</td>
<td>$ 82.3 mm</td>
<td>$ 164.6 mm</td>
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<th>One Notch Lower:</th>
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<th>$ 242.7 mm</th>
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</table>

*Market Conditions as of 3/26/2019 + 50 bps cushion; assumes 30y level debt service structure, *taxable bonds*, make-whole call, and no credit enhancement*