



REPORT TO COUNCIL

City of Sacramento

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PUBLIC HEARING
May 11, 2010

Honorable Mayor and
Members of the City Council

Title: Fiscal Year (FY) 2010/11 Proposed Operating Budget Overview

Location/Council District: Citywide (All)

Recommendation: Receive and file.

Contact: Leyne Milstein, 808-8491

Presenters: Gus Vina, City Manager

Department: City Manager's Office, Department of Finance

Division: Not Applicable

Organization No: 06001411

Description/Analysis:

Issue: The FY2010/11 Proposed Operating and Capital Improvement Program Budget Documents were delivered to the Mayor and City Council on April 30, 2010 in accordance with City Charter, Article IX, Section III, which requires the City Manager to deliver budget recommendations no later than 60 days prior to the start of the new fiscal year. This report provides an overview of the FY2010/11 Proposed Budget.

Budget Overview:

The FY2010/11 Proposed Budget for the City of Sacramento totals \$885.7 million from all funding sources. The General Fund portion of the Proposed Budget is \$360.3 million. The General Fund deficit is estimated to be \$43 million for FY2010/11.

The Proposed Budget provides a plan for achieving a sustainable budget over the next three years. This three-year rightsizing of the organization incorporates a balanced approach of reductions, revenues, cost savings measures and strategic use of one-time funds. Budget sustainability requires that annual base operating costs must be held to a level below annual revenue growth.

The Proposed Budget closes the \$43 million General Fund gap with a combination of ongoing measures and one-time funding. The proposal also includes a framework for additional reductions to be implemented during the budget year to offset the use of one-time funding and begins to address the FY2011/12 budget. This is consistent with the City Manager's commitment to Council to develop and implement a three-year plan to achieve sustainability.

The proposed budget balances the General Fund through: \$14.6 million in program and service level reductions based on the POD effort; \$19.6 million in reductions related to employee service costs, and the use of \$8.8 million in one-time resources. The \$19.6 million in employee service costs were reduced through eliminating all current vacant positions and capturing approximately \$5.6 million in savings from labor concessions. This strategy also includes a framework for additional adjustments to be implemented during the coming budget year to offset the use of one-time funding and begin to address the FY2011/12 budget.

Budget Strategy – A Balanced Approach:

At the February workshop the City Manager introduced the POD Review as a method of strategic analysis to identify/inventory the City's programs and services. The purpose of the process was to present the City Council with an inventory and hierarchy of current services and programs to assist in decision-making. The outcome is the consideration of the role of city government and a renewed focus on the delivery of the most essential/core services. This type of review requires that we return to the purpose of local government in general – why are we here?

As part of the POD Review, City departments were asked to provide the following information relative to all programs and services:

- ❑ What we do?
- ❑ Why we do it?
- ❑ How we do it?

Programs and services were then prioritized based on the following criteria:

Mandated Services

Does the City have the authority to stop doing it?

- Is it required by law (Federal or State) to provide this service?
- Is it required by the City Charter?
- Is there an irrevocable agreement from which the City has no relief?

Essential Services

Level 1 – Life/Safety

- Does someone risk bodily harm or death if we stop doing it?
- Is it critical that we provide the service to prevent death or injury?
- Is there an urgency factor to providing the service to prevent death or injury?

Level 2 – Public Health

- Is there a significant public health risk if the service is not provided?
- Is it critical that we provide the service in a timely manner to avoid a major health risk to the community?

Level 3 – Risk/Liability

- Is there a significant risk/liability exposure to the City if the service is not provided?
- Is it critical to provide the service in a timely manner to avoid significant liability exposure to the City?
- Would the likely level of exposure exceed the cost of providing the service?

Existing Services

- All other programs and services

In many cases the outcome of the POD Review will change what we do and how we do it, including changes in levels of service or increased cost recovery for fee-related programs and services. This approach differs from the reduction efforts of the prior two fiscal years in which we maintained existing programs at minimal and in some cases ineffective service levels. Under the POD review, in some cases, there will be programs and services that the City will no longer be able to fund and deliver. The reality is that the City will be forced to focus on what we can afford to do relative to programs and services and available resources.

The Proposed Budget includes \$14.6 million in reductions based on the POD Review, \$10.2 million to be implemented effective July 1, 2010, and an additional \$4.4 million to be implemented January 1, 2011. Specific service level impacts related to the July 1st, 2010, POD reductions will be discussed during the budget hearings in May and June. Midyear strategies will be presented to Council in fall 2010.

Budget Hearings:

A series of public hearings and special reports will be heard by City Council during May and June, with final budget adoption scheduled for June 22, 2010. A tentative hearing schedule is included as Attachment 1.

Policy Considerations: On February 11, 2010, as part of the budget development process, the City Council held a workshop to discuss the status of the City's budget and potential strategies to rightsize the organization. As part of the workshop, the Council adopted both strategies, and fiscal and organizational principles to guide the development of the FY2010/11 Proposed Budget. These

strategies and principles reflect the overarching goal of a balanced approach to a sustainable budget. In this context, a sustainable budget means that we must rightsize the organization to respond to the "new normal" in which revenues need to support current and projected expenses; we must determine what services we can afford to provide and which to reduce or eliminate; and we need to ensure that our workforce is able to keep up with expected levels of service.

Given the concept of fiscal sustainability, Council adopted the following strategies and principles for the development of the FY2010/11 Proposed Budget:

BUDGET DEVELOPMENT STRATEGIES

- ✓ Alternative Service Delivery
- ✓ Streamlining the Organization
- ✓ Revenue Improvements
- ✓ Planned use of One-time Reserves

FISCAL AND ORGANIZATIONAL PRINCIPLES:

- ✓ Develop a Sustainable Budget Plan
- ✓ Balanced Budget for FY2010/11
- ✓ Use One-Time Resources Strategically
- ✓ Balance Layoff Impacts with Service Level Decisions
- ✓ Address Full Service City Status

The City is clearly facing a substantial challenge in returning to a long-term structurally balanced General Fund budget. Successfully addressing this financial challenge will require increased flexibility, new ways of delivering programs and services, and continued fiscal discipline.

Environmental Considerations: This report concerns administrative activities that will not have any significant effect on the environment, and that do not constitute a "project" as defined by the California Environmental Quality Act (CEQA) [CEQA Guidelines Sections 15061(b)(3); 15378(b)(2)].

Rationale for Recommendation: The severe economic downturn impacting the nation, State and City require that significant budget reductions be implemented in order to stabilize the City's budget and continue the process of returning the General Fund budget to sustainability.

Financial Considerations: The downturn of the economy has led to a continuing decline in the City's major General Fund tax revenues, the City's main source of discretionary revenue. Based on current trends, the five year forecast reflects continued decline in revenue growth for the coming fiscal year and minimal revenue growth over the next five years. Property, and Sales and Use Taxes are the City's two largest major

revenue sources representing 69 percent of the City's discretionary revenues. These revenues are projected to decline in FY2010/11 by nearly 7.3 percent (-\$14.3 million).

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

Emerging Small Business Development (ESBD): Not applicable.

Respectfully Submitted by: 
for Leyne Milstein, Finance Director

Recommendation Approved:

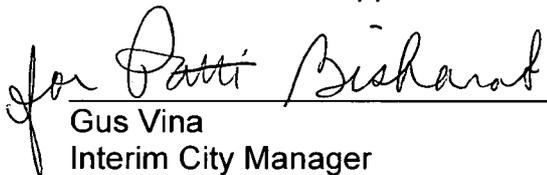

Gus Vina
Interim City Manager

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Attachment 1

FY2010/11 Budget Hearing Schedule

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|-------------------------|--|
| Tuesday, May 11 | Kickoff: FY2010/11 Proposed Operating Budget Overview |
| Tuesday, May 18 | Management Partners Recommendations Fees and Charges Report |
| Tuesday, May 25 | Budget Hearing |
| Tuesday, June 1 | Budget Hearing |
| Thursday, June 10 | Budget Hearing |
| Tuesday, June 15 | Budget Hearing |
| Thursday, June 17 | Hold for Budget Hearing (if necessary) |
| Tuesday, June 22 | Budget Adoption |
| Thursday, June 24 | Budget Adoption (if not adopted on June 22) |

Note: Budget Meetings will be held in the City Council Chambers at 6:00 p.m.

Attachment 2

Budget Overview Presentation (To Be Delivered)