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DEPARTMENT OF  
FINANCE  
  
BUDGET DIVISION

CITY OF SACRAMENTO  
CALIFORNIA

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June 4, 1991

City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: REPORT BACK ON POSSIBLE REDUCTIONS TO CAPITAL IMPROVEMENT  
BUDGET

**SUMMARY**

During the operating budget hearings various Council Members requested options to reduce the Proposed 1991-96 Capital Improvement Budget in order to provide alternatives to the reductions currently included in the 1991-93 Proposed Operating Budget. This report reviews some of the specific projects that were requested for review, as well as additional projects that could be deferred in order to save General Fund expenditures.

This report is for information only. No action is required by Council.

**BACKGROUND**

The City annually reviews two budget documents - the first is the Capital Improvement Program which includes funding for one-time expenditures for the building, acquisition and automation projects, the second is the operating budget which includes on-going funding for staff and supplies to provide the day-to-day City services. The two documents are adopted by the Council as one budget at the end of June each year.

The Proposed 1991-96 Capital Improvement Program (CIP) was released on March 29, 1991 and has been heard before the Joint Budget and Finance/Transportation and Community Development during the past three months. The Proposed 1991-93 Operating Budget was released on May 1, 1991 and has been heard during special meetings of the

City Council during the past two months.

Despite the fact that the two documents are reviewed separately, there are relationships between the operating and capital budgets.

Some of the projects in the Proposed CIP, if adopted, will result in operating costs or savings that will impact the Operating Budget. Examples of these costs are annual debt service payments when debt is issued for a project, or staffing and utility expenses to operate a new facility. In addition there can be energy or maintenance savings associated with some projects if obsolete or inefficient equipment is replaced. Preliminary estimates on the operating costs associated with the projects are included in the Proposed 1991-96 CIP (Page 5).

After the release of the Proposed 1991-96 CIP, and prior to completion of the Proposed 1991-93 Operating Budget, staff was able to review options for the reduction or elimination of proposed capital projects in order to balance the \$27 million General Fund shortfall. The proposed Operating Budget did not include any recommendations to reduce or eliminate capital projects for the following reasons:

1. Most of the General Fund projects are for maintenance or repairs that must be undertaken in order to prevent more costlier repairs in the future.
2. Several of the General Fund projects are funded with debt funds/proceeds which cannot be spent on operating expenditures
3. The majority of the projects (over 90%) in the Proposed CIP are funded by sources outside the General Fund.
4. Savings from reducing or eliminating Capital Projects (which are one-time expenditures) will only result in one-time savings. The General Fund Deficit was projected at \$25-\$27 Million over a five year period prior to the recommended fixes included in the Proposed Operating Budget.

Although the Proposed Operating Budget does not recommend any reductions to the CIP to meet the overall General fund shortfall, there is a listing of projects in the Alternative Reduction section of the budget (Page F-15) which is included as Attachment 1. These reductions would result in approximately \$1.0 million in one-time savings for the 1991-92 Fiscal Year.

Other proposed or existing projects that have been requested to be reviewed by individual members of the City Council are:

o	Fire Station #5 Replacement	\$2,401,000
o	North Area Police Substation	\$3,000,000
o	South Area Golf Course	\$6,000,000
o	Clunie Community Center Rehabilitation	\$2,162,000
o	Animal Control Facility Replacement	\$2,936,000

All of these projects are debt financed. The City will not use cash to pay for these expenditures. If the Fire Station and Police Substation projects are deferred, the City will not borrow the money and the only savings would be debt payments for the borrowed funds. In addition, these debt payments are not scheduled to start until 1992-93. The funds have already been borrowed for the Animal Control and Clunie Community Center Projects and the debt payments will start in 1991-92. These funds cannot be returned and the City is obligated to make the debt payments. If these projects are deferred, another source of funding outside the General Fund would have to be identified to make the debt payments.

These projects are not recommended for reduction or elimination for the following reasons:

#### **Fire Station #5 Replacement**

Facility Management Division staff have reported that in Station #5 (8th and Broadway) Apparatus Room:

"Serious cracks along the main section of this room and footing settlement are clear indications of an unsafe structure" and

"In the event of a minor earthquake, the impact would be severe enough to cause the apparatus room to collapse and/or render the station inoperable".

It is not recommended to defer the replacement of this station due to the nature of these deficiencies.

Furthermore, deferral of this project will not achieve any savings in the 1991-92 Fiscal Year. This project is proposed to be financed with debt proceeds. The plan included in the Proposed Budget projected that the first debt payments for this project would become due in the second year of the Proposed Budget. Deferral of this project would generate a savings of approximately \$200,000 in Year 2 (1992-93) of the proposed budget, and \$280,000 starting in Year 3 (1993-94) so long as the project is deferred (Attachment 2).

#### **North Area Police Substation**

Deferral of this project will not achieve any savings in the 1991-92 Fiscal Year. This project is also proposed to be financed with debt proceeds. The plan included in the Proposed Budget projected that the first debt payments for this project would become due in the second year of the Proposed Budget. Deferral of this project would generate a savings of approximately \$500,000 in Year 2 (1992-93) of the proposed budget, and \$720,000 (Attachment 2).

This facility is a high priority for improving public safety services. The project will alleviate overcrowding in the downtown police facilities and increase the presence of police services in

the North area.

### **South Area Golf Course**

The Proposed 1991-96 CIP includes a \$6.0 Million project to construct a 18-hole golf course in the south area. This project will be fully paid for by revenue in the Golf Enterprise Fund.

The primary source of revenue for the Golf Fund is user fees (green fees). There is no General Fund support for the Golf Enterprise. In fact the General Fund will recover \$752,000 from the Golf Fund in 1991-92. This is the equivalent of 14.4% of all Golf Fund revenues.

The South Area Golf Course will be debt financed so the only cash expenditures will be for the loan payments. It is currently projected that there will no debt payments in 1991-92. If this project is deferred the only cash savings will be \$520,000 in Year 2 (1992-93) of the Proposed Budget. This savings would only accrue to the Golf Fund unless changes were made to increase the cost recovery of the General Fund.

The Golf Fund revenue for this course is available primarily due to a rate increase adopted for the 1990-91 Fiscal Year. This rate increase generated approximately \$450,000 annually that was designated for golf course expansion projects by the Council.

Deferral of this project would also require a revision to the Purchase Agreement for the golf course property between the Regional Sanitation District and the City. This agreement stipulates the time frame in which the property must be used by the City. The City has already negotiated one extension to this agreement.

Staff does not recommend that this project be considered for deferral.

### **Animal Control Facility**

The existing facility was determined to be inadequate by the Humane Society of the United States in 1974. Since that finding was made, the City spent several years exploring a variety of options to remedy the inadequacies of the facility. The approved solution is to replace the existing facility with a new building on the same site. Other options that were considered were relocating the facility and transferring the functions to the County.

In order to continue services at the existing site, the County Veterinarian has allowed the City to release quarantined animals in 5 days, as opposed to the standard 10 days. This allowance alleviates overcrowding in the facility. The Veterinarian has indicated that this allowance has only been made since the City is progressing towards replacement of the facility.

If the project is deferred, it is possible that outside groups may file lawsuits to stop the City from using the current facilities.

### **Clunie Community Center Rehabilitation**

The budget for this project only includes work to bring the facility into compliance with building and fire codes, and handicapped access requirements. In addition the plumbing of the building deteriorated to the point where sewage has started to leak from corroded pipes.

Deferral of these safety/access items are not recommended. Further delays could result in a more expensive project as the facility continues to deteriorate.

### **POLICY CONSIDERATIONS**

The Capital Projects identified in this report are not recommended for deferral or postponement. Nevertheless, if the Council would like to defer some Capital Improvements, it is recommended that consideration be given to only those projects included in the Alternative Reductions section of the Proposed Budget.

### **FINANCIAL DATA**

This report is for information only. There are no recommendations included in this report that would modify the Proposed Budget.

### **RECOMMENDATIONS**

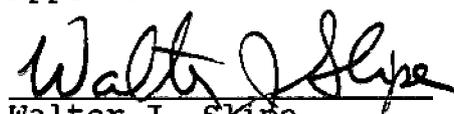
This report is for information only. No action is required by Council.

Respectfully submitted,



Bill Farley  
Sr. Management Analyst

Approved:

  
Walter J. Slupe  
City Manager

All Districts  
June 19, 1991

Contact Person:  
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## CAPITAL IMPROVEMENT PROJECTS ALTERNATIVE REDUCTIONS

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### GENERAL FUND - CASH CIP

CIP Maintenance/Replacement Contingency	\$ 200,000	
Human Resources Information System	50,000	
Del Paso Library Renovation	51,000	
Fire Station Remodel/Repairs	25,000	
Neighborhood Support For Rec Facilities	20,000	
Police Laser ID Expansion (Measure G)	18,000	

TOTAL GENERAL Fund - CASH CIP	\$ <u>364,000</u>	(26% of Cash CIP)
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### OTHER FUNDING SOURCES - CASH CIP

#### Lighting and Landscape Fund

Park Improvements	\$ 400,000	(100% of Cash CIP)
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#### Park Fund

Misc Improvements Land Park	\$ 45,000	(100% of Cash CIP)
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#### Fairytale Town Fund

Misc Improvements	\$ 52,000	(100% of Cash CIP)
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#### Zoo Fund

Gift Shop and Offices	\$ 170,000	(100% of Cash CIP)
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#### Fleet Management Fund (50% General Fund)

Fleet Computer Upgrade	\$ 50,000	(6% of Cash CIP)
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TOTAL OTHER FUNDING SOURCES - CASH CIP	\$ <u>717,000</u>	
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TOTAL ALTERNATIVE REDUCTION - CASH CIP	\$ <u>1,063,000</u>	
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Public Safety Capital Improvement Projects

	PROPOSED		PROJECTED			NOTES
	1991-92	1992-93	1993-94	1994-95	1995-96	
<b>Fire Station 5 Replacment</b>						
Capital Expenditures						
Construction	\$2,401,000	\$0				
Debt Proceeds (Offsets Construction Costs)	\$2,401,000	\$0				
Operating Budget Impact						
Debt Payments	\$0	\$200,000	\$280,000	\$280,000	\$280,000	
Maintenance and Operations	\$0	\$0	(\$20,000)	(\$20,000)	(\$20,000)	Savings due to reduced maintenance
<b>Police Substation - Kinney Facility</b>						
Capital Expenditures						
Construction	\$3,000,000	\$3,226,000				
Debt Proceeds (Offsets Construction Costs)	\$3,000,000	\$3,226,000				
Operating Budget Impact						
Debt Payments	\$0	\$500,000	\$720,000	\$720,000	\$720,000	
Maintenance, Operations, and Staff	\$0	\$0	\$150,000	\$300,000	\$300,000	

NOTE: NO General Fund cash expenditures budgeted for 1991-92