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CITY MANAGER

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January 21, 1998

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City Council
Sacramento, California

Honorable Members in Session:

**SUBJECT: OVERVIEW OF THE 1998-99 BUDGET DEVELOPMENT
PROCESS**

LOCATION: Citywide

RECOMMENDATION:

It is recommended that City Council review and accept this report and direct staff to proceed with the budget process for FY1998-99.

**CONTACT PERSON: Betty Masuoka, Deputy City Manager, 264-5704
Ken Nishimoto, Director of Administrative Services,
264-7205**

FOR COUNCIL MEETING OF: January 27, 1998

SUMMARY:

This report provides information on the approach for development of the three key components of the budget process: the Midyear Report, the Capital Improvement Budget and the Proposed Operating Budget for FY 1998-99 and highlights key issues that will be addressed.

BACKGROUND:

This past year has been notable in terms of budget process due to the Sacramento Decisions community outreach effort, the internal efficiency teams and the adoption of a 5 -Year Financial Plan by the City Council. As we enter another budget development cycle

for FY1998-99, staff is proposing to capitalize on the results of last year's effort while maintaining flexibility to respond to changes in the City's financial position.

Potential Impacts

As part of the 5-Year Financial Plan, staff identified a series of unknowns that could impact the General Fund. These included the status of fund transfers, legislative relief from the State, replacement of police grant funding and labor cost assumptions. To provide some level of fiscal stability, Council approved a temporary increase in the Reserve for Economic Uncertainty to \$20,220,000 with the intent that these funds could keep the General Fund in balance until 2001 pending other potential impacts.

The most significant potential impact identified in dollar terms deals with how the City treats the use of fund transfers from its utility enterprise funds. In a companion report, Council will be considering placing a measure on the June, 1998 ballot which would replace the Utility In-Lieu Franchise and Property Fees with a general tax.

If successful, the proposed measure would result in no change in existing fee structure for city utilities and a status quo on the city budget. If the measure fails, a \$10 million budget gap will have to be addressed. The funds in the Reserve for Economic Uncertainty could be used to balance the FY1998-99 budget and allow for time to identify solutions to address the funding gap which would then be adopted for FY1999-2000.

Another potential positive impact is the possible recommendation of the City Manager to place a revenue measure on the November 1998 ballot in an effort to secure a more stable source of ongoing funding for public safety.

Overview of Approach

Given that the election and its results will not be known until early June, and the desire to maintain the 5-Year Financial Plan adopted by City Council, staff is proposing a scaled-down budget process where possible for the next cycle. Following is an overview of each key budget component and the proposed approach for FY 1998-99:

Midyear Review

This portion of the process is intended to provide Council with the City's financial status which includes assessing how expenses and revenues for the current budget year are unfolding, evaluating and, if necessary, revising projections on key revenues for this year

and out years, and make adjustments to the 5-Year Financial Plan if needed. Some of the key issues that will be brought forward include:

What is the status of key general fund revenues and do projection revisions need to be made.

Are departments realizing the savings and new revenue sources identified as part of the efficiencies and fixes adopted to balance the budget and are there significant variances that will impact the 5-Year Financial Plan.

A Police Financial Plan and strategy to address the myriad of grants, program and facility needs of the Police Department.

Report back on FY1996-97 year end department savings and how those savings were achieved.

Status of the enterprise funds.

Capital Improvement Budget

In FY1996-97, the City Council approved a 'rolling budget' process for the City's Capital Improvement Program to provide a simplified approach to financial management and allow an aggressive concentration on long range planning. These long range plans assist City Council in setting program area objectives and identifying and prioritizing projects for funding. In concept this approach makes sense, and whenever possible long range planning should be incorporated into the CIP process.

For this upcoming cycle, staff is recommending some refinements from prior years. These changes include:

Returning to a stand alone, complete document for the five year capital period which would include a summary status list of all active capital projects;

Integrating the SHRA capital budget within the City's process and document;

Starting the capital budget hearing schedule in April rather than May.

The master planning effort for parks and recreation that is currently underway will not be completed in time for inclusion in the capital budget process but will be brought forward at a later time for City Council review and action. That master plan document will then be married with the longer term capital budget priorities for those program areas.

City Council

Proposed Operating Budget

For this current fiscal year, the City Council took action to close a \$13 million budget gap through a combination of cuts and departmental efficiencies. The Council also took action to set aside one time funds to position the City for future financial stability. Despite these efforts, there are still potential impacts that may affect the General Fund's financial future. It's also unknown at this time if the department efficiencies that were adopted as part of the budget fix are realizing the savings that were anticipated.

Given the number of unknowns, and pending City Council direction during the Midyear Report, staff at this time is recommending:

A financial 'status quo' approach to developing the FY1998-99 Proposed Operating Budget.

This will minimize funding for new programs, meeting the commitments of current labor contracts and holding the line on utility rate increases.

This approach would prevent spending time and energies on budget information that may require major modifications following the 1998 election year.

FINANCIAL CONSIDERATIONS:

No impact.

ENVIRONMENTAL CONSIDERATIONS:

Environmental review under the California Environmental Quality Act (CEQA) for any project which utilizes funds allocated under the FY1998-99 budget will be performed in conjunction with planning, design, and approval of each specific project as appropriate. The ongoing administrative and budget process for the City are not subject to review under CEQA.

POLICY CONSIDERATIONS:

The recommendations in this report are consistent with the 5-Year Financial Plan adopted by the City Council and past financial policy approved by the City Council. Specific policy issues for City Council consideration will be presented during each key component of the overall budget process for FY1998-99.

MBE/WBE EFFORTS:

No good or services are being purchased under this report.

Respectfully submitted,



Betty Masuoka
Deputy City Manager

APPROVED:



WILLIAM H. EDGAR
City Manager