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DEPARTMENT OF
FINANCE

BUDGET DIVISION

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CALIFORNIA

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Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

Subject: Two Year Budgeting

SUMMARY

This informational report requests the Committee consider the concept of two year budgeting for the City of Sacramento.

BACKGROUND

Because taxation is the largest component of General Fund resources, it is essential that government provide detailed information and tight fiscal control over its resources. Annual budgets provide the public with information on projected spending and assurance that expenditures are balanced from current available resources. This balancing act forces governments to review for possible impending adverse financial conditions. Annual budgeting also has negative aspects associated with it such as: the large investment of time; the possibility of short term decision making; and sharp revenue/expenditure fluctuations caused by the necessity to balance resources and expenditures over a relatively short time frame.

It is proposed that the City expand its scope of budgetary review by developing a two year budget plan. Essentially, the City Council would review two fiscal years of appropriations but would adopt each year separately. The second year hearing would focus on changes from the original second year figures such as midyear augmentations and adjustments to known labor costs. Additionally, the second year could be used to fully explore aspects of the budget that this Committee wishes to pursue.

Staff believes that adopting a two year budget would result in the following benefits:

1. Fiscal Responsibility - A two year budget would provide greater fiscal responsibility by expanding the review to two years. The two year budget would require balanced budget for both years, thus recognizing the cumulative impact of first year funding decisions in the second year.
2. Increase in Productivity - Each year an enormous amount of time is expended throughout the City. Employees from line supervisors to the City Council are involved in budget development, often with very limited available resources to allocate. Second year resources could be directed in other productive areas such as the following.
3. Program Review - During the budget hearings, it is difficult to provide in-depth analysis of programs due to time constraints. The two year budget would afford the opportunity to explore priority issues of this Committee.
4. Rate Normalization - Two year budgeting may lead to normalizing rate increases. Typically, large capital improvement projects tend to cause sharp rate increases, especially in the utility enterprise funds. A two year implementation may allow modest increases over a two year period.

Currently, several cities have developed a two year budget. Staff surveyed these cities and found that most cities strongly endorse the two year approach. Those cities that oppose the process were cities that had fiscal problems which dictate a short term perspective rather than a longer two year budget.

FINANCIAL

There is no direct financial cost to converting to a two year budget. Minor modifications are needed to computer systems to accommodate the additional budget year.

POLICY CONSIDERATIONS

The current annual budget policy attempts to provide its citizens with information relative to government spending and assurance of fiscal control by balancing resources and

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appropriations. The two year budgeting concept is an attempt to accomplish the above goals by providing more complete information over a longer perspective.

RECOMMENDATION

It is recommended that the Budget and Finance Committee approve the concept of a two year budget commencing with the next budget sessions.

Respectfully submitted,


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Sr. Management Analyst

Approved for Information:


Jack R. Crist
Deputy City Manager

December 11, 1990
All Districts