



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
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Meeting Date: 3/1/2011

Report Type: Staff/Discussion

Title: Approval of Strategies for Development of the FY 2011/12 Budget

Report ID: 2011-00171

Location: Citywide

Recommendation: Council approval and direction to staff regarding budget strategies to utilize in developing the City's Fiscal Year (FY) 2011/12 Proposed Budget.

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Presenter: Patti Bisharat, Assistant City Manager, (916) 808-5704, Office of the City Manager

Department: City Manager

Division: Executive Office

Dept ID: 02001011

Attachments:

- 1-Description/Analysis
 - 2- Background
 - 3-Budget Strategies
 - 4-Operational Efficiencies
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City Attorney Review

Approved as to Form
Matthew Ruyak
2/24/2011 12:10:36 PM

Approvals/Acknowledgements

Department Director or Designee: Patti Bisharat - 2/24/2011 10:05:56 AM

Assistant City Manager: Patti Bisharat - 2/24/2011 11:30:31 AM

Description/Analysis

Issue: The City faces a projected General Fund budget gap of \$35 to \$40 million in FY2011/12. After four years of budget deficits, strategies used to mitigate service cuts and layoffs have been extensive. Remaining alternatives and options are limited and will require difficult public policy choices. The purpose of this report is to discuss with and receive direction from the City Council on potential strategies that may be utilized by staff to develop a balanced budget proposal. Also included is a list of operational efficiencies that will be incorporated into the development of the proposed budget.

Policy Considerations: The projected \$35 to \$40 million deficit for FY2011/12 equates to a 20% reduction in General Fund costs or roughly 450 positions. Any alternative strategies employed to help balance the proposed FY2011/12 budget will mitigate cuts in services and layoff of employees.

Environmental Considerations: Not applicable

Commission/Committee Action: Not applicable

Sustainability Considerations: Not applicable

Rationale for Recommendation: The City Charter requires the City Council to adopt a balanced budget. Policy direction from the City Council on budget strategies will assist the City Manager in developing a budget proposal reflective of Council priorities.

Financial Considerations: This report includes an estimate of the financial impacts of various budget strategies.

Emerging Small Business Development (ESBD): Not applicable

Background

As the community struggles to emerge from the severe national recession, City expenditures are forecast to eclipse available revenues for the fifth consecutive year. Despite eliminating over 900 positions, implementing consolidations and renegotiating labor agreements in recent years, the City faces a projected FY2011/12 General Fund budget gap of \$35 to \$40 million. As a result, difficult budget decisions will again be required in order to adopt a balanced budget by June 30, 2011. The purpose of this report is to discuss with and receive direction from the City Council on potential strategies that may be utilized by staff to develop a balanced budget proposal as an alternative to simply reducing services and cutting positions.

The General Fund budget structural imbalance is the result of City expenditures that are growing at a faster rate than available revenues. Some of the factors driving the City's forecasted expenditure growth include:

- Use of one time funds
- Labor costs including pension and healthcare costs
- PERS investment losses (which result in higher City pension contributions)
- Staffing and operational costs for new facilities
- Implementation of Proposition 218 corrections

The projected FY2011/12 General Fund budget gap equates to a 20% reduction in costs in the General Fund or approximately 450 positions. Using only a service cut approach, examples of impacts and service reduction from a 20% reduction include: three additional fire station brownouts, staffing reductions and elimination of fire technical rescue program including 99 positions; closure of all but three swimming pools citywide; elimination of patrol officers, community service officers, POP teams and Magnet School program including 85 positions; closure of all but three community centers.

In order to mitigate service reduction impacts, a number of alternative strategies have been identified for Council consideration, many of which will have lasting impact on future budgets. The strategies have been organized into three broad categories: Efficiencies, Labor Costs, and Revenues.

Charts identifying specific strategies and their potential budget impact are attached to this report. The charts briefly summarize each strategy and note other policy considerations. Some strategies may be determined to be unacceptable by the Council, in which case those strategies will be dropped from further consideration.

The Council's direction regarding budget strategies will assist staff in developing the proposed FY 2011/12 budget for submittal to the City Council by May 1, 2011. Council budget hearings will be conducted in May and June 2011 prior to budget adoption by June 30, 2011.

Strategies for Policy Direction for FY2011/12 Budget Development

Efficiencies

| Concept | Potential Annual General Fund Savings | Detail/Considerations |
|---|---------------------------------------|---|
| Reduce Cost of General Fund Debt | \$1 million a year for 3 years | Use remaining CRCIP and residual bond funds to pay General Fund debt which results in \$1 million in savings toward the budget deficit for three years. |
| Restore the Administration of the Utility User Tax (UUT) Rebate Program | \$500,000+ | In 2005, as an efficiency measure, the City transferred the UUT rebate program to SMUD and PG&E to incorporate into their existing rebate programs. Since that time, the amount of rebates on City UUT has grown from about \$400,000 a year to \$2.2 million. Staff is concerned that rebate qualifications are not being regularly reviewed or audited to assure that those receiving the rebate meet the requirements. |

Labor Costs

| Concept | Potential Annual General Fund Savings | Detail/Considerations |
|---|---------------------------------------|---|
| Compensation Adjustments (e.g. salary reduction for all employees, salary freeze, reduction of incentive pay) | Varies | Requires participation of labor organizations; 5%-10% salary freeze across the board creates savings of \$12 million - \$24 million; salary freeze on current labor agreement COLAs generates \$2.5 million in FY2011/12 and \$8.3 million in FY2012/13; current cost of incentive pay is \$12 million annually. Any approved adjustments would apply to unrepresented. |
| Pension Reform (e.g. increase employee contribution to PERS costs, create 2-tier retirement system, modify existing plan) | Varies | Requires participation of labor organizations; increased employee contribution generates \$2 million for each 1% increase for management and public safety; 2-tier plan for future employees would create future savings. Any approved adjustments would apply to unrepresented. |
| Healthcare Reform (e.g. increase employee contribution to healthcare costs, reduce retiree health contribution at age 65) | Varies | Requires participation of labor organizations; increased contribution savings range from \$1.2 million (City 80%/Employee 20%) to \$9.4 million (City 50%/Employee 50%); cutting contribution by 50% to retirees at age 65 results in savings of \$1.7 million. Any approved adjustments would apply to unrepresented. |

Revenues

| Concept | Potential | Detail/Considerations |
|---------|-----------|-----------------------|
|---------|-----------|-----------------------|

| | Annual General Fund Revenues | |
|---|-------------------------------------|---|
| Beverage Licensing/Sponsorship | \$200,000 | Requires competitive process and exclusive beverage rights at some city facilities (excluding Convention Center, Zoo and others) |
| Citywide Lighting and Landscaping Assessment | \$6 million | Requires approval of \$80,000-95,000 for conducting an engineer's report to determine the application of the assessment. Requires approval of voters by mail ballot. Anticipated for FY2012/13. |
| Soda Tax | Unknown | Apply a tax to sale of soft drinks/soda; requires voter approval. |
| Support AB153 e-fairness and the taxation of Out-of-State Retailers | Unknown | Proposed legislation would require internet retailers to collect and remit sales tax for sales in California. |
| EVOC Center | Unknown | Create a regional drivers safety training program; fee for service to other agencies; cost savings and reduces liability to participating agencies. |

Operational Efficiencies to be incorporated into FY11/12 Proposed Budget

| Strategy | Potential Annual General Fund Savings |
|--|---|
| Change current city cell phone/technology allowance policy | Approximately \$200,000 a year |
| Defund and/or defer capital projects | \$500,000 - \$1 million |
| Institute a consistent copier usage/maintenance approach | \$200,000 - \$300,000 |
| Implement next phase of fleet auto parts contract with on-site parts inventory management (no loss of city jobs) | \$50,000-\$100,000 |
| Consolidate redundant functions/departments within city departments and opportunities with the County | \$300,000+ |
| Contract out remainder of golf operations (maintenance) | \$400,000 |
| Phase in transition of city employees to the Zoo Society | Up to \$90,000; longer term implementation |
| Refine take home vehicle policy | TBD |
| Continue furloughs for Exempt Mgmt, Management Support, and Admin/Confidential | \$2.97 million |
| 4/36 Alternative work week schedule | \$12 million; requires participation of labor organizations in some areas |
| Span of control review and realignment | \$300,000+ |