




February 27, 2024

A dark blue silhouette of the Sacramento skyline, including various buildings and the two towers of the Golden Gate Bridge, set against a light blue background.

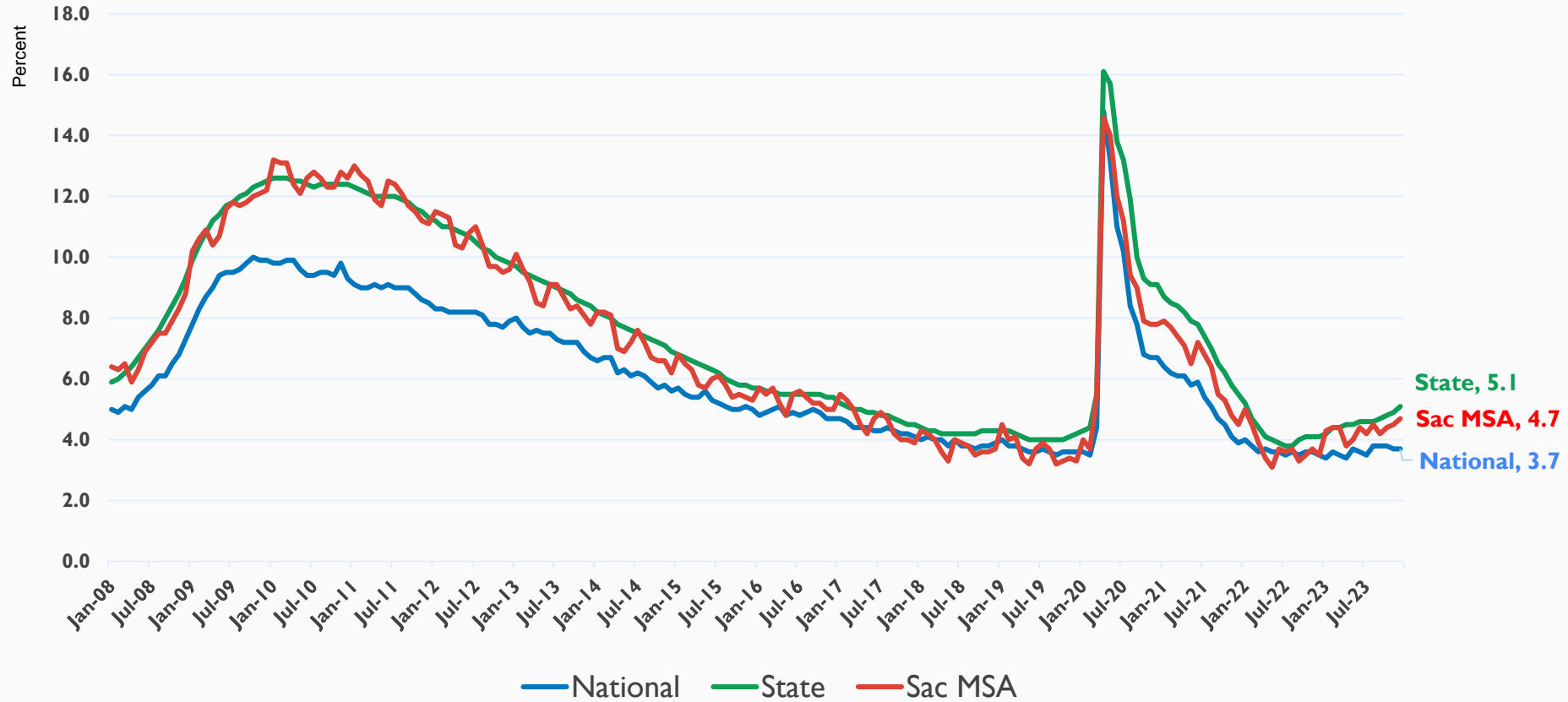
Fiscal Year 2023/24 Budget Update and Fiscal Year 2024/25 Budget Preview

FY24 Budget Update and FY25 Budget Preview

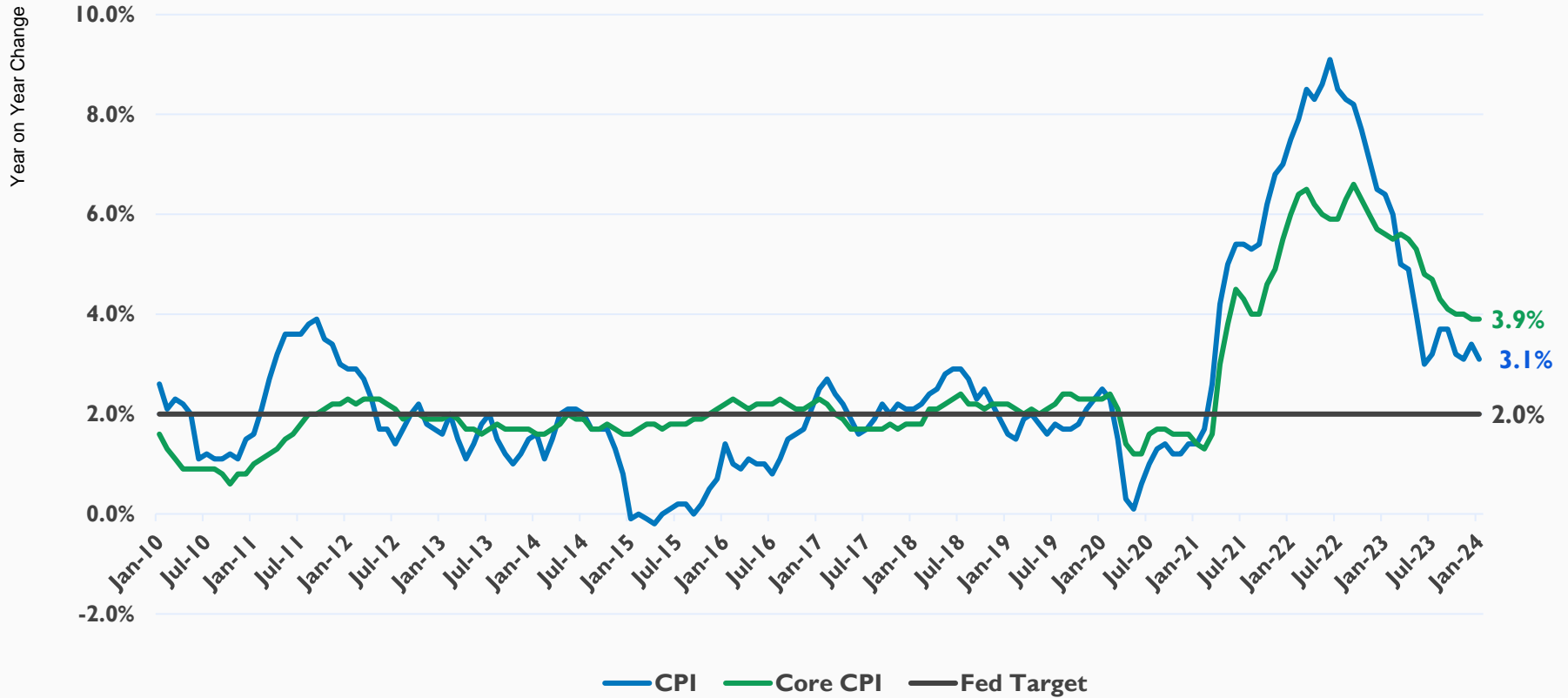
- Economic Context
- FY24 Budget
- FY24 Revenue Update
- 5-Year Forecast Update
- FY25 Budget Schedule / Public Outreach
- Pending Factors
- Recommendations

Economic Context

Unemployment Rate

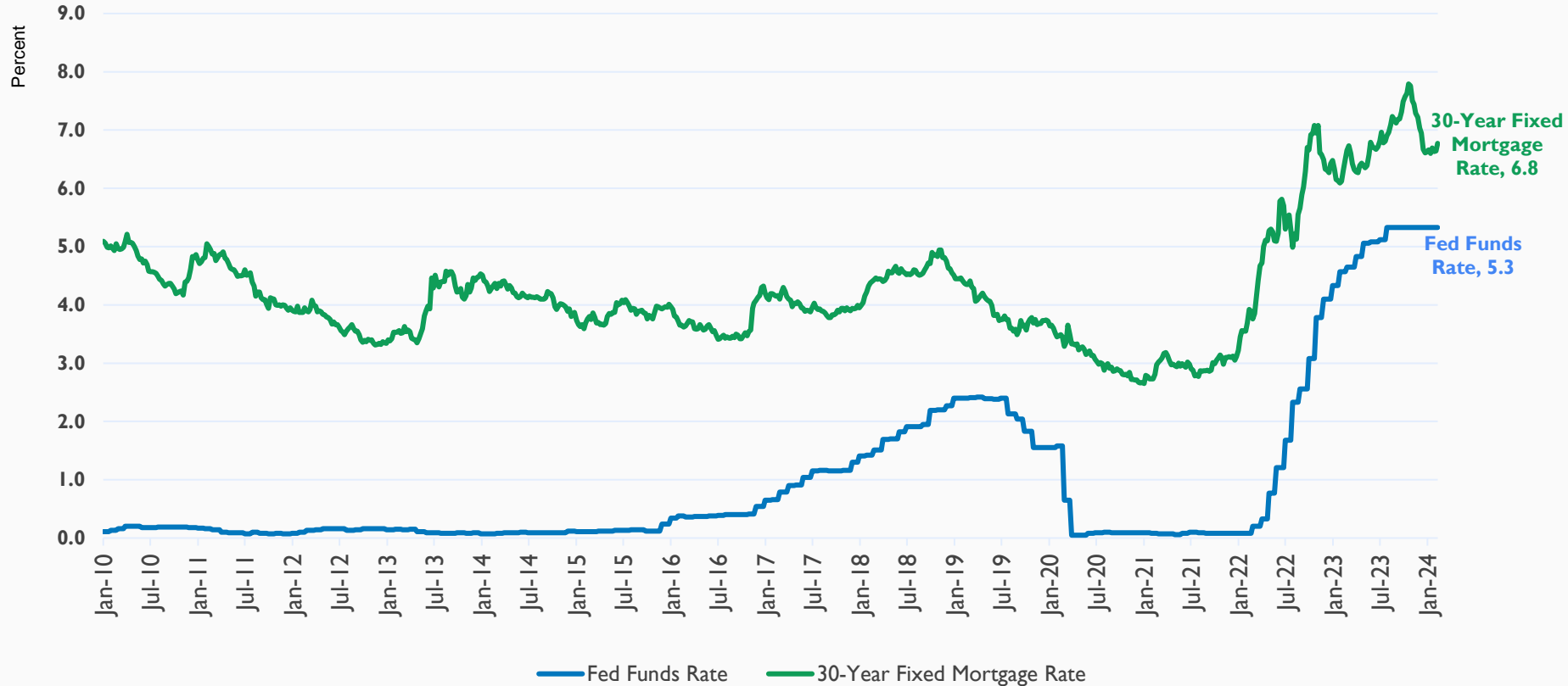


Inflation

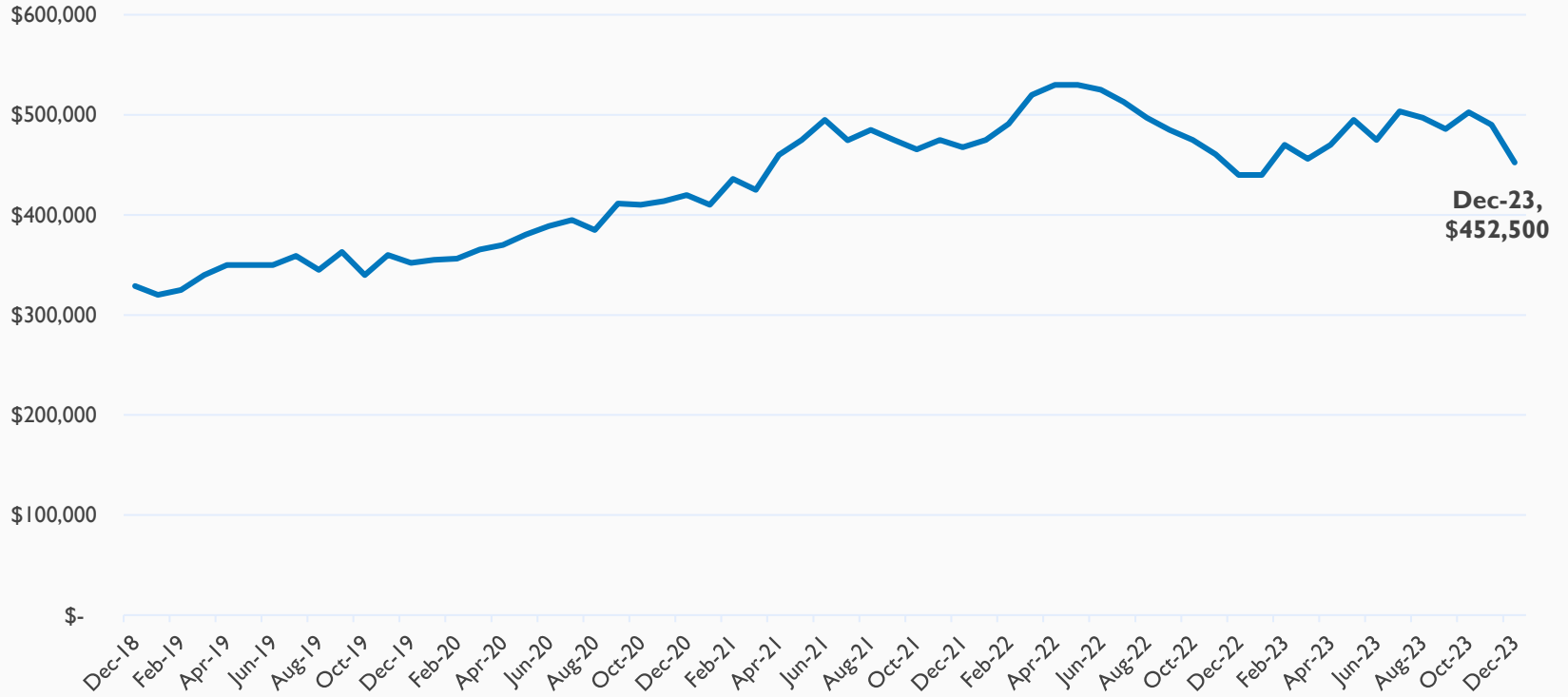


Source: U.S. Bureau of Labor Statistics. Data through January 2024

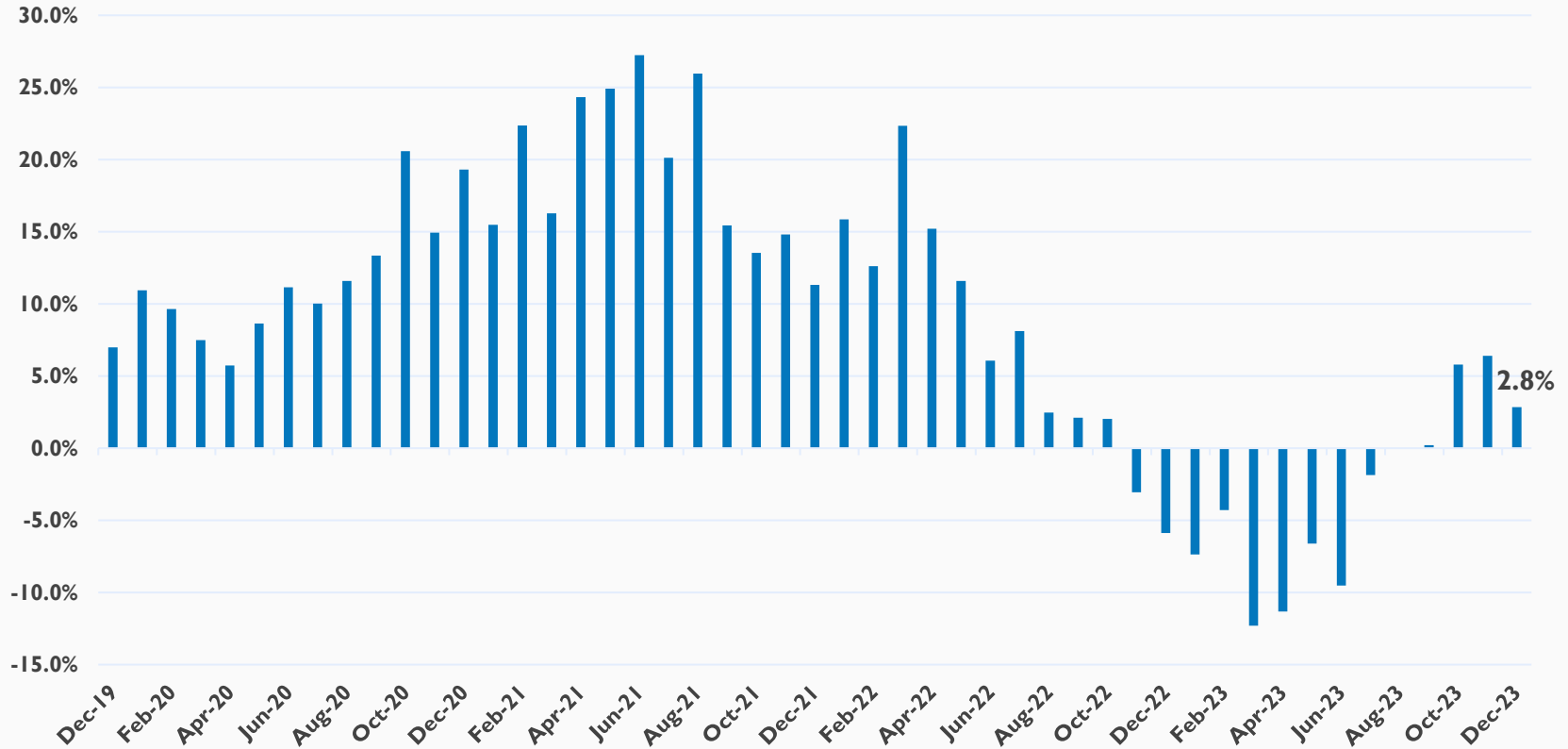
Interest Rates



Median Home Sale Price – City of Sacramento



Median Home Sale Price Year on Year Change



Source: Redfin calculations based on MLS & Public Records

Key Economic Takeaways

1. Labor market remains tight but is weaker than last year.
2. Inflation rate has decreased but remains above Federal Reserve target.
3. Interest rates remain elevated.
4. Commercial vacancies remain high.
5. Can the US consumer remain resilient?

Our forecast is **not** assuming a recession; however, a recession remains a risk and would have a significant negative impact on the City's finances.

Current Year Budget

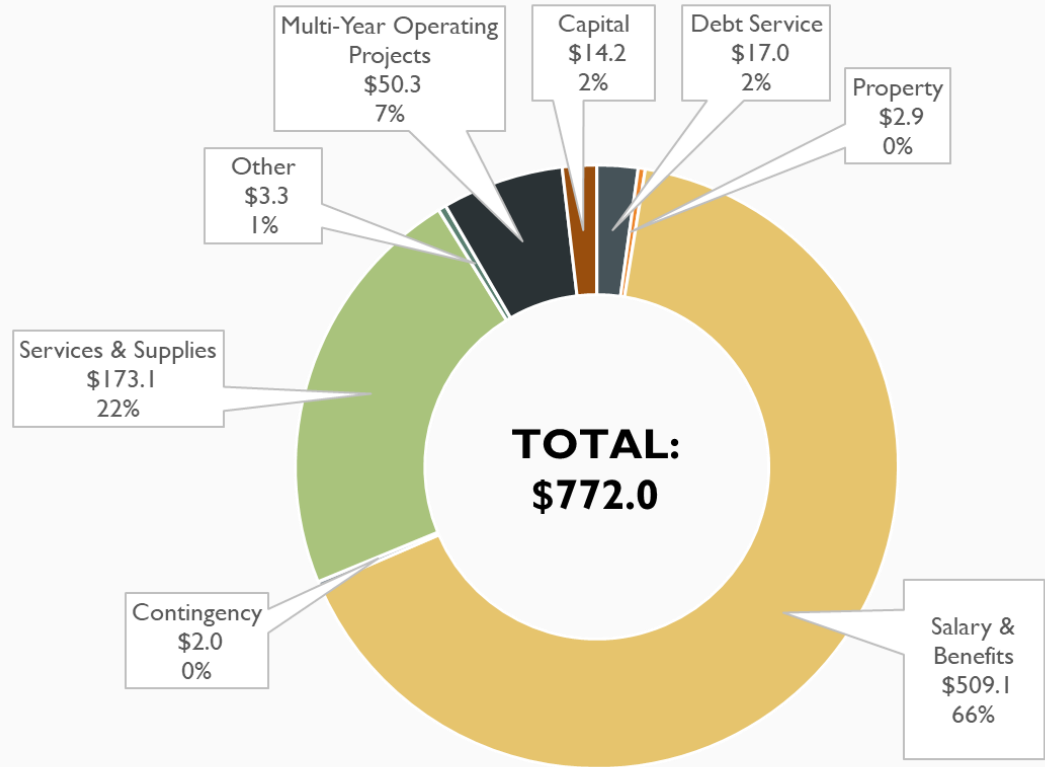
FY24 Budget

- Total Budget is ~\$1.5 billion & supports ~5,075 full-time equivalent employees.
- Includes:
 - \$758 million for General and Measure U Fund operations
 - \$14 million for General and Measure U Fund capital improvement expenditures
 - \$604 million for Enterprise and other fund operations
 - \$93 million for Enterprise and other fund capital improvement expenditures

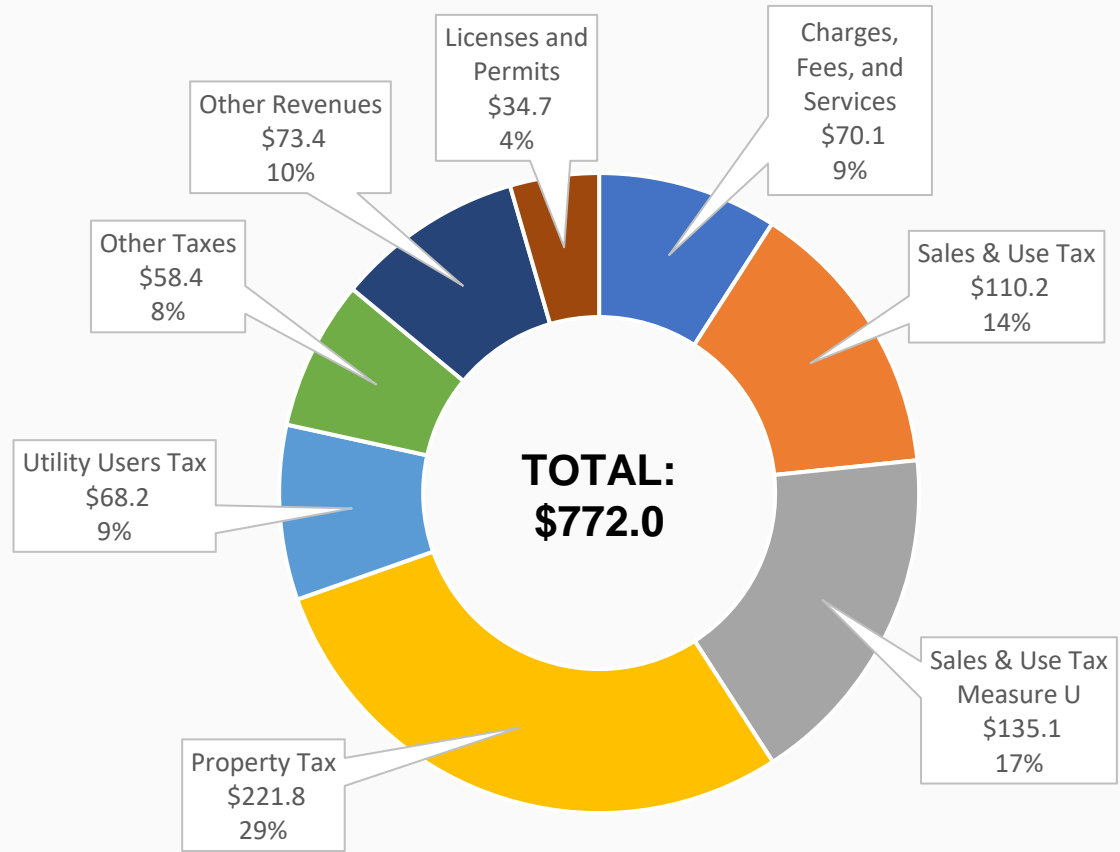
General/Measure U Fund: Appropriation By Department (millions)

Department	Appropriation	% of G/MU Fund
Police	\$ 226.8	29.4%
Fire	\$ 191.4	24.8%
Citywide and Community Support	\$ 101.6	13.2%
Youth, Parks, and Community Enrichment	\$ 50.0	6.5%
Community Development	\$ 48.6	6.3%
Public Works	\$ 25.4	3.3%
Information Technology	\$ 21.8	2.8%
Community Response	\$ 17.9	2.3%
Debt Service	\$ 17.0	2.2%
Capital	\$ 14.2	1.8%
City Manager	\$ 13.9	1.8%
City Attorney	\$ 10.7	1.4%
Finance	\$ 9.1	1.2%
Mayor/Council	\$ 6.7	0.9%
Human Resources	\$ 5.6	0.7%
Convention and Cultural Services	\$ 5.6	0.7%
City Clerk	\$ 2.7	0.3%
City Treasurer	\$ 1.7	0.2%
Office of the City Auditor	\$ 1.3	0.2%
Utilities	\$ 0.1	0.0%
Total	\$ 772.0	100.0%

General/Measure U Fund: Appropriation By Spending Category (millions)



General/Measure U Fund: Financing By Source (millions)



FY24 Budget Update

FY24 – Citywide Revenues

- 1% Bradley Burns Sales Tax and Utility Users Tax are projected below budget and to experience year on year declines.
- Measure U and Transient Occupancy revenue estimates are being adjusted downwards from budget but are showing year on year growth.
- Property Tax in lieu of VLF, Cannabis BOT, interest income, and Departmental revenues are projected above budget.

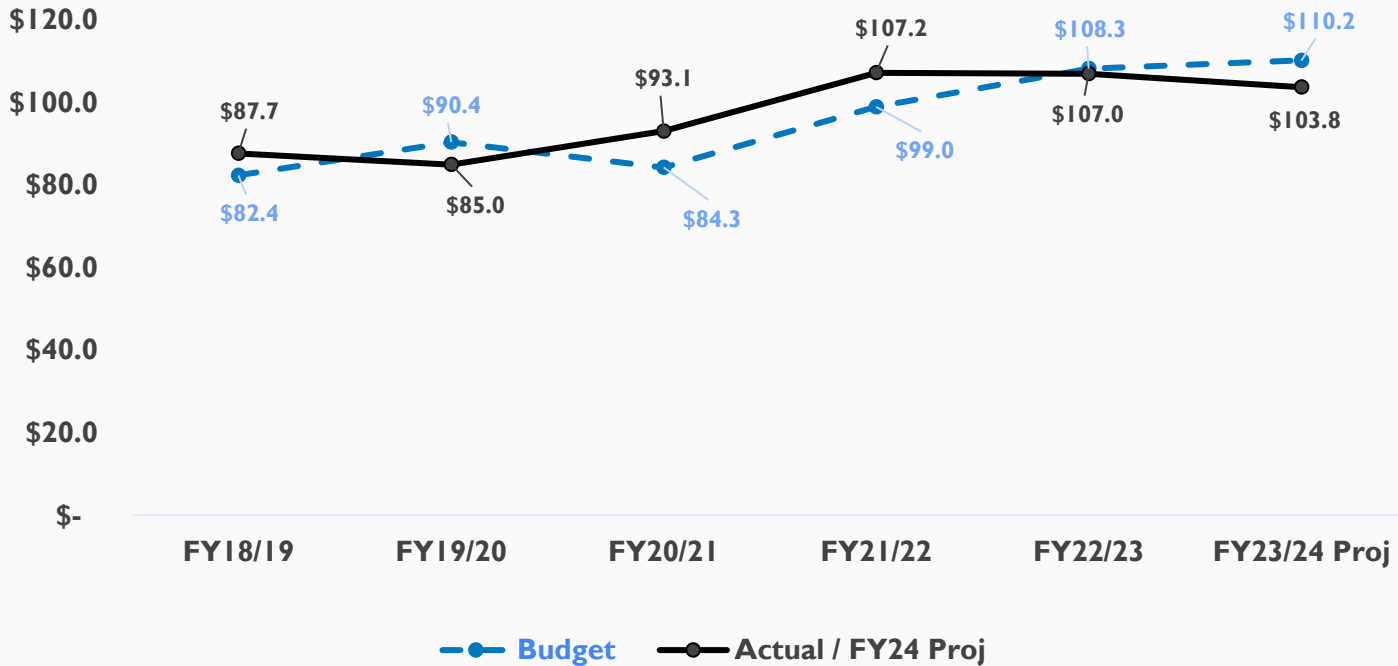
FY24 Updates

Revenue Source	FY2023/24 Adjustment (millions)
Sales Tax (1%)	(\$6.5)
Sales Tax – Measure U	(\$2.0)
Utility Users Tax	(\$3.1)
Transient Occupancy Tax (2% for GF)	(\$0.1)
Property Tax In-Lieu of VLF	\$1.5
Interest Income	\$2.5
Cannabis BOT	\$1.1
Department Revenues	\$7.8
Total Revenue Adj	\$1.2

Property Tax is projected at budget

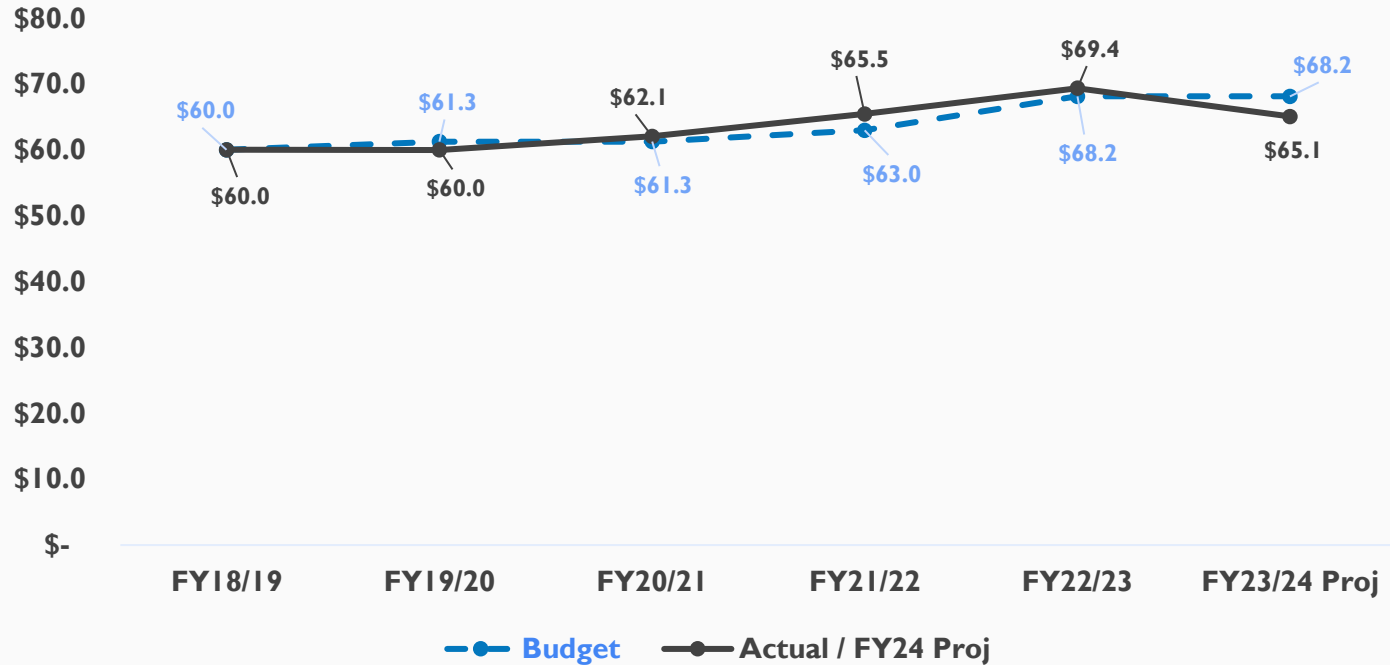
The \$1.2M in additional projected revenue is included in the updated forecast. If this funding is spent it will increase the projected budget deficit for FY2024/25

1% Sales Tax – FY24 Update (\$ millions)



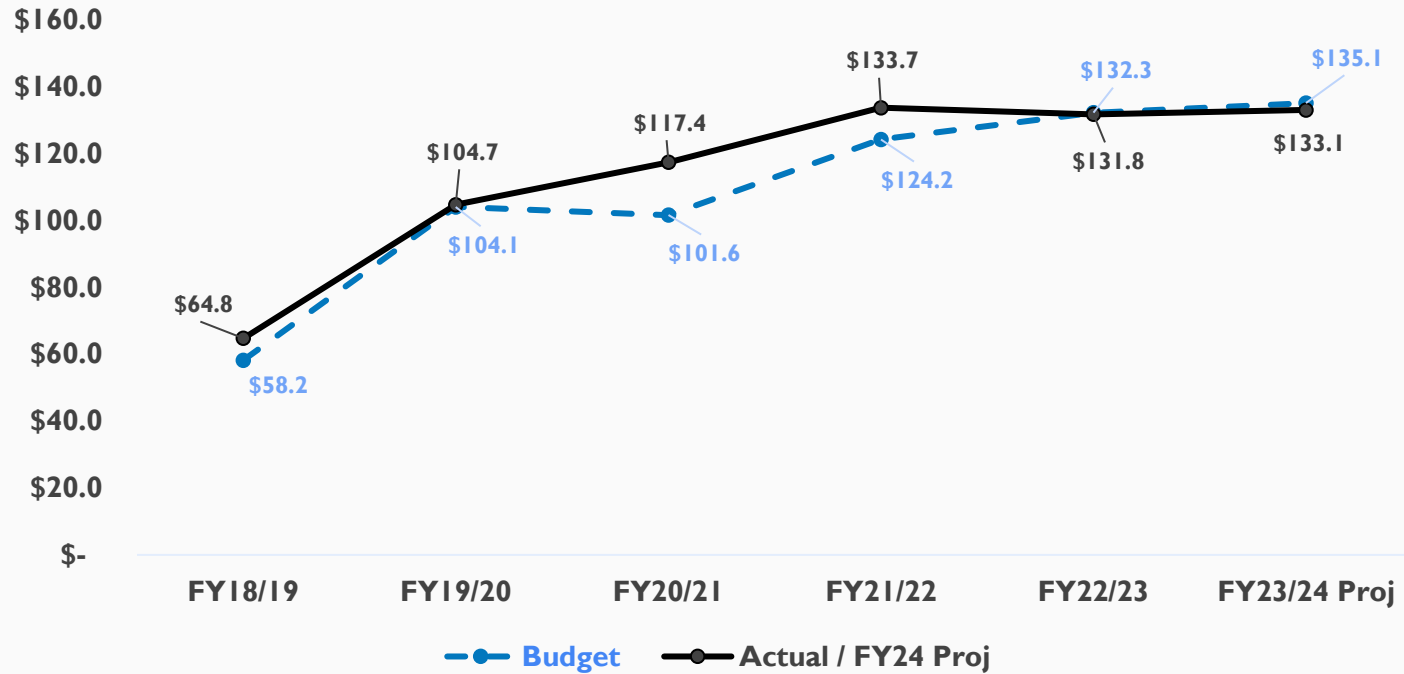
Revenue decline primarily due to large decrease in construction sector sales tax, reductions to County pool, and transportation sectors

Utility Users Tax – FY24 Update (\$ millions)

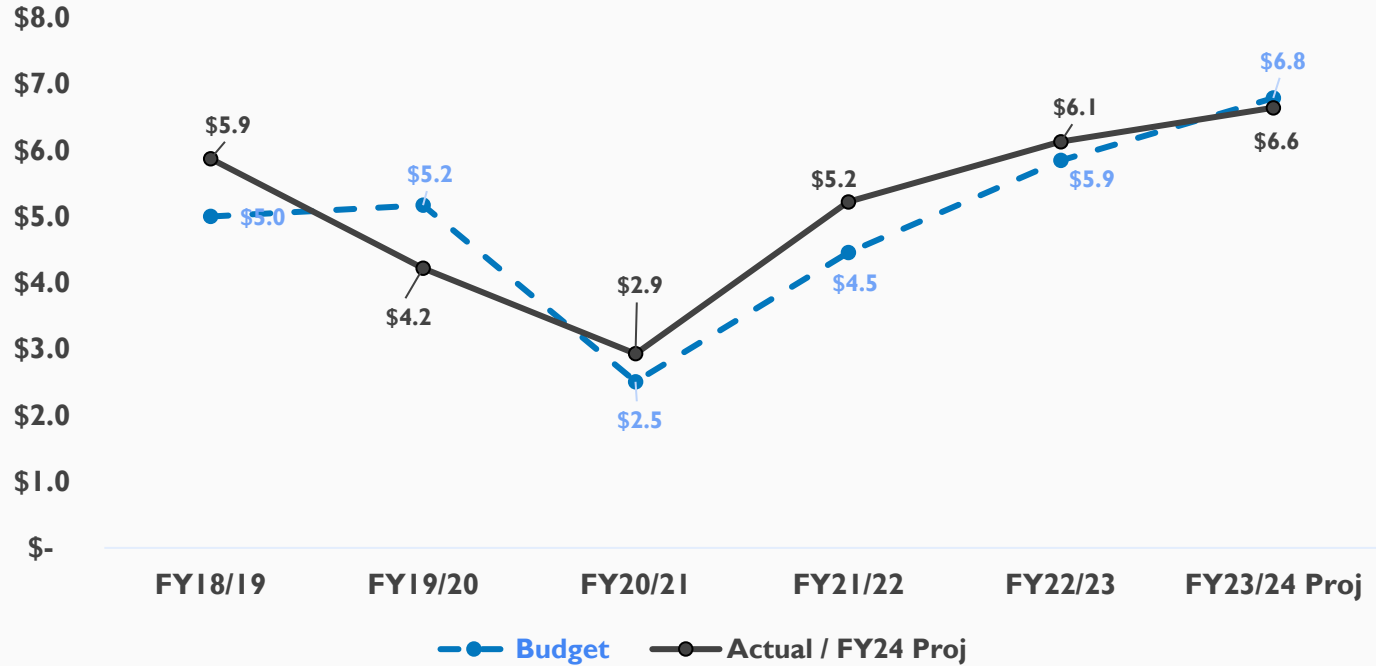


Revenue decline due to 'cord cutting' for cable and telephone outpacing gains from higher gas and electric rates

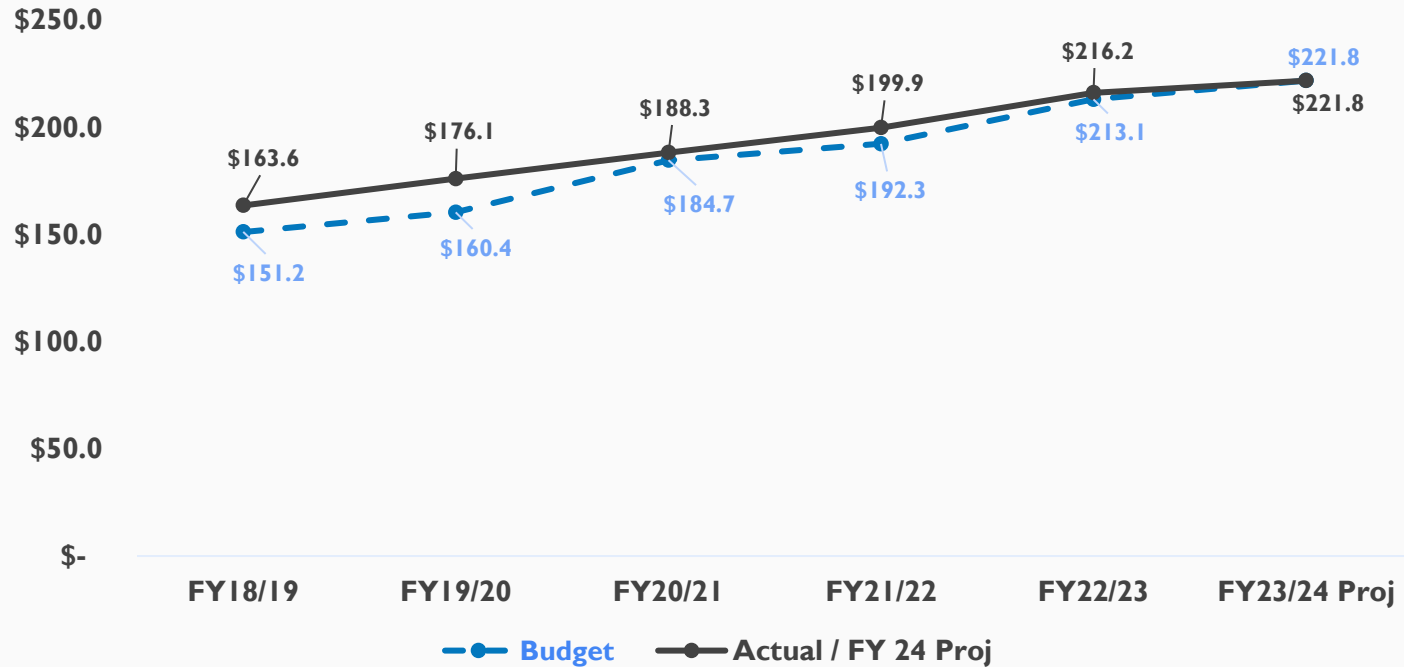
Measure U Sales Tax – FY24 Update (\$ millions)



Transient Occupancy Tax – 2% for General Fund – FY24 Update (\$ millions)



Property Tax – FY24 Update (\$ millions)



5-Year Forecast Update

Forecast Assumptions

- Continued economic growth / No recession
- Incorporates labor agreements approved late 2023 and early 2024
- Increases Measure L funding transfer from the General Fund due to increased Cannabis BOT revenue forecast
- Includes projected HHAP-5 allocation for FY2024/25

Projected FY25 Funding Gap (\$ millions)

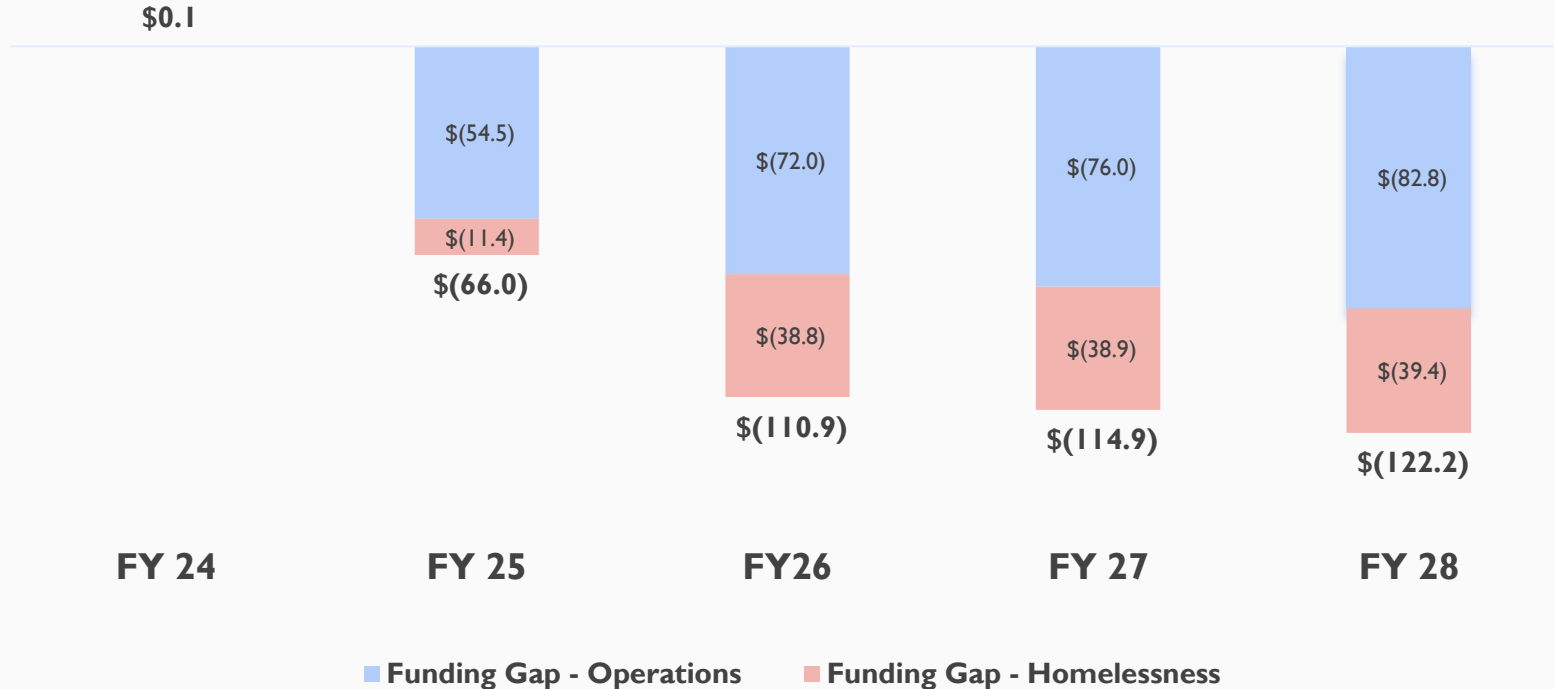
Resources	\$829.3
Expenses	(\$912.2)
Gross Funding Gap	(\$82.9)
Projected 3% Salary Savings	\$16.9
Projected Funding Gap	(\$66.0)

To meet our Charter mandate to balance the FY2024/25 Budget, the City needs to close a projected **\$66 million** deficit.

Updated 5-Year Forecast (\$ millions)

	Current Year	FY25 Budget	FY26 Proj	FY27 Proj	FY28 Proj
Revenues	\$777.5	\$789.4	\$805.8	\$825.4	\$844.6
One-Time Budget Reserve	\$25.4	\$5.1	\$-	\$-	\$-
Projected Expenses	(\$819.4)	(\$866.0)	(\$895.1)	(\$919.0)	(\$945.3)
Gross Surplus / (Deficit) – Operations	(\$16.5)	(\$71.5)	(\$89.3)	(\$93.6)	(\$100.7)
Projected 3% Salary Savings	\$16.6	\$16.9	\$17.3	\$17.6	\$18.0
Net Surplus / (Deficit) - Operations	\$0.1	(\$54.6)	(\$72.0)	(\$76.0)	(\$82.8)
Homelessness Services Resources	\$42.4	\$34.8	\$11.5	\$11.5	\$11.6
Homelessness Services Expenses	(\$42.4)	(\$46.2)	(\$50.3)	(\$50.5)	(\$51.0)
Surplus / (Deficit) – Homelessness Services	\$-	(\$11.4)	(\$38.8)	(\$38.9)	(\$39.4)
Total City Funding Gap	\$0.1	(\$66.0)	(\$110.9)	(\$114.9)	(\$122.2)

5-Year Forecast – Surplus / (Deficit) - \$ Millions



The City's funding gap is **structural** with expenses outpacing revenues throughout the forecast period.

Key Contributors To Structural Deficit

The key contributors to the City's structural budget deficit are spending increases.

Budget deficits are not due to a drop in City revenues.

New/Increased Spending Commitments	One-time Funds for Ongoing Costs	Cost Increases
<ul style="list-style-type: none">• Increased General/MU funds to expand homelessness services• Voter-approved Measure L diverting ~\$9M in General/MU funds for new Children's services• 11% increase in number of staff over past 5 years	<ul style="list-style-type: none">• 2021/22 labor contract increases funded with one-time money (~\$34M G/MU share)• ~\$10M new ARPA programs with ongoing costs (Homelessness, tourism recovery, public records, building compliance, COPS grant match)	<ul style="list-style-type: none">• Current labor contract increases (~\$45M G/MU share)*• Large increases in other costs such as insurance and retirement benefits

*Cost estimate excludes potential impact on unfunded pension liability which would increase the cost of the agreements.

FY25 Preliminary Forecast – Closing the Gap

The City Manager has implemented current year spending restrictions, and has instructed his departments to produce FY2024/25 Budget reduction options that:

- Define core services;
- Prioritize ongoing savings to address structural deficit;
- Prioritize reduction strategies by:
 - Revenue enhancement
 - Discretionary program reductions
 - Mandated program delivery change
 - Mandated program reduction
- Identify unspent project funds that could be reutilized.

Staff will continue to explore citywide reduction strategies and refine salary savings estimates.

FY25 Budget Development – Public Outreach

The public budget survey is online and can be found at cityofsacramento.gov/budgetsurvey

3 community meetings have been scheduled:

- March 6th – North Natomas Community Center – 6PM
- March 13th – Pannell Meadowview Community Center – 6PM
- March 14th – Clunie Community Center – 6PM

Survey results and feedback from the community meetings will be reported to the Budget and Audit Committee.

FY25 Budget Development Calendar

Feb 2024

- FY24 Budget Update & Forecast Update



Mar 2024

- Public Budget meetings
- Update to B&A
- Continue finalizing reduction plans

Apr 2024

- Updates to B&A



May 2024

- City Manager Proposed Budget presented
- Proposed Budget hearings

June 2024

- Final Budget hearings
- Final Budget Adoption – June 11



Pending Factors

- Unfunded pension obligations
- Unfunded capital needs
 - FY25 Capital Improvement Plan Updates
 - Compliance with Zero Emission Vehicle regulations
 - Long-term gas tax decline
- Increasing risk insurance costs
- State budget impacts on local economy and availability of homelessness program resources
- Risk of recession

Recommendations

- Authority to utilize FY23 savings to offset FY25 budget gap:
 - Approximately \$7.4M in savings available
 - Would reduce projected FY25 gap from \$66M to \$58.6M
 - This is a one-time resource
- Authority to commit non-mandated G/MU fund revenues and positive net year-end results under Resolution 2023-0205 to future budget development reserves.
- Authority to use salary savings to balance current year and budget year.

Questions & Discussions