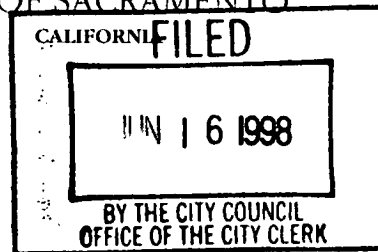




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DEPARTMENT OF
ADMINISTRATIVE SERVICES
BUDGET AND POLICY REVIEW

CITY OF SACRAMENTO



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June 7, 1998

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Proposed 1998-99 Operating Budget

LOCATION/COUNCIL DISTRICT: Citywide

RECOMMENDATION:

This report introduces the Proposed 1998-99 Operating Budget presentation and discusses the financial status of the General Fund.

CONTACT PERSON: Betty Masuoka, Deputy City Manager, 264-5704
Ken Nishimoto, Director of Administrative Services, 264-5736
Michael McGrane, Budget Manager, 264-5847

FOR CITY COUNCIL MEETING OF: June 16, 1998

SUMMARY:

This City Manager's Proposed 1998-99 Operating Budget was released on May 1, 1998. This report introduces the Proposed Operating Budget presentation, updates the Five Year General Fund Workout, and discusses policy options related to the financial status of the General Fund.

COMMITTEE / COMMISSION ACTION:

None.

BACKGROUND:

- ▶ *Proposed Status Quo:* The status quo Proposed 1998-99 Budget, released on May 1, continues existing programs and service levels into Fiscal Year 1998-99. There are no new programs, no new positions, and no utility rate increases proposed in the 1998-99 Budget. The funding levels for these existing programs and service levels have been adjusted to reflect the cost of living increases and other Council approved changes in the 1997-98 Budget.
- ▶ *Measure I:* On June 2, 1998, Measure I was approved by City residents. Passage of this Measure results in the General Fund retaining \$10.5 million in payments from the City's Water, Sewer, Drainage, and Solid Waste Enterprise Funds. No change is required in rates or service levels for these enterprise funds.
- ▶ *Changes to the Proposed Budget:* During these budget hearings, Council may wish to change the City Manager's Proposed Budget. Certain requests to modify the Proposed Budget will be heard on June 16 and June 23. This report discusses impacts and policies relative to changes to the budget.

FINANCIAL CONSIDERATIONS:

Five Year Status Quo

The first chart describes a status quo General Fund budget in which all existing programs continue at existing funding sources, including grant funded programs. This chart includes estimates of salary and wage adjustments.

The status quo 5 year projection indicates that:

- ▶ *Revenue and Expenditure Growth:* Percentage revenue growth is still less than projected expenditure growth.
- ▶ *Annual Imbalances:* Greater percentage expenditure growth creates current year imbalances which are offset from accumulated one-time surpluses.
- ▶ *Use of Accumulated Reserves:* Current programs could be sustained utilizing one-time resources through Fiscal Year 2000-01. However, in Fiscal Year 2001-02, the growth in expenditures would deplete reserves and action would be needed to address the projected shortfall.

**5 Year General Fund Workout
Status Quo**

	1997-98 Approved	1997-98 Midyear	98-99	99-00	00-01	01-02
1 Beginning Available Fund Balance	10,199	10,199	11,199	9,594	7,516	1,621
2 Revenues:						
3 Taxes	138,423	138,423	154,489	158,197	161,993	165,881
4 Department operating revenues	41,547	41,547	31,627	32,260	32,905	33,563
5 Intergovernmental	23,197	23,197	23,309	23,542	23,778	24,015
6 Other	3,215	3,637	3,165	3,197	3,229	3,261
7 Total Revenue	206,382	206,804	212,590	217,195	221,904	226,720
8			2.8%	2.2%	2.2%	2.2%
9						
10 Expenditures:						
11 Employee services	174,275	174,776	188,555	192,289	201,321	209,462
12 Services and supplies	60,668	60,668	61,495	62,110	62,731	63,358
13 Debt Service	13,839	13,839	13,881	14,000	14,000	14,000
14 Equipment	667	667	578	500	500	500
15 Transfers	(26,471)	(26,471)	(29,580)	(30,467)	(31,381)	(32,323)
16 CIP/Grant Offsets	(20,742)	(20,742)	(20,170)	(21,159)	(21,371)	(21,585)
17 Capital	4,564	4,564	940	1,000	1,000	1,000
18 Other	1,000	921	(1,446)			
19 Administrative Contingency	1,481	1,481	1,000	1,000	1,000	1,000
20 Total Expenditures	209,281	209,703	215,253	219,273	227,799	235,412
21			2.6%	1.9%	3.9%	3.3%
22 Total other sources and (uses:)	3820	3,899	1,058	0	0	0
23 Current Year Surplus (Deficit)	921	1,000	(1,605)	(2,078)	(5,895)	(8,692)
24 Ending Available Fund Balance	11,120	11,199	9,594	7,516	1,621	(7,071)

**5 Year General Fund Workout
With Potential Impacts**

	1997-98 Approved	1997-98 Midyear	98-99	99-00	00-01	01-02
25 Potential Impacts						
26 Police Grant Replacement			0	0	0	(8,000)
27 Public Safety Ballot Measure			*****	*****	*****	*****
28 State VLF Proceeds			*****	*****	*****	*****
29 Other			(1,000)	(1,200)	(1,300)	(1,400)
30 Subtotal Potential Impacts	0	0	(1,000)	(1,200)	(1,300)	(9,400)
31 Revised Cur. Yr Surplus (Deficit) Line 23 + Line 30	921	1,000	(2,605)	(3,278)	(7,195)	(18,092)
32 End. Avail. w Potential Impacts	11,120	11,199	8,594	5,316	(1,879)	(19,971)

*Chart excludes Economic Uncertainty Reserve which totals \$9.2 million

5 Year with Potential Impacts

- ▶ *Police Grants:* The Universal Hiring Grant expires in Fiscal Year 2001-02. The value of this and other Police grants is approximately \$8 million. Replacement funding is uncertain at this time.
- ▶ *State Vehicle License Fees:* The General Fund receives \$16 million from Motor Vehicle Taxes. Proposals in the legislature could potentially impact this revenue source.
- ▶ *Other Items:* A few changes to the Proposed Budget will be introduced to the Council on June 16 and June 23. Other items could include costs associated with a misdemeanor jail, a share of operating costs for a detox center, recreation programs, and other Council priorities.
- ▶ *Changes to 5 Year Potential Impacts:* Prior versions of the 5 Year with Potential Impact charts have included reduced transfers from non-property related enterprise funds such as Golf, Off-Street Parking, Community Center, etc. With the passage of Measure I these potential impacts have been removed.
- ▶ *Reliance on Reserves:* One time reserves could be used to offset annual imbalances. Permanent remedies would need to be in place by Fiscal Year 2000-01.

POLICY CONSIDERATIONS:

General Fund Summary

- ▶ *Annual Imbalances:* The General Fund is relying on accumulated one-time savings to offset an annual imbalance of revenues and expenditures. These annual imbalances will need to be corrected over the 5 year period either through cost reductions or increased revenues beyond the forecasted amounts.

Budget Policy

- ▶ *One-Time v. Ongoing:* Council Policy is to utilize one-time resources for one-time expenditures. Funding of ongoing programs from one-time savings increases the annual current imbalances each year.
- ▶ *Balanced Annual Budgets:* A goal of the Council has been to bring these figures into balance to provide for long term financial stability.
- ▶ *Current Needs:* Given the numerous changes that have occurred to the operating budget over the last several years and new additional needs, certain requests to change the Proposed Budget will be presented, as well as any Council proposals will be discussed over the next two hearings.

- ▶ *Criteria for Changes to the Proposed Budget:* Since, no formal inventory of needs is incorporated into the proposed status quo budget, staff recommends that changes be limited to those that meet certain criteria and be held to a level which does not substantially exacerbate the financial condition of the General Fund over the next five years. These criteria are:

- Mandated or Legally required
- Cost Offset or Leverage of City Funds
- Proposal meeting highest Council Priorities
- One-time investments that produce future returns

Other requests that would materially negatively impact the General Fund 5 year plan, should be evaluated during the Midyear Review update.

- ▶ *Midyear Review:* As part of the FY 99 Midyear Review, staff will update the financial status of the City's General Fund and develop budget strategies to address bringing the revenues and expenditures into balance.

ENVIRONMENTAL CONSIDERATIONS:

There are no environmental considerations relative to this informational report.

MBE/WBE:

There are no goods or services being purchased as a direct result of this action.


Respectfully submitted,



Betty Masuoka
Deputy City Manager

RECOMMENDATION APPROVED:



 William H. Edgar
City Manager

City of Sacramento

Fiscal Year 1998-99

Proposed Operating Budget

June 16, 1998

General Fund 5 Year Projection
"Status Quo"

■ 5-Year Outlook:

	97-98	98-99	99-00	00-01	01-02
Beg. Fund Bal	10.1	11.2	9.6	7.5	1.6
Revenues	206.8	212.6	217.1	221.9	226.7
(Expenditures)	209.7	215.3	219.3	227.8	235.4
Other Sources	3.9	1.1	0.0	0.0	0.0
Current Yr Bal	1.0	-1.6	-2.1	-5.9	-8.7
Cumm. Fund Bal	11.2	9.6	7.5	1.6	-7.1

Betty m.

Measure I passed, no need for cuts this yr.
 Proposing using \$11.2 m over 5 yrs to
 prevent tap

General Fund 5 Year Projection "Status Quo"

- Expenditures growing faster than Revenues by 1%/year
- Annual imbalances offset from reserves through FY 2000-01
- Budget Cuts may be needed before FY 2001-02

General Fund 5 Year Projection with "Potential Impacts"

■ 5-Year Outlook:

	97-98	98-99	99-00	00-01	01-02
Police Grants	0.0	0.0	0.0	0.0	-8.0
Safety Ballot Measure	0.0	*****	*****	*****	*****
State VLF Loss	0.0	*****	*****	*****	*****
Other	0.0	-1.0	-1.2	-1.3	-1.4
Revised Cur Yr Balance	0.0	-2.6	-3.2	-7.2	-18.1
Potential Ending Balance	11.2	8.6	5.3	-1.9	-20.0

increased
Annual gap
between
revenues
& expenditures
may need
budget cuts
by yr 2000.

BM -
concerned
re: losses
being \$10-12
m.
If state is
in good condition
we'll be ok -
if not, we
will suffer.

General Fund 5 Year Projection with "Potential Impacts"

- *Reserves available to cover offset through FY 2000-01*
- *Permanent solutions needed before FY 2000-01*
- *Gap exacerbated if police grant funding ends in FY 2001-02*

Budget Policy

- *One-time v. Ongoing*
- *Balanced Annual Budgets*
- *Criteria for Changes to Status Quo*
- *Midyear Review*
 - *Policy to address annual imbalances*

Budget Related Reports

■ Fee Reports:

- No change in city utility bills
- Development Fees
- Parking Fees
- Trench Cuts
- ALS Fee
- Vehicle Abatement Brief Overview

■ Budget Adjustments:

- Management 1998-99 Salary Adjustment
- Swimming Pool Program
- No. Natomas Readiness
- City Treasurer (6/23)
- Convention Center Mgt Audit Rec. (6/23)
- Misdemeanor Jail (6/23)
- Old Sacramento (6/23)

■ Other:

- SHRA Budget

*this week
6/16*

*next week
6/23*

FY 99 Budget Calendar

- Changes to be heard 6/16 & 6/23 ✓
- Adopt June 30 ✓
- SHRA Reengineering 7/28 ✓
- Code Enforcement Report 8/11 ✓
- Parks & Rec Master Plan 8/25
- Quimby Report 8/25 ✓
- ICMA Benchmarking 9/22 ✓
- Community Action Initiative 10/13 ✓
- Midyear - 2/99 ✓

Proposed Budget Overview

Changes in the Proposed Budget

■ *Police (p. 43)*

- *Full Year Universal Hiring Grant \$0.9 million (offset)* ✓
- *Off Duty Police increase \$0.6 (offset)* ✓
- *Other salary adjustments* ✓

■ *Fire (p. 53)*

- *JPA Communication Midyear Adjustment \$0.3 million*
- *Haz Mat Pay Adjustments*

Changes in the Proposed Budget

■ Public Works (p.59)

- Transfer \$1.3 million of citywide lease expenditures to Non-Departmental

■ Utilities (p.73) - Status Quo

■ Downtown (p.83) - Status Quo

■ Cultural Arts (p.89)

- Zoo & Fairytale Town shift to non-profit operations

no prop. charge
no rate adj.

Changes in the Proposed Budget

■ Neighborhoods, Planning & Development (p.95)

- Increased Grant Funding for S.T.A.R.T. \$1.8 million (offset)
- Public Information position transferred from City Manger's Office

re-transfer to neighborhoods -
wld work better there

all major shifts red
now have Pub Inf Officer

Changes in the Proposed Budget

- **Administrative Services (p.113)**
 - Human Resources Position transferred from City Manager's Office to ASD ✓
- **Charter Officers (p.123)**
 - City Manager
 - Human Resources position to ASD, Public Info position to NSD ✓
 - City Attorney
 - Budget includes 7 limited term positions approved in FY 98 ✓

no prog
 important
 subsidy corp
 for that

Changes in the Proposed Budget

- **Debt Service (p.129)**
 - \$1.3 Million transfer from Public Works related to citywide leases ✓
 - Increase of \$1.0 for existing debt service ✓
- **Non-Departments (p.135)**
 - Includes payment to Library Authority (increase 2% for a total of \$6.4 million) ✓
 - Eliminated Budgeted Parking Fix (\$0.5) ✓
 - Includes Detox funding at \$0.3 million ✓

no
 prog
 change

ref: new P
 elim. subsidy

County \$1/2 m }
 Agency \$1/2 m } on
 City = \$300K } detox