



REPORT TO COUNCIL

City of Sacramento

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STAFF REPORT
February 7, 2006

Honorable Mayor and
Members of the City Council

Subject: City Council Budget and Community Reinvestment Capital Improvement Program (CRCIP) Planning Session

Location/Council District: Citywide

Recommendation: Adopt a Resolution: 1) Approving the Revised Budget Cycle, 2) Approving Budget Objectives and Principles and 3) Approving a list of capital projects to be included in the CRCIP.

Contact: Gus Vina, Assistant City Manager 808-7138; Thomas P. Friery, City Treasurer 808-5168; and Russell Fehr, Director of Finance, 808-5832

Presenters: Gus Vina, Assistant City Manager

Department: City Manager's Office

Division: Executive Office

Organization No: 0310

Summary: On January 10, 2006, the City Council held a financial planning workshop to consider and discuss the following:

- A revised budget cycle, budget objectives and budget principles;
- Fiscal Year 2004/05 (FY2004/05) financial results and use of funds; and
- Capital projects to be included in the CRCIP.

Staff recommends that the City Council approve a resolution adopting: the revised budget cycle (Exhibit 1); budget objectives and principles (Exhibit 2); and a list of projects to be included in the CRCIP (Exhibit 3).

Committee/Commission Action: None.

Background Information:**I. PROPOSED BUDGET CYCLE**

Staff proposes modifying the annual budget cycle in order to assure that the Mayor and City Council have both sufficient information and time to fully participate in the budget process. A graphic of the revised budget cycle is provided as Exhibit 1. A key component of the revised cycle is the development of two budget documents, a "base budget" that reflects spending to continue staffing and programs previously authorized by the City Council (i.e., growth in labor costs resulting from the implementation of approved labor contracts), and the addition of a second document that highlights policy adjustments to the budget. Depending on the financial position of the City, this additional/companion document could include both budget increases and/or decreases, reflecting the policy direction or "vision" of the City Council.

The revised budget cycle will provide the necessary opportunities for the Mayor and City Council to gather information, interact with constituents and staff, and provide essential policy direction necessary for budget development. Further, the revised process provides the Mayor and City Council with the opportunity to link the strategic plan with the appropriate financial resources. Consequently, when the budget is presented in May of each year, the Mayor and City Council will be well prepared to participate in thoughtful consideration of the proposed budget, having provided the strategic policy framework for the development of the proposed budget document.

In addition to reviewing the budget cycle, the City Council also reviewed and discussed the following Budget Objectives and Principles during the financial planning workshop:

Budget Objectives

The Council considered the following overarching budget objectives:

- Develop fiscally sustainable spending plan by July 1st
- Align the City Council's strategic plan with the budget
- Provide funding to deliver services and infrastructure to the community
- Communicate Council's vision to the community

Budget Principles

The Council considered the following budget principles to provide a framework for policy development and decision making related to budget development:

- Maintain a fiscally sustainable, balanced budget
- Use one-time resources strategically
- Identify return on investment and impacts; fiscal and social benefits
- Maintain a reserve for economic uncertainties
- Keep the City Council informed on the fiscal condition of the City
- Focus on incremental changes to staffing and spending
- Identify resources for top priorities and initiatives
- Continuous evaluation for efficiencies and effectiveness

Staff recommends that the City Council adopt the revised Budget Cycle (Exhibit 1) and the Budget Objectives and Principles listed above. Once adopted, these objectives and principles will provide a basic framework to guide the annual budget development process.

II. FY 2004/05 FINANCIAL RESULTS

Staff presented an overview of the FY2004/05 year end results to the Mayor and City Council during the January 10, 2006, financial planning workshop. The following presentation on the FY2004/05 CAFR includes specific designations of the year end results consistent with the Mayor and City Council's direction at the planning session.

In addition, staff presented a plan for the use of the accumulated carryover. Mayor and City Council direction is reflected in the Midyear report which will follow this report.

III. COMMUNITY REINVESTMENT CAPITAL IMPROVEMENT PROGRAM (CRCIP)

Process

On October 11, 2005 the City Council authorized staff to begin work on an estimated \$70 million debt financing and directed staff to bring back a project list for City Council consideration. On December 13, 2006, the City Council conducted a public hearing to discuss potential projects and took public testimony on potential non-profit partner projects.

During the City Council's financial planning workshop the City Council reviewed, discussed and ranked potential projects. During the workshop it was determined that ranking projects based on the highest citywide priority and readiness instead of from a citywide/neighborhood approach would be more beneficial. The ranking resulted in a project priority listing which included Tier I and Tier II projects. Tier I projects are projects determined to be of the highest priority and met a basic readiness criteria. Tier II projects are high priority projects that might take more than three years to complete but should be considered provided there is funding capacity.

A detailed listing of the Tier I and Tier II projects in priority order with proposed funding allocations is included as Exhibit 3.

Next Steps

After adoption of a project list by the City Council, staff will:

- Prepare detailed project descriptions, scopes of work and refined estimates;
- Determine the on-going operating costs related to the projects;
- Determine the City's capacity for delivering projects (identify which can be accomplished within 3 years and which will take longer);
- Prepare additional information on the citywide neighborhood projects (Neighborhood Park/Infrastructure and District Improvement Funding) and present options for allocating these resources during the City Council's upcoming Strategic Planning Session;

- Evaluate projects that may be candidates for tax-exempt financing, grant issuance or traditional tax-exempt financing (Attachment A provides a brief explanation of each debt financing alternative);
- Coordinate with bond counsel and investment bankers on the debt issuance including an interest rate projection which will determine the City's debt capacity (\$70+/- million);
- Formulate the best financing structure to meet the City Council's overall goals and priorities; and
- Report back to the City Council on the above steps as information becomes available.

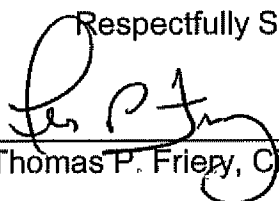
Financial Considerations: The source of funding for these projects will be a debt issue. The City has the capacity to make the debt service payments due to the Mayor and City Council's sustainable budget policies and planning in a multi-year context. The source of debt service will be the \$6 million in property taxes taken by the State in FY2004/05 and FY2005/06 and due to be returned to the City in FY2006/07. The \$6 million has, in effect, been written out of the operating budget, and use of the returned property taxes has not been included in the five year forecast of the General Fund. This makes the returned revenue available to support the debt issue without impacting programs in FY2006/07.

Environmental Considerations: The requested action is not subject to the provisions of the California Environmental Quality Act (CEQA) under the general rule [Section 15061(b) (3)] that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Environmental review for any project, which utilizes funds allocated by the proposed debt issue, will be performed in conjunction with planning, design and approval of each specific project as appropriate.

Policy Considerations: This report and the recommendations contained within the report are consistent with the City's sustainable budget policy.

Emerging Small Business Development (ESBD): No goods or services are being purchased under this report.

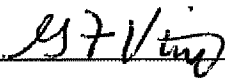
Respectfully Submitted by:



Thomas P. Friery, City Treasurer



Russell Fehr, Finance Director

Approved by: 
Gus Vina
Assistant City Manager

Recommendation Approved:


RAY KERRIDGE
Interim City Manager

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Attachment A**DEBT FINANCING ALTERNATIVES**

As background to municipal debt financing, prior to the early to mid 1980's the Federal government and the U.S. Securities Exchange Commission did not stringently regulate issuance of municipal bonds. Consequently, there was extensive local use of tax-exempt municipal bonds that resulted in abuses by some local governments. Some borrowed money tax-exempt and reinvested for a profit i.e. borrowed at 6% and reinvested at 10% for 4% tax-exempt profit (arbitrage); some used the proceeds for private sector businesses (private activity); and others used proceeds to fund authorized capital projects, but in some cases did not complete the projects (hedge bonds and/or expend 85% of proceeds authorized within three years or "85% rule"). To address these abuses, the Federal government enacted various regulations including Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Tax Reform Act of 1986 (TRA).

Tax-Exempt

Traditionally, the City uses tax-exempt bonds to finance capital projects such as the CRCIP projects. While tax-exempt bond financing provides the lowest borrowing cost to the City, the project should meet all the regulations and guidelines imposed by TEFRA and TRA which can be potentially problematic for some of these proposed projects. As identified in the December 13, 2005, report to City Council, these Federal regulations and guidelines precluded municipalities from hedge fund activity, arbitrage, imposed requirements that 85% of the net proceeds are expended in three years, and placed limitations on private activity, which limited the use of tax-exempt proceeds to 5% (payment) or 10% (usage) of tax-exempt financed projects.

Grants

An alternative consideration is the straight out issuance of a grant to a non-profit from the tax-exempt bond proceeds. At the time the grant funding is received by the non-profit entity, the bond proceeds are considered fully expended and the "85% rule" no longer applies. This alternative is most suitable when there is some assurance that the desired project will be completed within a specified timeframe i.e. three years. Should the funding be awarded under the caveat that if the project is not completed the funding would be returned, and the returned funding would not be considered expended under the "85% rule," therefore award of grants may also pose some challenges to the City.

Taxable

If a potential project fails to meet the strict regulations and guidelines imposed by TEFRA and TRA, the City, with the approval of the City Council, can still finance these types of projects using taxable bonds. In the past, the interest rate spread between tax-exempt and taxable bonds ranged from 30% to 40% but at present, the spread has narrowed significantly from 5% to 15%. Therefore, the added flexibility of taxable bonds and the economic benefit derived from the project may offset the slight increase in financing costs associated with funding the project with taxable bonds.

The City Treasurer's Office will utilize the detailed project descriptions to ascertain which potential project meets the stringent regulations and guidelines of tax-exempt bond financing and how much of the bond proceeds could be financed using other debt financing alternatives.

RESOLUTION NO. 2006-XXXX

Adopted by the Sacramento City Council
February 7, 2006

APPROVING A REVISED BUDGET CYCLE, BUDGET OBJECTIVES, BUDGET PRINCIPLES AND A LIST OF PROJECTS TO BE INCLUDED IN THE COMMUNITY REINVESTMENT CAPITAL IMPROVEMENT PROGRAM (CRCIP)

BACKGROUND

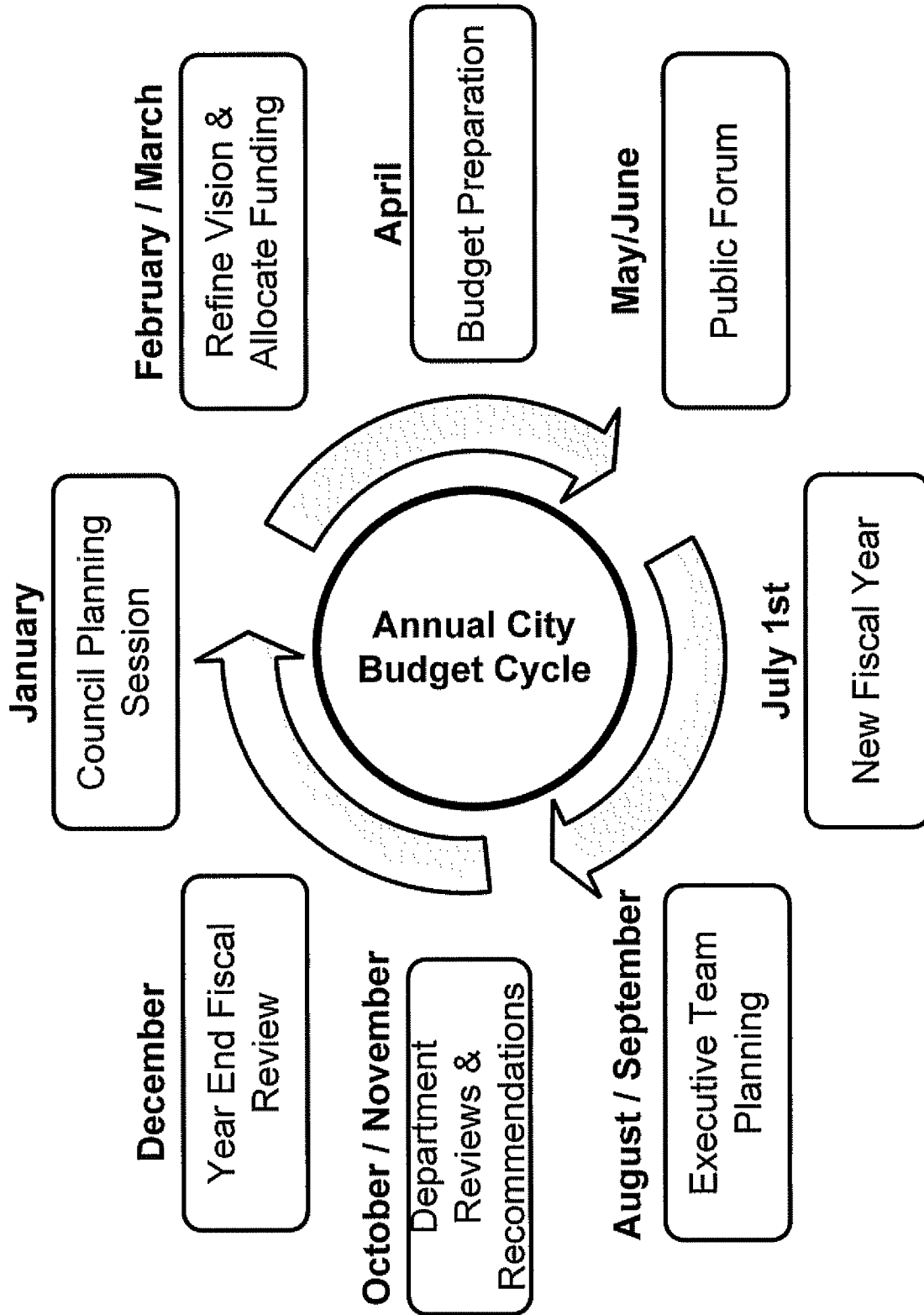
- A. The City Council held a budget and community reinvestment capital improvement program (CRCIP) planning session on January 10, 2006.
- B. The City Council provided direction to staff with regard to the proposed revised budget cycle, budget objectives and budget principles as well as the designation of FY 2004/05 year end results.
- C. The City Council provided direction to staff with regard to changing the CRCIP prioritization from a split between neighborhood and citywide projects to that of an overall citywide priority approach.
- D. The City Council participated in a project prioritization exercise to develop a list of projects to be included in the CRCIP.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The revised budget cycle is hereby adopted.
- Section 2. The budget objectives and budget principles are hereby adopted.
- Section 3. The City Council approves the CRCIP and Preliminary Funding Plan as reflected on Exhibit 3.
- Section 4. Should one or more of the CRCIP projects (Exhibit 3) not occur, the City may, consistent with State and Federal law and covenants of the proposed bond financing, substitute other City Council approved projects.

- Exhibit 1 – Revised Budget Cycle
- Exhibit 2 – Budget Objectives and Budget Principles
- Exhibit 3 – CRCIP Project List

Revised Budget Cycle



Budget Objectives and Budget Principles

Budget Objectives

- ◆ Develop fiscally sustainable spending plan by July 1st
- ◆ Align the City Council's strategic plan with the budget
- ◆ Provide funding to deliver services and infrastructure to the community
- ◆ Communicate Council's vision to the community

Budget Principles

- ◆ Maintain a fiscally sustainable, balanced budget
- ◆ Use one-time resources strategically
- ◆ Identify return on investment and impacts; fiscal and social benefits
- ◆ Maintain a reserve for economic uncertainties
- ◆ Keep the City Council informed on the fiscal condition of the City
- ◆ Focus on incremental changes to staffing and spending
- ◆ Identify resources for top priorities and initiatives
- ◆ Continuous evaluation for efficiencies and effectiveness

COMMUNITY REINVESTMENT FUNDING 2006

| PRIORITY PROJECTS | GENERAL FUND | DOWNTOWN BOND | FUND BALANCE | LOT A PROCEEDS | OTHER |
|--|--------------|---------------|--------------|----------------|-------------|
| Pocket Library | \$97,278,000 | \$11,053,000 | \$3,600,000 | \$5,000,000 | \$1,830,000 |
| Crocker Art Museum Renovations | 3,700,000 | | | | \$848,000 |
| Zoo Veterinary Hospital | \$2,000,000 | \$8,000,000 | | | |
| Regional Park Improvements | 1,200,000 | | | | |
| Animal Shelter Cattery Building | 5,000,000 | | | | |
| George Sim Community Center | \$1,500,000 | | | | |
| S. Natomas Community Cntr. (SNCC) Improv. | \$6,500,000 | | | | |
| Sacramento Unity Center | \$400,000 | | | | |
| Neighborhood Park Improvements | 2,000,000 | | \$3,000,000 | | |
| Art Rehearsal Space (14/H) Land & Match for Building | \$9,000,000 | | | | |
| Intermodal Transportation Facility-Variou Options | \$3,000,000 | | | | |
| Oak Park Community Center Phase II | \$1,000,000 | | | | |
| Sierra 2 Restroom & Access Improvements | \$175,000 | | \$600,000 | | |
| Valley Hi-North Laguna Library | 16,000,000 | | | | |
| District 2 Improvements (streelights, sidewalks, parks) | 7,500,000 | | | | |
| District 3 Improvements (Ben Ali) | 1,000,000 | | | | |
| District 1 Improvements (Alkali Flat, Stanford-Teen Center, Charter-Performing Arts) | 1,500,000 | | | | |
| Memorial Auditorium Historical Studies Group Request | \$3,053,000 | \$3,053,000 | | | |
| Community Center Theater Design | | | | \$5,000,000 | |
| Fairytale Town Fencing & Walkways | \$500,000 | | | | |
| Children's Theater of CA (CTC-B Street) | \$1,000,000 | | | | |
| District Improvement Funding | \$9,000,000 | | | | |
| <i>Tier I Funding Plan: \$75,028,000</i> | | | | | |
| District 7 Facilities/Improvements | \$8,300,000 | | | | |
| Neighborhood Infrastructure/CDBG eligible (streelights, curbs/gutters & sidewalks) | \$5,000,000 | | | | |
| Children's Theater of CA (CTC-B Street) | \$2,000,000 | | | | |
| SMUD Underground Match | \$5,000,000 | | | | |
| Sacramento Zoo Animal Exhibits | 1,950,000 | | | | |
| <i>Tier II Funding Plan: \$22,250,000</i> | | | | | |

CDBG ADA Work

450,000
\$532,000