



CITY MANAGER'S MESSAGE

I am pleased to present the FY2013/14 Proposed Budget in Brief, which has been developed to provide a high level overview of my budget proposal. Without the support of the voters in Sacramento, this year's budget would have been another year of significant service level reductions. Through the support of the City Council and city residents, the City of Sacramento Essential Services Protection Measure (Measure U) was passed in November 2012 authorizing the implementation of an additional one-half cent sales tax that became effective April 1. An overview of the proposed restorations to police, fire, parks, and other critical city services is provided on page 3, with detailed information available on pages 19-21 of the Proposed Budget. While the Measure U funds will provide needed resources to retain vital services and begin to restore, on a limited basis, some programs and services, it is important to recognize and understand the financial reality that our community's needs and priorities continue to surpass available resources.

The total budget proposed for FY2013/14 is \$819 million. This includes \$372 million for General Fund operations, \$406 million for Enterprise and other fund operations, and \$41 million for capital improvement projects. The Proposed Budget closes an \$8.9 million budget gap in the General Fund through a combination of staffing reductions and the utilization of Measure U resources to retain grant-funded police officer and firefighter positions that would have to be eliminated as grant funding expires.

Although there are signs of economic recovery, the General Fund budget continues to reflect a structural deficit between revenues and expenditures (as represented in the five-year forecast on page 2), attributable mostly to employee compensation and benefit costs growing faster than revenues. In addition, we will have substantially higher retirement contributions beginning in FY2015/16 based on recent actions of the California Public Employees Retirement System (CalPERS) Board. Additional information on these changes and the financial impact on the City is included in the "On the Horizon-Future Fiscal Challenges" section of the budget overview.

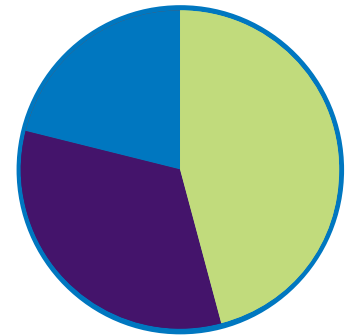
The future cost increases resulting from the CalPERS actions are especially significant given that the personnel costs necessary to deliver the City's programs and services represent the single largest expenditure in the City's budget. As such, we have been working with our employee labor groups on efforts to reduce both current and future costs related to pensions, healthcare, and retiree benefits. It remains my sincerest hope that we will be able to reach agreements before July 1 that avoid the reductions and the associated effects on service levels included in the proposed budget.

There is much work to be done and certainly more challenges ahead. I look forward to working with councilmembers, residents, and employees during the budget process to meet these challenges.

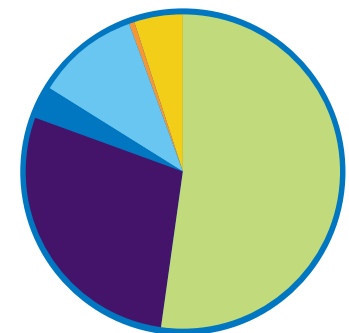
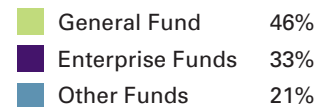
Sincerely,

John F. Shirey, City Manager

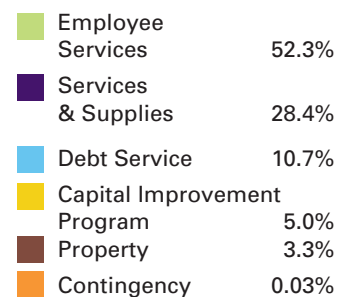
The Proposed City Budget Is \$819 Million



REVENUES



EXPENDITURES





CLOSING THE GAP – BALANCING THE BUDGET

General Fund Five-Year Forecast

Base General Fund expenditures absent Measure U resources are forecast to exceed projected revenues for the seventh year in a row resulting in a projected General Fund budget deficit of \$8.9 million for FY2013/14.

\$ in 000s*	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Total Revenues	371,971	379,486	386,044	392,451	399,049
Total Expenditures	380,921	391,761	399,888	407,293	414,246
Annual Operating Surplus/(Deficit)	(8,950)	(12,276)	(13,843)	(14,842)	(15,197)

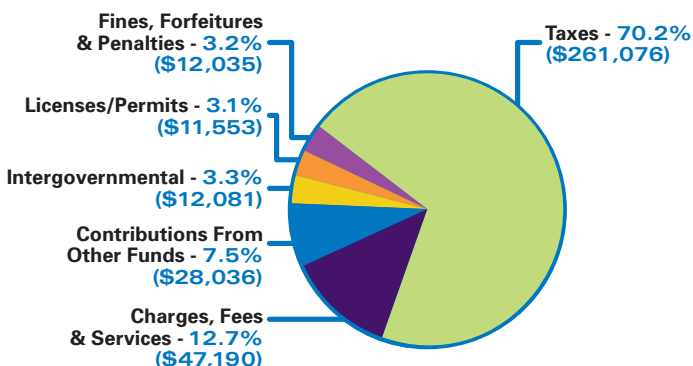
Currently, 70.9% of the net General Fund budget is dedicated to funding employee services. Aside from the elimination of funded positions, the City has a very limited ability to reduce the cost of labor absent the cooperation of the City’s employee groups. The Proposed Budget is balanced with a combination of expenditure reductions and the use of Measure U resources to maintain public safety positions, specifically 60.0 police officer and 27.0 firefighter positions that would otherwise be eliminated because of the loss of federal grant funding.

	\$ in 000s*
FY2013/14 Deficit	(8,950)
All Employees Pay PERS	5,000
Other Sources/Uses - Arts Stabilization	105
Measure U - Restoration of Grant-funded FTE	
Police Officers	2,734
Firefighters	1,503
Ending Fund Balance	392

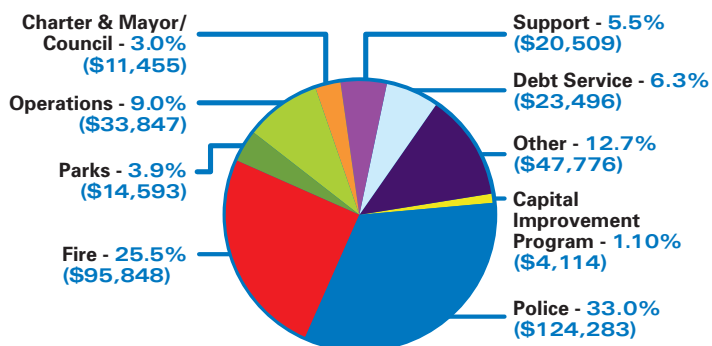
As identified in the adjacent chart outlining the drivers of the deficit, the cost to the General Fund to continue to fund previously grant-funded positions accounts for \$4.2 million of the deficit. As such, the Proposed Budget includes the use of \$4.2 million in Measure U resources to fund the previously grant-funded public safety positions to avoid more public safety employee and service reductions.

The Proposed General Fund Budget Is \$375.9 Million (\$ in 000s*)

Where does the General Fund money come from?



Where does the General Fund money go?



*\$ in 000s = dollars in thousands.

Measure U

Sacramento residents approved the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012, with 64% in support of an additional one-half cent transaction and use tax effective April 1, 2013. The six-year proposal for the use of Measure U resources reflects the annual costs of programs and services approved by Council in March 2013, as well as the addition of substantial resources to the Fire, Police, and Parks and Recreation Departments. The following chart summarizes the proposed restorations for FY2013/14:

Detailed information on the proposed restorations is included on pages 19-20 of the Proposed Budget.

Measure U Revenues (\$ in 000s*)	FTE	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19
MEASURE U RESTORATIONS		5,000	27,000	27,000	27,000	27,000	27,000	22,000
Fire Department	80.00	1,410	7,458	8,248	9,103	9,341	9,500	9,500
Police Department	124.00	1,500	11,266	12,527	12,794	13,127	13,477	13,477
Parks Department	75.90	1,006	4,408	4,208	4,208	4,208	4,208	4,208
Animal Control Officer	1.00	—	85	85	85	85	85	85
Library Restorations**	—	506	506	506	506	506	506	506
Total Measure U Restorations	280.90	4,422	23,723	25,573	26,696	27,267	27,776	27,776
Annual Reserve		578	3,277	1,427	304	(267)	(776)	(5,776)

*\$ in 000s = dollars in thousands.

**Operated by a City-County Joint Powers Authority

On the Horizon: Future General Fund Fiscal Challenges

Retirement and Healthcare Costs

Seventy-seven percent of the City's operating budget is for employee services. Despite efforts to reduce costs and even with nearly 59% of General Fund employees paying the required employee contribution for retirement, the City has no control over pension and health care increases. Based on preliminary information retirement costs are anticipated to increase by approximately \$27 million over the next seven years, and health care costs have been increasing at an average rate of 10% over the past five years.

Other Post-Employment Benefits (OPEB)

The City has \$440 million in unfunded long-term liabilities associated with the retiree medical benefit. While the benefit is currently funded on a pay-as-you-go basis, paying only the actual cost of the benefit in the current fiscal year, financial accounting standards require the City to account for the benefit as if it were actuarially funded. This results in an unfunded liability currently of \$440 million, which has grown by \$60 million since FY2007/08 and continues to grow.

Keeping All City Libraries Open

The City operates 12 libraries and provides 36 hours of service per week, 239 days a year. In 2016 the library parcel tax approved by voters in 1996 (and renewed in 2004) which provides \$4.6 million per year will expire. In addition, costs to operate libraries exceed current General Fund resources. City library reserves (General Fund) are expected to last through FY2014/15. Unless a new funding source is found the City will need to contribute more from its General Fund or reduce library services.

Capital Needs

The City's deferred maintenance backlog for City-owned facilities is approximately \$38 million, despite current funding efforts of \$1 million per year, we are deferring at a rate of \$1.5 to \$2 million per year.



FAQs

What is driving the General Fund deficit?

Unlike prior years when the deficit was the result of the combination of increasing expenditures and declining revenues, the structural deficit issue that remains is simple: expenditures, attributable mostly to employee compensation and benefit costs, are growing faster than revenues.

How much of the City’s budget is discretionary?

Approximately \$227 million or 60% of the General Fund budget is discretionary.

What are the largest sources of revenue to the City’s General Fund?

Property, sales, and utility user taxes provide 63% of all General Fund revenues (approximately \$238 million of the \$371.9 million General Fund revenue budget).

How much is 1% of sales and property tax to the City of Sacramento?

1% of sales tax is approximately \$650,000 and 1% of property tax is approximately \$1.1 million.

What is the purpose of the General Fund Economic Uncertainty Reserve (EUR)?

This reserve is maintained for the purpose of bridging a gap between projected revenue and expenditures during periods of significant revenue declines and/or expenditure growth and to ensure the City has adequate resources in case of an emergency or unforeseen events.

What is the balance of the General Fund EUR?

The EUR balance is currently \$24.4 million or 6.6% of estimated General Fund revenues.

Why can’t we use resources other than the General Fund to pay for priority services such as fire, police, parks, and libraries?

Enterprise, special revenue, and assessment funds have legal restrictions that mandate the collection and expenditure of these funds for very specific purposes. Legally, these funds cannot be redirected to general purpose expenditures.

Where can I get a copy of the Budget Document?

The FY2013/14 Proposed Budget is available at www.cityofsacramento.org/finance/budget.

Looking Ahead: How I Can Participate in the Budget Process

The Proposed Budget was released on Monday, April 29, 2013. The budget process includes a series of City Council meetings that provide the public the opportunity to speak on budget issues and priorities.

Where:

City Council Chambers, City Hall
915 I Street, 1st Floor
Sacramento CA 95814

When:

Tuesday, May 7	Budget Hearing
Tuesday, May 14	Budget Hearing
Tuesday, May 21	Budget Hearing
Tuesday, May 28	Budget Hearing
Tuesday, June 4	Budget Hearing
Tuesday, June 11	Budget Adoption

For more information please refer to the FY2013/14 Proposed Budget

www.cityofsacramento.org/finance/budget

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