

City Manager's Message

I am pleased to present the FY2014/15 Proposed Budget in Brief, which provides an overview of our budget proposal. The City is on a path to recovery from the worst recession in recent history, and I am pleased to present the first budget since 2008 that does not necessitate the use of one-time funding, or reductions in services, programs, or employees.

The total budget for FY2014/15 is \$872 million. This includes \$377 million for General Fund operations, \$451 million for Enterprise and other fund operations, and \$44 million for capital improvement projects. The Proposed Budget is balanced and includes a modest transfer of \$400,000 to the Economic Uncertainty Reserve (EUR) bringing the total reserve to 7.5%. This increase is consistent with the Council's goal of achieving an EUR of 10% of General Fund revenues. Additionally, this budget includes the allocation of resources for a few priority initiatives that will provide or enhance services and programs for the residents of Sacramento.

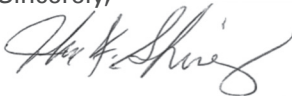
We are thankful to the voters of Sacramento for Measure U funds, which provide significant resources allowing the City to begin rebuilding its police force, eliminate all fire company "brownouts," operate City pools, reopen community centers, and restore senior and youth programs. However, it remains critical that we continue to recognize and plan for the reality that ongoing reliance on these temporary resources will create an enormous burden when the tax expires in 2019 if General Fund revenues fail to grow beyond forecasted expenditures. Consistent with Council's adopted principles for the use of these resources, my proposed budget continues funding for priority programs and services previously approved by Council. Detailed information on Measure U is provided on pages 16-20 of the Proposed Budget.

While there are positive indications of economic recovery, the City continues to be challenged to address the nearly \$2.1 billion in unfunded liabilities, nearly half of which is associated with pensions and retiree medical costs. It is imperative that the City address these liabilities to limit what will be passed on to future generations. For the first time, the Proposed Budget includes \$1.0 million to address the liability associated with retiree medical costs or other post-employment benefits (OPEB). This funding will be transferred to the City's OPEB Trust, which was established in 2013.

In addition, the City remains challenged to fund its library operations at current levels in light of expanding services by the addition of three new libraries, straining the Library's ability to maintain staffing, hours, and collections. In order to meet community demands for library service, the Library implemented a number of strategies including the use of reserve funds, reallocation of staff, and operational efficiencies. These one-time reserve funds are nearly depleted. On June 3, City of Sacramento residents will be asked to support Measure B, a \$12 per-year supplement to the existing library parcel tax and the City's \$7.6 million General Fund contribution. Measure B is designated for core library services and would allow the Library to sustain operations at all 12 city library locations.

Although we are seeing signs of economic recovery, and the optimism is contagious, there is much work to be done to right the City's finances. I look forward to working with Councilmembers, residents, business persons, and employees to implement long-term solutions to achieve a long-term sustainable budget.

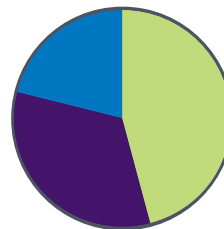
Sincerely,



John F. Shirey, City Manager

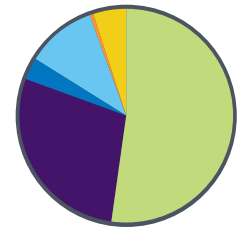


The FY2014/15 Proposed Budget is \$872 Million



REVENUES

- General Fund (46%)
- Enterprise Funds (33%)
- Other Funds (21%)



EXPENDITURES

- Employee Services (53.6%)
- Services & Supplies (26.6%)
- Property (3.6%)
- Debt Service (10.8%)
- Contingency (0.3%)
- Capital Improvement Program (5.1%)

For more information please refer to the FY2014/15 Proposed Budget

www.cityofsacramento.org/finance

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Balancing the Budget

General Fund Five-Year Forecast

For the first time in seven years, base General Fund revenues are above projected expenditures. This positive balance is partially the result of the elimination of employer-paid member contributions for new and existing employees.



General Fund (\$ in 000s*)	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Revenues	384,829	392,826	400,739	408,909	417,355	426,087
Expenditures	382,846	391,330	403,019	411,764	420,996	430,738
Surplus (Deficit)	1,983	1,496	(2,280)	(2,855)	(3,641)	(4,651)

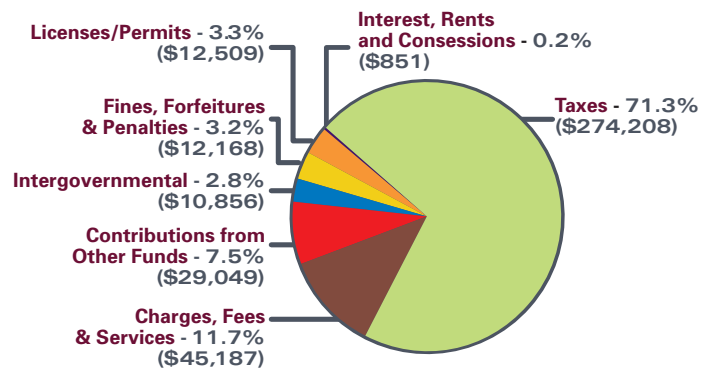
As reflected in the chart above, a small surplus is anticipated for the next two fiscal years. The largest portion of the budget is tied to the cost of our employees responsible for the provision of services. Unfortunately, with the known cost increases associated with pension benefits approved by PERS, shortfalls are anticipated beginning in FY2016/17.

The Proposed Budget is balanced and includes funding for new initiatives, one-time funding to address unfunded liabilities, and the use of Measure U resources to maintain and fund additional public safety positions as directed by Council. The major initiatives included in the Proposed Budget are as follows:

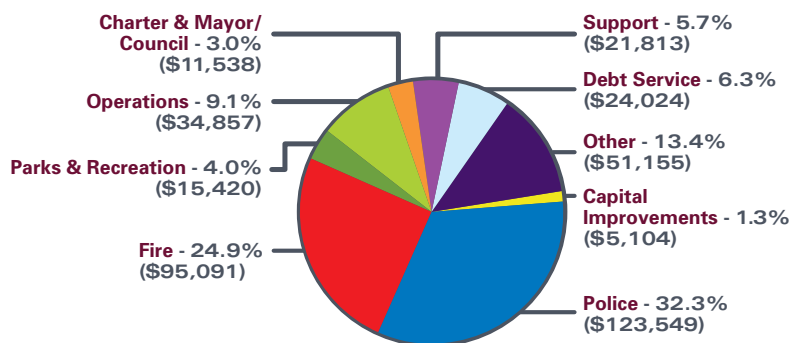
- Provide staff to enhance the City's Justice for Neighbors program
- Provide staff to assist with the City's efforts on homelessness
- Increase funding for food, medical supplies and veterinarian services at the animal shelter
- Increase staffing to address development, administrative support, and emergency planning in the Community Development, Finance, and Fire departments
- Provide funding and staff to stabilize and expand the City's digital infrastructure
- Reinstate \$391,500 previously approved as one-time funding as ongoing funding for community support for the City Council and provide \$40,000 for the Mayor's increased travel requirements associated with his presidency of the U.S. Conference of Mayors and National Conference of Black Mayors

The Proposed General Fund Budget is \$383 Million (\$ in 000s*)

Where does the General Fund money come from?



Where does the General Fund money go?



*\$ in 000s = dollars in thousands.

THX 2



Measure U

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized an additional one-half cent transaction and use tax effective April 1, 2013, expiring on March 31, 2019. While the Measure U funds provide the resources to protect and restore vital services, it is critical that we recognize and continue to plan for the fact that ongoing General Fund reliance on these temporary resources will create an enormous burden when the tax expires in 2019. The following chart summarizes the Measure U Restoration plan:

Measure U Revenues and Expenditures (\$ in 000s*)	Total FTE**	FY13	FY14	FY15	FY16	FY17	FY18	FY19
REVENUES		4,820	27,000	31,824	33,097	34,421	35,798	27,922
Fire Department	95.00	1,082	9,391	11,704	11,553	12,016	12,503	13,013
Police Department**	150.00	274	12,352	12,580	15,200	16,038	17,417	18,001
Parks Department	73.95	274	5,330	4,624	4,647	4,671	4,694	4,718
Miscellaneous	1.00	506	591	591	594	598	602	606
Total Measure U Restorations	319.95	2,136	27,664	29,499	31,994	33,323	35,216	36,337
Annual Reserve	—	2,684	(664)	2,325	1,103	1,098	582	(8,415)

*\$ in 000s = dollars in thousands.

**14.0 new FTE are included in the FY2014/15 Proposed Budget for the Police Department

Enterprise Funds

The Utilities Enterprise Funds reflect expenditures necessary to sustain operations, replace aging infrastructure, comply with regulatory mandates, and maintain financial stability. Water Fund revenues for FY2014/15 are expected to remain flat due to increased water conservation measures implemented in response to the drought. As a result, increased expenditures related to drought measures will be offset by the realignment of resources and operational efficiencies. Increased expenditures in the Community Center Fund are supported by growth in the Transient Occupancy Tax (TOT), the primary source of revenues for this fund. The major initiatives for the Enterprise Funds are as follows:

- Provide funding and staff to stabilize and expand the City's digital infrastructure, focusing on operational efficiencies and improving the delivery of service to our customers
- Increase funding to address current drought conditions

FAQs

What is a "Fiscal Year (FY)" and when does it begin and end? The City follows a Fiscal Year (FY) that starts July 1 and ends June 30 the following year.

How much of the City's Budget is discretionary?

Approximately \$229 million or 60%, of the General Fund budget is discretionary.

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

Property Taxes account for 32%, Sales Tax accounts for 18%, and Utility User Taxes account for 15% providing 65% of all General Fund Revenues (approximately \$252 million of the \$384.8 million General Fund Revenue budget).

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

Approximately 1% of sales tax is \$679,000 and 1% of Property Tax is approximately \$1.3 million.

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

This reserve is maintained to bridge gaps between projected revenue and expenditures during periods of significant revenue decline and/or expenditure growth and to ensure the City has adequate resources in case of an emergency or unforeseen events. The current balance is \$29 million.

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. As such, legally these funds cannot be redirected to general purpose expenditures.

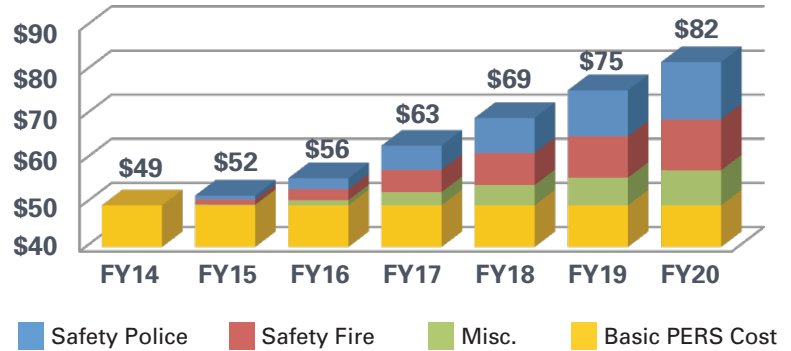
Challenges Ahead

Rising Pension Costs

Over 50% of the City's operating budget is for employee services. Despite efforts to control labor and benefit costs, and even with 78% of City employees paying the required employee contribution for retirement, pension costs continue to increase significantly each year, as shown in the CalPERS chart:



Approved CalPERS Increases in Pension Costs for City of Sacramento Employees



Retirement and Healthcare Costs

Employee health care benefits have increased rapidly, growing by almost 50% since FY2008/09. In FY2014, the City began offering a high deductible health plan accompanied by a health savings account in an effort to address the rising costs in health care.

OPEB

The City's unfunded retiree medical benefit liability is \$473 million, \$394 million attributable to the General Fund. This benefit is funded on a pay-as-you-go (pay-go) basis, paying only the actual cost of the benefit in the current fiscal year. The current unfunded liability will continue to grow at the rate of \$80,000 per day based on the continuation of pay-go. The City has eliminated this benefit for new hires with most employee groups.

Affordable Care Act (ACA)

The ACA will change the definition of a "full-time" employee relative to health care benefits from 40 hours to an average of 30 hours or more per week, increasing employer costs. The City is currently evaluating staffing to ensure that part-time employees do not exceed 30 hours, unless there is a valid business reason. The so-called "Cadillac" tax, a 40% excise tax on employers providing coverage exceeding \$10,200 (individual) and \$27,500 (family) coverage, also becomes effective in 2018. The City's health plans are currently below the tax threshold but are estimated to exceed it by 2018.

Capital Needs

The City has a \$38 million backlog on maintenance of City-owned facilities and is currently deferring at a rate of \$1.5 to \$2 million per year.



How to Get Involved...

The Proposed FY2014/15 Budget is available at cityofsacramento.org and in your neighborhood library. The budget process includes a series of City Council meetings that provide the public the opportunity to speak on budget issues.

Where:

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

When:

Thursday, May 8
Budget Hearing

Tuesday, May 27
Budget Hearing

Thursday, June 5
Budget Hearing

Tuesday, June 10
Budget Adoption

Dates are subject to change, please refer to the City's website, cityofsacramento.org for updates.