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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 304
730 I STREET
SACRAMENTO, CA
95814

PH 916-808-5704
FAX 916-808-7618

March 9, 2004

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: FY2003/04 General Fund Midyear Report

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION:

It is recommended that the City Council approve the attached resolution amending the FY2003/04 Budget by:

- Adjusting the Fiscal Year 2003/04 Revenue and Expenditure Budgets for updated estimates;
- Authorizing the City Manager to adjust the Fiscal Year 2003/04 budget for all Council approved action taken in conjunction with the Midyear Review including the release of FY2000/01 Department Carryover and the use of the Administrative Contingency and Year-End Reserves if needed; and
- Approving Principles for developing the Proposed FY2004/05 Budget and for considering Revenue Enhancement options.

**CONTACT PERSON: Reina J. Schwartz, Budget, Policy & Strategic Planning
Manager, 808-7195**

FOR COUNCIL MEETING OF: March 9, 2004

SUMMARY:

The Midyear Financial report addresses: 1) the fiscal condition of the current year and necessary adjustments, and 2) the recommended strategies for development of the FY2004/05 Proposed Budget. Following are some highlights of the report:

- General Fund revenues are projected to be \$6.6 million above the FY2003/04 Approved Budget and \$1.6 million above the current amended budget which was reduced by \$5 million to reflect loss of three months of Vehicle License Fee (VLF) backfill payments from the State;

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City Council
FY2003/04 General Fund Midyear Report
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- General Fund capital and operating expenditures are on track for this fiscal year, although a number of departments face significant cost pressures due to growth in service demand and in facilities;
- If needed, current fiscal year issues can be addressed at year-end with the use of the available fund balance and other reserves;
- FY2001/02 and FY2002/03 Department savings amounts (carryover) are recommended to remain in reserve pending more information regarding pending State budget impacts to City revenues;
- The “sustainable budget” concept continues to be a top priority for prudent fiscal management;
- Principles for development of the Proposed FY2004/05 Budget are recommended as follows:
 - ✓ Strategies for addressing the FY2004/05 budget will include using a mix of *efficiencies* (SOAP, reorganizations and JPA funding changes), new *revenues*, and program *reductions* (if necessary)
 - ✓ Plan for the worst-case financial scenario of a \$42 million problem (\$25 million local gap and \$17 million state impact) by asking departments to identify a full range (10 to 20 percent) of potential reductions and adopt a series of “trigger points” as to when budget strategies may be implemented (see Attachment A, Exhibit B, handwritten page #32)
 - ✓ Implementation trigger points include:
 - ✓ **July 1, 2004** – implement budget strategies to close approximately half of the City’s \$25 million local General Fund structural gap (filling the balance with already available reserves)
 - ✓ **After July 1, 2004 – State Budget adoption** – implement fixes to address State reductions of \$6 to \$17 million
 - ✓ **After July 1, 2004 – Labor contracts** – implement any budget changes necessary to accommodate labor contract costs
 - ✓ **May 1, 2005 – Proposed FY2005/06 City budget** – implement additional strategies to close remainder of local gap and any additional state impact
 - ✓ Maintain the priority on funding public safety services
 - ✓ Maintain a long-term sustainable budget philosophy, matching ongoing expenses to ongoing revenues; use one-time revenues on one-time expenses
 - ✓ City resources generally will not be available to backfill for County reductions
 - ✓ Reallocate resources as necessary to fund growth and new initiatives
 - ✓ Continue to evaluate new ways to do business to reduce costs
 - ✓ Maintain the \$25.5 million (7.5 percent of resources) Reserve for Economic Uncertainty; and

- Principles for considering revenue enhancement options are recommended as follows:
 - ✓ Full cost recovery should be pursued in compliance fees (e.g. code enforcement);
 - ✓ Where appropriate, fees that have not been increased in some time should have increases phased in over several years to avoid 'sticker shock' increases;
 - ✓ Maintaining competitive status and comparability with other cities should be considered when determining new fee levels;
 - ✓ Revenue recovery should be increased in the Current Planning function from its current 48 percent to 60-75 percent over the next two years; and
 - ✓ Environmental Services should be at 100 percent cost recovery.

BACKGROUND:

The City's Approved FY2003/04 Budget was balanced using a three-pronged approach including:

- ✓ Department savings of \$13 million to be achieved through hiring controls;
- ✓ New revenues totaling approximately \$2.6 million; and
- ✓ Use of approximately \$13 million reserves and funding reallocations.

The Midyear Financial Report is provided in order to update the City Council on major changes since the adoption of the Approved Budget. This report addresses the current financial condition of the General Fund, including department budgets, both for expenditures and revenues. This process allows the City Council to approve necessary adjustments to carry out the City's financial plan for the remainder of the fiscal year. Details are contained in the attached Midyear Review document (Attachment A).

FINANCIAL CONSIDERATIONS:

As has been discussed since last year's budget hearings, the City's budget faces a number of financial uncertainties over the next few years including the threat that the State could reduce City revenues by \$6 - \$17 million annually. The financial condition of the General Fund at Midyear FY2003/04 is described in detail in the Attached Midyear Review document (Attachment A).

POLICY CONSIDERATIONS:

This report is consistent with existing policy and reflects the current financial condition of the General Fund.

ENVIRONMENTAL CONSIDERATIONS:

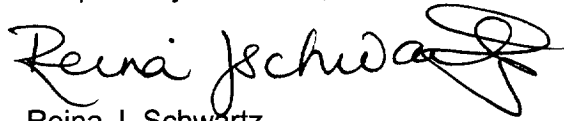
CEQA does not apply to this report.

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ESBD CONSIDERATIONS:

This report does not involve the purchase of goods and services.

Respectfully submitted,



Reina J. Schwartz
Budget, Policy & Strategic Planning Manager

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

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CITY OF SACRAMENTO, CALIFORNIA

2003/04 Midyear Review

City of Sacramento
730 I Street, Suite 215
Sacramento, CA 95814
Phone 916-808-5845 • Fax 916-808-5755

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Section 1: General Fund Financial Report

A. Budget Brief – Midyear Report

The Midyear Report has been prepared to evaluate the current fiscal condition of the City in regards to the 2003/04 Fiscal Year budget. The Midyear review process allows the City Council an opportunity to review operational issues and approve any adjustments necessary to carry out the City's financial plan for the remainder of the fiscal year. Additionally, the City's five-year General Fund projection is updated to assist in policy direction for the preparation of the 2004/05 Fiscal Year budget. The General Fund and Enterprise Fund reports are scheduled for March 9, 2004.

BUDGET PHILOSOPHY:

It continues to be the City's philosophy in budget development that the budget be a balanced and sustainable financial plan. Consistent with this approach, planned expenditures should not exceed available resources and ongoing costs should be funded through ongoing revenues. One-time expenditure opportunities will be pursued with one-time funding. Additionally, the City's Economic Uncertainty Reserve policy to reserve funds to absorb unforeseen revenue shortfalls and protect City operations from economic downturns will continue to be an objective.

ECONOMIC OUTLOOK:

While federal, state, and local unemployment rates have fallen from the 4th quarter 2002 to 4th quarter 2003 (6.0% to 5.9%, 6.9% to 6.4%, and 5.2% to 5.1% respectively) this does not suggest a strong recovery is underway, but rather a slow recovery heading in the right direction, according to the UCLA Economic Forecast. We can expect 2004 to be ok, but not great, with some employment growth, but not enough to significantly lower the unemployment rate. Economists are predicting slower than normal economic growth primarily because of impending state and local government reduced spending levels, and a potential pullback by consumers who have already purchased enough homes and cars to last for the foreseeable future.

Nationwide, the 2.9% real growth in Gross Domestic Product for 2003 is expected to improve in 2004 and 2005 to yield real growth of 3.6% and 3.5% respectively. In California, the Gross State Product is forecasted to improve from a 0.6% real growth rate in 2003, to real growth of 2.5% and 3.4% levels in 2004 and 2005.

B. Revenue Update

GENERAL FUND REVENUE FINDINGS:

The Approved FY2003/04 Budget included General Fund revenues of \$289.2 million. In September 2003, the City Council amended the FY2003/04 Budget by reducing that estimate by \$5 million (to \$284.2 million) due to the anticipated loss of three months of Vehicle License Fee (VLF) backfill from the State. Mid-year projections for 2003/04 general fund revenues are \$290.8 million or \$6.6 million over the amended budget of \$284.2 million (and \$1.6 million above the original approved budget). Major taxes are estimated to be \$7.3 million over budget, while the Vehicle License Fee is expected to be an additional \$0.7 million under budget, due to lower overall VLF revenues.

The latest available data shows improving taxable sales in the City of Sacramento, from \$5.04 billion in the 3rd quarter 2002 to \$5.19 billion in the 3rd quarter 2003. This improvement, coupled with slightly improved holiday sales, suggests that sales tax revenues should exceed the 2003/04 approved budget of \$63.1 million by \$0.77 million (1.2%).

With housing prices, real estate sales, and development activity remaining strong, property taxes and development related taxes are projected to exceed the 2003/04 approved budgets of \$65.6 million by \$6.6 million (10.0%). In Sacramento County, MLS statistics show the median price of single family homes increased by 18.2% from December 2002 to December 2003, while the dollar value of closed escrows increased by 24.6% during the same period.

Utility user tax (UUT) revenues have improved significantly from the 2002/03 period, showing an 8.5 % increase in 2003/04 YTD actual collections vs. the prior year. Final 2003/04 UUT revenues should exceed the approved budget of \$48.96 million by \$1.69 million (3.5%), due primarily to improved cellular, gas, and electric UUT revenues and increased compliance activities.

Revenue adjustments are projected as follows:

Property Taxes – an increase of \$2.85 million over budget, or 4.9%

Sales and Use Taxes – an increase of \$0.77 million over budget, or 1.2%

Utility User Taxes – an increase of \$1.69 million over budget, or 3.5%

Real Property Transfer Taxes – an increase of \$3.47 million over budget, or 54.0%

Motor Vehicle License Fees – a decrease of \$5.7 million from the Approved budget, or 23.3% (mitigated through savings generated as a result of hiring controls)

FIVE-YEAR REVENUE PROJECTIONS:

Five-year revenue projections anticipate the City of Sacramento will experience an approximate 3.0% average annual increase in total general fund revenues through 2008-09, unless the State imposes a second ERAF shift of property taxes from local governments to school districts and eliminates the booking fee reimbursement. The City of Sacramento would lose approximately \$5.0 million in 2004-05, increasing to \$6.1 million by 2008-09 from the additional ERAF shift of property taxes, and \$2.1 million annually from the loss of booking fee reimbursements. The

2003/04 MIDYEAR REVIEW

total annual loss from these two actions would increase from \$7.1 million in 2004/05 to \$8.2 million in 2008/09.

The three primary categories of general fund revenues include Major Taxes (Property, Sales, Utility User, Business Operations, etc), Operating Department Revenues, and Other Revenues (Franchise Fees, Interest, etc). Over the next five years, by category, Major Taxes are anticipated to increase an average of 3.3% annually; Operating Department Revenues to increase an average of 1.0% annually; with Other Revenues expected to increase an average of 3.6% annually. These projections do not reflect any impacts from potential State budget cuts.

Additional information regarding current year revenues and revenue adjustments can be found in Exhibit A.

C. Midyear Adjustments

FISCAL AND PROGRAM UPDATE:

The City faces a number of financial uncertainties over the next 12 to 18 months. These include 1) the significant State and Count budget deficits, and 2) the rate at which the economy will continue to recover. These financial uncertainties have an impact on the City's current financial outlook and will have a significant effect on the City's budget over the next several years.

FISCAL YEAR 2003/04 IMPACTS AND FISCAL ACTIONS

In general, the City's fiscal plan continues to support the objectives outlined in the approved budget for delivering City services. As described earlier in this report, General Fund revenues are expected to out-perform the estimates made at the time of the Approved Budget.

On the expenditure side, departmental spending is generally on track for this fiscal year. This includes departments generating approximately \$13 million in savings from the hiring controls instituted last year. As a result of the hiring controls, the City currently has nearly 400 vacant positions citywide. Of that total, almost 300 of the vacant positions are in the City's General Fund.

While no changes are recommended to department budgets as part of this midyear report, it should be noted that many departments are facing significant cost pressures related to bringing new facilities online and serving a growing community. The actual costs that will occur in FY2003/04 will depend on project completion dates and partial year costs for new facilities and services, all of which are difficult to forecast precisely in the startup year. The attached Resolution authorizes the City Manager to use Administrative Contingency and year-end reserves to adjust department budgets at year-end if needed for unanticipated costs.

These recommendations are consistent with the policy for use of the reserves and maintenance of a sustainable budget. The development of the budget for Fiscal Year 2004/05 will need to address ongoing funding issues related to pending fiscal actions by the State.

BUDGET ADJUSTMENTS SUMMARY:

In addition to the revenue changes described earlier in this report, there are three items that were shown incorrectly in the Approved Budget. Those items are shown below with the adjustments needed to correct the Approved Budget.

Budget Corrections

Revenues – Richards Boulevard Tax Increment
-\$187,000 Reduce revenues inadvertently included twice in Approved Budget

\$100,000 – correct labor projection for Sr. Accountant-Auditor in Park Planning and Development Division of the Parks and Recreation Department.

\$145,000 – correct labor projection for summer youth employment in the Recreation Division of the Parks and Recreation Department

D. Use of Carryover

With the adoption of the FY2003/04 budget, the City Council authorized release of department savings from the FY2000/01 pending departments returning to the City Council with spending recommendations. Some departments have already received approval from Council to spend these prior-year savings. The table below shows the remaining department requests which are recommended for approval.

In 000's		
Department	FY2000/01 Carryover Available	Spending Request
Mayor/Council	\$0	
City Manager	\$0	
City Attorney	\$0	
City Clerk	\$81	Establish Technology CIP
City Treasurer	\$50	Computer software
Finance	\$0	
Information Technology	\$72	Voice mail replacement study
Human Resources	\$0	
Labor Relations	\$0	
Police	\$1,032	Purchase new and replacement vehicles
Fire	\$0	
Public Works	\$221	Mobile parking enforcement camera, upgrade work order systems; upgrade equipment
Convention, Culture & Leisure	\$0	
Economic Development	\$0	
Parks and Recreation	\$0	
Neighborhood Services	\$246	Purchase 2 vehicles (currently rented); increase replacement of vehicles; upgrade computer equipment; community outreach materials
Planning & Building	\$552	Studies and plans (Natomas, 65 th Street, R Street, Panhandle)
Total	\$2,254	

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This report recommends that City Council approve the departmental requests for spending of FY2000/01 carryover as described above. Additionally, the attached Resolution would allow departments that were not able to complete all of the specific projects to be funded by the release of carryover (approved prior or with this report) to further carry over the unspent balance of these funds into future fiscal years until the stated purposes are accomplished.

E. FY2004/05 Budget Development Principles

Looking forward to the FY2004/05 budget, there are a number of financial challenges on the horizon. These challenges include:

- ✓ State budget impact – General Fund (property tax revenues, booking fees) and redevelopment funds (\$6 to \$17 million)
- ✓ Growth-related cost pressures (for example, in parks, police and ALS in fire)
- ✓ County budget impacts – both direct and indirect
- ✓ Significantly rising costs for health insurance and retirement
- ✓ Upcoming labor contract negotiations could increase baseline costs

It is the combination of all these issues that creates tremendous uncertainty as we begin to develop strategies for the preparation of next year's budget. Principles for developing the FY2004/05 Budget are recommended as follows:

- ✓ Strategies for addressing the FY2004/05 budget will include using a mix of *efficiencies* (SOAP, reorganizations and JPA funding changes), new *revenues*, and program *reductions* (if necessary)
- ✓ Plan for the worst-case financial scenario of a \$42 million problem (\$25 million local gap and \$17 million state impact) by asking departments to identify a full range (10 to 20 percent) of potential reductions and adopt a series of "trigger points" as to when budget strategies may be implemented (see Exhibit B, handwritten page #32)
- ✓ Implementation trigger points include:
 - ✓ **July 1, 2004** – implement budget strategies to close approximately half of the City's \$25 million local General Fund structural gap (filling the balance with already available reserves)
 - ✓ **After July 1, 2004 – State Budget adoption** – implement fixes to address State reductions of \$6 to \$17 million
 - ✓ **After July 1, 2004 – Labor contracts** – implement any budget changes necessary to accommodate labor contract costs
 - ✓ **May 1, 2005 – Proposed FY2005/06 City budget** – implement additional strategies to close remainder of local gap and any additional state impact
- ✓ Maintain the priority on funding public safety services
- ✓ Maintain a long-term sustainable budget philosophy, matching ongoing expenses to ongoing revenues; use one-time revenues on one-time expenses
- ✓ City resources generally will not be available to backfill for County reductions
- ✓ Reallocate resources as necessary to fund growth and new initiatives
- ✓ Continue to evaluate new ways to do business to reduce costs
- ✓ Maintain the \$25.5 million (7.5 percent) Reserve for Economic Uncertainty

F. Five-year Forecast

FIVE-YEAR GENERAL FUND FORECAST (dollars in thousands)							
	FY2003/04 Approved	FY2003/04 Amended	FY2003/04 Midyear	FY2004/05 Estimate	FY2005/06 Estimate	FY2006/07 Estimate	FY2007/08 Estimate
Beginning Fund Balance	1,137	1,137	6,380	5,987	5,962	8,423	4,847
Revenues							
Taxes	186,651	186,651	193,932	199,413	206,888	214,695	222,846
Dept Revenues	50,012	50,012	50,012	48,647	49,012	49,500	49,998
All other	52,512	47,512	46,812	51,170	52,336	53,543	54,860
Total Revenues	289,175	284,175	290,756	299,230	308,236	317,738	327,704
Expenditures							
Dept Operating	296,934	291,934	292,248	316,404	325,271	338,581	348,696
Capital & Other	6,741	6,741	6,849	7,851	6,505	8,233	6,489
Total	303,675	298,675	299,097	324,255	331,776	346,814	355,185
Revenues - Expenditures	(14,500)	(14,500)	(8,341)	(25,025)	(23,539)	(29,076)	(27,481)
Balancing the Budget							
Department Savings/Reductions				(10,500)	(21,000)	(21,420)	(21,848)
New Revenues				2,000	4,000	4,080	4,162
Revised Revenues - Expenditures	(14,500)	(14,500)	(8,341)	(12,525)	1,461	(3,576)	(1,471)
Other Sources/ Use of Reserves	14,077	14,077	7,948	12,500	1,000	0	0
Ending Fund Balance	714	714	5,987	5,962	8,423	4,847	3,376

5-Year General Fund Conclusions at Midyear:

- ✓ Taxes and building-related revenues are projected to exceed Approved Budget estimates by 7.3 million
- ✓ Departments are generally on track to achieve labor savings from hiring controls as anticipated in the Approved Budget as amended in September 2003
- ✓ Departmental expenditures on non-labor items are within budget for most departments, but some larger departments are facing significant cost pressures
- ✓ Economic Uncertainty Reserve is projected to start at \$25.5 million or approximately 7.5 percent of resources and grow as resources are available
- ✓ The five-year projection shown above does not include estimates for new facilities operations or programs that will be needed due to growth, particularly in the North Natomas area

Section 2: Sacramento Organizational Assessment Project (SOAP)

A. SOAP Process

During the hearings on the FY2003/04 Budget, staff reported to the City Council that based on somewhat sluggish revenue growth and higher-than-expected expenditure increases it was estimated that there would be a structural "gap" in the FY2004/05 budget and beyond of approximately \$25 million. As described earlier in this report, it was (and is) anticipated that the \$25 million annual gap would be solved over a two-year period (FY2004/05 and FY2005/06) using a combination of organizational efficiencies, new revenues, reserves and operating reductions.

Specifically, in order to look at organizational efficiencies, the City launched a program called SOAP – Sacramento's Organizational Assessment Project. The first phase of SOAP was to generate ideas from employees on how to make the organization more efficient. During this Idea Generation Phase, over 1,540 individual ideas were submitted in the areas of organization efficiency, revenue generation and reorganization. More than 100 efficiency ideas were submitted to the City's executive management team for immediate consideration and many of them will be incorporated into the FY2004/05 Proposed Budget. In addition, more than 200 ideas for reorganization have been considered and a report on proposed reorganization efficiencies was heard and approved by the Mayor and City Council on January 20th. Finally, more than 300 revenue ideas were also submitted through the SOAP process.

Of the efficiency ideas submitted, the top items for consideration in the Proposed FY2004/05 budget include (not in priority order):

- ✓ Consolidating of call centers
- ✓ Transitioning away from existing Municipal Fire Alarm System
- ✓ Reducing irrigation costs for parks
- ✓ Improving the efficiency of use of take-home vehicles
- ✓ Improving energy conservation citywide
- ✓ Evaluating regional opportunities with respect to police, fire and other operations
- ✓ Upgrading/replacing the existing out-dated automated Human Resources and Financial management systems
- ✓ Improving the integration of the development process
- ✓ Updating risk assessments

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The balance of the efficiency ideas submitted have been referred to departments for further evaluation and will be incorporated in the Proposed FY2004/05 Budget as feasible.

In addition to evaluating efficiencies, the SOAP process resulted in many suggestions for reorganizations. One of the major reorganizations proposed by the City Manager is highlighted in a separate report scheduled for the afternoon of March 9th. Additionally, the Office of the City Treasurer has been reviewing a proposed reorganization similar to the process the City Manager's Office and other departments have undertaken. Conceptually, because of the progress and changes in technology related to business functions, it is believed that the current organization structure could be revamped, thereby resulting in greater efficiencies, effectiveness and savings.

B. Potential Revenue Enhancements

The two-year strategy to address the City's budget imbalance included a Revenue Enhancement Effort. This effort included three concurrent activities:

- ◆ Compliance Audits
- ◆ Identification of New Revenue Sources
- ◆ Evaluation of Existing Fees

Compliance Audits

The Compliance Audit effort focuses on review and increased collection of the key General Fund revenues of Business Operations Tax and Utility Users Tax. Completion and evaluation of the audit data is not yet completed but will be included in the FY2004/05 Proposed Budget.

Identification of New Revenue Sources

The Organization Assessment Process included comprehensive outreach to solicit potential new revenue ideas. Over 230 revenue ideas were submitted through this process. This list was reviewed and evaluated by a citywide team using criteria such as legality, feasibility, ease of implementation and revenue generating potential for the general fund to create an initial short list. The short list was then further researched and evaluated by appropriate department staff and a business case analysis submitted.

As a result of this process, a first phase of new revenues for possible inclusion in the FY2004/05 Proposed Budget includes:

- ◆ Business Operations Tax Processing Fee
The City currently does not charge a fee for processing Business Operations Tax applications and renewals. Up to 40 other California cities charge for this processing at rates ranging from \$120.00 to \$10.00.
- ◆ 9-1-1 Emergency Response Fee
The implementation of a 9-1-1 Emergency Response Fee would provide funding to offset the cost and improvements to emergency communications operations for police and fire. Other cities including San Francisco and Santa Cruz as well as Santa Cruz County have successfully implemented such a fee through adoption of an ordinance. Staff has researched the establishment of a similar fee in Sacramento and is currently identifying eligible costs which can then be distributed across the phone line base to determine a reasonable fee level. Other cities have charged up to \$3.50 a month. The fee would be collected on residential and business phone bills. Exemptions would be made for Lifeline customers.

◆ Charge for Residential Parking Permits

Staff has suggested charging an annual/biannual fee for residential parking permits. In addition to increasing revenues to offset costs the fee will help reduce permit abuse. Other cities that already charge this fee include San Diego, San Francisco, and Long Beach.

◆ General Plan Update Fee

City Council has allocated funding to update the City's General Plan. This fee would offset the costs for updating and monitoring the plan. The Development Oversight Committee has supported the concept of this fee.

Evaluation of Existing Fees

As part of the evaluation of current fees, an inventory of existing city fees has been conducted. As part of the inventory process, fees were placed into the categories of Compliance & Development, General Government and Leisure & Community Services. With the assistance of Muni-Financial, experts in municipal fees and charges, fees within the Compliance & Development category have been evaluated to determine those with the greatest potential for additional revenues and cost recovery. Areas that are being evaluated for current cost for providing service and increased cost recovery opportunity include: fire permit inspections, planning applications, weed abatement, code enforcement, parking meter fees. Research will include benchmarking existing and proposed fees against other cities.

As a Phase II effort, fees in the other categories will be evaluated. Long term, staff will be bringing forward to City Council a General Fund Fee Policy which will provide guidelines for annual fee adjustments for certain fees as part of the budget process.

PROPOSED REVENUE ENHANCEMENT BUDGET PRINCIPLES

To provide guidance during the development of the Proposed FY2004/05 Budget, staff is proposing the following principles be applied when incorporating revenue enhancement opportunities:

- ◆ Full cost recovery should be pursued in compliance fees (e.g. code enforcement)
- ◆ Where appropriate, fees that have not been increased in some time should have increases phased in over several years to avoid 'sticker shock' increases.
- ◆ Maintaining competitive status and comparability with other cities should be considered when determining new fee levels.
- ◆ Revenue recovery should be increased in the Current Planning function from its current 48 percent to 60-75 percent over the next two years;
- ◆ Environmental Services should be at 100 percent cost recovery

Section 3: Exhibits and Resolutions

Exhibit A – General Fund Revenue

Exhibit B – Presentation Slides

Exhibit "A"

FY2003/04 Midyear Review – General Fund Revenue

Total FY2003/04 General Fund operating revenues are projected to be 290.8 million or \$1.6 million (0.5%) higher than budget at fiscal year end. Total revenue collections are estimated as shown below:

General Fund (\$ in 000's)	FY 2002/03 Actual	FY 2003/04 Approved Budget	FY 2003/04 Mid-Year Estimate	Change from Approved
TAXES				
Property Taxes - Current Secured	51,109	53,010	54,175	1,165
Property Taxes - Current Unsecured	2,803	2,900	2,970	70
Property Taxes - Delinquent Unsec	705	50	25	(25)
Property Taxes - Supplemental	3,155	1,700	3,345	1,645
Property Taxes - Other	0	0	0	0
Subtotal Property Taxes	57,772	57,660	60,515	2,855
Sales & Use Tax	57,983	59,000	59,720	720
Sales & Use Tax/.5% Public Safety	4,035	4,100	4,150	50
Business Operations Tax	5,861	6,160	6,160	0
Real Property Transfer Tax	9,705	6,430	9,900	3,470
Utility User Tax	48,675	48,960	48,960	0
Residential Development Property Tax	1,819	1,540	1,800	260
Transient Occupancy Tax	2,713	2,801	2,727	(74)
Subtotal Taxes	188,563	186,651	193,932	7,281
LICENSES AND PERMITS	14,982	14,681	14,681	0
FINES AND FORFEITS	4,919	5,380	5,380	0
USE OF MONEY	3,997	3,201	3,201	0
INTERGOVERNMENTAL REVENUES	36,510	35,659	29,959	(5,700)
CHARGES, FEES, AND SERVICES	28,210	24,932	24,932	0
OTHER REVENUES	751	1,566	1,566	0
OTHER RESOURCES				
Enterprise Funds/General Tax	12,712	13,263	13,263	0
In-Lieu Franchise Fee	2,862	3,070	3,070	0
In-Lieu Property Tax	701	772	772	0
TOTAL GENERAL FUND	294,207	289,175	290,756	1,581

Exhibit B – Presentation Slides



FY2003/04 General Fund Midyear Review

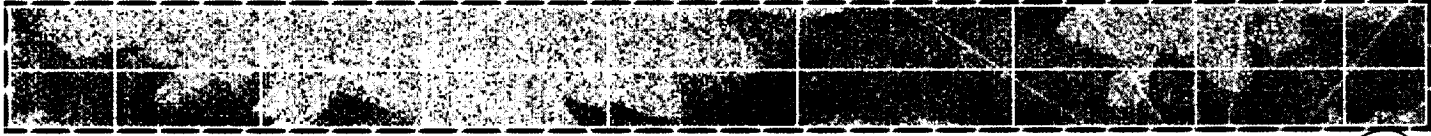
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General Fund Midyear Financial Report

March 9, 2004

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- ✦ **Midyear FY2003/04 fiscal update**
 - ✦ **Midyear Recommendations**
 - ✦ **Financial cautions looking forward**
 - ✦ **Principles for FY2004/05 Budget Development and Revenue Enhancement Options**
 - ✦ **SOAP Updates**

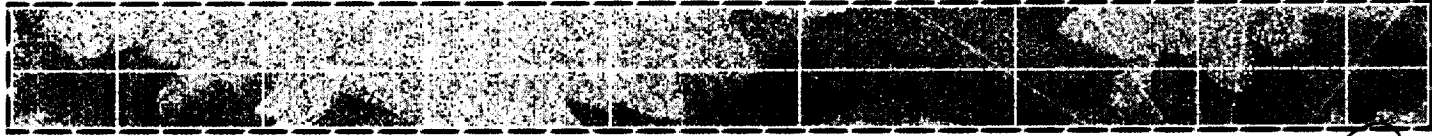


Midyear FY2003/04 Fiscal Update

- ✦ **In total, General Fund will meet or exceed financial expectations of the FY2003/04 Approved Budget**
- ✦ **Department expenditures and revenues generally on track**
- ✦ **Projected labor savings from hiring controls of \$13 million should be achieved (approximately 300 vacant positions in the General Fund)**
- ✦ **City revenues continue to be relatively strong, particularly property-related revenue sources**

Midyear Recommendations

- ❖ **No major budget adjustments at Midyear**
- ❖ **Release balance of FY 2000/01 prior year savings to departments for one-time expenses**
- ❖ **Continue to hold FY2001/02 & FY2002/03 Department savings until FY2004/05 Budget process**



Threats to the Sustainable Budget

- ✦ **State Budget deficit - \$6-\$17 million revenue loss annually to Sacramento**
- ✦ **County budget problems likely to affect the City and its residents**
- ✦ **Cost increases related to growth and new facilities**
- ✦ **Rising costs for health care and retirement**
- ✦ **Pending labor contract negotiations**

Principles for Development of the FY2004/05 Budget

- ◆ Strategies for addressing the FY2004/05 budget will include using a mix of *efficiencies* (SOAP, reorganizations and JPA funding changes), new *revenues*, and program *reductions* (if necessary)
- ◆ Plan for the worst-case financial scenario of a \$42 million problem (\$25 million local gap and \$17 million state impact) by asking departments to identify a full range (10 to 20 percent) of potential reductions and adopt a series of “trigger points” as to when budget strategies may be implemented
- ◆ Implementation trigger points include:
 - *July 1, 2004* – implement budget strategies to close approximately half of the City’s \$25 million local General Fund structural gap (filling the balance with already available reserves)

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Principles for Development of the FY2004/05 Budget (cont'd)

- *After July 1, 2004 – State Budget adoption –* implement fixes to address State reductions of \$6 to \$17 million
- *After July 1, 2004 – Labor contracts –* implement any budget changes necessary to accommodate labor contract costs
- *May 1, 2005 – Proposed FY2005/06 City budget –* implement additional strategies to close remainder of local gap and any additional state impact
- ◆ Maintain the priority on funding public safety services
- ◆ Maintain a long-term sustainable budget philosophy, matching ongoing expenses to ongoing revenues; use one-time revenues on one-time expenses

Principles for Development of the FY2004/05 Budget (cont'd)

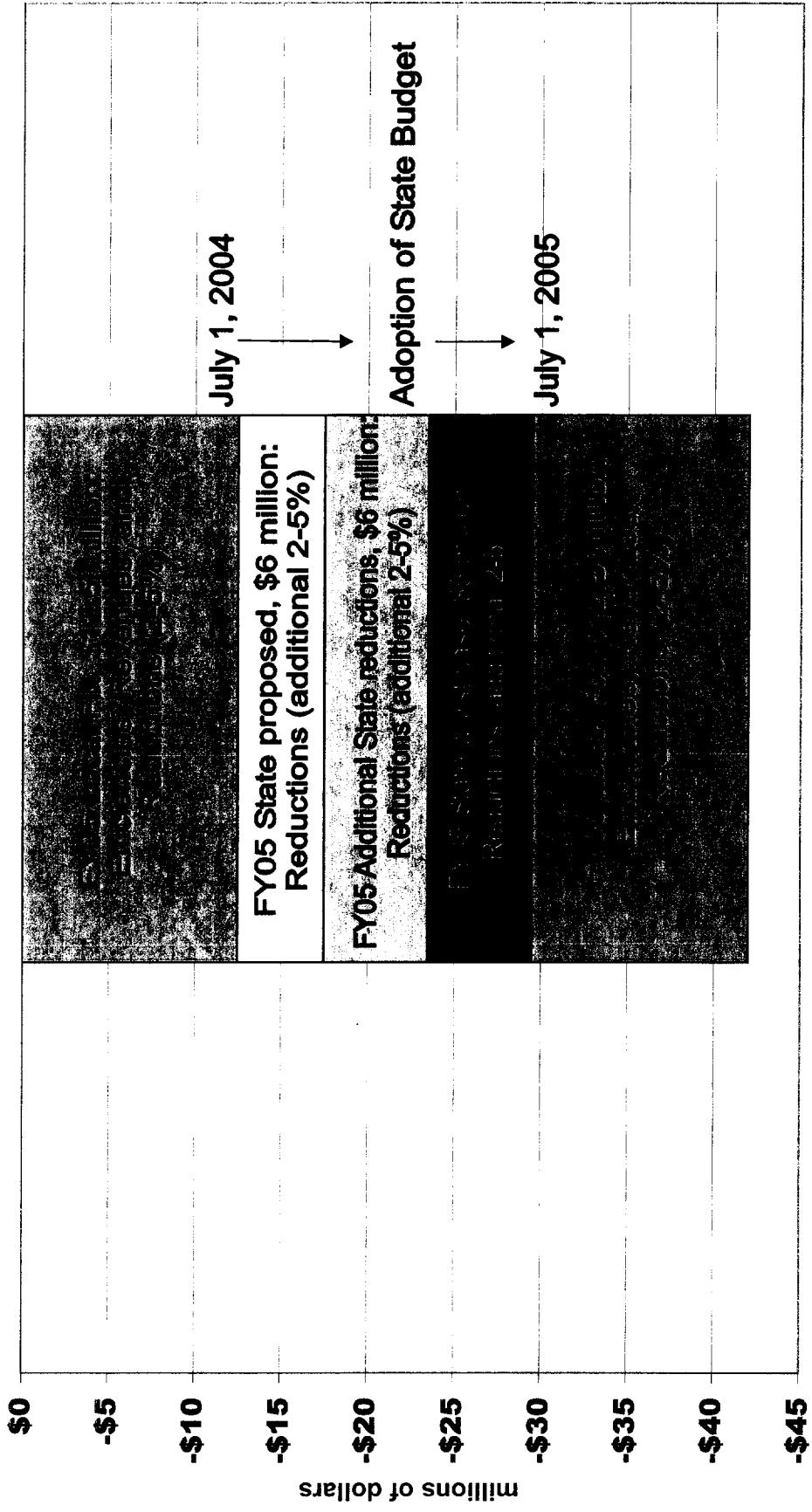
- ◆ City resources generally will not be available to backfill for County reductions
- ◆ Reallocate resources as necessary to fund growth and new initiatives
- ◆ Continue to evaluate new ways to do business to reduce costs
- ◆ Maintain the \$25.5 million Reserve for Economic Uncertainty (7.5 percent of resources)

Principles for Revenue Enhancement

Options

- ◆ Full cost recovery should be pursued in compliance fees (e.g. code enforcement);
- ◆ Where appropriate, fees that have not been increased in some time should have increases phased in over several years to avoid 'sticker shock' increases;
- ◆ Maintaining competitive status and comparability with other cities should be considered when determining new fee levels;
- ◆ Revenue recovery should be increased in the Current Planning function from its current 48 percent to 60-75 percent over the next two years; and
- ◆ Environmental Services should be at 100 percent cost recovery.

The Budget Challenge



Trigger Points

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

RESOLUTION AMENDING THE FY2003/04 BUDGET

Be it resolved by the Council of the City of Sacramento that:

1. The FY2003/04 General Fund Expenditure and Revenue Budgets are adjusted as follows:
 - a. Adjust General Fund Revenues as shown in Exhibit A
 - b. Adjust General Fund Expenditures:
 - i. +\$100,000 – correct labor projection for Sr. Accountant-Auditor in Park Planning and Development Division of the Parks and Recreation Department.
 - ii. +\$145,000 – correct labor projection for summer youth employment in the Recreation Division of the Parks and Recreation Department
 - c. Release FY2000/01 Carryover from reserve as shown in the Midyear staff report of March 9, 2004 (as amended by City Council during the hearing as necessary) and authorize future carryover of any FY2000/01 Department carryover released in FY2003/04 until the stated purposes have been achieved
2. The Principles for developing the Proposed FY2004/05 Budget and the Revenue Enhancement Budget Principles as shown in the staff report of March 9, 2004 (as amended by City Council during the hearing as necessary) are hereby approved.
3. The City Manager is authorized to use Administrative Contingency and year-end reserves to accommodate unanticipated costs associated with service demand growth and new facilities.

MAYOR

ATTEST:

CITY CLERK

FOR CITY COUNCIL USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____