

Chapter 8 Fiscal and Financial Affairs

Section 8.1 **Fiscal Conditions**

Chapter 8 FISCAL AND FINANCIAL AFFAIRS

Sacramento's existing fiscal and financial affairs are described within this chapter, which includes a discussed of the fiscal condition of the City and its infrastructure financing programs.

8.1 FISCAL CONDITIONS

■ INTRODUCTION

This section reviews fiscal and infrastructure finance conditions for the City of Sacramento using budget trends from the past ten years, fiscal year (FY) current FY 2004/05 budget information, and financial projections for the next five budget years. When financial data is absent or shows considerable year-to-year variability, experienced City staff members were interviewed to assist in evaluating the City's general fund and capital improvement program funding capacity in future years.

■ EXISTING CONDITIONS

To assess trends affecting the City's General Fund, this review examines revenues and expenditures across the City's major funds over the past ten years and places those trends in context given broader statewide and regional conditions that impact the City's revenue stability and the costs of delivering City services to a growing population. Budget data from FY 1994/95, FY 1999/00, and FY 2004/05 provides the basis for identifying important fiscal trends that continue today. The difference seen in the tables between revenues and expenditures occur normally as the City's General and multiple Non-General fund balances change from year to year.

Revenue Trends

The City of Sacramento has maintained General Fund inflation-adjusted revenues per resident at a steady level for the past ten years, as shown in Tables 8.1-1 and 8.1-2. While real per capita General Fund revenues fell between FY 1994/95 and FY 1999/00 by 4.6 percent, they increased by 4.2 percent in real terms between FY 1999/00 and FY 2004/05. The chief sources of revenue are property, sales, and utility taxes along with motor vehicle in lieu revenues. Per capita trends in these revenues indicate that the City has become increasingly reliant on property and sales tax revenues, given greater than average growth in sales taxes between FY 1994/95 and FY 1999/00 and much greater than average growth in real property transfer taxes over both periods.

Property taxes on the whole have grown since FY 1994/95 despite the State redirecting some of the revenue in both FY 2003/04 and FY 2004/05 to cover unmet financial obligations to schools and other mandatory programs. The region's booming real estate market has pushed assessed values higher and increased all components of the property tax revenue. Greater economic activity in this sector also has had a major influence on several additional revenue categories such as licenses and permit revenue, which is included in Tables 8.1-1 and 8.1-2 in the Other Revenues category.

Table 8.1-1. Sacramento Revenue Stability: FY 1994/95 to 2004/05

General Funds	FY1994/95	FY1999/00	FY2004/05
NOMINAL DOLLAR REVENUES			
Property Taxes	\$43,300,000	\$51,700,000	\$81,200,000
Sales Taxes	\$41,300,000	\$59,800,000	\$65,800,000
Utility User Taxes	\$35,900,000	\$42,800,000	\$50,500,000
Other Taxes	\$14,300,000	\$12,600,000	\$8,200,000
Intergovernmental	\$21,900,000	\$26,000,000	\$37,000,000
Other Revenues	\$37,500,000	\$36,300,000	\$71,700,000
TOTAL, General Funds Only	\$194,200,000	\$229,200,000	\$314,400,000
Percent change, 5 year period	-	18.0%	37.2%
Consumer Price Index ¹	149.2	174.2	199.5
Percent change, 5 year period	-	16.8%	14.5%
REVENUES, 2005\$			
Property Taxes	\$57,900,000	\$59,200,000	\$81,200,000
Sales Taxes	\$55,200,000	\$68,400,000	\$65,800,000
Utility User Taxes	\$47,900,000	\$49,000,000	\$50,500,000
Other Taxes	\$19,100,000	\$14,400,000	\$8,200,000
Intergovernmental	\$29,300,000	\$29,700,000	\$37,000,000
Other Revenues	\$50,100,000	\$41,500,000	\$71,700,000
TOTAL, General Funds Only	\$259,500,000	\$262,200,000	\$314,400,000
Percent change, 5 year period	-	1.0%	19.9%

Source: City of Sacramento Approved Budget (FY1994/95, FY1999/00, and FY2004/05) and BLS (2005)

¹ Base index is 1982-1984. CPI for All Urban Consumers, San Francisco-Oakland-San Jose, CA.

CPI data is half year data from the first 6 months of the fiscal year.

In addition, State budget deficits in FY 2003/04 resulted in a reduction in Intergovernmental funds (specifically, motor vehicle in lieu fees) during a three-month period. Since that time, this important local government revenue source has been protected, along with sales and property taxes, by Proposition 1A, but future State fiscal shortfalls could reduce the City's current level of motor vehicle registration fees and revenues related to backfill of these fees.

On a per-capita basis, the City experienced growth in inflation-adjusted taxable sales from its retail centers between FY 1994/95 and FY 1999/00, likely due to construction of new retail centers and expansion of existing centers in the City ahead of anticipated housing growth. As shown in Table 8.1-2, the City's strong population growth after FY 1999/00 has since reduced the per-capita level of these sales. In the coming years, commercial development in other parts of the Sacramento Region may erode the performance of City retail centers, and renovation of properties generating major amounts of sales tax remains a high City priority because of heightened regional competition for consumer spending. These economic development efforts focus particularly on auto and regional mall sales.

Table 8.1-2. Sacramento Revenue per Capita: FY1994/95 to 2004/05

General Funds	FY 1994/95	FY 1999/00	FY 2004/05
REVENUES, 2005\$			
Property Taxes	\$57,900,000	\$59,200,000	\$81,200,000
Sales Taxes	\$55,200,000	\$68,400,000	\$65,800,000
Utility User Taxes	\$47,900,000	\$49,000,000	\$50,500,000
Other Taxes	\$19,100,000	\$14,400,000	\$8,200,000
Intergovernmental	\$29,300,000	\$29,700,000	\$37,000,000
Other Revenues	\$50,100,000	\$41,500,000	\$71,700,000
TOTAL, General Funds Only	\$259,500,000	\$262,200,000	\$314,400,000
Percent change, 5 year period	-	1.0%	19.9%
City Population ¹	383,700	406,500	441,000
Percent Change, 5 year period	-	5.9%	8.5%
REVENUE PER CAPITA, 2005\$			
Property Taxes	\$151	\$146	\$184
Sales Taxes	\$144	\$168	\$149
Utility User Taxes	\$125	\$121	\$115
Other Taxes	\$50	\$35	\$19
Intergovernmental	\$76	\$73	\$84
Other Revenues	\$131	\$102	\$163
TOTAL, General Funds Only	\$676	\$645	\$713
Percent change, 5 year period	-	-4.6%	10.5%

Source: City of Sacramento Approved Budget (FY1994/95, FY1999/00, and FY2004/05) and DOF (2005)

1. As of January 1 of the fiscal year for FY1994/95 and FY1999/00. FY2004/05 population is from January 1, 2004.

Service Cost Trends

As illustrated by Table 8.1-3, City inflation-adjusted expenditures slipped 9.4 percent in real terms between FY 1994/95 and FY 1999/00 but rebounded dramatically by 27.3 percent between FY00 and FY05. The City also grew significantly, however, in total population during the entire ten-year period, from 385,000 people to 440,000 people, the official estimate for the most recent year for which data is available.

If analyzed on a per-resident or per-capita level (by factoring in population growth), the measurement of expenditures presents more meaningful results. Over time, a city's general fund expenditures can increase because of higher input costs, such as salaries, healthcare, and retirement. These expenditures also may increase as residents of the City require higher levels (or more expensive bundles) of services or because of costly state or federal mandates.

Similar to revenues, Table 8.1-4 shows that per capita General Fund expenditures, when adjusted for inflation, have varied little since FY 1994/95. Total expenditures stand at approximately \$1,200 per person for all General Fund programs except Other, which contains Debt Service, Non-Departmental, and Fund Reserve spending.

Table 8.1-3. Sacramento Expenditures by Department: FY1994/95 to FY2004/05

All Funds	FY 1994/95	FY 1999/00	FY 2004/05
EXPENDITURES			
Mayor/Council and Charter Offices	\$7,300,000	\$9,200,000	\$14,900,000
Finance, HR, IT, and Labor Relations	\$53,400,000	\$34,600,000	\$55,100,000
Police	\$68,100,000	\$75,700,000	\$107,600,000
Fire	\$42,600,000	\$53,100,000	\$74,400,000
Neighborhood, Planning, Develop. & Parks	\$28,800,000	\$37,100,000	\$71,900,000
General Services and Transportation ¹	\$83,300,000	\$77,300,000	\$115,800,000
Utilities	\$45,000,000	\$51,300,000	\$70,000,000
Convention, Culture, and Leisure	\$17,800,000	\$27,800,000	\$24,200,000
Other	\$63,000,000	\$112,900,000	\$188,100,000
TOTAL, All Departments	\$409,300,000	\$479,000,000	\$722,000,000
TOTAL, All Departments Excluding Other	\$346,300,000	\$366,100,000	\$533,900,000
Percent change, 5 year period	-	5.7%	45.8%
Consumer Price Index ²	149.2	174.2	199.5
EXPENDITURES, 2005\$			
Mayor/Council and Charter Offices	\$9,800,000	\$10,500,000	\$14,900,000
Finance, HR, IT, and Labor Relations	\$71,400,000	\$39,600,000	\$55,100,000
Police	\$91,100,000	\$86,700,000	\$107,600,000
Fire	\$57,000,000	\$60,800,000	\$74,400,000
Neighborhood, Planning, Develop. & Parks	\$38,500,000	\$42,500,000	\$71,900,000
General Services and Transportation ¹	\$111,400,000	\$88,500,000	\$115,800,000
Utilities	\$60,200,000	\$58,800,000	\$70,000,000
Convention, Culture, and Leisure	\$23,800,000	\$31,800,000	\$24,200,000
Other	\$84,200,000	\$129,300,000	\$188,100,000
TOTAL, All Departments	\$547,400,000	\$548,500,000	\$722,000,000
TOTAL, All Departments Excluding Other	\$463,000,000	\$419,300,000	\$533,900,000
Percent change, 5 year period	-	-9.4%	27.3%

Source: City of Sacramento Approved Budget (FY1994/95, FY1999/00, and FY2004/05) and BLS (2005)

¹ Formerly called Public Works

² Base index is 1982-1984. CPI for All Urban Consumers, San Francisco-Oakland-San Jose, CA.

CPI data is half year data from the first six months of the fiscal year.

Table 8.1-4. Sacramento Expenditures per Capita: FY1994/95 to FY2004/05

All Funds	FY1994/95	FY1999/00	FY2004/05
EXPENDITURES, 2005\$			
Mayor/Council and Charter Offices	\$9,800,000	\$10,500,000	\$14,900,000
Finance, HR, IT, and Labor Relations	\$71,400,000	\$39,600,000	\$55,100,000
Police	\$91,100,000	\$86,700,000	\$107,600,000
Fire	\$57,000,000	\$60,800,000	\$74,400,000
Neighborhood, Planning, Develop. & Parks	\$38,500,000	\$42,500,000	\$71,900,000
General Services and Transportation ¹	\$111,400,000	\$88,500,000	\$115,800,000
Utilities	\$60,200,000	\$58,800,000	\$70,000,000
Convention, Culture, and Leisure	\$23,800,000	\$31,800,000	\$24,200,000
Other	\$84,200,000	\$129,300,000	\$188,100,000
TOTAL, All Departments	\$547,400,000	\$548,500,000	\$722,000,000
TOTAL, All Departments Excluding Other	\$463,200,000	\$419,200,000	\$533,900,000
Percent change, 5 year period	-	-9.4%	27.3%
City Population ²	383,700	406,500	441,000
Percent Change, 5 year period	-	5.9%	8.5%
EXPENDITURES PER CAPITA, 2005\$			
Mayor/Council and Charter Offices	\$26	\$26	\$34
Finance, HR, IT, and Labor Relations	\$186	\$97	\$125
Police	\$237	\$213	\$244
Fire	\$149	\$150	\$169
Neighborhood, Planning, Develop. & Parks	\$100	\$105	\$163
General Services and Transportation ¹	\$290	\$218	\$263
Utilities	\$157	\$145	\$159
Convention, Culture, and Leisure	\$62	\$78	\$55
Other	\$219	\$318	\$427
TOTAL, All Departments	\$1,427	\$1,349	\$1,637
TOTAL, All Departments Excluding Other	\$1,207	\$1,031	\$1,211
Percent change, 5 year period	-	-14.6%	17.4%

Source: City of Sacramento Approved Budget (FY1994/95, FY1999/00, and FY2004/05) and DOF (2005)

1 Formerly called Public Works

2 As of January 1 of the fiscal year for FY1994/95 and FY1999/00. FY2004/05 population is from Jan 1, 2004.

Part of the increase in per capita real expenditures between FY 1994/95 and FY 2004/05 has resulted from the City's recovery from significant staffing reductions after reductions in property tax revenues during the early 1990s. Table 8.1-5 shows how the City's population grew 5.9 percent between FY 1994/95 and FY 1999/00 while staffing levels grew by 11.2 percent. During the next period, FY 1999/00–FY 2004/05, population increased by 8.5 percent and staffing increased by 13.8 percent. The FY05 overall staffing levels of 10.7 employees per 1,000 residents bring the City's employment ratio to the level it stood at in 1990, before the State-mandated revenue losses took effect.

Table 8.1-5. Sacramento Staffing by Department: FY1994/95 to FY2004/05

All Funds	FY1994/95	FY1999/00	FY2004/05
STAFF in FTEs			
Mayor/Council and Charter Offices	102	109	121
Finance, HR, IT, and Labor Relations	196	225	263
Police	937	1,036	1,112
Fire	502	553	594
Neighborhood, Planning, Develop. & Parks	623	855	1,137
General Services and Transportation ¹	763	675	788
Utilities	398	444	497
Convention, Culture, and Leisure	204	248	204
TOTAL, All Departments	3,725	4,143	4,715
Percent Change, 5 year period	-	11.2%	13.8%
City Population ²			
City Population ²	383,700	406,500	441,000
Percent Change, 5 year period	-	5.9%	8.5%
STAFF per 1,000 RESIDENTS in FTEs			
Mayor/Council and Charter Offices	0.27	0.27	0.27
Finance, HR, IT, and Labor Relations	0.51	0.55	0.60
Police	2.44	2.55	2.52
Fire	1.31	1.36	1.35
Neighborhood, Planning, Develop. & Parks	1.62	2.10	2.58
General Services and Transportation ¹	1.99	1.66	1.79
Utilities	1.04	1.09	1.13
Convention, Culture, and Leisure	0.53	0.61	0.46
TOTAL, All Departments	9.71	10.19	10.69
Percent Change, 5 year period	-	5.0%	4.9%

Source: City of Sacramento Approved Budget (FY1994/95, FY1999/00, and FY2004/05) and DOF (2005)

¹ Formerly called Public Works

² As of January 1 of the fiscal year for FY1994/95 and FY1999/00. FY2004/05 population is from Jan 1, 2004.

Implications of State-Mandated Changes in Local Government Finance

While the two-year shift in property tax away from city and county general funds and the three months of suspended motor vehicle in lieu fee revenues by the State may signal the end of the current period of reductions in City revenues caused by State actions, the Administration and the Legislature have additional work ahead to solve persistent State budget deficits. In FY 2005/06, which begins July 1, 2005, the State faces an \$8 billion deficit, but thus far, the Governor's budget maintains pre-FY 2003/04 levels for most major local government revenues.

While the State attempts to restructure its revenues and expenditures over the next several years, local government revenues must be evaluated with some degree of uncertainty. Ultimately, and despite the passage of Proposition 1A in the November 2004 General Election, which provides legislative protection of local government funding sources, the State controls the

allocation of sales tax, property tax, tax increment, and other kinds of intergovernmental revenues.

■ FINDINGS

Four indicators and issues shape the ability of the City to pay for General Fund services for residents over the next five to 20 years:

- The City's next budget must solve a \$25 million "built in" gap between revenues and costs. Recent steps to capture new revenues, reorganize City departments, and reduce department budgets probably have already achieved the greatest returns for the City and may only offer diminishing returns over the next several years. Meanwhile, growth in City labor costs continues to exert pressure on the General Fund, this year in particular because of higher healthcare and retirement payments. Similar trends confront virtually every California city and county.
- All City departments have been encouraged to plan for the future by using base budgets, in which fundamental levels of service drive costs and provide a starting point for next year's budget.
- An ongoing real estate boom in the region has accelerated development in several areas of the City, including construction of master-planned communities in North Natomas and subdivisions in Jacinto Creek (South Sacramento), West Natomas (Northwest Sacramento), and Meadowview (South Sacramento). In many cases, these new residential areas require basic services, such as fire and police protection, libraries, and schools.
- The City has recognized that the following budget items have service deficiencies for which operating funds will need to be identified:
 - › Regional parks as they are developed
 - › Deferred maintenance on City facilities
 - › Road network, in particular roadway resurfacing
 - › Library branches as they are expanded or constructed
 - › Police and fire facilities

Section 8.2 Infrastructure
Financing
Program

8.2 INFRASTRUCTURE FINANCING PROGRAMS

■ INTRODUCTION

To assess trends affecting the City's ability to finance new and replacement infrastructure, this review examines the sources of capital project funding as shown in the 2004–2009 Capital Improvement Program (CIP). Experienced City staff members also were interviewed to compile a list of facilities needs that lie outside the timeframe of the five-year CIP.

■ EXISTING CONDITIONS

Status of City's Fee Programs and Other Capital Facilities Financing Resources

As shown in Table 8.2-1, the City receives revenues for capital projects primarily from transportation-dedicated sales and construction taxes, utility user fees, federal and state transportation grants, and development impact fee programs. In general, Transportation, Parks, and Utility Program projects rely on more numerous and diverse sources of funding than do projects in the Convention, Culture & Leisure; Economic Development/Infill; and Housing and Redevelopment Programs. Special marina, golf, and community center enterprise funds support projects in Convention, Culture & Leisure while Community Development Block Grants and tax increment programs largely support Housing and Redevelopment projects.

Tables 8.2-2 through 8.2-4 outline the complete set of resources supporting Parks, Utility, and Transportation projects during the current fiscal year. Most park project funds come from the Park Development Impact Fee, while user fees collected through the City's combined water, sewer, storm drain, and solid waste utility bill fund almost all expenditures budgeted for utility projects. In the Transportation Program, federal and state grants (most funded from the federal and state gasoline tax); countywide Measure A, a half-cent sales tax; and the City's major roads construction program tax support 90 percent of the FY 2004/05 capital budget.

CIP and Other Infrastructure Costs

The five-year CIP beginning in 2004 totals nearly \$330 million. Nearly half of this amount is allocated to transportation spending, including roads, bridges, curbs/gutters/sidewalks, traffic safety, and some landscaping. Another third of the CIP comprises water, sewer, and storm drainage projects grouped in the Utilities category. The remainder is split among General Government; Convention, Culture & Leisure; and Parks & Recreation.

A total of \$8.7 million in FY 2004/05 Housing and Redevelopment capital projects are managed by the Sacramento Housing and Redevelopment Agency (SHRA), of which the City is a participating jurisdiction. Because the Economic Development/Infill Program does not have a separate capital budget at this time, all of this program's projects overlap with CIP projects catalogued in the Transportation, Parks & Recreation, and Utilities Programs.

Based on current facility needs in the City, few Public Safety projects are in the current five-year CIP.

Table 8.2-1. Sacramento Capital Improvement Sources and Uses 2004-2009

Funding Uses	Total Funding, 2004-09	Major Funding Sources							
		General Fund	Park Develop. ³	Transport ⁴	Parking Revenues ⁵	Utility User Fees ⁶	State & Fed. Cap. Grants	Develop. Impact Fee Programs ⁷	Other ⁸
General Government	\$17,200,000	x	x	x	x	x	x		x
Public Safety	\$850,000	x							
Convention, Culture, & Leisure	\$17,700,000								x
Parks & Recreation	\$17,500,000	x	x				x	x	
Economic Development / Infill	Note ¹	x	x	x		x	x		x
Transportation	\$154,000,000		x	x	x		x	x	
Utilities	\$113,300,000					x	x		x
Housing and Redevelopment	\$8,700,000						x		x
New Growth Areas	Note ²		x					x	
TOTAL	\$329,300,000								

Source: City of Sacramento Approved 2004-09 Capital Improvement Program

- 1 The Economic Development/Infill Program does not having separate funding but instead consists of projects primarily crosslisted in the Transportation and Utilities Programs.
- 2 Projects funded largely by landowners and will vary according to the amount of development occurring in each year. Includes some funds listed above in Transportation, Parks & Recreation, and Utilities, among others.
- 3 See Table 8.2-2 for additional detail.
- 4 See Table 8.2-3 for additional detail.
- 5 Parking lot and meter charges in addition to retail lease revenues from parking facilities.
- 6 See Table 8.2-4 for additional detail.
- 7 Includes the North Natomas Public Facilities Fee Program.
- 8 Includes Sacramento marina, golf, community center, fleet management, other capital grants, FEMA grants, landfill closure, and tax increment funding, all of which are minor funding sources

Table 8.2-2. Parks & Recreation CIP Sources FY2004/05

Funding Sources	Budget FY2004/05	Percent Share
Park Development Impact Fee	\$4,800,000	68.6%
Quimby Act	\$800,000	11.4%
Citywide Landscape and Lighting Assessment District	\$700,000	10.0%
Transportation Development Act	\$300,000	4.3%
Federal Transportation Fund	\$300,000	4.3%
State and Federal Grants	\$50,000	0.7%
General Fund	\$50,000	0.7%
Public Facilities Fee Program	\$40,000	0.6%
Total, FY2004/05	\$7,000,000	100.0%
Percent of Five Year Budgeted Total	40.0%	

Source: City of Sacramento Approved 2004-09 Capital Improvement Program

Table 8.2-3. Transportation CIP Sources FY2004/05

Funding Sources	Budget FY2004/05	Percent Share
State and Federal Grants	\$17,200,000	42.9%
Measure A Half Cent Sales Tax - Projects	\$12,400,000	30.9%
Major Road Construction Program Tax	\$6,900,000	17.2%
Measure A Half Cent Sales Tax - Maintenance	\$2,800,000	7.0%
Citywide Landscape and Lighting Assessment District	\$450,000	1.1%
Gas Tax	\$330,000	0.8%
Total, FY2004/05	\$40,100,000	100.0%
Percent of Five Year Budgeted Total	26.0%	

Source: City of Sacramento Approved 2004-09 Capital Improvement Program

Table 8.2-4. Utilities CIP Sources FY2004/05

Funding Sources	Budget FY2004/05	Percent Share
Water User Fees	\$13,600,000	56.7%
Sewer User Fees	\$4,900,000	20.4%
Storm Drainage User Fees	\$4,800,000	20.0%
Solid Waste User Fees	\$700,000	2.9%
Total, FY2004/05	\$24,000,000	100.0%
Percent of Five Year Budgeted Total	21.2%	

Source: City of Sacramento Approved 2004-09 Capital Improvement Program

■ **FINDINGS**

Two issues shape the City's ability to fund capital projects at levels required to meet infrastructure standards in existing areas of the City and to build new infrastructure in growth areas of the City (during the General Plan time horizon):

- An ongoing real estate boom in the region has accelerated development in several areas of the City, including construction of master-planned communities in North Natomas and subdivisions in Jacinto Creek (South Sacramento), West Natomas (Northwest Sacramento), and Meadowview (South Sacramento). In many cases, these new residential areas will pay into existing fee programs covering many types of public infrastructure including libraries, parks, roads, and drainage. General Fund and other resources, however, will be required to operate and maintain these facilities.
- The City has recognized that the following infrastructure groups have facility deficiencies for which capital project funds will need to be identified:
 - › Sewer and storm drains.
 - › Regional park development, including parks in the South Area, North Natomas, and Granite Regional Park.
 - › Water and sewer pipes.
 - › Libraries in parts of town where branches are small or nonexistent, such as the Pocket, East Sacramento, and South Sacramento.