



REPORT TO COUNCIL

City of Sacramento

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STAFF REPORT
September 1, 2009

Honorable Mayor and Members of the City Council, and
Honorable Chair and Members of the Redevelopment Agency

Title: Impact of FY2009/10 State Budget Action

Location/Council District: Citywide

Recommendation: Receive and file.

Contact: Leyne Milstein, Director of Finance, 808-8491

Presenters: Leyne Milstein, Director of Finance; La Shelle Dozier, SHRA Executive Director

Department: Finance

Division: Finance Administration

Organization No: 06001211

Description/Analysis:

Issue: On July 28, 2009 the Governor signed the State of California budget; this report provides an update on the impact of the State budget on City of Sacramento and Sacramento Housing and Redevelopment Agency (SHRA) programs and operations. While some of the State's budget actions resulted in actual reductions in funding for specific programs, or taking of local revenues that will result in program reductions, other information is reflective of the potential "secondary" impacts of actual funding reductions to State programs, which could then impact the City's current efforts, programs and services.

General Fund Property Taxes

The State will "borrow" 8% of local property taxes based on the 2008/09 tax roll. For the City, this represents \$11.8 million. Pursuant to Proposition 1A (2004) which provides the authority for the borrowing, these funds must be paid back with interest within three years. The budget states that the funds will be repaid no later than

6/30/2013, with an interest rate higher than the Pooled Money Investment Account (PMIA), but no greater than 6%. The State Department of Finance will announce the interest rate in mid-September. In addition, it appears that there may be some flexibility for cities relative to the funds that can be used to bridge this borrowing. Staff will continue evaluating all alternatives, in conjunction with the City Treasurer and bring back to the City Council a final recommendation and actions that reflect the best benefit to the City when more information is available.

SHRA

The State budget package includes a take of \$2.05 billion in redevelopment funds from agencies across the State in order to close the State's current budget deficit (Assembly Bill 26). The payment, termed the "Supplemental" Educational Revenue Augmentation Fund (SERAF), will occur over the next two fiscal years with 80% occurring in the current 2009/10 fiscal year. The impact to SHRA is \$19.6 million in 2010 and \$4 million in fiscal year 2011. For SHRA's next budget cycle, calendar year 2010, the take represents 29% of our estimated 2010 tax increment revenues (See Attachments 1 and 2). These revenue estimates are subject to change based on pending assessment value appeals and Proposition 8 reductions by the Sacramento County Assessor.

The enacted legislation allows payment to be made from non-housing tax increment funds, and any other funds that are legally available. Since SHRA is funded solely by special revenue funds and has no General Fund, non-housing tax increment will be the source of payment. However, the legislation includes a provision that allows redevelopment agencies to borrow funds from the housing tax increment allocation if SHRA makes a finding that the monies are needed to make the payment. Any borrowing from the housing funds must be repaid by July 1, 2015 or SHRA will be subject to extreme sanctions.

While we are hopeful that the current attempt by the State to take redevelopment monies will again be determined unconstitutional, SHRA will be considering all options available to bridge the gap imposed by the State. Bridging this gap will require both operational and project fund cuts that yield tax increment savings.

Over the next two months staff will be evaluating all the options available to fill the budget gap created by the potential shift of redevelopment funds to the State. Staff will provide recommendations at the end of September for consideration during SHRA's annual budget process which is currently being developed for fiscal year 2010.

Department of Parks and Recreation

The State reduced grant funding allocations by \$1.3 million for three programs currently operated by the City's Department of Parks and Recreation. Specific reductions and operating impacts are detailed below.

Access Leisure Teen Programs for the Disabled (\$901,000): Funding for this program has been eliminated – this program supports four after-school social and

recreational program sites for teens and young adults with intellectual and/or physical disabilities. Staff is investigating the possibility of switching to a fee-for-service model in order to generate funding for 1-2 sites.

Approximately 175 participants are served at the four locations and there are currently no other comparable programs in the region. The closure of the sites will create a void for families who need assistance caring for their family member during after-school and school vacation periods. If new funding cannot be generated, 1.0 Program Supervisor, 4.0 Program Coordinators, 4.0 Program Leaders, associated non-career staff and supplies will be eliminated.

4th "R" Child Care Program (\$323,000 Extended Day Care Latchkey Grant):

Funding for this program has been eliminated – a portion of the expenditures currently funded by the Latchkey Grant can be transferred to the City's other 4th R Grant (General Child Care and Development). However, approximately \$140,000 in funding cannot be shifted and will result in the closure of one low-attendance child care center. The final determination of the location that will be closed will be made in late fall, and the closure will be implemented effective January 1, 2010. Parents of approximately 20-60 children served by the closed center will need to find alternate child care. It is anticipated that all career and non-career staff can be absorbed by other 4th "R" locations.

Triple R Adult Day Program (\$93,000): This funding reduction will cause overall program enrollment to decline, which may result in the closure of some of the three program sites. Participants with severe impairments may not be accommodated. Often, these elderly participants are the customers most in need of a day care provider that can manage their needs. Also, their families need a place for the participants to be cared for during working hours. The alternative for families is placing the participants in a nursing home full time. This reduction will result in the elimination of 1.0 full time equivalent (FTE) Program Developer, associated non-career staff, and the related supply budget.

Cover the Kids Program: In addition to the above State-funded programs, this City program enrolls eligible children into the State-operated Healthy Families health insurance program. As a result of a net loss of \$97 million to that program, the State has frozen enrollments as of mid-July and will begin dis-enrolling approximately 400,000 children beginning in October.

The State funding reduction combined with the current economic conditions may require the reduction of 1.0 FTE Program Coordinator. Staff is still processing enrollment applications because the State is accepting applications for a waiting list. In addition, staff is continuing to provide families with information on appropriate health care alternatives and resources, which includes enrolling children into other health insurance products. Some agencies that fund the City program have discussed shifting the focus of their scope of work from enrolling children in health care to providing insured clients with information on how best to use the insurance

they have. However, nothing has been determined relative to changes in the City's program and staffing at this time.

The Approved Budget Resolution (2009-406) authorizes the City Manager to adjust staffing and budgets for grants previously approved by the City Council (Section 5.2 and 11.2). As such, final adjustments will be made when the Department has determined that all alternate funding sources have been exhausted.

Police Department

The State's proposed funding cuts to various programs and County departments will eventually have a negative impact on the service levels that the Sacramento Police Department will be able to provide.

Corrections: The State's plan to reduce \$1.2 billion from the State's Corrections Department will mean the release of more than 20,000 convicted felons back into California communities within the first year (a significant number of these felons will be returned to the Sacramento region). Based on traditionally high recidivism rates, and a reduction of parole officers to monitor their behavior, an increase in crime, calls for service, and our response time is anticipated.

Mental Health: The County of Sacramento's Department of Behavioral Health Services is anticipating a reduction in revenue from the State in excess of \$10 million. In response to this, they have been developing plans to reduce capacity at the Sacramento County Mental Health Treatment Center from 100 beds to 50 beds, and to close their Crisis Stabilization Unit. A reduction of these services will have a negative impact on our ability to deliver services to the community. We anticipate a significant increase in calls for service for people in crisis, and an increase in arrests as our options will be severely limited.

Sacramento Sheriff's Department (SSD): The SSD is currently working on plans to absorb a shortfall of up to \$80 million. Although the department has already laid off 122 sworn deputies and furloughed 400 on-call deputies, pending final County budget hearings in September, it is unclear what their ultimate reductions will be. Current service levels have already been impacted as auxiliary units such as SWAT, Air Operations, Problem Oriented Policing, and K-9, have been absorbed into patrol. Any further reductions to their patrol services or detective units will have a direct impact on our department. Our officers and detectives work closely with SSD on issues that cross over jurisdictional boundaries on a daily basis.

The reduction of \$9 million to the Sheriff's Department's Correctional Health Division has caused a shortage of screening nurses at the Main Jail. As all arrestees must be medically cleared before the Sheriff will accept custody, this cut will significantly impact our business practices and efficiencies as our officers are already beginning to experience significant increases in wait times while booking arrestees. We are in the process of exploring all options to remedy this situation.

In addition to the above, if the State were to reduce or rescind the funding for jail booking fees, this will have a negative impact on the City's General Fund. It may also lead to significant policy decisions pertaining to the number of individuals currently being incarcerated on misdemeanor charges.

Department of General Services (Animal Care Services)

California Senate Bill (SB) 1785, also known as the Hayden Bill, requires longer holding periods (up to 6 days) for stray animals than prior laws. The Bill allows local agencies to apply for reimbursement from the State for the increased costs associated with these longer holding periods for any animals that are ultimately euthanized. The State's decision to suspend this legislation allows local agencies to reduce the holding times for stray animals but also discontinues the reimbursement of holding costs. With this suspension, Animal Care Services has implemented a holding period that seeks to maximize the potential for stray animals to be re-united with their owners or adopted, while limiting as much as possible, the cost of holding these animals.

Specific impacts to the City from suspension of the Hayden Bill include:

- Reducing the required holding time for stray animals. Animal Care Services will now hold all animals for a minimum of 3 days.
- Allowing stray animals to be placed for adoption sooner. Animals that have a high potential for adoption will be available for adoption after the 3 day hold period is over. At this time, however, the City will continue to hold animals with a low potential for adoption for the 6 day holding period consistent with the Hayden legislation even though the associated costs are no longer reimbursable. This allows owners the additional days to try to find their pets before they are potentially euthanized.
- Eliminating reimbursement funds that could potentially be allocated by City Council to capital improvements or other discretionary purposes. Prior Hayden Bill reimbursements have been credited to both the General Fund and animal care related capital programs (such as the new cattery building). Reimbursement funds have not been budgeted in the operating budget in an ongoing fashion so there is no immediate operating budget impact to the suspension of this mandate.

The holding period implemented by Animal Care Services (described above) which allows stray animals to be available for adoption sooner, and holds animals with a low potential for adoption longer than is now required may result in some operating savings or costs but they are not anticipated to be significant either way.

Since FY1998/99, Animal Care Services has submitted Hayden Bill reimbursement claims totaling approximately \$3.6 million and has received reimbursements totaling approximately \$2.1 million.

Policy Considerations: The report is consistent with Council’s adopted budget principles to: maintain a fiscally sustainable, balanced budget and to keep the Council informed on the fiscal condition of the City.

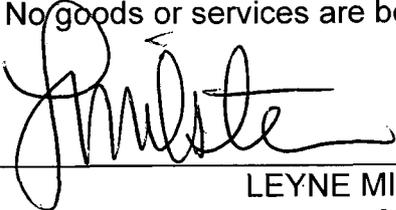
Environmental Considerations: This report concerns administrative activities that will not have any significant effect on the environment, and do not constitute a “project” as defined by the California Environmental Quality Act (CEQA), California Code of Regulations, Title 14, Sections 15061(b)(3) and 15378(b).

Commission/Committee Action: None.

Rationale for Recommendation: This report provides an overview of the impacts on City funding and programming as a result of the State of California budget adoption, and provides Council an opportunity to consider and provide direction on these impacts.

Financial Considerations: In order to maintain a balanced budget it is necessary to monitor the impacts from external organizations and make budget adjustments as necessary to address funding and program changes. Staff will continue to report back to Council as additional information becomes available relative to State, County, or any other factors that could impact the City’s budget.

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

Respectfully Submitted by: 
LEYNE MILSTEIN
Director of Finance

Approved by: 
GUS VINA
Assistant City Manager

Recommendation Approved:


RAY KERRIDGE
City Manager

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Attachment 1

Budget Impact of SERAF by Redevelopment Project Area

Redevelopment Project Areas	California State Budget Impact		
	Est. Tax Increment 2010**	2010 SERAF	2011 SERAF
Merged Downtown	30,631,852	(9,227,088)	(1,899,695)
Del Paso Heights	3,510,199	(1,138,881)	(234,476)
Alkali Flat	1,413,277	(379,460)	(78,124)
Oak Park	4,680,475	(1,803,418)	(371,292)
River District	1,552,816	(453,744)	(93,418)
North Sac	3,159,214	(930,362)	(191,545)
Franklin Blvd	2,654,000	(912,969)	(187,964)
Stockton Blvd	1,933,000	(765,222)	(157,546)
Army Depot	3,090,535	(884,119)	(182,025)
65th Street	1,078,489	(372,447)	(76,680)
City Total:	\$ 53,703,857	\$ (16,867,711)	\$ (3,472,764)
Auburn Blvd	\$ 456,700	\$ (97,491)	\$ (20,072)
Mather / McClellan	\$ 11,989,426	\$ (2,555,324)	\$ (526,096)
Walnut Grove*	Closed	\$ (34,300)	\$ (7,062)
Florin Road	\$ 1,335,391	\$ (67,644)	\$ (13,927)
County Total:	\$ 13,781,517	\$ (2,754,760)	\$ (567,156)
Grand Total:	\$ 67,485,374	\$ (19,622,471)	-29% \$ (4,039,920) -6%

* Walnut Grove is scheduled to be closed out in 2009. SERAF payment will be made from residual 2008-09 Tax Increment

**Estimates are subject to change based on pending assessment value appeals and Proposition 8 reductions by the Sacramento County Assessor.

Note: (SERAF) stands for Supplemental Educational Revenue Augmentation Fund

Attachment 2

SERAF Formula Calculation by Redevelopment Area

California Redevelopment Association's Estimate of each Agency's SERAF Transfer to Meet the \$1.7 Billion State Budget Payment for 2009-10 Based on the State Controller's Office's Corrected 2006-07 Tax Increment Revenue Summary provided to the Department of Finance

SERAF Calculation Method:

Individual Agency's Total Payment = Agency's Net Tax Increment X [(1.7 billion / 2) / 3,763,301,476] + Agency's Gross Tax Increment X [(1.7 billion / 2) / 4,742,213,063]
 Multiplier to Determine an Individual Agency's Payment from Net Tax Increment = 850,000,000/3,763,301,476 or 0.225865508 **22.5865508%**
 Multiplier to Determine an Individual Agency's Payment from Gross Tax Increment = 850,000,000/ 4,742,213,063 or 0.179241208 **17.9241208%**

	A	B (A x 22.58%)	C	D (C x 17.92%)	E =(B+D)
Redevelopment Agency Name	2006-07 Tax Increment Net of Pass-Throughs	Estimated 2009-10 SERAF Net Payment	2006-07 Gross Tax Increment	Estimated 2009-10 SERAF Gross Payment	Total Agency SERAF Payment for 2009-10
Redevelopment Agency of the City of Sacramento	\$ 40,838,458	\$ 9,223,999	\$ 42,644,835	\$ 7,643,712	\$ 16,867,711
Redevelopment Agency of the County of Sacramento	\$ 6,186,616	\$ 1,397,343	\$ 7,573,129	\$ 1,357,417	\$ 2,754,760

Project Area Formula Breakdown					
Downtown	22,661,485	5,118,448	22,922,409	4,108,640	9,227,088
Del Paso Heights	2,704,587	610,873	2,945,798	528,008	1,138,881
Alkali Flat	928,356	209,684	947,195	169,776	379,460
Oak Park	4,330,523	978,116	4,604,425	825,303	1,803,418
River District	1,061,549	239,767	1,193,793	213,977	453,744
North Sac	2,214,064	500,081	2,400,570	430,281	930,362
Franklin Blvd	2,193,589	495,456	2,329,335	417,513	912,969
Stockton Blvd	1,815,625	410,087	1,981,322	355,135	765,222
Army Depot	2,042,473	461,324	2,358,804	422,795	884,119
65th Street	886,207	200,164	961,184	172,284	372,447
City Total:	\$ 40,838,458	\$ 9,223,999	\$ 42,644,835	\$ 7,643,712	\$ 16,867,711
Auburn Blvd	231,234	52,228	252,529	45,264	97,491
Mather / McClellan	5,703,734	1,288,277	7,068,952	1,267,047	2,555,324
Walnut Grove	84,669	19,124	84,669	15,176	34,300
Florin Road	166,979	37,715	166,979	29,930	67,644
County Total:	\$ 6,186,616	\$ 1,397,343	\$ 7,573,129	\$ 1,357,417	\$ 2,754,760