

4d



CITY OF SACRAMENTO

DEPARTMENT OF FINANCE

BUDGET DIVISION

June 3, 1985
FA:85242:BM:KMF

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Options for Reducing the Utility Users Tax

SUMMARY:

The purpose of this report is to provide the Committee with alternatives if a reduction in the Utility Users Tax is considered.

BACKGROUND:

In the course of adopting the 1983-84 Budget, the City Council was faced with a situation where on-going existing revenues could not support existing programs. It was a situation which had been developing for at least five years due to a substantial property tax reduction, the depletion of existing reserves, the reliance on one-time "fixes" and a two-year wage increase occurring in 83-84.

As a result of this situation a number of alternatives were proposed to bring on-going revenues in line with on-going expenditures. The adopted adjustments included (1) a heavier reliance on other fund transfers into the General Fund -- a trend that is still continuing, (2) operating budget cuts of \$1.7 million including the elimination of 51.20 FTE and (3) an increase in the Utility Users Tax from 5% to 9%.

At the time the Utility Users Tax was increased it was assumed that the improving economy and return of the State Subvention for the Motor Vehicle License Fee would allow the tax rate to be rolled back to 5% after one year. The major reasons for not sunseting the tax were due to: (1) uncertainty surrounding the Jarvis Initiative -- which subsequently failed, (2) many General Funded CIP projects deferred in prior years could wait no longer, (3) reliance on one-time transfers was reduced, (4) the Admissions Tax was repealed on January 1, 1985, (5) \$3,300,000 was returned from the General Fund to the Risk Management Fund, (6) a 4% General Fund Reserve for Economic Uncertainty was established, and (7) 156.51 FTE General Funded positions were added in 1984-85 and 65.93 FTE are being proposed in 1985-86. The following table summarizes by department the increases in General Funded staffing since 1983-84.

TABLE 1
CHANGE IN GENERAL FUNDED POSITIONS

| Department | Change From 1983-84 to 1984-85 | Change From 1984-85 to 1985-86 | Total |
|------------------------|-----------------------------------|-----------------------------------|--------|
| Mayor/Council | 1.00 | 1.00 | 2.00 |
| City Manager | -- | -1.00 | -1.00 |
| City Attorney | 3.76 | 1.00 | 4.76 |
| City Clerk | 4.00 | -- | 4.00 |
| City Treasurer | 1.00 | -- | 1.00 |
| Finance | 5.00 | 6.00 | 11.00 |
| Data Processing | 4.00 | -6.00 | -2.00 |
| Personnel | 8.96 | -- | 8.96 |
| Employee Relations | -- | -- | -- |
| General Services | 17.30 | 4.00 | 25.30 |
| Police | 34.85 | 22.51 | 57.36 |
| Fire | -7.00 | -.75 | -7.75 |
| Public Works | 23.38 | 17.00 | 40.38 |
| Planning & Development | 11.40 | 8.60 | 20.00 |
| Library | 12.40 | -2.00 | 10.40 |
| Parks & Comm. Services | 36.46 | 15.57 | 52.03 |
| | ----- | ----- | ----- |
| Total | 156.51 | 65.93 | 222.44 |
| | ===== | ===== | ===== |

To reduce the Utility Users Tax it would be necessary to reduce expenditures by \$2,400,000 for each 1% tax rate reduction, or to find equivalent amounts of alternative revenue sources. The following is a listing of such alternatives in priority order.

1. Employee Service Savings. The \$1,480,000 identified last week could be used to reduce the tax rate by .6%.

2. Cut Proposed Programs. The 1985-86 Proposed Budget provides for 65.93 FTE new positions. The elimination of these positions would save approximately \$2.7 million which is equivalent to a 1.1% Utility Users Tax Rate. The advantage of this type of reduction is that it is matching on-going expenditure reductions with an on-going revenue loss. The disadvantages are that the headway proposed in the Public Safety and Development areas would continue to fall behind. In addition, loss of the General Government and Parks and Community Services positions would create workload backlogs, a reduction of water front and Community Center staffing and a further deterioration in park maintenance. The effect of the elimination of each specific position can be found in the Proposed Budget.

3. Cut the 1985-86 CIP. A reduction of \$3,771,000 budgeted for capital improvements equates to a 1.6% Utility Users Tax Rate. The advantage of a cut in this area is that it would not affect existing programs or personnel. The disadvantages include (1) increased future costs due to increasing maintenance and replacement costs, (2) loss of \$3,000,000 in matching grant money and (3) these are one time costs which will not offset on-going revenue losses.

4. Cut Existing Unfilled Positions. There are currently about 85 vacant positions: 20 in General Government, 21 in Public Safety (of which 10 are Sworn), 27 in Public Facilities and Development and 18 in Culture and Leisure. Elimination of these positions would result in annual savings of approximately \$3.4 million. This is equivalent to a 1.4% Utility Users Tax Rate. An advantage of this type of reduction is that it would not result in any layoffs. The disadvantages include (1) the positions cut would be arbitrary and key services could be disrupted, and (2) the full savings may not be realized due to an erosion of budgeted salary savings.

5. Develop New Revenue Sources. An alternative which does not entail budget reductions is the development of new revenue sources or the expansion of existing ones. New or expanded revenue sources could be established to generate almost any predetermined amount. The attached table of contents from the "California Municipal Revenue Sources Handbook" published by the League of California Cities (Attachment A) provides a list of general purpose revenue sources available to the City. The complete League report was transmitted to all Councilmembers on February 12, 1985. The advantage of this alternative is that it would allow the continuation of all existing programs as well as the implementation of all augmentations presented in the Proposed Budget. The disadvantage is that a new or expanded revenue source may do nothing to alleviate the overall tax burden on City residents.

6. Reduce Reserves. The final alternative is the reduction of General Fund reserves and/or "borrowing" from other funds' reserves. The General Fund has a reserve for Economic Uncertainty and a Certificate of participation reserve. The Reserve for Economic Uncertainty is budgeted at \$5,477,000 in 1985-86 which is equivalent to a 2.3% Utility users Tax rate, is set up as a buffer to absorb any unforeseen revenue losses as well as a vehicle to minimize the size of any Tax and Revenue Anticipation Note issues which may be required. The reduction of this reserve could require midyear program cuts/layoffs in revenues come in under budget. This type of buffer is particularly important given the uncertainty surrounding the continuance of Revenue Sharing.

The COP reserve is budgeted at \$458,000 in 1985-86. This reserve is not legally required, however, its purpose is to provide additional justification to the financial community for the City's strong bond rating.

Finally, the General Fund could "borrow" from the Risk Management reserve. Earlier this year, the General Fund restored \$3.3 million to the Risk Management Fund as a condition of the 1983 Certificate of Participation issue. Therefore, such interfund "borrowing" could make future bond issues more difficult. A significant disadvantage of using any of these reserves is that it could undermine the fiscal stability of the City in terms of meeting current obligations. In addition, the use of reserves is a one-time resource which cannot compensate for the on-going loss of a revenue.

TABLE 2

ALTERNATIVES

| Alternative | Amount | Equivalent Tax Rate | One-Time Or On-Going |
|------------------------------------|-------------|---------------------|----------------------|
| 1. Employee Service Savings | \$1,480,000 | 0.6% | On-Going |
| 2. Cut Proposed programs | 2,700,000 | 1.1 | On-Going |
| 3. Cut the 1985-86 CIP | 3,771,000 | 1.6 | One-Time |
| 4. Cut Existing Unfilled Positions | 3,400,000 | 1.4 | On-Going |
| 5. Develop New Revenue Sources | --(a) | --(a) | On-Going |
| 6. Reduce Reserves | | | |
| --Economic Uncertainty | 5,477,000 | 2.3 | One-Time |
| --COP | 458,000 | --(b) | One-Time |
| --Risk Management | 3,300,000 | 1.4 | One-Time |

a. Could be developed at various levels.

b. Less than 0.01%.

RECOMMENDATION

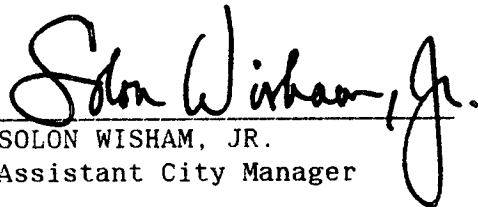
Based on the significant disadvantages of all of the alternatives listed above, it is recommended that none be adopted and that the Utility Users Tax rate be maintained at 9%.

Respectfully submitted,



BETTY MASUOKA
Budget Officer

RECOMMENDATION APPROVED



SOLON WISHAM, JR.
Assistant City Manager

Attachment

June 4, 1985
All Districts

MUNICIPAL REVENUE SOURCES HANDBOOK

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| I. Introduction | 1 |
| II. Taxes | 4 |
| A. Property Tax | 5 |
| B. Sales and Use Tax | 7 |
| C. Business License Tax | 8 |
| D. Transient Lodging Tax | 9 |
| E. Real Property Transfer Tax | 10 |
| F. Building Development Tax | 11 |
| G. Special Tax for Police or Fire Services | 12 |
| H. "Special Taxes" | 13 |
| I. Admissions Tax | 14 |
| J. Parking Tax | 15 |
| K. Utility User Tax | 16 |
| III. Special Assessments | 17 |
| IV. Subdivision Map Act Requirements | 18 |
| A. Residential Park Development Fees | 18 |
| B. Drainage and Sewer Facility Construction Fees | 19 |
| V. Franchises | 20 |
| VI. Licenses and Permits | 21 |
| Animal Licenses | 21 |
| Bicycle Licenses | 22 |
| Construction Fees | 23 |
| Parking Charges | 24 |
| Street and Curb Permits | 25 |
| VII. Charges for Current Services | 26 |

| | |
|---|----|
| VIII. Fines, Forfeitures, and Penalties | 29 |
| IX. Revenue from other Agencies | 30 |
| A. State Subventions | 30 |
| 1. Motor Vehicle In-Lieu Tax | 30 |
| 2. Trailer Coach In-Lieu Tax | 31 |
| 3. Off-Highway Motor Vehicle License Fees | 32 |
| 4. Gasoline Tax | 33 |
| 5. Cigarette Tax | 34 |
| 6. Homeowners Property Tax Relief | 35 |
| 7. Business Inventory Property Tax Relief | 36 |
| 8. Williamson Act Subventions | 37 |
| 9. Tidelands Revenues | 38 |
| 10. Reimbursements for State Mandated Costs | 39 |
| 11. Repealed Subventions | 40 |
| a. Alcoholic Beverage License Fee | 40 |
| b. Highway Carriers Business License Tax | 41 |
| c. Financial Aid to Local Agencies | 42 |
| B. Federal Revenue Sharing | 43 |
| C. Other Federal, State, and County Grants | 44 |
| X. Investment Earnings | 46 |
| XI. Contributions from City Owned Enterprises | 47 |
| XII. Other Revenue | 47 |

12