(1)

CITY OF SACRAMENTO

OFFICE OF THE TREASURER
800 - 10TH STREET SUITE 1
SACRAMENTO, CA 95814
TELEPHONE (916) 449-5318

THOMAS P. FRIERY
TREASURER

DONALD E. SPERLING
ASST. TREASURER

August 26, 1985

CITY MANAGER'S OFFICE
RECEIVED
AUG 27 1985

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Report on Impact of President's Tax Proposal on City Financing Programs

SUMMARY

The President's Tax Proposal, as it impacts the tax-exempt financing capability of local government, should be vigorously opposed (see attached report to Council).

RECOMMENDATION

It is recommended that the Committee forward to Council for adoption the attached Resolution which addresses this issue.

Respectfully submitted,

Thomas P. Friery

THOMAS P. FRIERY
City Treasurer

RECOMMENDATION APPROVED:

Solon Wisham, Jr.

Solon Wisham, Jr.
Assistant City Manager

September 10, 1985

Attachment

TPF/lv:shrati

CITY OF SACRAMENTO

OFFICE OF THE TREASURER
800 - 10TH STREET
SUITE 1
SACRAMENTO, CA 95814
TELEPHONE (916) 449-5318

THOMAS P. FRIERY
TREASURER

DONALD E. SPERLING
ASST. TREASURER

CITY MANAGER'S OFFICE
RECEIVED
AUG 26 1985

August 23, 1985

Sacramento City Council
Sacramento, California 95814

SUBJECT: President's Tax Proposal Impacts on City of Sacramento Financing Programs

SUMMARY

If implemented in its present form, the President's Tax Proposal would have devastating negative consequences on the City's capital financing programs as well as those programs for other municipal governments in the United States. Very briefly, two of the major impacts will be the elimination of any City of Sacramento/private sector partnership approach to any project where the private sector would use 1% or more of the facilities or where a lease for more than 1 year was entered into with the private sector.

Further, with the proposal requiring that a significant percentage or municipal revenue bond proceeds being expended within 30 days of bond settlement, it would be necessary for the City to internally fund a significant portion of capital projects prior to selling bonds.

The President's Tax Proposal, as it impacts the tax-exempt financing capability of local government, should be vigorously opposed. It is recommended the City Council adopt the attached Resolution which addresses this issue.

THE PRESIDENT'S TAX PROPOSAL
AND EFFECT
ON CITY OF SACRAMENTO FINANCING PROGRAMS

The current tax law reform proposals of the President if enacted will dramatically curtail and/or prohibitively increase the cost of providing municipal services. The proposal effectively eliminates public-private partnership in building and providing City services which has previously been recommended by the President and pre-empt the City from using traditional financing tools.

A review of the City's 5 year capital improvements program reveals that numerous projects may not qualify for tax exempt status should the President's proposal be implemented. Some of these projects by category are:

- -- Sewage and Solid Waste Disposal
- -- Water Supply Facilities
- -- Convention and Trade Show Facilities
- -- Administrative Offices
- -- Libraries (Public-Private Partnership)

Other projects which are not directly the financial responsibility of the City at this time but are of interest to the City are:

- -- Airport, Docks and Wharves Facilities
- -- Mass Community Facilities
- -- Sports Arena

The following represents my concerns with the President's proposed tax plan:

1) In providing facilities such as convention facilities, administrative offices, mass community facilities, etc., it is common practice to have eating facilities, shopping areas, etc. for workers or the public using the facilities. The City does not compete or operate eating facilities or sales of convenience items; rather, these matters are contracted for in the private sector. Further, in projects such as mass community facilities, it should be considered these small shopping areas offer security to the public users of the project. Finally, it is possible to have the private sector construct a library facility or other project if a portion of that facility is made available for commercial as well as public use. This approach results in land and property coming back onto tax rolls and the private sector providing the capital to build the needed facility.

   The President's tax proposal states that if 1% or more of the facility and/or a lease for more than 1 year is signed with the private sector to provide these services, then the tax exemption on municipal bonds is lost. Further, proposed changes in the depreciation schedule to the private sector would severely reduce benefits to the private sector for building and owning a facility and possibly reduce their interest in assisting the public sector's capital needs.

2) The City, like all other municipal government, experiences cash flow operating problems since major revenue sources (property taxes) are received in April and December of each year, whereas operating costs or expenses are uniform throughout the year. To deal with this problem, the City issues Tax and Revenue Anticipation Notes to raise cash to avoid the cash flow problems. The difference between the City's borrowing costs and any money it earns during the course of the year on the monies borrowed (arbitrage) is used to offset the costs of financing the issue. Any additional monies earned over the financing costs and expenses are deposited in the General Fund to offset the cost of City services to the public.

For the City to pay the Federal government all arbitrage earnings would severely increase the cost of municipal government. Further, present arbitrage laws and practices are adequate to assure no abuses occur in meeting cash flow needs.

A second concern in this area is the President's proposal to use bond proceeds to immediately call previously issued bonds. No consideration was given to the fact that legally, many previously issued municipal bonds cannot be called for 5 to 10 years or longer. Advance refunding permits a City to reduce its obligation under previously issued higher cost bond issues with lower cost money today. This activity substantially reduces the cost of government.

Effectively, the President's proposal prohibits use of advance refunding bond issues by local government.

3) The President's proposal requires that a "significant percentage" of bond proceeds be spent within one month of receiving and all proceeds be spent within 3 years.
It would not be possible for the City of Sacramento to pay builders or contractors with City monies until they have completed a significant portion of a project before we sold bonds. Further, this approach would eliminate the opportunity to time the sale of a bond issue to assure the lowest possible interest cost was received.

Current law provides that unless 85% of bond proceeds are expended within 3 years, the bond becomes taxable. This law and financing practices assures monies are not raised prior to the prudent determination of their need.

4) The President's Tax Proposal would eliminate the deductibility for carrying costs for the banking systems purchases of municipal bonds. If this proposal is enacted, underwriting of municipal issues by banks would be more costly.

5) Any City bond issue that could be marketed would be subject to Industrial Development Bond reporting requirements and may require pre-approval of the Department of Treasury and/or the Internal Revenue Service.

Other provisions in the President's tax proposal such as minimum tax could also have impact on purchasers of municipal bonds. We believe municipal bond interest earnings should be exempt from any minimum tax considerations.

The President's tax proposal will be devastating to the City of Sacramento and other municipal issuers. Effectively, it will eliminate a municipality's tax-free borrowing authority and severely increase the cost of government services at a time when it appears the Federal government is shifting major costs to local government.

RECOMMENDATION

The Sacramento City Council adopt the attached Resolution which protests further restrictions or elimination of municipal tax-exempt financing by the Federal Government.

Respectfully submitted,

THOMAS P. FRIERY
City Treasurer

TPF/lv

Attachment

RECOMMENDATION APPROVED:

WALTER J. SLIPE, City Manager

September 10, 1985
All Districts

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION PROTESTING FURTHER RESTRICTIONS ON, OR ELIMINATION OF, TAX EXEMPT BONDS BY THE FEDERAL GOVERNMENT IN ITS CONSIDERATION OF FEDERAL TAX REFORM AND SIMPLIFICATION PROPOSALS

WHEREAS, the balance of power between the Federal Government and the States is embodied in the Tenth Amendment to the U.S. Constitution, which explicitly states that "the powers not delegated to the United States are reserved to the States";

WHEREAS, the Constitution reserves to the states all those powers which in the ordinary course of affairs, concern the lives, liberties and properties of the people and the internal order, improvement and prosperity of the state, while granting to the federal government only certain specific powers which were designed to accomplish objects of purely national concern;

WHEREAS, the emergence of the United States as a complex industrial society has caused a dramatic increase in the number of legitimate local responsibilities and concerns, and state and local governments have been forced to assume a variety of additional sovereign functions in order to protect and further the public welfare, causing an increase in the capital and operating requirements of such state and local governments;

WHEREAS, state and local governments have sought to alleviate the burden on their capital and operating budgets by enlisting the aid and cooperation of the private sector to develop and construct necessary public projects and by financing such projects through the issuance of bonds, the interest on which is properly exempt from federal taxation since such obligations assist state and local governments in the performance of their sovereign functions;

WHEREAS, in 1982 and 1984, Congress severely limited the ability of state and local governments to finance the development and construction of necessary public projects when it passed the Tax Equity and Fiscal Responsibility Act of 1982 and the Deficit Reduction Act of 1984, which, inter alia, limited the "public purposes" for which such bonds could be issued and imposed a volume limit on the amount of such bonds per state;

WHEREAS, Congress is presently considering proposals for reform and simplification of the federal tax system, which call for the elimination of most tax exempt bonds and impose several unwarranted restrictions on the ability of state and local governments to issue tax exempt bonds for those limited purposes deemed permissible by the federal government without regard to the states' sovereign powers;

WHEREAS, the federal government, in attempting to justify its proposals for tax reform, has alleged that tax exempt bonds are tools used by rich people and corporate America to increase their wealth at the expense of the national treasury, while in fact tax exemption benefits all citizens whose general welfare state and local governments are charged to provide;

WHEREAS, further restriction of tax exempt bonds by the federal government compromises the ability of state and local governments to determine the manner in which they will meet their capital needs and respond to changing local circumstances, impairs their ability to perform their sovereign functions, and upsets the balance of power between the states and the federal government as set forth in the Constitution;

WHEREAS, California state and local government lead the nation in the use of tax exempt financing with $15 billion in 1984.

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. The City Council, City of Sacramento hereby protests any further restrictions on tax exempt bonds by the federal government.

2. State and local governments must be allowed to issue tax exempt bonds for all facilities which serve the general public without regard to whether private persons assist in providing such facilities through ownership or operation of such facilities. These public facilities include sewer systems, solid waste disposal systems, airport, dock and wharf facilities, public power facilities, parking facilities, low income housing facilities and health care facilities. Privatization of such facilities represents a partnership between state and local government and private industry to deliver needed services to the public at the lowest possible cost.

3. Such proposed tax reform measures as elimination of arbitrage, prohibition of advance refundings, mandated reporting to the federal government of tax exempt bond issues and restrictions on the deductibility of interest by financial institutions which invest in municipal bonds constitute imper-

missible intrusion on the right of state and local government to carry out public projects for the general welfare of their citizens and must not be adopted by Congress.

4. The so-called 1% Rule which has been proposed to define what constitutes valid governmental purpose is not acceptable in that it would cause many traditional public purpose projects to be deemed taxable rather than tax exempt.

5. Copies of this Resolution shall be mailed to the President, and the Vice-President, Treasury Secretary James Baker, Assistant Treasury Secretary for Tax Policy Ronald Pearlman and the Senators and Congressmen representing the State of California with the request that they not support any tax reform proposal that includes any of the foregoing restrictions on the right of state and local governments to issue tax exempt bonds for public purposes.

MAYOR

ATTEST:

CITY CLERK

August 30, 1985

COMMUNITY/CONVENTION CENTER
CITY OF SACRAMENTO

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Report on Impact of President's Tax Proposal on Elimination of Certain Business Expense Deductions

SUMMARY

Besides the consequences on the City's financing programs addressed by separate report, other aspects of the President's Tax Proposal will also have negative impacts on the City.

The proposed Tax Reform Report as submitted by the Treasury Department would have a very serious economic impact on public assembly facilities. The International Association of Auditorium Managers, for which I am a District Vice President, strongly oppose the proposal eliminating business related entertainment deductions.

The economic impact certainly would be felt by the local arts--symphony, ballet, and opera--who have established sponsorship with local businesses and corporations for their related activities. This, too, would affect the sports tenants for the Community Center, the Arco Arena, Cal Expo, as well as events held in other community facilities.

As management of the Convention Center, there is a direct threat by this legislation in some of the other provisions that severely limit the amount of business related travel expenses that can be deducted. This translates into less attendance at trade shows, conventions, and business meetings held in the Complex.

It will also manifest itself in the loss of ancillary business income such as concessions stands, parking lots, souvenir shops, et al., as well as local employment in these areas.

The City Council should strongly oppose the elimination of business related entertainment deductions as proposed in the Tax Reform Report.

1100 14TH STREET • SACRAMENTO, CALIFORNIA 95814 • (916) 449-5291

BACKGROUND

The President's Tax Proposal totally eliminates business related entertainment deductions, including the cost of tickets and the cost of box suites, or other similar arrangements, that provide the taxpayer and his clients with a specific viewing area for sporting or entertainment events. This drastic proposal is not necessary because the law currently ensures that these expenses are only deductible when they go toward the furthering of legitimate business activity. Also, the economic effects on the sporting and other entertainment industries would be disastrous.

Currently, Section 162 of the Internal Revenue Code allows a deduction for all ordinary and necessary trade or business expenses. Ordinary and necessary expenses can include entertainment expenses, such as the cost of tickets or boxes from which to view events, but Section 274 severely restricts the deductibility of business/entertainment expenses. These expenses are not deductible unless they are "directly related to" or "associated with" the taxpayer's trade or business.

The costs of "entertainment facilities" such as yachts, hunting lodges or country clubs used to entertain clients are generally disallowed. The fact that the costs of tickets and box suites are not currently considered "entertainment facilities" is a recognition that these expenses are legitimate business deductions if they otherwise meet the strict standards of Section 274. By seeking to totally eliminate legitimate business deductions, the Treasury Department's proposal is too broad because the law currently ensures that abusive practices are minimized. The Treasury Department argues that entertainment expenses such as the cost of tickets and box suites are mostly personal, therefore taking business deductions for them cannot be justified. Even though business may not be carried on during the event itself, it is well known that entertainment expenses incurred by businesses, for the benefit of their clients, fosters later business discussions, promotes good will and generally increases the likelihood of profitable transactions.

The elimination of the entertainment deduction for tickets and box suites will cause severe economic hardship to the public assembly facility operators and owners. It is estimated that businesses purchase approximately one-third to one-half of all tickets sold for most sporting and theater events. Box suites are almost entirely supported by business purchasers. The elimination of the entertainment expense deduction will substantially decrease revenues received by the operators and owners of stadia, arenas, performing arts centers and other places of public assembly because, without the deduction, businesses are likely to reallocate their marketing dollars into activities where expenses are still tax deductible.

Not only will the operators and owners themselves suffer from lost revenues due to decreased attendance, the ancillary businesses such as parking lots, concession stands and souvenir shops will also suffer a decline in their revenues. Consequently, these service industries connected with public assembly facilities will be forced to lay off workers, most of whom are the very ordinary citizens the Treasury Department is purporting to help. Additionally, a reduction in attendance will decrease the value of advertising space in the facilities and income normally derived from it. Also, a reduction in attendance will decrease the economic impact the public assembly center has on the community where it is located. The taxes normally generated by sporting and other public events will also be adversely affected. The economic losses will have to be made up through higher ticket prices which inevitably will be passed on to the average fan and the taxpayer that, in most cases, funds any operating deficits.

Another provision of the report deals with the deductibility of business expenses incurred for travel to educational meetings. While the language contained in the report is somewhat vague and unclear, if the intent of the proposal is to disallow such business deductions that are currently allowable for attending educational meetings and trade shows, the effect on municipally supported convention and exposition centers would be severe. Once again, the ripple effect would be the same as described above for stadiums and other public facilities -- those taxpayers least able to accept the economic impact would be the most affected. Already disallowed by law are deductions for such questionable activities as conventions, seminars, or other meetings held aboard cruise ships. If, in fact, deductions for expenses incurred to attend meetings and trade shows whose purposes are clearly to educate, are to be then disallowed, the City Council should strongly oppose such proposed legislation.

RECOMMENDATION

It is our recommendation that the Sacramento City Council adopt the attached Resolution stating opposition to the provisions of the President's Tax Proposal which would eliminate entertainment and business deductions that are currently controlled under I.R.S. regulations or provide educational opportunities to participants.

It is also recommended that copies of this Resolution shall be mailed to the President, and the Vice President, Treasury Secretary James Baker, Assistant Treasury Secretary for Tax Policy Ronald Pearlman, and the Senators and Congressmen representing the State of California, with the request that they not support any tax reform proposal that includes any of the foregoing restrictions.

Respectfully submitted,

Leonard Zerilli

Leonard Zerilli, C.F.E.
Assistant Director, Community Center
Vice President, District VII,
International Association of Auditorium Managers

Recommendation Approved:

Walter J. Slipe, City Manager

LZ/cat
Attachments

September 10, 1985
All Districts

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION OPPOSING THE PROPOSAL THAT WOULD TOTALLY ELIMINATE BUSINESS RELATED ENTERTAINMENT DEDUCTIONS AND THE DEDUCTIBILITY OF BUSINESS EXPENSES INCURRED FOR TRAVEL TO EDUCATIONAL MEETINGS

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

Opposes the elimination of certain provisions of the President's Tax Proposal, namely:

(1) Business related entertainment deductions, including the cost of tickets or other similar arrangements, that provide the taxpayer and his client with a specific viewing area for sporting and entertainment events.

(2) The deductibility of business expenses incurred for travel to educational meetings.

The Treasury Department's proposals are not necessary under the current law and will have disastrous consequences for both public assembly facilities and related industries involved and the ordinary taxpayers the Treasury purports to help.

____

MAYOR

ATTEST:

____

CITY CLERK