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DEPARTMENT OF  
FINANCE

BUDGET DIVISION

CITY OF SACRAMENTO  
CALIFORNIA

June 12, 1991

CITY HALL  
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City Council  
Sacramento California

Honorable Members in Session:

SUBJECT: REPORT BACK ON UTILITY TAX FOR GOLF AND OTHER ENTERPRISE  
FUNDS

**SUMMARY**

This report provides information on a request from Council to explore options for generating General Fund revenue from the Golf Fund or other Enterprise Funds through a utility users tax/surcharge on Enterprise user fees.

This report is for information only. No Council action is requested at this time.

**BACKGROUND**

The City provides a variety of services that, in other jurisdictions, are provided by the private sector. Examples of these City services include golf, marina, garbage pick-up, and water production. If a private company was providing these services the City might receive various revenues through utility-user taxes, franchise fees, property tax payments, ground-leases, or concession agreements. These revenues from private operations might come to the City without any investment or operating costs incurred by the City.

The City General Fund currently receives \$17.6 Million from the various Enterprise and Internal Service Funds for indirect costs, in-lieu property tax and franchise fees. Below is a discussion of another General Fund recovery method along with an explanation of the current recovery methods.

**UTILITY USER TAX/SURCHARGE**

During the Budget Hearings various Council members asked staff to explore the idea of a utility-user tax or some other type of

surcharge for the Enterprise Funds - specifically Council was interested in additional recovery from the Golf Fund. An estimate of the General Fund revenue that would be recovered from a 7.5% utility user tax on the utility enterprise funds is \$4.8 million. If a similar tax or surcharge was applied to the Community Center, Marina and Golf Funds, the additional revenue General Fund revenue is \$580,000 (Community Center - \$135,000, Marina - \$80,000, Golf \$580,000).

#### **CURRENT GENERAL FUND RECOVERY METHODS**

##### Indirect Costs

Indirect costs are charged to the funds to recover a fair share of the General Government support provided to the Enterprise and Internal Service activities. For example, a share of the City Attorneys office is recovered by the indirect cost charge. The amount of this charge for each fund is calculated based on the level of effort (and expense) each General Government activity provides to the enterprises.

For example, the cost of the utility billing section of the Finance Department is charged to the Water, Storm Drainage, Sewer and Solid Waste Funds since these are the only utility operations. Conversely, the Golf Fund does not receive any share of the cost for the utility billing section.

After all the General Government expenses are analyzed, and divided among the various funds, a grand total of all the costs that can be allocated is calculated. This total is shown on Schedule 7 (Page 67) in the proposed budget.

Staff has determined that the current indirect costs budget for each fund is appropriate. Therefore no adjustments are recommended for this cost recovery mechanism.

##### In-lieu Franchise Fee

The City initiated an in-lieu franchise fee starting in 1989-90 for all enterprise funds except for solid waste. The fee is justified since private operators in other Cities that have exclusive arrangements to provide services pay a franchise fee based on percentage of gross revenues.

The proposed budget recommends adjusting the in-lieu franchise fee from 7% to 10% of prior year fee revenues.

Staff believes that this is an appropriate level since many private franchise agreements range from 5% to 15% of gross revenues.

This total in-lieu franchise revenue projected for the City is \$6.3 Million in 1991-92 (Page 67 of the proposed budget).

In-lieu Property Tax

Private operators pay taxes on any real estate holdings used in the course of providing a service. Since public property is not on the tax roll, the City does not realize any real property taxes from Enterprise operations. In order to compensate for this loss of revenue, the Enterprise Funds are assessed an in-lieu property tax. The assessments for the enterprises are not updated to reflect the actual value of the property. As a result these in-lieu taxes have only grown by an average of 6% over the past three years.

This is one area where additional General Fund recovery may be an option in the future. The City Asset Management Program will review this in-lieu tax in comparison with current projected values of properties.

FINANCIAL DATA

This report is for information only. No changes are recommended to the Proposed Budget.

POLICY CONSIDERATIONS

Council can direct staff to make changes for the 1991-92 or 1992-93 Fiscal Years to increase the cost recovery of the General Fund. Since all of the proposed rate increases for the Enterprise Funds were established with the existing recovery rates and methods, some adjustments in rates or program budgets would be necessary to maintain balanced funds.

RECOMMENDATION

This report is for information only. No action is required by Council.

Respectfully submitted,



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Approved:



Walter J. Slupe  
City Manager

June 19, 1991  
All Districts

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