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DEPARTMENT OF
FINANCE

BUDGET DIVISION

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CALIFORNIA

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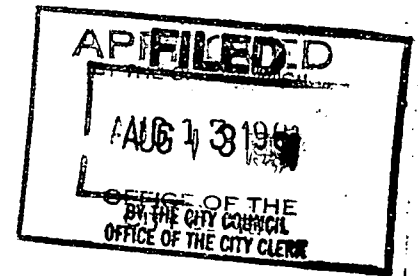
August 13, 1991

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: IMPACT OF STATE BUDGET ON CITY

LOCATION: CITY

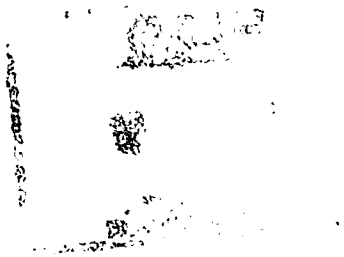


SUMMARY

This report presents a summary of the impact on the City of the state's 1991-92 budget. The City will continue to be charged for jail bookings (\$3.5 million) and for property tax collection costs (\$1.4 million) by the County of Sacramento. These costs were included in the budget that was adopted by the City Council. Impacts that were not included in the adopted budget were a 47% loss of Cigarette Tax revenue (\$324,000) and a 50% loss of non-parking citation revenue (\$560,000). A change in the PERS contribution plus the additional revenue from the sales tax on snack foods and newspapers will offset a portion of the lost revenue. In addition, the reduction of the State work force plus reductions in State employee compensation may reduce the City's sales tax revenue. This impact has not yet been determined.

STAFF RECOMMENDATION

For Council information.



BACKGROUND INFORMATION

As was highlighted last year, actions taken on the state budget can have a dramatic impact on City finances. The City's adopted budget included continued payment of the jail booking fees and the property tax administration charges. The additional State impacts, both positive and negative were not included.

FINANCIAL CONSIDERATIONS

As described above, this year's state budget will affect both city revenues and city expenditures.

	Amount	In City Budget
Booking Fee	-\$3,559,000	Included
Property tax administration	-\$1,355,000	Included
Cigarette tax revenue	-\$324,000	Not included
Fine & Forfeiture revenue	-\$560,000	Not included
Reductions in state workforce and employee compensation	- unknown	Not included
Reduction in PERS contribution	+ unknown	Not included
Remove sales tax exemptions	+ unknown	Not included

As shown in Table 1, the State's 1991-92 budget will affect the City's finances in a number of way, both positively and negatively. Table 1 also shows that while some of the impacts of the State budget on the city were anticipated in the City's approved budget, others were not. The impacts identified in Table 1 are described in more detail below.

City Revenues

With respect to City revenues, the City will lose approximately 47 percent of its allocation of Cigarette Tax funds for each of the next five years. This amounts to approximately \$324,000 in 1991-92 and similar amounts for each of the following four years. In addition, the City will lose, on a permanent basis, 50 percent of its non-parking fine and forfeiture revenue. This will amount to

approximately \$560,000 in 1991-92 and similar amounts on an ongoing basis. This revenue is currently deposited in the Traffic Safety Fund and is used to pay for school crossing guards, and for traffic signs and markings.

On the positive side, the state passed legislation to broaden the existing sales tax base by eliminating the sales tax exemptions for a number of items including: newspapers and magazines; bottled water; snack foods; and fuels for commercial ships and airplanes. Statewide, cities are projected to receive an increase of approximately \$60 million from removing these exemptions. While some of these new sources will not generate much revenue specifically for Sacramento (for example from ship or airplane fuel), there may be a small increase in the city's overall sales tax revenues as a result of the exemption repeals.

City Expenditures

In terms of expenditures, legislation to repeal the SB 2557 fees, which allows the county to charge the City for property tax administration and jail bookings, **has not** been approved. As a consequence, these fees will continue, at least for the foreseeable future. These charges are included in the 1991-92/1992-93 budget as approved and amount to approximately \$4.9 million in 1991-92 and \$5.3 million in 1992-93.

On the positive side, required city expenditures for retirement contributions to the Public Employees Retirement System (PERS) may be reduced for the next several years as a result of legislation passed as part of the budget agreement. Specifically, Chapter 83, Statutes of 1991 (AB 702, Frizzelle) eliminates the "Investment Dividend Disbursement Account" (IDDA) and the "Extraordinary Performance Dividend Account" (EPDA). The money from these accounts will be credited to employer accounts where the money can be used by contracting agencies, including cities, against their required contributions to the system. Thus, this bill should result in one-time savings to the City over the next few years, by reducing the amount the City must pay in retirement contributions. The League of California Cities estimates that the total amount available statewide for cities from this change is approximately \$440 million, although the final amount will not be known until October when PERS closes out its 1990-91 financial statements. The exact amount that might be available for Sacramento also will not be known until that time.

POLICY CONSIDERATIONS

In addition to the specific changes described above, there may be an effect on the city's economy more generally if the state is forced to lay off a large number of workers or reduce employee compensation in order to achieve some of the administrative savings included in the budget agreement. While the ultimate impact of these actions is not yet known, the City's economy is vulnerable to such employment changes since state workers represent a significant

portion of the City's residents. Staff will report at the time of the Midyear Review on any additional information that is available on changes in the state's workforce which would affect the City.

MBE/WBE

None.

Respectfully submitted,

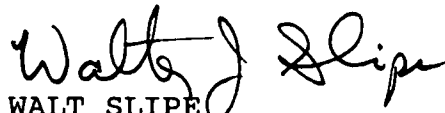


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