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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

January 14, 1998

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Law and Legislation Committee
Sacramento, CA

Honorable Members in Session:

SUBJECT: PROPOSED BALLOT MEASURE FOR THE JUNE 1998 ELECTION:
Proposition 218 Compliance Measure (Replacement of Utility In-Lieu Franchise and Property Fees with a General Tax)

LOCATION: CITYWIDE

RECOMMENDATION:

It is recommended that the Law and Legislation Committee:

- 1) review the proposed ballot measure and forward it to the full City Council with the recommendation that the measure be placed on the June 2, 1998 ballot and,
- 2) review the proposed ordinance to enact this measure and forward it to the full City Council with the recommendation it be enacted, subject to voter approval.

CONTACT PERSON: Betty Masuoka, Deputy City Manager (264-5704)

FOR THE COMMITTEE MEETING OF: January 20, 1998

SUMMARY:

In order to eliminate any question as to whether or not the City is in compliance with Proposition 218 passed by the voters in November of 1996, the proposed measure would eliminate the In-Lieu Franchise and Property Fees currently paid by City-operated utilities providing water, sewer, storm drainage, and solid waste services and replace the fees with a general tax on these enterprises. *The measure would result in no change in existing city utility rates. The measure would also continue the current freeze on city utility rates for one year following voter approval and limit future rate increases to the increase in cost to provide the services.*

BACKGROUND:

- **Implementing the Five-Year Workout Plan.** The proposed ballot measure implements the five-year budget strategy approved by City Council during the FY 97-98 budget hearings. The strategy called for converting *existing contributions* from utility funds (water, sewer, storm drainage, and solid waste) to a tax.
- **Reaffirming the City's Commitment to the Voters' Will.** This measure is designed as an accountability measure to the voters who passed Proposition 218. The measure complies fully with the proposition's mandate.
- **Measure Proposes NO Changes in Ratepayers' Current Fees or Services.** City ratepayers will see no changes in the bottom line on their city utility bills as a result of this measure. The existing utility fee structure will not change should this measure pass.
- **Measure Will NOT Result in Negative Changes to Service.** This measure will not result in any decrease in the quality or quantity of utility service currently received by ratepayers.
- **Measure Freezes Rates and Holds the Line on Any Future Increases.** The proposed measure continues the freeze on city water, sewer, storm drainage, and solid waste rates for one year following approval by the voters. It also mandates that subsequent increases to water, sewer, storm drainage, and solid waste rates shall not exceed the increase in the costs incurred by the City to provide the services.
- **Preserving Important Services.** Implementing the strategy would bring more stability and certainty to the City's General Fund and the City's ability to provide important services. Note that approximately 70 percent of the discretionary General Fund is spent on Police and Fire services. The remaining 30 percent supports additional government services, including Parks, Recreation, and Code Enforcement, among others.
- **Proposed Ordinance.** The proposed ordinance would enact the tax, subject to voter approval.

FINANCIAL CONSIDERATIONS:

The proposed measure would impose a general tax at a rate of 11% of gross revenues from fees and charges on city utility operations which would result in an amount equivalent to the in-lieu franchise fees and in-lieu property taxes currently paid by the utilities to the City. The result would be revenue neutral to the City.

If successful, the proposed measure would result in no change in existing fees structure of utility bills, no change in delivery of city services and a status quo on the city budget. If the measure fails, a \$10 million budget gap will have to be addressed.

The following table shows the amount of revenues that are to be transferred from the utility enterprise funds to the General Fund for In-Lieu Property and Franchise Taxes in the current year budget:

Enterprise Funds	In-Lieu Property Tax	In-Lieu Franchise Tax	Total
Water	\$ 460,000	\$ 3,038,100	\$ 3,498,100
Sewer	259,000	1,085,200	1,344,200
Storm Drainage	148,000	2,688,500	2,836,500
Solid Waste	45,000	2,752,100	2,797,100
subtotal: Utility Funds	\$ 912,000	\$ 9,563,900	\$10,475,900

ENVIRONMENTAL CONSIDERATIONS:

This activity does not constitute a 'project' and is therefore exempt from CEQA.

POLICY CONSIDERATIONS:

Stabilization of Revenues. The proposed measure is an integral part of the Five-Year Workout Plan approved by the City Council in June, 1997.

Elimination of Uncertainty. During the hearings on this year's budget, there was discussion as to whether or not the In-Lieu Franchise and Property Taxes imposed by the City are consistent with Proposition 218. We believe that these in-lieu taxes are a legitimate cost of doing business, however, we acknowledge that the proponents of Proposition 218, along with some others, believe that in-lieu fees are in violation of the proposition. In order to eliminate any question of the City's compliance with the will of

the voters, staff is recommending that we eliminate such uncertainty by bringing the proposed measure to the voters for approval.

Impact if the Measure Fails. If the voters do not approve the swap proposed in the measure, staff will prepare a FY 98-99 budget which excludes in-lieu contributions from the utility funds to the General Fund. This will result in the need to cut \$10.3 million from the General Funded budgets, the largest of which are Police and Fire. There is currently a large enough fund balance in the General Fund, so the decisions on where to cut can be addressed during the course of FY 98-99, thereby delaying the full impact of the cuts until FY 99-00.

MBE/WBE:

No goods or services are being purchased under this report.

Respectfully submitted,



Betty Masuoka
Deputy City Manager

Approved:



WILLIAM H. EDGAR
City Manager

DRAFT

ORDINANCE NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

AN ORDINANCE RESTRICTING RATE INCREASES FOR WATER, SEWER, STORM DRAINAGE, AND SOLID WASTE SERVICES AND ADDING CHAPTER 41.10 (SECTION 41.10.150) TO THE SACRAMENTO CITY CODE, IMPOSING A GENERAL TAX UPON CITY-OPERATED ENTERPRISES PROVIDING WATER, SEWER, STORM DRAINAGE AND SOLID WASTE SERVICES TO REPLACE EXISTING TRANSFERS FROM THESE ENTERPRISES TO THE GENERAL FUND

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

SECTION 1.

(a) Rates for water, sewer, storm drainage, and solid waste services shall not be increased by the City of Sacramento between the date on which this ordinance is enacted by the City Council for submittal to the voters and the date on which it takes effect, if approved. In addition, if this ordinance is approved by the voters on June 2, 1998, there shall be no net rate increases in water, sewer, storm drainage and solid waste user fees for the 1998-1999 fiscal year.

(b) Subsequent increases to water, sewer, storm drainage, and solid waste rates shall not exceed the increase in the costs incurred by the City to provide the services. Said costs shall include the tax imposed by Section 2.

(c) The tax imposed by Section 2 of this ordinance shall replace equivalent transfers to the General Fund by the City of Sacramento's water, sewer, storm drainage, and solid waste enterprises in the nature of in-lieu franchise fees and in-lieu property taxes. Therefore, as of the effective date of the tax imposed by Section 2, in-lieu franchise fees and in-lieu property taxes shall no longer be transferred to the General Fund.

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(d) This ordinance shall not take effect unless and until it is approved by a majority of the voters voting thereon.

SECTION 2.

Chapter 41.10 (Section 41.10.150) is hereby added to the Sacramento City Code to read as follows:

41.10 General Tax on City-Operated Water, Sewer,
Storm Drainage and Solid Waste Enterprises

41.10.150 General tax on City-operated water, sewer, storm drainage
and solid waste enterprises.

There is hereby imposed upon the enterprises operated by the City of Sacramento which provide water, sewer, storm drainage, and solid waste services, a general tax which shall be paid to the City General Fund. The tax imposed by this section shall be at the rate of eleven percent (11%) of the gross revenues received by the City-operated enterprises from user fees and charges.

DATE PASSED FOR PUBLICATION:

DATE ENACTED:

DATE EFFECTIVE:

ATTEST:

MAYOR

CITY CLERK

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DATE ADOPTED: _____

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