



# REPORT TO COUNCIL

## City of Sacramento

915 I Street, Sacramento, CA 95814-2604  
www.CityofSacramento.org

22

Staff Report  
May 11, 2010

Honorable Mayor and  
Members of the City Council

**Title:** Economic Background for City Budget Hearings

**Location/Council District:** Citywide

**Recommendation:** Receive and File

**Contact:** Russell T. Fehr, City Treasurer (916) 808-5168

**Presenters:** Not Applicable

**Departments:** City Treasurer

**Division:** City Treasurer

**Organization No:** 05001011

**Description/Analysis:** Attached is a presentation from the Office of the City Treasurer providing economic background information for use in the public budget hearing process. The presentation discusses both current and future impacts on the City's tax revenues from the prolonged economic downturn.

**Policy Considerations:** The Mayor and City Council require timely and complete information in making major financial and policy decisions. The presentation provides additional economic background information at the start of the annual budget hearings. The presentation deals with both shorter and longer term issues involving the local economy and City finance. Single year budget decisions should be made in the context of the longer term financial trajectory of the General Fund and other funds.

**Environmental Considerations: California Environmental Quality Act (CEQA):**  
This action is not subject to the CEQA because it is not a "project" as defined in section 15378 of the CEQA Guidelines. Even if it were a project, it would be exempt under section 15061(b)(3) of the CEQA guidelines, which provides as follows: "Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA."

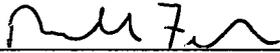
**Sustainability Considerations:** None

**Commission/Committee Action:** None

**Rationale for Recommendation:** No specific recommendations regarding the City Manager's Proposed Budget are being made. The City Treasurer believes the budgetary assumptions are sound and fully supports the City Manager's recommendations

**Financial Considerations:** The downturn in the local economy has resulted in significant reductions in property tax and sales tax revenues. The local economy weakness should be expected to continue for several more years which will put severe constraints on future revenue growth.

**Emerging Small Business Development (ESBD):** Not Applicable

Respectfully Submitted by:   
\_\_\_\_\_  
Russell T. Fehr  
City Treasurer

Recommendation Approved:

  
\_\_\_\_\_  
Russell T. Fehr  
City Treasurer

**Table of Contents:**

**Attachments**

- 1 Economic Background for City Budget Hearings pg. 3

# Economic Background for City Budget Hearings

Office of the City Treasurer  
May 11, 2010

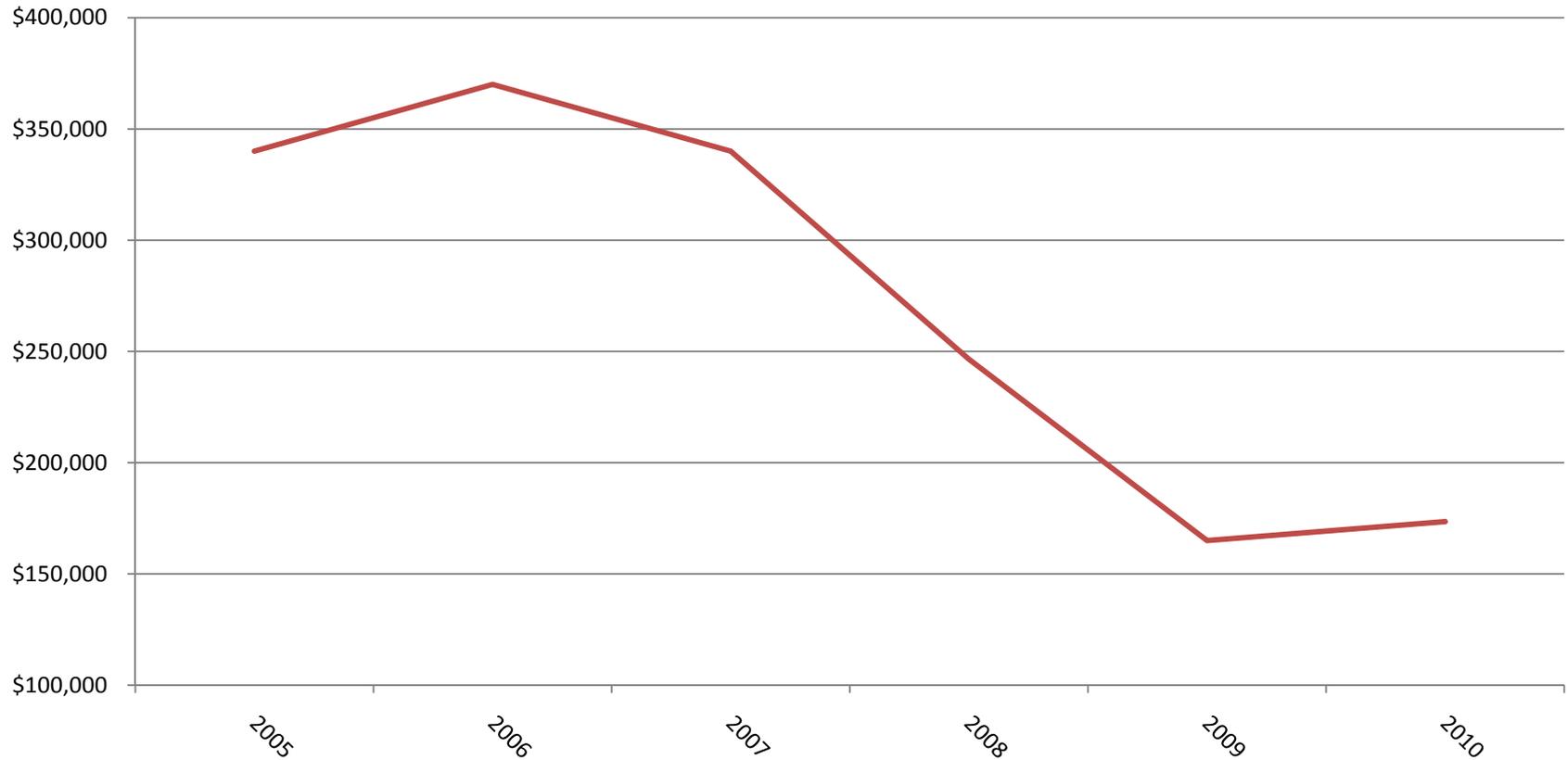
# Current Situation

## **Devastated local economy**

- 14% + unemployment in City
- Further impacts in state & local government employment
- Residential real estate market
- Commercial real estate market
- Massive losses in household wealth due to losses in home equity and investments.
- Weak consumer confidence

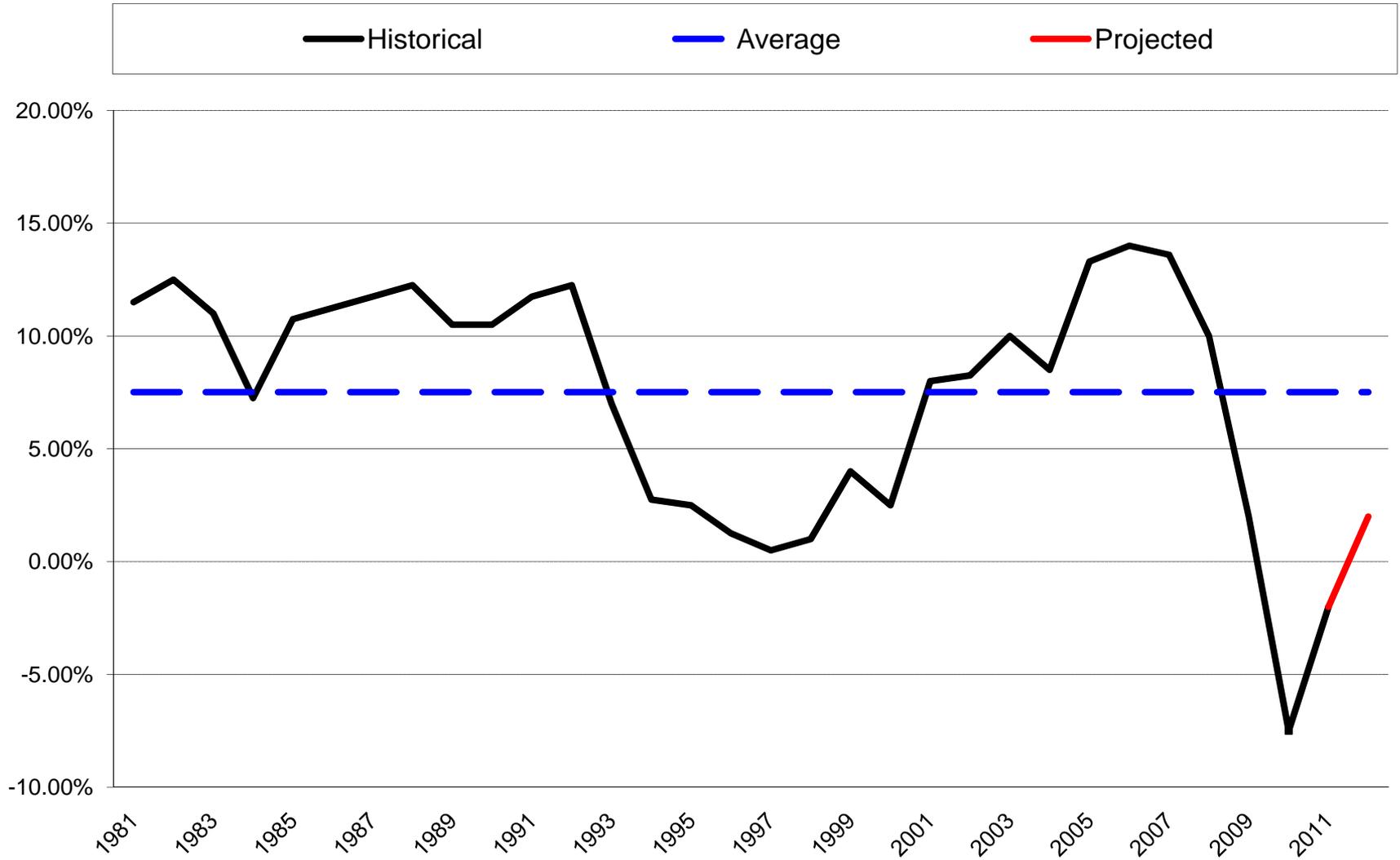
# Housing Value / Median Home Prices

**Sacramento County Median House Price**



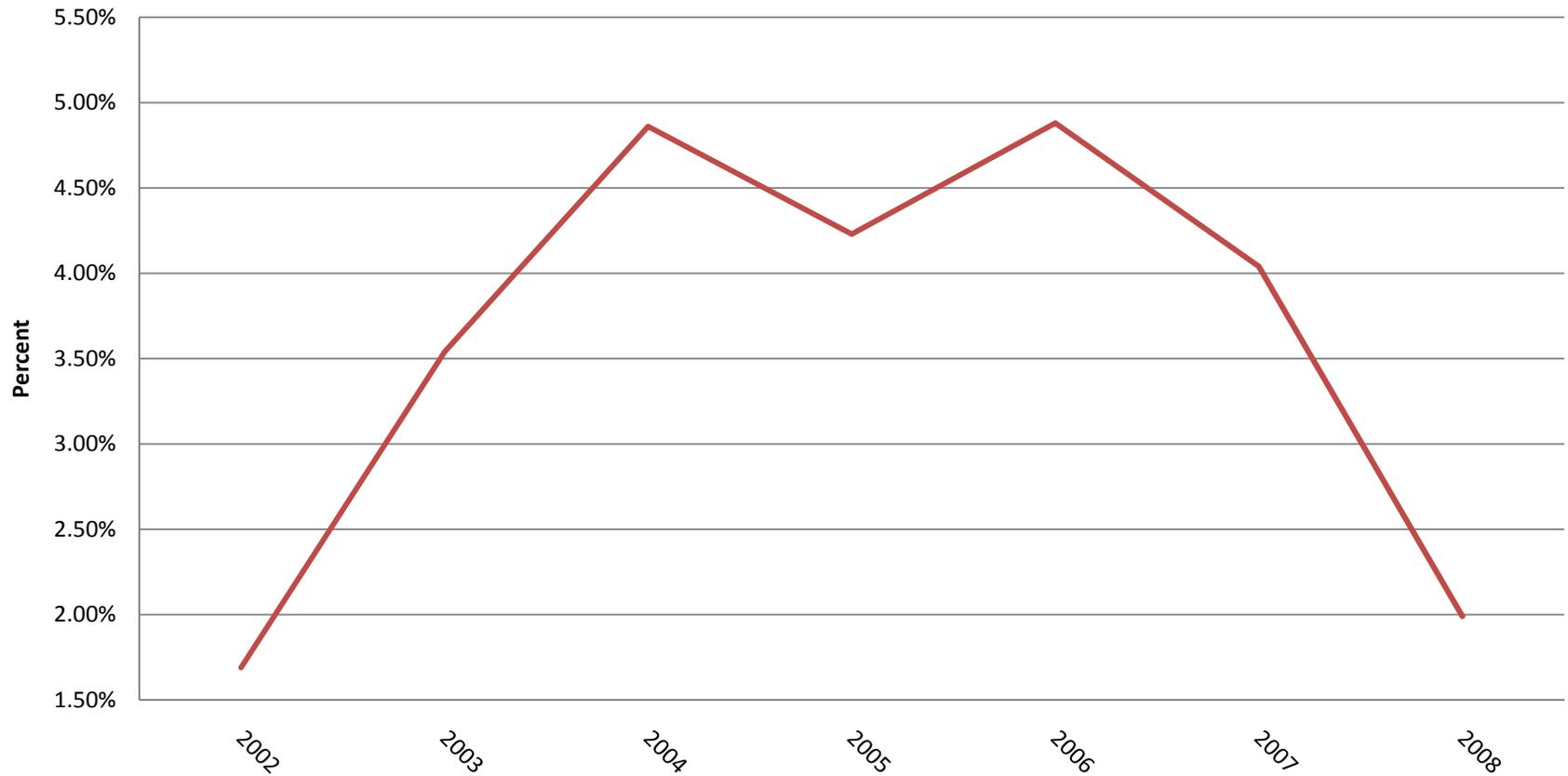
Source: California Association of Realtors

# Property Tax Growth 1981-2012



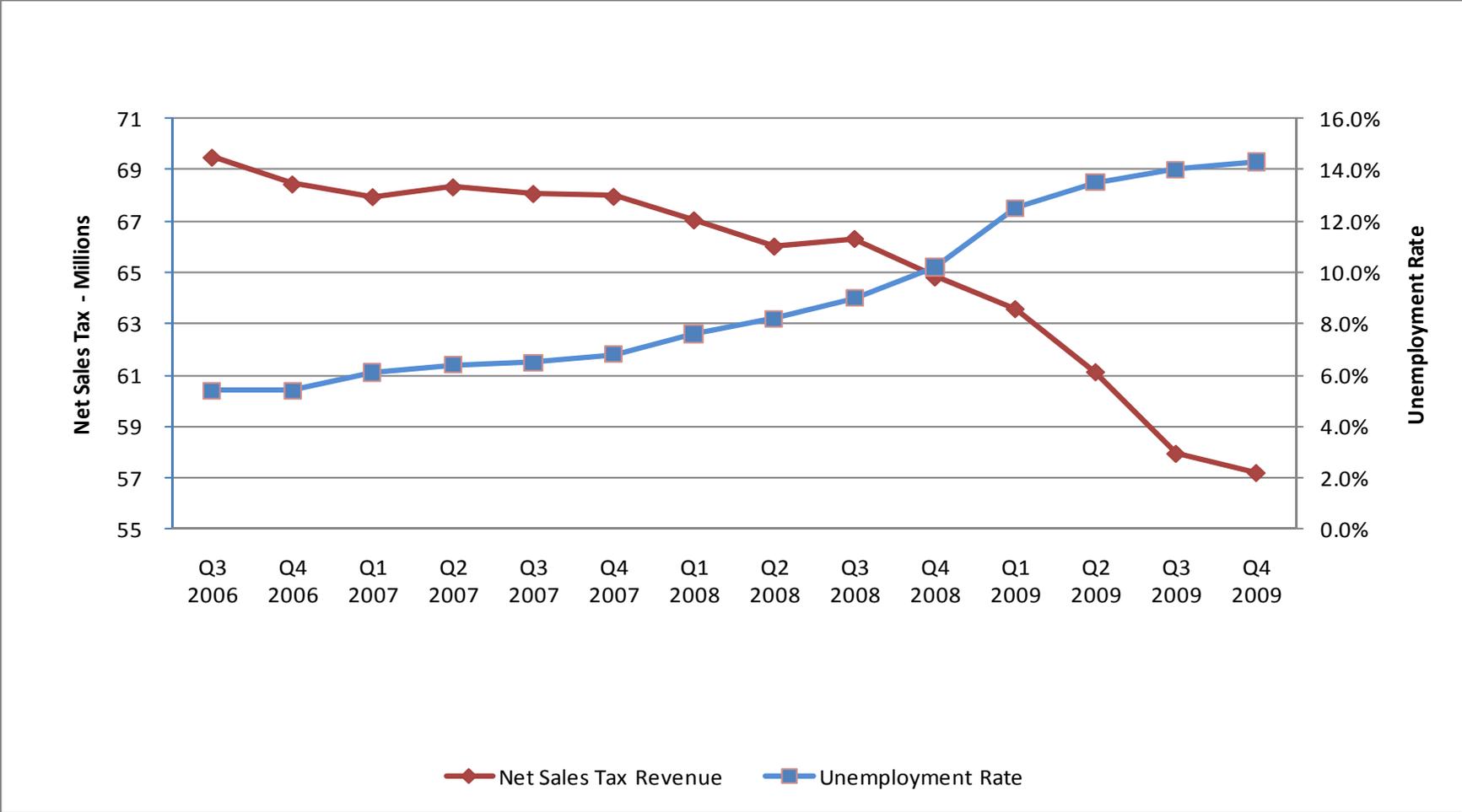
# Personal Income

**Sacramento, Per capita personal income  
(Percent change from preceding period)**

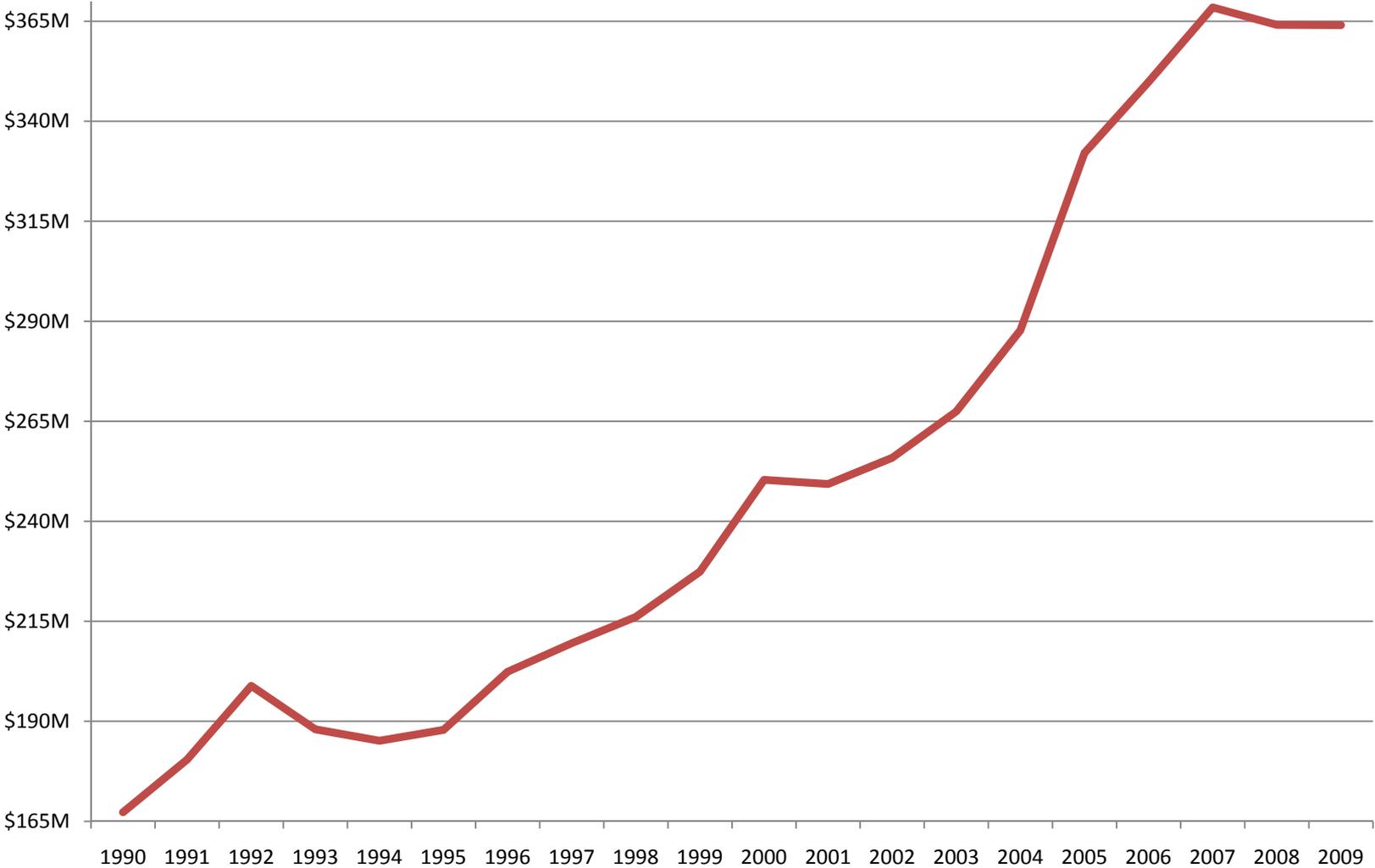


Source: Bureau of Economic Analysis

# Sales Tax & Unemployment



# Actual General Fund Revenue FY 1990 to FY 2009



# Future Revenue Constraints

## **Sales Tax - Consumer Confidence & Employment**

- Unemployment
  - Unemployment levels expected to remain at or above 10 % through 2012
  - State, local government, schools job losses continue
- State Capital / Unresolved state budget problems significant negative impact on consumer confidence

# Future Revenue Constraints *cont.*

## **Loss of Wealth Effect**

- Home Equity Loss in \$ billions
- Personal Income / Wage Salary Levels
- Longer term changes in economic patterns
- Deleveraging = paying down debt
- Increased Savings Rate
- Efforts to rebuild wealth
- Tighter Credit Standards

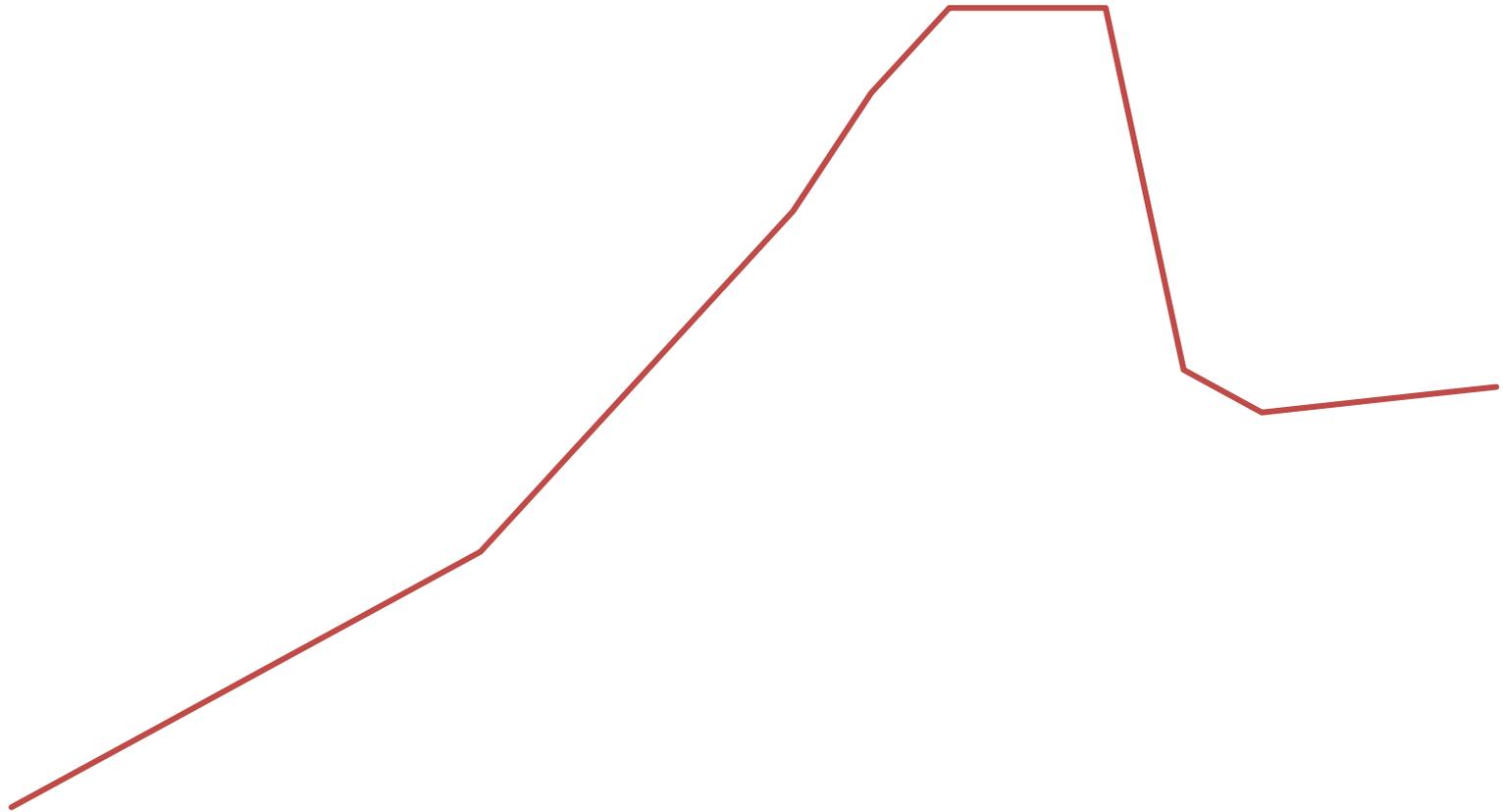
# Future Revenue Constraints *cont.*

- Massive increases in federal debt & money supply
- Severely imbalanced federal budget
- Result
  - Higher interest rates
  - Higher income tax rates
  - more funds unavailable for spending

# The New Normal

- Recovery will be long and slow
- Slow real estate market recovery
- Lingering high unemployment
- Growing benefits costs will absorb revenue growth
- The base will be the FY 2013 service levels, not the FY 2006 levels

# General Fund Discretionary Budget Capacity



# Priorities in Recovery

## **Balanced application of future revenue growth**

- Service levels
- Rebuild reserves
  - Emergency funding
  - Repair cash flow
  - Enhance ability to issue long term debt
- Long term liabilities
  - Benefits
  - Aging infrastructure
- Employee compensation