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City of SACRAMENTO

City Council Report
915 I Street, 1st Floor
www.CityofSacramento.org

Title: Fiscal Year (FY) 2014/15 Measure U Restorations

Location: Citywide

Recommendation: Receive and consider for final Budget adoption.

Contact: Dawn Holm, Budget Manager, (916) 808-5574; Leyne Milstein, Director, (916) 808-8491, Department of Finance

Presenter: Leyne Milstein, Director, (916) 808-8491, Department of Finance

Department: Finance

Division: Budget Office

Dept ID: 06001411

Attachments:
1-Description/Analysis
2-Attachment 1 Measure U Plan
3-Attachment 2 Measure U Principles

City Attorney Review

Approved as to Form
Steve Itagaki
5/21/2014 10:07:10 AM

Approvals/Acknowledgements

Department Director or Designee: Brad Wasson - 5/20/2014 3:31:24 PM

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Description/Analysis

Issue Detail: Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized an additional one-half cent transaction and use tax effective April 1, 2013. The following chart summarizes the proposed revenues and expenditures as well as new FTE for FY2014/15:

Proposed FY2014/15 Measure U Restoration Plan

Measure U Revenues and Expenditures (in 000s)	FTE	FY15
Measure U Revenues		**31,824**
Fire Department	-	11,704
Police Department[1]	14.0	12,580
Parks Department	-	4,624
Miscellaneous	-	591
Total Measure U Restorations	14.0	29,499
Annual Reserve		**2,325**

[1]Includes $500,000 reserve for restoration of grant-funded FTE (CHRP/CHP)

Measure U Revenues: In FY2014/15 Measure U revenues are estimated at approximately $31.8 million based on existing transaction volume and Board of Equalization (BOE) sourcing rules. With receipt of monthly revenues beginning in late June 2013, as of the end of March 2014, the City has received revenue for three full tax quarters. The City's sales tax consultant, MuniServices, found that collections to date contain errors, which the BOE is in the process of correcting. MuniServices performed an analysis and their initial findings indicate that approximately $4.5 million was remitted to the City in error. These over-collected amounts are not included in the revenue assumptions.

At the City's request, MuniServices provided the list of businesses that are collecting the tax but should not be and/or are over-collecting to the BOE in January 2014. The BOE typically conducts a review process to: a) confirm with taxpayer what was/was not reported, and b) pursue correction of these errors. The BOE will confirm the correct reporting and reduce future allocations to the City to offset erroneous amounts the City has already received. This process can take six to nine months at a minimum. Some of the larger errors have been corrected on a prospective basis.

Overall, Measure U receipts are performing better than anticipated, generating more than an equivalent ½% sales and use tax rate would generate. The reason for this is that the Transactions & Use Tax and Sales & Use Tax are different taxes with different rules. Unlike Sales & Use Taxes, the Transactions & Use Tax is a destination based tax.

In the case of retail sales, the point of sale is the destination and mirrors the revenue generated under the Sales & Use Tax. However, in the case of a Transactions & Use Tax, the tax is based on the owner's address or delivery location no matter where the buyer purchases the commodity. For example, in the case of new auto sales, the destination is the address of vehicle registration no matter where the buyer purchases the vehicle. With the escalation of new auto sales over the last year, the City has generated significant revenue from city residents purchasing automobiles outside the city. The City also receives the ½% from leases, business-to-business transactions, and sales occurring outside the city where the goods are delivered into the city on the seller's vehicle. The

City's local economy, particularly with the State of California purchases, is well situated to benefit significantly from the new Measure U tax because many more transactions are subject to the tax than they are under the traditional Sales & Use Tax.

Given we only have three quarters on which to base the out-years of the Measure U forecast, the forecast remains conservative. The forecast will be updated when additional performance experience becomes available and we are able to express more confidence in the accuracy of collections and the indicators that will serve to inform the trends of this revenue source.

Measure U Expenditures: The Proposed Budget for Measure U expenditures reflects the annual costs of programs and services that were approved by Council in the FY2013/14 Approved Budget on June 11, 2013. The City's six-year Measure U plan is included as Attachment 1. Detailed information on the Fire, Parks and Recreation, and Police Department budgets will be presented in separate reports.

Policy Considerations: The proposed budget for Measure U reflects the annual cost of programs and services previously approved by Council and are consistent with the commitments made to voters relative to the use of these resources.

Economic Impacts: None

Environmental Considerations:

> **California Environmental Quality Act (CEQA)** – This report concerns administrative activities that will not have a significant effect on the environment and that do not constitute a "project" as defined by the CEQA Guidelines Sections 15061(b)(3); 15378(b)(2). CEQA review for any project, which utilizes funds allocated under the FY2014/15 CIP budget, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.
>
> **Sustainability –** None.

Commission/Committee Action: On March 5 and May 7, 2014, the Measure U Citizens Oversight Committee met to review FY2012/13 Measure U revenues and expenditures. The committee has prepared a report and will present their findings and recommendations to Council on May 27, 2014.

Rationale for Recommendation: The recommended Measure U restorations will restore and protect essential public safety services and other essential services as outlined in the measure approved by voters in November 2012. Additionally, the restorations are consistent with the Approved Measure U Principles (Attachment 2).

Financial Considerations: While the Measure U funds will provide resources to protect vital services and begin to restore, on a limited basis, some programs and services it is evident that our community's needs and priorities continue to surpass available resources. The allocation of funding

recommended in this report continues the restoration of critical City services and the reinvestment in our community. The recommended restorations will use $29.5 million of the anticipated $31.8 million in revenues in FY2014/15. The reserves will be held to assist in addressing the City's revenue decline in April 2019 when the sales tax measure expires.

The City will be challenged with a "fiscal cliff" in FY2019/20 when the current General Fund forecast indicates that the City will be unable to sustain funding for the restorations without significant increases in General Fund revenues.

$ in 000s	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Total Revenues	384,829	392,826	400,739	408,909	417,355	426,087
Total Expenditures	382,551	391,435	403,124	411,869	421,101	430,843
Revenues less Expenditures	**2,278**	**1,391**	**(2,385)**	**(2,960)**	**(3,746)**	**(4,756)**
Other Sources and (Uses)	(295)	105	105	105	105	105
Loss of Measure U Revenues	-	-	-	-	(8,415)	(36,337)
Annual Operating Surplus/(Deficit)	**1,983**	**1,496**	**(2,280)**	**(2,855)**	**(12,056)**	**(40,988)**

During the development of the FY2016/17 Proposed Budget the City will need to develop a plan to roll back restorations to a sustainable level if actual revenue growth does not exceed expenditures.

Local Business Enterprise (LBE): Not applicable.

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Measure U Revenues and Expenditures (in 000s)	Total FTE[1]	FY13	FY14	FY15	FY16	FY17	FY18	FY19
REVENUES		**4,820**	**27,000**	**31,824**	**33,097**	**34,421**	**35,798**	**27,922**
FIRE DEPARTMENT								
SAFER Grant Retention	27.00	-	1,503	2,803	2,803	2,803	2,803	2,803
January 2013 Brownout - Restoration	12.00	690	1,380	1,761	1,849	1,942	2,039	2,141
Fire Company Restoration - April 2013	12.00	314	1,652	1,761	1,849	1,942	2,039	2,141
Fire Company Restoration	12.00	-	1,626	1,761	1,849	1,942	2,039	2,141
Fire Company Restoration - May 14, 2014	12.00	-	190	1,761	1,849	1,942	2,039	2,141
Two Medic Units - January 2014 *(partially offset by revenues)*	12.00	-	-	657	505	590	680	774
Technology	4.00	-	249	437	441	446	450	455
Fiscal Support	2.00	-	142	169	171	172	174	176
Fire Prevention	1.00	-	160	140	141	143	144	146
Human Resources	1.00	-	55	94	95	96	97	98
Recruit Academy	-	78	777	360	-	-	-	-
Sacramento Regional Fire Emergency Communications			357	-	-	-	-	-
Grant Retention for Future Years	-	-	1,300	-	-	-	-	-
Fire Department Subtotal	**95.00**	**1,082**	**9,391**	**11,704**	**11,553**	**12,016**	**12,503**	**13,013**
POLICE DEPARTMENT								
COPS Hiring Program (CHP) Match and Retention FY13 ***(New in FY15)***	10.00	-	-	557	648	743	1,219	1,304
COPS Hiring Program Retention FY09 (CHRP) and FY11 (CHP)	60.00	-	2,734	4,862	5,483	5,483	5,483	5,483
Field & Operations ***(12.0 new FTE in FY15)***	61.00	274	5,553	5,180	6,951	7,605	8,413	8,811
Investigations ***(2.0 new FTE in FY15)***	8.00	-	716	556	1,142	1,173	1,206	1,241
Forensics	6.00	-	300	512	539	571	606	643
Communications	4.00	-	200	317	339	363	388	415
Crime Analysis	1.00	-	100	96	98	100	102	104
Grant Retention for Future Years	-	-	2,749	500	-	-	-	-
Police Department Subtotal[2]	**150.00**	**274**	**12,352**	**12,580**	**15,200**	**16,038**	**17,417**	**18,001**
Public Safety Total	**245.00**	**1,356**	**21,743**	**24,284**	**26,753**	**28,054**	**29,920**	**31,014**
PARKS DEPARTMENT								
Aquatics	28.00	274	1,558	1,564	1,571	1,579	1,587	1,595
Community Centers	18.30	-	808	832	836	840	845	849
Park Maintenance	21.00	-	1,600	1,642	1,650	1,659	1,667	1,675
Senior Programs	1.50	-	172	194	195	196	197	198
Teen Services (*Hot Spots/Summer at City Hall*)	4.15	-	292	293	294	296	297	299
Gang Prevention	1.00	-	50	100	100	101	101	102
Capital Investment	-	-	850	-	-	-	-	-
Parks Department Subtotal	**73.95**	**274**	**5,330**	**4,624**	**4,647**	**4,671**	**4,694**	**4,718**
MISCELLANEOUS RESTORATIONS								
Animal Control Officer	1.00	-	85	85	88	92	96	100
Library Restoration	-	506	506	506	506	506	506	506
Miscellaneous Subtotal	**1.00**	**506**	**591**	591	594	598	602	606
Total Measure U Restorations	**319.95**	**2,136**	**27,664**	**29,499**	**31,994**	**33,323**	**35,216**	**36,337**
ANNUAL RESERVE		**2,684**	**(664)**	**2,325**	**1,103**	**1,098**	**582**	**(8,415)**
Cumulative Reserve		**2,684**	**2,020**	**4,345**	**5,447**	**6,546**	**7,128**	**(1,287)**

[1]14.0 new FTE are included in the FY2014/15 Proposed Budget for the Police Department

[2]The Police Department will be requesting Council authority during the budget hearings to carryover $744,000 from FY13 to FY14 to allow for new officer costs (vehicles and equipment).

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Approved Principles for the Use of Measure U Resources (Resolution 2013-0045)

1. Resources will be allocated to the protection and restoration of City programs/ services specifically enumerated in the Measure U ballot question as follows:
    a. essential public safety services including:
        i. 9-1-1 response
        ii. police officers
        iii. gang/youth violence prevention
        iv. fire protection/emergency medical response
    b. other essential services including:
        i. park maintenance
        ii. youth/senior services
        iii. libraries
2. Resources will not be allocated for new programs/services/facilities.
3. Restorations may not look/operate in the same manner as those that were eliminated in order to take advantage of effective and efficient means of program/service delivery wherever possible.
4. Resources will not be used to balance the base General Fund budget, except where funds would provide for the protection of programs/services specifically included in the Measure U ballot question as identified above.
5. Resources will not be used to increase employee compensation.
6. Resources will be set aside annually to be used for the following:
    a. Contingency funding should revenues fall short of estimates
    b. One-time funding for one-time expenses related to the delivery of the restored programs/services
    c. Funding to transition programs and services in FY2019/20 when Measure U resources will no longer be available
7. The City Manager will prepare a transition plan to scale back the use of Measure U resources over time or identify alternate sources of funding for critical programs and services.
8. Resources will be accounted for and reported separately in order to facilitate review by the Council and the Oversight Committee established by the ballot measure.