

GENERAL PURPOSE FINANCING ESTIMATES

Developing estimates of the general purpose financing for both the current year and the budget year have been more difficult than is usual due to state budget crisis. Actions and proposals such as the VLF “gap”, the new ERAF, the Legislative Analyst’s alternatives to the new ERAF, and the “triple flip” have or would have deep impacts on the county’s basic revenue stream. In addition, the incorporation of Rancho Cordova has resulted in the shift of some revenues to the new City and new transition and revenue neutrality payments back to the County.

The general purpose financing estimates are summarized in the following table:

FINANCING SOURCE	2003-04 Adopted Final	2003-04 Estimated	2004-05 Estimated Proposed	Change From Prior Budget	Change From Prior Estimated
Property Taxes	177.8	181.2	188.1	10.3	6.9
Sales Tax	77.9	76.0	75.4	(2.5)	(0.6)
Vehicle License Fees	80.3	69.0	94.0	13.7	25.0
Utility User Tax	14.6	14.0	15.0	0.4	1.0
Fines	15.0	15.1	15.0	0.0	(0.1)
Revenue Neutrality & Transition	15.2	15.2	12.0	(3.2)	(3.2)
Funds Transfers & Cost Plan	13.6	19.2	4.9	(8.7)	(14.3)
Other Revenues & Costs	15.5	12.3	14.2	(1.3)	1.9
Subtotal	409.9	402.0	418.6	8.7	16.6
Fund Balance Non-Departmental	33.6	33.6	12.6	(21.0)	(21.0)
Net Reserve Changes	0.6	0.6	1.5	0.9	0.9
Subtotal	34.2	34.2	14.1	(20.1)	(20.1)
TOTAL	444.1	436.2	432.7	(11.4)	(3.5)

Overall, the estimates for the current year call for a reduction of \$7.9 million from the budget level from \$444.1 million to \$436.2 million. The estimate of \$432.7 million for the 2004-05 Fiscal Year is \$11.4 million below prior-year budgeted levels and \$3.5 million below the estimate for the prior year.

The major factors influencing the financing estimates include:

- The very healthy local real estate market and new construction in growth areas has resulted in a sustained increase in assessed values on the Assessor’s Roll and property tax revenue.
- The increase in the VLF rates, followed by the new Governor’s roll back of those rates resulted in prolonged uncertainty in determining the level of the second largest source of local resources.
- The incorporation of Rancho Cordova resulted in transfer of sales tax, property tax, utility tax, and franchise fee revenues to the new City and a new source of revenue neutrality and transition repayment revenues for the County.

- Growth in taxable sales in the Unincorporated Area has been very weak for several years. Areas where growth had been planned for and was anticipated are now located in the new cities.
- The extraordinary use of one-time financing sources skews the year-to-year bottom line changes in local resources.

Property Taxes

- Included in property taxes are current secured, unsecured, supplemental roll taxes; the property transfer tax; the state homeowners tax relief subvention; and the county's return from participation in the Teeter Plan.
- County budget problems would have been more drastic in the past three years and in the current budget year, if not for the strong growth in property tax revenues. In Fiscal Year 2000-01, actual collections were \$140.8 million. The estimate for Fiscal Year 2004-05 is \$188.1 million, an increase of \$47.3 million, or 34.0 percent. This growth in revenue is a direct reflection of the local real estate market. There has been new construction in growth areas and a large volume of resales due to high demand and low interest rates.
- Current-year estimate of \$181.2 million is \$3.5 million higher than the budgeted level. This is due to unanticipated supplemental roll and transfer tax collections. The estimates for these accounts were based on the assumption that the real estate market would gradually wane during the year. This was not the case.
- Budget year estimate of \$188.1 million assumes growth in current taxes since the Assessor's Roll was closed on January 1, 2004. The overall estimates also assume no growth in supplemental and transfer taxes.
- Growth rates for current taxes are 9.0 percent for the secured taxes, 3.0 percent for unsecured taxes, and no growth, from budgeted levels, in supplemental taxes.
- Budget year estimates include an overall reduction of \$4.0 million reduction in the transfer tax. A slowing local real estate market is forecast due to the impact of the state budget on the local market and the probability that interest rates will rise from the record low levels.
- Estimates for the overall financing from the Teeter Plan have been reduced by \$1.2 million.

Sales Tax

- General sales tax derives only from the Unincorporated Area. The County has adopted a Bradley-Burns Ordinance entitling the County to receive a 1.0 percent share on taxable transactions in the Unincorporated Area.
- Sales tax estimate for 2004-05 of \$75.4 million is \$8.1 million less than actual collections for 2000-01. This is due to the impact of the incorporations of Elk Grove and Citrus Heights coupled with very anemic growth in the remaining Unincorporated Area.
- For both the current year and the budget year, sales tax collections have been reduced by the incorporation of Rancho Cordova. The new City of Rancho Cordova began earning sales tax in the fourth quarter of Calendar 2003 (October to December) and began receiving cash which would have been allocated to the County in December 2003. Rancho Cordova City made up about 13.0 percent of the sales tax base prior to the

incorporation. Over a two-year period, about \$12.4 million in sales tax will be shifted to the City of Rancho Cordova, \$7.4 million in the current year and an additional \$5.0 million in the budget year.

- The growth estimates for sale tax collections in the remaining Unincorporated Area is 3.0 percent. This is consistent with combined population growth and inflation so does not represent real growth. The estimate for statewide growth is 5.0 percent.

Vehicle License Fees (VLF)

- VLF revenue is a countywide revenue allocated to the County on the basis of countywide population and countywide assessed values as compared to values in other counties in the State. The State collects this revenue in the vehicle registration process and then allocates the revenue to counties, cities, and county realignment.
- Between 1999 and 2001, the VLF rate was reduced by two-thirds. For several years the State “backfilled” the rate reduction by allocating to counties and cities revenue as if the rate reductions had not taken place. This became a significant new requirement in the State Budget.
- Developing estimates of VLF revenue has been difficult due to all the changes in rates and backfill at the state level. The Final State Budget for 2003-04 included an increase in the rate to the original level effective one-quarter into the year and the loss of backfill for the first quarter of the year. The original projections indicated this loss to Sacramento County at \$15.0 million. In November 2003, the new Governor again reduced VLF rates and promised full backfill to local government, except for the gap period in the first quarter of the fiscal year. At the same time, the estimate of the gap grew from \$15.0 million to \$25.0 million.
- The original estimate for VLF revenue in the 2003-04 Fiscal Year was \$80.0 million, reduced from \$93.5 million due to the gap issue. Some \$1.5 million of the gap was accounted for at the end of the 2002-03 Fiscal Year. In midyear budget actions, reserves and cuts were used to reduce the budget to \$63.4 million to adjust to a larger gap and the potential loss of additional backfill. The current year-end estimate is \$69.0 million, or \$5.6 million higher than the adjusted budget.
- For the 2004-05 Recommended Proposed Budget, the VLF estimate is \$94.0 million, or slightly more than what the current-year estimate was before all the changes. This estimate will have to be adjusted at Final Budget after four more monthly payments from the State.

Utility User Tax

- The Utility User Tax is a municipal revenue. The County imposes a 2.4 percent tax on telephone (but not cellular), gas, electricity, sewer, and cable television use in the Unincorporated Area.
- There was an estimated transfer of \$2.4 million in revenue to the new City of Rancho Cordova in the current fiscal year.
- The estimate for the current year is \$14.0 million, \$0.6 million less than budgeted.
- The estimate for the budget year is \$15.0 million.

Other Revenues and Costs

- Other revenues and costs associated with the collection of general purpose financing total \$46.1 million, or 10.5 percent of the total local resources.
- There are several types of revenue and transfers into the General Fund from other county funds. Included are aid payment recoveries, revenue neutrality payments, overhead recoveries from other funds, interest earnings, the transfer of hotel tax to the General Fund, and fines. These revenues tend to fluctuate rather than grow steadily.
- There are various costs which are netted against the financing sources in determining the available local resources. These costs include interest on the annual cash flow notes, the county's share of property tax administration fees, and revenue collection audits.

Fund Balance and Reserve Changes

- Parts of the overall fund balance are not classified as departmental carryover in Sacramento County's budget presentation. The net variance in general revenues, welfare aid payments, election costs, and unused contingencies make up the General Fund fund balance.
- Several one-time financing measures in the 2002-03 Fiscal Year contributed to the fund balance at the start of the current year. The estimated fund balance for the start of the budget year of \$12.6 million is \$21.0 million less than that at the start of the current year.
- Releases from reserves are financing sources. For 2004-05, the reserve releases include:
 - \$1.3 million in Environmental Management Department (EMD) which is being transferred to the new EMD Special Revenue Fund.
 - A net reduction in the reserve required under the short term cash flow financing.