CHAPTER SIX: Fiscal Conditions

Chapter 6 presents a summary of the existing fiscal conditions within which the Auburn Boulevard Specific Plan area must operate. Chapter 6 includes a review of the Citrus Heights fiscal year 2002-03 budget as well as budget projections for 10 years, including a focus on property tax and sales tax revenue. Chapter 6 also provides background information on the redevelopment project area, which contains the Auburn Boulevard Specific Planning area. Property tax and sales tax data related to the Auburn Boulevard Specific Plan area are also presented in Chapter 6.

This information will allow Auburn Boulevard Specific Plan project alternatives to be evaluated in terms of their impact on the Citrus Heights operating budget and their affect on tax increment revenues collected by the Redevelopment Agency.

OVERVIEW OF CITY BUDGET

Fiscal year 2002-03 will be the sixth full year that the City of Citrus Heights provides services to its community since its incorporation on January 1, 1997. The City collects property taxes, sales taxes, and other fiscal revenues to fund essential services such as police protection, street maintenance, and other services. The City's operating budget compares anticipated revenues to anticipated costs. The beginning of the 2002-03 annual budget includes a message from the City Manager that notes the following:

Sales tax is a very important source of revenue for the City.

> *"The City continues to face the same revenue challenges that it has faced over the past five years including a reduction of motor vehicle-in-lieu fees and retail sales tax competition. Specifically, the additional motor vehicle fee augmentation available to newly incorporated cities drops 30 percent in FY 2007-08, a $2.3 million decline. While the initial impacts from the new regional mall are not as severe as anticipated, new retail establishments in*

> *surrounding cities and a softening of the economy has had an impact on our sales tax revenue."*

The City developed a series of financial policies in fiscal year 1998-99 to guide the budget process and all fiscal decisions. They are used as a framework for developing strategic focus, fiscal control and accountability, clear financial planning and reporting, long-term planning, and flexible and cost-effective responses to community demands and service opportunities. The City's long-term planning is manifested in its Ten-Year Financial Model, which projects revenues and expenses over a 10-year horizon. The model allows future fiscal impacts of current policy decisions to be better understood and provides a mechanism to test various scenarios as opportunities and constraints emerge. The highlights of the model can be summarized with the following statement contained in the Annual Budget:

> *"The future reduction of motor vehicle-in-lieu special augmentation will be a formidable loss to the City. Though the fiscal condition improves based on the recommendations outlined, there is still the need for continued vigilance. Based on the recommendations included within this document, the City is able to postpone the problem; however, the imbalance is not solved completely. The City Council should encourage cost containment, revenue enhancement, and legislative assistance, since the City still faces significant revenue and expenditure imbalances in future years."*

More specifically, the model projects that revenues will exceed expenses by approximately $5 million per year through 2005-06, although that gap will narrow thereafter. In 2007-08, when motor vehicle fees are anticipated to decline by approximately 30 percent, net income (revenues less expenses) is expected to drop to approximately $1 million. At that time, motor vehicle fees will be based on the City's population, while prior to that time they are based on three times the City's voting population at the date of incorporation. Fiscal years 2009-10 and 2010-11 are projected to be approximately breakeven years, with a projected fiscal deficit of $320,000 in 2011-12. This forecast is illustrated in Figure 6-1. Although net income declines over the 10-year projection period, total General Fund reserves are expected to increase and amount to 110 percent of total General Fund expenditures each year, including the last year of the model horizon (2011-12).

Property Taxes

The City expects to collect $2.5 million in General Fund property taxes in 2002-03, which represents nearly 10 percent of General Fund revenues. Property taxes are expected to increase at a stable rate of approximately two percent per year for the next 10 years. Figure 6-1 depicts the estimated stream of property tax revenues through 2011-12. During the fiscal year 2001-2002, the City made its final payment to the County of Sacramento for interim services provided during the first six months of cityhood. However, the City's General Fund property tax revenues act as security for the City's required revenue neutrality payments to the County of Sacramento pursuant to the Revenue Neutrality Agreement executed by the City and County. The revenue neutrality payment expense shown in the Ten Year Financial Model is assumed to be equal to General Fund property tax revenue each year since the City has agreed to pay the County an amount equal to the City's annual General Fund property tax revenue through 2021-22 to meet the City's revenue neutrality obligation.

Sales Taxes

Sales taxes of $10.5 million constitute almost 40 percent of all General Fund revenues in 2002-03, by far the largest source of revenue for the City. Sales tax revenues are projected to increase significantly next fiscal year to $11.7 million due to anticipated new retail outlets and a strengthening local economy next year compared to reduced sales tax revenues last fiscal year as a result of national events. Sales tax revenues are expected to decline in 2006-07 to $11.3 million, though, as competition from regional malls and other retail corridors intensifies, then gradually increase through 2011-12 at a rate of approximately one percent per year. Figure 6-1 displays annual sales tax revenue envisioned through 2011-12. Based on the City's projected population in 2002-03 of approximately 90,100, the City expects to generate $11,700 in taxable sales per capita. By 2011-12, with a projected population of 94,200, the City anticipates experiencing taxable sales per capita of $12,600. Table 6-1 below compares taxable sales per capita in neighboring jurisdictions for calendar year 2001, the last full year for which data is available.

Sales tax revenues are projected to increase significantly due to anticiapated new retail outlets and a strengthening local economy.

TABLE 6-1 TAXABLE SALES PER CAPITA Citrus Heights and Neighboring Jurisdictions	
State of California	$12,700 per capita
County of Sacramento	$13,600 per capita
City of Roseville	$32,900 per capita
City of Citrus Heights	$10,700 per capita

Source: California State Board of Equalization, 2002; California Department of Finance, 2002

Overview of Redevelopment Plan

Based on a recommendation from the City of Citrus Heights Planning Commission in May 1998, the City Council, acting as the governing body of the Citrus Heights Community Redevelopment Agency, approved and adopted the Redevelopment Plan for the Citrus Heights Commercial Redevelopment Project. The project area contains approximately 557.5 acres, consists of 308 parcels, and is divided into the following four distinct subareas:

1. Greenback Lane corridor, extending east from Fair Oaks Boulevard to Auburn Boulevard on the west;
2. Sylvan Road, extending from Greenback Lane to Auburn Boulevard (including only the right-of-way);
3. Southern Auburn Boulevard corridor, extending from the southern City limits to Sylvan Road; and
4. Northern Auburn Boulevard corridor, extending from Sylvan Road north to the Sacramento County line.

Subareas 3 and 4 described above cover the Auburn Boulevard Specific Plan area.

The goals and objectives identified by the City in connection with the redevelopment project, and in conformance with the California Community Redevelopment Law, are presented in the redevelopment plan. Two of the goals articulated in that plan include the following:

> *"The provision of assistance to businesses through financial assistance in the form of land purchase and assembly, construction of infrastructure improvements, relocation assistance and other economic benefits through the use of tax increment financing." (19)*

> *"Provide, through economic growth, for increased sales taxes, business license fees, and other fees,*

taxes and revenues to the City of Citrus Heights." (98)

Program Costs

To promote and achieve the goals and objectives of the plan, the redevelopment program outlines a series of activities to be implemented. These activities are estimated to cost a total of $79.3 million over the life of the redevelopment project. The cost of each activity is shown in Figure 6-2, and a description of each is delineated below:

1. Reconstruct, replace, or install needed infrastructure and related improvements;
2. Selectively assemble parcels of land, including acquisition, demolition, environmental remediation, and other site preparation activities;
3. Strengthen and expand existing land uses, and participate in funding new developments, through an owner participation program;
4. Conduct business attraction, retention, and expansion through business improvement districts, special zone designations, public-private partnerships, advertising, joint marketing programs, and other business development efforts;
5. Establish a commercial rehabilitation loan and grant program;
6. Provide new affordable housing units, loans and grants for rehabilitation of existing units, and first-time home buyers assistance program, all for very low-, low-, and moderate-income households;
7. Cover redevelopment project start-up costs and ongoing administration costs; and
8. Fund debt service on bonds and other debt utilized to finance the programs identified above.

Program Resources

The redevelopment plan provides the necessary legal authority and flexibility to implement the project. Financial resources from the City, the State, the federal government, tax increment revenues, and a host of other sources may be obtained by the redevelopment agency, including issuing bonds and securing loans. Program costs are designed to match program resources, which are estimated to total $79.3 million. The amount of each planned financing method is shown in Figure 6-2, and a description of each is presented below:

1. Net tax increment revenues, which equals total tax increment less increment set aside for affordable

housing and increment allocated to affected taxing entities under the mandatory pass-through formula pursuant to community redevelopment law;

2. Low- and moderate-income housing set aside funds, equal to 20 percent of the tax increment;
3. Proceeds from tax-exempt tax allocation bonds, the debt service of which is secured by a pledge of tax increment revenues, and advances, grants, or loans from local, state, and federal government agencies; and
4. Interest earnings on general funds and reserve funds of the redevelopment agency.

Tax Increment Revenue

Tax increment revenues are equal to annual property tax revenues generated inside the project area above the amount generated in 1997-98 when the redevelopment plan was adopted. The annual incremental assessed valuation inside the project may increase due to property ownership transfers, new construction activities, and statutory maximum allowable inflationary increases of two percent per year. Property tax levies are equal to one percent of the assessed valuation.

Property tax revenues are allocated to 18 taxing agencies within the redevelopment project area, including Sacramento County (16.4 percent), Sacramento Fire Protection District (17.2 percent), Sunrise Park and Recreation District (3.7 percent), several school-related jurisdictions such San Juan Unified (43.6 percent), and Citrus Heights (7.0 percent). Each agency retains 100 percent of the property tax revenue it received in 1997-98. However, incremental property tax payments (i.e., tax increment revenues) to the taxing entities are based on statutory pass-through formulas pursuant to community redevelopment law. Initially, 20 percent of the tax increment is allocated to the taxing agencies; the amount allocated to the affected districts graduates in 11 years and then again in 31 years.

According to redevelopment agency financial statements, no tax increment revenues were collected in 1998-99. As described above, 20% of the tax increment is set aside for low- and moderate-income housing. In 1999-00, $31,369 in tax increment revenues were deposited into the Low/Moderate Income Fund, and $52,146 was deposited into that fund in 2000-01. The remaining tax increment revenues collected by the agency are deposited into the Redevelopment Fund. Amounts of $125,476 and $208,583 were deposited into the Redevelopment Fund in 1999-00 and 2000-01, respectively.

ASSESSED VALUATION

The total assessed value of parcels in the Auburn Boulevard Specific Plan Planning Area for fiscal year 2002-2003 is $53,697,719. The Specific Plan area includes 111 separate parcels in five Tax Rate Areas (TRAs). Over 83 percent of the parcels are within TRA 06028 with the remainder in TRAs 06008, 06026, 06027, and 06030.

SALES TAX GENERATION

Sales tax revenues from businesses in the Auburn Boulevard Specific Plan area are presented in Table 6-2.

TABLE 6-2

SALES TAX REVENUES FROM THE AUBURN BLVD SPECIFIC PLAN AREA

Fiscal Year	Sales Tax Revenue	% Change
1995-96	$619,207	-
1996-97	$634,861	2.5%
1997-98	$671,357	5.7%
1998-99	$740,989	10.4%
1999-00	$828,812	11.9%
2000-01	$796,733	-3.9%
2001-02	$760,912	-4.5%

Source: The HdL Companies

As Table 6-2 shows, annual sales tax revenues from the Auburn Blvd. Specific Plan Planning Area increased steadily from fiscal year 1995-96 through 1999-00, with double-digit gains in 1998-99 and 1999-00. After peaking at $828,812 in fiscal year 1999-00, sales tax revenues decreased by 3.9 percent in 2000-01 and then again by 4.5 percent in 2001-02. For the last two quarters of fiscal year 2001-02, sales tax revenues decrease 16.7 percent compared to the last two quarters of fiscal year 2000-01.