

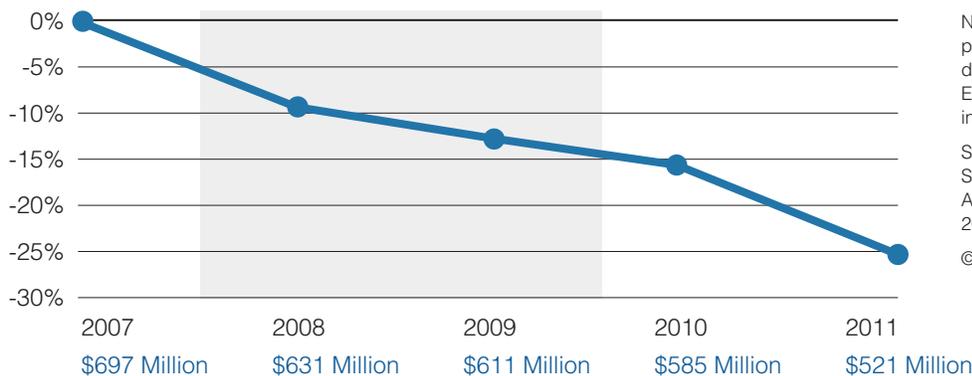
Sacramento, CA

Sacramento's revenue declined in the wake of the Great Recession and beyond

Two years after the end of the Great Recession, revenue was still dropping in Sacramento. Uniquely affected by state fiscal woes, California's capital city saw revenue fall sharply between 2007 and 2011, dropping 25 percent. (See Figure 1.) Reductions in spending over the same period were not enough to avoid persistent general fund operating deficits and the depletion of reserve funds that were all but fully tapped by 2011. On top of these struggles, growing pension obligations have kept Sacramento at risk of a credit downgrade.¹

FIGURE 1

Sacramento Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Sacramento's Comprehensive Annual Financial Reports for fiscal 2007-11.

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State government contraction led to across-the-board revenue declines that outpaced spending cuts

Some of the largest losses came from nontax revenue.² Income from interest, rents, concessions, and charges and fees together fell \$93 million after adjusting for inflation.

Despite an influx of funds from the American Recovery and Reinvestment Act to the Sacramento region, intergovernmental aid to the city dropped \$32 million between 2007 and 2011. The state government contracted during the Great Recession, with layoffs contributing to Sacramento's growing unemployment rate, which exceeded 12 percent by 2010.³ Sales tax revenue dropped \$12 million between 2007 and 2011.

Property tax collections—a strength before the recession—fell \$22 million between 2007 and 2011, as the impact of the market affected valuations in 2009 and collections dropped sharply the following two years.⁴

Sacramento's operating spending decreased \$40 million between 2007 and 2011 in response to the revenue shortfalls. The largest decline was in housing and economic development. Public safety cuts resulted in layoffs and the elimination of the vice, narcotics, financial crimes, and undercover gang squads in 2011; police officers also no longer responded to burglary, misdemeanor, or minor traffic accident calls as a result of reductions.⁵ Other significant cuts in parks and recreation and public works and transportation led to layoffs, and city officials delayed development projects and closed pools and community centers. These cuts, however, were offset by increases in general government and debt service, and were not sufficient to overcome the revenue losses.⁶

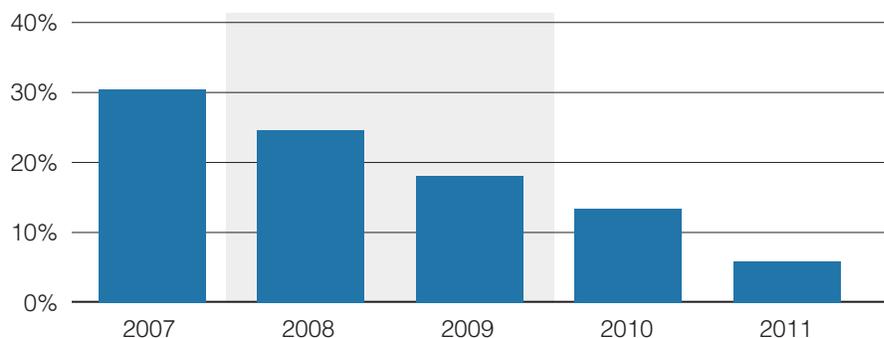
Managing the future: Few reserves remain, but Sacramento is focusing on meeting its commitments to retirees

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Sacramento's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Despite the spending cuts, the city ran consistent general fund operating deficits between 2007 and 2011. To close these gaps, the city repeatedly drew from its reserves, reducing its Economic Uncertainty Reserve Fund from 31 percent of general fund revenue in 2007 to just 6 percent in 2011—below the 10 percent ratio prescribed by city policy.⁷ (See Figure 2.)

FIGURE 2

Sacramento Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Sacramento's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Despite paying its annual pensions bill in full through 2010, the overall funding level decreased to 81 percent that year from 87 percent in 2007 because liabilities grew faster than assets. In June 2012, city officials reached an agreement requiring new firefighters to pay a share of their pension plans that was previously the city's responsibility.⁸ And in early 2013, city officials indicated they would need to work with the police union on similar measures.⁹

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 The largest portion of this category, contributions from property owners, includes bond proceeds from special districts; it declined \$38 million between 2007 and 2011.

3 Southern California Association of Governments, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2010* (2010), 167, <http://www.scag.ca.gov/publications/pdf/2010/FinancialReport063010.pdf>.

4 Moody's Investors Service, "Moody's Affirms Aa2 Issuer Rating on City of Sacramento (CA); Stable Outlook Also Affirmed," rating update (2010), http://www.cityofsacramento.org/treasurer/public_finance/credit_rating/documents/Moodys_Rating_on_Sacramento_05282010.pdf.

5 Erica Goode, "Crime Increases in Sacramento After Deep Cuts to Police Force," *New York Times* (Nov. 3, 2012), <http://www.nytimes.com/2012/11/04/us/after-deep-police-cuts-sacramento-sees-rise-in-crime.html>.

6 Debt service payments were up largely because of a 2009 principal payment on debt by the Transportation and Development Fund to purchase a downtown rail yard for a brownfield development project. City of Sacramento, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2009* (2009), 8, <http://www.sco.ca.gov/Files-ARD/CAFR/cafr09web.pdf>; and Tony Bizjak, "Sacramento Still Liking Railyard Future Without Kings," *Sacramento Bee* (Feb. 26, 2013), <http://www.sacbee.com/2012/04/23/4434181/sacramento-still-liking-railyard.html>.

7 The General Fund Economic Uncertainty Reserve goal is to maintain 10 percent of general fund revenue; as of 2012, the level was 4 percent. City of Sacramento, *Proposed Budget, Fiscal Year 2011/2012* (2013), 20, <http://www.cityofsacramento.org/finance/budget/documents/FY12ProposedBudget-Web.pdf>.

8 Ryan Lillis, "Sacramento Firefighter Union Ratifies Labor Deal, Saving 44 Jobs," *Sacramento Bee* (March 25, 2012), <http://blogs.sacbee.com/city-beat/2012/06/sacramento-firefighter-union-ratifies-labor-deal-saving-44-jobs.html>.

9 Ryan Lillis, "Sacramento Sales Tax Hike to Boost Cops, Firefighters, Parks," *Sacramento Bee* (Feb. 26, 2013), <http://www.sacbee.com/2013/02/10/5178578/sacramento-sales-tax-hike-to-boost.html>. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.