Inside City Hall
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Expansive Plans

The mayor's budget message proposes wide-ranging ideas

By Craig Powell

As I wrote last month, the mayor and city council have taken aggressive steps in the past few months to assert much greater front-end control over both the city budget and the city manager (hiring an independent budget analyst, forming a new council budget committee, public outreach on budget matters). But the process changes were just the beginning. On March 10, the mayor took the unprecedented step of releasing a "Mayor's Message on Budget Priorities" that lays out what is likely the most expansive plan ever proposed for the role of city government in Sacramento. It proposes a cautious approach to city spending and debt management in the near future while proposing more than a dozen new and unprecedented programs and initiatives.

Notably, the mayor's plan was not the product of deliberation and consensus by the council's new budget and audit committee. Instead, it is the mayor's own vision and was slated for initial council review late last month. If it ends up being approved by the council, it will represent marching orders to city manager John Shirey on how to draw up the city budget for the next fiscal year that begins July 1.

The central premise of Johnson's plan is that the city must exercise spending caution in the short term as the city nears a fiscal cliff in 2019 (due to escalating pension contributions and expiration of the Measure U half-percent sales tax hike), but that the city must ultimately fix its fiscal problems by taking aggressive steps to grow the local economy, resulting in higher city tax revenues. His ideas for growing the local economic pie are bold: He proposes a slew of new investments, plans and programs that, if approved, would inject the city more assertively into local economic development than ever before.

It's fair to ask: Are the twin strategies of near-term fiscal caution and a bevy of new city investments and programs reconcilable? That's a very open question.

In the short term, he wants to build up the city's emergency reserves, but only by a smidgen (from 8.9 percent to 10 percent of the general fund, a $4 million increase). He wants to set aside an unspecified amount of Measure U revenues (now bringing in $11 million more per year than expected) for "contingency funding," "one-time expenses" and "transition" once the tax hike expires in 2019. But until now, the city council, with the mayor's concurrence, has been on a glide path to spend every last dollar of Measure U revenues before it expires. The talk at city hall is that lots of ideas are being floated for how to spend the $11 million windfall—none of which include returning the extra revenues back to city taxpayers via a rebate.

As the city came out of recession, the council regularly put unanticipated annual budget surpluses into city reserves to rebuild them following a steep draw-down during the recession. But Johnson is proposing that only $5 million of last year's $17 million surplus be saved and the rest spent on one-time projects like the downtown streetcar project and emergency radio upgrades. (That's still an improvement over city staff's recommendation, which was to spend all but $1 million of the surplus.)

To provide money for economic development spending, Johnson proposes that property taxes flowing into the city's coffers as a result of the end of redevelopment (a flow that should grow to $25 million or more annually as the city's $1 billion redevelopment debt is paid off) be directed into an "innovation and growth fund" (a new name for the current Economic Development Fund) to make direct investments in "targeted … projects and programs with a significant return on investment and impact on the city." It appears that the mayor is proposing that the innovation fund take over the direct investment role that SHRA used to play before the state legislature pulled the plug on redevelopment three years ago.

There are a few problems with such an approach. First, the return of property tax revenues to the city from the end of redevelopment merely restores to the city revenues that used to flow into the city's general fund before redevelopment projects diverted such taxes into paying off redevelopment debt. This is the "dividend" that cities, counties, school districts and special districts have been looking forward to collecting from the demise of redevelopment.

Secondly, I don't recall coming across a direct investment by SHRA that made "a significant return on investment." In fact, most of the projects SHRA funded with direct investments in recent years involved bloated costs and taxpayer waste. (Apartment rehab projects funded by SHRA typically cost more than $300,000 per apartment unit, triple the cost of buying such apartments on the market.) If the mayor contemplates letting SHRA restart its direct investment program with cash from the innovation fund, the city will likely experience the same poor results as before.

It may be that the mayor sees the innovation fund as a municipal venture capital fund, providing capital to promising tech companies. (Shirey once suggested the creation of such a fund.) But the venture capital business is no place for untrained and inexperienced city staffers. Seasoned pros in the venture capital business typically see only one investment in 10 succeed. Do we really want city government trying to pick economic winners and losers in the tech field with taxpayer money when we have unmet needs like inadequate police staffing and degraded park maintenance?

The list of the mayor's program and project ideas is long and includes creation of a central city master plan, designation of the railyards as an "innovation district," the streetcar project, a new performing arts center to replace the Community Center Theater, a downtown housing initiative to build 10,000 new housing units in the next 10 years, a new study on reuse of the Natomas arena, implementation of the mayor's gang prevention task force strategic plan, the Solutions City initiative (a partnership between the city and Starbucks to foster youth employment) and the creation of a city youth and education department.

He also proposes a number of quality-of-life projects, including $500,000 for the Housing Solutions Program for the homeless, an income inequality task force (to study factors impacting poverty and available solutions, "including a possible city minimum wage"), a reinvigorated Green Initiative, and the replacement of streetlights with energy-efficient LED technology.

He also reiterates his support for police body cameras, sensitivity training for police, new efforts to recruit a more diverse police force and increasing the number of police officers by 15 per year for 20 years, as well as the adoption of a fire master plan.

In what may be a reversal of his views on public funding for a new soccer stadium, the mayor wants the city to commission a downtown railyards soccer stadium feasibility study to “answer key questions about the facility’s location, design, cost and development timeline.”

The mayor has previously stated quite unequivocally that he would not seek taxpayer funding for a new soccer stadium and that such a stadium should be built entirely with private funds. But if private parties will be constructing and paying for a new soccer stadium, why aren’t those private parties commissioning a soccer stadium feasibility study rather than city taxpayers? Why would the mayor want the city to commission such a study? It appears to this political observer as a thinly disguised opening gambit for a campaign to secure taxpayer funding for a new soccer stadium. On the heels of an expensive arena subsidy deal that will have city taxpayers on the hook for $300 million in arena bonds for the next 35 years, Johnson will have some heavy lifting to do to sell the idea of a public subsidy for a new soccer stadium.

The mayor also calls for a $1 million contribution toward a trust to cover the city’s towering $452 million liability for retiree health care costs, which would bring the balance of the trust up to $6 million, or 1.3 percent of the city’s liability. You can see the problem. He also wants the city manager to conduct a study of ways the city can address its $2.3 billion in total liabilities. As the mayor states, “Sacramento’s long-term liabilities threaten to overwhelm the budget and limit the services the city provides.”

The obvious critique of the mayor’s plan is that he’s trying to do too much all at once. He has an exceedingly optimistic faith in the ability and resources of the city to tackle more than a dozen new policy initiatives and projects simultaneously. History has shown that the city has a difficult enough time managing a single major project, like the downtown arena, which has chewed up a great deal of the city’s managerial bandwidth for three years. City government may do better to focus on its core competencies, identify cost efficiencies, restore basic city services deeply cut during the recession and make Sacramento a greater place to live and a better (and more affordable) place to locate, operate and grow a business.

On the budget front, his plan to concurrently reduce city liabilities, increase budget reserves, create new programs and make substantial new investments in a wide array of new projects and programs seems to defy financial gravity. To be sure, Shirey has his work cut out for him devising a budget that meets all of the mayor’s budget priorities.

Studios for the Performing Arts on N Street
The city was poised last month to give its final approval to $5 million in funding for “Studios for the Performing Arts” at the now-shuttered Fremont School on N Street in Midtown, a $6.6 million renovation project that will authorize a new nonprofit organization to operate the studios. The Sacramento Ballet and a half-dozen other local performing arts organizations have signed letters of intent to lease space in the studios. The hope is that the facility will be a hive of artistic

creativity and collaboration and allow arts groups to conserve resources by sharing studios, offices, rehearsal, performing and classroom space.

While the managing nonprofit will be contractually responsible for maintaining the aging facility, the nonprofit and the studios' proposed tenants aren't exactly flush with financial assets. Given the long history of financial crises among Sacramento arts groups, it should surprise no one if the city is asked to bail out the studios' finances in the coming years.

Sacramento Jumps Into the Contemporary Art Market

The city council approved a plan last month to purchase for $7.5 million (plus $500,000 in transportation costs) a sculpture to be created by popular contemporary artist Jeff Koons of New York and installed in the plaza adjoining the new downtown arena. The council foray into the overheated contemporary art market came following two contentious council meetings that featured strong objections from local artists who were excluded from consideration for the major commission by the Sacramento Metropolitan Arts Commission and its nine-member selection committee. With three owners of the Kings (Vivek Ranadive, Kevin Nagle and Phil Oates) chipping in $1 million each for the piece, the city's share of the cost will be $2.7 million, plus another $3 million or so in interest over the next 35 years. The balance of the cost will be picked up by the Kings.

A city ordinance mandates that at least 2 percent of the construction cost of all new public buildings be spent on public art. Since the arena has a construction cost of $273 million, it has a mandated public art budget of $5.5 million. Local arts philanthropist Marcy Friedman is contributing $1 million towards works by regional artists for placement in or around the arena or along K Street. Koons' "Coloring Book" sculpture will join Downtown Plaza's Indo Arch, Terminal B's Red Rabbit and Terminal A's "Samson," the twin pillars of 1,400 pieces of stacked luggage, as focal points for endless debates over the value of major contemporary art pieces around town. (My personal favorite: Red Rabbit. My last favorite: Indo Arch.)

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