



CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

April 19, 2018

Honorable Mayor and
Members of the City Council
915 I Street, Fifth Floor, New City Hall
Sacramento, CA 95814-2604

This letter is in response to the December 5, 2017 request from the Budget and Audit Committee for additional information related to our Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement. The request was made by the Committee in response to our high-level review of emerging capital projects and some economic indicators in downtown Sacramento. The Committee asked us to provide additional information regarding the City's sales tax collection and construction valuation within the City since the opening of the Golden1 Center. Below is our report on the requested information.

Sales Tax Collection

The City of Sacramento utilizes the consulting company MuniServices, LLC, to provide sales and use tax audit and recovery services. MuniServices detects and documents misallocations of sales and use tax activity within the limitation on administrative recoverability and represents the City for purposes of examining California Department of Tax and Fee Administration (formerly the California State Board of Equalization) records pertaining to sales and use tax to identify errors and omissions.

We worked with the Finance Department and MuniServices to collect the City's sales tax receipts from each fiscal year since 2007 for the entire City and the area of the City in which the Golden1 Center is located. MuniServices identifies the Golden1 Center in the area of the City between the Sacramento River and 16th Street and between I Street and N Street (I-N-River-16). Figure 1 below identifies the annual sales tax receipts for the City of Sacramento and the I-N-River-16 area. The amounts identified in Figure 1 have not been audited by our office.

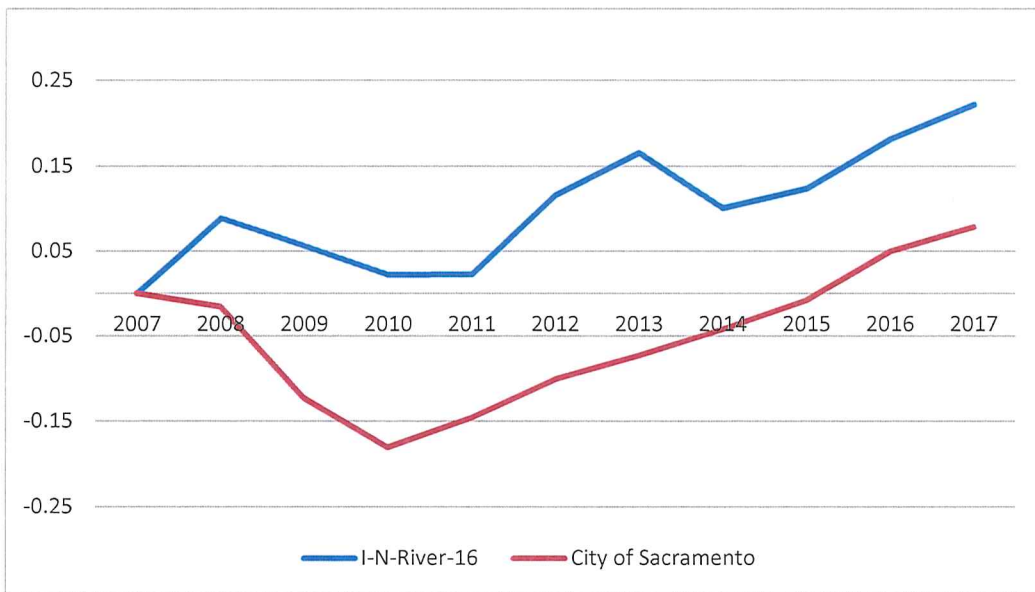
Figure 1: Annual Sales Tax Receipts by Fiscal Year

Fiscal Year	I-N-River-16	City of Sacramento
2007	\$ 2,485,798	\$ 60,948,076
2008	\$ 2,706,154	\$ 60,006,873
2009	\$ 2,626,175	\$ 53,480,666
2010	\$ 2,541,089	\$ 49,955,467
2011	\$ 2,541,724	\$ 52,054,048
2012	\$ 2,773,811	\$ 54,804,974
2013	\$ 2,896,994	\$ 56,488,558
2014	\$ 2,735,388	\$ 58,389,082
2015	\$ 2,793,056	\$ 60,467,267
2016	\$ 2,937,619	\$ 63,968,788
2017	\$ 3,037,322	\$ 65,718,882

Source: Auditor compiled with reports provided by MuniServices.

Figure 2 below shows the percent change of the annual sales tax receipt with fiscal year 2007 as the base year.

Figure 2: Sales Tax Percent Change (Fiscal Year 2007 Base Year)



Source: Auditor compiled with reports provided by MuniServices.

As shown in Figure 2 above, annual sales tax collection for the City as a whole decreased from fiscal year 2007 through 2010 and began increasing after fiscal year 2010. Annual sales tax collection did not exceed fiscal year 2007 amounts until after fiscal year 2015. Annual sales tax collection for the I-N-River-16 area varied from fiscal year 2007 but did not drop below fiscal year 2007 levels. Sales tax collection in

both the City as a whole and the I-N-River-16 area have been increasing steadily since fiscal year 2014. However, it is difficult to determine whether the increase is due to the Golden1 Center or to other factors such as an improvement in the overall economy. Not enough time has passed since the opening of the Golden1 Center to determine whether it has had a positive impact on the sales tax revenue.

Construction Valuation

We have been working with the Community Development Department to determine construction valuation for the City as a whole and the area of the City in which the Golden1 Center is located since the Budget and Audit Committee requested we review the data. However, as of March 22, 2018, there were still issues with the construction valuation data the Community Development Department had provided to our office and they were researching the discrepancies we identified in the data. Therefore, we believe the construction valuation data is currently not reliable for us to analyze.

The City Auditor's Office recently postponed an audit of the Community Development Department's Building Division as the Department requested the audit to be eliminated or postponed. According to the Community Development Department, "to participate in an audit now would be major impact to our current workload. It would hinder the goals of meeting our deadlines and providing an acceptable customer service level." The City Council agreed to postpone the audit of the Building Division and it is currently a Priority 2 audit in the City Auditor's fiscal year 2018-2019 audit plan. Due to the issues we have recently identified in attempting to determine the construction valuation of the City of Sacramento, we recommend elevating the audit of the Community Development Department's Building Division to Priority 1 in the 2019-2020 audit plan.

Respectfully submitted,



Jorge Oseguera
City Auditor