

Fact Sheet

February, 2012

Utility Users Tax – Measure "12-1" And Measure "12-2"

Municipal Election April 10, 2012

This information is provided to answer questions that have been asked about the City's Utility Users Tax (UUT) Measures on the April 10, 2012 Municipal ballot. There is a significant amount of information on the following pages, but if your question isn't answered, please contact the City's Administrative Services Department at City Hall, (626) 355-7135. This fact sheet will be updated as necessary.

What is Measure 12-1?

Measure 12-1 is on the April 10, 2012, municipal ballot. If approved by the voters it will extend the Utility Users Tax (UUT) until its sunset or reauthorization and provide funding for vital city services.

What is a Utility User Tax or UUT?

A Utility Users Tax (UUT) is a tax on certain utility bills. A UUT may be imposed by a city or county on the consumption of utility services.

Sierra Madre has had a UUT since 1993. Today, Sierra Madre residents and businesses pay a 10% UUT on electricity, gas, sewer, telephone (including cell phone and long distance), trash (sanitation/solid waste) and cable television; while water and sewer is taxed at a 9% rate.

What is the current Utility User Tax rate?

The current voter approved law allows the UUT rate to be set at no greater than 12%. However, the tax is currently collected at a 10% rate (9% for water and sewer) because the City Council has taken action to impose a rate lower than the voter approved rate.

What does the <u>current</u> law (Ordinance) provide?

In April 2008, the voters approved an increase in the UUT by approving *Measure U*. The Ordinance allowed for an increase from the base amount of 6% to 8% in July 2008, to 10% in July 2009 and to 12% in July 2010. The Ordinance provides for a 12% UUT rate until June 30, 2014. After July 2014 the UUT will decrease to 10% and 8% on July 2015 and 6% on July 2016. This decrease is referred to as the "Sunset" clause. (*Reference: Ordinance Section 3.36.180*) However, the Ordinance permits the City Council to establish a lower than maximum rate – an action the City Council has taken for three fiscal years: 2010, 2011, and 2012. (*Reference: City of Sierra Madre FY 2011-2013 Biennial Budget*)

So, the current UUT collection rate will "sunset," or diminish to 6% by June 30, 2016, unless *Measure 12-1* is approved by the voters on April 10, 2012. However, if *Measure 12-1* fails, electricity, gas, water, sewer, telephone (cell, land or long distance), cable, and trash utilities will be taxed at the 6% after June 30, 2016.

What does the proposed Measure 12-1 provide?

If approved by the voters, *Measure 12-1* will provide for a decreased maximum voter approved UUT rate of 10% until July 1, 2013. On July 1, 2013, the maximum UUT rate is 12%, a rate

that will continue until June 30, 2018. On June 30, 2018, the maximum UUT rate will begin to "sunset" by decreasing to 10%, followed by decreases to 8% on June 30, 2019 and 6% on June 30, 2020, unless voters approve an extension of the higher rates. However, the City Council would retain the ability to impose a lesser UUT rate.

How does the Utility User Tax support City services?

The UUT is a General Fund revenue source which funds general City services such as Police, Fire, and Paramedic public safety services. In FY 2010-2011, at the 10% tax rate, the UUT provided \$2.4 million in revenue (31% of total General Fund Revenues) and the City spent \$5 million on public safety services. The UUT "increase" (the amount collected above the 6% base) amounted to \$1.4 million, but more than \$1.4 million was allocated to public safety - \$500,000 was used for Paramedic services and \$1.4 million was used for staffing and salary enhancements to Police and Fire services.

Because of the increased UUT, our Police Officers were provided salary increases of 9% for sworn officers and 4% non-sworn officers in 2008; 8% for sworn officers and 3.5% for non-sworn officers in 2009; and 7% for sworn officers and 3% for non-sworn officers in 2010; no other city employees were given these salary increases. Even with the increase in Police Officer salaries, our Police Officers are still at the bottom of salary surveys for the San Gabriel Valley. Without the continuation of the UUT increase, the Officers would still collect their current salaries, but there would not be adequate funding to continue to pay their salaries, necessitating a cut-back in services in the Police Department or elsewhere within the City.

Additionally, because of the increased UUT, the City will be able to continue to fund the \$500,000 in Paramedic enhancements. Prior to 2007, the City did not have advanced life support, i.e. a paramedic program. In 2007, a paramedic program was implemented, but there wasn't adequate funding identified to maintain the program after 2009. (The program was initially funded from the sale of an unused Fire Station in the Canyon area of Sierra Madre, but these were one-time proceeds of the sale, and the funds were exhausted in 2009.)

How will a "yes" vote on Measure 12-1 affect Sierra Madre's Utility User Tax?

- The taxes imposed by *Measure 12-1* will lower the maximum collection rate to 10% for FY 2011-2012 and FY 2012-2013;
- Commencing on July 1, 2013, the maximum taxes allowed by *Measure 12-1* will be 12%;
- Will allow for the maximum collection rate of 12% through June 30, 2018 when the collection rate maximum will begin to "sunset" by decreasing to 10% unless re-voted upon by the voters;
- This rate decreases further to 8% on June 30, 2019, and eventually decreases to 6% on June 30, 2020;
- The City Council in any given year may set a lesser rate on or before August 1st of any year;

How will a "no" vote on Measure 12-1 affect the current Utility User Tax?

If *Measure 12-1* is not approved, the current, maximum voter approved 12% Utility Users Tax (UUT) will remain in place through June 30, 2014. After June 30, 2014 the maximum collection rate will begin to "sunset" by diminishing 2% each June 30th, until it reaches the base rate of 6%. (*Reference: Ordinance Section 3.36.180*) The taxable utilities remain unchanged regardless of the collection rate. The loss of revenue will have significant impacts on the City's ability to meet its expenditures and will result in service reductions in order to maintain a balanced budget.

What is Measure 12-2?

Similar to *Measure UA* that was passed in 2008 with *Measure U, Measure 12-2* allows voters to ask that the City Council use the additional tax generated by the UUT to fund the General Fund's Public Safety Services' budgets, including maintaining the Paramedic programs.

How will a "yes" vote on Measure 12-2 affect the current Utility User Tax?

Measure 12-2 was added to the ballot to allow voters an opportunity to advise the City Council regarding what areas of the City's General Fund budget to increase, relative to increases in the UUT revenues; thus providing valuable input on the voters' preference.

What accountability do voters have?

Annually, the City Council appoints a five member citizens UUT Oversight Committee along with the Elected City Treasurer that review the use of the increased UUT revenues. The 2008, 2009 and 2010 UUT Oversight Committees have all concurred that the voter's intent regarding the use of the increased UUT revenues was followed. The voter's intent was provided by the passage of *Measure UA* in 2008, which stated that the increased UUT revenues should be used for Public Safety Services. (The 2011 UUT Oversight Committee members have been appointed by the City Council to review the FY 2010-2011 revenues and expenditures, but the Committee has not completed its review as of the date of this publication.) The requirement for an Oversight Committee remains unchanged regardless of a "Yes" or "No" vote on either *Measure 12-1* or *Measure 12-2*. (*Reference: Section 3.36.230 Oversight Committee*)

How much does the UUT cost the average household?

The amount actually paid by each household will vary depending upon the utilities used by the household. Based upon average residential utility usage, a typical household will pay an average of \$9.00 more per month, or 30 cents more each day, for each 2% change in rate.

The chart below provides a quick summary.

	Avg.							
Utility	Mont	hly Bill	6% UUT		8% UUT	10% UUT	:	L2% UUT
Phone/	\$	120	\$ 7.20	\$	9.60	\$ 12	\$	14.40
Electricity	\$	125	\$ 7.50	\$	10.00	\$ 13	\$	15.00
Natural Gas	\$	45	\$ 2.70	\$	3.60	\$ 5	\$	5.40
Water	\$	46	\$ 2.76	\$	3.68	\$ 5	\$	5.52
Sewer	\$	22	\$ 1.32	\$	1.76	\$ 2	\$	2.64
CATV	\$	56	\$ 3.36	\$	4.48	\$ 6	\$	6.72
Refuse	\$	26	\$ 1.56	\$	2.08	\$ 3	\$	3.12
	\$							
Total	440		\$ 26	\$	35	\$ 44	\$	53
Average change per househo	\$ 9	9						

What percentage of the UUT is paid to the City?

100% of the Utility Users Tax (UUT) collected on your utility bill is paid to the City; unlike property tax and sales tax where the City receives only a small portion of the total taxes paid.

Are Non-Profit and Religious Organizations exempt from paying the UUT?

No, they are required to pay the Utility User Tax on the taxed utility services they use.

Are low-income households exempt from the UUT?

Yes, pursuant to the existing UUT Ordinance, households that qualify as very-low-income and low-income (using HUD income guidelines) are exempt from paying the Utility Users Tax (UUT). This section of the City Ordinance remains unchanged, regardless of a "Yes" or "No" vote on either *Measure 12-1* or *Measure 12-2*. (*Reference: Section 3.36.200 Exemptions*)

What is the income limit to qualify for the tax exemption?

The City will use the income limits as established for state and federal programs, <u>Department of Housing and Urban Development-*Section 8 Housing Income Limits</u>. The income limits vary depending upon the size of the household. For example a single person household is considered low-income if the person's income does not exceed \$47,250, while the low-income limit for a family of four is \$67,450 (<u>2012-Income Guidelines</u>; Los Angeles County Community Development Commission, December 15, 2011).

How do I apply for the exemption?

The City will process annual exemption applications for low and very-low-income households and the City will assist in notifying utility providers of the exemption. The City may require supporting documentation, such as, proof of income to qualify households for the exemption.

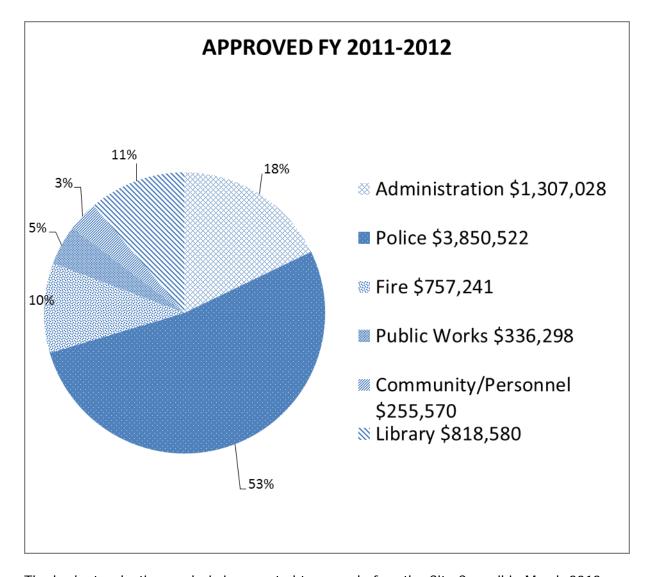
This section discusses the City's Budget and other questions that have been asked.

Why does the City need the additional funding, and why can't the City just "tighten their belt"?

In 2007, a citizens' Ad-Hoc Finance Committee investigated this very question and concluded that there was no feasible way to generate enough money to provide raises to our Police Officers and to continue providing Paramedic Services by reducing City expenses -- without drastic impacts in City services. The Ad-Hoc Finance Committee recommended that the City Council place a revenue measure on the April 2008 ballot. The revenue measure was the current UUT which included modernizing the telephony section to include cell and wireless technology; adding sewer, cable and trash to the existing taxable utilities; and finally, increasing the collection rate from 6% to 12% over a three year period. Since 2008, the City's budget has reflected an increase in Police, Fire and Paramedic program expenditures that exceeds the increase generated by current Utility User Tax by more than \$400,000.

In the City's 2011-2013 General Fund budget, City Council set the UUT tax collection rate at 10% (the maximum rate permissible is 12%). The City originally had a shortfall of over \$1,000,000. Staff recommended cuts in expenditures in excess of \$900,000 which included more than \$300,000 in Police department reductions. Further reductions in expenditures are expected to have service reductions in General Fund departments, such as the Library and Recreation services.

In December 2011, the California Supreme Court upheld AB 1X 26 which will put an end to the City of Sierra Madre's Community Redevelopment Agency (CRA) and \$1.3 million in property tax income to the City. The financial impact is estimated to be \$800,000 annually. The City Council has asked staff to identify further expenditure reductions to make up the shortfall. The City Council will be determining which services will be reduced or eliminated in order to balance the City's budget. The difficulty facing the City and its residents is that the expenditure reductions amount to approximately 10% of the General Fund annual budget, but 63% of the City General Fund expenditures belongs to public safety. The chart on the next page shows the current allocation of General Fund expenditures. *Note: Chart does not include Paramedic Subsidy of \$500,000.*



The budget reduction analysis is expected to come before the City Council in March 2012.

How is the increase in UUT compared to the increase in Public Safety (2008's Measure UA) determined?

The total UUT collected for Fiscal Year 2007-2008 serves as the "base year" for UUT revenues and this base year amount is compared to each successive year. Fiscal Year 2008 is also used as the base year for General Fund Police and Fire expenditures and this base year amount is compared to each successive year's expenditures. In addition, the full subsidy to the Paramedic Program is considered (in the chart below the 2008 Paramedic Subsidy actuals are shown as zero, because in this year the subsidy was paid from one-time funding source from the sale of Fire Station 2—refer to the top of page 2).

Increase in UUT Revenues				Public Safety Costs					
<u>6[30[2011</u>					<u>6 30 2011</u>				
2008 Actuals	Audited Actuals	<u>Change</u>			2008 Actuals	Audited Actuals	<u>Change</u>		
\$1,167,061	\$2,410,561	\$1,243,500		Police	\$2,558,091	\$3,860,737	\$1,302,647		
	\$400,000	\$400,000		Fire	\$476,912	\$651,796	\$174,884		
		\$1,643,500		Paramedic Subsidy*	\$0	\$480,572	\$480,572		
^ Note: City Council recognized that the UUT increase brought in		TOTAL	\$3,035,002	\$4,993,105	\$1,958,103				
an additional \$400,000 than expenses in 2010 and carryovered this									
amount to be used to keep the UUT for increasing to 12%.									

So, for the actual example above, the total "increase" in UUT revenues is \$1,643,500, which is compared to the total increase in Public Safety costs of \$1,958,103. For the year ended 6/30/2011, the City spent \$300,000 more than the increased UUT revenues; demonstrating that the voter's intent in passing 2008's *Measure UA* was strictly adhered to.

How is the City Council and public assured that the funds are spent appropriately? The City of Sierra Madre completes an annual audit of its financial records. These audits are presented to the City Council and the UUT Oversight Committee for discussion. The 2008, 2009 and 2010 UUT Oversight Committee members have concurred that the voter's intent (2008's Measure UA) was adhered to with respect to the City's use of the UUT increase for these fiscal

What is the difference between Unrestricted and Restricted funds?

years. These reports are available at City Hall for public viewing.

Unrestricted funds (also called General funds) are the only funds that the City Council has complete authority to allocate for any governmental service or program the City provides. Unrestricted funds are used to pay for general city services such as public safety salaries and benefits, library services, and recreational services. By contrast, restricted funds are designated to pay for specific city services or projects and cannot be used for any other purpose. For example Water enterprise funds must be used for the Water Department and cannot be used to pay for Library staff salaries, and grant funds can only be used to pay for the specific projects approved by the granting agency.

Questions?

If you have any questions, or would like additional information, please contact the Administrative Services Department at (626) 355-7135, or visit the City's website at www.cityofsierramadre.com.