

Fiscal Impact Analysis of Utility Users' Tax Initiative (Elections Code Section 9212)

Title of Initiative: “*Stop the Utility Users' Tax (“UUT”)*”

*Analysis Prepared by:
City of Sierra Madre Staff*

Introduction

Two Sierra Madre residents, Mr. Earl Richey and Mr. David McMonigle (Proponents) have circulated a petition to have an initiative measure entitled, "*Stop the Utility Users' Tax*" placed on the ballot in an upcoming election. On January 12, 2016, the Sierra Madre City Clerk presented her certification to the City Council that a sufficient number of valid voter signatures had been collected in order to place the initiative measure on the ballot.

At that time, the City Council had two options:

- 1) Pursuant to Elections Code (EC) Section 9212, order a report analyzing the impact of the ordinance on municipal operations. Staff must present the report no later than 30 days after it is ordered by the City Council. When the report is submitted to the City Council, the City Council shall order an election.
- 2) Pursuant to EC Section 1405(b), submit the ordinance, without alteration, to the voters at the General Municipal Election to be held April 10, 2018, direct the City Clerk to cause publication of the entire text of the proposed ordinance in the sample ballot.
- 3) Should the Council decide to forgo the ordering of a report analyzing the impact of the ordinance on municipal operations (Pursuant to EC 9212), the Council had the option of scheduling a special meeting, prior to January 15, 2016 to adopt the necessary resolutions to place the matter on the April 12, 2016 ballot and direct the City Clerk to cause publication of the entire text of the proposed ordinance in the sample ballot. The City Clerk would need to establish deadlines for preparation of ballot arguments and rebuttal arguments.

On January 12, 2016, the City Council selected Option 1, and referred the initiative to staff for preparation of a "30-day report" as outlined in Elections Code Section 9212 for an analysis on the impacts and effects of the initiative ordinance and deferred the decision on the date the initiative would go before the voters. If the Council had not referred the initiative for preparation of the 30-day report, per the City Clerk, there was inadequate time to place the matter on the April 12, 2016 ballot. Additionally, the Proponents did not request a Special Election and pursuant to the Elections Code, the Initiative would be placed on the April 2018 municipal election, unless the Council calls for a special election.

This 30-day report was prepared by City staff and the City Attorney, and discusses the impacts and effects of the initiative pursuant to Elections Code Section 9212. The 30-day report was presented to the City Council on February 9, 2016, within the 30-day time frame.

This report has since been edited and updated to include information on the City's current finances and staffing levels.

Full Text of the Initiative

“Stop the Utility Users’ Tax (“UUT”)” initiative, referred to herein as the “The Initiative”

Stop the Utility Users’ Tax (“UUT”)

THE PEOPLE OF THE CITY OF Sierra Madre DO ORDAIN AS FOLLOWS:

Section 1. Findings and Declarations

WHEREAS, the people of the City of Sierra Madre find and declare that federal, state and local taxation has reached confiscatory levels; that unrestrained spending and regulation at all levels of government, are excessive, improvident, contrary to our rights as a free people and are thereby destructive of Life, Liberty and the pursuit of Happiness; and

WHEREAS, it is the intent and purpose of this initiative that the current City of Sierra Madre utility taxes be repealed.

Section 2. Name of Measure and Effective Date

This measure shall be known as the Stop the Utility Users’ Tax and shall become effective as provided by law.

Section 3. Repeal of Utility Tax

The existing Utility Users Tax as set forth in Chapter 3.36 of the Sierra Madre Municipal Code is repealed in its entirety.

Section 4. Severability

The provisions of this initiative are severable. If any provision of this measure or application thereof is held invalid, that invalidity shall not affect other provisions or applications if they can be given effect without the invalid provision or application.

What the Initiative Does – From the Impartial Analysis

The City Attorney's Impartial Analysis of the Initiative states:

Residents of Sierra Madre currently pay a Utility Users Tax (UUT) for water, gas and electricity service. The current rate is 10%, which was approved by 71.5% of Sierra Madre voters in April 2016. The UUT is a general tax, where revenues are paid into the City's General Fund. General Fund revenues are budgeted by the City Council annually for general City services, such as police and fire protection, 9-1-1 emergency response, paramedics, parks, libraries, and street maintenance and repairs. If approved by a majority of Sierra Madre voters, Measure "D" would amend the City's Municipal Code by repealing the UUT on gas, electric and water service in its entirety.

This measure is on the ballot because a number of residents circulated a petition and obtained sufficient signatures to qualify for the ballot under California Elections law. Therefore, the City Council placed this Measure on the ballot. If the measure is approved, the General Fund will no longer receive UUT revenues resulting in a loss of approximately \$2.6 million per year, representing a loss of 24% of the City's annual General Fund budget. The UUT is the City's second largest source of General Fund revenue (24%) after property taxes.

If the UUT is repealed, there would be a significant impact on the City's ability to provide services and programs at current levels. The City Council will have to decide, as part of the budgeting process, whether alternative revenues can be found, or whether City services and programs will have to be reduced or eliminated. Options to offset this potential revenue loss were considered in the Elections Code Section 9212 report approved by the City Council on February 9, 2016 which included: contracting out police services; eliminating locally controlled paramedic program; reducing Planning counter services to 2 hours per day, four days a week; reducing sidewalk and street repair and maintenance, eliminating most City special events, City programs and Senior programs; and reduce library program and hours by 50%.

For a more detailed discussion of the potential impacts of Measure "D", we refer you via the hyperlinks below to the Staff's impartial reports to the City Council. February 9, 2016 Report:

<http://cityofsierramadre.hosted.civiclive.com/common/pages/DisplayFile.aspx?itemId=2547338>

Measure "D" requires simple majority approval of the voters to pass.

A "Yes" vote on Measure "D" will repeal the Utility Users Tax, and eliminate the General Fund revenue source.

A "No" vote on Measure "D" will not repeal the Utility Users Tax and will maintain the existing tax and the General Fund revenue source it provides.

Financial Impact

Total UUT Revenue Loss

At the current UUT rate of 10%, the City's Fiscal Year 2017/2018 Budget estimates a total of \$2,600,000 will be collected which is 24% of the City's entire General Fund budget. Using the current fiscal year as an example, if the voters approve *Stop the Utility Users' Tax*, the \$2,600,000 in revenue will not be received, and it will be necessary to reduce expenditures or increase revenues to achieve a balanced General Fund budget.

Addressing the Financial Impact

As explained in this report, the financial impact on the City's overall General Fund budget is significant. This fiscal year, the UUT is projected to provide 24% of General Fund Revenues as the second largest General Fund revenue source. In order to balance the General Fund budget, due to the loss of UUT revenues, all General Fund activities and services would need to be scrutinized to determine the most appropriate activities to be eliminated, contracted out, or reduced.

No Action Option

The option to take no action would require that the City fund the \$2.6M revenue loss by using General Fund Reserves. The estimated 2017-18 Fiscal Year funds available in the General Fund (General Fund Reserves) including committed, unassigned and assigned reserves is \$6,658,475. If no action is taken to reduce expenditures or to find a replacement revenue, reserves would be used in the amount of approximately \$2,600,000 annually. At this amount, the City's reserves would be fully depleted in two and one half years. Additionally, there would be no funding for emergencies, such as natural disasters. The City Council prioritized a 50% reserve fund balance policy in order to ensure the government can respond in the case of emergencies and natural disasters. "No action" is not a sustainable option.

Reduce Operating Costs Option

The City could reduce General Fund costs to offset the loss of UUT revenue. The magnitude of a \$2.6 million reduction is significant; the options for reducing costs are limited to *general fund* departments—departments such as public safety, which are critical to the health, safety, and well-being of Sierra Madre residents. The "reduce" option would result in major service level disruptions and significant changes in how services are provided, such as contracting or outsourcing city operations.

Generate Additional Revenue Option

A third option of addressing the revenue loss resulting from the passage of the Initiative would be to enact new revenue enhancement measures. These options are likewise limited, with most revenue sources requiring voter approval prior to implementation.

Should expenditure reductions, revenue enhancements, or some combination of the two be insufficient to equal the loss in UUT revenues (\$2,600,000), the inevitable result will be the eventual depletion of General Fund reserves, potentially leading to disincorporation or bankruptcy.

Potential Impact on City Operations (Reduction of Expenses)

General Fund-Restricted Funds

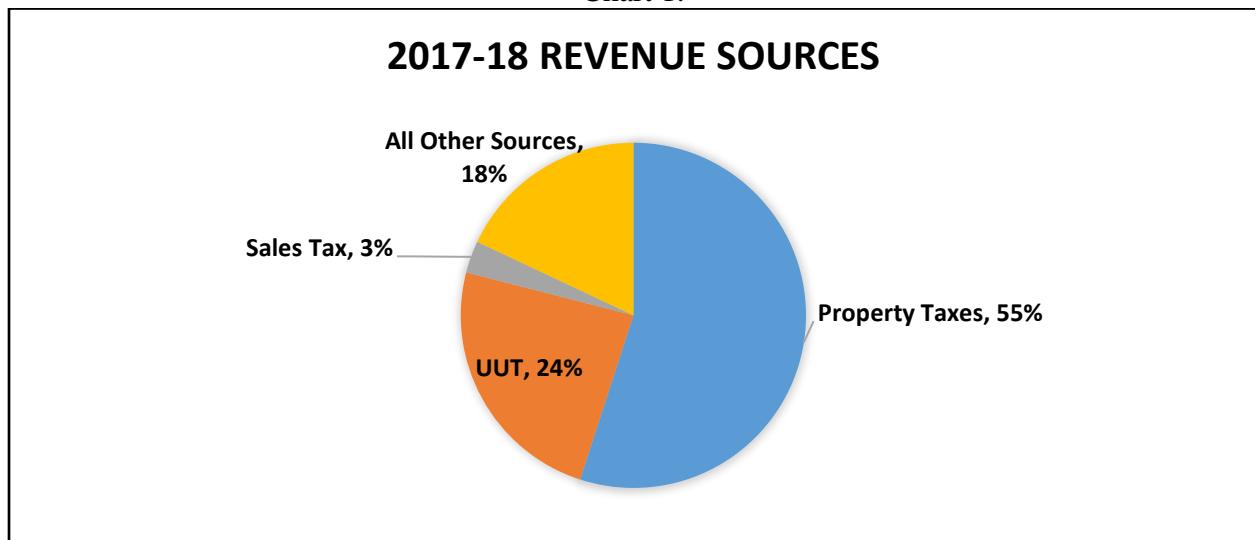
The City's fiscal year begins on July 1st and ends on June 30th. The current fiscal year began on July 1, 2017 and ends on June 30, 2018. The current fiscal year budget numbers are used throughout this report whenever possible because they reflect the most accurate financial information available at this time and they reflect the City Council's current, approved financial direction, programs and policies.

It may be helpful to explain what is meant by the General Fund, since the term is used frequently in this report. There are General Funds and Restricted Funds. Any services that cannot be funded with Restricted Funds must be funded with General Funds. Restricted Funds, as the term implies, may only be used for specific, restricted purposes. Restricted Funds are not available to be used for any purpose the City Council desires. Examples of Restricted Funds include: Gas Tax, Proposition A, Proposition C, Water Revenue, Sewer Revenue, and grant funding that cannot be used to fund anything other than what the grantor designates. Some Restricted Fund uses are designated by the voters (Gas Tax, Proposition money); while other Restricted Funds can only be used for the purpose for which they are collected (Water or Sewer Funds). For example, Water Funds, collected on residents' water bills, cannot be utilized to fund the purchase of a fire engine or funding of police services; these funds can only be used for water related purposes.

General Funds can be used for any municipal purpose. General Funds can be used for the general operations of the City and to fund basic City services such as Police, Library, Fire, and recreational services. Examples of revenue sources for General Funds include: Property Taxes, UUT, Sales Taxes, Fees, and Business Licenses. Sierra Madre is dependent upon Property Taxes and UUT for more than 79% of its General Fund revenues, unlike other cities that receive more revenues from Sales Taxes. Sierra Madre receives less than 3% of General Fund revenues from Sales Taxes.

Chart 1, below, provides a summary of General Fund Revenue sources.

Chart 1.



Measure D: Stop the Utility Users' Tax Initiative, Updated Fiscal Impact Analysis

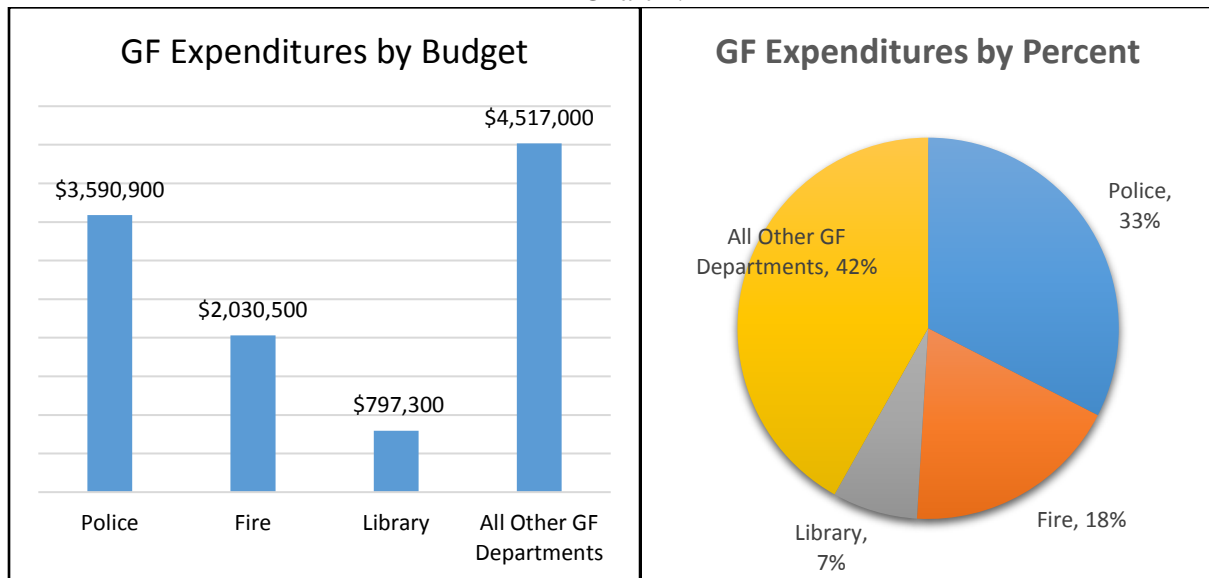
The City's total budget for Fiscal Year 2017-2018 is \$24,169,400; of this amount \$11,035,700 is from the General Fund, all other resources are in Restricted Funds (Special Revenue Funds, Internal Services Funds, Enterprise Funds, Capital Projects Funds, and Successor Agency Funds). Nearly 54% of the City's budget is found in Restricted Funds; 46% comes from the General Fund.

The City's General Fund revenues are limited relative to the budget as a whole, because of this every effort is made to reduce or eliminate General Fund expenses, or to fund services under Restricted Funding sources, to the extent allowed by law. Many staff positions and operational costs are fully- or partially-funded through Restricted Funds. Only those staff positions and operational costs that cannot be provided under Restricted Funds are allocated to the General Fund.

The UUT is a General Fund revenue source, and as such, it is necessary for reductions in City operational costs to come from the General Fund. Savings realized through reductions in Restricted Fund expenditures cannot be transferred to General Fund uses; and to the extent possible, eligible City operational expenses have already been allocated to Restricted Funds. This means that the \$2.6 million in reductions needs to be taken from the \$11,035,700 General Fund portion of the budget. Instead of an across-the-board reduction, the reduction in expenditures necessary to meet \$2.6 million in lost revenue, will equal a 24% reduction from the General Fund.

As noted, in Chart 2 below, the largest single area of expenditure from the General Fund is for the Sierra Madre Police Department which expends \$3,590,900, 33% of all General Fund revenues. The other large departments in the City's General Fund include the Fire Department (\$2,030,500 General Fund expenditures, 18%), and the City Library (\$797,300 General Fund Expenditures, 7%). In total these departments are responsible for \$6,418,700 of the total General Fund uses of 11,035,700 or 58%. Public Safety (Police and Fire) combined account for more than \$5.6M or 51% of the total General Fund budget.

Chart 2.



Considering the possible financial impact if the UUT is eliminated and the need to balance the budget, reducing General fund expenditures by \$2.6 million could mean the entire elimination of

some departments, and/or significant service level reductions, or changes to the way City services are provided (such as contracting City services to achieve savings).

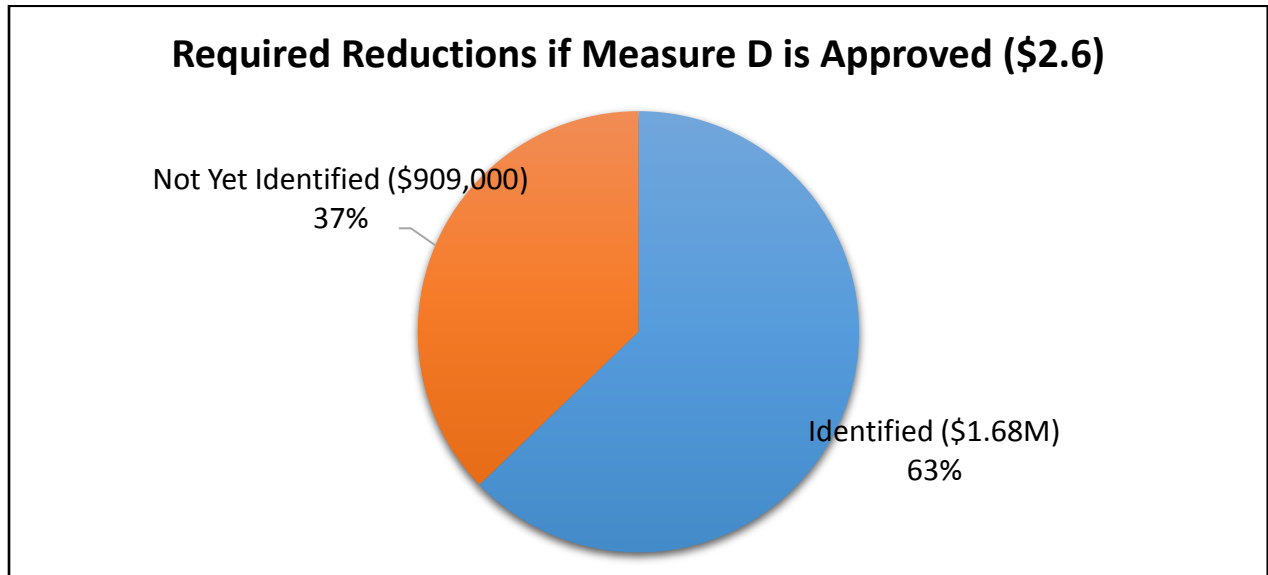
Obtaining a reduction in General Fund Expenditures of \$2.6 million, while preserving all Public Safety services would necessitate a 48% reduction in all General Fund expenses outside of Police and Fire. Unfortunately many of the costs outside of Public Safety departments are not discretionary and include items like State mandates, debt obligations, capital outlays, and maintenance and operations. **A reduction of \$2.6 million to the General Fund while keeping Public Safety intact is not possible.**

The next section of this analysis provides an explanation, including the financial impacts of possible cost reduction measures. If the UUT Repeal Measure is approved, and funding from the City's General Fund is eliminated, the City Council will determine if some, or all, of the proposed reductions should be enacted.

Financial Impact Analysis of the General Fund

The figures (Figures 1-4), starting on page 9 below, shows the dollar reduction for Police, Fire, Library, and Community Services as well as the revenue which would be lost with the changes to each department. In total the reductions, accounting for lost UUT revenue, and displayed in Chart 3 below, in these departments would be approximately \$1,687,000. This is determined by subtracting the total potential estimated lost revenue (\$909,000) from the total saved by reducing services (\$2,596,000). If each of these reductions is enacted, the total savings to the General Fund will be \$1,687,000. The remaining necessary reductions of \$913,000, represent nearly 9% of the General Fund budget, and would be distributed across the General Fund departments. This distribution would mean, in addition to the reductions outlined below, all other General Fund departments would need to reduce expenditures by more than 20%.

Chart 3.



Financial Impact Analysis of Reductions to General Fund Departments: Police, Fire, Library, and Community Services

Sierra Madre Police Department

The reductions to the Police Department, outlined in Figure 1 below, include eliminating 6 of the City's 10 Police Officer positions, all 4 of the Sergeant Positions, and an assumption that Police Dispatch would be outsourced eliminating all 4 full-time dispatch employees. In addition to this, a portion of the City's part-time patrol officers would also be laid-off as necessary, based on the \$909,000 in cuts which are not yet identified and may not be able to be absorbed by other means.

These changes would reduce Police patrols by more than 60%. Currently the City is patrolled by 2 officers and 1 Sergeant every day, 24 hours a day. Moving forward with these reductions would mean 1 officer will patrol the city with no assistance, backup, or supervision.

Due to these staffing reductions necessitated by loss of UUT revenue, the City would also lose two additional revenue sources that the Police Department presently relies upon. The first additional revenue source is the State Public Safety Augmentation grant which is awarded to the City and transferred into the General Fund. This grant requires a "maintenance of service" of police operations meaning it cannot supplant funds already being spent on service or "fill-in" for reduced funding. The second area is the expected lost revenue from parking permits as well as citations which officers write, resulting from loss of enforcement due to personnel reductions. Traffic enforcement, parking enforcement, and other items which could be cited will not rise to primary importance for an officer's patrol should the City go from 3 sworn personnel patrolling at all times to 1 sworn personnel patrolling in Sierra Madre. It is possible some of the \$220,000 in revenues could be maintained, however, for this exercise an assumption is made the revenue would likely be lost.

After laying off 10 sworn personnel, dramatically reducing patrols and enforcement, and outsourcing dispatch, the total General Fund savings is anticipated to be \$1,050,000.

Figure 1.

Police Department Reductions	
Officers	\$ 670,000
Sergeants	\$ 600,000
Dispatch* (outsource)	\$ 100,000
Subtotal Reductions	\$ 1,370,000
Police Department Lost Revenue	
Public Safety Augmentation	\$ 100,000
Enforcement*	\$ 220,000
Subtotal Lost Revenue	\$ 320,000
Grand Total Police	\$ 1,050,000

Sierra Madre Fire Department:

The reductions in the Fire Department, outlined in Figure 2 below, consists of eliminating the Ambulance and EMS from the Sierra Madre Fire Department. The service reduction would eliminate the equivalent of 6 Fire Fighter-Medic positions. If these services were provided by a contracted partner or the County, it is possible, perhaps likely, the responding ambulance would not be dispatched from Sierra Madre, which could dramatically increase response times.

Currently the Sierra Madre Fire Department provides Advanced Life Support (ALS) services to all ambulance calls and arrives in approximately 3 minutes and 30 seconds. Response times for ambulance services from outside of Sierra Madre would comply with the County response time requirements and would be no more than 8 minutes and 59 seconds.

In 2016 SMFD responded to nearly 800 ambulance calls within approximately 3 minutes and 30 seconds.

The expected revenue loss in the Fire Department comes from the loss in billing receipts paid for paramedic services as well as the cancellation of the City's "subscription" service which protects subscribers (residents) from being responsible for payments outside of what insurance covers.

After laying off all employed paramedic personnel and eliminating ambulance service in its entirety in Sierra Madre, the General Fund savings is anticipated to be \$96,000.

Figure 2.

Fire Department Reductions	
Paramedic (FY2016-17)	\$ 393,000
Subtotal Reductions	\$ 393,000
Fire Department Lost Revenue	
Paramedic	\$297,000
Subtotal Lost Revenue	\$ 297,000
Grand Total Fire	\$ 96,000

Sierra Madre Library:

The reductions in the Library, outlined in Figure 3 below, consist of reducing the operating hours to one day per week, initially, and then placing a ballot initiative on the next regularly scheduled election to close the Library entirely, as State law requires a vote of the people prior to the closure of an operating Library. During the one-day-per-week operations all activities and events would be eliminated, as well as programs focused on Science, Technology, Engineering, Arts, and Math (STEAM). In addition, the access to the Archives, collections and technology would be drastically reduced.

Due to the reductions in Library staffing, the resulting expected loss of additional revenue comes from the loss of donations, fundraisers, and the efforts of the Friends of the Library.

After laying off all full-time staff, eliminating programs and activities, and drastically reducing public access the General Fund savings is expected to be \$405,000.

Figure 3.

Library Reductions	
Operations (1 Day)	\$ 625,000
Subtotal Reductions	\$ 625,000
Library Lost Revenue	
Donations + Friends	\$ 220,000
Subtotal Lost Revenue	\$ 220,000
Grand Total Library	\$ 405,000

Community Services Department:

The reductions in Community Services, as outlined in Figure 4 below, would consist of completely eliminating the department and all full-time and part-time positions. The elimination of this department would also mean the cancellation of the following events and traditions: Mt. Wilson Trail Race and Kids Fun Run, Huck Finn Fishing Derby & Family Campout, Concerts in the Park (10 Performances), Movies in the Park (6 Films), Halloween Happenings & Downtown Trick-or-Treating; and all Summer Fun in the Park Programs. In addition, the City would no longer be able to support or sponsor the Wistaria Festival or the 3rd & 4th of July Festivities.

Due to the elimination of Community Services, the expected loss of additional revenue comes from event registrations, fundraisers, donations, sponsorships, and charges for service.

After eliminating all community events the anticipated General Fund savings is anticipated to be \$136,000.

Figure 4.

Community Services Reductions	
Dept. Elimination	\$ 208,000
Subtotal Reductions	\$ 208,000
Community Services Revenue	
Special Events	\$ 72,000
Subtotal Lost Revenue	\$ 72,000
Grand Total Community Services	\$ 136,000

Ongoing Operations with 0% UUT

This analysis provides details on potential impacts should the City lose its second largest revenue source. There may be other ways to reduce services to reach the necessary \$2.6 million, but each scenario will result in significant loss of services to the community. The cuts to the various departments are so severe that the departments are either eliminated like Community Services, or reduced to such a significant extent, like Police and Fire, that the proper organizational controls and oversight are no longer feasible, which could lead to increased liabilities in the long-term, and potentially no longer complying with state mandates or other governmental or contractual requirements.

After implementing all of the options above, an additional \$900,000 in reductions would still be necessary, causing an additional 20% reduction in all other General Fund departments. Furthermore, costs will continue to increase and the City will need to continually look for ways to reduce expenditures or find another revenue source. Should expenditure reductions and/or revenue enhancements fail to meet the loss in UUT revenues, the inevitable result will be the eventual depletion of General Fund reserves, potentially leading to disincorporation or bankruptcy.