



City of Sierra Madre Agenda Report

John Capoccia, Mayor
Gene Goss, Mayor Pro Tem
Rachelle Arizmendi, Council Member
Denise Delmar, Council Member
John Harabedian, Council Member

Nancy Shollenberger, City Clerk
Richard Mays, City Treasurer

TO: Honorable Mayor Capoccia and Members of the City Council

FROM: Elaine I. Aguilar, City Manager 

DATE: September 22, 2015

SUBJECT: **Recommendations from the Revenue Committee**

SUMMARY

In July, the City Council created three special Committees to provide input into the City's current deficit budget situation. The Council created a Committee to evaluate contracting Police services, another Committee is evaluating contracting Library services, and the third Committee was tasked with evaluating the City's current general fund revenue options. The Revenue Committee has completed their assignment and their final report is attached for the Council's consideration.

It is recommended that the Council review the attached report and provide direction to staff or the Committee.

ANALYSIS

The City Council appointed a seven member Revenue Committee, and membership consisted of:

Chair Edward Garcia
Vice Chair Barry Gold
Member Patrick Holland
Member Paul Savoie
Member Daker Staggs
City Treasurer Richard Mays
Council Member John Harabedian

The Committee met on 5 occasions (July 27th, August 6th, August 25th, September 9th, and September 16th.) Committee agendas were posted on the City's website and the meetings were open to the public.

Over the five meetings, the Committee reviewed a significant amount of information regarding City revenues, expenditures, proposed budget reductions, historical revenues, other cities' revenue sources, and other information. A summary of the

information is included in the Committee's report. At the conclusion of the Committee's research, they have recommended that the Utility Users Tax, at a maximum rate (meaning the Council can designate a lower rate) of 12%, be placed before the voters. The Committee report makes a number of other recommendations and findings for the Council's consideration. Members of the Committee will be in attendance at tonight's meeting, should the Council have questions.

FINANCIAL REVIEW

There are no financial impacts associated with the City Council's consideration of this report. However, the future preparation of an ordinance for consideration by the voters will incur staff and City Attorney time. In addition, the cost of the April 2016 Municipal Election is included in the City's FY 2015-2016 Budget.

The current fiscal year's budget (FY 2015-2016) is projecting a \$529,527 General Fund deficit and General Fund Reserves are being used to close this gap. The next fiscal year's budget is projected to have a deficit of \$994,474, if no expenditure reductions are made, and/or no new revenue source is approved.

PUBLIC NOTICE PROCESS

This item has been noticed through the regular agenda notification process. Copies of this report are available at the City Hall public counter, the Sierra Madre Public Library, and the City's website.

ALTERNATIVES

The alternatives are:

1. The City Council could review and discuss the Revenue Committee's recommendations and provide direction to staff and the City Attorney.
2. The City Council could review and discuss the Revenue Committee's recommendations and request that the Committee conduct further study or evaluation.
3. The City Council could take no action at this time, and either direct staff to place this item on a future agenda, or receive and file this report.

STAFF RECOMMENDATION

It is recommended that the City Council provide staff with direction.

City of Sierra Madre Revenue Committee Report

September 16, 2015

The Formation and the Charge of the Revenue Committee

The first priority of the Revenue Committee was to evaluate the current city funding issue. The second priority was to specifically study the Utility Users Tax or UUT as it is referred to. The UUT is the second largest source of revenue currently contributing to the city's general fund. This committee has been charged with the task of analyzing the current mechanisms of revenue and investigating possible new sources. The third priority of the committee was to review the impact of the loss of revenue due to the sunset clause of the UUT. This topic included a discussion of possible cuts to services and possible alternatives. This required careful examination of numerous expenditure and budget documents concerning the general fund. Finally, the committee has formed and will present recommendations to the city council for consideration concerning these matters. These recommendations will offer possible solutions to the deficit caused by the loss of the revenue from the UUT.

Summary and Recommendations

This special revenue committee has been charged with the task of making recommendations to the City of Sierra Madre City Council for actions in light of the projected budget shortfalls. It is our understanding that these projected budget shortfalls are due to the decrease in revenue from the sunseting of the Utility User Tax on July 1, 2015. There will be a projected shortfall of \$529,527 in the Fiscal Year 2015-2016 and a projected shortfall of \$994,474 for Fiscal Year 2016-2017.

The committee recommends the following:

- Raise the Utility User Tax ("UUT") limit from the current sunset provisions to a maximum of 12%.
- The Council carefully consider whether or not a UUT sunset clause is necessary since our current experience with a sunset clause has shown to be detrimental to one of the primary revenue sources of the city.
- Continue an annual review of the UUT by the Council at a Council meeting to determine what the level of the UUT must be for the upcoming year to meet projected obligations (0% to 12%).
- Continuance of a UUT oversight committee to review the Council's use of funds.
- Begin an immediate public education program in regards to historical revenue and expense data, sources of revenues and expenditures, and general trends in city finance.
- Include a maximum UUT increase from year-to-year of 2%.

- The Council will provide recommendations of a “Plan B” should an increase in the UUT ballot measure fail. The council will recommend where further cuts to city services should be made. The council should have recommendations ready to be put in place the beginning of the 2016-2017 Fiscal Year. This recommendation is to avoid further depleting city monetary reserves.

Additional findings and recommendations of the committee:

- Although the committee was formed to provide recommendations to the Council regarding revenues to the General Budget and the year-to-year funding, we recognize that the city will have to address funding infrastructure in the near future.
- The current policy of allocating a relatively small amount of the budget for some of the repairs is not a sustainable model to address the current state of the infrastructure in Sierra Madre.
- Following this current election cycle, we suggest an ad-hoc committee be formed in order to provide recommendations to the council regarding funding sources to deal with the poor state of the City’s infrastructure.

Other topics discussed but no consensus was reached within the committee:

- Consideration of a change in the UUT exemption status from “Low Income” to “Very Low Income”.
- Coming back to the electorate to approve the level of the UUT in 10 years (i.e. a sunset clause).
- Recommending an alternative maximum in the UUT.

Facts Considered

- Public Support

On June 6, 2015, the Sierra Madre City Council hosted a town hall meeting at the fire station. The City Council and staff presented information on the current budget issues facing the city. After the presentations, the attendees were given the chance to give feedback through survey sheets. These sheets offered options for budget reductions and possible new or increased sources of revenue. On the revenue sheet the UUT was one of the choices presented to generate revenue for the city's general fund. For that area, 81% of the participants selected the UUT as a revenue option, compared to 19% that selected a revenue option other than the UUT. It is also important to note that 43% of participants selected the UUT option at rate of 10% and 57% chose the UUT revenue option at 12% rate.

- We are currently experiencing a budget shortfall.

- The UUT is the second largest source of revenue for the city.
- Sierra Madre is almost exclusively dependent on UUT and property taxes. Neighboring cities receive a relatively larger share of revenue from sales tax, assessments and parcel taxes.
- The city has already implemented significant cuts to city services.
- Approximately \$1,500,000 in cuts between FY 2011-2012 and FY 2014-2015.

Summary of Committee Work

- Documents reviewed
 - Staff Report: January 26, 2010 Utility Users Tax (UUT)
 - Municipal Finance Quick Reference
 - Understanding the Basics of County and City Revenues
 - Tallies from the June 6, 2015 Budget Town Hall Meeting
 - Staff Report: November 8, 2007 Ad-hoc Finance Committee Final Report
 - Staff Report: September 25, 2012 Sierra Madre State of the Infrastructure
 - Detail of Fiscal Year 2015-2016 Capital Projects and Projections
 - Detail of Fiscal Year 2015-2016 Capital Purchases and Projections
 - Staff Report: May 26, 2015 Fiscal Year 2015-2017 Budget Reduction Alternatives; Contracting and Service Level Reductions
 - Meeting with City Attorney
- Committee independent research on revenue sources such as parcel taxes, assessments, etc.
- Discussion of education process of the electorate regarding revenue sources including parcel taxes.

Options Considered

- UUT Increase
 - The public is familiar with the UUT.
 - Requires a simple majority to pass.
 - There already is a UUT, implementation costs are minimal or nonexistent.
 - Taxpayers have some control over their consumption choices.
 - City receives 100% of UUT revenue.
 - UUT is contingent on energy and other utility costs, which could fluctuate over the long term.
- Parcel Tax
 - Long education process.
 - Two-thirds voting requirement to pass.
 - Only applies to parcel owners.
 - Consideration of a possible funding source for future capital projects and deferred maintenance.
 - Predictable and steady revenue stream.
 - Can include a CPI increase provision.

- Other Sources Discussed
 - Sales Tax
 - Paramedic response fee
 - Library card fees
 - Raise parking fines
 - Increase in the Community Garden fees
 - Paramedic Subscription fee increase and increased outreach for the program

John Harabedian, Council Member

Richard Mays, City Treasurer

Edward Garcia, Citizen Committee Member

Barry Gold, Citizen Committee Member

Patrick Holland, Citizen Committee Member

Paul Savoie, Citizen Committee Member

Daker Staggs, Citizen Committee Member