

# City of South Pasadena

## Agenda Report

*Robert S. Joe, Mayor*  
*Diana Mahmud, Mayor Pro Tem*  
*Michael A. Cacciotti, Councilmember*  
*Marina Khubesrian, M.D., Councilmember*  
*Richard D. Schneider, M.D., Councilmember*

*Evelyn G. Zneimer, City Clerk*  
*Gary E. Pia, City Treasurer*

COUNCIL AGENDA: February 4, 2015

TO: Honorable Mayor and City Council

FROM:: Sergio Gonzalez, City Manager

SUBJECT: **Receive and File a Fiscal Analysis Report Relating to the Utility Users Tax Repeal Initiative Measure, Pursuant to Elections Code Section 9212, and Provide Direction on Placing the Initiative on an Upcoming Ballot**

### **Recommendation**

It is recommended that the City Council:

1. Receive and file a Fiscal Analysis Report relating to the Utility Users Tax (UUT) repeal initiative measure (Measure), pursuant to Elections Code Section 9212; and
2. Provide direction on placing the Measure on the November 3, 2015 General Municipal Election ballot.

### **Fiscal Impact**

There will be an additional cost if a ballot measure is added to the November 3, 2015 General Municipal Election, estimated at \$2,000. If approved by the voters, the Measure would reduce annual City General Fund revenues by approximately \$3.7 million, which represents approximately 16% of the City's overall operating revenue. To offset the loss, the City would have to reduce services and programs significantly to maintain a structurally balanced budget.

### **Commission Review and Recommendation**

This matter was not reviewed by a Commission.

### **Background**

On January 7, 2015, the City Council received, filed, and accepted the Certificate of Sufficiency of Initiative Petition for a proposed UUT repeal initiative measure (Measure). The City Council also directed staff to prepare a report, within 30 days, on the impact of the Measure, pursuant to Elections Code Section 9212. The purpose of this staff report is to present a preliminary impact analysis of the Measure on the City's finances and its ability to provide public services.

### History of the UUT

UUTs are taxes levied by local governments on the consumption of utility services, including electricity, gas, water, sewer, telecommunications, sanitation, and cable television. Unlike property taxes, UUT revenues stay 100% in the city collecting the UUT and are used to provide services such as police, fire, paramedic and library services directly to the community. The need for the UUT arose in part from the post-Proposition 13 effects on local governments. The State of California was retaining the majority of property taxes generated by cities and not returning those property taxes for use in the local community which generated that revenue. As a result, cities were forced to enact other local taxes, such as a UUT, to make up for the shortfall and to maintain community services at existing levels. Currently, there are 154 cities and 4 counties in the State of California that have UUTs.

The City of South Pasadena currently collects 7.5% UUTs on the consumption of electricity, gas, water, telecommunications, cellular telephone and cable. The City has had a UUT in place since 1983, which has fluctuated between 5% to 8% over the years. The community last considered the extension of the UUT in 2011 and voted to set the rate at 7.5% and extend the UUT until June 30, 2022.

The City offers a low-income program to exempt UUT for residents who have income, adjusted for family size, at or below eighty percent of the area median income as determined under the Section 9, Income Limits for Los Angeles County, as published by the U.S. Department of Housing and Urban Development (HUD) and applicable to the Community Development Block Grant Programs.

The UUT has continuously been approved by the community throughout its over 20 year existence. In June 2011, the Finance Committee recommended placing a UUT Reduction and Continuation Measure on the November 2011 ballot (known as "Measure UUT"), based on their study of the issue as well as a community survey (conducted by a public opinion research and strategy firm) which indicated that the community does not want to see cuts to services such as police, fire, street maintenance, senior services and storm drain maintenance. At the General Municipal Election held on November 8, 2011, Measure UUT passed by 53.9%, reducing the tax from 8% to 7.5% and extending it for ten years to June 30, 2022 (Ordinance No. 2224).

### Repeal Initiative Measure

"TeaPAC," which according to its website is "part of the broader Tea Party movement," has drafted a UUT Repeal ballot measure and has been encouraging volunteers in several cities to collect signatures to petition its placement on a ballot. This is the second attempt by TeaPAC to gather sufficient signatures in South Pasadena for this purpose, the first attempt having failed. On November 12, 2014, Pamela Ann Jensen, proponent, submitted a petition on the revised TeaPAC initiative as follows:

*Title:*

Repeal and Prohibition of Utility Users' Tax in the City of South Pasadena

*Summary:*

The general purpose of the Initiative is to:

1. Repeal the current Utility Users' Tax;
2. Prohibit the City from enacting any new Utility Users' Tax or other fee, charge or assessment regarding utility goods or services; and
3. Authorize both proponents of the Initiative, as well as parties subject to any utility users' tax, to defend the Initiative if the Initiative is approved by a majority of voters and becomes the subject of legal action.

On November 24, 2014, the signatures were delivered to the Los Angeles County Registrar-Recorder/County Clerk's Office (LACRRCC) for verification. A minimum of 5% of the total number of electors who actually participated in the last gubernatorial election (in 2010)—amounting to 518 total, was required in order to qualify the petition for submission to the ballot. This is a low threshold and the LACRRCC has verified that the petition contains the required number of valid signatures, which again was deemed sufficient by the City Council on January 7, 2015. The City Council was presented with the following options:

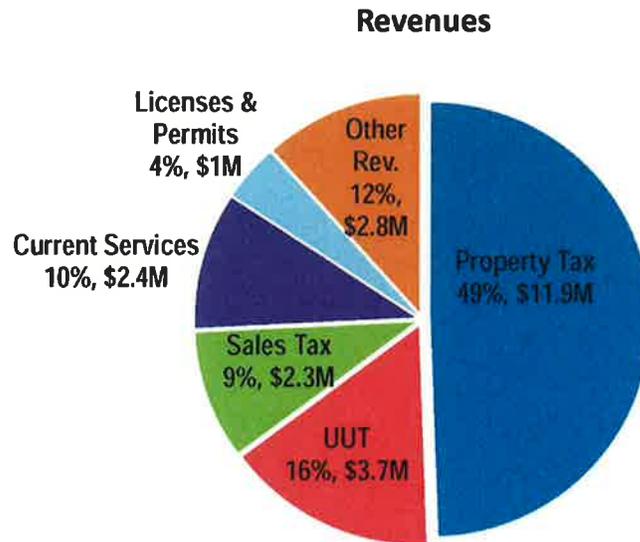
- a. Adopt the Measure as an ordinance, without alteration;
- b. Submit the Measure to the voters at the next General Municipal Election on November 3, 2015; or
- c. Pursuant to Elections Code Section 9212, order an impact analysis report on the effect of the proposed initiative, within 30 days, and defer a decision on whether to adopt an ordinance or call an election until the February 4, 2015 City Council Meeting.

The City Council opted for the final option and directed staff to return with a report on February 4, 2015, analyzing the impact of the Measure on the City's finances and ability to provide public services. The City Council may use this report as part of its consideration on whether to adopt an ordinance or place the initiative on the ballot for the next general municipal election.

**Analysis**

The UUT is the second largest revenue source for the City, after property taxes, and generates millions of dollars in City revenues each year, paying for integral services that the City provides to its 26,011 residents on a daily basis. The UUT makes up \$3.7 million of South Pasadena's operating budget of \$24 million. Many residents choose to live in South Pasadena because it offers a high quality of life and outstanding city services. UUT Funds help our City to maintain police officer and firefighter staffing levels, street and road maintenance and pothole repair, and support for senior services and programs such as meals-on wheels, all of which make South Pasadena a desirable place to live and for businesses to locate.

## GF Revenues



**FY 2014-15 General Fund Budget = \$24,124,778**

The UUT is a local tax, passed by local residents, used for local services. The City of South Pasadena simply cannot afford to lose any locally-controlled revenue at this time. The Measure, if approved, would be permanent. Therefore, only permanent spending reductions can be contemplated. If the City was forced to reduce its budget by 16%, it would be nearly impossible to avoid deep cuts to essential services.

The following sections provide an overall summary of potential impacts if the Measure were approved. The first scenario looks at an across-the-board 16% reduction for each department. The second scenario looks at what a more prioritized list of cuts would require. It should be noted in both instances that this is a very preliminary analysis of potential cuts to respond to a permanent and immediate 16% loss in revenues. Actual service cuts would require far more input and coordination with City residents, business community, labor groups and ultimately the City Council.

### Scenario One: Across the Board Reduction

A 16% loss in revenue for each City department would impact service levels throughout the City. Public safety would be reduced dramatically, social and recreational programs would be cut, the potential for claims against the City would rise, and the community would be far less aesthetically pleasing. Municipalities are service-based organizations, meaning that most of the operating costs are personnel-related. As such, the high quality customer service level to which South Pasadena residents and businesses are accustomed will be hampered in every interaction

with City Hall, from reduced hours at the planning counter to the time it takes for police and fire to respond to emergency calls. Undoubtedly, the quality of life for South Pasadena residents would be adversely affected. With reduced police response due to cuts, crime rates could rise, potentially resulting in greater and more frequent instances of loss of life or property, senior services and youth programming would be reduced, access to the library and cultural programming would be considerably reduced, city advisory commissions would dissolve due to lack of staff support, and the already aged infrastructure would further deteriorate with a loss of available funding from the general fund.

The following table summarizes impacts based on an across-the-board 16% reduction for each department’s General Fund activities.

<i>Department</i>	<i>Impact to the Community</i>	<i>Positions Affected</i>	<i>16% reduction of budget</i>
<b>Police</b>	8 police officers (FT), 1 sergeant (FT), and 1 captain (FT) eliminated; less police patrol; potential for increased crime due to lesser response with fewer personnel; slower response time; elimination of crime prevention, Neighborhood Watch, and other community outreach efforts	10	- \$1,120,000
<b>Fire</b>	6 firefighter/paramedics (FT) eliminated; significantly slower response times for fire, emergency medical services, and other emergency calls; potential for loss of life and property as a result	6	- \$649,000
<b>Public Works</b>	2 maintenance workers (FT) and 1 inspector (FT) eliminated; reduction in public works services including maintenance of city parks, facilities, and medians, trimming trees in public right-of-way and graffiti removal, all of which affect safety and aesthetics in the City; less preventative maintenance on sidewalks and streets; potential for increased public safety concerns such as fallen tree limbs and trip and fall hazards, which in turn will increase City liabilities	3	- \$292,000
<b>Community Services</b>	2 supervisors (FT) and 14 senior/recreation positions (PT) part time eliminated; elimination of children’s programs such as Camp Med; significant reduction in senior citizen services and programs; elimination of Senior and Youth Commissions; elimination of family special events such as Concerts & Movies in the Park, Spooktacular, and Eggstravaganza; additional loss in revenue from reduced programming of recreation classes	16	- \$174,000

<b>Planning &amp; Building</b>	1 planner (FT) and 1 community improvement coordinator/code enforcement (FT) eliminated; potential for increased blight, property violations, and illegal businesses in the City; counter hours limited - substantial delays for new construction inspections, plan checks, project approvals, and design reviews; elimination of Design Review Board and Cultural Heritage Commission	2	- \$152,000
<b>Finance</b>	1 analyst position (FT) eliminated; significant impacts to internal services; delays in customer service and prolonged wait time at the cashier; delays in projects citywide due to severance of grant funds if grant analyst position eliminated	1	- \$86,000
<b>Library</b>	3 librarian (FT) and 6 (PT) eliminated; Library hours reduced and closed weekends; longer wait times; fewer materials; fewer programs for residents and patrons	9	- \$314,000
<b>City Manager</b>	1 public engagement position (FT) and 2 analyst positions (FT) eliminated; reduced public outreach efforts, including e-Neighbors newsletter and social media; cessation of technology improvements; significant reduction in employee training; elimination of all activities relating to City employees	3	- \$303,000
<b>City Clerk's Office</b>	1 support position (FT) eliminated; slower response time to residents and City officials on informational and public records requests; customer service adversely affected	1	- \$60,000
<b>City Council</b>	Elimination of discretionary funds	n/a	- \$10,000
<b>Capital Improvement Program (CIP)</b>	Significant reduction in capital improvement projects, adverse affect on City infrastructure, such as streets, sidewalks, transportation mitigation issues, parks and public buildings, and storm drains; elimination of tree replacement program and reduced maintenance of urban forest	n/a	- \$540,000
<b>Total City Employee Positions Affected:</b>		<b>51</b>	<b>\$3,700,000</b>

Impact to City Personnel

The City has proven to be fiscally conservative specifically in recent years bearing in mind the last recession. In FY 2014-15, employee costs account for 62.4% of the City's General Fund expenditures. To achieve a 16% cut in the City's operating budget, at least 51 City positions would be impacted in the form of layoffs, demotions, reclassifications, changes in work status

from full-time to part-time, and reduced work hours for hourly workers, all of which directly impact the level of services which can be provided to the community.

Like most other full-service cities, public safety – police and fire/paramedics – make up half of the General Fund. In order to reduce the Police Department’s budget by 16%, which equates to over \$1.1 million, its personnel budget would be cut by 18%. A total of 10 sworn positions would be removed from the Police Department, which is approximately a third of the entire police force (sworn). Additional reductions may occur in part time positions, such as police cadets and school crossing guards. Services such as street patrol, traffic patrol, crime investigation and analysis, parking enforcement, and community crime prevention programs will be adversely impacted by the downsizing of the department.

Additionally, the department and organization will suffer great loss as skilled, capable and dedicated employees are dismissed. The personnel impacts felt in the Police Department are but one example of the upheaval that would be experienced by both employers and employees that would be felt throughout the organization. Because it is the personnel who provide the services to the community, loss of personnel will negatively impact the quality of service provided to the public.

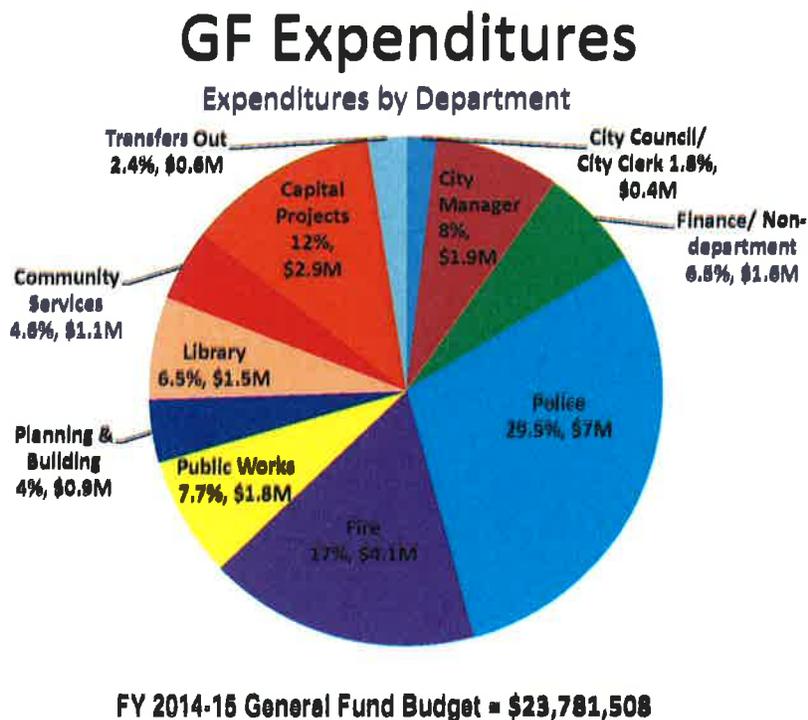
#### Scenario Two: Prioritized Reduction

Losing UUT funds would immediately place many of South Pasadena’s services at risk. The Library, parks and city facilities, all recreation and community services programming and staffing levels in all departments would be in jeopardy. Without the funding that the UUT generates, the City will be unable to maintain the essential public safety, senior, and pothole/street repair services that our community desires.

Another approach to reduce the City’s expenditures by 16%, or \$3.7 million, is to prioritize reductions based on overall community values. Certain departments, programs, and positions would be given higher prioritization than others, meaning some departments would experience impacts greater than others. Regardless of what option is chosen, it is a certainty that losing \$3.7 million in UUT revenues would translate into a significantly reduced level of customer service and public programs, job loss of dedicated City employees, and, most importantly, an overall decreased quality of life for residents of the City.

In April 2011, FM3 Research conducted a public opinion survey to gauge South Pasadena opinions on a variety of issues, including continuation of existing local UUT funding and perspectives about service priorities. The survey found that one result of overwhelming community satisfaction with the City’s quality-of-life services was that few people wanted to make any cuts to those services, even in the midst of a national economic crisis. A majority of those polled, 79%, stated that they did not want to see any cuts to firefighters or 9-1-1 emergency response times, while a strong majority also said “NO” to any cuts to police patrols, street maintenance and senior services.

Based on what is generally accepted as the community’s highest priorities – public safety – and the fact that several functions are legally mandated (City Clerk, Finance, and Planning, for instance), it is possible to illustrate just how significant the impacts would be on those departments that fall outside of this group. The graph below identifies the General Fund expenditures by department for FY 2014-15.



Suppose that the community wished to achieve a 16% cut that would avoid major impacts to police and fire and still maintain all legally required functions. To use an extreme example, eliminating the entire Community Services Department, including senior, youth and recreation services, and the entire Library Department would achieve a \$2.6 million General Fund savings, a figure that is still \$1.1 million short of the required \$3.7 million cutback.

The South Pasadena Public Library hosts over 30,000 patrons and averages more than 800 visitors per day while checking out about 450,000 materials a year. The Library provides high quality, professional, and friendly services in a welcoming and accommodating environment and strives to inform, enrich, and empower every person in the community by fostering the pursuit of knowledge, the love of reading, and the greater appreciation and support of local culture. The Library exists for the educational, cultural, informational, and recreational benefit of its users of all ages. It is a service organization with a welcoming facility providing a balanced, important, attractive, and organized selection of books, e-books, DVDs, CDs, audio-books, magazines, newspapers, and other resources. It is also a community hub that conducts both wide-reaching

and targeted outreach activities. With more than 200 programs a year (most of them for children) and an ever increasing attendance of approximately 25,000, the Library presents literary, historical, cinematic, theatrical, art, musical, dramatic, and other programs, events, and projects. Its public personal computers and its wireless network provide Internet access and a variety of databases, many of which are offered through the Library website, which also contains original content. The Library provides space for studying and reading, as well as venues for meetings and events, many of which are co-sponsored by the Library's array of community partners. Reference services and archives related to South Pasadena such as local historical documents and artifacts are collected, stored, maintained, and availed to the community.

The Community Services Department helps create a healthy and active community through diverse and innovative programming. Thousands of individuals visit City parks and facilities, such as the War Memorial Building, Arroyo Park, Orange Grove Park, Eddie Park, Garfield Park, and the Youth House, where the following recreation activities take place: youth programs including drop-in playgrounds, day camps, and after school programs; adult uses of recreation classes such as yoga, golf, and photography; senior citizen uses of programs such as low-cost lunches (the only hot meal of the day for some seniors), seminars, and the health EXPO; and significant participation for City-sponsored special events, such as Concerts in the park, Eggtravaganza, and Spooktacular.

The Senior Citizens Center, a multi-purpose facility with over 500 members serves about 30 lunches per day and delivers about 25 meals per day to home bound seniors. The Center provides older adults educational, social, physical, nutritional and emotional services. The Recreation and Youth Services Division operates out of the Orange Grove Recreation Center and coordinates over 200 leisure and recreational classes in dance, fitness, music, arts, cooking, and sports, for children and adults, after-school and summer child care, adult softball and other youth programs, Concerts in the Park and other community activities. In addition, the department provides general oversight and administration, park improvements, community liaison activities, and contract management of the Arroyo Seco Golf Course, Arroyo Seco Racquet Club, San Pascual Stable, All Star Batting Cages and Ironworks Museum.

The Dial-a-Ride Program, which is funded through Proposition A and C and is currently administered by the Transit Division of the Community Services Department, will also be affected with the elimination of the department and staff. The program will likely be contracted out and services will be substantially reduced. The elderly and disabled population will be effected as they will have difficulty getting to medical appointments, grocery stores and around town.

If the Library and Community Services Department were eliminated, 19 full- and 89 part-time and seasonal employees would be laid off. While the programs, services, and facilities provided by these two departments are not legally mandated, they contribute to the overall quality of life in the community and help to enhance public safety in a variety of ways. To name a few examples,

exercise classes and nutritious meals increase wellness of seniors, thereby decreasing the need for emergency medical responses. Occupying young minds after school hours helps deter graffiti and other minor crimes that often lead to more serious violations if left unchecked. Library and Recreation programs also supplement the City's highly-regarded school system, which has a direct impact on property values in the community.

The activities and programs provided by these departments affect the greatest number of people on a daily basis, yet are among the least expensive services the City offers. Any program or service cuts would need to be cognizant of the potential additional revenue losses that could occur. The same would be true for grants and other non-General Fund revenues that could be impacted.

For example, if the Community Services Department is eliminated, recreational activities and programming will be permanently cancelled and the more than \$863,000 in revenue (projected FY 2014-15) generated from their activities would also be lost. An additional impact with the elimination of the Library Department is the forfeiture of Measure L (library special tax) revenues, which account for approximately 15% of the Library's budget or \$230,000. As a result, additional cuts would be necessary beyond the \$3.7 million lost through the UUT. If Library and Community Services, accounting for \$2.6 million of the budget, were eliminated, the subsequent loss of revenue previously yielded through recreational activities and the library special tax would mean an additional \$2 million would still need to be cut from other departments or services in order to completely offset the loss of the UUT.

Yet another significant cut will need to be made, such as the City's Capital Improvement Program (CIP). Approximately \$2 million of General Funds are used toward street and sidewalk improvement projects annually. Typically, local residential streets have limited funding opportunities through outside grants and other funding sources, so many times General Funds are the only viable source of repairing local streets. Specifically, the General Funds are used by Public Works for design, construction and management of street improvement capital projects, for facilities maintenance division operations, public works administration operations, environmental services operations and park maintenance division operations. The overall street condition in the City is a Pavement Condition Index (PCI) score of 61 (on a 100 point scale). The City has a backlog of approximately \$60 million in street improvement repair needs. Elimination of UUT funds would stifle the City's ability to meet the needs of our community in improving, rehabilitating, and replacing the aging infrastructure.

Some of the previous CIP projects have included the following:

- Orange Grove Street Improvements
- Glendon Way / El Centro
- Gold Line Gate Arm Reconfiguration
- Moffat, Mound Rollin Street Improvements
- Mission, Oxley Park Street Improvements

- Hanscom Street Improvements Phase II
- Adelaine, Bushnell, Diamond, LaFrance, Leman, Maple Wayne Sidewalk Replacement
- Hawthorne Street Improvements
- Foothill, Mission and San Pasqual Street Improvements
- Citywide Street Name Sign Replacement
- Collis, Hill, Chelton Way, El Centro Street Rehabilitation
- Fair Oaks, La Fremontia, Primrose Sidewalk Replacement

### Options

In addition to filing the financial analysis report, staff is seeking Council direction on how to proceed with the initiative. The following options will require Council action at a future meeting:

1. The Council can adopt the Measure (UUT Repeal Ordinance) without alteration, immediately forfeiting the revenues from the UUT;
2. The Council can direct staff to prepare a Resolution submitting the Measure to the voters and calling an election to coincide with the General Municipal Election scheduled for November 3, 2015 by June 2015; or
3. The Council can refuse to adopt the Measure or submit it to the voters.

### **Legal Review**

The City Attorney has reviewed this item for compliance with Elections Code Section 9212.

### **Public Notification of Agenda Item**

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.