



City of Sierra Madre Agenda Report

*John Buchanan, Mayor
Josh Moran, Mayor Pro Tem
MaryAnn MacGillivray, Council Member
Joe Mosca, Council Member
Nancy Walsh, Council Member*

*Nancy Shollenberger, City Clerk
George Enydei, City Treasurer*

TO: Honorable Mayor Buchanan and Members of the City Council

FROM: Elaine I. Aguilar, City Manager *EIA*
Karin Schnaider, Administrative Services Director *KS*

DATE: June 28, 2011

SUBJECT: **UUT Oversight Committee Final Report**

SUMMARY

Pursuant to the voter approved ballot measure regarding the City's Utility Users Tax (UUT) increase, the Council appointed a UUT Oversight Committee. The Committee's purpose is to review and make recommendations concerning the audit and appropriate expenditure of the funds collected by the increased UUT.

The City Council appointed the following members:

Kevin Brennan, Chair
Larry David, Vice Chair
Jeff Bohn
Tom Denison
Anna Laws

In addition, Richard Mays, as Deputy City Treasurer, is the Committee's 6th member.

Mr. Brennan, Committee Chair will be presenting the report this evening.

ANALYSIS

The Committee met on seven occasions and reviewed the City's FY 2009-2010 audit, and UUT revenue reports, and public safety expenditure reports. Attached is a report that summarizes the Committee's findings, which are:

	Actuals for the Fiscal Year Ended			Projected FYE
	6/30/2008 ⁽¹⁾	6/30/2009	6/30/2010	6/30/2011
UUT Revenue				
UUT Revenue	\$ 1,167,061	\$ 1,820,422	\$ 2,575,807	\$ 2,500,000
Less: Base Year Revenue	(1,167,061)	(1,167,061)	(1,167,061)	(1,167,061)
UUT Revenue Over Base Year	-	653,361	1,408,746	1,332,939
Public Safety Expenses				
Police Department Expense	2,558,091	3,032,691	3,057,317	4,027,406
Fire Department Expense	476,912	496,594	486,485	649,896
Total Police & Fire General Fund Expense	3,035,003	3,529,285	3,543,802	4,677,302
Paramedic Expense	646,669	726,704	807,778	-
Paramedic Revenue	(225,052)	(288,857)	(256,786)	-
Paramedic Net Expense (2)	421,617	437,847	550,992	550,000
Proceeds from Sale of Fire Station (3)		(213,847)	(37,547)	
Paramedic General Fund Expense	421,617	224,000	513,445	550,000
General Fund Public Safety Expense (2)	3,035,003	3,753,285	4,057,247	5,227,302
Less: Base Year Public Safety Expense		(3,035,003)	(3,035,003)	(3,035,003)
Public Safety Expenses Over Base Year	-	718,282	1,022,244	2,192,299
Increase in UUT Revenue Over/(Under) Increase in Public Safety Expense		(64,921)	386,502	(859,360)
Adjustment: Resolution 10-43 (4)			(400,000)	400,000
Increase Over (Under) for FY after Resolution 10-43	\$ -	\$ (64,921)	\$ (13,498)	\$ (459,360)

- (1) The year ended 6/30/2008 was established as the base year for analyzing future increases in UUT revenue and public safety expenses.
- (2) The prior year's UUT Committee did not consider the amount of \$421,617 of paramedic net expenses in the base year, as it was understood that the entire cost of any increase in paramedic expenses would be covered by future UUT revenue. This committee however has chosen to report the paramedic expense and revenue for illustrative purposes. For consistency purposes, the base year public safety expense of \$3,053,003 remains unchanged from the prior year's UUT Committee report which does not include the paramedic expenses in the base year.
- (3) Proceeds from the Sale of Fire Station 42 were used to offset expenses of the paramedic program during the years ended June 30, 2009 and 2010.
- (4) City Council passed Resolution 10-43 to apply \$400,000 of UUT revenue from fiscal year ended June 30, 2010 to fiscal year ending June 30, 2011.

This charts shows that the increase in Public Safety expenditures from FY 2007-2008, as compared to FY 2009-2010 (the second year of the increase in the UUT), exceeded the additional UUT revenue for the same period; which includes City Council action to adopt Resolution 10-43: Carryover of \$400,000 in UUT revenue to FY 2010-2011 and keeping UUT rate at 10% instead of increasing to 12%.

FINANCIAL REVIEW

There are no direct financial impacts associated with this report.

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 and the Sierra Madre Public Library.

ALTERNATIVES

The City Council has the following alternatives:

1. The Council may receive and file the UUT Oversight Committee Report.
2. The Council may direct the Committee to perform additional analysis.

STAFF RECOMMENDATION

It is recommended that the City Council receive and file this report.

Attachments:

UUT Oversight Committee Report

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**Utility Users Tax Oversight Committee
City of Sierra Madre
232 W. Sierra Madre Blvd.
Sierra Madre, CA 91024**

To: Members of the City Council
Sierra Madre, California

From: Utility Users Tax Oversight Committee

The Utility Users Tax Oversight Committee (“UUT Committee”) was formed to “...review and make recommendations concerning the audit and appropriate expenditure of the [Utility Users Tax (the “UUT”)] funds collected and/or remitted...”, pursuant to a ballot measure (“Measure U”) approved by the voters on April 8, 2008 wherein the citizens of the city of Sierra Madre approved certain increases in the UUT. In addition to the passage of Measure U, the voters also approved Measure UA, the UUT Advisory Measure, which stated, “. . . the additional revenue generated by . . . [the] increase [should] be used to fund public safety services including paramedic programs, police salaries and benefits and additional safety staffing.”

The UUT applies to all utilities provided in the city including electricity, communications, water/sewer, gas, cable and trash. The City Manager is designated as the “tax administrator” and is responsible for the administration and collection of the tax.

Measure U, among other things, authorized the UUT to increase to “. . . the rate of eight (8) percent commencing on July 1, 2008, . . . the rate of ten (10) percent commencing on July 1, 2009, and . . . the rate of twelve (12) percent commencing on July 1, 2010, unless a lesser rate is established by the city council on or before August 1st of any year.” The city council did opt to leave the UUT rate at 10% for fiscal year 2011, which commenced on July 1, 2010.

Every year, each city council member appoints one member of the public to the UUT Committee to serve for that year. The city treasurer or, as is the case this year, his designee also serves as a committee member. The UUT Committee thus consists of six members.

Overview

The UUT Committee met seven times with Elaine Aguilar, City Manager, and Karin Schnaider, Administrative Services Director. The following documentation was provided to the UUT Committee:

- City of Sierra Madre Audited Financial Statements for the Fiscal year Ended June 30, 2010;
- Various reports generated from the city's internal accounting system including: summary trial balances for the city and paramedic department; revenue ledger analysis for UUT and paramedic department; and, expenditure analysis for paramedic, police and fire departments; and
- Summary reports prepared by Ms. Schnaider, summarizing sources of revenues and expenditures.

Revenues

Each utility subject to the UUT is responsible for collecting the UUT from the utility user. Predominantly, the utilities remit funds to the City monthly as the utilities receive payment. The city does not have access to an accounting of the revenues upon which the UUT is levied and, therefore, the UUT Committee does not have the ability to validate the completeness of the revenue collected. Ms. Schnaider has stated that the city carries out certain reasonableness checks to ensure that the city is receiving the UUT revenue to which it is entitled. Ms. Schnaider is sanguine that the city has received and is receiving the revenues to which it is entitled under the UUT ordinances.

Expenses

The UUT Committee cursorily reviewed certain summary and detailed information regarding expenses incurred by police, fire and paramedic services. These expenses represented the total operating expenditures of these service departments and are not specifically tied to UUT revenue. UUT Committee members asked questions regarding certain individual expenditures reflected in the detailed accounting reports provided by Ms. Schnaider. Finally, Police Captain Giannone and Fire Chief Heydorff were present at the UUT Committee on February 15, 2011 to answer questions posed by UUT Committee members.

Financial Summary

The following table reflects the actual operating results for the UUT revenue and the police, fire and paramedic services' expenses for the fiscal years ended June 30, 2008, 2009 and 2010. The results do not include any cost of living, inflation or other adjustments. The fiscal year ended June 30, 2008 is considered a base year when comparing UUT revenue and public safety expenditures for subsequent years. In addition, projections for the fiscal year ending June 30, 2011 are provided based upon information available as of February 2011.

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Conclusion

UUT revenues are General Fund revenues. A predominant portion of public safety department expenses are paid from the General Fund. The nature of this accounting means there is no direct path or accountability of the UUT revenues being spent on public safety. All the UUT revenue derived from Measure U is put into the same general account that funds public safety and, indeed funds all non-restricted fund activities of the city. Thus, tracing the use of General Fund revenues to any specific purpose cannot be done.

An additional complexity related to tracing UUT revenue to public safety expenses relates to the budgeting process employed by the city. Specifically, for the year ended June 30, 2010 there were savings in the Police and Fire departments due to unfilled staffing positions, as well as money that was budgeted to be spent but was not. These amounts for the year ended June 2010 totaled \$400,000. The City Council, in passing Resolution 10-43, voted to carry over \$400,000 in UUT revenue from fiscal year 2010 to fiscal year 2011. The City Council thus left the UUT rate at 10% for fiscal year 2011 instead of raising it to 12% as was allowed by Measure U.

Although the increase in the UUT revenue for fiscal year 2010 exceeded the increase in the expenditures for public safety by \$400,000, Resolution 10-43 allocated this \$400,000 to be spent in 2011 or beyond only on public safety expenditures.

Recommendations

Measure U has a Sunset Clause which states, "...unless otherwise extended by the voters the tax rate applicable to charges for utilities subject to tax under this Ordinance shall be diminished to ten (10) percent on June 30, 2014. This rate shall be subsequently diminished to eight (8) percent on June 30, 2015, and further diminished to the rate in existence prior to adoption of this ordinance of six (6) percent on June 30, 2016."

For the fiscal year ending June 30, 2011, the City staff has estimated that UUT revenue will be greater than base year revenue by \$1,332,939, while public safety expenses will be greater than base year public safety expenses by \$2,192,299. Therefore the increase in public safety expenses for the year ending June 30, 2011 over the base year 2008 will exceed the increase in UUT revenue over the base year for the same period by \$859,360. It must be noted that the UUT revenue is the only general tax revenue that has been appreciably increasing year-on-year and without it, the General Fund revenue would be lower than it was in 2008.

On a 3-2 vote, the UUT Committee recommends that the City Council raise the UUT rate to 12% in the fiscal year ending June 30, 2012.

In addition, the City Council must plan for the loss of revenue caused by the Sunset Clause. There are two solutions: cut city services or find a new source of revenue, such as, placing the UUT back before the voters for a rate increase extension.

Finally, the UUT Committee would like to thank Ms. Schneider, Ms. Aguilar and the City staff for their assistance and patience in answering the many questions posed by members of the UUT Committee.

