



# staff report

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TO: Honorable Mayor and Members of the City Council

ATTENTION: Jeffrey L. Stewart, City Manager

FROM: Leo L. Mingle, Jr., Assistant City Manager

SUBJECT: Consideration and possible action to receive and file this Staff Report relative to the expiration of the Temporary Utility Users' Tax ("Measure P") and consequent discontinuance of revenue.

DATE: July 11, 2016

## **EXECUTIVE SUMMARY**

Mayor Pro Tem Schnablegger requested Staff to present a summary of potential impacts resulting from the "sunset" of the Temporary Utility Users' Tax ("Measure P") in March 2018. This report responds to his request.

## **RECOMMENDATION TO CITY COUNCIL**

- 1) Receive and file this Staff Report; or
- 2) Alternatively, discuss and take other action related to this item.

## **FISCAL IMPACT**

There is no fiscal impact at this time.

Based on three years' history, the City's Temporary Utility Users' Tax ("Measure P") generates approximately \$1.44 million annually.

Upon the expiration of Measure P in April 2018, these revenues end. The fiscal impact of discontinuing these revenues is discussed below.

## **DISCUSSION**

1. **Utility Users' Tax (Measure B).** In March 1997, Bellflower voters passed the Utility Users' Tax passed a permanent 5% utility users tax on the gross charges made to each service user in the City for telephone (including cell phones), electricity, and natural gas.
2. **Utility Users' Tax Modernization (Measure A).** In March 2009, Bellflower voters passed a measure updating the Utility Users' Tax in response to recent changes to Federal laws and to ensure a consistent revenue stream.

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3. **Temporary Utility Users' Tax (Measure P).** In the November 2012, Bellflower voters approved a temporary increase of Utility Users' Tax rate from 5% to 7% for a period of five years ending March 31, 2018. The 2% increase will automatically sunset at the end of the five-year period, reverting back to the original 5% tax rate on April 1, 2018.
4. **Temporary Utility Users' Tax Revenues.** Since inception the City has to date received an average of \$1.44 million per year, a total of \$4.5 million in Temporary Utility Users' Tax revenues.
5. **Finance Measure Survey.** In July 2015, the City conducted an independent third-party survey of voter attitudes on a wide variety of subjects, including potential revenue-related ballot measures. Among others, the survey posed the following potential ballot measure question: "Shall an ordinance to help prevent potential cuts to City of Bellflower services, including: neighborhood Sheriff's patrols/emergency response, local Sheriff's substation hours, drug/gang prevention, programs that retain/attract local businesses, disabled/senior/youth services, graffiti removal, and other general services, by continuing the expiring voter-approved 2% utility users' tax, without raising current tax rates, and by requiring financial audits, low-income senior exemptions, citizens' oversight, and funds be used locally in Bellflower, be adopted?"

The City Council chose not to seek voter approval for renewing the Temporary Utility Users' Tax. The Council's decision was based primarily on its promise to the voters in 2012 that the temporary increase would not be extended.

6. **Permanent Internet Tax Freedom Act (PITFA).** Overtime, the Permanent Internet Tax Freedom Act, signed into law in February 2016, will significantly decrease the City's telecommunication UUT revenues. At that time, MuniServices estimated a fully phased-in loss of 60% to 80% in telecom UUT revenue totaling \$1.3 million to \$1.7 million annually.
7. **Expenditure of Temporary Utility Users' Tax Revenues.** During the past three years, Temporary Utility Users' Tax Revenues have been expended to support the following programs (see also Attachment):

Program	FY 13-14	FY 14-15	FY 15-16 (allocated/ estimated)
Economic Development Fund	\$706,335	\$880,088	\$682,000
Public Safety	\$343,083	\$388,019	\$500,000
Special Events	\$87,091	\$71,046	\$62,000
Personnel – Economic Development & Planning	\$140,173	\$120,370	\$106,000
Finance Manager	\$87,507	\$103,306	\$90,000
Total	\$1,364,489 <sup>1</sup>	\$1,562,829 <sup>2</sup>	\$1,440,000

<sup>1</sup> Not including \$100,000 carried over to FY 14-15

<sup>2</sup> Including \$100,000 carried over from FY 13-14

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8. **New Revenue.** It is unlikely that the City's increased revenues from sales, property, and utility users' taxes can close the funding gap.
  - a. **Sales Tax Revenues.** The sale tax revenues showed a strong 11% average growth during the latest three (3) quarters, and will potentially end FY 2015-16 with \$400,000 higher revenue than budgeted.
  - b. **Property Tax Revenues.** The property tax revenue is expected to vary by only a small amount from the budget.
  - c. **Utility Users' Tax Revenues.** Telecom sector Utility Users' Tax revenues have continued to decline and underperform as a result of changes to industry business models (e.g., lower rate packages) and tax exemptions afforded by the Internet Tax Freedom Act. Recent State legislation (AB 1717) will help recover some Utility Users' Taxes by allowing the collection of the tax on prepaid wireless by the State Board of Equalization effective January 1, 2016 (four year sunset ending December 31, 2019).

The combined effects of these three major revenue sources are an estimated net gain of \$200,000.

Except for a potential tax on the sale of marijuana, which is dependent on Statewide voter approval of a pending ballot measure in November 2016, or local voter approval of a ballot measure to extend or make permanent the Temporary Utility Users' Tax, no other suggested revenue measure, including the proposed residential landlord business tax, will make any significant impact on this funding gap.

9. **Summary.** Absent any further direction for the City Council and to keep the City's General Fund budget in balance, expenditures must be reduced by \$1.44 million per year. Without direction to the contrary from the City Council, Staff will recommend unwinding the programs and positions funded by Measure P.