



## **BUDGET ADVISORY COMMITTEE**

**Monday, October 16, 2017**

**6:00 pm**

**City Council Chambers**

**150 S. Palm Avenue**

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- I. Call to Order/Roll Call – 6:00 pm
- II. Review /Modification of Agenda Items for Discussion
- III. Oral Communications from the Audience on Items not on the Agenda
- IV. Reports/Discussion Items
  - a. Discussion of Utility Tax History, Necessity, and Options
  - b. Operating Revenues – Forecasting (as time permits)
  - c. Review of Prior Distributed Information
- V. Items Requested for Next Budget Advisory Committee Meeting
- VI. Adjournment – 8:00 pm

**Budget Advisory Committee Meeting  
Meeting Minutes  
October 2, 2017**

**I. Call to order**

Stacey called the meeting to order at 6:04.

**Attendees:**

Community Members: Stacy Augustine, Robin Austin, Lupe Camacho, Anna Gonzalez, David Phillips, Joe Raden, Michele Sanchez,

Staff Representatives: Robb Steel (GCEA), Tony Brandyberry (RMMA), Richard Royce (RPBA & RPBA Management), Thad Coffing (RCEA), Joe Powell (Fire Management), Matt Blanco (Fire 3688)

**Absent:**

Daniel Lopez

**II. Review/Modification of Agenda items**

Approval of September 18<sup>th</sup> Minutes:

Discussion of Minutes of September 18th, the following are corrections to those minutes:

- Statement: Joe R. FY12 authorized 69 then in FY17 it went to 85. 156 to 146 was the police department numbers 10.5 decrease. What were those positions that were authorized to make up the increase? 17 Fire positions lost. But EMTs were increased. They did not have the EMT program back then. Correction: 1<sup>st</sup> sentence change to \$156.50; Change “was” to “were” after 146
- Statement: Selling of the property also asked for dollars earmarked. Correction: Lupe said “selling of property”
- Statement: This is the correct bill number AB953. Correction: Richard Royce said this.
- Statement: Lupe will create a template for Robb to make it easy to read. Correction: Lupe will create a “spreadsheet”

\*\*In the future the Committee would like the meetings audio recorded. Staff has SD Cards on order to do that.

Michelle moved to accept the minutes as corrected, Thad 2<sup>nd</sup> them motion. Vote was unanimous.

**III. Oral Communications:** None

**IV. Reports/Discussions:**

PFM Consultant Russ Branson made a presentation and went over his PowerPoint that was presented to the Council.

- David questioned the amount their company gets paid.
- Lupe asked if the package include recommendations as part of contract - PFM said yes. She then asked if they had a specific system – PFM said yes, they look at all revenue and expenses and what’s going on with them.
- Stacy asked if in their proposal as part of the model was a Budget Advisory Committee something that they suggested, PFM said no. He then asked if in their history with working with other cities, have they worked with budget advisory committees, PFM said yes and stated that they can be successful. PFM said that the Committee can provide a wide community view to the Council. It provides feedback to the consultant, which helps make the product better – success depends on decision of this committee.
- Richard asked if the formula will improve frivolous spending by the City. PFM said if the committee feels that something is frivolous, then it can be thrown out.
- Stacy stressed the purpose of the committee is to do 3 things:
  - 1) Develop a long range plan (10 year plan)
  - 2) Look at future revenue enhancement
  - 3) Look at expenditure efficiencies

He said they may have to break up into groups to work on the different areas.

- Joe R. need to hear from all the departments first.
- Dave we are undertaken a taskforce, One he thinks that everyone here needs to be here and everyone that appointed them needs to be left outside that door. Otherwise, we will only bump heads. Lupe said there should be communications with the person that appointed them. Each one was elected by someone. We are team here.
- Stacy said that an oversight committee is needed. Richard said that council seats change all the time, they have never had a 10 year plan and someone to oversee it. Stacy said that could be one of their recommendation.
- Mat said that Fire has a 5 year plan maybe they could use that same format. Start with the main bullets of the task one-by-one then consultants can make smaller bullets from there. Maybe start with deficiencies.
- Michelle said the elected need to look at the city a different way to prevent overspending.
- Lupe talked about earmarked money for airport – Baca/Turch Park is 1.7 million RFP for design and it’s just starting – it will cost 22 million in the long run.

Robb explained development fees and how money given is obligated to be spent on specific things, parks etc.

- There were multiple questions from several people. (Didn't catch who said each)
  - What is the thought on sustaining /servicing the Parks?
  - Can you change the agreement with Lewis?
  - What's the timeline for this to materialize?
  - What about the other 10 million?
  - What is the timeframe?
- Lupe said there's a copy of the contract, there has to be some benchmarks? Robb said the goal was to have the park there prior to the residential.
- Lupe asked did it include the size of the park, Robb said we have some flexibility. Is it possible to suggest to council that the park be smaller? Robin asked, what's the point of downsizing? Are you saying it will save money? Lupe said she thinks that it will free up some money.
- Mike explained us of advanced development money. That you cannot put one time dollars into ongoing costs. (Robb referred to chart) showing of \$47 million, \$17.3 million is for parks.
- Ana asked if there were potential for grants to help pay for parks? Robb said yes.
- Discussion on the park fees (multiple comments) turned to discussion of the sports teams paying fees. Currently the City doesn't charge for the use. Statement was made that other cities charge and suggests we could start charging teams that come in from other areas to use our parks. Lina said that because the teams don't pay the City it is a big help to families. Karla said it's usually the outside teams/groups that are always tearing up our fields. Maybe have a fee for residents and a different fee for outside teams. Robin opportunity to get sponsorships for the parks? Mike said it maybe. The leagues could pay more. Sponsorships can help pay. Karla said even birthday parties, if they use the shelters we should charge.
- Lupe referred to legal charges. Mayor discussion was had by all, including questions regarding the City defending individuals in litigation.
- Robb said cost now comes out each department's budget.
- Lupe, would it be possible to hire an in-house counsel. Mike explained our current City Attorney's diverse firm, i.e., knowledge of different city matters.
- Matt asked about the City's current reserve fund and possible use of a % of funds for projects, needs, etc. The question was asked, what is our interest rate? 55% per Jason Shields (Deputy City Treasurer). Robb said that we need the UUT to supplement reserves and support expenditures.

Oral communications - Dennis hopes they come up with a policy and he also addressed the reserves.

- Robb said that the models will show what will happen if that UUT goes away.



Pull utilities out from the beginning of the model. Dennis Barton said that you need to look at the model realistically.

- Robin suggestions: For sales tax purpose, have we talked to Sam's Club. Robb said that they are not expanding. She asked about occupancy tax at new hotel. Robin then suggested that Fire could be a training facility and charge a fee.

Robb said need to make a decision in November about putting the UUT on the ballot for spring. Group would like to only discuss the UUT at the next meeting. Lupe would like the Public Works Department presentation at the next meeting too.

Lina moved and Thad 2<sup>nd</sup> the motion to only review UUT and vote to give a recommendation to Council by next meeting. Lupe opposed. Vote was approved.

## **V. Items Requested for Next Meeting**

- Joe R. said: I am requesting a legal opinion from the City Attorney on whether or not federal law preempts 1) a pavement maintenance fee per delivery/pickup by companies like UPS and FedEx while prohibiting the fee from being passed on to residents. 2) A pavement maintenance fee per departure/arrival of semi-trucks (ex. tractor-trailer trucks) and bob tails (example: 2 1/2 tons through 5 tons delivery trucks) exempting companies from the fee when the point of sale is Rialto. If the City can impose either or both of these fees I am requesting that these concepts be agenzized for discussion and referral to the City's consultant PFM to provide options for implementing the fees and to project the revenue from each option.
- Michelle wants to know every service that the City Clerk and Management Services does. Robb told her that he will get that information. He like to wait until the night that they are slated to present.

## **VI. Adjournment**

Lina moved/Lupe 2<sup>nd</sup> motion for adjournment at 8:24 pm.

Submitted by:  
Angela Perry  
Executive Assistant to the City Administrator



# City of Rialto Memorandum

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TO: Budget Advisory Committee

FROM: *RS* Robb Steel, Assistant City Administrator/Development Services Director  
Kyle Johnson, Finance Manager

COPY: Michael Story, City Administrator

DATE: October 13, 2017

**SUBJECT: Utility Users Tax Ballot Options**

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## **Background**

The Rialto electorate approved the 8% Utility Tax for the first time in 2003. Prior to 2003, the City levied a property tax surcharge equal to approximately 0.13 of assessed value (aka the "PERS" tax) to fund employee retirement costs. In 2002, the Howard Jarvis Taxpayers Association threatened the City with litigation, alleging that the PERS taxes imposed by Rialto violated Proposition 13. Rather than contest the claim, the City entered into a settlement agreement with the Jarvis Association that tolled litigation allowing the City to obtain voter approval for a replacement tax. At the June 3, 2003 general election, the City proceeded with the Utility Tax measure to replace the PERS Tax, which narrowly passed and the Utility Tax went into effect on July 1, 2003. The voters originally established the Utility Tax as a temporary tax with a five-year sunset. Utility Tax revenues immediately increased the City's budget capacity, and the City expanded public safety, public works and code enforcement services. The City also reestablished depleted reserves and allocated funding for capital outlay.

The City submitted the Utility Tax to the voters again in 2008 and 2013, all structured with the same five-year sunset provision. Based upon polling data, the City deemed the five-year sunset provision necessary to garner public support for the measure.

In 2014 with the passage of Measure U (fuel storage tax), the City Council proposed to reduce the Utility Tax rate from 8% to 6%, predicated upon actual receipt of revenues. However, the fuel storage operators sued the City and the City cannot expend the new tax revenues until the litigation resolves. The 2% reduction in the Utility Tax represents approximately \$3.6 million.

The City established the Utility Tax as a general tax – the measures do not earmark the funds for a specific purpose and the City Council determines the appropriate use each year as part of budget adoption. A general tax requires a simple majority vote, while a special tax (funds



earmarked for a specific purpose) requires a 2/3 super majority vote. It tends to be much more difficult to adopt a special tax due to the higher threshold for passage.

The Utility Tax provides exemptions for senior citizens (age 65 or older) and lower income households (80% of median income and below).

Because the City does not receive utility tax data from all utilities by taxpayer category (residential versus non-residential), staff estimates that typical residential households pay \$350-\$400 per year in utility taxes. With approximately 26,000 households, this produces approximately \$9.5 million of utility tax from residential taxpayers (67%) and \$4.7 million from non-residential taxpayers (33%). Staff believes that the burden is slowly shifting to the non-residential category due to recent economic developments.

As background, attached as **Exhibit A** are some of the reports and presentations for the original adoption of the Utility Tax and the most recent reinstatement in 2013.

**Utility Tax Revenue Trends**

On September 11, 2017, the Budget Advisory Committee received a memorandum that presented the recent trends in utility tax revenue by category of tax. The table below from that memorandum illustrates the recent revenue trends by utility tax category. The Utility Tax continues to grow for most categories due to economic recovery and rate increases for most utilities. The Utility Tax represented 18%-20% of general fund operating revenues over the period. The FY 18 Budget forecasts Utility Tax revenues of \$14.2 million.

Category	FY12	FY13	FY14	FY15	FY16	FY17	FY18	6 Yr Change FY12-FY18	
								\$	%
Electric	4,356,426	4,662,147	4,611,262	5,137,471	5,223,607	5,073,156	5,299,200	942,774	22%
Gas	1,021,878	954,898	1,012,228	978,566	994,973	1,053,844	1,100,800	78,922	8%
Telephone	1,106,445	1,092,497	894,936	735,687	734,123	772,398	780,576	(325,869)	-29%
Mobile	2,462,732	2,431,686	2,419,642	2,207,061	1,984,851	1,966,602	1,987,424	(475,308)	-19%
Water	956,278	1,008,432	1,425,569	1,542,873	1,534,466	2,412,000	2,707,500	1,751,222	183%
Wastewater	693,714	640,045	1,277,025	1,289,479	1,457,268	1,620,000	1,620,000	926,286	134%
Cable	485,476	463,472	551,197	742,876	741,606	765,000	700,000	214,524	44%
Total Utility Tax	11,082,948	11,253,196	12,191,859	12,634,013	12,670,893	13,663,000	14,195,500	3,112,552	28%
Total Recurring General Fund Revenues	56,858,529	59,134,502	62,384,295	69,174,511	70,667,345	72,895,532	77,545,830	20,687,301	36%
Utility Tax as% of All Revenues	19%	19%	20%	18%	18%	19%	18%		

**Revenue and Expenditure Changes (FY03 to FY18)**

The tables attached hereto as **Exhibit B** illustrate the revenues and expenditures for each fiscal year that preceded a vote on the Utility Tax (actuals for 2003, 2008, and 2013 and budget for 2018). Some of the notable trends include:

- Table A shows that Revenues increased by \$44.3 million over the 15-year period, or 5.8% compounded annually. The Utility Tax represented \$14.2 million of this growth, or 32%



of the revenue growth. Expenditures increased by \$44.7 million over the 15-year period, or 6.1% compounded annually. The City allocated most of the increase to personnel costs (\$31.2 million or 70%), with the balance to services and supplies (\$13.8 million or 30%). The largest percentage change occurred with services and supplies, in part because of the expansion in development related services (building permits and plan checking) for 2018.

- Table B breaks down the changes in personnel costs. While revenues grew by 5.8% annually, compensation increased by 6.1%. Salaries grew by 4.1%, while retirement costs and fringe benefit costs grew by 14.9% and 6.3% annually. Budgeted City employment decreased by 31 employees over the period, and budgeted General Fund employment increased by just 6 employees.
- Table C allocates the expenditure growth to each City Department. Public Safety expenditures consumed most of the dollar increase, but actually decreased slightly as a percentage of the total expenditures. Public Works, Community Services, and the City Council showed the highest percentage increases. Some of the changes occurred because of reorganizations that combined previously separate departments.
- Table D shows the changes in employment by City Department (adjusted for frozen positions). Total City employment decreased by 31 positions, with a net increase of 6 positions to the general fund. The elimination of RDA, Airport, Water enterprises caused the citywide decrease, with a few of the positions absorbed into other departments.

At each renewal of the Utility Tax, the City produced a cash balanced budget and allocated funding for capital outlay and reserve enhancement. In 2013, this occurred because of workforce reductions and employee concessions caused by the recession's impact upon revenues. For the 2018 renewal, expenditure growth has created the demand for the continuing tax. The FY 18 Budget forecasts a \$4.7 million structural deficit, meaning that operating revenues cannot cover all personnel, service, capital outlay, and debt service requirements. The City Council froze budgeted positions, deferred a portion of its OPEB obligations, reduced contract services, and eliminated capital outlay in order to achieve a cash balance for the FY 18 Budget.

### **Service Consequences of Utility Tax Elimination**

On August 7, 2017, the Budget Advisory Committee requested a report on the amount of utility tax paid by each class of taxpayer, and the projected impact upon City services if the tax was not renewed. On August 21, 2017 City staff provided a memorandum (attached hereto as **Exhibit C**) that addressed the service consequences of a 20% cut to the general fund operating budget. A reduction of \$14.2 million to the general fund budget results in 93 position reduction in force, severe cuts to contract services, and probable cuts to employee compensation. In the absence of these draconian cuts, the City's operating reserve funds would deplete rapidly over a 2 ½ year period. The City is currently unable to wean itself from the Utility Tax revenue (or a comparable replacement) without severe service reductions.



## Alternatives to the Utility Tax

There are many alternatives to a Utility Tax, each with its own advantages and disadvantages. A brief summary of some of the potential options previously considered include:

- **RUA Lease Payments.** In 2001, the City Council created the Rialto Utility Authority and entered into a 55-year lease agreement whereby the City leased the water and wastewater enterprises to the RUA. This structure allowed the City General Fund to recover a portion of the equity in the utility systems without privatization. The City appraised the assets and then leased the assets to the newly formed utility. The City and RUA set the initial lease payments at \$2 million per year (for both systems) although the valuation authorized potential lease payments upwards of \$10 million per year. The City Council sets the lease payments each year, and for most years, the City Council set the payments at \$2 million. The RUA includes the lease payments in the operating budget and passes the cost along to the ratepayers; consequently, ratepayers may perceived any increase in the lease payments as a tax increase.
- **Reinstate PERS Tax.** In 1958, the City adopted Ordinance No. 414 creating a property tax surcharge to fund employee retirement. The City Council annually established the tax rate and collected the property tax. The rate ranged from a low of 0.10% to a high of 0.1506%, with a historical average of 0.1316%. When voters approved the Utility Tax in 2003, the City Council did not abolish the tax, but simply set the rate to 0.0% each year thereafter. The City retains the authority to levy the tax, although as noted above the Jarvis Association challenged the tax and that risk remains. A "PERS Tax" also creates perception issues.

Based upon the City's net taxable valuation for FY 17, the PERS Tax could generate from \$9.6 million per year (at the historical rate) to \$11.0 million (at the maximum rate) if reinstated. This tax is an ad valorem tax, so the burden increases with higher property valuations and may carry progressive taxation characteristics.

- **Sales Tax Surcharge.** Several cities impose a sales tax surcharge of 0.25% to 1.0% to help pay for public safety services. Local cities with such levies include Riverside, Menifee, among others. If the tax measure restricts the use of funds for a specific purpose such as public safety, then Proposition 13 requires a 2/3 super majority vote. This creates a difficult hurdle for passage, unless there is overwhelming popular support. To avoid the 2/3 vote requirement, some cities establish the tax measure as a general tax and commit to use the funds to maintain or enhance public safety services (often with advisory ballot measures).

A 1% sales tax surcharge in Rialto would generate \$14.9 million per year in sales taxes, roughly equivalent to the Utility Tax. Sales tax surcharges are relatively easy to collect and administer via the State Board of Equalization. Disadvantages include concerns regarding tax regressiveness (lower income pay a higher percentage of income as taxes), inability to exempt lower income or senior households, and possible disincentives for



attraction and retention of retail businesses. In addition, traditional brick and mortar retail is encountering significant threats from E-commerce businesses and retail sales taxes from traditional stores may wither. E-commerce operations tend to be more footloose and will locate where the tax structure is most encouraging.

- **Fire Protection District.** A Fire Protection District provides a variant to the other forms of public safety taxes. Very simply, a city may establish a Fire Protection District upon 2/3 voter approval – they are deemed to be special taxes under Proposition 13. The new district may levy an assessment as an ad valorem tax, a parcel tax, or other approved structures. The monies raised go directly to a special fund available only for fire protection services. These funds may supplant or supplement funding from other sources, including the general fund, Community Facility District levies, and others. Ultimately, the new revenues from this structure release existing general fund revenues to support other services. The responsibility for managing the Fire Protection District typically resides with the City Council.

The principal advantages include: (1) the revenue stream is very reliable; (2) because fire services tend to have greater public support, it may be easier to achieve the required 2/3 vote; (3) the assessment/tax is permanent; (4) the assessment/tax can be developed with progressive structures; and (5) it may create options for expanded service and scale economies. The principal disadvantages include the 2/3 vote requirement; a higher visibility of tax/assessment on the property tax roll; and there may be a perception that it is a replacement of one tax with another potentially higher and permanent tax.

- **Marijuana.** Earlier this year, the City Council directed staff to prepare an Ordinance that prohibits all forms of marijuana use, cultivation, distribution not preempted by state law. Staff is currently preparing the staff report for the Ordinance implementing the City Council's direction, but as part of that direction, we are attempting to determine the financial impact of that choice. Estimates provided by other cities that have adopted marijuana taxation measures range from a few hundred thousand dollars to several million dollars, depending primarily upon the number of cultivation and retail facilities permitted. The City must also consider the cost of policing these operations.

### **Balloting Options**

The Utility Tax sunsets on June 30, 2018. There are three potential election dates between now and June 30, 2018: (1) a special mail-in only election scheduled for March 6, 2018, (2) a special election scheduled for April 10, 2018, and (3) a special election combined with the state primary election scheduled for June 5, 2018. The City Council must declare a fiscal emergency and adopt a resolution by unanimous vote to place a ballot measure on all of these potential dates.

The City Attorney prepared the elections calendar attached hereto as **Exhibit D**. A quick summary of each election option:

- **March 6, 2018.** This ballot is a mail-in only ballot, similar to the procedure the City uses



for a Proposition 218 measure (Lighting and Landscaping Districts or Community Facility Districts for instance) except this vote will be citywide. There could be criticisms that this approach discourages public participation in the tax adoption process. To qualify a measure for this ballot, the City Council must adopt a resolution not later than December 8, 2017 (the immediately prior scheduled City Council meeting is November 28, 2017). The City's estimated cost for conducting this election is \$250,000.

- **April 10, 2018.** This special election follows normal procedures. To qualify a measure for this ballot, the City Council must adopt a resolution not later than January 12, 2018 (the immediately prior scheduled City Council meeting is January 9, 2018). The City's estimated cost for conducting this election is \$250,000. Except for the 2003 vote, the City placed all subsequent Utility Tax ballot measures upon a spring special election date similar to this one.
- **June 5, 2018.** This special election for Rialto follows normal procedures while consolidating with larger elections – it tends to have higher voter turnout. To qualify a measure for this ballot, the City Council must adopt a resolution not later than March 9, 2018 (the immediately prior scheduled City Council meeting is February 27, 2018). The City's estimated cost for conducting this election is \$200,000.

There are advantages and disadvantages with each of these options.

The March 6, 2018 ballot is a mail-in election that will probably produce a low turnout, which is normally a positive for a tax measure. Additionally, if the tax measure failed the City could possibly reload with another measure for the June 5, 2018 ballot; otherwise, the City will prepare the FY 19 budget with 20% less revenue. The disadvantage is the potential criticism by taxpayer groups that this ballot method generally results in lower voter turnout.

The April 10, 2018 ballot follows the practice that the City used in 2008 and 2013. Turnout also tends to be lower than a general election. The City cannot reload a ballot measure for the June 5, 2018 election (unless it presumes failure, and places a second ballot measure before the first one is decided). The City would prepare the FY 19 budget depending upon the outcome of this election.

The June 5, 2018 election combines a City election with County and State elections and should have a higher turnout than the special elections. This generally bodes less favorably for tax measures. The City would prepare two budgets (with and without the Utility Tax) and would have very little time to implement the latter before the budget year commences.

## Summary

The City remains highly dependent upon the revenue from the Utility Tax to fund current services. While other revenues have increased substantially since original implementation, the City has used the revenues to expand services, increase employee compensation, and build reserves. The

City now faces daunting financial challenges related to its pension and OPEB obligations. The City does not have the capability to absorb a loss of this revenue source, unless replaced with a comparable revenue. The Utility Tax has proved to be a reliable, flexible, and equitable tax upon residents and businesses. It does not appear to negatively alter buying and investing decisions, perhaps even to the contrary. The City's recent economic development efforts encouraged high utility consumption enterprises to shift the tax burden from residential to non-residential payees. The service cuts required to adopt a balanced budget would severely compromise public safety, public works, recreation, and other essential services to the community.

**Staff Recommendation**

Staff recommends that the Budget Advisory Committee recommend to the City Council that it declare a fiscal emergency and place the Utility Tax on an April 10, 2018 special election. The Utility Tax would continue the tax currently in place for another 5-year term.



# **EXHIBIT A**

## **BACKGROUND MATERIALS**

- Utility Users Tax Facts, California City Finance.com
- Original Utility User Tax Staff Report and Presentation
- 2003/2004 Annual Report
- Utility Users Fact Sheet – 2008 Campaign
- Staff Report and Presentation for 2013 Utility Tax Campaign

# Utility User Tax Facts

The Utility User Tax (UUT) may be imposed by a city on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including cell phone and long distance), sanitation and cable television.<sup>i</sup> A county may levy a UUT on the consumption of electricity, gas, water, sewer, telephone, telegraph and cable television services in the unincorporated area.<sup>ii</sup>

The rate of the tax and the use of its revenues are determined by the local agency. The tax is levied by the city or county on the consumer of the utility services, collected by the utility as a part of its regular billing procedure, and then remitted to the city or county.

Most of the cities and counties with UUTs adopted the taxes prior to 1986 by vote of the city council (or in the case of a county UUT, the county board of supervisors). Any increase or extension of a local tax now requires voter approval. Currently, all city UUT levies in California are general taxes. Statewide, city and county utility user taxes generate nearly \$2 billion per year.

**Cities and Counties With UUTs as of 1/1/2017**

	Cities	Counties	Total	Calif Population covered
Number with UUT	157	4	161	54.0%
Telephone UUTs	149	4	153	49.5%
Electricity	156	4	160	52.7%
Gas	156	4	160	52.7%
Cable TV	90	1	91	22.8%
Water	85	1	86	24.7%
Sewer	14	1	15	2.7%
Garbage	12	0	12	1.3%

San Francisco is counted as a county

## Exemptions

State and federal government agencies, and gas and water used by utility companies to generate electricity are exempt from utility user taxes.

## UUTs on Telephony

The application of utility user taxes to certain telephone services has been a topic of substantial legal and legislative turmoil due to changes in technology and federal law.

### UUTs and the FET

Many Utility User Taxes in California include reference to the Federal Excise Tax (“FET”)<sup>iii</sup> commonly limiting the application of the utility user taxes to charges that are “subject to” the FET. Telephone calls which are not charged based on both time and distance — such as those paid by coin in phone booths — are exempt from the FET. By reference, these types of calls are also exempt from some local UUT ordinances. Many cell phone bills are based upon a package which provides a mix of local and long-distance calling for a flat rate.

In 2007, several federal courts and the IRS ruled that telephone service packages which provide a mix of local and long-distance calling for a flat rate or a fixed fee are based on neither time nor distance and are therefore not subject to the FET.<sup>iv</sup> The IRS subsequently adopted a regulation incorporating these rulings.<sup>v</sup> That meant that if a city wished to continue to impose its UUT on cell phone or other

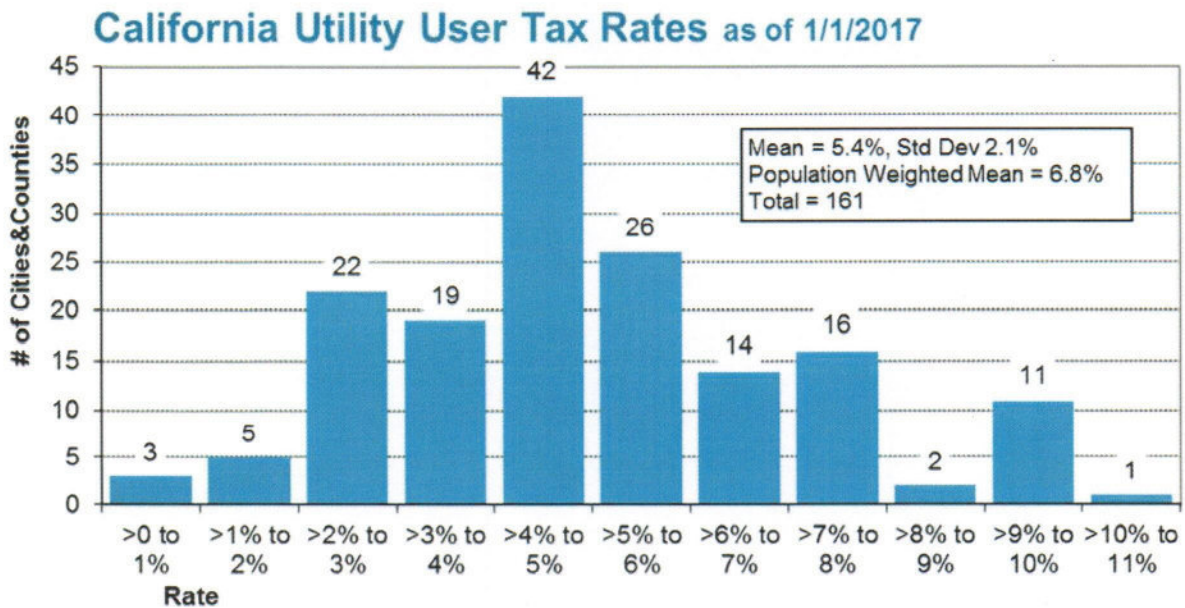


telephone calls which are not charged on both time and distance, it must amend its ordinance to remove the reference to this exemption to the FET.

A number of cities have amended their UUT ordinances to clarify that they did not wish to adopt the IRS' new practice, but rather wished to continue to impose their UUTs as they had historically been imposed (i.e. on charges based on time or distance). At the time of this writing, several localities are challenging the right of local taxing authorities to amend their ordinances without voter approval, or to continue to collect this revenue without amendment. The lawsuits argue that an amendment to an ordinance to bring it into conformity with the FET ruling is an "increase" subject to voter approval under Proposition 218.

**UUTs and the MTSA**

Prior to the adoption of the Mobile Telecommunications Sourcing Act of 2000 (MTSA)<sup>vi</sup> by Congress, cellular carriers had argued that the federal Constitution forbade the application of a utility user tax to telephone calls which neither originated nor terminated within the taxing agency. The MTSA expanded the permissible nexus for taxation to all cellular telephone charges for accounts with a primary place of use in the jurisdiction. However, carriers have argued in the courts that the California Constitution Article XIII C prohibits cities and counties from applying the MTSA nexus rules without voter approval.<sup>vii</sup>



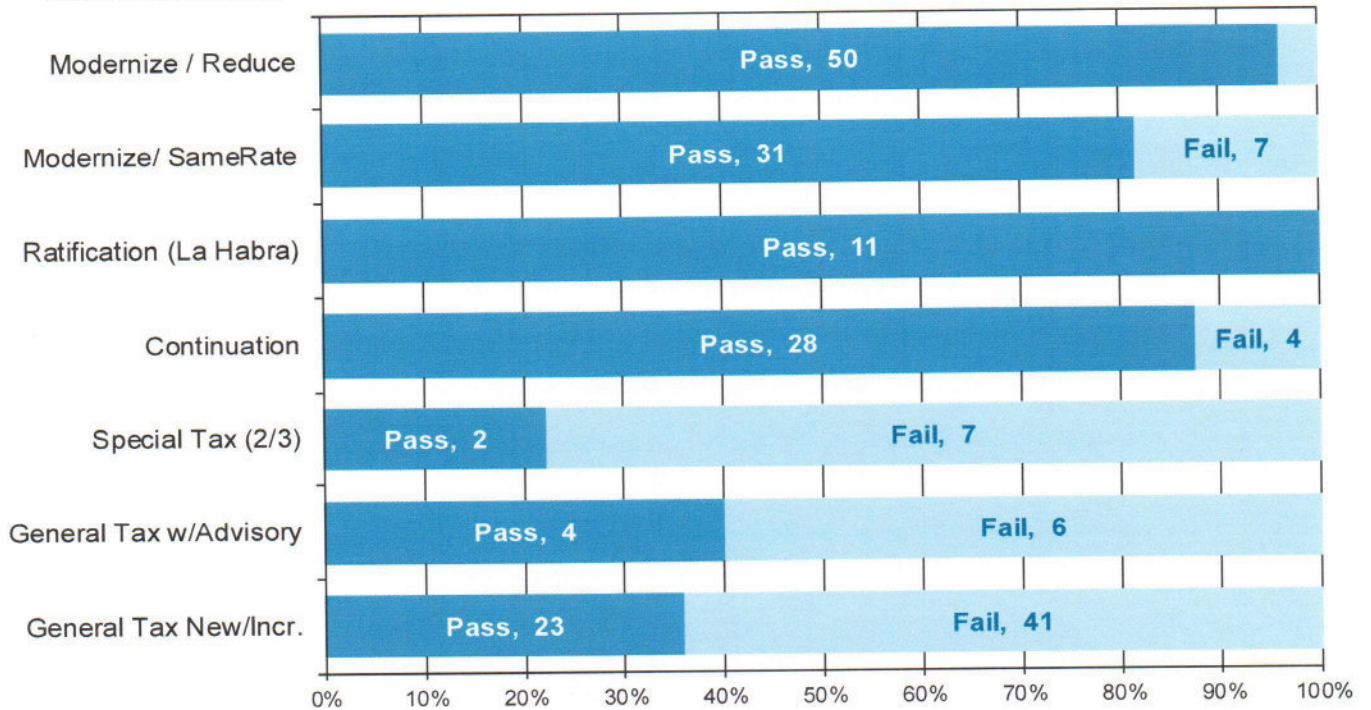
As a result of these events, doubt has been cast over the application of some outdated local UUT ordinances to certain types of telephone service. Proposition 218 requires voter approval of any change in the "methodology" by which a tax is administered if the change increases the amount of the tax paid by the taxpayer.<sup>viii</sup> Many agencies that rely on UUTs on telephony have successfully sought voter approval of an updated ordinance that reflects the realities of the modern telecommunications industry.



### Recent Voter Approval Record

From June 2002 through November 2016, there were 80 measures to increase or adopt a new UUT by cities and three by counties. Nine were special taxes designated for a specific purpose and requiring two-thirds voter approval. Among the 74 general taxes, 10 were accompanied by advisory measures indicating the use of the funds, the so called "a/b strategy."

**Utility User Tax Measures** 2002 through November 2016  
Cities and Counties



Currently, all UUTs are general taxes except two. In June 2003, voters in the City of Desert Hot Springs approved a UUT which dedicates 50% of the proceeds to resolving the city's bankruptcy related debt.<sup>ix</sup> In June 2010, voters in the City of Mammoth Lakes approved the extension of the cities sun-setting UUT but earmarking it for "mobility, recreation, and arts and culture." Ironically, that city later filed for bankruptcy facing a massive court judgment from a land use dispute.

### Referenda to Reduce or Repeal UUTs Have Rarely Succeeded

Since 2001 there have been 149 successful utility tax measures including validations, extensions, expansions and increases. During this time there were just **two** successful referenda to repeal or reduce a UUT among 18 qualifying attempts in 12 different cities and one county. Eleven of these measures were decided November 6, 2002 with all failing except a measure reducing the UUT in Greenfield from 6% to 3% passed in 2002. Just three cities and one county have considered UUT repeals or reductions since then. Of the seven measures (multiple in Seaside and Holtville) voters in the County of Santa Cruz were alone in deciding to repeal their UUT (March 2003).

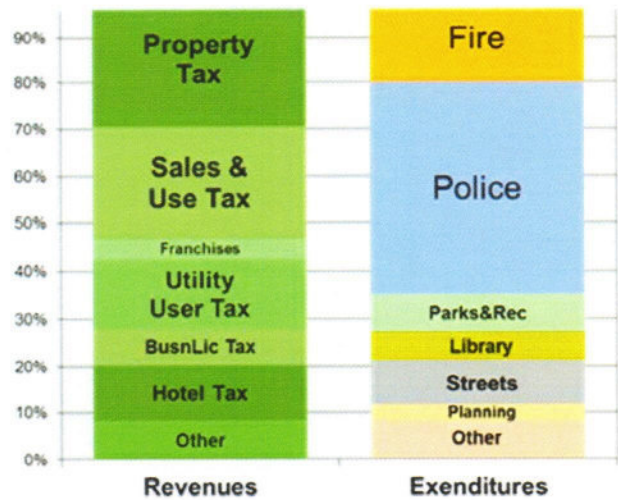
### The UUT is Vital to Funding Essential Municipal Services

City utility user tax rates range from 1 percent to 11 percent. The particular utilities to which the tax is applied varies. In some cities different rates apply to residential versus commercial users. The most common rate is 5 percent, applied broadly among many types of utilities. The average rate (mean) is 5.4 percent with a standard deviation of 2.1 percent. Because most large cities have UUTs, roughly half of California residents and businesses pay a utility user tax. Four of the 58 counties levy a UUT (Alameda, Los Angeles, Sacramento and San Francisco).

The UUT is a vital element in the funding of critical city services. On average, the UUT provides 15 percent of general-purpose revenue in cities that levy it. In some cities, the UUT provides as much as one third of the General Fund.

### Discretionary Revenues and Spending

Typical Full Service City



### Some UUTs Result From State Cuts to City Funds

Many city UUT levies and increases have resulted from cuts to city revenues by the state. In 1992, facing massive deficits in the state budget, the Legislature and Governor began the annual transfer of billions of dollars of property tax revenue from cities, counties and special districts to K-14 schools, allowing the state to reduce its general fund spending on education. Cities and counties, who depend substantially on sales tax and property tax revenues for discretionary income, were already experiencing the same recessionary effects as the state.<sup>x</sup> City property tax revenue, a top source of general purpose revenue for most, was cut from at least 9% and 24% on average. Cities responded by cutting services, deferring infrastructure maintenance, relying more heavily on debt financing, paring down reserves, more aggressively pursuing sales tax generators, and raising taxes and assessments. Within a few years of the beginning of the property tax shifts, more than fifty (50+) cities increased an existing or levied a new UUT.



### Highest Utility User Tax \$ Dependencies FY2013-14

City	UUT as Percent of General Revenues	City	UUT as Percent of General Revenues	City	UUT as Percent of General Revenues
Richmond	42.4% a	Porterville	23.7% a	Seal Beach	21.5% b
Hercules	34.8% d	Moreno Valley	23.6% a	Whittier	21.4% e
Compton	34.6% b	Winters	23.5% b	Brawley	20.7% a
Sierra Madre	34.3% a	Pomona	23.4% a	Covina	20.7% a
Bell	29.9% d	Glendale	23.4% a	Portola Valley	20.7% d
Desert Hot Springs	29.6% d	Orange Cove	23.4% d	Culver City	20.6% b
Holtville	29.4% b	Lynwood	23.0% b	Stockton	20.4% a
Waterford	28.6% d	Inglewood	23.0% a	Bradbury	20.3% d
Rialto	27.0% b	San Gabriel	23.0% b	Woodlake	20.3% f
Firebaugh	26.1% b	Cudahy	22.8% d	Lawndale	20.0% d
Lindsay	25.5% b	Indio	22.6% b	Coachella	19.6% f
Claremont	25.1% d	Bellflower	22.6% d	Burbank	19.6% a
El Segundo	24.7% a	Modesto	22.4% b	Exeter	19.5% b
Pasadena	23.9% a	Irwindale	22.0% e	Huntington Park	19.4% d
Los Alamitos	23.8% d	Torrance	21.6% a	Riverside	19.3% a

Source: CaliforniaCityFinance.com computations from FY 12- 13 data reported to the California State Controller.

a= full service city

b= city does not provide/fund library services

c= city does not provide/fund library or parks services

d= city does not provide/fund fire, or library services

### Highest Utility User Tax \$ Collections FY2013-14

City	UUT per capita	City	UUT per capita
Vernon	\$ 14,338.48	Torrance	\$ 212.22
Irwindale	\$ 2,495.63	Malibu	\$ 193.29
El Segundo	\$ 781.53	Seal Beach	\$ 188.86
Richmond	\$ 452.56	Burbank	\$ 188.60
Sand City	\$ 395.73	Los Alamitos	\$ 186.58
Santa Fe Springs	\$ 382.41	Portola Valley	\$ 177.57
Culver City	\$ 374.94	Benicia	\$ 173.79
Santa Monica	\$ 355.99	Santa Cruz	\$ 164.96
Emeryville	\$ 287.55	Palo Alto	\$ 164.63
Sierra Madre	\$ 260.01	Los Angeles	\$ 160.69
Pasadena	\$ 252.00	Palm Springs	\$ 155.08

Source: CaliforniaCityFinance.com computations from FY 12- 13 data reported to the California State Controller.

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<sup>i</sup> Charter cities: Cal. Const. art. XI §5; General Law cities: Cal. Government Code §37100.5.

<sup>ii</sup> Revenue and Tax Code §7284.2.

<sup>iii</sup> 42 U.S.C. §§4251 et seq.

<sup>iv</sup> IRS Notice 2006-50.

<sup>v</sup> Revenue Bulletin 2007-5 Section 10.

<sup>vi</sup> 4 U.S.C. §§116 et seq.

<sup>vii</sup> Verizon Wireless v. Los Angeles, No. B185373, AB Cellular LA, LLC dba AT&T Wireless v. City of Los Angeles, 150 Cal. App. 4th 747 (2007).

<sup>viii</sup> Government Code §53750(h).



<sup>ix</sup> In 2009, those voters increased the tax to 7%.

<sup>x</sup> For more information on ERAF, see <http://www.californiacityfinance.com/#ERAF>

# CITY OF RIALTO

## AGENDA REPORT

For City Council Meeting of February 18, 2003

TO:	Honorable Mayor and Council Members
APPROVAL:	Henry T. Garcia, City Administrator 
FROM:	Kirby Warner, Assistant City Administrator 
SUBJECT:	Consider Resolution Calling Special Election on June 3, 2003 and an Ordinance to Enact A Utility Users Tax
DATE:	January 28, 2003

### BACKGROUND:

The City began a financial restructuring plan in fiscal year 1999 in response to significant deficit and fiscal management issues. The initial implementation targeted the deficit spending that had occurred in the General Fund. Forty positions were eliminated from the City's workforce, stringent budget control and reporting requirements were initiated and all departments were required to do more with less. In addition to those initial steps, there have been ongoing efforts and programs to ensure all funds are collected, spent and maintained for the specific purpose they are intended.

The results of these efforts by the City Council and staff have resulted in progressively positive reports from the City's independent auditor. During the report on the most recent fiscal year ended June 30, 2002, the auditor noted that significant progress had been made and that the Council and staff were to be praised for staying the course of fiscal responsibility and management.

However, it has also been obvious during the three year recovery period that the **General Fund does not have sufficient revenue resources to pay for the already reduced General Fund expenditures.** Only severely reduced staffing and service levels, coupled with strict expenditure reductions, has allowed for a stabilization of the General Fund's condition. Even these drastic measures have been insufficient to reduce the structural deficit that exists. In other words, the General Fund teeters each year on the brink of sliding into severe deficits unless each piece of the revenue and expenditure planning fall perfectly into place. Thus far this has occurred, however there has been no opportunity to address the reduced service levels, provide for continued growth of the City or create basis for the future vision and quality of life issues that the community desires. This is no longer an expenditure problem but is now primarily a revenue problem.



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ANALYSIS/DISCUSSION:

The General Fund needs additional annual revenues to remain viable now and into the future. This statement has become more evident as staff and the Council have diligently worked to control factors under the City's control, only to realize that fiscal threats from the State and other sources can deny the City its ability to effectively plan for the future. It has become apparent that a combination of sources will be necessary to provide for short term and longer term solutions. In the long term, development of business and retail sales generation should allow the City to diversify its revenue base. In the short term, a tax to be paid by current residents and businesses is the only viable option available to avoid shortfalls, avoid severe service reductions, and allow for vital service level increases. The City must have a locally controlled revenue, not subject to State takeaway, that can be used to enhance the services provided by it through the General Fund. These services first and foremost include public safety, which constitutes over 75% of the General Fund expenditures. In addition, funding is provided for Recreation, Parks, Seniors, Public Works and support functions that assist all departments. Staff evaluated the two tax alternatives available for consideration to address the City's needs, a special public safety tax and a general tax. Staff is proposing a general tax due to the fact that passage will require a 50% + 1 majority vs. a 2/3 super majority and it will allow the same ability for the City Council to provide vital services funded from the General Fund. The proposed form of the general tax solution is a Utility Users Tax (UUT) measure that will be placed before the City's voters on the June 3, 2003 ballot. The ballot questions have been written as two measures, A and B. Measure A will be an advisory question as to how tax proceeds are intended to be spent. Measure B will pose the question of enactment of a Utility Users Tax. The resolution presented for City Council consideration calls for the special municipal election to be held on June 3, 2003 and contains the specific language for the two measures to be put before the voters.

The City Council is also requested to consider an ordinance that will define the specifics of the Utility Users Tax, the specific procedures for applying the tax and other details of its administration. In summary, the UUT ordinance contains provisions that include the following key attributes:

- The rate shall be 8% and apply to all utilities (include gas, electric, telephone, cable, wireless communications, water and sewer);
- It will be levied on all non-exempt residents and businesses within City boundaries;
- A 5-year sunset provision is included to require future voter approval of any continued tax thereafter;
- Exemptions are included for seniors 65 or older and households qualifying as very low income as described as less than 50% of median household income, as published by the State Department of Housing and Community Development for San Bernardino County;
- A review of the collection and expenditure of the tax proceeds will be included as part of the City's independent annual audit;

These key provisions will be the basis for implementing the tax and ultimately for ensuring voters that proper controls and fiscal accountability are maintained. It is also the staff intent, with the concurrence of the City Council to eliminate the City's current ad valorem property tax override for payment of retirement costs (PERS) as well as the Community Facilities District 87-2, if the UUT is enacted. In addition, the Chamber of Commerce has requested, and staff is in agreement, a future review be conducted to determine if a maximum cap may be warranted for businesses within the community. Any change of this nature would be considered as a future ordinance amendment within the scope of applicable State law.

As previously described, the proceeds of the UUT will benefit the General Fund. The General Fund is comprised of a variety of services; however, over 75% of all expenditures are for public safety purposes. Although the following description in no way obligates the City to expand any increased General Fund revenues in any particular manner, the anticipated tax proceeds are intended by staff to strengthen and expand the City's Public Safety service levels. Specific examples of planned service increases include:

- Re-establish vital service levels impacted by reductions in 1999.
- Add nine (9) firefighters/paramedics to reduce response times and keep all four stations fully staffed.
- Purchase ladder truck and address other aging equipment.
- Add ten (10) sworn police officer positions and nine (9) non-sworn personnel to Police Department.
- Increase resources in the Police Department's capability to:
  - Enforce traffic
  - Deal with narcotics and gang enforcement
  - Proactively address code enforcement issues
  - Provide school resource officers in conjunction with the School District.
  - Use non-sworn personnel for reporting and administrative functions to free up critical officer time.

In addition to the public safety increases, the new tax revenue will allow for:

- Elimination of the PERS retirement property tax levies that have been in effect since 1958.
- Fund services such as parks, recreation and community services, senior center, and public works.
- Eliminate an existing and ongoing deficit condition in the annual General Fund budget.


In summary, the tax will allow the City Council to provide critical service levels lost to the City's prior financial crisis, and create a stable level of services less susceptible to the damage inflicted by State revenue reductions, whether this year or during the next five (5) years.

#### **ENVIRONMENTAL IMPACT:**

None

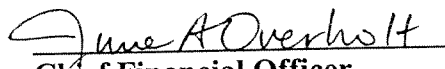
**LEGAL REVIEW:**

The staff report, resolution and ordinance have been reviewed and approved by the City Attorney.

  
**City Attorney**

**FINANCIAL IMPACT:**

If passed by the voters on June 3, 2003, the Utility Users Tax would provide an estimated \$8.5 - \$10.0 million, after exemptions, for use in providing General Fund services.

  
**Chief Financial Officer**

**RECOMMENDATION:**

Staff recommends the City Council adopt Resolution No. \_\_\_\_\_ calling and giving notice of a special election to be held on June 3, 2003 and submitting two measures (A & B) to the qualified electors of the City to determine whether a Utility Tax of 8% should be enacted and; if so, an advisory vote on how the proceeds should be spent. Secondly, staff recommends the City Council approve and pass the first reading of the ordinance that would implement the Utility Users Tax and provide for a five year sunset period as well as other specific conditions of the tax.

**Attachments:**

- Resolution calling for special election and creating measures for submitted to voters
- Ordinance adopting a Utility Users Tax for the benefit of the City's General Fund
- Power point slides regarding proposed revenue tax measure

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RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIALTO, CALIFORNIA CALLING AND GIVING NOTICE OF A SPECIAL MUNICIPAL ELECTION TO BE HELD IN THE CITY ON TUESDAY, JUNE 3, 2003 AND TO BE CONSOLIDATED WITH ANY OTHER ELECTION HELD IN THE AREA ON THE SAME DATE AND SUBMITTING TWO MEASURES TO THE QUALIFIED ELECTORS OF THE CITY PURSUANT TO GOVERNMENT CODE SECTION 53724 AND ELECTIONS CODE SECTION 9222

WHEREAS, the City Council desires to submit to the voters at the election a measure pursuant to Government Code Section 53724 and Elections Code Section 9222 to impose a utility users tax to benefit the City's General Fund; and

WHEREAS, the City Council also desires to submit to the voters at the election an advisory measure to assess the desires of the voters regarding the expenditure of the City's General fund revenues; and

WHEREAS, the City Council desires to call a special election in the City to be held on June 3, 2003 for the purpose of presenting the advisory measure and the utility users tax measure.

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF RIALTO DOES HEREBY RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:

**Section 1.** There shall be and there is hereby called and ordered held in the City of Rialto, California, on Tuesday, the 3<sup>rd</sup> day of June 2003 a Special Municipal Election.

**Section 2.** The adoption of a utility users tax is hereby proposed pursuant to Government Code Section 53724(a) in the form and method of collection and at the rates stated in Ordinance No. \_\_\_\_, which is attached as Exhibit A hereto and incorporated herein by this reference. The type of tax, rate of tax, and the method of its collection are specified in Exhibit

1 A. The form of the proposed measure to approve the tax is stated as "Measure B" in Section 7  
2 of this Resolution, and shall be presented to the voters of the City at the June 3, 2003 Special  
3 Municipal Election.

4 **Section 3.** An advisory measure is hereby proposed to assess the desires of the  
5 voters regarding the expenditure of the City's general fund revenues. This advisory measure is  
6 stated as "Measure A" in Section 7 of this Resolution, and shall be presented to the voters of  
7 the City at the June 3, 2003 Special Municipal Election.

8 **Section 4.** This Resolution was approved by more than a two-thirds vote of all  
9 members of the City Council as required by Government Code Section 53724(b). Pursuant to  
10 Article XIII C, Section 2(b) of the California Constitution, the City Council of the City of  
11 Rialto hereby unanimously declares that an emergency exists in the City which requires that  
12 this measure be presented to the voters at a special election and that it not be continued to the  
13 City's next General Municipal Election. The facts constituting the emergency are that the  
14 proceeds of the tax are placed in the City's General Fund which funds, among other things,  
15 public safety services that are crucial to the health and safety of the community. Given the  
16 increased demand for public safety services following the tragedy of September 11, 2001 and  
17 the likelihood of reductions in State funding for local safety programs by virtue of the current  
18 fiscal crisis in State government, and the City's structural budget deficit, the City Council  
19 believes that critical services for the protection of the public safety cannot be maintained unless  
20 this existing funding source to the General Fund and the programs it finances is assured.

21 **Section 5.** Pursuant to Government Code Section 53724(d), the City Council  
22 hereby determines that it is appropriate to place this matter on a special election ballot.

23 **Section 6.** The City Council hereby requests the San Bernardino County Board of  
24 Supervisors to consolidate the Special Election called by this Resolution with the General  
25 Election to be held on June 3, 2003.

26 **Section 7.** Pursuant to California Elections Code Section 9222 and its inherent  
27 authority as a municipality, the City Council hereby orders (1) that the following questions be  
28 submitted to the voters at the June 3, 2003 Special Municipal Election, and (2) that the

1 questions shall be presented on the ballot in the same order provided herein (i.e. A before B)  
2 even if the specific letters used to designate each measure should change due to other measures  
3 being included on the same ballot:

4  
5 **MEASURE A:**

<b>(Advisory Vote Only)</b> <b>Should the City give priority to funding the following services and programs: Strengthening public safety and emergency preparedness by filling all vacant police and fire positions and adding additional police and fire personnel; improving streets, access to City facilities for senior citizens and people with disabilities; after school programs and other vital city services; and maintaining adequate reserves to address catastrophic events?</b>	Yes
	No

17 **MEASURE B:**

<b>Shall Ordinance No. ___ be adopted to adopt, for a period of five years only, a utility users tax of eight percent (8%) within the City of Rialto to fund such City general fund programs as police and fire protection, street maintenance, and park and recreation services and to authorize an exemption from that tax for low-income and senior-citizen households?</b>	Yes
	No

28 ///

1           **Section 8.** In all particulars not recited in this Resolution, the Special Election  
2 shall be held and conducted as provided by law for holding municipal elections.

3           **Section 9.** Notice of the time and place of holding the Special Election is hereby given,  
4 and the City Clerk is authorized, instructed and directed to give further or additional notice of  
5 the election, in time, form and manner as required by law.

6           **Section 10.** Pursuant to California Elections Code Section 9280, the City Council  
7 hereby directs the City Clerk to transmit a copy of the two measures to the City Attorney. The  
8 City Attorney shall prepare an impartial analysis of each measure, not to exceed 500 words in  
9 length for each measure, showing the effect of the measures on the existing law and the  
10 operation of the measures, and transmit such impartial analyses to the City Clerk within ten  
11 (10) days of the adoption of this Resolution.

12           **Section 11.** The City Clerk of the City is hereby authorized, instructed and directed to  
13 procure and furnish any and all official ballot notices, printed matter and all supplies,  
14 equipment and paraphernalia that may be necessary to prepare and lawfully conduct the Special  
15 Election called by this Resolution.

16           **Section 12.** The polls for the Special Election shall be open at 7:00 a.m. on the day  
17 of said election and shall remain open continuously from said time until 8:00 p.m. of the same  
18 day and shall then be closed, except as provided in Section 14401 of the Elections Code.

19           **Section 13.** The City Council hereby requests the San Bernardino County Registrar  
20 of Voters to provide all services necessary to conduct the Special Election and to conduct and  
21 canvass the results of that Special Election.

22           **Section 14.** The City shall reimburse the County of San Bernardino for services  
23 performed, when the work is completed and upon presentation to the City of a properly  
24 approved bill.

25           **Section 15.** The City Clerk shall certify to the passage and adoption of this Resolution  
26 and enter it into the book of original Resolutions.

27 ///

28 ///

1 PASSED, APPROVED and ADOPTED this \_\_\_ day of \_\_\_\_\_, 2003.

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4 \_\_\_\_\_  
Grace Vargas  
MAYOR  
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7 ///

8 ATTEST:

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11 \_\_\_\_\_  
Barbara A. McGee  
CITY CLERK  
12

13  
14  
15 APPROVED AS TO FORM:

16  
17  
18 \_\_\_\_\_  
Robert A. Owen  
CITY ATTORNEY  
19



1 STATE OF CALIFORNIA )  
2 CITY OF RIALTO )ss  
3 COUNTY OF SAN BERNARDINO )  
4  
5

6 I, BARBARA MCGEE, CITY CLERK FOR THE CITY OF RIALTO, DO HEREBY  
7 CERTIFY THAT the foregoing \_\_\_\_\_ was duly passed, approved and adopted at a  
8 meeting of the City Council of the City of Rialto held on the \_\_\_\_ day of \_\_\_\_\_, 2003.  
9

10 Upon Motion from City Council Member \_\_\_\_\_, seconded by City Council  
11 Member \_\_\_\_\_, the foregoing \_\_\_\_\_ was duly passed and adopted.  
12

13 VOTE ON THE MOTION:

14 AYES:

15 NOES:

16 ABSENT:  
17  
18

19 IN WITNESS WHEREOF, I have hereunto set my hand and the Official Seal of the  
20 City of Rialto this \_\_\_\_ day of \_\_\_\_\_, 2003.  
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24 \_\_\_\_\_  
25 BARBARA MCGEE, CITY CLERK  
26 CITY OF RIALTO  
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**EXHIBIT "A"**

ORDINANCE NO. \_\_\_\_

AN ORDINANCE OF THE CITY OF RIALTO, CALIFORNIA,  
ADOPTING CHAPTER 3.16 OF THE RIALTO MUNICIPAL  
CODE TO ADOPT, FOR A PERIOD OF FIVE YEARS, A  
UTILITY USER TAX FOR THE BENEFIT OF THE CITY'S  
GENERAL FUND

THE PEOPLE OF THE CITY OF RIALTO DO ORDAIN AS FOLLOWS:

**Section 1. Findings.** The people of the City of Rialto find as follows:

(a) Following terrorist attacks against the United States on September 11, 2001, all governmental units, including the City, have incurred increased demands for police, fire and other emergency services. The State Legislature is grappling with a state budget deficit of massive proportions and has proposed substantial reductions in funding available to the City for public safety and other vital general fund services. The City has substantially completed a three-year financial restructuring which involved reduction expenditures, layoffs of personnel and other measures aimed at increasing revenues, but a structural deficit in the approximate amount of between \$775,000 and \$1,600,000 per year remains and will not be cured without either increasing revenues or substantially reducing the public safety and other services available to the community. The adoption of this utility users tax for a limited period of five (5) years is required to assist the City in maintaining general governmental services to the community in light of these fiscal threats.

(b) This Ordinance was proposed by the City Council of the City of Rialto by the adoption of Resolution No. \_\_\_\_ by the affirmative votes of not less than four of its five members as required by Government Code Section 53724(b).

**Section 2. Adoption of Utility Users Tax.** The Rialto Municipal Code is hereby amended to add Chapter 3.16 to read as follows:

///

///

1 "Chapter 3.16- Utility User Tax

2  
3 **Section 3.16.010 Title.**

4 This chapter shall be known as the "Utility User Tax Ordinance of the City of Rialto."  
5

6 **Section 3.16.020 Purpose.**

7 This chapter is enacted solely to raise revenue for the general governmental purposes of  
8 the City of Rialto and is not enacted for regulatory purposes. All of the proceeds from the tax  
9 imposed by this chapter shall be placed in the City's general fund and used for the usual and  
10 current expenses of the City.  
11

12 **Section 3.16.030 Definition.**

13 Whenever used in this chapter, the following words and phrases shall be construed as  
14 defined in this section.  
15

16 **A.** "Person" shall mean any domestic or foreign corporation, firm, association,  
17 syndicate, joint stock company, partnership of any kind, joint venture, club,  
18 Massachusetts business or common law trust, society, or individual.

19 **B.** "City" shall mean the City of Rialto.

20  
21 **C.** "Electrical Corporation," "Gas Corporation," "Telephone Corporation," "Cable  
22 Television Corporation," "Water Corporation" and "Sewer System Corporation"  
23 shall have the same meanings as are defined in Sections 218, 222, 234, 241, and  
24 230.6, respectively, of the Public Utilities Code of the State of California.  
25 "Electrical Corporation," "Gas Corporation," "Water Corporation" and "Sewer  
26 System Corporation" shall include any municipality or government agency  
27 engaged in the selling or supplying of electrical power, gas, water, or sewer  
28 services to a Service User.

**D.** "Tax Administrator" shall mean the Chief Financial Officer of the City or his or  
her designee.

///

- 1 E. "Service Supplier" shall mean any entity required to collect or self-impose and  
2 remit a tax imposed by this section.
- 3 F. "Service User" shall mean a person required to pay a tax imposed by this  
4 section.
- 5 G. "Month" shall mean a calendar month.
- 6 H. "Telephone Services" shall mean services which provide the privilege of  
7 telephone communication with substantially all persons having telephone  
8 stations which are part of such telephone system.
- 9 I. "Non-utility Supplier" shall mean a Service Supplier, other than an electrical  
10 corporation providing service within the City, which generates electrical energy  
11 for its own use or for sale to others.

11 **Section 3.16.040 Telephone User Tax.**

12 There is hereby imposed on every person other than a Telephone Corporation, Electrical  
13 Corporation, Gas Corporation, Water Corporation, or Waste Hauler a tax for use of intrastate,  
14 interstate and international telephone services in the City of Rialto. The tax imposed by this  
15 section shall be at the rate of eight percent (8%) of the charges made for such services and shall  
16 be paid by the person paying for such services. Said tax shall apply to all services within the  
17 jurisdiction of the City to tax, including charges billed to a telephone account having a situs in  
18 the City, irrespective of whether a particular telephone service originates or terminates within  
19 the City.

- 20
- 21 A. As used in this section, the term "charges" shall not include charges for services  
22 paid for by inserting coins into coin-operated telephones except that, where such  
23 coin-operated service is furnished for a guaranteed amount, the amounts paid  
24 under such guarantee plus any fixed monthly or other periodic charge shall be  
25 included in the base for computing the amount of tax due; nor shall the term  
26 "charges" include charges for any type of service or equipment furnished by a  
27 Service Supplier subject to public utility regulation during any period in which  
28 the same or similar services or equipment are also available for sale or lease  
from persons other than a Service Supplier subject to public utility regulation;  
nor shall the words "telephone services" include private land mobile services or  
maritime mobile services as defined in Section 2.1 of Title 47 of the Code of  
Federal Regulations as said section existed on January 1, 1970; provided that  
"telephone services" shall include public land mobile services.

1 B. The tax imposed by this section shall be collected from the Service User by the  
2 person providing the telephone services, or the person receiving payment for  
3 such services. The amount of the tax collected in one (1) month shall be  
4 remitted to the Tax Administrator on or before the last day of the following  
5 month, unless the due date occurs on a weekend or a holiday, in which case the  
6 tax shall be remitted on or before the next business day thereafter. Taxes shall  
7 be deemed remitted on the date received by the Tax Administrator, or on the  
8 date postmarked if remitted by first class United States mail with postage fully  
9 prepaid. With prior written approval of the Tax Administrator, remittance of tax  
10 may be predicated on a formula based upon the payment pattern of the supplier's  
11 customers; or at the option of the person required to collect and remit the tax, an  
12 estimated amount of tax collected, measured by the tax bill in the previous  
13 month.

14 C. Notwithstanding the provisions of paragraph A of this section, the tax imposed  
15 under this section shall not be imposed upon any person for using telephone  
16 services to the extent that the amounts paid for such services are not subject to  
17 the tax imposed under Section 4251 of the Internal Revenue Code (26 U.S.C.  
18 Section 4251). Should the tax imposed under that Section ever be repealed, this  
19 paragraph C. shall be construed with respect to the form of that tax as it existed  
20 on the date it was repealed.

### 21 Section 3.16.050 Cellular Telephone User Tax.

22 A. There is hereby imposed a tax on the amounts paid for any cellular telephone  
23 communication services within the jurisdiction of the City to tax. The tax  
24 imposed by this section shall be at the rate of eight percent (8%) of the total  
25 charges made for such services, including but not limited to, access and basic  
26 monthly charges, and shall be paid by the person paying for such services.

27 B. As used in this section, the term "charges" does not include charges for services  
28 paid for by inserting coins in coin-operated cellular telephones except that where  
such coin-operated service is furnished for a guaranteed amount, the amounts  
paid under such guarantee plus any fixed monthly or other periodic charge shall  
be included in the base for computing the amount of tax due; nor does the term  
"charges" include charges for any type of service or equipment furnished by a  
service supplied subject to public utility regulation during any period in which  
the same or similar services or equipment are also available for sale or lease  
from persons other than a Service Supplier subject to public utility regulations.  
The term "cellular telephone communication services" refers to that service  
which, by means of portable or fixed cellular, digital, or other similar radio  
telephones, provides access to a telephone system and the privilege of  
telephone-quality communication with substantially all persons having  
telephone stations which are part of such telephone systems. The term "cellular  
telephone communication services" also includes public aeronautical mobile  
service, public land mobile service, public maritime mobile service, and public

1 mobile-satellite services, as defined in Section 2.1 of Title 47 of the Code of  
2 Federal Regulations, as it existed on October 1, 1992. The cellular telephone  
3 users tax is intended to, and does, apply to all charges within the jurisdiction of  
4 the City to tax, including charges billed to a cellular telephone account having a  
5 billing address in the City, irrespective of whether a particular communication  
6 service originates or terminates within the city.

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- C. This section 3.16.050 is included in addition to Section 3.16.040 to eliminate any ambiguity as to the application of the Telephone User Tax to cellular telephony. The specification of this aspect of the Telephone User Tax shall not, however, raise any implication that other forms of telephony are not within the scope of the Telephone User Tax. The Telephone User Tax is to be construed to reach to the full breadth of the City's constitutional power to tax and without respect to the technology or means by which telephone services are provided.

**Section 3.16.060 Electricity User Tax.**

- A. There is hereby imposed a tax on every person other than a Telephone Corporation, Electrical Corporation, Gas Corporation, Water Corporation, or Sewer Service Corporation using electrical energy in the City. The tax imposed by this section shall be at the rate of eight percent (8%) of the charges made for such energy and shall be paid by the person paying for such energy. The tax applicable to electrical energy provided by a non-utility supplier shall be determined by applying the tax rate to the equivalent charge the Service User would have incurred if the energy had been provided by the electrical corporation franchised by the City. The Tax Administrator shall make available rate schedules for this purpose. Non-utility suppliers shall install, maintain and use an appropriate metering system to enable compliance with this section. "Charges," as used in this section, shall include charges made for metered energy and charges for service, including customer charges, service charges, standby charges, charges for temporary services, demand charges, annual and monthly charges, and any other charge authorized by the California Public Utilities Commission or the Federal Energy Regulatory Commission.
- B. As used in this section, the term "using electrical energy" shall not be construed to mean the storage of such energy by a person in a battery owned or possessed by him or her for use in an automobile or other machinery or device apart from the premises upon which the energy was received, provided, however, that the term shall include the receiving of such energy for the purpose of using it in the charging of batteries; nor shall the term include the mere receiving of such energy by an electric public utility or governmental agency at a point within the City for resale; nor shall the term include the use of such energy in the production or distribution of water by a public utility or a governmental agency.

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1 C. The tax imposed in this section shall be collected from the Service User by the  
2 person supplying such energy. The amount of tax collected in one (1) month  
3 shall be remitted to the Tax Administrator on or before the last day of the  
4 following month, unless the due date occurs on a weekend or a holiday, in  
5 which case the tax shall be remitted on or before the next business day  
6 thereafter. Taxes shall be deemed remitted on the date received by the Tax  
7 Administrator, or on the date postmarked, if remitted by first class United States  
8 mail with postage fully prepaid. With prior written approval of the Tax  
9 Administrator, remittance of taxes may be predicated on a formula based upon  
10 the payment pattern of the supplier's customers.

11 **Section 3.16.070 Gas User Tax.**

12 A. There is hereby imposed a tax on every person other than a Telephone  
13 Corporation, Electrical Corporation, Gas Corporation, Water Corporation, or  
14 Sewer Service Corporation using in the City gas which is delivered through  
15 mains or pipes. The tax imposed by this section shall be at the rate of eight  
16 percent (8%) of the charges made for such gas and shall be paid by the person  
17 paying for such gas. "Charges," as used in this section, shall include charges  
18 made for metered gas and charges for service, including customer charges,  
19 service charges, and annual and monthly charges and any other charge  
20 authorized by the California Public Utilities Commission or the Federal Energy  
21 Regulatory Commission.

22 B. There shall be excluded from the base on which the tax imposed in this section  
23 is computed: (1) charges made for gas which is to be resold and delivered  
24 through mains or pipes; (2) charges made for gas sold for use in the generation  
25 of electrical energy or for the production or distribution of water by a public  
26 utility or governmental agency; (3) charges made for natural gas used in the  
27 propulsion of a motor vehicle, as that phrase is defined in the Vehicle Code of  
28 the State of California; and, (4) charges made for gas used by a non-utility  
supplier to generate electrical energy for its own use or for sale to others,  
provided the electricity so generated is subject to tax under Section 3.16.060 of  
this Code.

C. The tax imposed by this section shall be collected from the Service User by the  
person providing the gas. The amount of tax collected in one (1) month shall be  
remitted to the Tax Administrator on or before the last day of the following  
month, unless the due date occurs on a weekend or a holiday, in which case the  
tax shall be remitted on or before the next business day thereafter. Taxes shall  
be deemed remitted on the date received by the Tax Administrator, or on the  
date postmarked, if remitted by first class United States mail with postage fully  
prepaid. With prior written approval of the Tax Administrator, remittance of tax  
may be predicated on a formula based upon the payment pattern of the supplier's  
customers.

1 **Section 3.16.080 Sewer Service User Tax.**

- 2 A. There is hereby imposed a tax on every person other than a Telephone  
3 Corporation, Electrical Corporation, Gas Corporation, Water Corporation, or  
4 Sewer Service Corporation using in the City the services of a Sewer Service  
5 Corporation for the disposal of sewage into a "Sewer System," as that term is  
6 defined in Section 230.5 of the Public Utilities Code of the State of California.  
7 The tax imposed by this section shall be at the rate of eight percent (8%) of the  
8 charges made for such services and shall be paid by the person paying for such  
9 services. "Charges," as used in this section, shall include charges for service,  
10 including customer charges, service charges, and annual and monthly charges  
11 and any other charge authorized by the Rialto Municipal Code, a franchise or  
12 collection services agreement granted pursuant to that Code, or the law of the  
13 State of California.
- 14 B. The tax imposed by this section shall be collected from the Service User by the  
15 person providing the services. The amount of tax collected in one (1) month  
16 shall be remitted to the Tax Administrator on or before the last day of the  
17 following month, unless the due date occurs on a weekend or a holiday, in  
18 which case the tax shall be remitted on or before the next business day  
19 thereafter. Taxes shall be deemed remitted on the date received by the Tax  
20 Administrator, or on the date postmarked, if remitted by first class United States  
21 mail with postage fully prepaid. With prior written approval of the Tax  
22 Administrator, remittance of tax may be predicated on a formula based upon the  
23 payment pattern of the supplier's customers.

17 **Section 3.16.090 Water User Tax.**

- 18 A. There is hereby imposed a tax on every person other than a Telephone  
19 Corporation, Electrical Corporation, Gas Corporation, Water Corporation, or  
20 Sewer Service Corporation using water which is delivered through mains or  
21 pipes. The tax imposed by this section shall be at the rate of eight percent (8%)  
22 of the charges made for such water and shall be paid by the person paying for  
23 such water. "Charges," as used in this section, shall include charges made for  
24 metered water and charges for service, including customer charges, service  
25 charges, and annual and monthly charges and any other charge authorized by  
26 law.
- 27 B. Charges made for water which is to be resold and delivered through mains or  
28 pipes shall be excluded from the base on which the tax imposed by this section  
is computed.
- C. The tax imposed by this section shall be collected from the Service User by the  
person supplying the water. The amount of tax collected in one (1) month shall  
be remitted to the Tax Administrator on or before the last day of the following  
month, unless the due date occurs on a weekend or a holiday, in which case the  
tax shall be remitted on or before the next business day thereafter. Taxes shall



1 be deemed remitted on the date received by the Tax Administrator, or on the  
2 date postmarked, if remitted by first class United States mail with postage fully  
3 prepaid. With prior written approval of the Tax Administrator, remittance of tax  
4 may be predicated on a formula based upon the payment pattern of the supplier's  
5 customers.

6 **Section 3.16.100 Cable Television Users' Tax.**

7 A. There is hereby imposed a tax upon every person in the City other than a  
8 Telephone Corporation, Electrical Corporation, Gas Corporation, Water  
9 Corporation, or Sewer Service Corporation using cable television service in the  
10 City. The tax imposed by this section shall be at the rate of eight (8) percent of  
11 the charges made for such service and shall be paid by the person paying for  
12 such service.

13 B. As used in this section, the term "charges" includes, but is not limited to,  
14 charges for installation and programming, whether the programming is a cable  
15 transmission of broadcast channels, transmission of cable-only programming,  
16 "pay-per-view" programming or any other programming.

17 C. The tax imposed in this section shall be collected from the Service User by the  
18 person providing the cable television service. The amount of the tax collected in  
19 one (1) month shall be remitted to the Tax Administrator on or before the last  
20 day of the following month, unless the due date occurs on a weekend or a  
21 holiday, in which case the tax shall be remitted on or before the next business  
22 day thereafter. Taxes shall be deemed remitted on the date received by the Tax  
23 Administrator, or on the date postmarked if remitted by first class United States  
24 mail with postage fully prepaid. With prior written approval of the Tax  
25 Administrator, remittance of tax may be predicated on a formula based upon the  
26 payment pattern of the supplier's customers; or at the option of the person  
27 required to collect and remit the tax, an estimated amount of tax collected,  
28 measured by the tax bill in the previous month.

29 **Section 3.16.110 Interest and Penalty.**

30 A. Taxes collected from a Service User that are not remitted to the Tax  
31 Administrator on or before the due dates provided in this section are delinquent  
32 and are subject to penalties and interest.

33 B. Any person who fails to remit taxes collected in the time required by this section  
34 shall pay a penalty of five percent (5%) of the amount of the tax owed, and if  
35 not remitted within two (2) working days after the date of delinquency, shall pay  
36 a penalty of twenty percent (20%) of the amount of tax owed. Such penalty  
37 shall attach to the amount of tax due and shall be paid by the person required to  
38 collect and remit the tax.

1 C. When fraud or gross negligence in reporting and remitting tax collections is  
2 discovered, the Tax Administrator shall have power to impose additional  
3 penalties of twenty percent (20%) of taxes owed upon persons required to  
collect and remit taxes under the provisions of this section.

4 D. Any person required to remit to the Tax Administrator delinquent taxes as  
5 required in this section, shall pay interest at the rate of one and one-half percent  
6 (1.5%) per month or portion thereof, on the amount of tax owed exclusive of  
penalties, from the date on which the tax first became delinquent until paid.

7 E. Notwithstanding the provisions of paragraphs 2 and 4 of this section, no penalty  
8 or interest shall be applied if delinquencies are the result of natural disasters or  
9 other phenomena beyond the control of the person charged with collecting and  
10 remitting the tax, provided the person obliged to remit tax notifies the Tax  
Administrator as soon as normal communications permit.

11 **Section 3.16.120 Actions to Collect.**

12 Any tax required to be paid by a Service User under the provisions of this section shall  
13 be deemed a debt owed by the Service User to the City. Any such tax collected from a Service  
14 User which has not been remitted to the Tax Administrator shall be deemed a debt owed to the  
15 City by the person who collected the tax. Any person owing money to the City under the  
16 provisions of this section shall be liable in an action brought in the name of the City for the  
17 recovery of such amount.

18  
19 **Section 3.16.130 Duty to Collect -- Procedures.**

20 The duty to collect and remit the taxes imposed by this section shall be performed as  
21 follows:

22  
23 A. The tax shall be collected insofar as practicable at the same time as, and along  
24 with, the collection of charges made in accordance with the regular billing  
25 practices of the Service Supplier. Where the amount paid by a Service User is  
26 less than the full amount of the charge and the tax which has accrued for a  
27 billing period, such payment and any subsequent payments may be first applied  
28 to the charge until such charge has been fully satisfied. Any remaining balance  
shall be applied to the taxes due, except where a Service User pays the full  
amount of the charges but notifies the Service Supplier of a refusal to pay the  
tax imposed on such charges, in which case the Service Supplier may be  
relieved of the duty to collect the tax pursuant to Section 3.16.150 of this Code.

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- B. The duty to collect the tax from a Service User shall commence with the beginning of the first regular billing period applicable to that Service User which begins on or after July 1, 2003. Where a person is billed separately for distinct periods, the duty to collect shall arise separately for each billing period.

5 **Section 3.16.140 Additional Powers and Duties of Tax Administrator.**

- 6 A. The Tax Administrator shall have the power and duty, and is hereby directed, to  
7 enforce each and all of the provisions of this section.
- 8 B. The Tax Administrator shall have the power to adopt rules and regulations not  
9 inconsistent with provisions of this section for the purpose of carrying out and  
10 enforcing the payment, collection and remittance of the taxes herein imposed. A  
11 copy of such rules and regulations shall be on file in the Tax Administrator's  
12 office.
- 13 C. The Tax Administrator may make administrative agreements to vary the strict  
14 requirements of this section so that collection of any tax imposed hereby may be  
15 made in conformance with the billing procedures of a particular Service  
16 Supplier so long as said agreements result in collection of the tax in  
17 conformance with the general purpose and scope of this section. A copy of each  
18 such agreement shall be on file in the Tax Administrator's office.
- 19 D. The Tax Administrator shall have authority to retain an independent auditor to  
20 audit the charges and/or tax collections and remittances of any Service Supplier  
21 or Service User, as such times and in such manner as the Tax Administrator may  
22 deem to be in the best interests of the City.
- 23 E. Annually, within 30 days after the conclusion of each fiscal year which this  
24 chapter is in effect, the Tax Administrator shall retain an independent auditor to  
25 review the deposits and expenditures of the tax proceeds collected by the City  
26 pursuant to this chapter for the purpose of obtaining a report as to whether such  
27 tax proceeds have been expended in compliance with the laws affecting the  
28 City's expenditure of general fund revenues.

29 **Section 3.16.150 Assessment -- Administrative Remedy.**

- 30 A. The Tax Administrator may assess a Service User for taxes not paid to a Service  
31 Supplier.
- 32 B. Whenever the Tax Administrator determines that a Service User has deliberately  
33 withheld the amount of the tax owed from the amounts remitted to a Service  
34 Supplier, or that a Service User has refused to pay the amount of tax to a Service  
35 Supplier, or whenever the Tax Administrator otherwise deems it in the best  
36 interest of the City, he or she may relieve a Service Supplier of the obligation to

1 collect taxes due under this section from certain named Service Users for  
2 specified billing periods.

3 C. Service Suppliers shall inform the City of amounts which services users have  
4 failed to pay, along with the names, service and mailing addresses, and any  
5 reasons of the Service Users refusing to pay the tax imposed under this section  
6 of which the Service Supplier has knowledge. Whenever a Service User has  
7 failed to pay tax for two or more consecutive billing periods, the Tax  
8 Administrator may relieve the Service Supplier of the obligation to collect taxes  
9 due pursuant to paragraph B of this section.

10 D. The Tax Administrator shall notify the Service User that he or she has assumed  
11 responsibility to collect the taxes due for stated periods and shall demand  
12 payment of such taxes. The notice shall be served on the Service User by  
13 personal delivery or by deposit in the United States mail, postage prepaid,  
14 addressed to the Service User at the address to which billing was made by the  
15 Service Supplier or to his or her last known address. If a Service User fails to  
16 remit the tax to the Tax Administrator within fifteen (15) days from the date of  
17 the service of the notice, which shall be deemed to be the date of mailing if  
18 personal service is not accomplished, a penalty of twenty-five percent (25%) of  
19 the amount of the tax set forth in the notice shall be imposed, but shall in no  
20 event be less than five dollars (\$5.00). The penalty shall become part of the tax  
21 herein required to be paid.

### 22 **Section 3.16.160 Records.**

23 It shall be the duty of every person required to collect and remit to the City any tax  
24 imposed by this section to keep and preserve, for a period of three (3) years, all records  
25 necessary to determine the amount of tax that person was obliged to collect and remit to the  
26 City. The Tax Administrator or his or her designee shall have the right to inspect such records  
27 at all reasonable times.

### 28 **Section 3.16.170 Refunds.**

A. Any tax that has been overpaid, paid more than once, or erroneously or illegally  
collected or received by the Tax Administrator under this section may be  
refunded as provided in this section.

B. A Service Supplier may, with prior written approval from the Tax  
Administrator, claim a refund or take as credit against taxes collected and  
remitted an amount overpaid, paid more than once, or erroneously or illegally  
collected or received when it is established that the Service User from whom the  
tax has been collected did not owe the tax; provided however, that neither a

1 refund nor a credit shall be allowed unless the amount of the tax so collected has  
2 either been refunded or credited to the Service User. A Service Supplier that has  
3 collected any amount of tax in excess of the amount of tax imposed by this  
4 section may refund such amount to the Service User and may, with prior written  
5 approval of the Tax Administrator, claim credit for such overpayment against  
6 the amount of tax which is due to the City, provided such credit is claimed no  
7 later than one (1) year from the date of overpayment.

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C. No refund shall be paid unless the claimant produces written records which  
establish the right to the claimed refund.

D. Notwithstanding any other provision of this section, whenever a Service  
Supplier, pursuant to an order of the California Public Utilities Commission or a  
court of competent jurisdiction, makes a refund to Service Users of charges for  
past utility services, the taxes paid pursuant to this chapter on the amount of  
such refunded charges shall also be refunded to Service Users, and the Service  
Supplier may, with prior written approval of the Tax Administrator, take a credit  
for such refunded taxes against the amount of tax which is due upon the next  
monthly returns. In the event this paragraph D is repealed, the amounts of any  
refundable taxes will be borne by the City.

#### Section 3.16.180 Schedule of Implementation.

A. Each Service Supplier shall immediately implement collection procedures in  
accordance with the effective dates contained in this section.

B. Notwithstanding the provisions of paragraph A of this section, the Tax  
Administrator may grant a Service Supplier an extension of time to implement  
tax collection procedures to a date not later than September 30, 2003, provided  
that within 10 days of the effective date of this chapter the Service Supplier  
certifies in writing to the Tax Administrator that operational limitations prevent  
the Service Supplier from implementing tax collection procedures in accordance  
with the effective dates contained in this chapter.

C. Notwithstanding anything in this chapter to the contrary, if a Service Supplier  
has been granted an extension of time to implement tax collection procedures,  
taxes accrued for the period of time prior to implementation shall be due and  
collected in the first regular billing following the implementation of tax  
collection procedures, or in accordance with a collection schedule authorized by  
the Tax Administrator pursuant to paragraph D of this section.

D. The Tax Administrator may enter into an agreement with any Service Supplier  
to provide for reimbursement, within the limits set forth herein, of the Service  
Supplier's actual costs incurred in implementing procedures to collect the tax  
accrued from the time the tax became effective to the time the Service Supplier  
implements tax collection procedures in accordance with the requirements of

1 this chapter. Any agreement entered into pursuant to this paragraph D shall  
2 provide that the Service Supplier will be reimbursed by retaining up to 10% of  
3 such accrued taxes collected, but not to exceed (i) \$200,000 if all or a part of the  
4 previously accrued tax is included in all customer billings issued not later than  
5 July 30, 2003; (ii) \$150,000 if all or a part of the previously accrued tax is  
6 included in all customer billings issued after July 30, 2003 but on or before  
7 August 31, 2003; or (iii) \$100,000 if all or a part of the previously accrued tax is  
8 included in all customer billings issued after August 31, 2003, but on or before  
9 September 30, 2003.

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11 **E.** In any agreement entered into pursuant to paragraph D of this section, the Tax  
12 Administrator may authorize the Service Supplier to collect previously accrued  
13 taxes over a period of two or more months, provided that all such taxes are  
14 collected and remitted to the Tax Administrator no later than December 31,  
15 2003.

16 **Section 3.16.190 Reduction, Termination or Suspension of Utility User Tax.**

17 The Service Supplier shall, upon notification by the City, reduce, terminate or suspend  
18 any utility user tax as to each Service User commencing with the first full billing period  
19 applicable to such user which occurs after the effective day of such action by the City.  
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21 **Section 3.16.020 Constitutional Exemptions.**

22 Nothing in this section shall be construed as imposing a tax upon any person or  
23 transaction if that imposition would violate the Constitution of the United States, the  
24 Constitution of the State of California, or any California statute.  
25

26 **Section 3.16.210 Other Exemptions.**

27 **A.** The taxes imposed by this section shall not apply to any Service User who is the  
28 head of a household and either:

- 1) Sixty-five (65) years old or older; or
- 2) A member of a "very low income household" as that term is defined in Health & Safety Code Section 50105, as it now exists or may hereafter be amended.

**B.** The exemption granted by this section shall not eliminate the duty of the Service Supplier from collecting taxes from such exempt individuals or the duty of such exempt individuals from paying such taxes to the Service Supplier unless the

1 Service User applies for, and the Tax Administrator grants, an exemption in  
2 accordance with the provisions of paragraph 3 of this section.

3 C. Any person claiming an exemption from the taxes imposed by this chapter shall  
4 file a verified statement of exemption on a form prescribed by, and accompanied  
5 by such evidence as may be reasonably required by, the Tax Administrator prior  
6 to September 1, 2003 or June 30th of any subsequent year.

7 1) The Tax Administrator shall, within sixty (60) days of receipt of an  
8 application for exemption, determine whether the applicant is entitled  
9 to an exemption, and if so, notify the Service Supplier.

10 2) An exemption granted pursuant to this section shall become effective  
11 at the beginning of the first regular billing period which commences  
12 after the Tax Administrator has notified the Service Supplier that an  
13 exemption has been granted.

14 3) The Tax Administrator shall notify the Service Supplier of the  
15 termination of any person's right to exemption hereunder, or the  
16 change of any address to which service is supplied to any exempt  
17 person.

18 **Section 3.16.220 Effective Date and Sunset.**

19 The taxes imposed by this chapter shall become effective July 1, 2003. The tax imposed  
20 under this chapter shall apply to services furnished from the beginning of the first regular  
21 billing period commencing on or after July 1, 2003. This chapter shall be of no further force  
22 and effect at 11:59 p.m. on June 30, 2008.

23 **Section 3.16.230 Jurisdiction of the California Public Utilities Commission.**

24 Nothing contained in this section is intended to conflict with tariffs of any Service  
25 Supplier subject to the jurisdiction of the California Public Utilities Commission or with any  
26 applicable rules or regulations of that Commission. In the event any such conflict arises, the  
27 provisions of said rules, regulations, and tariffs shall control.

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1 **Section 3.16.240 Administrative Determinations; Appeal Procedures.**

2 The Tax Administrator shall administer this chapter. Appeals of any determination of  
3 the Tax Administrator shall be submitted in writing to the City Clerk not later than December  
4 1st of the fiscal year for which the tax is imposed. The City Administrator or his or her  
5 designee shall consider the appeal and issue a final decision to the appellant in writing.  
6

7  
8 **Section 3.16.250 Amendment of Ordinance.**

9 This chapter may be repealed or amended by the City Council without a vote of the  
10 people except as follows: as required by Propositions 62 and 218, any amendment to this  
11 chapter that increases the amount or rate of tax beyond the levels authorized by this chapter  
12 may not take effect unless approved by a vote of the people. The City Council may impose the  
13 taxes authorized by this chapter in any amount or rate which does not exceed the rate approved  
14 by the voters of the City.  
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18 **Section 3.16.260 Severability.**

19 If any section, sentence, clause, phrase, or portion of this chapter is for any reason held  
20 to be invalid or unenforceable by a court of competent jurisdiction, the remaining sections,  
21 sentences, clauses, phrases, or portions of this chapter shall nonetheless remain in full force and  
22 effect. The people of the City of Rialto hereby declare that they would have adopted each  
23 section, sentence, clause, phrase, or portion of this chapter, irrespective of the fact that any one  
24 or more sections, sentences, clauses, phrases, or portions of this chapter be declared invalid or  
25 unenforceable.  
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ELECTION CODE 9600 FORM

The undersigned proponent(s) or author(s) of the Primary / Rebuttal To  
(Circle Appropriate)

argument In Favor Of / Against ballot measure K at the  
(Circle Appropriate) (Name or Letter)

Special Election for the City of Rialto  
(Title of Election) (Jurisdiction)

to be held on June 3, 2003, hereby state that such argument is true and  
(Date)

correct to the best of their knowledge and belief.  
(His/Her/Their)

PRINTED NAME/SIGNATURE/TITLE

DATE

1. GRACE VARGAS  
(Printed Name)  
Grace Vargas  
(Signature)  
Mayor  
(Title)

MARCH 14, 2003

2. KURT WILSON  
(Printed Name)  
KW  
(Signature)  
Mayor Pro Tempore  
(Title)

MARCH 14, 2003

3. MICHAEL A. MEYERS  
(Printed Name)  
Michael Meyers  
(Signature)  
CHIEF OF POLICE  
(Title)

14 MAR 03

4. Stephen C. Wells  
(Printed Name)  
Stephen Wells  
(Signature)  
Fire Chief  
(Title)

MARCH 14, 2003

5. Michael E. Story  
(Printed Name)  
Michael E. Story  
(Signature)  
DIRECTOR OF DEVELOPMENT SERVICES  
(Title)

MARCH 14, 2003

## Argument in Favor of Measure K

Rialto has made tough fiscal choices – budgets have been cut, positions slashed, waste eliminated.

An independent auditor has confirmed that we've reduced our debt and made necessary reforms.

Unfortunately, Rialto now faces the prospect of additional devastating cuts, due to the state's budget crisis – with projections of over \$4 million in reduced city revenues annually.

With public safety services – police, fire, and paramedics – already having been cut to bare bones levels, the city needed a plan that would protect vital services through a locally controlled revenue source that would not be subject to state budget swings.

The result is Measure K, on the June 3<sup>rd</sup> ballot, which will:

- **PROTECT VITAL SERVICES:** Help Rialto achieve financial independence by keeping our tax dollars right here in Rialto and allowing us to protect vital services, like police, fire and paramedics that represent nearly 75% of the budget.
- **ELIMINATE PERS PROPERTY TAX:** if passed the City Council will eliminate the PERS property tax that city homeowners currently pay, saving the average household \$100 per year.
- **SENIORS PAY LESS:** Seniors, 65 and up, and very low income households are exempted. In addition to paying no utility tax, senior homeowners will benefit from elimination of the PERS tax.
- **MAINTAIN LOCAL CONTROL:** Through an 8% tax on utilities, Measure K would provide Rialto with a locally controlled revenue source of \$8.5 to \$10 million annually – money that cannot be taken by the state, and which can be used to protect police, fire, paramedic, and other vital city services.
- **EXPIRES AUTOMATICALLY:** By law, Measure K expires in 5 years, and cannot be renewed without another vote of the people.
- **ANNUAL AUDIT:** Collection and expenditure of the revenues associated with Measure K would be subject to an annual independent audit.

Protect Public Safety & Other Vital Services - Keep Tax Dollars Local.

Vote Yes on Measure K.

ELECTION CODE 9600 FORM

The undersigned proponent(s) or author(s) of the Primary / Rebuttal To  
(Circle Appropriate)

argument In Favor Of / Against ballot measure J at the  
(Circle Appropriate) (Name or Letter)

Special Election for the City of Rialto  
(Title of Election) (Jurisdiction)

to be held on June 3, 2003, hereby state that such argument is true and  
(Date)

correct to the best of their knowledge and belief.  
(His/Her/Their)

PRINTED NAME/SIGNATURE/TITLE

DATE

1. Joe F. Flores 3/14/03  
(Printed Name)  
Joe F. Flores  
(Signature)  
Business Owner / Property Owner  
(Title)

2. Greta J. Hanges 3-14-03  
(Printed Name)  
Greta J. Hanges  
(Signature)  
Serial Resident  
(Title)

3. Dennis D. Barton 3/14/03  
(Printed Name)  
Dennis D. Barton  
(Signature)  
Resident  
(Title)

4. TERRY B. THOMPSON 03/14-2003  
(Printed Name)  
Terry B. Thompson  
(Signature)  
PROPERTY OWNER / BUSINESS OWNER  
(Title)

5. \_\_\_\_\_  
(Printed Name)  
\_\_\_\_\_  
(Signature)  
\_\_\_\_\_  
(Title)

## Argument in Favor of Measure J

In 1999, our City Council and top management staff initiated a new era of fiscal restraint and accountability that brought us out of debt and helped turn our city around.

But that bold action was not without pain: 40 positions were eliminated, including 19 positions in the police and fire departments.

With state budget cuts threatening vital services, Rialto needs more local control of our own resources.

By voting Yes on Measure J, you will be telling the Council that new revenue from the proposed utility users' tax should be spent on:

**Increasing Police Protection:** Keeping our community safe from crime, drugs and gangs is a top priority. If Measure K passes, the City Council should fund the Police Chief's plan to:

- Hire 10 additional police officers to fight illegal gang activity, drug sales, robbery, and other crimes.
- Add additional non-sworn personnel for reporting and administrative activities, allowing officers to stay on patrol for longer periods of time.
- Assign staff to tackle illegal dumping, weeded lots, graffiti, junk motor vehicles, animal control violations and other neighborhood problems.
- Keep our schools safer by assigning police officers to partner with them.

**Strengthening Fire and Paramedic Services:** When it comes to fire fighting or paramedic care, every single second matters. If Measure K passes, we want our Council to support the Fire Chief's proposals to:

- Re-establish vital service levels impacted by reductions in 1999.
- Add 9 fire fighters/paramedics to reduce response times and keep all four stations, including Station 204, fully staffed.
- Purchase a ladder truck and replace other aging life saving equipment.

**For Safer Streets and Schools, and More Local Control – please vote Yes on Measure J.**

# UTILITY USER TAX Proposal



## Questions We'll Answer

- What is the **Utility User's Tax**?
- What benefits does it provide our residents and businesses?
- What services will it fund?
- What key services are affected if the utility users tax doesn't pass?
- What do I need to know about the utility user tax?

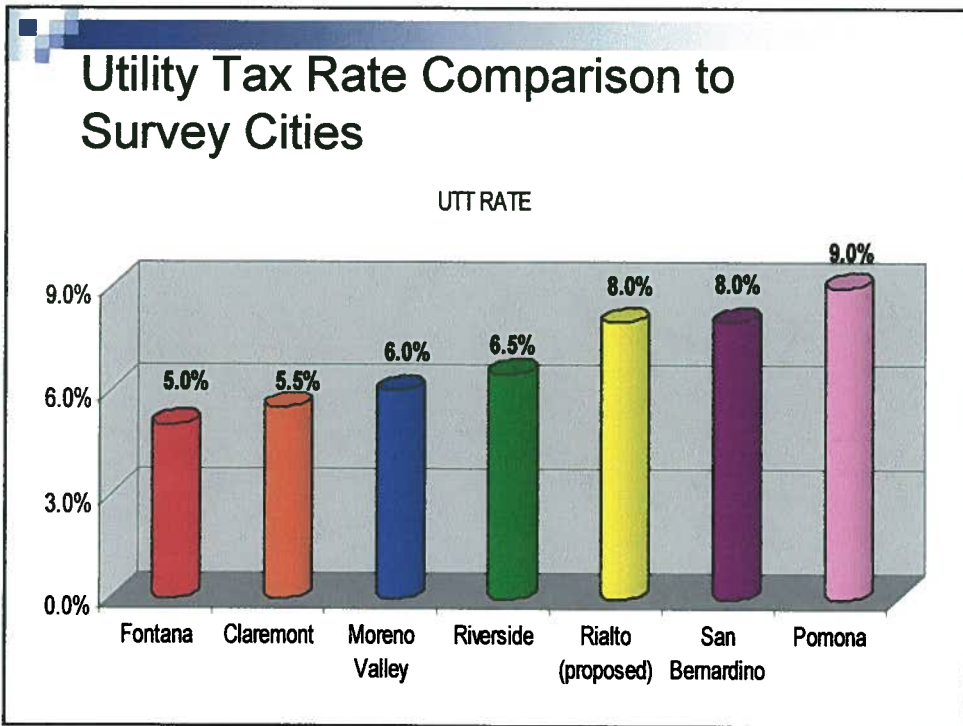
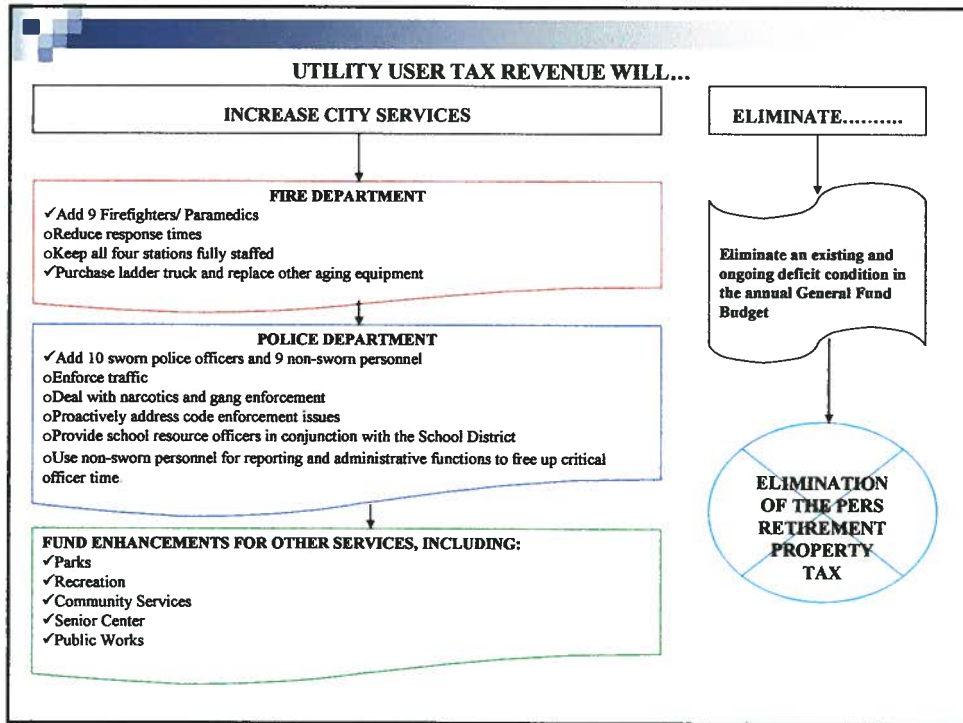
## What is the Utility User Tax?

- It's an 8% tax on home and business utilities (electric, gas, phone, cable, wireless, sewer and water services)
- A 5 year sunset is included to provide voter protection
- Low income households and seniors over 65 will qualify for exemptions
- City's independent auditors will review collection and expenditure of the tax proceeds

## How will this affect the citizens?

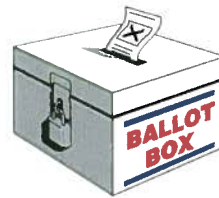
- **Elimination of (PERS) Rialto retirement tax on property tax bill**
- **Elimination of CFD 87-2 where applicable**
- An average Rialto household will pay about \$12 to \$25/month (net of retirement tax)
- It will fund critical City services
- Will allow the city to provide increased public safety, code enforcement, street maintenance, senior center operation, and others.





## When?

- Tuesday
- June 3, 2003



**Special Election Required**  
We must receive a 50% plus one vote

## Historical Perspective

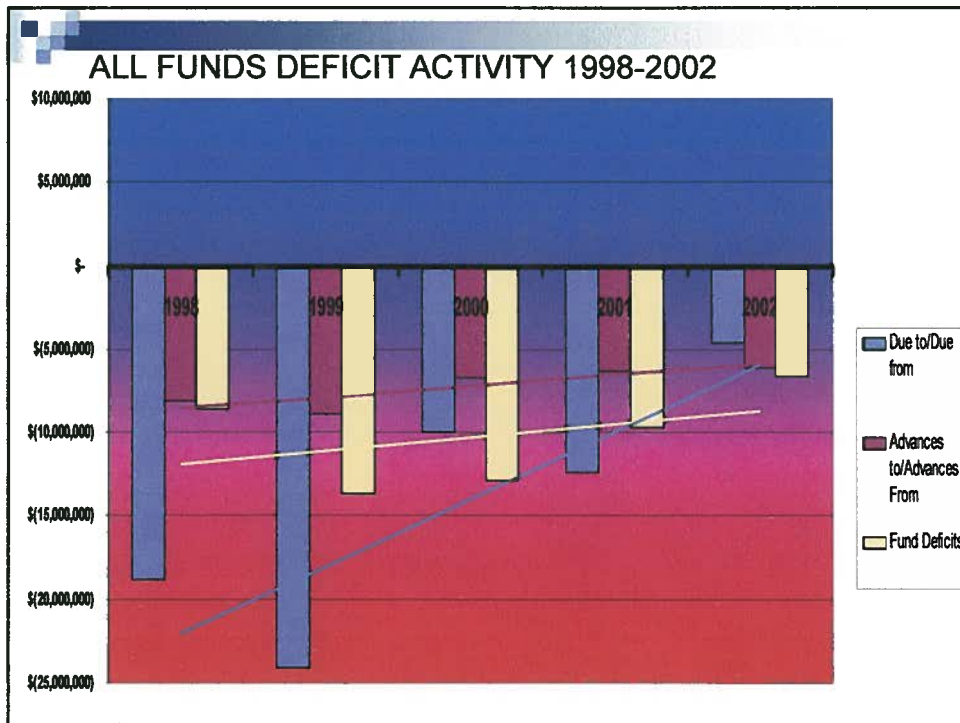
- Deficit spending
- Deficit fund balances (Internal Service Fund, Gas tax, Airport, others)
- State, County and Audit requirements to address issues

## Steps Taken

- Staff reduction, 40 positions – 19 public safety(1999)
- Line of credit & restricted CD for cash flow issues (2000)
- Cleanup of Measure I and Gas Tax issues (2000)
- Creation of RUA (2001)
- Restructuring of Airport debt with Sewer and Water (2001)
- Elimination of Internal Service Fund deficit fund balances (2001)

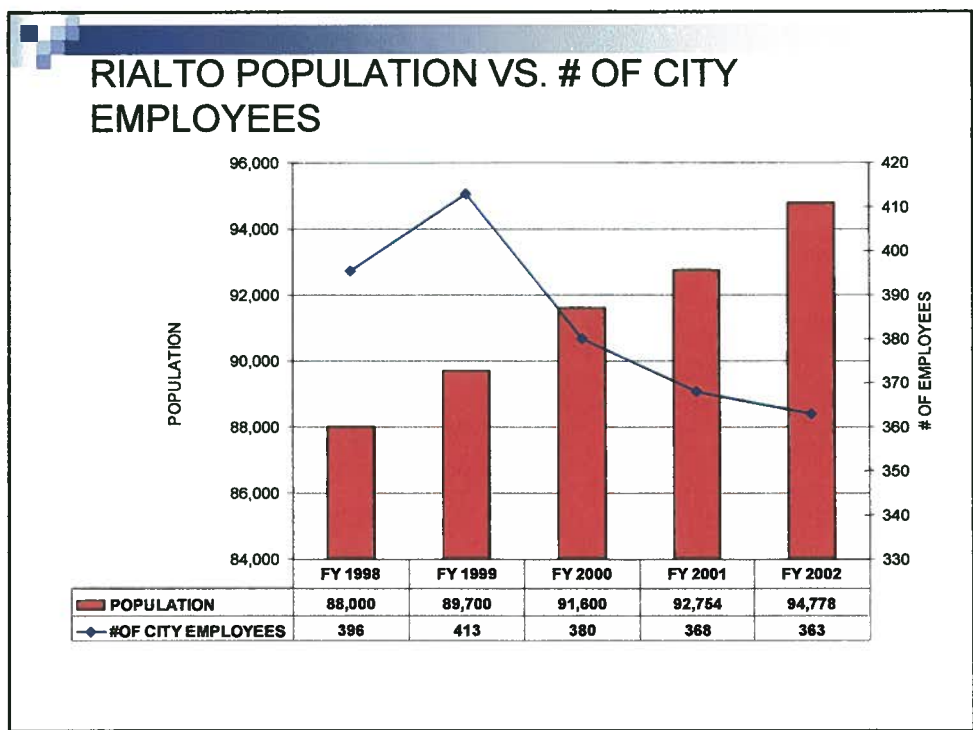
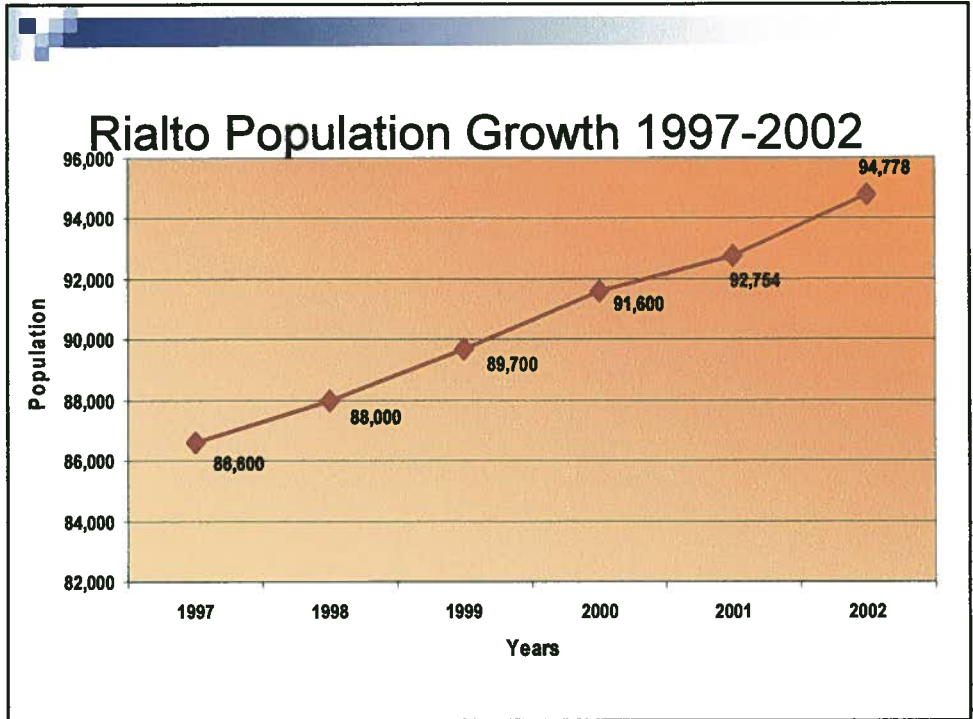
## Steps Taken (cont.)

- Internal Controls and council direction to stop deficit spending in all funds
- Elimination of remaining deficit fund balances (with exception of Airport) approximately \$3.5 million (midyear 2002)
- Creation of \$4M reserve to provide short term protection from state budget impacts (2003)
- Protection of remaining landfill payment (approx. \$8.5M) as reserve for working capital



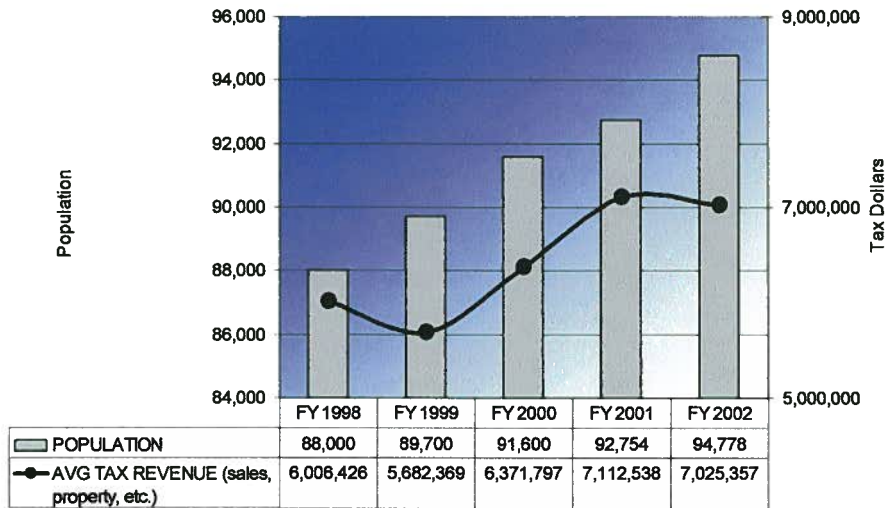
## Threats to the General Fund

- State Budget issues – VLF and other takeaways
- Sales Tax diversification and growth
- Service levels (i.e. public safety – funding and performance standardization to account for growth within the City) and those cost to layoffs in 1999
  - City population has gone from 86,600 in 1997 to 94,778 in 2002
- Deferred maintenance on equipment & facilities

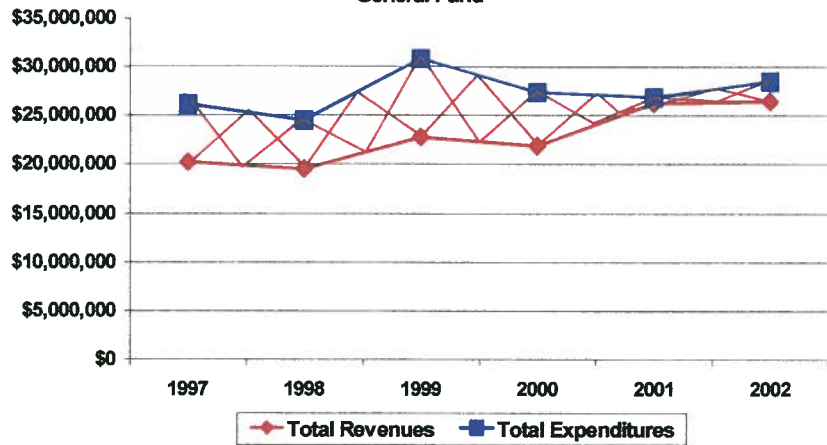




### FIVE YEAR TREND OF AVG. TAX REVENUE & POPULATION



### Revenues and Expenditures General Fund



\*FY2000 is presented without one time receipt of \$12.5M from landfill agreement  
 XXXX denotes the deficit in the General Fund

## GENERAL REVENUES PER CAPITA

City	General Fund Revenues FY2002	Population As of 01/01/02	Per Capita
SAN BERNARDINO	\$89,597,200	189,800	\$472
RIVERSIDE	\$125,495,000	269,400	\$466
CLAREMONT	\$14,850,000	35,550	\$418
POMONA	\$63,596,000	153,900	\$413
FONTANA	\$54,469,505	139,100	\$392
<b>RIALTO</b>	<b>\$29,106,249</b>	<b>94,800</b>	<b>\$307</b>
MORENO VALLEY	\$41,875,604	146,400	\$286

Source: Population: CA Dept of Finance

General Fund Revenues: Individual city resources

## POLICE EXPENDITURES PER CAPITA

City	Police Expenditures FY 2002	Population As of 01/01/02	Per Capita
SAN BERNARDINO	\$42,238,900	189,800	\$223
RIVERSIDE	\$59,329,000	269,400	\$220
POMONA	\$28,660,000	153,900	\$186
CLAREMONT	\$ 5,500,000	35,550	\$155
<b>RIALTO</b>	<b>\$14,149,642</b>	<b>94,800</b>	<b>\$149</b>
MORENO VALLEY	\$20,251,824	146,400	\$138
FONTANA	\$17,828,769	139,100	\$128

Source: Population: CA Dept of Finance

Police Expenditures: Individual city resources

## FIRE EXPENDITURES PER CAPITA

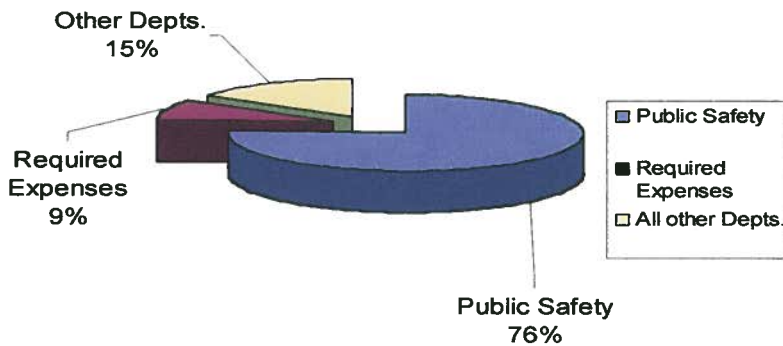
City	Fire Expenditures FY 2002	Population As of 01/01/02	Per Capita
SAN BERNARDINO	\$20,714,300	189,800	\$109
POMONA	\$16,337,000	153,900	\$106
RIVERSIDE	\$25,298,000	269,400	\$94
<b>RIALTO</b>	<b>\$8,225,336</b>	<b>94,800</b>	<b>\$87</b>
FONTANA	\$9,800,000	139,100	\$70
MORENO VALLEY	\$5,881,372	146,400	\$40

Source: Population: CA Dept of Finance

Fire Expenditures: Individual city resources (Note: Fontana's Fire Service is provided by West Valley Water Division and \$8.6M of the cost is funded from property tax collected by the county and \$1.2M is funded from the city.)

## Where your money goes.....

**General Fund Budgeted Expenditures \$31,091,842  
Fiscal Year 2001/2002**



BUDGETED EXPENDITURES FY2002		
Public Safety	23,597,592	76%
Required Expenses	2,723,258	9%
All other Depts.	4,770,992	15%
<b>Total Expenditures</b>	<b>\$31,091,842</b>	<b>100%</b>

BUDGETED REVENUES AT RISK		
Property Retirement Tax	\$2,475,187	8%
Booking Fees Reimb.	295,000	1%
Vehicle In Lueli Tax	3,500,000	11%
	<b>\$6,270,187</b>	<b>20%</b>

## How much is lost if State Budget cuts are approved?



### *Past State "take aways" – Impact on Rialto*

#### ■ Educational Revenue Augmentation Fund (ERAF)

- In 1992, facing a serious deficit position, the State of California began shifting local property tax revenues from cities, counties and some special districts into these funds to reduce the cost of education to the state general fund.

□ Annually since 92/93

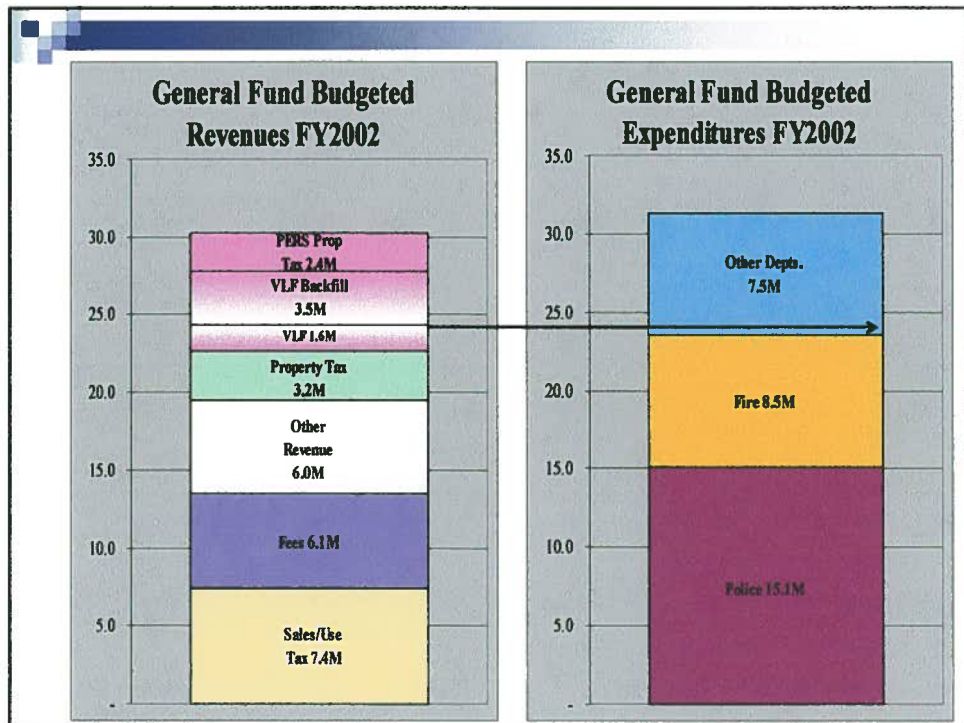
□ \$2,000,000 - for Rialto in 2001/2002, over \$20M since inception

#### ■ Many other 'State Grabs' over years

□ Cigarette Tax - Liquor License fees -Trailer Coach Fees

## Current Fiscal Threats by the State – Impact on Rialto

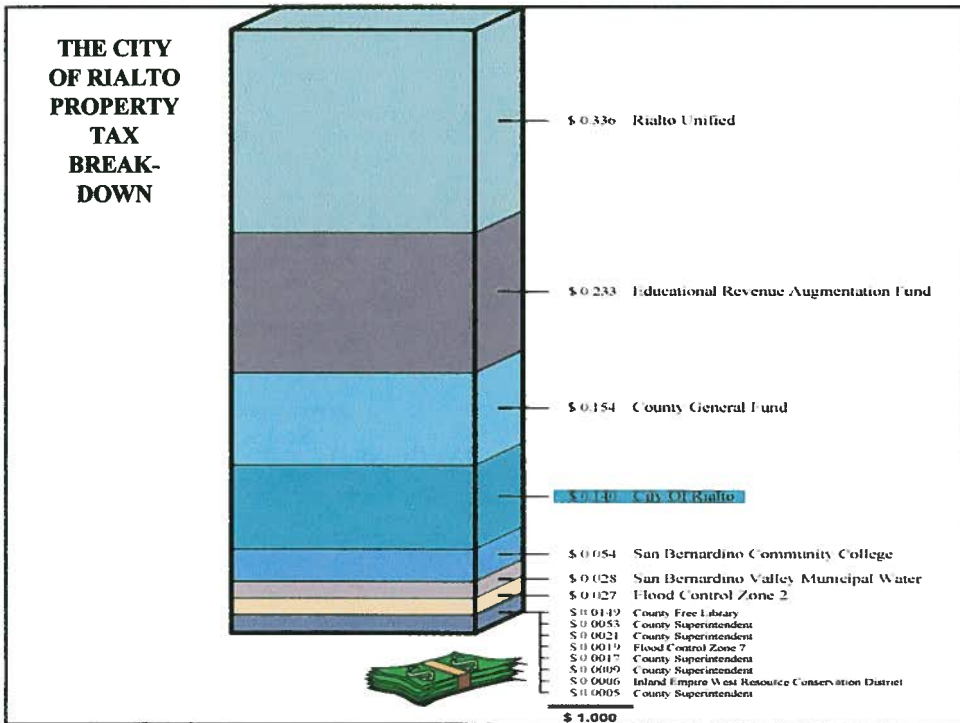
- VLF Backfill \$3.5M
- Booking Fees Reimbursement \$300,000
- State Mandated Cost Reimbursements \$300K-\$460K





# CITY'S PROPERTY TAXES

- City receives \$0.14 on the dollar  
Property tax dollar - \$3.2M for FY 2002
- Pays for about 10% of General Fund services



Potential Risks impacting the General Fund Revenues -  
FY04 (based on budget)

■ PERS tax	\$(2,798,716)	Jarvis actions
■ VLF	\$(3,500,000)	State crisis
■ Booking fees	\$( 300,000)	State crisis
■ State mandate reimb	<u>\$( 300,000)</u>	State crisis
Revenues at risk	\$(6,898,716)	
Structural deficit –FY03	<u>\$( 725,000)</u>	
Total impact/needs	\$(7,623,716)	23% of budget

RDA impacts from the State budget have a possible impact on the General Fund.

*What will we do if the ballot measure does not pass?*

**•The City will be forced to reduce the General Fund Expenditures by up to \$7.6 Million.**

**•City Council will have to prioritize cutting vital services.**

## Conclusion

- The problem we're faced with is a lack of revenue, not an expenditure issue.
- The City Council and staff are committed to a fiscally responsible program to provide vital needed services to the city.
- Rialto must have an immediate local revenue source that can be reviews in five years to determine how development and general fund revenues may charge the need for the tax.
- The community must provide for it's own future in a cooperative.

## So What Happens Next?

- Action is required
- Without action important services will be affected
- Other State actions may have an even greater impact on the City
- The utility user tax should be placed on the ballot so voters may decide whether the current levels of funding and service can continue without interruption and new levels added

Thank you for allowing us this  
opportunity to present this information to  
you.

## *Questions?*



*Know the facts – Vote on June 3, 2003*

# City of Rialto

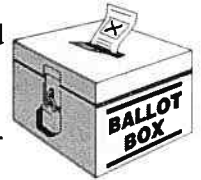
## Special Report

### What is the Utility User Tax

- ◆ The Utility User Tax has been used by California cities for over 30 years to help defray the cost of municipal services and obligations.
- ◆ The tax is assessed on the use of certain utility services—namely, electricity, gas, water, telephone, and cable television.
- ◆ UUT is one of the few revenue sources for which local governments have exclusive control over both the rate and the use. Other large sources of city revenues such as Property Taxes, Vehicle License Fees, etc. are controlled and distributed by the state and county.

### Utility User Tax Ballot Measure

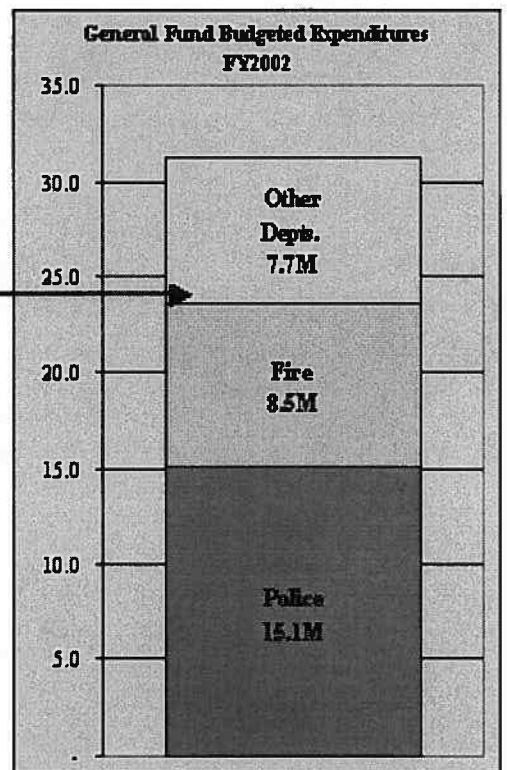
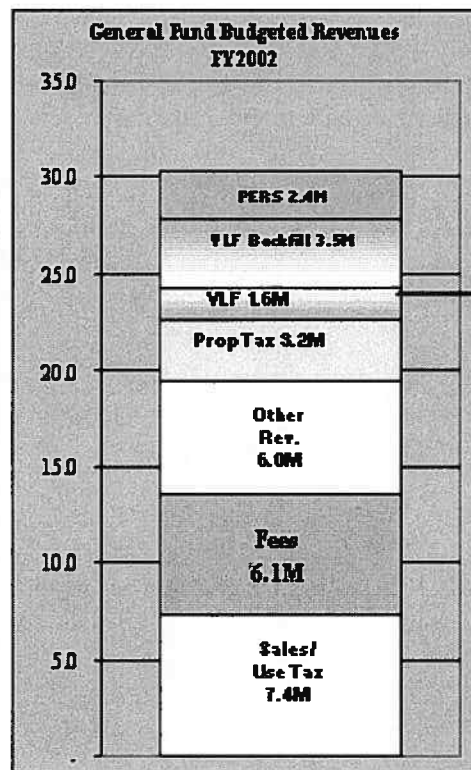
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2. A five year sunset will be included in the ballot measure to provide voter protection.
3. Exemptions will be available for low income households and seniors over 65.
4. The City's independent auditors will review collection and expenditures of the tax proceeds.



### Potential Risk Impacting Rialto's General Fund

Rialto is currently faced with many threats to the General Fund. If the proposed cuts in the State budget are approved, Rialto may lose over \$3.5M in State distributed funds. We also have the challenge of seeking alternative funding for the PERS retirement tax revenue of \$2.4M. It is budgeted that by FY2004 the General Fund will risk losing over \$6.8M in revenues.

The current budget for the General Fund is \$31M. The cost of providing a superior level of city services (i.e. fire, police, maintenance, etc.) exceeds the revenues received in the General Fund. There is a structural deficit of approximately \$775K. The total of all the potential risks impacting the General Fund for FY2004 totals \$7.6 million dollars, which represents 23% of the city's budget.





# Utility User Tax Revenue will.....

**INCREASE CITY SERVICES**

**FIRE DEPARTMENT**

- ✓ Add 9 Firefighters/ Paramedics
- Reduce response times
- Keep all four stations fully staffed
- ✓ Purchase ladder truck and replace other aging equipment

**POLICE DEPARTMENT**

- ✓ Add 10 sworn police officers and 9 non-sworn personnel
- Enforce traffic
- Deal with narcotics and gang enforcement
- Proactively address code enforcement issues
- Provide school resource officers in conjunction with the School District
- Use non-sworn personnel for reporting and administrative functions to free up critical officer time.

**FUND ENHANCEMENTS FOR OTHER SERVICES, INCLUDING:**

- ✓ Parks
- ✓ Recreation
- ✓ Community Services
- ✓ Senior Center
- ✓ Public Works

**ELIMINATE.....**

**Eliminate an existing and ongoing deficit condition in the annual General Fund Budget**

**ELIMINATION OF THE PERS RETIREMENT PROPERTY TAX**

Action is required to provide the level of service Rialto Citizens are entitled to. The City Council and staff are committed to running a fiscally responsible program that provides vitally needed services.

In order to achieve this goal, the city must look at alternative methods of generating city revenues. The utility user tax should be placed on the ballot so voters may decide whether the current level of funding and service can continue without interruption and new levels added.

If the ballot measure does not pass, the city council will have to prioritize cutting vital services.



# City of Rialto

## Special Report

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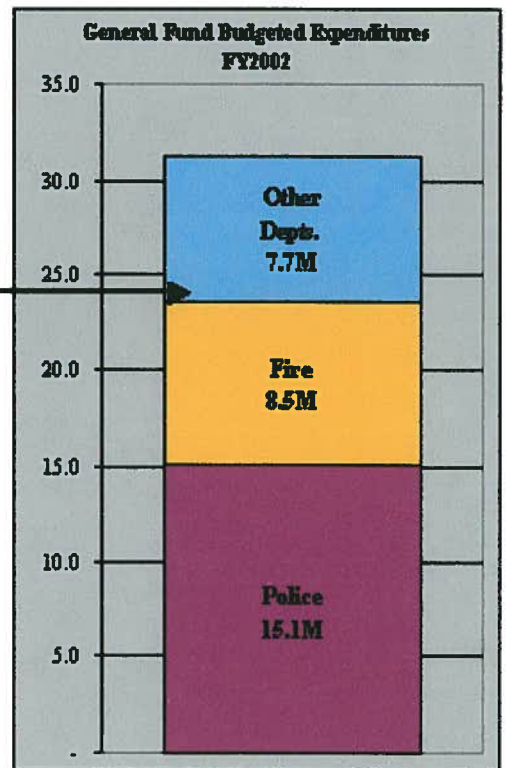
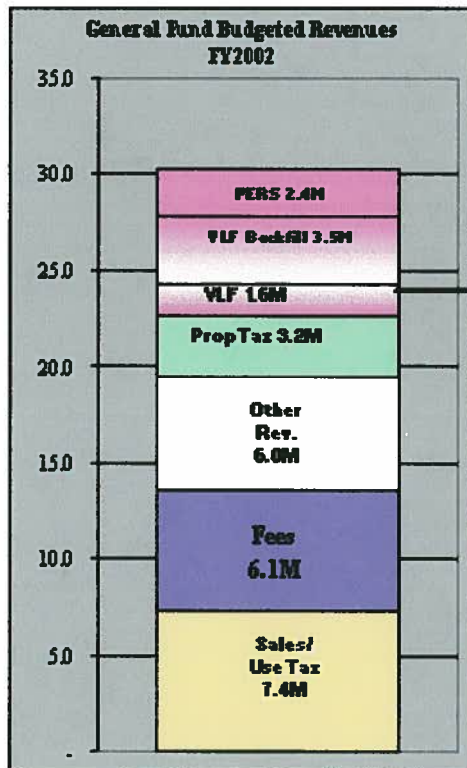
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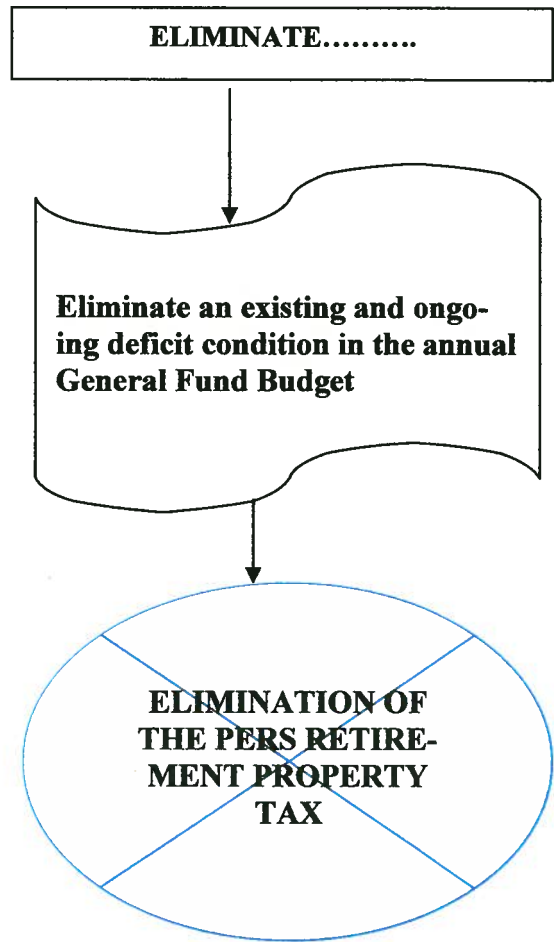
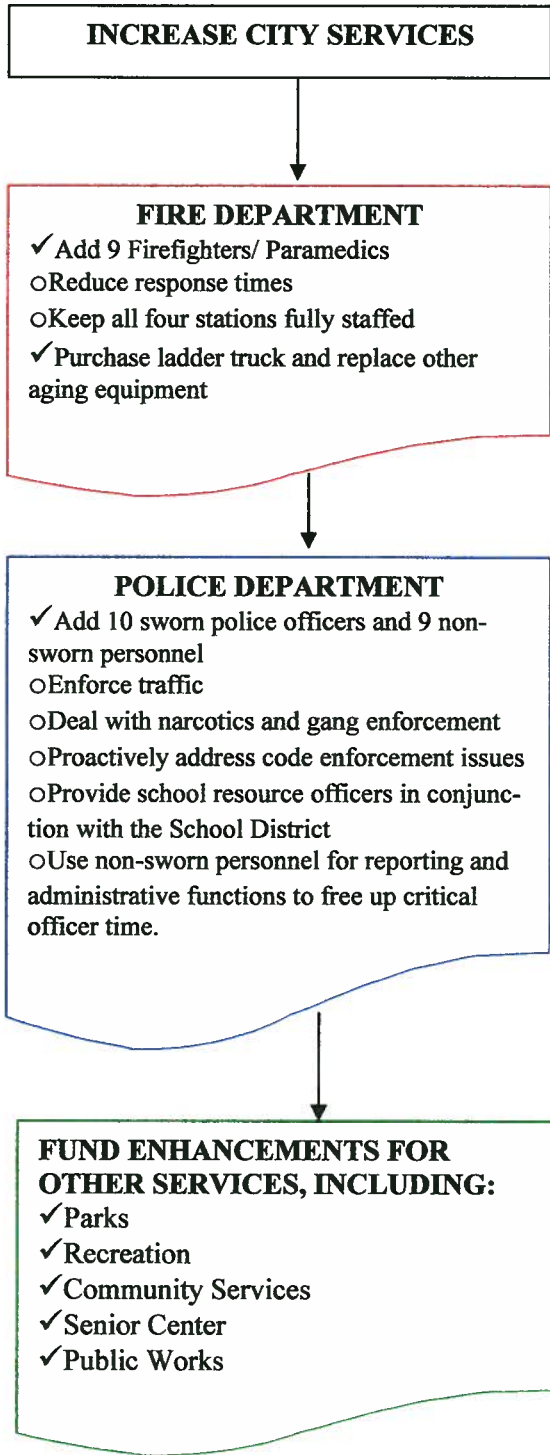
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# Utility User Tax Revenue will.....



Action is required to provide the level of service Rialto Citizens are entitled to. The City Council and staff are committed to running a fiscally responsible program that provides vitally needed services.

In order to achieve this goal, the city must look at alternative methods of generating city revenues. The utility user tax <sup>will</sup> ~~may~~ be placed on the ballot so voters <sup>should</sup> ~~may~~ decide whether the current level of funding and service can continue without interruption and new levels added.

If the ballot measure does not pass, the city council will have to prioritize cutting vital services.





# Voter Approved- Utility Users Tax



## Fiscal Year 2003/2004 Annual Report



Presentation October 5, 2004



# Tax Objectives

- Eliminate General Fund Structural Deficit
- Eliminate the need to levy PERS Retirement Tax and CFD 87-2 Assessment
- Increase Public Safety Service Levels
- Fund Staffing and equipment needed to increase General Fund Services, including Park Maintenance, Code Enforcement and the Senior Center
- Address Retention and Attraction of Employees
- Strengthen General Fund Reserves





# Tax Facts

- Voter Approved – June 3, 2003
- Exemptions provided for:
  - Seniors (Age 65 and Above)
  - Low Income Households
- 8% Tax on all Utilities
  - Gas/Electric
  - Telephone/Cellular
  - Water/Wastewater
  - Cable



# Progress-to-Date

## City Council Action Since Tax Inception:

July 2003

- Set PERS tax rate at Zero
- Set CFD 87-2 rate at Zero
- Fire – Added 9 Firefighter/Paramedic Positions
- Police – Added 10 Police Officer and 2 Code Enforcement Officer Positions

Aug./Sept. 2003

- Police – Added 6 Law Enforcement Technician and 1 Animal Control Officer Positions
- Finance – Added 1 Revenue Coordinator and 1 Sr. Admin. Analyst
- Fire – Added 1 new Battalion Chief and helped purchase a new Fire Ladder Truck and Engine.



# Progress-to-Date

## City Council Action Since Tax Inception: December 2003

- Public Works – Added 1 new Civil/Traffic Engineer
- Police - Purchased 2 New Police Motorcycles
- Human Resources – Added 1 New Human Resources Assistant
- Completed employee negotiations for Mid-Managers, General Employees, CGMA, Fire Management



## Jan.- Mar. 2004

- Increased revenue budget based on Trends
- Fire – Approved new MOU for Firefighters and purchased new gear and safety equipment
- Approved UUT implementation costs



## June 2004

- Fire – New Engine and Training Center Facility
- Public Works – Added 3 Maintenance positions



## July 2004

- Police – Approved budget for Purchase of 24 New Vehicles and Equipment
- Public Works – Approved budget for Purchase of 2 New Vehicles
- Finance – Purchased 1 New Vehicle for Business Licensing
- Assisted with Additional misc. Equipment Replacements & Deferred Maintenance Projects.

# Fiscal Year 2004 Actual Expenditures

Loss of PERS Retirement Tax and CFD 87-2 Revenues	\$2,263,284
Personnel Costs due to Additional Staff and MOU	\$2,979,827
PD Equipment Purchased	\$36,979
Fire Equipment Purchased	\$446,697
Misc. UUT Implementation Costs	\$50,500
PD Pending Equipment	\$858,387
Fire Pending Equipment	\$315,000
Other Pending Equipment Purchases and Projects	\$329,800
<b>Total</b>	<b>\$7,280,474</b>

The balance of actual UUT receipts is available to fund reserves.



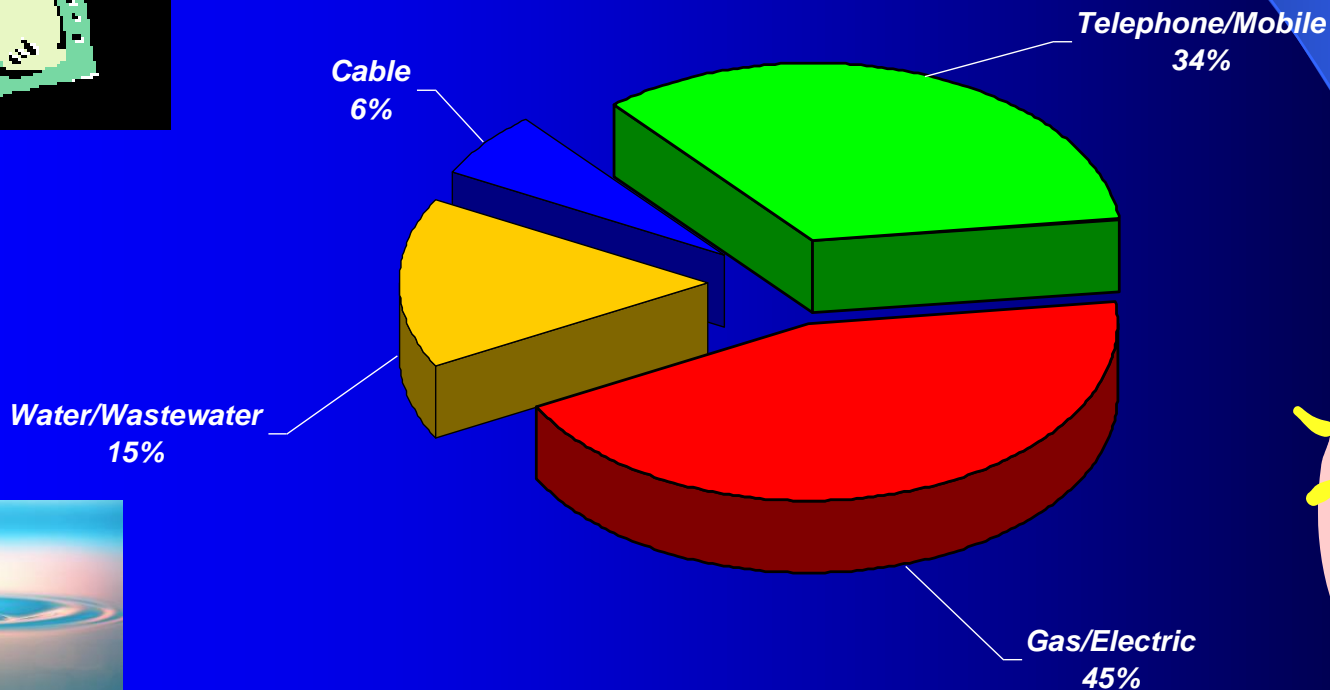
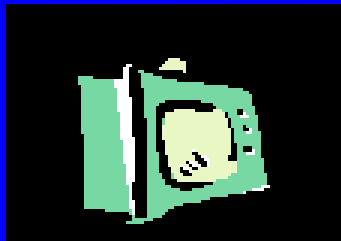
# UUT Revenue

- Fiscal Year Ending June 30, 2004 - \$8,672,781
- Monthly Average - \$800,313\*

\*As of September 27, 2004. Excludes first two months of implementation.



## Total Revenue by Utility Type







# UUT Revenue projections

- Fiscal Year 2004/2005 - \$9,800,000
- Fiscal Year 2005/2006 - \$10,000,000





# UUT Administration

- Utility Service Providers
  - 75 Telephone/Cellular
  - 8 Gas/Electric
  - 2 Cable
  - 3 Water/Wastewater\*  
\*including the City of Rialto.
- Exemption Administration
  - 1,798 Senior Exemptions
  - 140 Low Income Exemptions





# Future of the UUT

- Five Year Sunset provision – Expires June 2008
- Continue service level enhancement as approved by City Council and voters.
- Implement Long-Range Financial Planning to continue Stabilization of City Finances.

The background is a dark blue gradient. A thin, light blue curved line starts from the top left and curves towards the center. A larger, semi-transparent blue shape, resembling a spotlight or a lens flare, is positioned in the lower right quadrant, pointing towards the center. The text "The End" is centered in the middle of the image.

**The End**



# Approved Expenditures

## Fiscal Year 2004 Budgeted Personnel Expenses

### Police

10 Police Officers	\$556,017
2 Code Enforcement Officers	\$86,400
6 Law Enforcement Technicians	\$296,556
1 Animal Control Officer	\$44,165

### Fire

9 Firefighter/Paramedic	\$585,184
1 Battalion Chief	\$89,040

### Finance

1 Senior Admin. Analyst	\$44,592
1 Revenue Coordinator	\$53,894

### Human Resources

1 Human Resources Assistant	\$29,800
-----------------------------	----------

### Public Works

1 Traffic Engineer	\$100,000
3 Maintenance Staff	\$141,234

**SUBTOTAL** **\$2,026,882**







# Approved Expenditures cont'd

## Fiscal Year 2004 Budgeted Equipment and Gear

### Police

24 New Vehicles \$858,387

2 Motorcycles \$32,765

### Fire

New Engine \$245,000

Training Center \$70,000

Fire Ladder Truck \$446,697\*

### Public Works

2 Maintenance Trucks \$53,000

Misc. Deferred Maintenance Projects \$256,800

### Finance

1 New Business Licensing Vehicle \$20,000

**SUBTOTAL \$1,982,649**

\*The General Fund did not fund the entire purchase of the Fire Ladder Truck





# Approved Expenditures cont'd

## Fiscal Year 2004 Budgeted Misc. Expenses

Structural Budget Deficit	\$1,513,619
Eliminate PERS tax revenue	\$2,149,042
Eliminate CFD 87-2 revenue	\$114,242
Misc. UUT Implementation Costs	\$50,500
Annual Costs Resulting from Completed Negotiations	\$835,847
<b>TOTAL</b>	<b>\$4,663,250</b>
<b>Grand Total Expenditures</b>	<b>\$8,672,781</b>

# Approved Fiscal Year 2004 Budgeted Expenditures



## **Police**

19 New Positions	\$983,138
26 New Vehicles (Fully Equipped)	\$891,152

## **Fire**

10 New Positions	\$674,224
Training Center and 2 New Trucks	\$761,697

## **Public Works**

4 New Positions	\$241,234
2 New Maintenance Vehicles & Misc. Projects	\$309,800

## **Other Departments**

3 New Positions	\$128,286
1 New Vehicle	\$20,000

## **Other Misc. Expenses**

Elimination of PERS Property Tax and CFD 87-2 Revenue	\$2,263,284
Structural Budget Deficit	\$1,513,619
Annual Costs Resulting from Completed Labor Negotiations	\$835,847
Misc. UUT Implementation Costs	\$50,500

<b>Grand Total Expenditures</b>	<b>\$8,672,781</b>
---------------------------------	--------------------

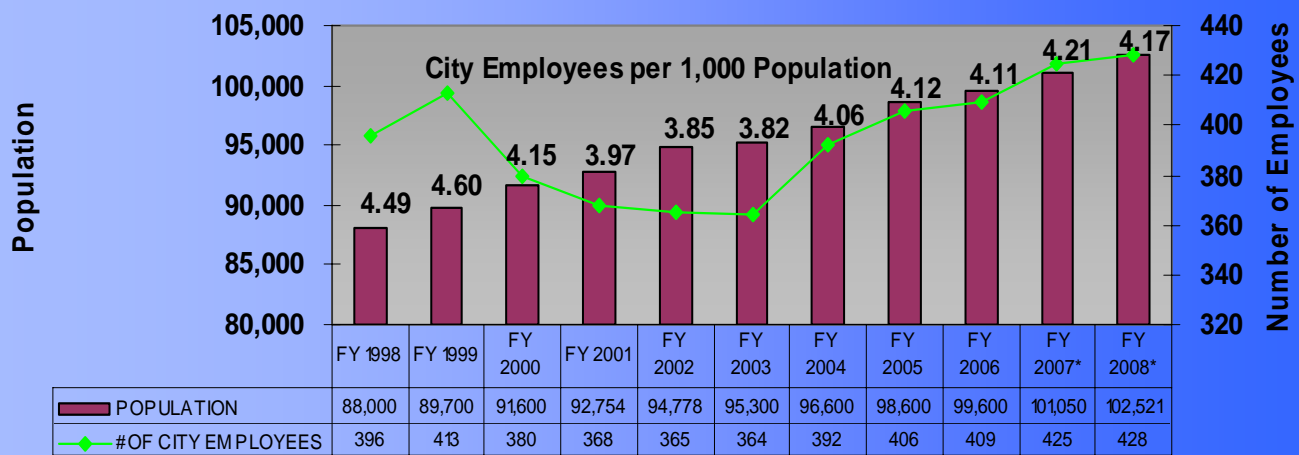


# Utility Users Tax Fact Sheet

## What is the Money Used For?

In the 1999/2000 Fiscal Year, the City of Rialto was on the verge of bankruptcy and had to lay-off a significant number of its employees, which reduced service levels for all City services. Since the approval of the UUT, the City has been able to increase staffing and replace much needed aging vehicles and equipment. (Note: the ratio of staff to population is still not at the level it was prior to the layoffs.) The Police and Fire departments represent 74% of the expenditures for the City's General Fund; thus they are major beneficiaries of the UUT, as intended.

City of Rialto Population vs. Number of City Employees



## What is the Utility Users Tax?

The Utility Users Tax is a voter approved general tax that is applied as a percentage of utility service bills. The utilities that it is applied to are: Electricity, Gas, Water and Wastewater, Cable and Telephone Services. The rate was approved at 8%.



## What does the Utility Users Tax Mean to the City of Rialto?

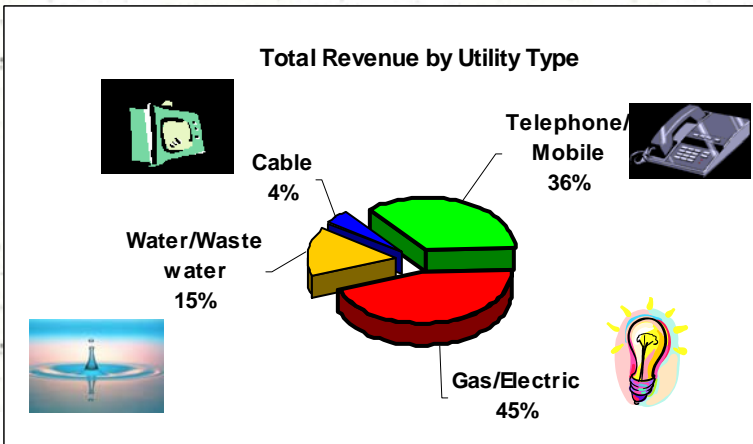
Approval of the UUT means that the Citizens of Rialto are concerned about the success and welfare of their community. It is an investment into the FUTURE OF RIALTO!



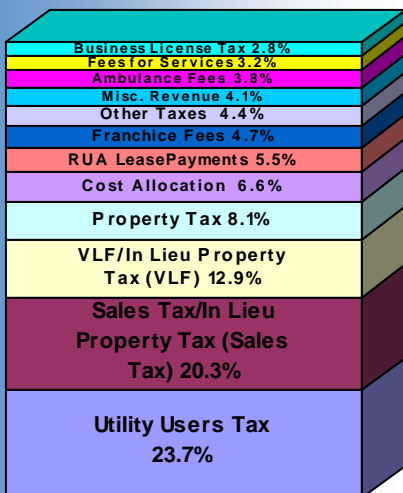
# City of Rialto—Utility Users Fact Sheet

Since the Adoption of the UUT, the City of Rialto has been able to:

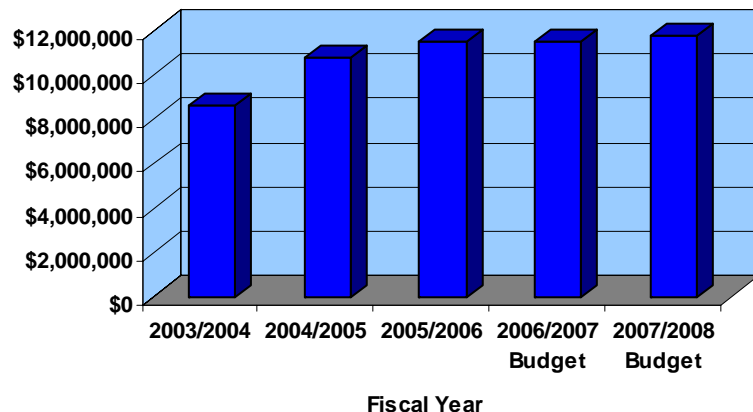
- Eliminate Structural Budget Deficit
- Eliminate the need to Levy the PERS Property Tax and CFD 87-2 Special Tax
- Add - 22 Police Personnel  
10 Fire Personnel  
7 Public Works and other Personnel
- Purchase - 23 Police and Code Enforcement Vehicles  
7 Fire Vehicles (Including a Ladder Truck and New Engine)
- 12 Public Works and Engineering Vehicles
- & Much More...



General Fund Revenues by Source



Utility Users Tax Revenue By Fiscal Year







# City of Rialto

Council Chambers  
150 S. Palm Ave.  
Rialto, CA 92376

## Staff Report - Detailed

File Number: 12-320

<b>File ID:</b> 12-320	<b>Type:</b> Agenda Item	<b>Status:</b> Agenda Ready
<b>Version:</b> 1	<b>Reference:</b>	<b>In Control:</b> City Council
<b>File Name:</b>		<b>File Created:</b> 11/14/2012
<b>Title:</b> Request City Council to conduct a Public Workshop to Discuss the Utility User Tax.		<b>Final Action:</b>

**Notes:**

**Agenda Date:** 11/20/2012

**Agenda Number:** ITEM 1

**Sponsors:**

**Enactment Date:**

**Attachments:**

**Enactment Number:**

**Contact:**

**Hearing Date:**

**Prepared by:** tsandell@rialto.ca.gov

**Effective Date:**

### History of Legislative File

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
1	City Council	11/20/2012					

### Text of Legislative File 12-320

For City Council Meeting

TO: Honorable Mayor and City Council

APPROVAL: Michael Story, City Administrator

FROM: George N. Harris II, Director of Administrative and Community Services

Request City Council to conduct a Public Workshop to Discuss the Utility User Tax.

**BACKGROUND:**

The Utility User Tax (UUT) levied on the users of various utilities in the City of Rialto is currently set at a rate of 8%. When the tax was first adopted in 2003, it was originally intended to be a 5-year measure. Due to the protracted economic downturn and the

resulting loss of General Fund revenue from property taxes and other sources, the UUT was reapproved for a second 5-year term in 2007. It has since become a vitally important source, currently representing nearly 23% of the General Fund revenue budget.

**ANALYSIS/DISCUSSION:**

The UUT will sunset in June 2013 unless renewed again by a vote of the citizens of Rialto. General Fund revenues from traditional sources such as Property Taxes continue to be at insufficient levels and there are no other sources of replacement revenue. The City has made use of Reserve funds in the past several years to overcome the structural deficits. Current Reserve funds are reaching a critical level and if used further, would severely hamper the City's ability to continue operations.

Deficit Spending

Management has responded to ongoing annual budget deficits since 2008 by implementing various cost savings measures which included: staffing reductions, negotiating employee concessions, reduced services and supplies spending, etc. There exists a \$7 million deficit in the current Fiscal Year and further cost saving measures will be needed to resolve the existing imbalance. A loss of UUT revenue will not only lead to severe reductions in the Public Safety departments but also the reduction of some non-Public Safety areas, namely; recreation, code enforcement, street and parks maintenance, just to name a few.

General Fund Reserves

Deficit spending beginning in 2010 has severely depleted the contingency reserves below the policy goal of 50% of the budgeted General Fund expenditures. Reserve levels in Fiscal Year 2012-13 are projected to remain below the 50% contingency policy.

A loss of \$11 million in annual revenue will result if the UUT is not reapproved. The full balance of the contingency reserves will be exhausted in Fiscal Year 2013-14.

Service Level Impacts

Continued staffing reductions since 2007, whether caused by attrition or layoffs, affect public safety, community service and response times for Police, Fire and community services. An additional loss of \$11M in UUT revenue will lead to more severe cuts, approximately 23% in City functions including recreation, park and street maintenance, code enforcement, animal control, parking enforcement and other community programs.

Fiscal Emergency

Loss of the \$11 million in UUT revenue, when combined with the existing structural deficit of \$7 million, if not resolved, represents a total General Fund shortfall of over



\$18 million. This would create a catastrophic "Fiscal Emergency" in the General Fund and would cause the need for major cutbacks and additional layoffs to prevent bankruptcy. Drastic reductions in public safety would result in a downward spiral of higher crime and lower property tax values, negatively impacting the solvency of the General Fund and the City's ability to generate capital by issuing bonds for infrastructure projects in the future, due to lowered credit ratings.

**ENVIRONMENTAL IMPACT:**

The proposed extension of the UUT is not a project as defined under Section 15378 of the California Environmental Quality Act (CEQA):

**15378. PROJECT**

(a) "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and that is any of the following:

(4) The creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

**GENERAL PLAN CONSISTENCY:**

The proposed extension of the Utility User Tax complies with the following Principles, Goals and Policies of the Rialto General Plan:

Guiding Principal No. 1: Essential community services and amenities must meet the needs and desires of our families.

Goal 3-7: Upgrade public infrastructure as an inducement to promote private investment.

Goal 3-11: Provide community facilities that adequately support established programs, can accommodate future needs, and are accessible to all members of the community.

Policy 3-11.1: Allocate resources for the maintenance and operations of City facilities; explore alternative funding options for maintenance and operational costs of new facilities.

Goal 5-3: Increase the City's fire protection capabilities, and implement fire prevention regulations and standards that minimize potential fire hazards and fire losses.

Policy 5-3.1: Provide for fire personnel, equipment, and fire stations to have adequate and appropriate resources to meet the needs and serve all areas of Rialto.

Goal 5-8: Provide effective and comprehensive policing services that meet the safety needs of Rialto.

Policy 5-8.1: Provide timely responses to emergency and nonemergency call for service

24 hours a day, per the City standards.

**LEGAL REVIEW:**

The City Attorney has reviewed and approved this staff report.

**FINANCIAL IMPACT:**

Projected revenue from the UUT in FY2014 is approximately \$11M. Voter approval is required to continue levying the tax beyond June 30, 2013. The loss of this revenue would prompt the need to eliminate staffing and other service-related expenditures in order to establish a balanced budget for Fiscal Year 2013-14. Any changes required as a result of the UUT election will be reflected in the proposed Fiscal Year 2013-14 budget, which is expected to be approved no later than June 2013.

**RECOMMENDATION:**

Staff recommends that the City Council Conduct a Public Workshop to Discuss the Utility User Tax.





# Utility Users Tax

Proposal to Extend by Voter Approval

Council Presentation – Sept. 25, 2012



# What is the UUT?

- The Utility Users Tax (UUT) is an 8% tax on utility use in the City of Rialto. The utilities taxed are:
  - Electric
  - Gas
  - Telephone
  - Water
  - Wastewater
  - Cable
- The UUT is a General Fund General Tax –
  - Can be used for any general city purpose
  - General Taxes only require a simple majority voter approval (50%+1)



# What is the UUT?

- Originally approved in 2001 with a 5-year sunset through June 30, 2008
- Extended in 2007 for an additional 5-years, which expires June 30, 2013
- Initially, a temporary solution to prevent bankruptcy
- Originally projected to be replaced by Economic Development and other revenue growth.



# UUT Revenue By Fiscal Year

## ■ Revenue as Percentage of total GF

UUT Revenue by Utility Type	Fiscal Year 2008/09	Fiscal Year 2009/10	Fiscal Year 2010/11	Fiscal Year 2011/12	Fiscal Year 2012/13 Budget
Gas/Electric	5,583,839	5,382,279	5,502,879	5,378,303	5,500,000
Telephone/Mobile	4,108,725	3,781,586	3,592,159	3,569,177	3,540,000
Water	862,375	866,270	905,922	956,277	930,000
Wastewater	727,833	723,607	722,305	693,714	810,000
Cable/Satellite	450,936	451,264	481,418	485,476	480,000
<b>TOTAL</b>	<b>11,733,708</b>	<b>11,205,006</b>	<b>11,204,683</b>	<b>11,082,947</b>	<b>11,260,000</b>
Total GF Revs	57,806,151	50,891,693	55,947,046	51,377,266	49,369,147
% of Total GF Rev	20.3%	22.0%	20.0%	21.6%	22.8%



# UUT Accomplishments

## First 5 Years

- Eliminate the need to levy the PERS property tax.
- Eliminate the need to levy Community Facilities District (CFD) 87-2 taxes.
- Add 9 Firefighter/Paramedic trainees
- Add 10 Police Officers and 6 Law Enforcement Technicians
- Add 2 Code Enforcement Officers and 1 Animal Control Officer
- Add 1 new Fire Battalion Chief
- Help fund the purchase of a new Fire ladder truck and engine
- Purchase 2 new motorcycles for the Police Department
- Add support staff in Finance and Human Resources
- Add 3 new maintenance employees



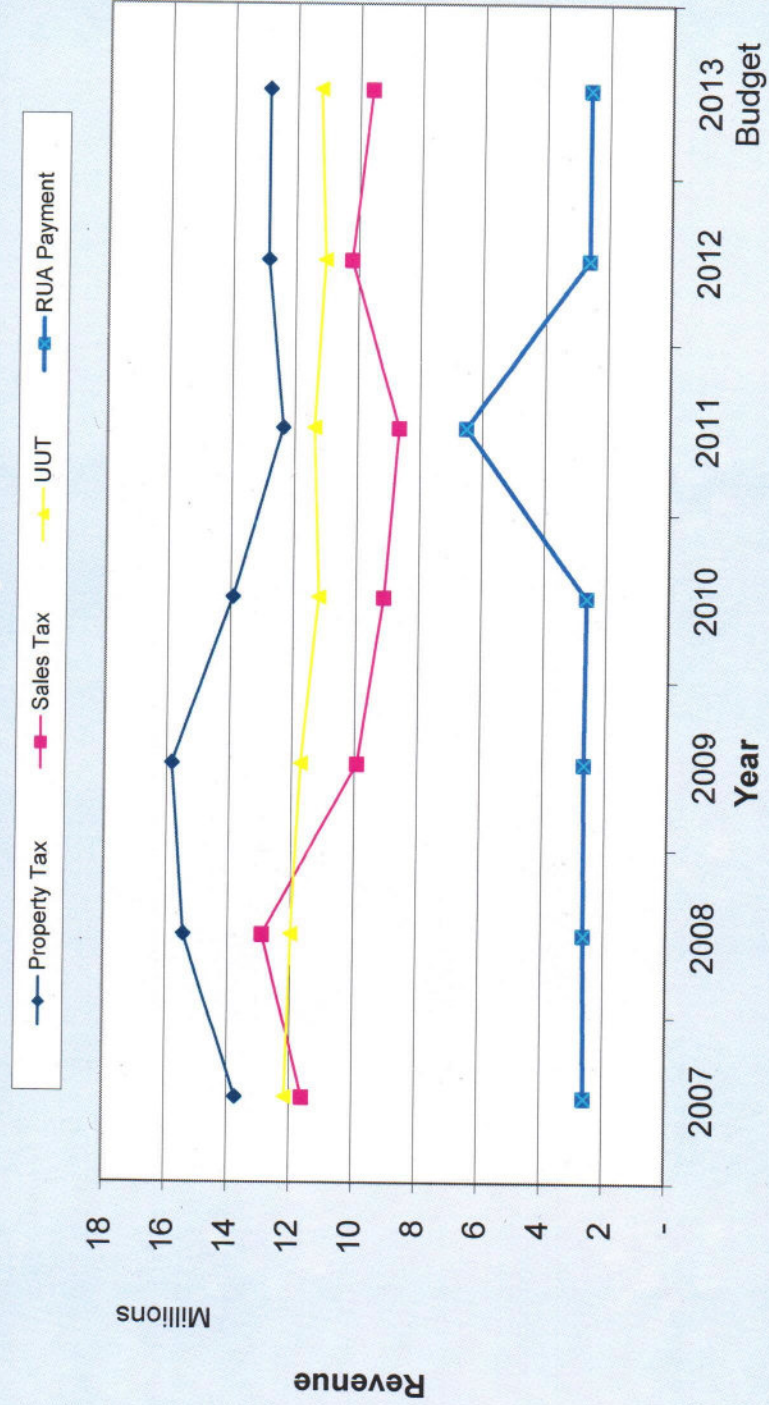
# Economic Impacts

- Revenue loss due to the economy
  - General Fund Revenues reduced by \$8.3M since the 2007 UUT Extension approval.

Revenue Description	2006/07 Actuals	2012/13 Budget	Variance	% Change
Property Tax	\$6,231,952	\$4,955,000	(\$1,276,952)	-20%
In Lieu Property (VLF)	7,513,669	7,925,000	\$411,331	5%
Sales Tax	8,754,975	7,230,000	(\$1,524,975)	-17%
In Lieu Property Tax (Sales Tax)	2,850,262	2,360,000	(\$490,262)	-17%
Utility Users Tax	12,179,499	11,260,000	(\$919,499)	-8%
Other Taxes	3,762,762	3,880,000	\$117,238	3%
Subtotal Taxes	\$41,293,119	\$37,610,000	(\$3,683,119)	-9%
Licenses and Permits	2,145,521	1,884,000.00	(\$261,521)	-12%
Fines and Forfeitures	457,520	302,100	(\$155,420)	-34%
Use of Money	1,724,030	425,000	(\$1,299,030)	-75%
Revenues from other Agencies	1,808,027	2,388,841	\$580,814	32%
Charges for Services	2,549,554	2,025,900	(\$523,654)	-21%
Miscellaneous Revenues	1,055,829	98,550	(\$957,279)	-91%
Transfer -- PERS	746,623	0	(\$746,623)	-100%
Cost Allocation Transfer	3,474,285	2,037,756	(\$1,436,529)	-41%
RUA -- Lease & Contract Payments	2,586,008	2,597,000	\$10,992	0%
<b>Total General Fund Revenue</b>	<b>\$57,840,515</b>	<b>\$49,369,147</b>	<b>(\$8,471,368)</b>	<b>-15%</b>

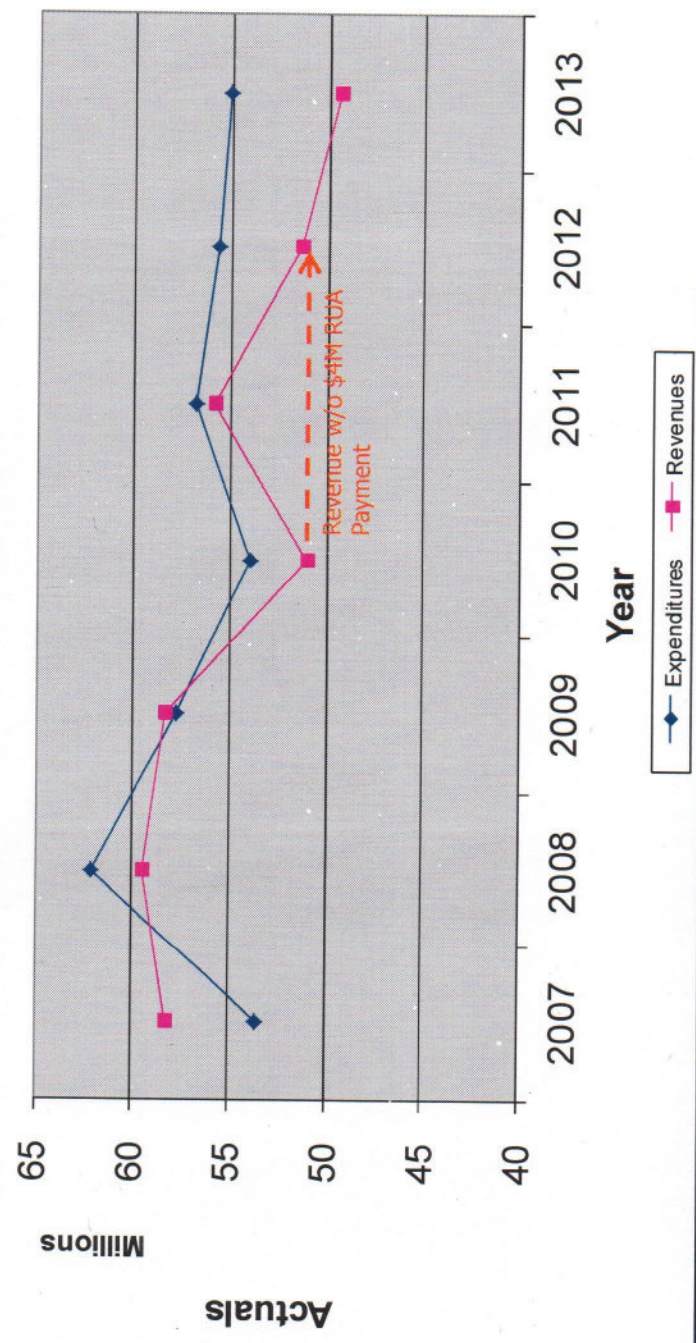


# Top General Fund Revenues FY2007 – FY2013





# General Fund Revenues vs. Expenditures FY2007 – FY2013





# Average cost per employee FY2007 – FY2012

Average FTE Personnel Costs



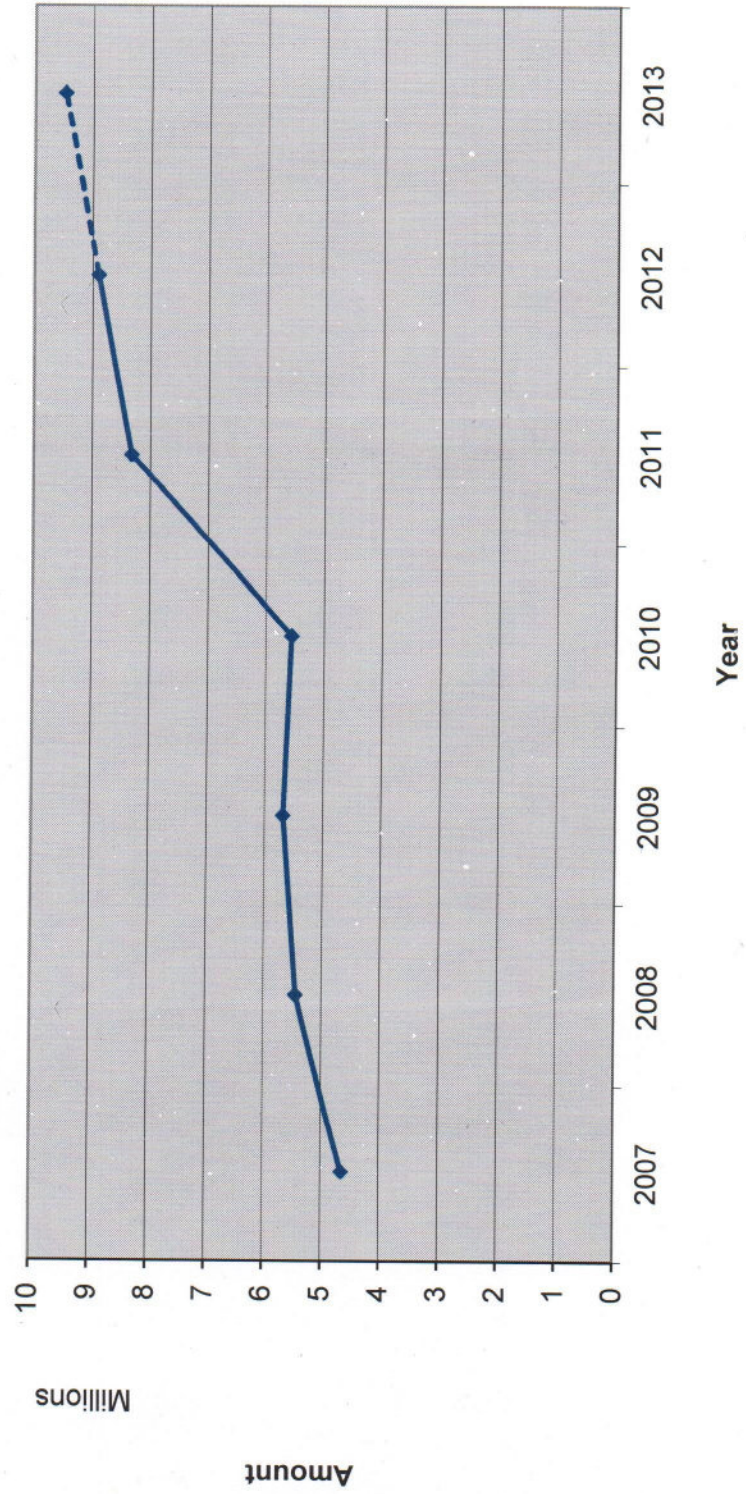
Year	2007	2008	2009	2010	2011	2012
# of FTE	429.00	454.00	457.00	418.00	347.00	295.00

Citywide Personnel Cost	42,839,594	48,313,078	52,484,940	49,320,452	49,557,556	45,257,296
Average FTE Personnel Costs	99,859	106,416	114,847	117,992	142,817	153,415

Dollars



# PERS costs FY2007 – FY2013





**General Fund Budget Scenarios with and without the Utility Tax**

(all figures in \$millions)

	(Column 1) Projected FY 14 Budget w/UT	(Column 2) Projected FY 14 Budget w/o UT	(Column 3) Projected FY 14 w/Replacement Revenue
<b>Revenues</b>	<b>49.4</b>	<b>38.1</b>	<b>47.7</b>
Utility Tax	11.3	-	-
Other Taxes	26.3	26.3	27.6
Other Revenues	11.8	11.8	11.8
PERS Tax at Max Rate	-	-	8.3
<b>Expenses</b>	<b>(57.0)</b>	<b>(57.0)</b>	<b>(57.0)</b>
Salaries & Benefits	(42.4)	(42.4)	(42.4)
Services & Supplies	(13.5)	(13.5)	(13.5)
Capital Outlay	(0.8)	(0.8)	(0.8)
Debt Service	(0.2)	(0.2)	(0.2)
Other	(0.1)	(0.1)	(0.1)
<b>Surplus/(Deficit)</b>	<b>(7.6)</b>	<b>(18.9)</b>	<b>(9.3)</b>
<b>Other Deferrals/One Time Fixes</b>	<b>(3.5)</b>	<b>(3.5)</b>	<b>(3.5)</b>
OPEB Deferral	(1.5)	(1.5)	(1.5)
Capital Outlay Deferral	(2.0)	(2.0)	(2.0)
<b>Structural Deficit</b>	<b>(11.1)</b>	<b>(22.4)</b>	<b>(12.8)</b>
General Fund Reserves (7/2012)	22.9	22.9	22.9
Working Capital Reserves	(13.0)	(13.0)	(13.0)
Contingent Reserves	9.9	9.9	9.9

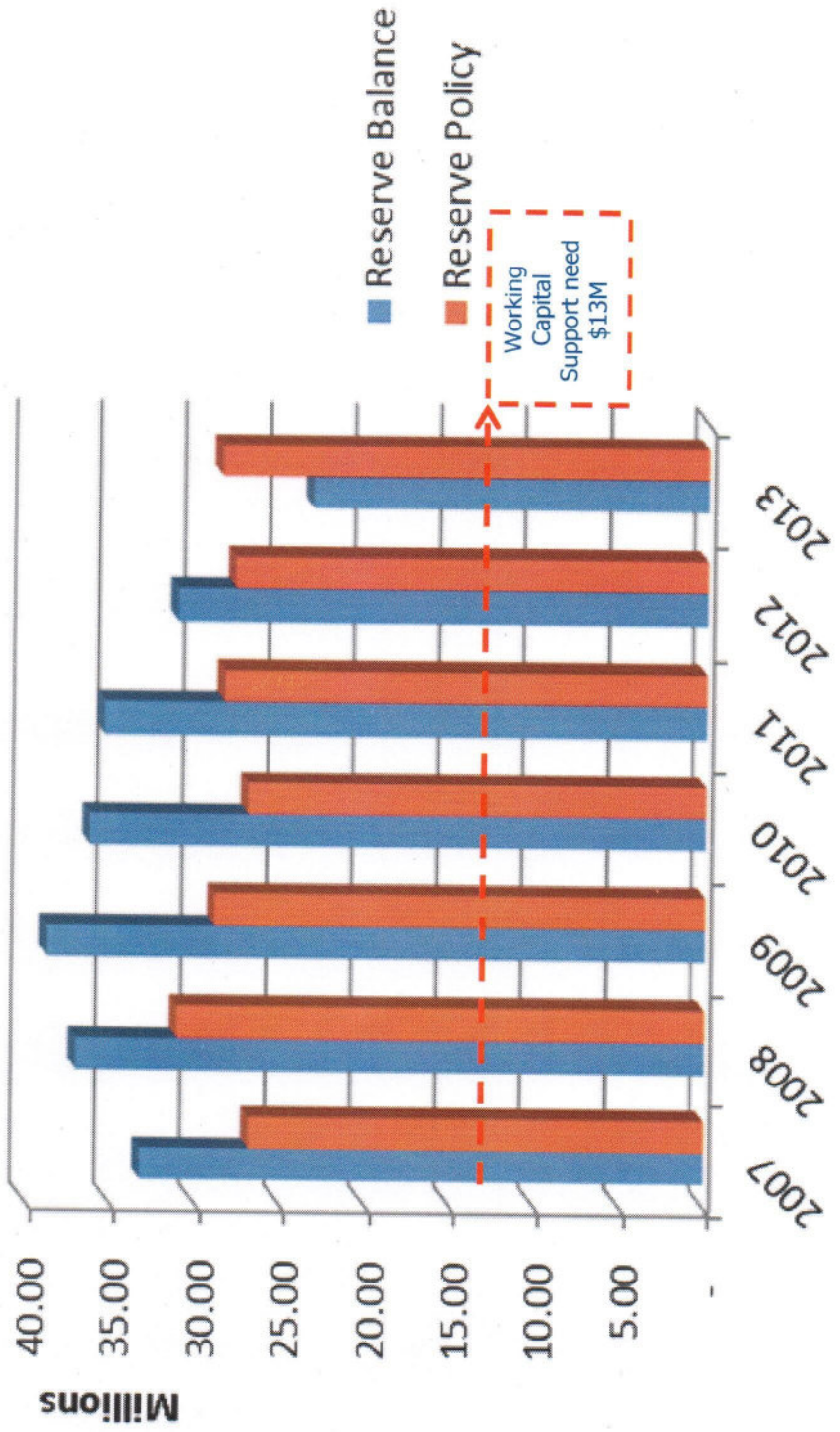


# General Fund Reserves

- Reserve Policy requirements are 50% of expenditure budget
- As of June 30, 2012 reserves totaled \$33.9M, less \$5.1M (non-spendable) bringing available balance to \$28.8M
- Of \$28.8M, \$5.8M has been appropriated for the FY13 Budget Deficit and \$13M is required to remain on hand for annual Working Capital needs
- Remaining Contingency Reserves are \$9.99M at June 30, 2013



# GF Reserves vs. Policy





# Summary of Challenges

- Measure V Failure
- Deficit Spending continues!
- CalPERS costs still a growing concern
- Slow revenue growth-revenue growth expected at 2-3% per year while expenditure growth 10-15%
- Capital Project neglect
- Depletion of Reserves



# Recommendation

- Set a Date of November 20<sup>th</sup>, 2012 to conduct a Special City Council Public Meeting to discuss the proposed Utility Users Tax extension.

**EXHIBIT B**  
**REVENUE/EXPENDITURE TRENDS**



**Table A**  
**Changes in the City's General Fund Budget**  
 (Before and After the Utility Tax)

	Actuals			Budget	Change (FY 03-18)		Comments
	FY 03	FY 08	FY 13		Dollars (\$)	CAGR (%)	
<b>REVENUES</b>	<b>33,263,309</b>	<b>59,586,552</b>	<b>68,786,801</b>	<b>77,545,830</b>	<b>44,282,521</b>	<b>5.8%</b>	
<b>Taxes</b>	<b>20,570,103</b>	<b>43,876,526</b>	<b>41,980,564</b>	<b>55,278,200</b>	<b>34,708,097</b>	<b>6.8%</b>	Revenues increased by \$44.3 million or 5.8% per year, with growth in the taxes category due to the implementation of the utility users tax (\$14.2 million) and the impact of development in the City since 2003.
Utility Taxes	-	12,010,667	11,253,196	14,195,500	14,195,500	N/A	
VLF	5,476,381	8,854,150	8,244,059	11,300,000	5,823,619	4.9%	
Sales Taxes	8,097,367	9,792,119	7,492,232	14,894,000	6,796,633	4.1%	
Property Taxes	3,749,360	6,585,462	8,259,013	10,098,000	6,348,640	6.8%	
Other Taxes	3,246,995	3,506,063	4,401,734	4,790,700	1,543,705	2.6%	
In Lieu Property Tax (Sales Tax)	-	3,128,065	2,330,330	-	-	N/A	
<b>Other Revenues</b>	<b>12,693,206</b>	<b>15,710,026</b>	<b>26,806,237</b>	<b>22,267,630</b>	<b>9,574,424</b>	<b>3.8%</b>	Other revenues increased by \$9.6 million due to increase in revenue from other agencies, charges for services, licenses and permits.
Cost Allocation Transfer	2,302,710	3,878,760	8,112,720	2,384,130	81,420	0.2%	
Revenue from other Agencies	872,150	1,358,617	2,454,717	3,448,420	2,576,270	9.6%	
RVA Lease	2,380,000	2,642,000	2,597,000	3,140,530	760,530	1.9%	
Charge for Services	2,266,524	2,861,067	6,818,000	7,022,200	4,755,676	7.8%	
Licenses and Permits	1,312,563	2,351,345	2,737,375	4,271,250	2,958,687	8.2%	
Use of Money	506,650	1,624,061	376,497	894,800	388,150	3.9%	
Fines/Forfeits/Penalties	209,024	441,331	573,785	555,700	346,676	6.7%	
Miscellaneous Revenue	870,435	448,850	3,135,532	550,600	(319,835)	-3.0%	
Transfer - PERS	1,973,150	103,995	611	0	(1,973,150)	N/A	
<b>EXPENDITURES</b>	<b>31,229,489</b>	<b>56,713,819</b>	<b>61,704,770</b>	<b>75,951,060</b>	<b>44,721,571</b>	<b>6.1%</b>	While revenues grew by \$44.3 million, expenditures increased by \$44.7 million or 6.1% per year, with \$31.2 million of the increase in the category of employee compensation (6.1% annual increase). Employee compensation now represents 69% of revenues, an increase from 66% when the utility tax went into effect.
Salaries & Benefits	22,069,289	37,435,109	40,086,265	53,268,767	31,199,478	6.1%	
Services & Supplies	8,000,675	11,998,496	10,991,022	21,823,932	13,823,257	6.9%	
Capital Outlay	622,889	4,127,632	5,701,867	0	(622,889)	N/A	
Debt Service	536,635	347,587	142,755	216,886	(319,749)	-5.9%	
Other	0	2,804,995	4,782,861	641,475	641,475	N/A	
<b>SURPLUS/(DEFICIT)</b>	<b>2,033,820</b>	<b>2,872,733</b>	<b>7,082,031</b>	<b>1,594,770</b>	<b>(439,050)</b>	<b>-1.6%</b>	Service/Supplies increased to 28% of revenues, while capital outlay reduced to unsustainably low 0% of revenues (should be 5%-10% of operating expenditures).
<b>Percentage of Operating Revenues</b>							
Salaries & Benefits	66%	63%	58%	69%	2.3%		
Services & Supplies	24%	20%	16%	28%	4.1%		
Capital Outlay	2%	7%	8%	0%	-1.9%		
Debt Service	0%	1%	0%	0%	-1.3%		
Other	0%	5%	7%	1%	0.8%		
Surplus/(Deficit)	6%	5%	10%	2%	-4.1%		

Table B  
Summary of Compensation Trends

	Actuals	Actuals	Actuals	Budget	Change (FY 03-18)	
	FY 03	FY 08	FY 13	FY 18	Dollars (\$)	CAGR (%)
<b>Revenues</b>	<b>33,263,309</b>	<b>59,586,552</b>	<b>68,786,801</b>	<b>77,545,830</b>	<b>44,282,521</b>	<b>5.8%</b>
<b>Compensation</b>	<b>22,069,289</b>	<b>37,435,109</b>	<b>39,972,443</b>	<b>53,268,767</b>	<b>31,199,478</b>	<b>6.1%</b>
<b>Salaries</b>	<b>15,932,711</b>	<b>26,471,710</b>	<b>23,565,179</b>	<b>30,157,385</b>	<b>14,224,674</b>	<b>4.3%</b>
1001 Salaries	13,658,990	22,430,091	20,041,332	23,301,441	9,642,451	3.6%
1010 Part Time	409,672	358,101	313,296	438,140	28,468	0.4%
1020 Overtime	733,843	2,196,199	1,178,095	4,065,352	3,331,509	12.1%
1021 Mandated OT	253,127	471,533	379,555	117,692	(135,435)	-5.0%
1022 Overtime Mutual Aid	309	-	-	-	(309)	n/a
1023 Minimum Staffing	876,770	1,015,786	1,652,901	2,234,760	1,357,990	6.4%
<b>Retirement</b>	<b>1,380,616</b>	<b>5,135,129</b>	<b>7,410,776</b>	<b>11,143,049</b>	<b>9,762,433</b>	<b>14.9%</b>
1030 PERS	1,380,616	5,135,129	7,410,776	11,143,049	9,762,433	14.9%
<b>Fringe Benefits</b>	<b>4,755,962</b>	<b>5,828,270</b>	<b>8,996,488</b>	<b>11,968,333</b>	<b>7,212,371</b>	<b>6.3%</b>
1040 Workers Comp	1,609,002	664,960	2,361,077	1,216,557	(392,445)	-1.8%
1050 Other Fringe Benefits	2,887,127	5,026,621	5,409,439	7,879,582	4,992,455	6.9%
1060 Termination Payoffs	259,833	136,689	266,571	850,000	590,167	8.2%
1070 OPEB	-	-	-	1,058,365	1,058,365	n/a
1080 Leave Cashouts	-	-	959,401	963,829	963,829	n/a
<b>Compensation Trends</b>	<b>66.3%</b>	<b>62.8%</b>	<b>58.1%</b>	<b>68.7%</b>		
Salaries as % of GF Revenues	47.9%	44.4%	34.3%	38.9%		
PERS as % of GF Revenues	4.2%	8.6%	10.8%	14.4%		
Fringe as % of GF Revenues	14.3%	9.8%	13.1%	15.4%		
<b>Budgeted Employees</b>	<b>364</b>	<b>452</b>	<b>329</b>	<b>333</b>	<b>(31)</b>	
General Fund	302	380	290	309	6	
Other	62	72	39	24	(37)	

Comments

The largest increases in compensation were for retirement (due to enhanced retirement and PERS actuarial changes), salaries (class/comp and merits), and fringe benefits (health, workers compensation, and cashouts). Compensation as a % of revenues increased from 66% to 69%, within the normal range.

Revenues increased by \$44.3 million over the period and compensation alone was up by \$31.2 million, consuming 70% of new revenues.

Retirement and fringe benefits consume more and more of the total compensation costs. Salaries actually declined as a % of revenues. FY18 figures include partial OPEB costs, and costs were deferred in prior years to help balance the budget.

The budgeted citywide workforce shrunk since 2003, losing 31 employees (includes FY 18 frozen positions). General Fund supported employment grew by only 6 positions.



Table C  
Summary of General Fund Expenditures by Department

	Actuals	Actuals	Actuals	Budget	Change (FY 03-18)	
	FY 03	FY 08	FY 13	FY 18	Dollars (\$)	CAGR (%)
<b>REVENUES</b>	<b>33,263,309</b>	<b>59,586,552</b>	<b>68,786,801</b>	<b>77,545,830</b>	<b>44,282,521</b>	<b>5.8%</b>
<b>EXPENDITURES</b>	<b>31,229,489</b>	<b>56,713,818</b>	<b>61,714,770</b>	<b>75,951,060</b>	<b>44,721,571</b>	<b>6.1%</b>
Administrative Services/Finance	1,184,041	1,976,334	1,417,184	1,793,729	609,688	2.8%
City Administrator	502,520	810,242	502,485	731,581	229,061	2.5%
City Clerk	580,874	1,156,232	906,296	657,134	76,260	0.8%
City Council	166,750	314,127	322,656	424,202	257,452	6.4%
City Treasurer	259,006	362,678	412,965	460,561	201,555	3.9%
Community Services	1,000,500	2,288,210	1,355,440	2,674,944	1,674,444	6.8%
Development Services	-	100,000	5,242,795	3,990,029	3,990,029	n/a
Fire	8,324,872	15,643,831	13,528,821	19,262,101	10,937,229	5.8%
Human Resources	421,617	850,367	474,231	875,688	454,071	5.0%
Management Services	-	-	286,204	747,980	747,980	n/a
Police	13,521,947	22,416,206	23,999,314	29,950,945	16,428,998	5.4%
Public Works	2,534,171	6,363,854	5,385,218	8,219,202	5,685,031	8.2%
Non-Departmental						n/a
Cemetery	29,000	39,140	9,625	25,880	(3,120)	-0.8%
Debt Service	177,789	164,855	66,913	5,000	(177,789)	-21.2%
Special Revenue	-	290,245	199,271	1,998,554	1,998,554	n/a
Other Non-Departmental	2,526,402	3,937,497	7,605,352	3,075,165	548,763	1.3%
OPEB Contribution	-	-	-	1,058,365	1,058,365	n/a
<b>Percentage of GF Expenditures</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>% Change</b>	
Administrative Services/Finance	3.8%	3.5%	2.3%	2.4%	-1.4%	
City Administrator	1.6%	1.4%	0.8%	1.0%	-0.6%	
City Clerk	1.9%	2.0%	1.5%	0.9%	-1.0%	
City Council	0.5%	0.6%	0.7%	0.6%	0.0%	
City Treasurer	0.8%	0.6%	0.7%	0.6%	-0.2%	
Community Services	3.2%	4.0%	2.2%	3.5%	0.3%	
Development Services	0.0%	0.2%	8.5%	5.3%	5.3%	
Fire	26.7%	27.6%	21.9%	25.4%	-1.3%	
Human Resources	1.4%	1.5%	0.8%	1.2%	-0.2%	
Management Services	0.0%	0.0%	0.5%	1.0%	1.0%	
Police	43.3%	39.5%	38.9%	39.4%	-3.9%	
Public Works	8.1%	11.2%	8.7%	10.8%	2.7%	
Non-Departmental	8.8%	7.8%	12.8%	8.1%	-0.6%	

Comments

Police and Fire captured most of the increase in expenditures over the period in absolute terms, while Public Works, Community Services and the City Council had the largest % increases.

Expenditures grew by \$44.7 million, while revenues were up just \$44.3 million producing minor operating deficits in FY18 (however, capital outlay deferred, positions frozen, and full OPEB payment deferred so structural deficit much larger at \$4.8 million).

Public Safety expenditures alone were up by \$27.4 million over the period, so arguably the majority of revenue growth (including the utility tax) could be attributed to public safety.

There were no substantial changes in the proportion each department consumed of the total expenditure pie, with the exceptions of public works and development services. However some of public works and all of development services was moved into the General Fund as of FY13.



**Table D  
Summary of Changes in Personnel (FY03 to FY18)**

	Adopted Budget	Adopted Budget	Adopted Budget	Adopted Budget	Change (FY 03-18)		
	FY 03	FY 08	FY 13	FY 18	Number (#)	Percent (%)	
<b>General Fund Personnel</b>	<b>302.35</b>	<b>379.72</b>	<b>290.15</b>	<b>308.64</b>	<b>6.29</b>	<b>2.1%</b>	
Administrative Services	14.75	18.43	11.83	9.50	(5.25)	-35.6%	<p>This table shows Community Services and Development Services as general fund supported to accurately portray employment trends.</p> <p>General Fund supported personnel increased shortly after the implementation of the utility tax peaking at 380 budgeted employees in FY08, then retreating to approximately 290 budgeted employees in FY13. For FY18, general fund budgeted employees increased to 320 employees (before adjustment for frozen positions). Unfrozen positions total 309, an increase of 6 over FY03.</p> <p>Fire, Management Services, Development Services, and Public Works were the departments to gain employees over the 15 year period. Some of gains occurred due to reorganizations rather than new hires.</p> <p>The largest personnel reductions were in non-general fund divisions (Airport, RDA, Water, etc.). Total City employment decreased by 31 positions, or 8.5% of the workforce from FY03 to FY18. In the peak budget year of FY08, the City budgeted 452 employees, and we are now 333 employees or 29% off that high-water mark.</p>
City Administrator	3.25	3.25	2.00	3.00	(0.25)	-7.7%	
City Clerk	5.00	8.00	6.00	3.00	(2.00)	-40.0%	
City Council	5.50	5.50	5.00	5.00	(0.50)	-9.1%	
City Treasurer	5.00	4.00	4.00	4.00	(1.00)	-20.0%	
Community Services	10.00	18.00	9.34	10.00	0.00	0.0%	
Development Services	15.00	33.00	21.10	18.05	3.05	20.3%	
Fire	71.00	82.00	64.00	80.00	9.00	12.7%	
Human Resources	4.00	6.00	3.33	4.40	0.40	10.0%	
Management Services	-	-	-	5.00	5.00	N/A	
Police	145.00	165.00	140.50	140.34	(4.66)	-3.2%	
Public Works	23.85	36.54	23.05	26.35	2.50	10.5%	
<b>Other Funds</b>	<b>61.65</b>	<b>72.28</b>	<b>38.85</b>	<b>24.36</b>	<b>(37.29)</b>	<b>-60.5%</b>	
<b>Totals</b>	<b>364.00</b>	<b>452.00</b>	<b>329.00</b>	<b>333.00</b>	<b>(31.00)</b>	<b>-8.5%</b>	
<b>Percentage of GF Personnel</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		<b>0.0%</b>	
Administrative Services	4.9%	4.9%	4.1%	3.1%		-1.8%	
City Administrator	1.1%	0.9%	0.7%	1.0%		-0.1%	
City Clerk	1.7%	2.1%	2.1%	1.0%		-0.7%	
City Council	1.8%	1.4%	1.7%	1.6%		-0.2%	
City Treasurer	1.7%	1.1%	1.4%	1.3%		-0.4%	
Community Services	3.3%	4.7%	3.2%	3.2%		-0.1%	
Development Services	5.0%	8.7%	7.3%	5.8%		0.9%	
Fire	23.5%	21.6%	22.1%	25.9%		2.4%	
Human Resources	1.3%	1.6%	1.1%	1.4%		0.1%	
Management Services	0.0%	0.0%	0.0%	1.6%		1.6%	
Police	48.0%	43.5%	48.4%	45.5%		-2.5%	
Public Works	7.9%	9.6%	7.9%	8.5%		0.6%	
All Others	0.0%	0.0%	0.0%	0.0%		0.0%	

Comments

**EXHIBIT C**  
**UTILITY TAX CUT SCENARIOS**

# Utility Users Tax

Impacts of Elimination and Reduction



# Summary of Budget Reduction Amounts

	Elimination of UUT	20% Reduction of UUT
<b>Utility Users Tax</b>	<b>14,195,500</b>	<b>14,195,500</b>
<b>20% Reduction</b>		<b>2,839,100</b>
City Administrator	136,735	27,347
City Council	79,285	15,857
City Clerk	122,820	24,564
Management Services	139,800	27,960
City Treasurer	86,080	17,216
Human Resources	163,669	32,734
Finance	335,254	67,051
Development Services	745,749	149,150
Public Works	1,536,196	307,239
Non-Departmental	1,151,878	230,376
Fire	3,600,149	720,030
Police	5,597,929	1,119,586
Community Services - Subsidy Amount	499,956	99,991
<b>Department</b>	<b>14,195,500</b>	<b>2,839,100</b>

# City Administrator

## Elimination - \$137 Thousand

- Personnel - \$101K
  - One Full-Time Position
- Services & Supplies - \$36K
  - Reduce Contract Services, Training, Supplies
- Program Reduction
  - Customer Service (Eliminate Rialto Institute of Progress), Scope of Services

## 20% Reduction - \$27 Thousand

- Services & Supplies - \$27K
  - Reduce Contract Services, Training, Supplies
- Program Reduction
  - Customer Service, Scope of Services

# City Council

## **Elimination - \$79 Thousand**

- Services & Supplies - \$79K
  - Reduce Travel, Training and Memberships

## **20% Reduction - \$16 Thousand**

- Services & Supplies - \$16K
  - Reduce Travel, Training and Memberships



# City Treasurer

## Elimination - \$86 Thousand

- Personnel - \$86K
  - One Full-time Position
- Program Reduction
  - Customer Service, Scope of Services

## 20% Reduction - \$17 Thousand

- Personnel - \$17K
  - One Part-Time Position
- Program Reduction
  - Customer Service, Scope of Services

# City Clerk

## Elimination - \$123 Thousand

- Personnel - \$123K
  - One Full-time and One Part-Time
- Program Reduction
  - Customer Service, Scope of Services

## 20% Reduction - \$25 Thousand

- Personnel - \$25K
  - One Part-Time Position
- Program Reduction
  - Customer Service, Scope of Services

# Management Services

## Elimination - \$140 Thousand

- Personnel – \$140K
  - One Full-Time and Two Part-time.
- Program Reduction
  - Customer Service, Scope of Services

## 20% Reduction - \$28 Thousand

- Personnel - \$28K
  - Approximately 1-2 part-time positions
- Program Reduction
  - Customer Service, Scope of Services



# Human Resources

## Elimination - \$164 Thousand

- Personnel - \$164K
  - Elimination of the Human Resources and Risk Management Director

## 20% Reduction - \$33 Thousand

- Personnel - \$11.5K
  - Reduce Part-Time Staff Hours
- Eliminate Employee Appreciation Events - \$12.5K
- Reduce Advertising Costs - \$3.5K
- Reduce Professional Memberships - \$3K
- Eliminate Fleet Vehicle - \$2.5K

# Finance

## Elimination - \$335 Thousand

- Personnel - \$309K
  - Approximately 5 positions
- Eliminate/Reduce Other Contract Services - \$15K
- Eliminate Training - \$8K
- Reduce Vehicle/Office Equipment Maintenance - \$3K

## 20% Reduction - \$67 Thousand

- Personnel - \$41K
  - Approximately 1 position
- Eliminate/Reduce Other Contract Services - \$15K
- Eliminate Training - \$8K
- Reduce Vehicle/Office Equipment Maintenance - \$3K

# Development Services

## Elimination - \$746 Thousand

- Personnel - \$510K
  - Approximately 4-6 positions
- Services & Supplies - \$236K
  - Reduce office supplies, special services, reimbursements, other purchases
- Program Reductions
  - Customer Service, Special Studies, Advance Planning and Code Enforcement

## 20% Reduction - \$149 Thousand

- Personnel - \$102K
  - Approximately 1 Positions
  - Reduce Code enforcement by one officer (6 to 5).
  - Move to Permit Technician after retirement of DS-Specialist retirement
- Services & Supplies - \$47K
  - Reduce office supplies, special services, reimbursements, other purchases
- Program Reductions
  - Customer Service, Special Studies, Advance Planning and Code Enforcement



# Public Works

## Elimination - \$1.5 Million

- Personnel - \$880K
  - Approximately 11 positions
  - Eliminate OT for Special Projects/Events
- Services & Supplies - \$670K
  - Reduce frequency of street & sidewalk maintenance
  - Reduce weed abatement, graffiti & trash clean-up
  - Reduce park maintenance
  - Reduce facilities maintenance to safety and asset protection
  - Reduce fleet maintenance to “run to fail” approach.

## 20% Reduction - \$307 Thousand

- Personnel - \$88K
  - Approximately 1 position
- Services & Supplies - \$228K
  - Reduce frequency of street & sidewalk maintenance
  - Reduce weed abatement, graffiti & trash clean-up
  - Reduce park maintenance
  - Reduce facilities maintenance to safety and asset protection
  - Reduce fleet maintenance to “run to fail” approach.

# Fire

## Elimination - \$3.6 Million

- Personnel - \$3M
  - Approximately 23 positions
  - One Ambulance, Fire Engine and Station Unstaffed
  - Reduce Administrative Staffing
- Services & Supplies - \$600K
- Program Eliminations
  - Arson Investigations, SWAT Medic, Explorer Post
- Sudden Cardiac Arrest Survival and Fire Containment rates will drop approximately 40%.

## 20% Reduction - \$720 Thousand

- Personnel - \$500K
  - Approximately 7 positions
  - Eliminate one ambulance.
  - Reduce staffing of one Fire engine/station
- Services & Supplies \$120K
- Program Eliminations
  - Arson Investigations, SWAT Medic
- Sudden Cardiac Arrest Survival and Fire Containment rates will drop approximately 20%.

# Police

## Elimination - \$5.6 Million

- Personnel – \$4.2M
  - Approximately 36 positions
  - 20 Sworn, 15 Non-Sworn, 10 Part-Time
- Elimination of Programs – \$1.4M
  - K-9, SWAT, SCAT, Traffic, SRO, Community Liaison, all Task Force Positions
  - Loss of Grants will increase cost of reductions to City (\$950K).
  - Outsource Animal Control & Jail services
  - Fleet “run as close to fail” approach
- Change from proactive to reactive enforcement.

## 20% Reduction - \$1.1 Million

- Personnel – \$1.1 Million
  - Approximately 9 positions
- Elimination of Programs
  - Rialto Re-Entry, Homeless, SRO
- Reduction of Programs
  - Phase out of Community Outreach
- Change from crime reduction to crime suppression and from proactive to reactive enforcement.



# Community Services

## Elimination - \$500 Thousand

- Personnel - \$500K
  - Approximately 3-5 Full-Time
  - Reduce Part-Time Hours 25%
  - Eliminate Part-Time Instructor
- Program Eliminations/Reductions
  - Quantity and Quality of Programs, full to partial closure of facilities
- Increase in User Fees

## 20% Reduction - \$100 Thousand

- Personnel - \$100K
  - Approximately 1-2 Full-Time
  - Reduce Part-Time Hours 5%
- Program Eliminations/Reductions
  - Quantity and Quality of Programs, full to partial closure of facilities
- Increase in User Fees

# Total Impact

## Elimination - \$14.2 Million

- Personnel - \$10M
  - Approximately 93 Positions
  - 59 Public Safety
- Services & Supplies \$4.2M
- Program Eliminations
  - Eliminations of Community Outreach, Infrastructure Maintenance, Public Safety

## 20% Reduction - \$2.8 Million

- Personnel - \$2M
  - Approximately 24 Positions
  - 16 Public Safety
- Services & Supplies - \$800K
- Program Reductions
  - Reductions in Community Outreach, Infrastructure Maintenance, Public Safety

**EXHIBIT D  
BALLOT SCHEDULE**



CITY OF RIALTO  
 UUT EXTENSION  
 2018 ELECTIONS CALENDAR\*

\*The items that are marked as the County's responsibility are only applicable if the City requests County services or consolidates with County elections; otherwise, the City is responsible for performing all actions needed to meet those deadlines.

\*\*Under Cal. Const. art. 13C § 210), "The election required by this subdivision shall be consolidated with a regularly scheduled general election for members of the governing body of the local government, except in cases of emergency declared by a unanimous vote of the governing body." Because the Rialto Municipal Code states that a regularly scheduled general election shall coincide with the State's General Election in November, the City Council must declare a fiscal emergency by unanimous vote in order to adopt a resolution to call for an election for the UUT extension measure. Cal. Const., art. 13C, § 2

SPECIAL ALL-MAIL ELECTION**		SPECIAL ELECTION**		SPECIAL ELECTION CONSOLIDATED WITH COUNTY AND COINCIDING WITH STATE PRIMARY ELECTION**		For April & June election ONLY		Authority	E.C. §/ G.C. §	
Month	Day	Eminus	Action	Month	Day	Eminus	To Eminus	Action	Authority	E.C. §/ G.C. §
March 6, 2018	108	108	10-day notice of public hearing	April 10, 2018	June 5, 2018	101	108	10-day notice of public hearing	City Clerk	
November 18, 2017	98	98	Public hearing to consider resolution calling for the election (and resolution requesting consolidation with county)	December 30, 2017	February 17, 2018	91	98	Public hearing to consider resolution calling for the election (and resolution requesting consolidation with county)	City Council	EC 9222, 9223, 13247, GC 53724(b), Rev. & Tax. Code, § 7285.9
November 28, 2017	88	88	Last Day to Call Election For Ballot Measures (resolution must pass by 2/3 council vote)	January 9, 2018	February 27, 2018	88	88	Last Day to Call Election For Ballot Measures (resolution must pass by 2/3 council vote)	City Council	
December 8, 2017	88	88	Last Day for County to Receive Resolution Requesting Services or Consolidation	January 12, 2018	March 9, 2018	88	88	Last Day for County to Receive Resolution Requesting Services or Consolidation	City Clerk	
December 11, 2017	85	85	County to prepare Notice of Elections	January 15, 2018	March 12, 2018	85	85	County to prepare Notice of Elections	County Registrar	
December 13, 2017	83	83	Last Day to Withdraw Measure(s) from Ballot	January 17, 2018	March 14, 2018	83	83	Last Day to Withdraw Measure(s) from Ballot	City	EC 9605
December 15, 2017	81	81	First day of publication in the newspaper	January 19, 2018	March 16, 2018	81	81	First day of publication in the newspaper	City Clerk	EC 9280
December 18, 2017	78	78	Impartial Analysis of Measure	January 22, 2018	March 19, 2018	78	78	Impartial Analysis of Measure	City Attorney	
December 21, 2017	75	75	Last day to file Arguments	January 25, 2018	March 22, 2018	75	75	Last day to file Arguments	Proponents/ opponents	EC 9282, 9283, 9286
December 21, 2017	75	75	Time to Cancel Election	January 25, 2018	March 22, 2018	75	75	Time to Cancel Election	City	EC 10229
December 31, 2017	65	65	Last day for Rebuttals	January 30, 2018	March 27, 2018	70	70	Last day for Rebuttals	Proponents/ opponents	EC 9285
December 31, 2017	65	65	End of 10-day public examination period for Arguments	February 4, 2018	April 1, 2018	65	65	End of 10-day public examination period for Arguments	Proponents/ opponents	EC 9295
January 10, 2018	55	55	Rebuttals	February 9, 2018	April 6, 2018	60	60	End of 10-day public examination period for Rebuttals	Proponents/ opponents	EC 9295
January 5, 2018	29	29	First Day for early voting	March 12, 2018	May 7, 2018	29	29	First Day for early voting	County Registrar	
February 5, 2018	29	29	First day to mail combined voter info, guide & ballot	March 12, 2018	May 7, 2018	29	7	Voters May Request Vote by Mail Ballots with Regular Applications	County Registrar	EC 4101
February 19, 2018	15	15	Last Day to Register to Vote	March 20, 2018	May 15, 2018	21	21	Last Day to Mail Voter Information Guides and Polling Place Notices	County Registrar	EC 4101
February 24, 2018	10	10	Last day to mail combined voter info, guide & ballot	March 26, 2018	May 21, 2018	15	15	Last Day to Register to Vote	County Registrar	
February 28, 2018	6	6		April 3, 2018	May 29, 2018	7	7	Last Day for Election Official to Publish Notice of Nominees	County Registrar	
March 5, 2018	1	1		April 4, 2018	May 30, 2018	6	0	Emergency/late Vote by Mail Voting Period	County Registrar	
March 6, 2018	1	1		April 9, 2018	June 4, 2018	1	1	Last Day for Council to Adopt Procedures to Resolve The Vote	City Council	
March 9, 2018	3	3	Last Day to Receive Vote by Mail Voter Ballots	April 10, 2018	June 5, 2018	0	0	ELECTION DAY		
March 9, 2018	3	3	If Postmarked on Election Day	April 13, 2018	June 8, 2018	3	3	Last Day to Receive Vote by Mail Voter Ballots if Postmarked on Election Day	County Registrar	EC 4103
April 3, 2018	28	28	Registrar to issue Statement of Results	April 18, 2018	June 13, 2018	8	8	Last Day to Receive Signed "Unsigned Ballot Statements" for unsigned Vote by Mail Voter Ballots	County Registrar	
April 10, 2018			City to certify results (by ordinance) no later than the next regularly scheduled city council meeting following the 28th day	May 8, 2018	July 3, 2018	28	28	Registrar to issue Statement of Results	County Registrar	
April 20, 2018			New ordinance takes effect (10 days after adoption)	May 22, 2018	July 10, 2018			City to certify results (by ordinance) no later than the next regularly scheduled city council meeting following the 28th day	City Council	
April 20, 2018				June 1, 2018	July 20, 2018			New ordinance takes effect (10 days after adoption)	City Council	



## City of Rialto Memorandum

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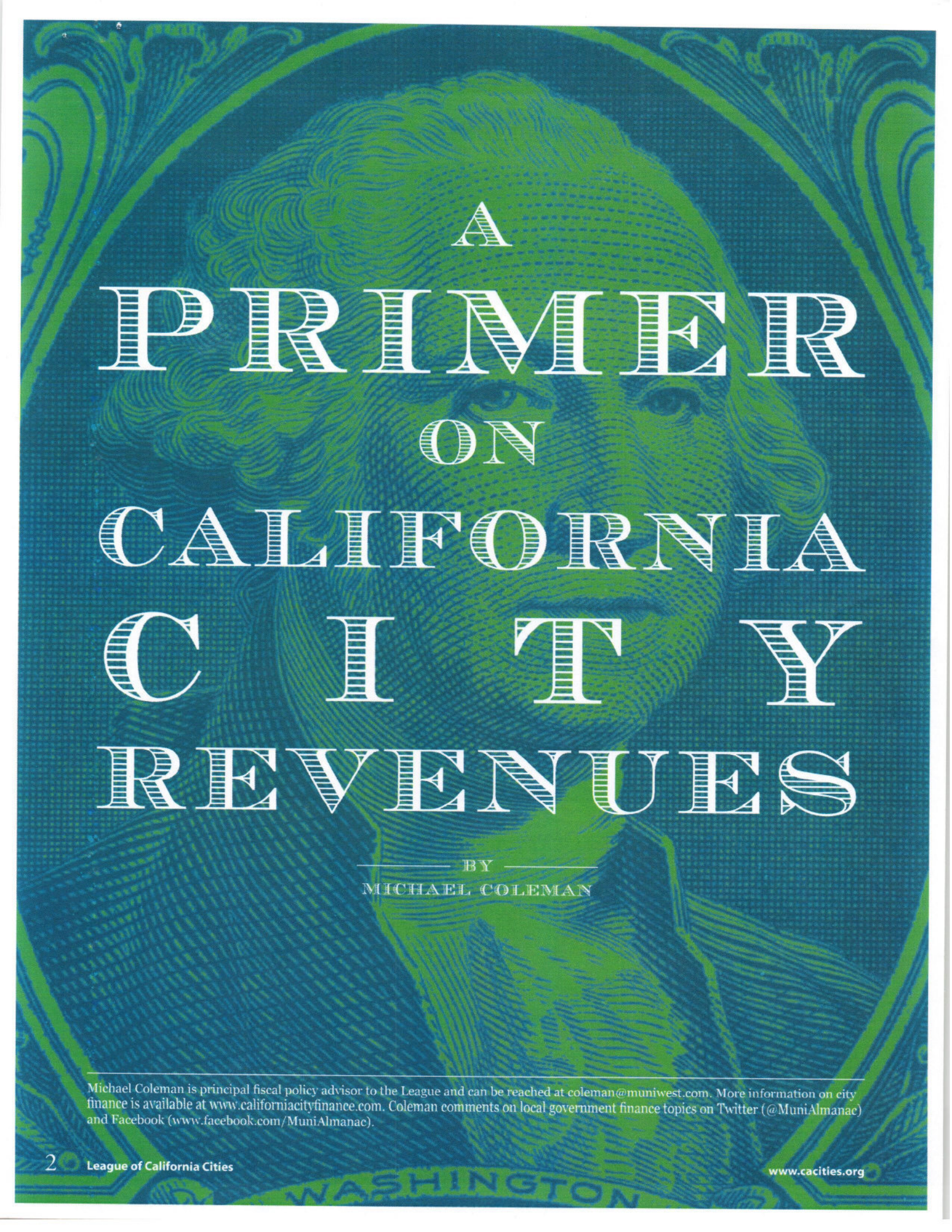
**TO:** Budget Advisory Committee  
**FROM:**  Robb Steel, Assistant CA/Development Services Director  
**COPY:** Michael Story, City Administrator  
**DATE:** October 12, 2017  
**SUBJECT:** Revenues

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If time permits after discussion of the Utility Tax, we may commence the workshops regarding City revenues. The schedule calls for a discussion on the City's operating revenues, including utility taxes, property taxes, sales taxes, business license taxes, service charges, among others. The Committee will be asked to help develop a 10-year forecast of operating revenues for input into the model. Russ Branson from Public Financial Management will facilitate this forecasting process.

As a primer for the revenue discussion, attached is "A Primer of California City Revenues" prepared by the League of California Cities. As background, you might also wish to review the City Administrator's Budget Message, which includes a description of the major operating revenues and the recent trends.





A  
PRIMER  
ON  
CALIFORNIA  
CITY  
REVENUES

BY  
MICHAEL COLEMAN

Michael Coleman is principal fiscal policy advisor to the League and can be reached at [coleman@muniwest.com](mailto:coleman@muniwest.com). More information on city finance is available at [www.californiacityfinance.com](http://www.californiacityfinance.com). Coleman comments on local government finance topics on Twitter (@MuniAlmanac) and Facebook ([www.facebook.com/MuniAlmanac](http://www.facebook.com/MuniAlmanac)).



# REVENUE BASICS

You don't have to scratch any local government issue very deeply to find the question of money: What's this going to cost? What are we going to get for that price? Is this project worth it?

How does your city pay its bills? What does the future hold for city service costs and funding? Though every city is different — each with its own needs, local economy, expectations, protocols, responsibilities and finances — some essential elements of city revenues and spending are common to cities throughout California.

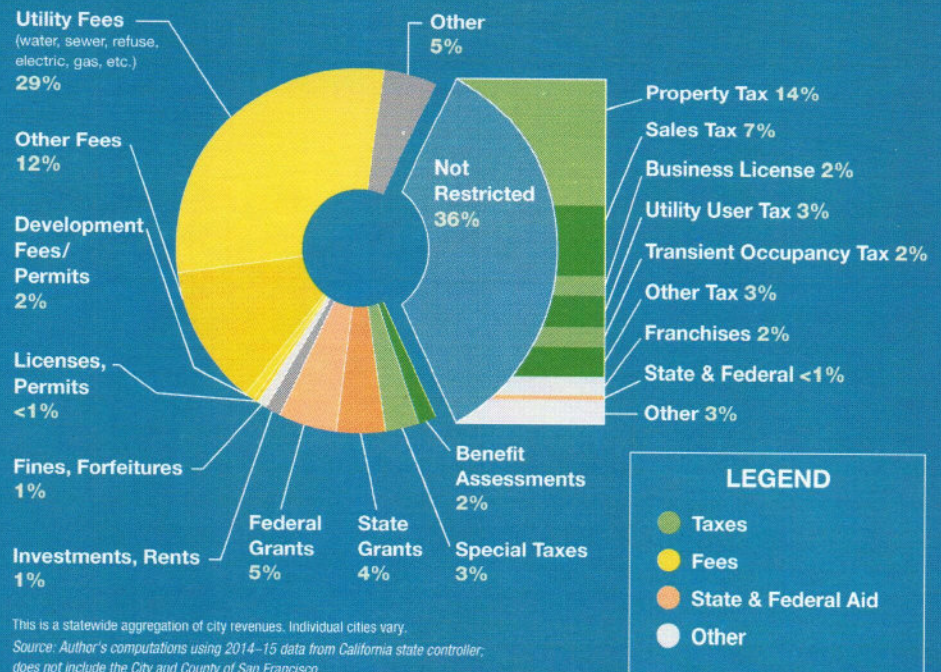
## AN OVERVIEW OF CITY REVENUE SOURCES

Revenue, the bread and butter of city budgets, comes from a variety of sources. Some revenue is restricted by law to certain uses; some revenue is payment from customers for a specific service. Other revenue requires voter approval for rate increases. Still other revenue comes from state and federal agencies, almost all of it with strings attached.

The California Constitution and state law provide some specific distinctions among municipal revenue sources.

*continued*

## CALIFORNIA CITY REVENUES





**TAXES**

A tax is a charge for public services and facilities. There need not be a direct relationship between the services and facilities used by an individual taxpayer and the tax paid. Cities may impose any tax not otherwise prohibited by state law (Gov't. Code Section 37100.5). The state prohibits local governments from taxing certain items, including cigarettes, alcohol and personal income; the state taxes these for its own purposes.

The California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose. A majority of voters must approve a new general tax, its increase or extension in the same election in which city council members are elected. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax, its increase or extension.

**Overview of General Tax and Special Tax Requirements**

	GENERAL TAX	SPECIAL TAX
<b>Use of Revenues</b>	Unrestricted	Specific purpose
<b>Governing Body Approval Required</b>	<ul style="list-style-type: none"> <li>• General-law cities: two-thirds approval is required.</li> <li>• Charter cities: majority approval is required.</li> <li>• Transactions and use taxes: two-thirds approval is required.</li> </ul>	Majority
<b>Voter Approval Required</b>	Majority	Two-thirds
<b>Other Rules</b>	A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including the tax rate, the amounts of revenues collected and expended and the status of any project funded by the special tax.

**Local Tax and Revenue Limitations: Proposition 13 and Its Siblings**

Local officials have limited choices in governing, managing their finances and raising revenues to provide services needed by their communities. Voters have placed restrictions as well as protections in the state Constitution. The Legislature has acted in various ways both to support and provide and to limit and withdraw financial powers and resources from cities, counties and special districts.

Significant limitations on local revenue-raising include:

- Property taxes may not be increased except with a two-thirds vote to fund a general obligation bond (most local school bonds can now be passed with 55 percent voter approval);
- The Legislature controls the allocation of local property tax among the county, cities, special districts and school districts within each county;
- Voter approval is required to enact, increase or extend any type of local tax;
- Assessments to pay for public facilities that benefit real property require property-owner approval;
- Fees for services and the use of local agency facilities may not exceed the reasonable cost of providing those services and facilities; and
- Fees for services such as water, sewer and trash collection are subject to property-owner majority protest.

**FEES, CHARGES AND ASSESSMENTS**

A fee is a charge imposed on an individual for a service that the person chooses to receive. A fee may not exceed the estimated reasonable cost of providing the particular service or product for which the fee is charged, plus overhead. Examples of city fees include water service, sewer service connection, building permits, recreational classes and development impact fees.

Cities have the general authority to impose fees (as charges and rates) under the cities' police powers granted by the state Constitution (Article XI, Sections 7 and 9).

State law sets specific procedures for fee and rate adoption. Proposition 218 provides special rules for property-related fees used to fund property-related services.

Special benefit assessments are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services. The state Constitution requires

*continued on page 6*



A FEE MAY NOT EXCEED THE ESTIMATED REASONABLE COST OF PROVIDING THE PARTICULAR SERVICE OR PRODUCT FOR WHICH THE FEE IS CHARGED, PLUS OVERHEAD.

property-owner approval to impose a benefit assessment. Other locally raised revenues include licenses and permits; franchises and rents; royalties and concessions, fines, forfeitures and penalties; and investment earnings.

### **INTERGOVERNMENTAL REVENUE**

Cities also receive revenue from other government agencies, principally the state and federal governments. These revenues include general or categorical support monies called subventions, as well as grants for specific projects and reimbursements for the costs of some state mandates. Intergovernmental revenues provide 10 percent of city revenues statewide.

### **OTHER CITY REVENUES**

Other sources of revenue to cities include rents, franchises, concessions and royalties; investment earnings; revenue from the sale of property; proceeds from debt financing; revenues from licenses and permits; and fines and penalties. Each type of revenue has legal limitations on what may be charged and collected as well as how the money may be spent.

### **PUTTING MONEY IN ITS PROPER PLACE**

The law restricts many types of city revenues to certain uses. As explained earlier, a special tax is levied for a specific program. Some subventions are designated by law for specific activities. Fees are charged for specific services, and

fee revenue may fund only those services and related expenses. To comply with these laws and standards, finance departments segregate revenues and expenditures into separate accounts or funds. The three most important types of city funds are special revenue funds, enterprise funds and the General Fund.

Special revenue funds are used to account for activities paid for by taxes or other designated revenue sources that have specific limitations on use according to law. For example, the state levies gasoline taxes and allocates some of these funds to cities and counties. A local government deposits gasoline tax revenue in a special fund and spends the money for streets and road-related programs, according to law.



## Local Revenue Protections

The Legislature has enacted many complicated changes in state and local revenues over the past 30 years, which at times have had significant negative fiscal impacts on city budgets. In response, local governments and their allies drafted — and voters approved — state constitutional protections limiting many of these actions. At times, these protections have resulted in the Legislature undertaking even more complex maneuvers in efforts to solve the financial problems and protect the interests of the state budget.

In response to actions of the Legislature and the deterioration of local control of fiscal matters, local governments placed on the ballot and voters approved Proposition 1A in 2004 and Prop. 22 in 2010. Together, these measures prohibit the state from:

- Enacting most local government mandates without fully funding the costs (the definition of a state mandate includes the transfer of responsibility for a program for which the state was previously fully or partially responsible);

- Reducing the local portion of the sales and use tax rate or altering its method of allocation, except to comply with federal law or an interstate compact;
- Reducing the combined share of property tax revenues going to the cities, county and special districts in any county; and
- Borrowing, delaying or taking motor vehicle fuel tax allocations, gasoline sales tax allocations or public transportation account funds.

Enterprise funds are used to account for self-supporting activities that provide services on a user-charge basis. For example, many cities provide water treatment and distribution services to their residents. Users of these services pay utility fees, which the city deposits in a water enterprise fund. Expenditures for water services are charged to this fund.

The General Fund is used to account for money that is not required legally or by sound financial management to be accounted for in another fund. Major sources of city General Fund revenue include sales and use tax, property tax and locally adopted business license tax, hotel tax and utility user taxes.

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# MAJOR CITY REVENUES

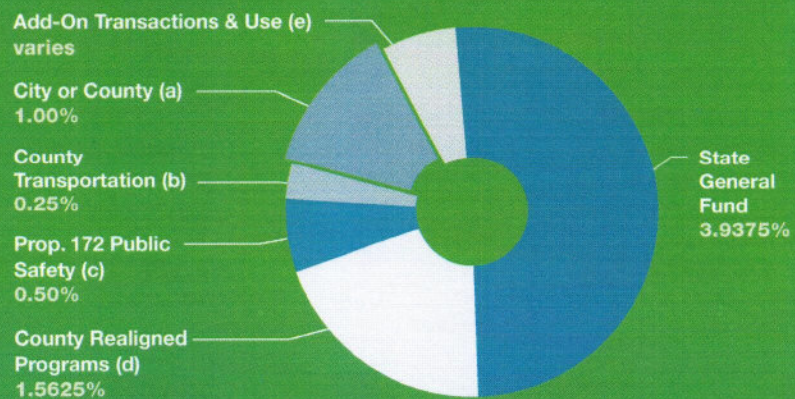
## MAJOR CITY REVENUES

**Sales and Use Tax.** The sales tax an individual pays on a purchase is collected by the state Board of Equalization and includes a state sales tax, the locally levied Bradley-Burns sales tax and several other components. The sales tax is imposed on the total retail price of any tangible personal property. State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity and water delivered through pipes, prescription medicines, agricultural feed, seeds, fertilizer and sales to the federal government. A use tax is imposed on the purchaser for transactions in which the sales tax is not collected.

Sales and use tax revenue received by cities is general purpose revenue and is deposited into a city's General Fund.

*continued*

## SALES TAX: HOW MUCH GOES TO YOUR CITY?



- a. The local 1 percent rate is allocated based on a "point of sale" or "situs" of the sales transaction. The local rate goes to the city or unincorporated county area where the transaction occurs.
- b. The 0.25 percent rate for county transportation programs is allocated to the county in which the transaction occurs.
- c. Proposition 172 of 1993 established a 0.5 percent state sales tax to fund public safety programs (sheriff, police, fire, district attorney, etc.) to mitigate the impacts on those programs of state shifts of property tax revenues.
- d. In 1991 the California Legislature enacted a realignment of state and county programs, assigning various health and welfare program responsibilities to counties and providing funding for those programs including a 0.5 percent portion of the state-imposed sales and use tax rate. In 2011 the California Legislature enacted another realignment of state and county programs, assigning various corrections and rehabilitation program responsibilities to counties and providing funding for those programs, including a 1.0625 percent portion of the state-imposed sales and use tax rate.
- e. Some counties and some cities have imposed additional "transactions and use" tax rates, which may total no more than 2 percent in counties other than Los Angeles, Contra Costa and Alameda. In Los Angeles, Contra Costa and Alameda counties, the maximum combined additional rate is 2.5 percent.



Although cities vary widely, sales and use tax revenue provides on average 30 percent of city general purpose revenue — and often as much as 45 percent.

Cities and counties may impose additional transaction and use taxes in increments of 0.125 percent with two-thirds city council approval and majority voter approval for a general tax; a special tax requires two-thirds voter approval. The combined rate of the city and county transaction and use taxes is capped at 2 percent in most counties.

**Property Tax.** The property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. State law provides a variety of exemptions to the property tax, including most government-owned property; nonprofit, educational, religious, hospital, charitable and cemetery properties; the first \$7,000 of an owner-occupied home; business inventories; household furnishings and personal effects; timber; motor vehicles, freight and passenger vessels; and crops and orchards for the first four years. California Constitution Article XIII A (Proposition 13) limits the property tax to a maximum 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is the base year value plus the value of any improvements, plus annual inflation capped at 2 percent per year. The base year value is the value at the most recent sale or the 1975–76 market value. Property that declines in market value may be temporarily reassessed at the lower value. Property is reassessed to current full value upon change in ownership (with certain exemptions). Property tax revenue is collected by counties and allocated according to state law among cities, counties, school districts and special districts.

The share of property tax revenue allocated to a city varies depending on a variety of factors, including:

- The service responsibilities of the city (for example, in a city where fire services are provided by a special district, the city receives a lower share, with a portion of the property tax revenues going instead to the special district); and

- The historic (1978) tax rates of the city in relation to other local taxing entities. City property tax revenues are also affected by local property values.

**Property Tax in Lieu of Vehicle License Fee (VLF).** The VLF is a tax imposed by the state on the ownership of a registered vehicle in place of taxing vehicles. Cities receive additional property tax to replace VLF revenue that was cut when the state permanently reduced the VLF in 2004. This property tax in lieu of VLF grows with the change from the prior year in gross assessed valuation of taxable property in the jurisdiction. Property tax in lieu of VLF allocations is in addition to other property tax apportionments.

Property tax revenue (including property tax in lieu of VLF) accounts for more than one-third of general revenue for the average full-service city. For cities that do not fund fire service, property tax revenue represents on average 25 percent of general revenue.

**Business License Tax.** Most cities in California levy a business license tax. Tax rates are determined by each city, which collects the taxes. Business license taxes are most commonly based on gross receipts or levied at a flat rate but are sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of factors. In all cases, cities have adopted their tax as a general tax. On average, the business license tax provides about 3 percent of city general revenue and often as much as 6 percent. For businesses that operate in more than one city, state or county, cities can impose a business license tax on only that portion of the business transacted in that city.

**Transient Occupancy Tax (TOT) or “Hotel Bed” Tax.** More than 400 cities in California impose TOT on people staying for 30 days or less in a hotel, inn or other lodging facility. Rates range from

## Responsibilities Differ Among Cities — and Consequently, So Do Budgets

Comparing revenues and expenditures of different cities can be difficult because cities vary according to the needs of their constituents, the nature of the local economy and the city's service and financial responsibilities. Less than 25 percent of California cities are full-service cities, responsible for funding all of the major city General Fund-supported services such as police, fire, library, parks and recreation and planning. In about three out of 10 California communities, a special district provides fire services with property tax revenue that would otherwise go to the city. In six out of 10 California cities, another public agency provides and funds library services.

Allocations of property taxes among local agencies vary from place to place due to differences in the service responsibilities among agencies serving different areas and differences in the tax rates enacted by those agencies prior to Prop. 13, which passed in 1978. Full-service cities generally receive higher shares than those that do not provide the complete range of municipal services. For example, in a city where fire services are provided by a special district, the city gets a lower share, and a portion of the property tax revenues goes instead to the special district.

Property tax revenues among jurisdictions are also, of course, dramatically affected by differences in the assessed value of properties.



3.5 to 15 percent of the lodging cost. In nearly all cases, cities have adopted these as general taxes, but some cities make a point of budgeting the funds for tourism or business development-related programs. Among cities that impose a TOT, it provides 7 percent on average of a city's general revenues and often as much as 17 percent.

**Utility User Tax (UUT).** More than 150 cities (collectively representing a majority of the state's population) impose a utility user tax. UUT rates vary from 1 to 11 percent and are levied on the users of various utilities, which may include telephone, electricity, gas, water and cable television. For cities that impose the UUT, it provides an average of 15 percent of general revenue and often as much as 22 percent.

*continued*

SALES AND USE TAX REVENUE  
PROVIDES ON AVERAGE  
30 PERCENT OF CITY  
GENERAL PURPOSE REVENUE —  
AND OFTEN AS MUCH AS  
45 PERCENT.

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**Parcel Tax.** This is a special non-value-based tax on property, generally based on either a flat per-parcel rate or a variable rate depending on the size, use or number of units on the parcel. Parcel taxes require two-thirds voter approval and are imposed for a variety of purposes, including police and fire services, parks, libraries and open space protection. Parcel taxes provide less than 1 percent of city revenues statewide.

**Rents, Royalties and Concessions.**

Examples of revenues generated through the use of city property include royalties from natural resources taken from city property, the sale of advertising in city publications, payments from concessionaires operating on city property, facility rentals, entry charges, on- and off-street parking charges and even golf fees.

**Franchises.** In lieu of rent, franchise fees are collected from refuse collectors, cable television companies and utilities for the use of city streets. Some franchise charges are limited by statute.

**Fines, Forfeitures and Penalties.** Cities receive a share of fines and bail forfeitures from misdemeanors and infractions committed within city boundaries. State law determines the distribution and use of state-imposed fines and forfeitures, but cities determine penalties for violations of their municipal codes.

**Service Charges and Fees.** Cities have authority to impose fees, charges and rates for services and facilities they provide, such as plan checking or recreation classes. Use of these revenues is limited to paying for the service for which the fees are collected, but may include overhead, capital improvements and debt service.

Regulatory fees pay for the cost of issuing licenses and permits, performing investigations, inspections and audits and the administrative enforcement of these activities. Examples include a fee to pay for the cost of processing pesticide license

applications or a fee to inspect restaurants for health and safety compliance.

City utilities and enterprises supported by service fees constitute a substantial portion of most city budgets. These include water, sewer, electricity and solid waste services. In some cities, a public or private agency other than the city provides and funds these services.

**AND THERE'S MORE**

City budgets can be bewildering. Myriad laws and limitations make city funding a very complicated subject. Understanding the essentials of city finance is critical for any city decision-maker. Elected officials find their job is made easier when they are able to explain the basic elements of municipal finance to their constituents. ■

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**Trends in California City Finance**

- State and federal aid to California cities is declining, down from 21 percent of a city's budget in 1974-75 to less than 10 percent today. Nearly all state and federal aid today is earmarked for specific purposes;
- The sales tax base is declining relative to population and inflation growth, due to the gradual shift toward a service-oriented economy;
- Voter-approved provisions in the state Constitution limit the types, approval procedures and use of local taxes, fees and other charges;
- State population growth is higher in cities than in unincorporated areas;
- Cities must respond to residents' demand for a greater array of services that bring with them additional costs and new challenges (high tech, cable, transit, pollution control, etc.);
- Spending on police and fire services is up largely due to employee pension and retiree health-care costs; and
- Infrastructure improvements and maintenance are lagging.