

AGENDA ITEM 7

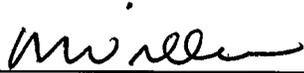
City of Bell Agenda Report

DATE: 15 January 2014

TO: Honorable Mayor and City Council

FROM: Josh Betta, Finance Director

APPROVED
BY:



Doug Willmore, City Manager

SUBJECT: **Five-Year Financial Projection: Utility Users Tax Reduction from 10% to 8%**

Recommendation:

Take appropriate action.

Background:

On February 26, 2014, the City Council considered cash flow projections implicit to the lowering of the City's 10% utility users' tax (UUT) to 6% over a four-year period of graduated implementation. It is again the request of the City Council to consider a permanent reduction in the tax. In this case, the reduction amount would be 2%, assumed to be effective on July 1, 2015, thus leaving an 8% tax in place for ratepayers.

Five-Year Cash Flow Projection:

- Annual revenue growth of 2%, annual expenditure growth of 1.5%.
- Continuation of the City's "managed structural deficit" established with adopted of the FY 2015 Budget.
- Elimination of \$708,000 in one-time spending included in the Adopted FY 2015 Budget beginning in FY 2016.
- One-time liabilities for unanticipated events occurring in FY 2015.
- No transfer to the "Bell Legacy" Fund.

Discussion and Fiscal Impact – General Fund:

This City's estimate for UUT collections in FY 2015 is \$3,090,000. This means that each 1% of the UUT correlates to \$309,000 in income. Stated alternatively, a 2% reduction in the tax results in annual revenue loss of \$618,000 (2 X \$309,000 = \$618,000).

The City Council adopted a Budget in FY 2014-15 that creates a "managed structural deficit" of ongoing costs in the amount of \$781,000. The projection reflects that this amount diminishes each year according to the cost-index assumptions referenced above.

The managed structural deficit and the 2% reduction in the UUT are displayed for the five-year period commencing July 1, 2015.

If a 2% reduction in the UUT is implemented, and, as assumed in this model, no expenditure reductions are made in the City organization, it is estimated that General Fund reserves will be reduced to 56.6% in FY 2020. Without corrective action to reduce expenditures to available revenue beyond FY 2020, it is estimated that General Fund reserves will be exhausted by the reduced UUT levy in approximately 13 years.

In summary, a 2% reduction in the UUT commencing in FY 2016, absent expenditure reductions to make up the permanent revenue loss, has the potential to eliminate all General Fund reserves in 18 years.

Other Observations:

- Considerable conversation has taken place in recent months concerning the transfer of a sizable portion of the General Fund's reserves to a special revenue fund – The Bell Legacy Fund – to create a set-aside for economic development activities. It is certain that a reduction to the UUT will alter future consideration of this policy matter.
- Approximately 70% of the City of Bell's population rent or lease their properties. In this manner, homeowners do not shoulder the burden of UUT payment. As concerns taxpayer equity and fairness, it can be argued that a renter's payment of the UUT is a more reasonable share of the municipal tax burden.
- The projection does not assume the continued loss of the City's Retirement Pension property tax override as established in 1944. Approximately \$900,000 each year is being withheld by Los Angeles County as pertains to their interpretation of redevelopment dissolution. This matter is pending resolution.

Attachments:

Utility Users Tax – Cash Flow Projection, Reduction from 10% to 8%

Utility Users Tax
Reduction from 10% to 8%
 Beginning 7.1.15

General Fund Five-Year Cash Flow Projection

General Fund Reserves, 6.30.14 (Per Draft FY 14 Financial Statements)	20,753,917
Managed Structural Deficit, Ongoing Costs Beginning FY 2015	(781,000)
Managed Structural Deficit, One-Time Costs FY 2015	(708,000)
Administrative Specialist to Part-Time Status	33,000
Add: Environmental Programs Manager Position	(26,000)
IRS Payment 2007 GO Bonds	(258,000)
Emergency Disaster / COOP Plans	(50,000)
Dissolution of Bell/Cudahy Telecommunications Authority	(193,000)
Four (4) HVAC Units	(60,000)
Shortfall Loan to Successor Agency	(1,255,000)
Transfer Out to Gas Tax Fund, Invalid Medina Const. Contracts	(341,000)
Transfer Out to Gas Tax Fund, Invalid Street Sweeping Contracts	(117,000)
Transfer Out to Retirement Fund Eliminating Accumulated Deficit	(2,276,000)

Projected General Fund Reserves, 6.30.15 **14,721,917**

Managed Structural Deficit (Revenue Less Expenditures) FY 2016	(730,000)
UUT Reduction FY 2016	(618,000)
Managed Structural Deficit (Revenue Less Expenditures) FY 2017	(685,000)
UUT Reduction FY 2017	(618,000)
Managed Structural Deficit (Revenue Less Expenditures) FY 2018	(638,000)
UUT Reduction FY 2018	(618,000)
Managed Structural Deficit (Revenue Less Expenditures) FY 2019	(590,000)
UUT Reduction FY 2019	(618,000)
Managed Structural Deficit (Revenue Less Expenditures) FY 2020	(539,000)
UUT Reduction FY 2020	(618,000)

Projected General Fund Reserves, 6.30.20 **8,449,917**

General Fund Reserves as %

Projected Reserves, 6.30.20 8,449,917

-- Divided By -- /

Projected Expenditures/Transfers Out, FY 2020 14,921,000

General Fund Reserves as % **56.6%**
