CITY OF PASADENA INCORPORATED JUNE 1886

Agenda Report

June 12, 2017

TO: Honorable Mayor and City Council

FROM: Department of Finance

THROUGH: Finance Committee

SUBJECT: **OPTIONS FOR REVENUE ENHANCEMENTS TO FUND OPERATING OR CAPITAL PROGRAMS**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3); and

2. Consider whether to pursue some form of voter-approved revenue measure to fund operating or capital programs and direct staff accordingly.

EXECUTIVE SUMMARY:

At a time when the City is experiencing minimal growth in its revenue base, the need for capital investment is acute, and the cost of providing municipal services is rising. It may be appropriate for the City Council to consider options for producing new revenues which could support existing or expanded services or needed capital improvements.

New revenue generation options include a General Obligation Bond for capital projects, Parcel Tax, Utility User Tax, Real Property Transfer Tax, Transaction Tax (Sales Tax), Parking Tax, Business License Tax, Transient Occupancy Tax, and Excise Tax.

This report provides additional information on each of these revenue types and seeks the City Council's direction as to whether to pursue efforts further. All potential options require voter approval in compliance with Proposition 218.

BACKGROUND:

During this year's capital budget deliberations, it was evident that the City has a growing backlog of unfunded infrastructure projects. As the City's infrastructure continues to age, this problem is becoming more acute. In reviewing the operating budget, it is also apparent that there is little opportunity for expanding services or programs in support of the community without identifying new revenue or defunding current services to fund the expansion or implementation of others. Moreover, the cost of providing existing services continues to rise, potentially jeopardizing its ability to maintain existing programs.

One option to explore is enhanced revenues through some sort of voter-approved measure, either to support capital improvements or ongoing services. Listed below are potential voter-approved measures to enhance City revenues. While not a comprehensive analysis, this report is intended to facilitate discussion and possibly direction by the City Council as to whether to pursue any of these options in earnest.

Property Tax – General Obligation Bond

As of January 2017, the City's annual property tax revenue is approximately $57 million. Property taxes are the primary source of revenue for the General Fund. Property values have increased since the 2008 economic downturn resulting in increased revenue in the General Fund.

With the passage of Proposition 13 in 1978, property taxes are limited to one percent of the property's taxable assessed value and can only exceed this limit to pay for local government debts approved by the voters prior to July 1, 1978, or for bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

As a way of funding capital improvement needs, the City Council could seek voter approval for a General Obligation Bond to generate capital funds for a project or projects. The following table illustrates the revenue that could be generated by various levels of property tax assessments and the value of those revenues capitalized for 20 or 30 years at a conservative interest rate of 4.5 percent.

The figures below assume a tax-exempt usage.

Amount per $100,000 Assessed Value $	Estimated Amount of Revenue per Year $	Value if Capitalized for 20 Years at an Interest Rate of 4.5% $	Value if Capitalized for 30 Years at an Interest Rate of 4.5% $
10	2,582,665	33,595,137	42,068,736
20	5,165,329	67,190,274	84,137,472
30	7,747,994	100,785,411	126,206,207
40	10,330,658	134,380,548	168,274,943
50	12,913,323	167,975,685	210,343,679

60	15,495,988	201,570,822	252,412,415
70	18,078,652	235,165,959	294,481,151

Based on total assessed value of $25,826,646,000 Reserve requirements and cost of issuance would reduce the net revenue to approximately10 percent

Parcel Tax

The origins of the parcel tax are also tied to Proposition 13; however, parcel taxes differ from property taxes in two significant ways. First, parcel taxes tax real estate parcels, not the value of those parcels. For example, property that is zoned single family residential, pays the same tax amount regardless of the size or value of the lot or improvements.

The City's Library Special Tax is a parcel tax which, like other parcel taxes, has a different rate for differing property usage (i.e., single family, multi-family and commercial/industrial use).

The following table contains current information on the Library Special Tax.

Parcel Type	Number of Parcels	FY 2017 Rate $	Revenue $
Residential	30,713	37.14	1,140,681
Multi Family	4,111	24.39	100,267
Non-residential	4,332	271.69	1,176,961
			Total: $2,417,909

For Multi-Family Residential, the basis is the number of residential units of a multi-unit building which is not a condominium (e g , apartments).

The second way parcel taxes differ from property taxes is that they can be used for operating expenses, like the Library Special Tax; however, as with property taxes, two-thirds voter approval is required to implement a parcel tax.

The following chart illustrates the amount of annual revenue that could be generated at various rates. As with the Library Tax, a parcel tax rate may include annual increases based on the Consumer Price Index or other factors. If some type of annual increase provision is not included, a parcel tax for operating purposes would become less effective over time as revenues would not increase as operating expenses increase.

Parcel Type	Number of Parcels/Units	Rate $	Revenue $
Residential	30,713	25	767,825
Multi Family*	4,111	15	61,665
Non-residential	4,332	190	823,080
			Total: $1,652,570
Residential	30,713	45	1,382,085
Multi Family*	4,111	25	102,775
Non-residential	4,332	210	909,720
			Total: $2,394,580

Residential	30,713	65	1,996,345
Multi Family*	4,111	45	184,995
Non-residential	4,332	230	996,360
			Total: $3,177,700
Residential	30,713	85	2,610,605
Multi Family*	4,111	65	267,215
Non-residential	4,332	250	1,083,000
			Total: $3,960,820

*Number of assessable units.

Real Property Transfer Tax

The State of California Revenue and Taxation Code authorizes a fee on the transfer of real property ($1.10 per $1,000 of sale value). Through the adoption of Pasadena Municipal Code Chapter 4.36, the City currently receives half of this amount or $0.55 per $1,000 of sales value and the county receives the other half. Over the last two fiscal years, the Real Estate Transfer Tax generated an average of $1.3 million per year for the City. This revenue stream while stable and growing during periods of real estate growth and expansion, can realize sharp declines when the real estate market slows or contracts.

Cities are permitted to levy their own transfer taxes; however, it requires forfeiture of the current county share. The cities of Los Angeles and Culver City have a transfer tax of $4.50 per $1,000 valuation; Santa Monica's rate is $3 per $1,000 valuation; and Pomona and Redondo Beach are $2.20 per $1,000 valuation.

Using current average property sales amounts, a rate of $2.11 per $1,000 of sale value would net the City an additional $1 million over the current level of receipts. Increases in increments of $0.23 would generate an additional $1 million.

Rate	Gross Revenue $	County Share $	City Share $	Less Current Revenue $	Net Additional to City $
0.01055	4,621,017	2,409,061	2,211,956	1,204,531	1,007,425
0.01285	5,628,443	2,409,061	3,219,382	1,204,531	2,014,851
0.01515	6,635,868	2,409,061	4,226,807	1,204,531	3,022,276
0.01745	7,643,294	2,409,061	5,234,233	1,204,531	4,029,702

If the proceeds from a real estate transfer tax are used for general purposes, an approval by a simple majority vote is needed. If the proceeds are used for a specific purpose, it is a "special tax" pursuant to Proposition 218 and subject to a two-thirds voter approval.

Transaction Tax (Sales Tax)

The taxes imposed by transaction tax districts are commonly referenced as additional sales tax measures. State law provides that individual jurisdictions (cities) may form one or more transaction tax districts as long as the total tax levy, including the rate of countywide districts, does not exceed 2.0 percent. According to the State Board of Equalization, agencies in Los Angeles County that do not currently have a transaction tax, have the ability to approve a tax measure up to 1.0 percent without the need for special legislation.

Since transaction tax is applied differently than traditional sales tax, the generation of new revenue is not equal to what is currently received with the 1.0 percent Bradley-Burns sales tax allocation. Generally, a transaction tax generates less than the current sales tax. Based on the City's receipts for fiscal years 2015 and 2016, a local transaction tax of 1.0 percent would potentially generate $28 million during the initial year of implementation. If the City's tax proceeds are utilized for a specific purpose (i.e., a special tax), a two-thirds voter approval is required.

The following table outlines potential revenues obtained during the initial year of implementation based on various transaction tax rates of 1.0 percent or less. Revenues could increase further since businesses often reach full compliance with a new rate during the second year of implementation.

Transaction Tax Category	Estimated 0.25% Transaction Tax $	Estimated 0.50% Transaction Tax $	Estimated 1.0% Transaction Tax $
Autos & Transportation	1,084,033	2,168,067	4,336,134
Building & Construction	391,454	782,908	1,565,816
Business & Industry	514,741	1,029,481	2,058,962
Food & Drugs	477,687	955,374	1,910,748
Fuel & Service Stations	370,784	741,568	1,483,135
General Consumer Goods	2,567,514	5,135,028	10,270,057
Restaurants & Hotels	1,795,541	3,591,081	7,182,162
Transfers & Unidentified	(917)	(1,833)	(3,666)
County/State Pool	0	0	0
Admin Fees	(116,609)	(233,217)	(466,434)
Total:	**$7,084,228**	**$14,168,457**	**$28,336,914**

Parking Tax

Another revenue potential is a tax on paid parking spaces (not parking meters) in public and privately owned or operated parking garages and lots, somewhat akin to the Transient Occupancy Tax on hotel rooms. The City currently operates eight garages and three surface lots with a total of 6,500 parking spaces. There are approximately 11,000 privately controlled spaces that would be subject to the tax. Rose Bowl parking might also be a consideration and could add thousands of additional spaces during events with paid parking. Using actual revenue figures for City-controlled spaces and projections for privately controlled spaces at a tax rate of 10 percent, the City could generate up to $3 million annually. A caveat to this type of tax is that it is generally a fixed percentage tax, so unless parking rates are increased or the number of parking spaces increased, the revenue growth over time would be relatively flat. If the City Council directs staff to explore this option, additional data would be gathered for more accurate estimates.

Currently, the City of Los Angeles has a 10 percent parking occupancy tax, the City of Santa Monica has a 10 percent parking facilities tax, and the City of Burbank has a 12 percent transient parking tax. Burbank generated $2.955 million from its tax in fiscal year 2016.

Business License Tax

The City's business license tax is based on one or more factors (e.g., number of employees, number of units, square footage) depending on the type of business. The tax currently generates more than $5 million annually. MuniServices, the City's business license tax consultant, compared Pasadena's business license tax system to several other cities including Anaheim, Beverly Hills, Burbank, Glendale, Newport Beach, Ontario, Riverside and Santa Monica. The analysis examined the average business license fee paid in five major categories of business; Professional, Service, General Business, Specialty Contractors, and Residential Rental. The cities of Santa Monica and Beverly Hills generate considerably more revenue than each of the other surveyed cities because collections are based primarily on gross receipts. Excluding these two cities, Pasadena's existing business license tax rates are consistent with the other cities that levied a tax. The City Council could consider adopting a gross receipts tax similar to Beverly Hills and Santa Monica; however, doing so might place the City at a comparative disadvantage relative to other cities in the San Gabriel Valley.

Transient Occupancy Tax

The City has a Transient Occupancy Tax (TOT) of 12.11 percent. In addition to the TOT, a Tourism Business Improvement District (TBID) assessment of 2.89 percent is also charged on the same occupancy in any hotel. As such, the City's TOT rate is effectively 15 percent, which places Pasadena at the top end in California. A study completed by CaliforniaCityFinance.com in April 2017, determined that the base 15 percent rate charged by Anaheim is the highest TOT rate in California. Anaheim also has a Tourism Improvement District assessment of 2 percent, making that City's total rate 17 percent. As such, while the City could put before the voters an increase in TOT, it would place Pasadena at the highest end of the tax spectrum and could potentially have a negative effect on hotel occupancy within the City.

Utility User Tax

Utility User Tax (UUT) is a percentage tax based on the consumption of the utility. In Pasadena, the current tax rate on telephone usage (including cellular) is 8.28 percent, so the tax paid on a $50 phone bill would be $4.14.

The City's UUT rates vary by utility and are as follows:

Telephone: 8.28%	Gas: 7.90%	Video: 9.40%
Electricity: 7.67%	Water: 7.67%	

The City's utility tax collections have been adversely impacted by various trends in recent years. Cable service technology and platform changes and video tax from cable service has been reduced significantly. This trend is anticipated to continue as more options become available. Water and electricity-based UUT revenue has also been trending downward due to water conservation efforts and more efficient water technologies. As such, an increase in UUT rate may not be the most effective means of raising additional revenue.

Excise Tax

An excise tax is generally levied on the business selling specific goods or services. Most tobacco and alcohol taxes are excise taxes, and the recently approved statewide marijuana taxes approved as part of Proposition 64 are excise taxes. A couple of cities in California also have approved excise taxes on the sale of sugary beverages. In these cases, the tax is a set amount per ounce of sugary beverage sold, and the burden to remit the correct amount per volume of beverages sold falls upon the business.

An excise is considered an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to try and recover or shift the tax by raising the price paid by the buyer. These taxes are typically imposed in addition to other taxes such as sales tax. The proceeds generated from an excise tax may be either for general or special purposes, which would determine the voter threshold required.

In November 2016, 39 cities and counties in California put forward ballot measures to consider taxing marijuana in anticipation of approval of Proposition 64, the California Marijuana Legalization Initiative. Of the 39 measures, 37 were approved as well as Proposition 64. While the measures varied in type and method of collection, they are all technically excise taxes since they are a tax applied specifically to one type of business. Thirty of the approved measures included a gross receipts business tax component and 19 included a per square foot tax component. The majority of the gross receipts taxes approved were related to the sale of both medical and recreational marijuana and related products; however, some local agencies also elected to use a gross receipts tax for cultivation and manufacturing. Other agencies chose to use the per square foot methodology for cultivation and manufacturing. Additionally, some local agency ballot measures included an excise tax component based on the weight of the product. This type of tax structure was generally proposed for the cultivation aspects of production and mirrors what the state of California approved through Proposition 64. If an excise tax was levied by Pasadena, the collection of these taxes would likely be managed through the business license tax process. As the City considers the appropriate land-use regulations for medical and recreational marijuana, should such use be permitted, consideration should be given to some sort of excise tax on these products.

Assessment District

An assessment district may be created for a variety of different purposes and depending on the type of district, it may encompass operational costs or capital improvement costs. The Tourism Business Improvement District mentioned above in the TOT section is one type of assessment district. Each type of assessment district has a unique methodology for adoption which may include processes such as mail-in ballots or protest elections.

Benefit Assessments are used by local governments to pay the costs of providing fire suppression, flood control, and other services to a particular community. These charges are based on the concept of assessing only those properties that directly benefit from the services or improvements financed. Prior to creating a new assessment, the City must generate a detailed professional engineer's report outlining the proposed area, proposed project costs, annual cost to each property, and the benefit formula used to determine each property's share of the cost.

1982 Act Benefit Assessment Districts provide cities with a means to finance the maintenance and operation of public systems such as drainage, flood control, street lighting or public streets and highways. Similar to the Benefit Assessments above, only those properties that benefit from improvements financed, either directly or indirectly through increased property values, would be assessed. This type of district may not be used to issue bonds.

Community Rehabilitation Districts were legalized in 1985 to provide cities with a means to finance the rehabilitation, renovation, repair or restoration of existing public infrastructure. Types of facilities that can be improved include streets, sewer and water pipes, storm drains, sewer and water treatment plants, bridges and overpasses, street lights, public buildings, criminal justice facilities, libraries and park facilities. This type of district cannot be used to pay for maintenance.

In addition to the three districts highlighted above, other types of districts include Street Lighting Districts, Abatement Districts, Business Improvement Districts, Mello-Roos Community Facilities Districts, Community Rehabilitation Districts, Maintenance Districts, Vehicle Parking Districts, and 1972 Act Landscape and Lighting Districts. As noted by the titles, these districts are generally formed for very specific and unique purposes.

Election Schedule and Voter Requirements for a Tax Measure

All of the above mentioned revenue measures require voter approval to implement and not all have the same voter threshold requirements or the same election cycle requirements.

There are five key election dates in the next 24 months which would be possible election dates for revenue measures:

*November 7, 2017 – Local and Municipal Consolidated Election by Los Angeles County.

*April 10, 2018 – General Law and Charter Cities Consolidated Election by Los Angeles County.

*June 5, 2018 – Statewide Direct Primary Election.

*November 6, 2018 – General Election.

March 5, 2019 – City of Pasadena Primary Election. This is a regularly scheduled election for Pasadena.

*Since this is not a regular municipal election date for Pasadena, this would be considered a special election for revenue measure purposes

City "general" tax measures where revenues are used for unrestricted purposes can be held as part of either a regularly scheduled election or a special election. If consolidated with a regularly scheduled election, a two-thirds vote of councilmembers must be received for a Transactions and Use Tax ballot measure and a simple majority vote of councilmembers for other taxes. If held as part of a special election, a unanimous declaration of "emergency" is required by the City Council. The voter threshold requirement for approval is a simple majority.

City "special" tax measures where revenues are used for specific purposes, such as the existing Library Tax, may be held as part of either a regularly scheduled election or special election. A two-thirds vote of councilmembers must be received for a Transactions and Use Tax ballot measure and a simple majority vote of councilmembers for other taxes. The voter threshold requirement for approval is two-thirds.

General obligation bonds can be voted on as part of either a regularly scheduled election or a special election. A general obligation bond requires two-thirds approval by the City Council to place on the ballot and requires two-thirds voter approval.
Property assessments or property-related fee elections can be part of either a regularly scheduled election or a special election. This type of ballot measure requires simple majority approval by the City Council to place it on the ballot and requires two-thirds voter approval of affected property owners. In the case of a property assessment, votes are weighted by the assessment liability.

Next Steps

A number of steps are required in order to place any sort of revenue measure on an upcoming ballot. Should the City Council wish to proceed, staff would return with an appropriate work plan. Additionally, it would be prudent to undertake a citizen survey as a means of gauging voter interest in various options.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City Council's strategic planning goal to maintain fiscal responsibility and stability.

ENVIRONMENTAL ANALYSIS:

The action proposed herein is not a project subject to the California Environmental Quality Act (CEQA) in accordance with Section 21065 of CEQA and State CEQA Guidelines Section 15060 (c)(2), 15060 (c)(3), and 15378. Since the action is not a project subject to CEQA, no environmental document is required.

FISCAL IMPACT:

There is no fiscal impact associated with this report; however, should the City Council wish to proceed further, a detailed fiscal analysis will be performed.

Respectfully submitted,

MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:

Maria Torres
Management Analyst IV

Approved by:

STEVE MERMELL
City Manager