

Agenda Report

April 6, 2020

TO: CITY COUNCIL
FROM: CITY MANAGER
SUBJECT: ADOPTION OF A RESOLUTION SUSPENDING COLLECTION OF THE LIGHT AND POWER SURTAX ("UNDERGROUND SURTAX") FOR A PERIOD EQUAL TO SIX MONTHLY OR THREE BI-MONTHLY UTILITY BILLING CYCLES EFFECTIVE UPON ADOPTION OF THE RESOLUTION AND PROVIDING FOR CUSTOMER REBATES

RECOMMENDATION

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Adopt a Resolution suspending the collection of the Light and Power Surtax ("Underground Surtax") for a period equal to six monthly or three bi-monthly utility billing cycles effective upon adoption of the Resolution and providing for customer rebates.

BACKGROUND

The outbreak of COVID-19 coronavirus and the associated public health response has resulted in significant economic impacts across the United States. Locally, most employers have had to temporarily close, occupancy rates at area hotels have dropped from 80% to 15% or less, and restaurants which constitute a major part of Pasadena's local economy, are either closed or operating solely for take-out business.

In response to this crisis, on March 27th, the President signed into law the largest economic stimulus package ever approved by the American Government, totaling \$2 trillion. In support of workers and businesses the package includes:

- Enhanced unemployment benefits of up to \$600 per week for up to four months, on top of state unemployment benefits.
- A \$500 billion loan fund to be administered by the Treasury Department for struggling industries.
- All U.S. residents with adjusted gross income up to \$75,000 (\$150,000 for married couples) would get a \$1,200 (\$2,400 for couples) “rebate” payment. They are also eligible for an additional \$500 per child. The payments phase out for earners above those income thresholds and would not go to single filers earning more than \$99,000; head-of-household filers with one child, more than \$146,500; and more than \$198,000 for joint filers with no children.
- Businesses would receive a tax credit for keeping idled workers on their payrolls during the coronavirus pandemic, so long as the businesses meet certain criteria. They would get a refund for half of what they spend on wages, up to \$5,000 per worker.
- Employers and self-employed individuals will be able to defer the 6.2 percent tax they pay on wages that is used to fund Social Security.

While these actions will certainly help to offset some of the economic damage brought on by the COVID-19 pandemic, there is recognition that additional actions are necessary to support the City’s residents and businesses. The City Council has already moved to prevent evictions for both residential and commercial properties; suspended utility shut-offs for lack of payment as well as penalties, interest and late fees on various charges. With the notable exception of eviction protection, which only a fraction of California cities have enacted, most have taken similar actions to support residents and local businesses. It should be recognized that in general, local governments are not well placed to provide direct financial support to residents and businesses in times of economic disruption, as they too face the challenge of providing essential services (e.g. police, fire) in the face of significant declining revenues and future uncertainty.

Fortunately, the City of Pasadena is in a unique position to provide direct financial benefit to its approximately 67,500 electric customers, who make up the City’s households and businesses. The customers are those who presently have, or had, an account for electricity with Pasadena Water and Power. Staff proposes to accomplish this by utilizing funds previously collected from electric rate-payers pursuant to the Light and Power Surtax (Underground Surtax), as established by Pasadena Municipal Code Chapter 4.24.

The Underground Surtax is a charge levied on the use of electricity as follows:

Residential & Commercial, on Electric charge only:

4.34% for First	\$1,000
3.70% for Next	\$4,000
2.47% for Next	\$20,000
1.21% for Over	\$25,000

The Underground Surtax revenues are used to provide for the construction and extension of underground utility lines; street light improvements in connection with such conversions; and replacement and repair of underground utility lines. Legally, there are no other permitted uses for these funds.

Over the course of the last several years, the amount of money (Fund Balance) in the Underground Surtax fund has greatly exceeded the amount necessary to complete identified projects. This is largely due to various constraints impacting the number of projects that can be undertaken at any one time. Rather than hold these funds and continue to collect the Surtax, given the unprecedented financial challenges facing many of the City's electric rate-payers whether they be individuals or businesses, staff is proposing to suspend collection of the Surtax for a period of six months and to rebate to existing and qualifying former electric customers, amounts collected over the past 24 months. Because it is the individual renter, home owner and business owner who generally holds the account, rebates will be distributed across the economic scale and not concentrated to unduly favor any particular segment of the economy.

Table 1: Proposal impact on Surtax Fund Balance

6/30/2019 - Cash Balance	52,000,572
FY20 Appropriations	(6,311,665)
FY20 Revenue	4,249,728
Net Available	49,938,635
<i>2 Year Rebate</i>	<i>(11,400,000)</i>
Balance 6/30/20	38,538,635
FY 21 Proposed CIP	(5,850,000)
FY 21 Revenue (half year)	2,000,000
6/30/21 Balance	34,688,635
FY 22-25 Revenue	20,000,000
FY 22-25 anticipated CIP	(47,353,241)
6/30/25 Estimated Balance	7,335,394

Table 2: Estimated Customer Rebate Amounts

	FY 2019 Monthly Avg Use (kWh)	Est. Monthly Avg Electric Chgs	Est. Monthly Avg UUG Charge	Est. Annual Avg UUG	Proposed 2 year rebate
Residential					
	350	\$60	\$2.60	\$31	\$62
	500	\$99	\$4.30	\$52	\$103
	750	\$164	\$7.12	\$85	\$171
	1,000	\$219	\$9.52	\$114	\$228

Local Restaurants - Small and Medium Commercial

Small	12,572	\$2,244	\$89.42	\$1,073	\$2,146
Medium	23,286	\$3,445	\$133.87	\$1,606	\$3,213

Large Commercial

Medical Facility (sm/md)	114,571	\$21,137	\$583.86	\$7,006	\$14,013
Professional Services Firm	469,500	\$65,260	\$1,172.55	\$14,071	\$28,141
Hotel Property	497,250	\$68,710	\$1,214.29	\$14,571	\$29,143

As proposed, all current electric customers who were charged the Underground Surtax would receive a rebate. The actual amount of the rebate check for each customer will vary depending on the specific amount of Underground Surtax that was paid, the amount of electricity used, and the length of time a customer has received electric service from Pasadena.

Additionally, any former electric customers who paid the Underground Surtax within the rebate period would be eligible to receive a rebate by filing a simple claim form with the City. Importantly, existing electric customers would not be required to file any paperwork with the City. Rather, the City will issue checks directly to those account holders; the issuance of which could begin within two weeks.

ENVIRONMENTAL ANALYSIS

The proposed action is not a project subject to California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project

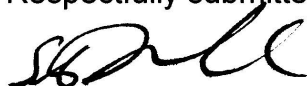
COUNCIL POLICY CONSIDERATION

The proposed action is consistent with the City Council's stated goal of supporting and promoting the quality of life and local economy. It is also consistent with the goal of maintaining fiscal responsibility and stability, in that under the current circumstances, returning rate-payer money, which is not needed for any current undergrounding projects, to be used by residents and businesses is the responsible thing to do. Moreover, this action does not negatively impact the City's General Fund.

FISCAL IMPACT

The proposed action will result in a six month suspension of Underground Surtax collection, the estimated amount of forgone Underground Surtax revenue is approximately \$2 million. In addition, the action would provide for rebates to electric customers of 24 months of Underground Surtax collections, the approximate value is \$11.4 million, for a total fiscal impact of approximately \$13.4 million.

Respectfully submitted,



Steve Mermell
City Manager