

HISTORY AND FACTS RELATED TO UTILITY USERS TAX

- Spring 1992, Council adopted a 6% UUT, effective November 1, 1992, after cost-saving measures were found to be insufficient to offset revenue losses due to recession and ERAF shifts. (Back in 1992, a City Council had the authority to levy this type of tax without a vote of the public.)
- The UUT implementation led to a recall in July 1993 and all five Council Members were replaced in November 1993 after a special election.
- The UUT was rescinded effective October 31, 1993 after the new Council was seated.
- On October 18, 1994, the new Council adopted a five year, 8.25% UUT.
- November 7, 1995, the UUT was approved by the voters in an “Advisory Vote Only.” 20,428 registered voters; 5,003 (24.49%) ballots cast; 2,584 Yes votes (54.13%); and 2,190 No votes (45.87%).
- The UUT was reduced to 7% in December 1995.
- The UUT was reduced to 5.5% in February 1998.
- March 2, 1999, a 6% UUT was approved by 55.5% of the voters. 22,800 registered voters; ballots cast 4,264 (18.7%); 2,343 Yes votes (55.51%); and 1,878 No votes (44.49%). (Laws had changed by this time, and a vote of the public was now required.)
- On March 16, 1999, the UUT tax was confirmed to be approved by the voters in accordance with California Propositions 62 and 218.
- Via resolution, the UUT has a maximum individual payment cap of \$5,000.
- Via resolution, the UUT has an exemption for individuals meeting the County/Federal very-low income standard.
- Council annual budget resolutions set the UUT at 5.5% from February 1998 until July 2002 when it reverted to the 6% level set in the ordinance.
- Council annual budget resolutions (not ballot measures) from FY 99-00 until 02-03 allocated UUT revenues for street maintenance (25%), library (18%), parks & recreation (18%), public safety/police (34%), council contingency (5%).
- The UUT will automatically terminate (sunset) March 16, 2009.
- The UUT proceeds are placed in the city’s general fund and used for the usual current expenses of the city, according to ordinance (CMC Chapter 3.14).
- FY 2006-07 budget projects UUT revenue at \$5.5M.
- Changes in federal and state law relating to telecommunications may further impact the current deficit of \$2.3M by reducing the base to which the UUT tax is applied.
- The UUT continues to be used to maintain service levels.

City of Covina: Frequently Asked Questions

About the Financial Challenges Facing the City

WHAT are the financial challenges facing the City of Covina and WHY is the City facing them?

Since 2001 the City has been operating with ongoing General Fund cash flow deficit. This year the deficit will be in excess of \$2 million. There are a number of reasons for the City's deficit but the 3 most significant are:

1. Revenue growth has not kept pace with the increase in population and inflation. Although tax revenues have increased steadily over the last five years, non-tax revenues (licenses and permits, fees, fines, etc.) continue to remain flat.
2. Historically the State has taken a growing share of our local tax revenue to help balance the State budget. While this practice was curtailed with the passage of Proposition 1A in November 2004, the money shifted prior to that point is gone forever and it continues to impact the City's financial status today.
3. Like many local businesses, the City of Covina is facing significantly increasing general expenses—including rising costs of fuel, electricity, healthcare benefits, and worker compensation costs. This is particularly true for public safety services.

What is the "General Fund"?

The General Fund is the City's largest source of operating revenue and provides for police, fire, paramedic, street maintenance, street lighting, parks and recreation, library, planning, inspection and code enforcement services. Unlike many other City revenues set aside for specific and restricted purposes – General Fund monies are **not restricted**. These unrestricted funds enable the City to pay for services according to the greatest need as determined by City Council.

Where does the money come from that goes into the City's General Fund?

The General Fund is comprised of monies from several sources:

- City of Covina Sales Tax: \$8.8 million – On purchases made within the City of Covina. The City's General Fund receives 12 cents of every sales tax dollar paid in Covina.
- Utility Users Tax (UUT): \$5.5 million – ALL funds raised by the City's Utility User Tax stay local; 100% of these funds go into the City's General Fund.
- County Property tax: \$4.2 million - The City's General Fund receives 16 cents of every property tax dollar paid to the County for properties located within the City limits.
- Car Tax Vehicle Registration - \$3.2 million
- Fees for Service - \$1.7 million
- Business License, Property Transfer, Hotel and Franchise taxes - \$2.1 million
- Licenses, permits, fines, other agencies, etc. - \$2.2 million

What is the City of Covina's Utility Users Tax (UUT)?

In 1999 Covina voters authorized a **Utility Users Tax (UUT)** to be applied to electricity, natural gas, telecommunications and water service, as a means of providing essential funding to the City of Covina's General Fund. The General Fund is the City's largest operating fund and provides police, fire, paramedic, street maintenance, street lighting, parks and recreation, library, planning, inspection and code enforcement services. The UUT generates approximately \$5.5 million in revenues to the City per year—or about 20% of the General Fund.

What is the status of the UUT?

The UUT, currently being paid by residential and commercial customers in the City of Covina, **is due to sunset in March 2009.** Only a vote of the people can authorize renewal or replacement of this revenue from another source.

Why do we need a UUT?

In 1999 Covina voters approved the Utility Users Tax in part to offset revenue lost due to Federal and State takeaways. This revenue loss was permanent and the UUT continues today to provide essential revenues needed to fund local police, fire and paramedic services, street maintenance, parks and recreation, library and other city services. One hundred percent (100%) of UUT revenues stay in Covina to fund essential public services. Even WITH the UUT and despite aggressive cost control efforts, the City is facing significantly increasing expenses and continues to operate today with an ongoing General Fund cash flow deficit. This year the deficit will be in excess of \$2 million. Without the UUT the City would be forced to make deep program and service cuts to maintain a balanced budget. This would directly impact the quality of life in the City of Covina.

With utility costs going up and the City's revenue increasing, why do we still need the UUT? Can't it be reduced?

Although UUT revenues have increased due to higher utility costs, **the City's operating costs**—including electricity, natural gas, phone and water expenses—despite conservation efforts, **have also increased** due to utility rate increases.

But even with the steadily increasing cost of utilities over the past few years, the City's original UUT has actually been reduced over time—from 8.25% to 7% and to 6%. The current UUT rate is 6%.

How much does the UUT cost?

The Utility Users Tax is currently levied at 6% on all electricity, natural gas, water and telecommunication usage.

How much does the UUT generate per year?

The UUT generates approximately \$5.5 million in revenues to the City per year—about 20% of the City's General Fund.

Do businesses pay the UUT?

YES, businesses located in the City of Covina pay the UUT. Some Covina businesses qualify for a UUT cost cap if they meet certain criteria demonstrating a heavy reliance on utilities (electricity, natural gas, or water). Without a cost cap, these particular “utility-dependent” businesses could be forced to close or relocate outside the city of Covina – negatively impacting the City's economy.

I thought the UUT was to be allocated according to a specific plan—with specific amounts going to specific departments – now I hear that is not the case. What happened?

In 1999 when voters approved the UUT that is now in effect, it was the City Council's ***intent*** at that time to allocate certain percentages of UUT revenues to specific departments and/or projects for that budget period. However, the Council's ***intention*** was never binding relative to the 1999 ballot measure or its related city ordinance. (Doing so would have required an entirely different type of ballot measure requiring a different and higher threshold of voter approval/passage.) ***Regardless of intent***, in the years following passage of the UUT a change in the City's financial position required changes on how the UUT was and continues to be allocated.

I thought the UUT would be used for upgrading the Library. Why hasn't this occurred?

The UUT was intended to support and maintain Library service levels. And it has. With the help of UUT revenues, the City, through its General Fund, has been able to maintain library service levels, as well as make several improvements to the library over the years.

Why does the City still have a revenue shortfall if its sales tax, property tax, and utility tax revenues keep going up?

The City's revenue shortfall has in fact been reduced over the last few years as certain City revenues have increased. But it is also true that during this same period the City has experienced significant cost *increases*, especially in public safety—including costs related to the City's fire services contract with Los Angeles County, as well as salary, benefit and worker compensation costs for City of Covina police personnel. These increased costs have offset to a certain extent the benefits derived from City revenue increases.

I've seen many structural improvements throughout the city—new parking structures, updated street signs and more...but at the same time our streets and roads don't seem to get fixed and the City claims we have a deficit. How can this be?

Certain City operations and capital costs, and one-time projects are financed through “restricted funds” and grants. (Economic development initiatives for example, funded the new city parking structure as well as business development loan programs; a grant funded the replacement of street signs.) Restricted funds and grant funds can only be used for specific programs identified by Federal and state agencies or private sources. Restricted funds CANNOT be used at the City's discretion. The City's deficit is limited ONLY to its unrestricted General Fund.

Voters passed Proposition 1A in 2004 to stop State takeaways. Why does this continue to be a problem for the City?

Proposition 1A protects the City from future revenue takeaways. It does not return the revenue takeaways from years past—as far back as the early 1990's. The revenue loss to the City that occurred during these years is permanent and will never be returned. The City continues to feel the impact today of these revenue losses.

Why don't cities like Glendora and San Dimas have a UUT?

Cities pay for services in different ways, based on historical decisions that were considered good choices at the time they were made. Changes in regulations have eliminated the choices available to cities today. For example, in both Glendora and San Dimas fire and paramedic services are paid by the property owners through an assessment on the property tax bill. These cities are part of the LA County Fire Assessment District. Covina does not have the option to join this district, so we must pay for these services from the General Fund (GF). The 2006-2007 GF budget for fire and paramedic services is \$6,371,450.

The same is true for Library services in San Dimas. They are part of the County Library District, so property owners pay for their Library service on the tax bill. Covina pays for Library services from the General Fund. The 2006-2007 GF allocation for Library is \$1,319,640.

Together, fire and paramedic and library services cost \$7,691,090, paid from Covina's General Fund, whereas these services in other communities, may be paid for on the property tax bill.

For more information:

For more information about the City of Covina or its financial situation, please contact the office of Public Information at (626) 858-7283 or e-mail to info@ci.covina.ca.us.