

City of Canyon Lake

Utility User Tax Analysis



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Submitted By:

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Background Information

Local agencies, such as cities, may impose taxes using a variety of methods, subject to voter approval. These taxes are classified as either "general" or "special" pursuant to Proposition 218.

A "general tax" may be used for any public purpose - the funds are fully discretionary and may be deposited into the General Fund. A majority vote (50%+1) of the electorate is required to impose, increase, or extend a general tax.

A "special tax" is a tax imposed for a specific purpose. For example, some cities dedicate tax revenues for the payment of law enforcement or street maintenance costs rather than using the taxes for the general operations of government. A two-thirds majority of voters is required to impose, increase, or extend a tax for a specific purpose. Special tax revenues must be accounted for in a separate fund, and the City must prepare an annual report stating the revenues collected and expended.

General taxes may only be put on the ballot at the same general election when the City Council election is held unless the Council unanimously finds that there is an urgent need to impose the tax measure. Upon such unanimous declaration, the General Tax measure may be put before the voters at a special election. Special Taxes may be placed before the electorate at any time, either during a general election or in a special election.

To achieve fiscal sustainability, the City is considering the a potential Utility User Tax measure for residential and non-residential units on the use of telephone, electrical, gas, water, refuse and cable television service.

California Utility User Taxes

Utility User Taxes (UUTs) in California are taxes that cities and counties are allowed to impose on the consumption of certain utility services. Currently, city and county UUTs generated over \$2 billion per year in tax revenues.

About 146 California cities and 4 counties have a UUT. In nearly all these cases, the UUT was adopted prior to 1996 through a vote of the city council or the County Board of Supervisors. However, after the 1996 passage of Prop 218, to pass such a tax, the voters who would be paying the tax had to approve it directly through voting on a ballot measure.

About half of all California residents pay a UUT, because although the tax only applies in a relatively small minority of California cities, the cities in which it does apply includes nearly all of the cities in the state with higher populations.

Taxable Utilities

The list of utilities that can be taxed with a UUT includes:

- Electricity
- Gas
- Water
- Sewer
- Telephone (including cell phones and long distance services)
- Sanitation
- Cable and Satellite Television

UUT Tax Rates

City UUTs range from a low of 1% to a high of 12.5%.

The rate of a UUT is set by the city in which it is levied. UUT's can be imposed:

- As a special tax, earmarked for a specific purpose.
- As a general tax to be used for a variety of municipal service needs at the discretion of the city council.

The tax is levied by the city, and then collected by the relevant utility as a part of its regular billing procedure. The utility then sends the tax it has collected on behalf of the city to the city.

Some cities charge different tax rates for residential usage versus commercial usage.

UUT Rates for Cities in Riverside County

In Riverside County, eight (8) cities have a UUT in place. The rates range from a low of 3% to a high of 7%. Included in the chart below are the cities and rates.

City	UUT Rate
Beaumont	3%
Cathedral City	3%
Coachella	5%
Desert Hot Springs	7%
Indio	3%
Moreno Valley	6%
Palm Springs	5%
Riverside	6.5%

Voter Approval of UUTs

Over 150 cities in California currently levy a Utility User Tax. The rates range from 1% to 12.5%. The utilities to which the taxes are applied vary. In some cities different rates apply to residential versus commercial users. The most common rate (the mode) is 5%, applied broadly among many types of utilities. The average rate (the mean) is 6%. Because most large cities, including Los Angeles, levy Utility User Taxes, the majority of California residents (over 54%) and businesses pay a Utility User Tax.

From June 2012 through June 2014, twenty-three (23) utility user tax measures were placed before voters by cities.

- 15 proposals were passed and 9 were not approved.
- 7 of the 23 were for a new UUT. 3 were passed and 4 were not approved.
- 4 of the 23 were for an increase in the UUT tax rate. Only one of those passed.
- 3 measures asked to increase an existing UUT past a built-in sunset period. 2 of those measures passed.
- 2 measures asked to reduce existing UUT rates. Both measures passed.

There has been a trend in recent years for cities with UUTs to change their ordinances to ensure that it applies to all modern forms of telecommunications (wireless and internet) and billing methods (flat rates).

- 5 cities proposed such changes between June 2012 and June 2014. 3 of those requests were approved.

Initial Conclusions

Cities of similar complexity and like populations, such as Beaumont and La Palma, charge 3% and 4% Utility User Taxes respectively.

This report provides an estimated revenue analysis based on the data provided and general assumptions using census data and publically available utility rate information.

Based on the attached analysis, each 1% increase in the UUT would general \$199,189 in annual revenues for the General Fund. Using the 1% baseline, the chart below depicts the City's revenue potential using rates of 2.95%, 3.95% and 4.95%.

UUT Rate	Estimated Annual Revenue
2.95%	\$587,608
3.95%	\$786,797
4.95%	\$985,986

It's our understanding the City is operating with a budget deficit of \$775,000. Therefore, to fully fund the current deficit a rate of roughly 3.90% would be necessary (3.90% = \$776,837).

EXHIBITS

1. Utility Tax Analysis
2. Utility Tax Analysis Rate and Revenue Summary

Exhibit 1

City of Canyon Lake Utility User Tax Analysis			
Utility Service	City Franchise Rate	Estimated Gross Revenues Subject to Franchise for FY 12-13	Estimated Franchise Fees for FY 12-13
SCE	1%	12,129,662.85	121,296.63
So Cal Gas	1%	32,503.00	325.03
CR&R	8%	1,053,009.00	84,240.72
Verizon (Cable)	5%	1,105,280.00	55,264.00
Time Warner (Cable)	5%	1,175,230.00	58,761.50
Telephone Service	0%	1,391,359.00	-
Elsinore Valley Municipal Water District	0%	3,031,850.00	-
		\$ 19,918,894	\$ 319,888

Notes:

- 1) Telephone revenues based on the assumption of 4,047 telephone connections, equal to the number of housing units according to census data, using cost of living rate for telephone of \$28.65 per month
- 2) Water revenues based on the assumption of 4,047 connections, equal to the number of housing units according to census data, assuming only tier one rates (\$1.727/BU) and daily service charge (\$0.354)

Exhibit 2

Utility User Tax Analysis

Gross Utility Revenues

\$ 19,918,894

Estimated Utility User Tax

Rate Assumptions	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
Estimated Revenue	\$ 199,189	\$ 398,378	\$ 597,567	\$ 796,756	\$ 995,945	\$ 1,195,134	\$ 1,394,323	\$ 1,593,512	\$ 1,792,700	\$ 1,991,889

Notes:

1) Based on the number of Canyon Lake households of 4,047, it is estimated that each 1% of UUT will cost the average household roughly \$4.10 per month.