



**CITY OF BEVERLY HILLS
STAFF REPORT**

Meeting Date: October 5, 2010
To: Honorable Mayor & City Council
From: Dr. Scott G. Miller, Director of Administrative Services/CFO
Mark Brower, Senior Budget & Financial Analyst
Subject: Potential Ballot Measures
Attachments: Appendix A – Various Revenue Options That Require Voter Approval

INTRODUCTION

Staff seeks City Council direction on potential voter approved measures for the March 2011 ballot. March 8, 2011 is the next general election on which a measure can be placed on the ballot. The deadline for a measure to be placed on this ballot is December 10, 2010.

There is limited time before the December 10, 2010 deadline to gauge the level of support for potential voter approved measures. As such, in this report Staff emphasizes two measures for consideration on the March 8, 2011 ballot.

The first proposed measure updates the current Oil Extraction tax from a tax calculated as a flat rate to a flat fee plus a percentage rate based on gross receipts.

The second measure focuses on administrative changes to certain Business License taxes, which are intended to streamline the administration of the business tax function. The proposed changes do modify the tax rates or the current practice for assessing these taxes.

In addition, at a later date staff will present the City Council additional information on a proposed increase to our existing Stormwater Fee, which is designed to eliminate the current operating deficit in the Stormwater Enterprise Fund and possibly fund State and Federal mandated stormwater initiatives. A summary explanation of the needs of the Stormwater Enterprise Fund is included in this report.

Included as Appendix A are other possible revenue measures, which could be added to future ballots. These options require further research to determine their feasibility and aren't presented for consideration on the March 8, 2011 ballot.

These options include:

- Sales Tax Increase
- Institute Utility Users Tax
- Institute a Commercial Parking Tax
- Business Tax Ordinance Modifications
- Development Excise Tax Increase
- General Property Tax Increase
- Benefit Assessment Districts

DISCUSSION

Below are the two recommended ballot measures for March 8, 2011:

Oil Extraction Tax Increase

The current oil extraction tax has two classifications, oil extracted from outside the city and oil extracted from inside the city. The current rate for oil extracted from outside the city is a flat rate of \$1,933.20 for the first 10,000 barrels (\$0.193 per barrel) and \$0.14 per each additional barrel. The current rate for oil extracted from inside the city is a flat rate of \$3,888.60 for the first 10,000 barrels (\$0.388 per barrel) and \$0.36 per each additional barrel.

The last substantial update of this tax rate was in 1977. At this time, oil was selling for roughly \$15 per barrel. The price of a barrel of oil has risen almost 500% since 1977 without a relative tax adjustment.

It is proposed that the tax rate change from a flat rate to a \$2,000 minimum tax per well and a percentage of gross receipts from the sale of oil and natural gas.

Estimated Potential Revenue to City

\$900,000 - \$1,200,000 annually

(\$2,000 flat fee per well plus 2% of the gross receipts for oil and natural gas extracted inside the City; \$2,000 flat fee per well plus 1.5% of the gross receipts for oil and natural gas extracted outside the City)

It should be noted that increasing this tax rate and the diminishing supply of oil within the city would likely cause this tax over time to be a diminishing revenue stream.

Voter Approval Needed

50% + 1 of the votes cast

When Vote Can Take Place

Upon approval by a two-thirds vote of the City Council, the proposed measure may be submitted to the voters in an election consolidated with a regularly scheduled general election for the members of the City Council, except in cases of emergency declared by a unanimous vote of the City Council. (Cal. Const. art XIII C, §2(b)) This measure can be placed on the March 8, 2011 ballot.

Business License Tax Language Clean-Up

Below are changes which could be consolidated into a single ballot measure to streamline the administration of the business tax function.

- Delete the provision related to business license stickers
- Clarify the definition of commercial and real property
- Broaden the definition of engaged in business
- Broaden the definition of agent
- Update the definition of administrative hearing

Estimated Potential Revenue to City

\$0

Voter Approval Needed

50% + 1 of the votes cast

When Vote Can Take Place

Upon approval by a two-thirds vote of the City Council, the proposed measure may be submitted to the voters in an election consolidated with a regularly scheduled general election for the members of the City Council, except in cases of emergency declared by a unanimous vote of the City Council. (Cal. Const. art XIII C, §2(b)) This measure can be placed on the March 8, 2011 ballot.

STORMWATER FEE INCREASE FOR FUTURE CONSIDERATION

In the near future Staff will present for City Council consideration a mail-in ballot for an increase to the Stormwater Fee designed to eliminate the current operating deficit in the Stormwater Enterprise Fund and possibly fund State and Federal mandated stormwater initiatives.

A summary of the needs of the Stormwater Enterprise Fund are included below:

Save the Ocean and Environmental Fee (Stormwater Operations)

The Stormwater Enterprise Fund pays for storm water related activities such as maintaining the City's drainage infrastructure and complying with the Los Angeles Municipal Storm Water Permit and has been operating with a deficit since FY 2005/06.

This deficit was covered with reserves in the Stormwater Enterprise Fund. These reserves are now depleted and the Stormwater Enterprise Fund is supplemented by a loan from the Solid Waste Enterprise Fund.

In order to determine the actual funds needed to eliminate the deficit in this fund, an assessment engineer must be hired to complete a valuation of a stormwater fee and develop a range of fees which could be placed on a mail ballot. Once this range of fees is developed, a poll of property owners is needed to determine the level of support for the various fee options. Based on the poll results, staff will present City Council with a recommendation on the best approach to assess the fee.

If a stormwater fee increase is not instituted and the State and Federal mandates are enforced, the expanded Stormwater Enterprise Fund deficit will have to be covered by the General Fund.

Below is a chart of the projected Stormwater Enterprise Fund deficits by year.

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| Net from Operations | (212K) | (371K) | (1.6M) | (1.7M) | (1.8M) | (2M) | (2.2M) |

RECOMMENDATION

Staff requests direction on the City Council's desire to further research an update to the current Oil Extraction tax and administrative changes to certain Business License taxes as well as approve Staff to hire an assessment engineer to evaluate the Stormwater Fee funding levels outlined in this report.

The proposed change to the Oil Extraction tax is from a tax calculated as a flat rate to a flat fee plus a percentage rate based on gross receipts.

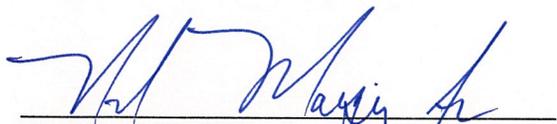
The administrative changes to certain Business License taxes are intended to streamline the administration of the business tax function.

If the City Council is interested in considering one or both of these items for the March 8, 2011 ballot, Staff recommends the City Council authorize the City Manager to hire a communications and survey expert to conduct a statistically valid phone survey and develop an educational effort to communicate the facts regarding the selected measure(s).

The final results of the survey will be presented to City Council as soon as it is completed. After the survey results are presented, the City Council will need to make a final decision regarding the specific measure(s) by the filing deadline of December 10, 2009 for the March 8, 2011 ballot.

The following City Council meetings remain before the December 10, 2010 cutoff date:

1. October 19, 2010
2. November 4, 2010
3. November 16, 2010
4. November 30, 2010



Dr. Scott G. Miller
CFO / Director of Administrative Services

Appendix A

Appendix A - Various Revenue Options That Require Voter Approval

| Revenue Source | Voter Approval Required? And who votes? | Estimated Potential Annual Dollars Raised |
|--------------------------------------|--|--|
| Sales Tax | Yes - 50% + 1 of the votes cast | \$6.25 Million - \$25 Million Annually (0.25% - 1.0% increase) |
| Utility Users Tax | Yes - 50% + 1 of the votes cast | \$1.9 - \$19.4 Million Annually (1% - 10% applied to electricity, gas, cable television, and water) |
| Commercial Parking Tax | Yes - 50% + 1 of the votes cast | \$1.5 Million Annually (10% tax on gross receipts) |
| Oil Extraction Tax | Yes - 50% + 1 of the votes cast | \$900,000 - \$1,200,000 annually (\$2,000 flat fee per well plus 2% of the gross receipts for oil and natural gas extracted inside the City; \$2,000 flat fee per well plus 1.5% of the gross receipts for oil and natural gas extracted outside the City) |
| Business Tax Ordinance Modifications | Yes - 50% + 1 of the votes cast | \$2.0 - \$2.5 Million Annually (Professionals: 0.5% of gross receipts, Business & Personal Services: 0.1% of gross receipts, & Corporate or other Headquarters: 0.1% of gross receipts) |
| Development Excise Tax | Yes - 50% + 1 of the votes cast | \$1.7 - \$2.6 Million Annually (Increase to \$1,200 per unit and \$250 for each bedroom) |
| General Property Tax Increase | 2/3 of the votes cast | TBD |
| TOT (Bed Tax) | Yes - 50% + 1 of the votes cast | \$1.24 - \$3.3 Million Annually (2% increase to 16%) |
| Save the Ocean and Environmental Fee | Yes - 50% + 1 of the votes cast of property owners or 2/3 of registered voters | \$1.7 - \$24.2 Million Over 5 Years (Staff estimate only: requires engineer analysis.) Revenue varies based upon the fee option selected: Option 1: \$1.7M - Meets the fund's \$600,000 obligation to the Solid Waste Fund and returns the Stormwater Fund to a positive balance. Option 2: \$5.7M - Provides for infrastructure maintenance and enhancements to the system. Option 3: \$9.7M - Sufficient funding level in order to meet obligatory federal and state water quality permit compliance requirements. Option 4: \$24.2M - Sufficient finding level to fund both infrastructure and water quality obligations. |

Appendix A - Various Revenue Options That Require Voter Approval

| Revenue Source | Voter Approval Required? And who votes? | Estimated Potential Annual Dollars Raised |
|---|--|---|
| Projects Funded Through Benefit Assessment Districts | | |
| Greystone Upgrades / Maintenance | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$2 Million |
| New Recreation Building at Coldwater Canyon | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$2 Million |
| Park Master Plan | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$35 - \$65 Million (Revenue varies based upon the number of projects funded using this fee) |
| Street Lights, Median, Street Trees, Sidewalks | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| Park Operations & Recreations Facilities | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| A Fire District in the Very High Fire Hazard Severity Zone (VHFHSZ) (this area is all 1640 properties north of Sunset) for brush fire preparedness, equipment, training, etc. | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| A Fire District to pay for CIP or station facility replacement. | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |

Appendix A - Various Revenue Options That Require Voter Approval

| Revenue Source | Voter Approval Required? And who votes? | Estimated Potential Annual Dollars Raised |
|---|--|---|
| A Fire District to fund new fire equipment and replace and maintain current equipment | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| 311 System | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$2.1 Million |
| Community Security Enhancement | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$6 Million |
| Municipal Wireless Deployment | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$3 Million |
| Public Safety Cad / RMS System | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$3 Million |
| Parking Operations | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | \$3 million one-time and \$600,000 annually |
| Neighborhood Initiated Replacement of Street Lighting for Safety or Aesthetics | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| Neighborhood Initiated Replacement New Sidewalks/Higher Level of Maintenance | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| Hotel BID | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the assessment. | TBD |
| Parking Structures | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the | TBD |

Appendix A - Various Revenue Options That Require Voter Approval

| Revenue Source | Voter Approval Required? And who votes? | Estimated Potential Annual Dollars Raised |
|----------------|--|---|
| La Cienega BID | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the | TBD |
| Robertson BID | Approval of a majority of the property owners who return mailed ballots through an assessment ballot proceeding. Voting is weighted in accordance with the amount of the | TBD |