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DEPARTMENT OF
FINANCE

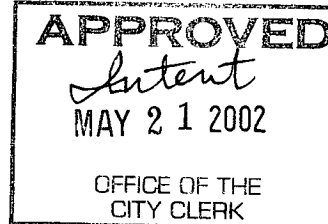
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BUDGET AND POLICY REVIEW

May 15, 2002

City Council
Sacramento, California



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Honorable Members in Session:

SUBJECT: EXPANSION OF CITY UTILITY USER TAX REBATE PROGRAM

LOCATION/COUNCIL DISTRICT: Citywide.

RECOMMENDATION:

This report recommends that City Council approve expanding the City's Utility User Tax (UUT) rebate program to all households with household income not to exceed twenty-five thousand dollars (\$25,000) (Option A discussed below) effective January 2003, provided that the current Utility User Tax rate reduction ballot measure proposed by the Sacramento County Taxpayers League does not pass in November 2002. If the Taxpayers League proposal does pass in November 2002, the provisions of the rebate expansion included in the proposed ballot measure would apply. In either case, it is recommended that the City reserve up to \$2.5 million General Fund as part of the FY2002/03 Budget for an expansion of the City Utility User Tax rebate program.

CONTACT PERSONS: Reina Schwartz, Budget, Policy & Strategic Planning Manager, 264-7195
Joe Chinn, Special Projects Manager, 264-0146

FOR COUNCIL MEETING OF: May 21, 2002

SUMMARY:

The City Council directed staff to review the current rebate program and to come back with options and financial impacts for expanding the current program. This report provides the background on the current and expanded rebate program options and recommends an expansion program if the Sacramento County Taxpayers League proposed ballot measure is not approved in November 2002. The Council presentation overheads which summarize this report are attached as Attachment 1.

BACKGROUND:

On November 27, 2001, City Council discussed the Sacramento County Taxpayers League proposal regarding the reduction of the City Utility User Tax (UUT) rate. While the City Council did not agree with the rate reduction proposed by the Taxpayers League, they did direct staff to review the City's current UUT rebate program and come back with options and financial impacts for expanding the current program.

Current Rebate Program

The City currently provides an UUT rebate for service users whose household income does not exceed \$25,000, and who is either 62 years of age or older, or is totally disabled. For those eligible, the rebate applies to the UUT paid on the entire amount of gas and electric bills, the lifeline flat rate for telephone service, and economy basic for cable TV. In FY 2001/02, \$440,768 was rebated to 7,068 customers for an average rebate of \$62.36.

Sacramento County Taxpayers League Petition

The Sacramento County Taxpayers League is currently circulating a petition to place on the November 2002 ballot a measure that would reduce the City Utility User Tax (UUT) rate from the current 7.5% tax rate to a 2.5% tax rate by July 1, 2007, a revenue reduction of \$39 million annually when fully implemented. The measure would also extend the current City rebate program to all households with under \$25,000 income.

Options to Expand the Rebate Program

Three rebate program expansion options are discussed in this report. The option selected by City Council is recommended to go in effect in January 2003, only if the Sacramento County Taxpayers League proposed ballot measure is not approved in November 2002. The expanded rebate program would cover costs to users for calendar year 2002.

Option A: Expand Rebate for All Services to All Households Under \$25,000

This option would extend the current City rebate program to all households with under \$25,000 income (the same rebate program expansion as the Taxpayer League proposal). Approximately 47,000 Sacramento households (30% of total Sacramento households based on 1990 census data projected forward to 2000) are estimated to earn under \$25,000 of income per year.

The City General Fund cost impact of the program expansion is dependent on how many households that are eligible apply for the rebate. The cost impact of the expansion is roughly estimated to be between \$2.1 million to \$3.0 million in FY2002/03 given an assumed range of participation between 60% and 85% of total eligible households applying for the rebate.

Option B: Expand Rebate for Gas and Electric Services to All Households Under \$25,000

This option would extend the rebate for those households with under \$25,000 income that do not qualify for the current rebate program (not 62 years of age or older, or totally disabled) for gas and electric services but not cable and telephone services. This option would cost approximately 80% of the cost of Option A. Thus, the General Fund cost is roughly estimated to

be between \$1.7 million to \$2.4 million in FY2002/03 given an assumed range of participation between 60% and 85% of total eligible households applying for the rebate.

Option C: Expand Rebate for 50% of Eligible Costs (or 6 months) to All Households Under \$25,000

This option would extend the rebate to those households with under \$25,000 income that do not qualify for the current rebate program but would provide rebate based on 50% of the UUT paid by the customer for the year. Under this option, the cost impacts of Option A would be reduced by half. The cost impact of the expansion is roughly estimated to be between \$1.0 million to \$1.5 million in FY2002/03 given an assumed range of participation between 60% and 85% of total eligible households applying for the rebate.

Under any of these options, the administrative impacts of implementing the program will be greatly expanded. The current rebate program is staffed largely by citizen volunteers. Whether there will be adequate volunteers to assist in the expansion of the program remains to be determined. Also, the possibility of fraud on applications increases with the overall increase in the eligible population. Additional staff time and anticipated additional program costs of approximately \$100,000 annually will be needed to administer the expanded program. These administrative costs are included in the cost estimates discussed in this report.

FINANCIAL CONSIDERATIONS:

The proposed expansion of the UUT rebate program would be funded from the General Fund. The FY2001/02 cost of the current rebate program was \$440,768. The cost of the proposed expansion is dependent on the rebate program selected, the participation rate of those eligible, utility rates which have been volatile in recent years, and the utility usage level of the eligible population.

For each of the three options, a participation rate between 60% and 85% has been assumed. The overall estimated General Fund costs at these participation rates range as follows:

<u>Option</u>	<u>Program Cost Range</u>
A – Rebate on All Services	\$2.1 to \$3.0 Million
B – Rebate on Gas and Electric	\$1.7 to \$2.4 Million
C – Rebate for 50% of Option A Costs	\$1.0 to \$1.5 Million

An additional risk to the cost estimates is that the program cost estimates included in this report are based on 1990 census data projected forward to 2000 (regarding household income). The 2000 census data should be available this fall, and if the portion of Sacramento's population with incomes less than \$25,000 is significantly higher than the 30% included in this report, the expanded program costs could be higher than estimated. For example, if households with income less than \$25,000 represent 35% of the overall population based on the 2000 census data (rather than the 30% assumed), then the estimate of total program costs for Option A could rise by an additional \$300,000 to \$400,000 annually depending on participation rates.

Staff recommends that Council approve implementing an expanded Utility User Tax rebate program only if the UUT rate reduction ballot measure proposed by the Sacramento County

City Council
Expansion of City Utility User Tax Rebate Program
May 15, 2002

Taxpayers League does not pass in November 2002. If the Taxpayers League proposal does pass in November 2002, the provisions of the rebate expansion program included in the ballot measure would apply. In either case, it is recommended that the City reserve up to \$2.5 million General Fund for an expansion of the City Utility User Tax rebate program.

In addition to the funding for the current rebate program already in the General Fund base budget, the proposed funding source for the expanded UUT rebate program is recommended to come from additional Cable Commission and Solid Waste Authority Franchise fee revenues the City anticipates receiving in FY2002/03 (an additional \$2.4 million approximately). More information on these funding sources is included in a separate Council report scheduled to be heard in conjunction with this report.

ENVIRONMENTAL CONSIDERATIONS:

None.

POLICY CONSIDERATIONS:

The recommendation in this report is consistent with the City Council's direction to review expanding the current UUT rebate program.

ESBD CONSIDERATIONS:

ESBD considerations do not pertain to this action.

Respectfully submitted,



Reina J. Schwartz
Budget, Policy & Strategic
Planning Manager



Gustavo Vina
Finance Director

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

Attachments

Attachment 1 – Summary Presentation Overheads



City of Sacramento

FY2002/03 Proposed Budget Special Report: Expansion of City Utility User Tax Rebate Program

May 21, 2002

May 21, 2002

Evening Agenda



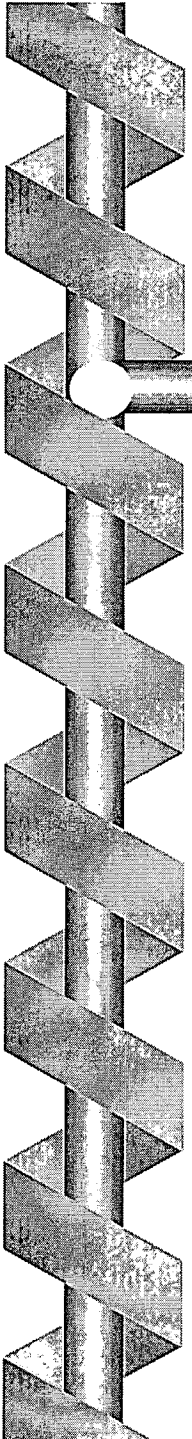
Special Reports

- Expansion of Utility User Tax Rebate Program
- Cable and Solid Waste Franchise Fee revenues



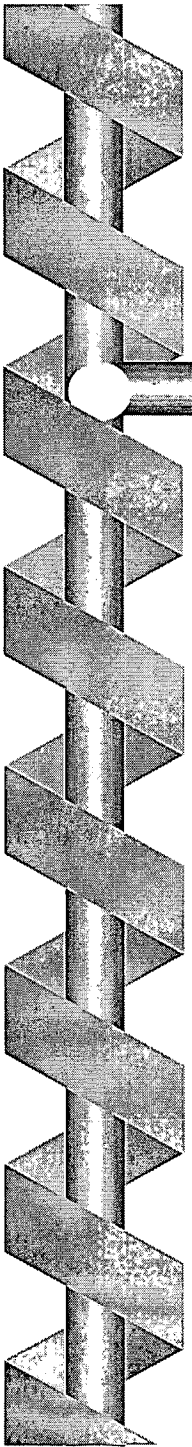
Current Utility User Tax Rebate Program

- Rebates provided to households with less than \$25,000 income and head-of-household either 62 years of age or older or totally disabled.
- Rebate applies to UUT paid on entire gas & electric bills; the lifeline flat rate for telephone service, and economy basic for cable.
- FY2001/02: 7,068 households received rebates averaging \$62.36 (total cost \$440,768).



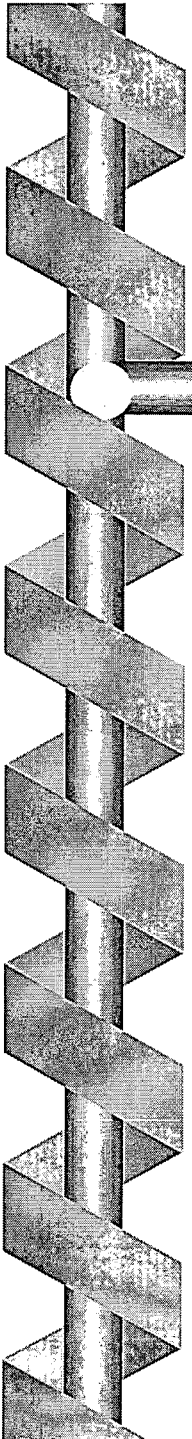
Options for Expanding Utility User Tax Rebate Program (A)

- ☼ Option A – expand existing rebate program to all households with incomes under \$25,000.
- ☼ Estimated additional cost of \$2.1 to \$3 million annually depending on participation.



Options for Expanding Utility User Tax Rebate Program (B)

- ☼ Option B – expand existing rebate program to all households with incomes under \$25,000 for gas and electric bills only (those that are most volatile).
- ☼ Estimated additional cost of \$1.7 to \$2.4 million annually depending on participation.



Options for Expanding Utility User Tax Rebate Program (C)

- Option C – expand existing rebate program to all households with incomes under \$25,000 for 50 % of UUT paid on covered services.
- Estimated additional cost of \$1 to \$1.5 million annually depending on participation.



Recommendations

- ❁ Option A – expand current rebate program to all households with income less than \$25,000.
- ❁ Reserve additional funding of \$2.5 million in the FY2002/03 Budget; implement expanded rebate program only if November 2002 ballot measure reducing the Utility User Tax rate does not pass.
- ❁ Funding Source: additional Cable Commission and Solid Waste Authority Franchise Fee revenues.