Bradbury Finance Committee

Chair: Jim Adams

Vice-Chair: Karen Dunst

Secretary: Anne Absey

Agenda

- Background
- Our Finance Committee Actions
- How we arrived at our decisions
- Recommendations

Background – Why are we here?

- Since 2009, Bradbury's income has not been enough to cover expenses. We have used reserve funds to cover expenses in 2 of the past 3 years.
- City council and staff have tried to balance the budget.
  - Acted to reduce expenses
  - Explored and implemented other revenue sources like grants, bricks for landscaping, etc.
- Proposed new income source: a utility tax (UUT) which did not get voter approval.
- As a result, Council created a Finance committee to consider whole financial situation and present recommendations for future action.

Finance Committee Actions

- Reviewed financial records
  - Budgets
  - Revenues – Restricted and non-restricted funds
  - Expenses
  - Projected expenses from state mandates
- Analyzed current city finances
- Asked series of questions to determine the best options for city residents going forward.

So now what?

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Decision One

Question: Dissolve city or remain a city?

Answer: Bradbury residents will be better off if we remain a city

Why? Concluded that remaining a city provides residents with the best opportunity to retain local control of:

- Our property
- Our services and standards
- Our represented officials
- Our building and construction
- Our zoning standards
- Our taxes

Finance Committee wrote down pros and cons of remaining a city or dissolving using our own research and in our own words. Contact a committee member for a copy.

Decision Two

Question: How to remain a city?

Answer: Regain financial balance

Question: How do achieve this?

Answer: Reduce expenses and/or raise revenue

Option 1: Reduce Expenses

Finance Committee

- Agreed that there are no additional expenses that could be cut without jeopardizing our ability to exist as a city or our quality of life
- Recognized that some of the past cuts would have to be added back in order to maintain operations
- Understood why future expenses may be imposed on us through state and federal laws – most of which do not provide the money to implement them.

Option 2 : Increase Revenue

Finance Committee

- From existing property tax
  - Explored why property tax income was insufficient to cover expenses
  - Considered option of legal action to increase % of property tax from state (current $.06 on the dollar)
- Other sources
  - Reviewed the items that city has considered since 2009 for increasing revenue
  - Grants and grant swapping with other cities
  - Income from other sources
- Accepts that there are non-tax ways to earn more money, but they are small, of short duration and most involve significant staff time. No options were found that were enough to make up our budget shortfall

Option 3: Revenue will increase without additional action

Finance Committee

- Will economic recovery lead to remodeling and therefore bring in increased fees from permits? No, by law, these fees can only cover the cost of services so brings no direct benefit to city.
- Will future home sales cover the gap in budget as homes are reassessed at current market values?
  - Bradbury gets est. $600 for every $1 million assessed value, so home sales would have to be between $233 Million and $583 million to make up current projected shortfall. This is not likely to be a revenue source that will cover our shortfall anytime soon.

Decision Two Review

- Reducing expenses is not a viable long term answer to our city finances.
- Increasing revenue by non-tax options is not a viable answer to our finances either
- Waiting for economic recovery to boost our overall property tax assessments is not viable in the foreseeable future.
- Our best option for retaining control of our city is to tax ourselves.

Decision Three

Question: What tax options are best for Bradbury?

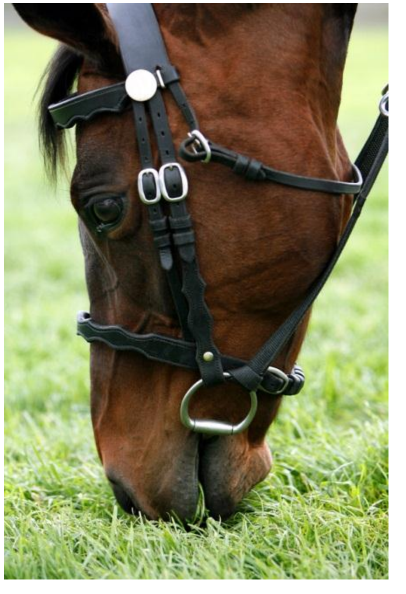
By taxing ourselves we guarantee that we can remain solvent and therefore retain control of our city. All the values of self rule that made us incorporate in 1957 still apply and maybe even more so.

Our Options:

Annual City Tax

Property/Parcel Tax

Utility Tax



Annual City Tax

Independent tax collected by the city

- Pro:
  - Real property tax based on county assessors values
  - Could be tax deductible
- Con:
  - Required 2/3 (possible more) majority; difficult to pass
  - City has no structure to assess and collect a tax.
  - Tax (most likely) goes to LA county first and then to us. Might be times when county could withhold or charge additional fees to process this money

Property/Parcel Tax

- Pro: can be flat tax or % of assessed value.
  - Flat tax – every home pays the same regardless of assessed value (estimated $829 per home). Not tax deductible
  - Assessed value – amount is greater for higher assessed value homes (estimated $77/$100,000 value). This is tax deductible.
- Con:
  - Takes 2/3 majority to pass and this is unlikely
  - Not easy to flex up and down as our needs change
  - Tax goes to LA county first and then to us. Might be times when county could withhold or charge feeds to process.

Utility Tax (UUT)

- Pro:
  - Allows some personal control – you can use less of any utility if you want to pay less taxes
  - Takes 50% + 1 to pass
  - Easy to flex up and down as our needs change
  - Tax goes first to utilities, then to us. We already have franchise options for some utilities so this will be easier to control and manage
- Con:
  - It's still a tax
  - Will affect everyone differently depending on how they use the different utilities (this is also a benefit)

Decision Three

- The Finance committee determined that Utility tax (UUT) is our best option
- Why collect $350,000 if structural deficit is only +/- $120,000 in 2102 and $160,000 in 2013?
  - Deferred expenses need to be added back in
  - State mandates kick in this year (specifically for storm water drains) = +/- $180,000

Decision Four

How do we structure the Utility Tax?

Finance Committee Recommends:

- Tax six utilities: Gas, Electricity, Water, Trash, Cable & Communications
- Tax Rate:
  - 5.5% starting rate for all except water
  - 2.25% starting rate for water
  - 7.75% maximum, 1% minimum
  - Maximum increase per year 1.25%. No restriction on how much it can be lowered per year.
- No tax on solar or sewer
- Revise ordinance word as suggested
- Reinstate Finance Oversight Committee

Let’s Do the Numbers

2011-12 General Fund (projected)

- Budget (Revenue) $ 698,148
- Expenses $ 816,727
- Structural Deficit <$ 118,579 >

Reserves - why do we need money now if we have reserves?

- $800,000 operations (contingency fund)
- $200,000 infrastructure (contingency fund)
- $25,000 general liability (insurance deductible)

Why the value of our property is not translating into city's financial health

- City only gets est. 6 cents on the $1 or $600 per million dollars of assessed value.
- Relatively low turnover of homes since 2007 means that homes are not being reassessed at new higher rates; therefore property taxes are not increasing.
- Homes that have not sold since Prop 13 are therefore artificially low compared to market value.
- Sales of existing homes results in increased assessment due ability to reassess at current market rate. Home sales slowed since 2007 due to economy.
- Increased taxes from `increased valuation due to remodeling / new construction has eroded due to economic conditions