



# MEMORANDUM

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** JAMES B. HENDRICKSON, CITY MANAGER

**SUBJECT:** RE-ENACTMENT OF FIRE & PARAMEDIC SERVICES SPECIAL TAX

**DATE:** APRIL 1, 2006

## Background

The City of Palos Verdes Estates operated its own fire department until 1986, when Proposition 13 property tax cuts became too severe to permit the luxury of maintaining this arrangement. In May 1986, the City closed its department and entered into a contract with the Consolidated Fire Protection District of Los Angeles County to provide fire protection, paramedic services, and the enforcement of the City Fire Code. The City committed to remain a part of the District for at least 10 years. It contracted for 3 fire captains, 3 firefighter specialists and 9 firefighters working out of a single station (Number 2), and utilizing one fire engine and one paramedic unit.

Upon expiration of the initial Agreement on June 30, 1996, the City Council concluded that it was well-served by LA County Fire and “re-upped” the Agreement for another 10 years. Then, on March 28, 2006, the Council adopted Amendment Number Two to the Annexation Agreement between the City of Palos Verdes Estates and the Consolidated Fire Protection District of Los Angeles County – which extends the existing Agreement an additional 10 years (until June 30, 2016).

The City has employed a variety of mechanisms to help fund the cost of fire services. During the 1980’s, voter-approved parcel taxes for Police/Fire/Paramedic Services and Parklands Maintenance covered a portion of the costs of these municipal services.

*City deviated  
at passage of  
Prop 13 2/3 as GF.  
revs. derived from  
property taxes.*

Then, in May 1991, the property owners endorsed a Fire Suppression Benefit Assessment District (FSBAD) which covered 100% of the costs of the contract with Los Angeles County Fire beginning July 1, 1991. The FSBAD served as a substitute for the parcel taxes, which were discontinued after its enactment. The FSBAD was adopted for a 5 year period, and then overwhelmingly approved by the property owners for an additional 5 year period through June 30, 2001. The FSBAD contained two components: a flat-rate "standby availability charge" per parcel plus an additional charge based on the square footage of building improvements on the property. Thus, the larger the home (or structure), the higher the assessment.

And discontinued the two parcel taxes.

With the passage of Proposition 218 in November 1996 (the "Right to Vote on Taxes" initiative), the FSBAD, if renewed, could only be used to fund fire protection, not paramedic service. Paramedic service represents 40% of the cost of the fire contract, and was deemed an essential service to continue.

In light of the impending expiration of the FSBAD on June 30, 2001, and changes in the law, the City Council appointed a Citizens' Financial Advisory Committee in June 2000 to examine long-term financing options, assess the City's current and future financial position, and make recommendations on the best means to ensure the City's continued fiscal viability. At the conclusion of its study, the Committee unanimously recommended that the Council place a special (parcel) tax on the March 6, 2001 Municipal Election ballot to continue to cover the full cost of the City's contract with L.A. County Fire. The tax would be assessed using the same methodology as the FSBAD, and would carry a sunset clause of 6 years (to expire June 30, 2007). It would also require, as per Proposition 218, a 2/3 voter approval for enactment as a special tax.

At the Municipal Election on March 6, 2001, the voters overwhelmingly approved the Fire and Paramedic Services Special Tax by an 87% favorable vote. The tax covers the cost of fire and paramedic services from FY 01-02 through FY 06-07.

Under the FSBAD and successor Special Tax, the annual charge for a median-sized home in the City (2450 square feet) has grown from \$402 in FY 94-95 to \$545 in FY 05-06 (Attachment 1). The annual cost of fire services rendered by LA County Fire has grown from \$2,193,000 to \$3,109,000 in this same time period (Attachment 2).

## Alternative Revenues to Fund Fire Service

The City has one year remaining under the Fire and Paramedic Services Special Tax. Currently, our contract cost with LA County Fire is \$3.1 million. This amounts to ~25% of the City's FY 05-06 Operating Budget.

A potential alternate source to fund fire service costs would be General Fund revenues generated in "excess" of on-going General Fund expenditures. During the recession in the early-to-mid 1990's, and the State's decision to seize local property taxes to fund its obligations for education, the City instituted several cost-saving measures in the Operating Budget to permanently lower our expenditures to match our revenues. With the economic recovery in the late 1990's, our revenues increased significantly – which translated to some very positive results in our fund balance.

As shown in Attachment 3, General Fund revenues have exceeded General Fund expenditures by an average of **\$1,250,500** over the 9 year period from FY 97-98 through FY 05-06. In May 1999, the City Council adopted a policy that the City should target the achievement of an unobligated General Fund balance equal to 25% of the annual Operating Budget expenditures. This would serve as a prudent "reserve for economic uncertainties". Any balance in "excess" of the targeted amount would be transferred to the Capital Improvement Fund (CIF). As a result, \$700,000 was transferred to the CIF in FY 98-99 and an additional \$1,238,000 in FY 99-00. ✓

In May 2001, the City re-visited this policy and concluded that, based on the uncertain economic situation, and reserve policies of our neighboring cities, it would elevate the targeted reserve to 50% of the annual Operating Budget. The City achieved its goal in FY 02-03, and was able to transfer \$608,705 to the CIF and allocate an additional \$297,090 to a reserve "designated for PERS Safety" cost increases in the coming years. Due to excesses realized in FY 03-04, 04-05, and estimates for 05-06, the City transferred additional monies to the CIF in each of these years.

All told, the City Council has transferred **\$5,957,200** from the General Fund to the Capital Improvement Fund since FY 98-99. This has significantly enhanced the resources available from the Utility User's Tax and augmented our capacity to preserve and rebuild the City's infrastructure. It has been especially critical in maintaining our ability to fund non-sewer capital ✓

improvements (streets, storm drains, parks, City Hall upgrades) since the demise of the Utility User's Tax on June 30, 2003. While the City was successful in securing property owner approval for a sewer user fee in March 2003; it was unsuccessful in securing passage of a reduced utility user's tax to fund non-sewer capital improvements. As such, the only source of funds for non-sewer capital improvements since July 1, 2003 has been the excess General Fund revenues. ✓

It is difficult to project, with any degree of certainty, what looms in the future for General Fund revenues. There are a number of factors over which we have little control. We are intimately connected to the overall level of economic activity in the Nation, the State, and the South Bay region. Approximately 46% of our General Fund revenues are derived from property taxes. These are dramatically affected by the health of the Southland economy and the activity in the housing market, both of which are closely tied to national and international factors. *has actually increased to 53.5% for FY 06-07*

By far the most volatile and unpredictable element impacting our budget over the past two decades has been the State's budget situation. We, as all Cities, Counties and Special Districts, have been inextricably linked to their fiscal situation. Since the dot-com industry's implosion in March 2000, the windfalls from the exercise of stock options and capital gains have dropped precipitously. Rather than cut its own budget to any significant degree, the State has relied on a series of one-time measures to balance its budget since FY 01-02 – extensive borrowing, fund shifts, loans, accelerations and deferrals. They have also resorted to a reliable, standby gimmick – cannibalizing the revenues of local government, most notably vehicle license fees and property taxes. However, the most salutary development for Cities, Counties and Special Districts has been the passage of Proposition 1A on November 2, 2004. This provides significant revenue protections that only permit the State to seize local government revenues in very limited instances. The State Legislature must declare a “state of fiscal emergency” (by a minimum 2/3 vote) and can only borrow local government revenues twice in a 10 year period. It must pay those monies back, with interest, within three years; and the State is precluded from borrowing a second time until the first loan has been fully repaid. These strictures afford the City some assurance that its revenues controlled by the State will be much more predictable and stable in future years.

As a result, if the National, State and Regional economies continue to grow at a measured rate, the City can expect that it will continue to generate excess monies from the General Fund for other uses.

**Conclusion and Recommendation**

It is evident that City does not have the resources available, absent a special tax, to fund the costs of fire and paramedic services provided by contract with the Los Angeles County Fire Department. Even if 100% of the average General Fund revenues generated in excess of on-going General Fund expenditures were utilized to fund these costs, there would still be a **shortfall of ~\$2 million per year** and there would be no source of funds to sustain the \$800,000 - \$900,000 annual cost of non-sewer capital improvement projects.

X

It is recommended the Mayor and City Council appoint a Citizens' Committee to begin working on a renewal of the Fire and Paramedic Services Special Tax in September of 2006. The goal would be to place a measure on the March 6, 2007 Municipal Election ballot, so that a funding mechanism would be in place by July 1, 2007.

Options to explore are quite limited

Citizens' Committee should be less financially active and more activist/sales group. Need to sell the measure, first and foremost.

**Attachments**

:mm

Council supportive of the notion of appointing "marketing" types to the committee vs "financial" types. Our options are narrow & limited -- namely, a renewal of the Fire & Paramedic Services Special Tax.

Council will submit names to the Mayor for his review. Aim for 2nd meeting in July to appoint the committee; with final meeting shortly after Labor Day in September.

FIRE SPECIAL TAX RATE  
FOR MEDIAN-SIZED HOME (2,450 sq. ft.)  
FY 1994-95 THROUGH FY 2005-06

<u>FISCAL YEAR</u>	<u>DOLLAR AMOUNT</u>	<u>PERCENT CHANGE</u>
<b>FIRE ASSESSMENT:</b>		
FY 94-95	\$ 402.47	2.9%
FY 95-96	\$ 402.47	0.0
FY 96-97	\$401.64	(0.2)
FY 97-98	\$377.54	(6.0)
FY 98-99	\$392.05	3.8
FY 99-00	\$417.53	6.5
FY 00-01	\$444.67	6.5
<b>SPECIAL TAX:</b>		
FY 01-02	\$ 473.58	6.5%
FY 02-03	\$492.52	4.0%
FY 03-04	\$503.35	2.2%
FY 04-05	\$531.04	5.5%
FY 05-06	\$544.85	2.6%

avg. increase  
of 4.2% per  
year

## Fire Contract Cost History - Palos Verdes Estates

Fiscal Year	Estimated Gross Contract	Final Gross	Estimated Net Cost w/LACERA	Final Net Cost with credits		% Inc (Dec) from PY Final Gross	% Inc (Dec) from PY Final Net
86-87	1,204,184	1,249,184					
87-88	1,343,917	1,330,084				6.5%	
88-89	1,438,620	1,456,665				9.5%	
89-90	1,553,944	1,600,866				9.9%	
90-91	1,773,473	1,745,802				9.1%	
91-92	1,900,434	1,877,937				7.6%	
92-93	2,037,921	1,971,688				5.0%	
93-94	2,106,575	2,089,141				6.0%	
94-95	2,199,683	2,193,393				5.0%	
95-96	2,228,547	2,233,188	2,139,934	2,139,934		1.8%	
96-97	2,174,700	2,115,382	1,991,545	1,991,545		-5.3%	-6.9%
97-98	2,150,474	2,185,339	2,061,500	2,061,500		3.3%	3.5%
98-99	2,304,768	2,335,730	2,197,010	2,197,010		6.9%	6.6%
99-00	2,472,959	2,497,101	2,371,175	2,371,175		6.9%	7.9%
00-01	2,628,721	2,616,542	2,535,511	2,534,722	-789	4.8%	6.9%
01-02	2,744,272	2,712,391	2,644,104	2,635,377	-8,727	3.7%	4.3%
02-03	2,799,996	2,806,644	2,760,000	2,709,124	-50,876	3.5%	4.7%
03-04	2,900,990	3,001,332	2,830,130	2,910,103	79,973	6.9%	4.5%
04-05	3,086,345	3,057,639	3,012,910	2,996,977	-15,933	1.9%	3.5%
05-06	3,199,435		3,109,383			4.64%	3.75%

\* FY 95-96 first year of LACERA (LA County Employee Retirement Account).

FY 96-97 first year of new 10 year contract. Fire inspection services, previously charged separately, no longer charged - part of overall service - resulted in actual contract reduction

**GENERAL FUND**  
**EXCESS OF REVENUES OVER EXPENDITURES**

**FISCAL YEAR**

	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Estimated</u> <u>2005-06</u>
Revenues	\$7,740,389	\$8,560,910	\$9,025,709	\$9,418,172	\$10,511,111	\$10,427,282	\$11,181,843	\$8,660,343	\$9,282,048	\$9,218,640
Expenditures (Incl. Operating Transfers out)	\$7,525,049	\$7,623,839	\$7,817,868	\$8,144,963	\$8,862,460	\$9,090,088	\$10,026,049	\$7,438,721	\$7,622,745	\$8,405,090
Excess of Revenues Over Expenditures	\$215,340	\$937,071	\$1,207,841	\$1,273,209	\$1,648,651	\$1,337,194	\$1,155,794	\$1,221,622	\$1,659,303	\$813,550
Transferred to CIF			\$700,000 <sup>1</sup>	\$1,238,000			\$608,705 <sup>2</sup>	\$683,400 <sup>3</sup>	\$1,700,000	\$1,027,100

1. An additional \$200,000 transferred to Equipment Replacement Fund
2. An additional \$297,090 placed in a General Fund reserve "designated for PERS Safety" cost increases in the future
3. Remaining \$151,955 retained to achieve 50% General Fund reserve requirement

\*Average Annual Excess of Revenue Over Expenditure from FY 97-98 through FY ~~03-04~~ = \$1,255,042



PALOS VERDES ESTATES  
 GENERAL MUNICIPAL ELECTION  
 MARCH 6, 2007

FINAL RESULTS

6 of 6 Precincts Reporting (including all absentees/provisionals)

PRECINCT	PERKINS	HUMPHREY	REA		MEASURE A YES	MEASURE A NO	MEASURE A BALLOTS CAST	TOTAL BALLOTS CAST
1 VIA SEGOVIA	154	152	145		173	33	206	212
2 YARMOUTH RD	162	157	140		193	14	207	209
5 ESPINOSA CR	123	116	109		130	18	148	150
6 MALAGA COVE LIBRARY	138	154	123		182	14	196	199
8 ST FRANCIS	106	108	97		147	11	158	159
12 PVPSD ADMIN	121	129	117		170	16	186	186
ABS 1, 2 & 3 Election Night	1,017	1,080	903		1,178	213	1,391	1,430
ABS & PROVIS FINAL TALLY	50	52	47		70	8	78	78
TOTAL	1,871	1,948	1,681		2,243	327	2,570	2,623
	71.33%	74.27%	64.09%		87.28%	12.72%		
REGISTRATION TURNOUT								11,157 23.51%

PALOS VERDES ESTATES  
 GENERAL MUNICIPAL ELECTION  
 MARCH 6, 2001

OFFICIAL RESULTS

7 of 7 Precincts Reporting (including all absentees & provisional ballots)

PRECINCT	BUTLER	MACKENBACH	CHOPRA	SHERWOOD	RITSCHER	MEASURE A YES	MEASURE A NO	BALLOTS CAST
1 PASEO DEL MAR	178	217	100	287	343	354	64	442
2 MARGATE	98	112	47	145	162	180	32	222
4 PVIS	89	136	41	170	178	209	20	240
7 GRANVIA ALT	135	204	87	220	271	271	68	363
8 ST FRANCIS	139	253	44	311	337	354	43	408
12 PVUSD ADMIN	132	220	70	279	301	342	29	386
14 MALAGA COVE	146	301	92	354	366	415	56	488
ABS 1 & 2	589	681	237	784	1,006	1,097	166	1,297
ABS 3 & PROVIS	20	21	9	29	36	34	7	44
TOTAL	1,526	2,145	727	2,579	3,000	3,256	485	3,890
REGISTRATION & TURNOUT						87.04%	12.96%	
							10,063	38.6