

Revenue Enhancements

Mayor & Council
Study Session
March 17, 2009

Revenue Enhancements

OVERVIEW

- The FY 2010 budget assumes \$5.0M in revenues from various proposals indentified in the Revenue Enhancement Report dated February 4, 2009.
- Adoption of revenue enhancement measures is critical to balancing FY 2010's budget and to the health of the City's general fund balance.

Revenue Enhancements

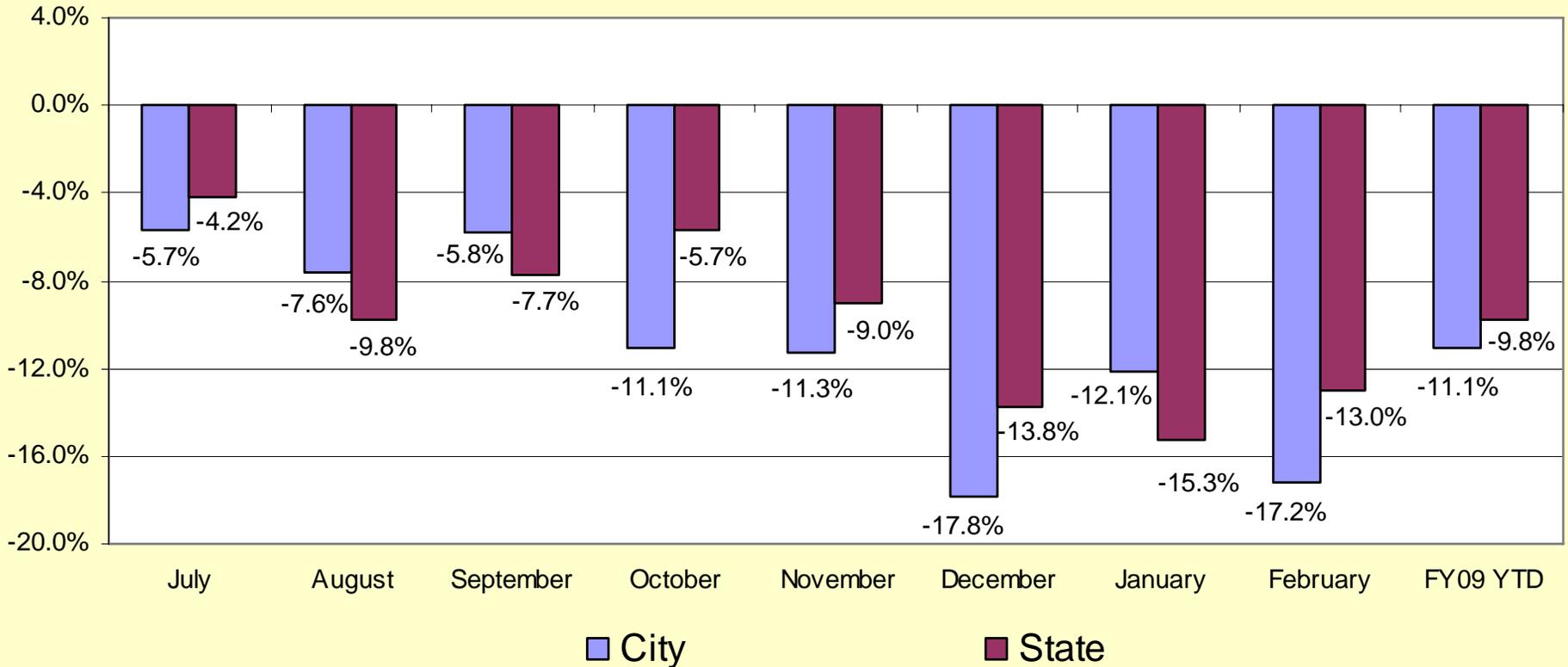
OVERVIEW

- City's reliance on sales (privilege) taxes renders it vulnerable during times of economic uncertainty.
- City and State-shared sales (privilege) tax revenues comprise nearly 48% of FY 2010's estimated general fund recurring revenues.
 - City sales tax = \$159.4M
 - State shared = \$38.9M
- The following charts show the historical trend of these two major revenue sources.

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Historical trends

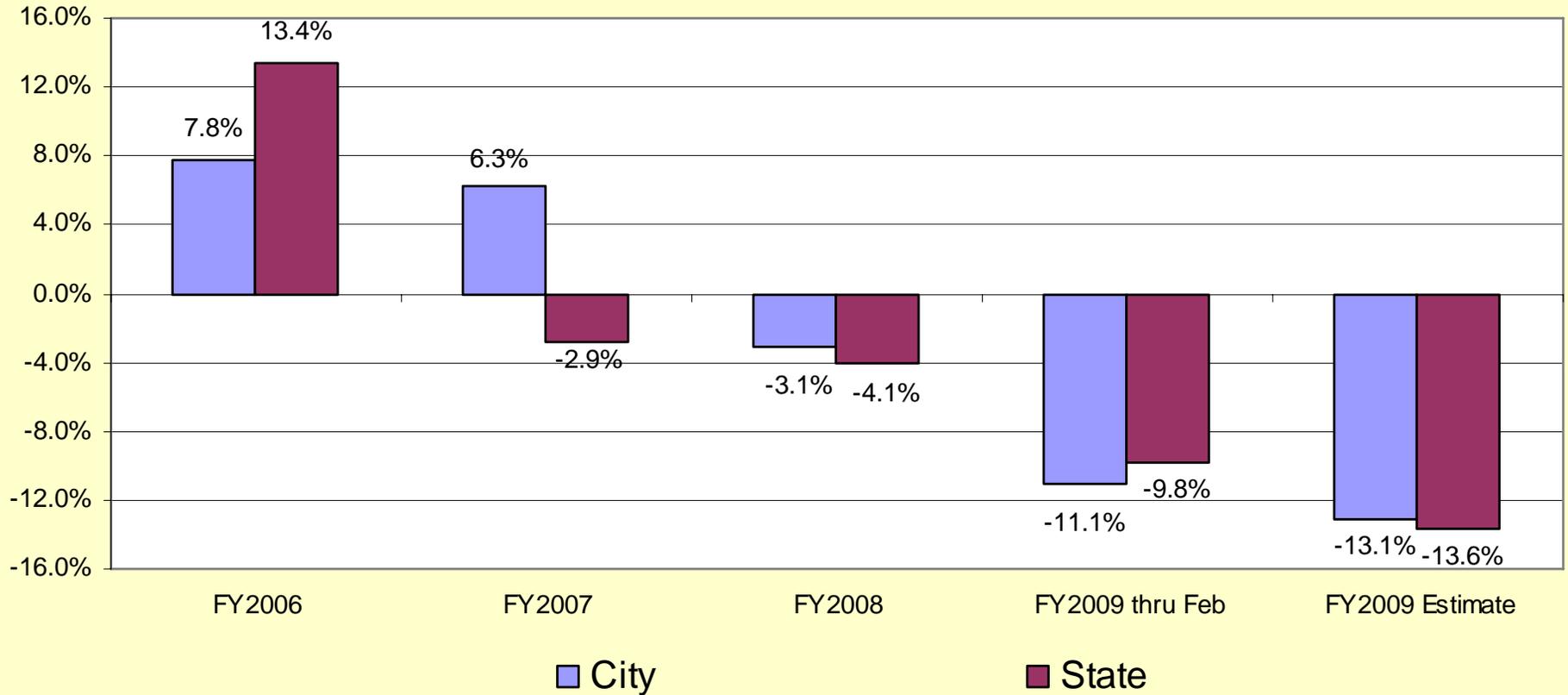
**Month to Month Comparison
City and State-Shared Sales Tax Collections (%)**



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Historical trends

**Year to Year Comparison
City and State-Shared Sales Tax Collections (%)**



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Background

- A Committee of key personnel from the Budget, Finance, Attorney, Court and Transportation departments assembled to research revenue enhancement opportunities.
- Report presented to Mayor and Council on February 4, 2009 (attached).
- Key findings of the report are as follows:
 - \$20.0M in new revenue through increased taxes on selected business activities
 - Implementation of User Fee Policy based upon established cost recovery ratio

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Proposed Revenue Enhancements

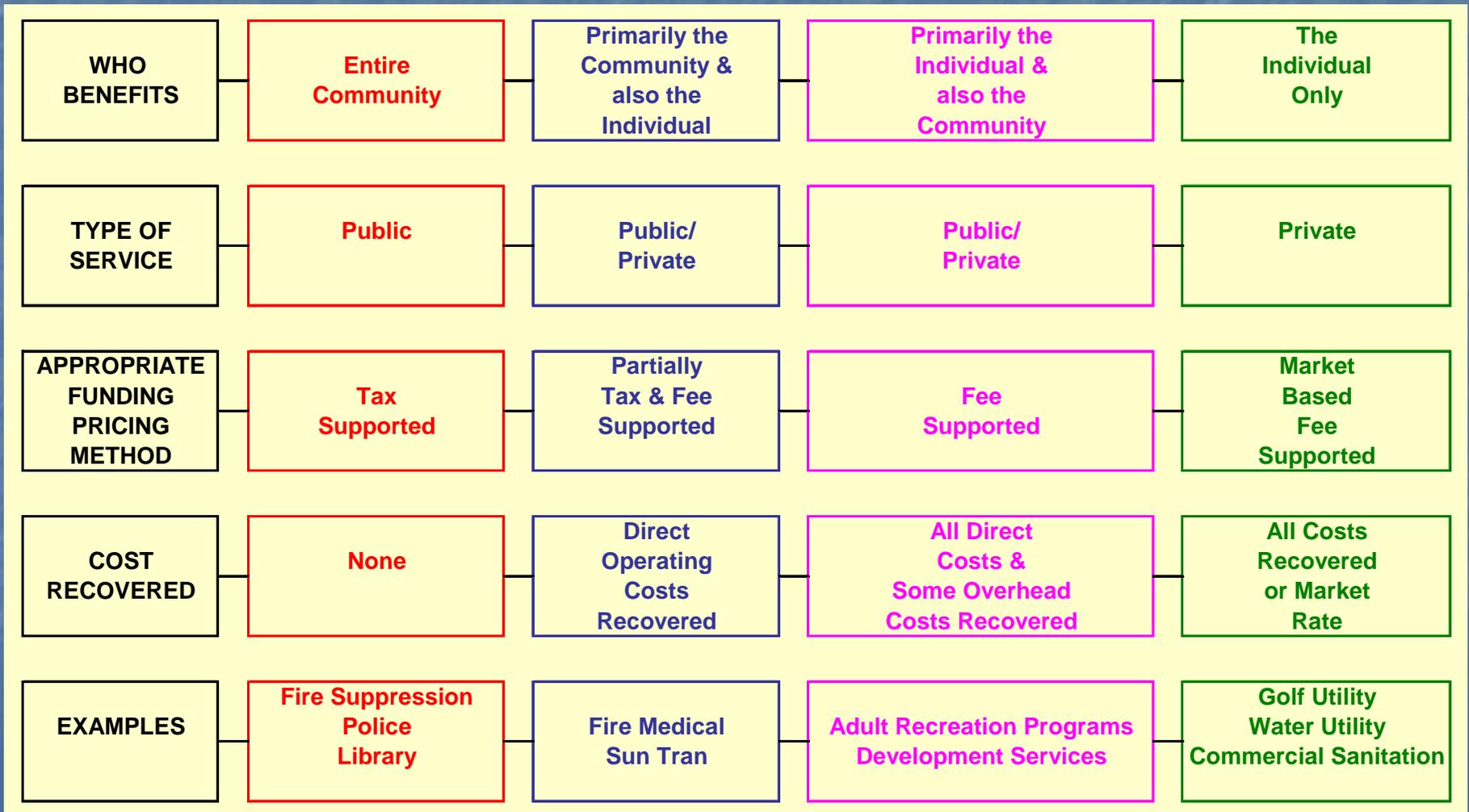
| Tax Category | Current Rate | Proposed Rate | Financial Impact |
|---|---------------------|----------------------|-------------------------|
| Public Utility | 2% | 3% | \$3.4 Million |
| Advertising Tax | 0% | 2% | \$964,000 |
| In-lieu Property Tax | N/A | 1.13% | \$1.6 Million |
| Residential Rentals | 0% | 2% | \$12.0 Million |
| Transient Rental Surtax | \$1/night | \$2/night | \$1.8 Million |
| Health Spa Memberships | 0% | 2% | \$500,000 |
| Contracting – repeal cost of land deduction | N/A | N/A | \$290,000 |
| Tanning Salons | 0% | 2% | \$15,000 |
| License Owners of Real Property | \$0 | \$45 | \$13,000 |
| Special Events Licenses for “Promoters” | \$0 | \$28 & \$45 | \$36,000 |
| | | TOTAL | \$20,618,000 |

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- In addition to identifying specific revenue enhancement proposals, the report also recommended specific policy direction:
 - “Mayor and Council resume implementation of the user fee policy adopted in 1996. Specific fee amounts would be removed from ordinances. Instead, an ordinance specifying the appropriate pricing methodology and level of cost recovery for all user fees and charges for services would be adopted by Mayor and Council.”
 - The Pricing Policy Decision Tree that follows provides guidance for the establishment of user fees and cost recovery ratios.

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Pricing Policy Decision Tree



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- “Staff would reassess the fees and level of cost recovery on an annual basis and would present proposed fee increases to the City Manager for approval.”
- “In March 2006, Mayor and Council approved the roll-back of most Parks and Recreation fees to fiscal year 2002 levels. Revenues lost from FY 2006 to FY 2007 as a result of this roll-back were approximately \$250,000. Staff recommends that all fees impacted by this roll-back be immediately increased back to fiscal year 2006 amounts.”

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- Should the Council be so inclined, staff recommends using the Western Region CPI as the fee index for annual adjustments to user fees.
 - “Staff further recommends that a one-time fee index, such as the Municipal Cost Index, be applied to all Development Services and Parks and Recreation fees. This index could be applied immediately as a one-time adjustment. Thereafter, proposals for fee increases would follow the cost recovery guidelines with the User Fee Pricing Policy. See attached article regarding the Municipal Cost Index.”

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- Subsequent to the generation of the Revenue Enhancement report, staff identified additional revenue sources whose fees are governed by ordinance and thus constrained from cost recovery principles. These fees primarily originate in the Transportation and Real Estate departments and include:
 - Work Zone Fees
 - Utility Permits
 - Excavation Permits
 - Application Fees for Real Estate Services
 - Animal Control Fees

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Transit Fares

- Transit fares were not specifically addressed in the Revenue Enhancement Report
 - Transit Task Force discussed, reviewed and provided recommendations
 - Fares are not General Fund revenues
- Consideration of fare increase is warranted, however they
 - Reduce the need to use federal grants for capitalized maintenance
 - Allow for greater investment in fleet inventory
 - Reduce ongoing maintenance costs

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Staff Recommendations

- Mayor and Council consider implementation of some or all of the revenue enhancement proposals
- Mayor and Council consider establishment of the cost recovery ratio for all programs
- Mayor and Council consider resuming the User Fee Pricing Policy, including the use of the Western Region's annual CPI index.