



County of Santa Cruz

COUNTY ADMINISTRATIVE OFFICE

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SUSAN A. MAURIELLO, J.D., COUNTY ADMINISTRATIVE OFFICER

March 12, 2002

AGENDA: March 19, 2002

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean Street
Santa Cruz, California 95060

IMPLEMENTATION OF THE REPEAL OF THE COUNTY UTILITY TAX

Dear Members of the Board:

The purpose of this letter is to respond to the questions raised in Supervisor Pirie's letter of March 8, 2002 regarding the County Utility Tax. Below are the issues included in Supervisor Pirie's letter and our report.

■ **Report on the steps that have been taken to terminate the collection of the utility tax.**

In this regard, the Treasurer Tax Collector and the Auditor-Controller have taken the following steps regarding the termination of the County Utility Tax.

- On March 7, 2002 the Treasurer Tax Collector sent a certified letter to each utility provider and large commercial users which included preliminary notification of the passage of Measure L, the initiative to repeal the County Utility Users Tax. His letter stated that he would provide each provider with official notification of the effective date of the repeal in a subsequent communication. In this regard County Counsel has advised this office and the Treasurer Tax Collector that as a matter of State law the repeal ordinance is considered as adopted upon the date the primary election is declared by the Board of Supervisors and shall go into effect 10 days after that date.
- On March 7, 2002 the Auditor-Controller began working with the Department of Public Works and County Counsel on pro-rating and refunding that portion of the Utility Users tax which is levied on sewer services and collected as part of the tax bills.

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2. A summary report on the previous directions given by this Board concerning steps to be taken in the event of the loss of this income.

The material which follows summarizes the various reports which have been provided to your Board regarding the matter of the repeal of the Utility Tax.

- On October 16, 2001 your Board received a report from this office which indicated the petition drive to repeal the utility tax had been successful. Among other things, this report provided perspective on the magnitude of the loss associated with the Utility Tax repeal and advised your Board that we believe the loss was too large to be taken on unincorporated area services only and it was our recommendation that the **loss** be spread over all County services.' At your October 16th meeting your Board directed the County Administrative Officer to coordinate the preparation of a Report as provided for in Section 9111 of the Elections Code, which specified the fiscal impact of the repeal ordinance, for consideration by the Board of Supervisors on November 20, 2001.
- On November 20, 2001 your Board received a report which was developed with the assistance of County Department Heads. In summary the report advised your Board that:
 - ✓ Because State law requires that the County balance its budget, there *is* an inescapable relationship between the services which county government provides and the revenues it receives.
 - ✓ The repeal of the County Utility Tax will cause a permanent ongoing loss of ~~\$9,752,000~~ and a one time loss of ~~\$2,000,000~~ in County General Purpose Revenue for a total loss of ~~\$11,752,000~~ in available financing for next year's budget.
 - ✓ The loss of General Purpose Revenue requires an equal and offsetting reduction in the Net Cost of County Government.
 - ✓ Repeal of the County Utility Tax will have a far reaching effect on both county wide programs and programs provided to residents of the incorporated area and would severely limit the capacity of County Government for discretionary spending.

The October 16, 2001 report noted that the **loss** was equal to 93% of the Net County Cost of the Sheriffs Office and exceeded the Net County Cost of all the county parks, recreation and planning services provided in the unincorporated area.

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The report also noted that the reductions included in the Section 9111 Report were produced as a result of only the repeal of the utility tax and did not take into account the recession or reductions in funds which may result from the State's deteriorating financial condition. The report stated if the repeal ordinance was adopted by the voters a final reduction plan would be presented for consideration during the 2002-03 budget hearings.

After considering the November 20, 2001 report your Board elected to place the repeal ordinance on the March 5, 2002 ballot and directed that a supplemental report be presented in January 2002 which addressed:

1. the amount of State and Federal pass through revenues in the County Budget;
 2. the importance of the utility tax in the County Budget;
 3. the legal issues concerning the utility tax;
 4. Santa Cruz County expenditures in comparison to other counties;
 5. Santa Cruz County's property tax;
 6. Santa Cruz County's sales tax;
 7. information on the growth of our County's budget over the years; and
 8. the alleged \$33 million in surplus and whether or not it exists.
- On January 29, 2002 your Board considered a report which addressed each of the preceding issues.

In addition to the preceding, in December 2001 your Board adopted a resolution providing for a temporary reduction in the gas and electrical component of the Utility Tax and accepted and filed a report on an alternative utility tax measure.

3. A report considering the options available to the Board to reduce expenses in the current years and future years.

The repeal of the Utility Tax requires an on-going reduction in County operations and it is our goal to have an orderly transition from the current level of service to a lower level which minimizes service disruptions to the public and is consistent with the County's legal obligations. To this end, on March 7, 2002 the County Administrative Officer put in place controls on all County hiring. The purpose of these controls is to reduce expenditures for the

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remainder of the current fiscal year and minimize layoffs when the 2002-03 budget is adopted by your Board in June of 2002.

In addition to hiring controls, all fixed asset expenditures for the remainder of the current fiscal year have been frozen pending a further review during the budget process. Major capital projects which are not yet started are also under review.

Cash Flow

It should be noted that because there is a considerable lag between when the Utility Tax is collected by the utilities and when the utilities remit funds to the County, on a cash basis the revenue loss associated with the repeal of the Utility Tax is predominately a problem for the County 2002-03 fiscal year.

Budget Schedule

With respect to the 2002-03 County Budget, the County Code charges the County Administrative Officer with developing recommendations for the County Budget. The budget process for the 2002-03 County Budget commenced in December 2001. The first part of that 2002-03 budget process will conclude in a few short weeks with the publication of the County Administrative Officers Recommendations for the 2002-03 Proposed County Budget. Those recommendations will, among other things, take into account the loss of the utility tax and the effect of the continuing recession on County Revenues. The budget will be available on or before May 21, 2001.

Recommendation

At this time it is recommended that your Board accept and file this report.

Very truly yours,

Susan A. Mauriello
County Administrative Officer

cc: Each County Department Head