

**AGENDA DESCRIPTION:**

Consideration and possible action to direct the City Attorney's Office to draft the necessary documents for the Council to consider placing a ballot measure on the April 10, 2012 election to amend El Segundo Municipal Code ("ESMC") Section 4-2-17 ("Chemical, Petroleum, Cement or Cryogenic Products; Smelters or Refineries"), and other related sections, for purposes of increasing the acreage tax contained in this code section. (Fiscal Impact: \$10,237,200)

**RECOMMENDED COUNCIL ACTION:**

1. Direct the City Attorney's Office to draft the necessary documents for the Council to consider placing a ballot measure on the April 10, 2012 election to amend ESMC Section 4-2-17, and other related sections, for purposes of increasing the acreage tax contained in this code section.
2. Call a Special Meeting on or before January 13, 2012, to consider adoption of the necessary documents to place the proposed amendment to ESMC Section 4-2-17 on the April election.
3. Alternatively discuss and take other action related to this item.

**ATTACHED SUPPORTING DOCUMENTS:**

**FISCAL IMPACT:** \$10,237,200


**Amount Budgeted:** \$0

**Additional Appropriation:** N/A

**Account Number(s):**

**ORIGINATED BY:** Deborah Cullen, Finance Director 

**REVIEWED BY:** Mark D. Hensley, City Attorney 

**APPROVED BY:** Doug Willmore, City Manager 

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**BACKGROUND AND DISCUSSION:**

The City Manager has been reviewing the amount of municipal taxes paid by chemical and petroleum production businesses (refineries) in the City relative to what such uses pay in municipal taxes to other cities in Southern California, and relative to the revenue received by other commercial sectors in our City. Based upon this review, it appears that El Segundo receives substantially less, both on a gross basis, on a volume basis, and on a per-acre basis, than other municipalities collecting taxes from similar businesses. The City of El Segundo currently receives approximately \$4.7 million annually from these businesses.

Staff conducted a review of other cities and found that the average revenue per acre from similar businesses is more than double what El Segundo receives, as illustrated in the next chart:

	<b>El Segundo</b>	<b>Torrance</b>	<b>Carson</b>	<b>Average (Excluding El Segundo)</b>
Total Acreage:	3,494	12,312	12,288	12,300
Total Acreage used by Refinery:	951	750	700	725
% Acreage Used by Refinery:	<b>27.22%</b>	<b>6.09%</b>	<b>5.70%</b>	<b>5.89%</b>
TOTAL REV. FROM REFINERY:	\$ 4,762,801	\$ 7,400,743	\$7,145,460	\$ 7,273,102
Average Revenue/ Acre:	<b>\$ 5,008.20</b>	<b>\$ 9,867.66</b>	<b>\$10,207.80</b>	<b>\$10,037.73</b>
Barrels Produced per Day:	285,000	150,000	265,000	207,500

In addition, our analysis shows that while the refinery has over 36% of the commercial acreage in the City of El Segundo, the refinery only produces 10% of the General Fund revenue. This is a serious inequity that should be addressed. All of the other commercial acres in the City produce more than four times per acre of revenue than the refinery does.

<b>El Segundo Commercial Revenues:</b>						
	<b>Acreage</b>		<b>Revenue Generated</b>		<b>Revenue per Acre</b>	
Commercial Only	2,006	68%	\$ 41,939,761	90%	\$ 20,902.99	81%
Chevron:	951	32%	\$ 4,762,801	10%	\$ 5,008.20	19%
	<u>2,957</u>		<u>\$ 46,702,562</u>		<u>\$ 25,911.19</u>	

<b>El Segundo Taxable Commercial Revenues:</b>						
	<b>Acreage</b>		<b>Revenue Generated</b>		<b>Revenue per Acre</b>	
Commercial Only	1,724	64%	\$ 41,939,761	90%	\$ 24,327.01	83%
Chevron:	951	36%	\$ 4,762,801	10%	\$ 5,008.20	17%
	<u>2,675</u>		<u>\$ 46,702,562</u>		<u>\$ 29,335.21</u>	

In conducting a further analysis we have removed the non-taxable property such as; Air Force Base, schools and parks, which leaves a total taxable commercial acreage of 1,724 acres. Based on this analysis, the revenue per acre increases to \$24,327, which is close to 5 times more than that of the refinery.

Over many years, the City has continuously deferred infrastructure projects and capital maintenance due to ongoing revenue shortfalls. While the City now has a structurally balanced budget, there is no long-term funding for infrastructure projects and an insufficient amount of funding for short-term capital maintenance. We propose that the increased revenue be used primarily to fund these projects.

The City, pursuant to ESMC Section 4-2-17, currently taxes businesses that engage in processing and manufacturing chemicals, petroleum, cement and cryogenic products, including refineries, on a: per employee basis (\$92 for first 10 employees, and \$115 for each employee in excess of 10 employees); per acre basis (\$1,382); and, per vehicle basis (\$32 for each vehicle in excess of 6,000 pounds). The City Manager is proposing to increase the per acre tax by an additional \$10,764.67 which would result in an increase in revenue to the City of \$10,237,200 per year.

In order to increase the current per-acre general tax (the revenues go into the General Fund and are not earmarked for a particular purpose), four members of the Council must approve of placing the matter on the April election. If it is placed on the April election as a general tax then it must be approved a majority of the voters.

If the Council wants to consider converting the tax to a special tax (the revenues are pledged to a particular purpose), or make the increased amount of the tax a special tax, it takes three members of the Council to place the matter on the April election. A special tax must be approved by 2/3 of the voters. Unlike a general tax that, absent a unanimous finding by the Council that an urgency exists, can only be placed on the municipal election (the election when the Council Members are elected), a special tax can be placed on any election or a special election can be called for the special tax measure.

If the Council directs that the documents necessary to place this matter be drafted, the City Attorney's Office will draft the necessary Ordinance and Resolutions for the Council to consider at a Special Council Meeting. The Special Meeting must be held on or before January 13, 2012, for purposes of placing the matter on the April 2012 municipal election.