

City Council Ad-Hoc Revenue Committee Recommendation

2/27/18, Item #11

Actions:

Emergency declaration for purpose of placing general tax measure on June 5, 2018 special election

Place a 0.25% sales tax measure on June 5, 2018 (increase from 9.0% to 9.25%)

Motion to support the measure, identify authors and prepare legal and fiscal analysis



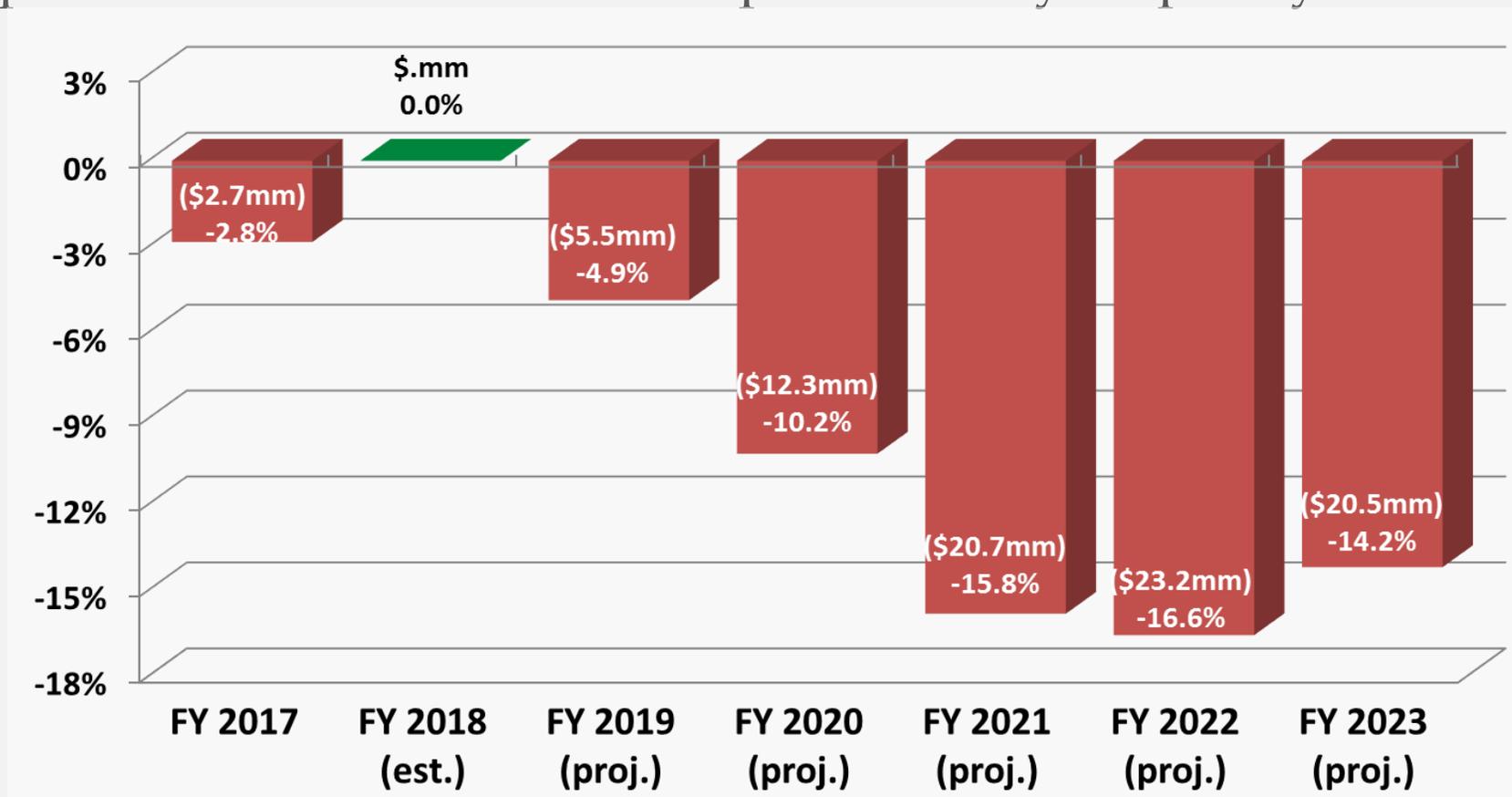
Pro-active actions now to protect critical services while supporting Nov 2018 Housing measure

- Unprecedented funding gaps threaten City service levels
 - \$2.7 Million in budgetary changes already in current year
 - \$5.5 Million will be required next year; escalating to \$10 million the following year
 - Escalating erosion of revenue basis, massive increases in payments to the State, looming economic slowdown and decaying facilities and infrastructure
- City's long-term financial plan includes balanced solutions
 - Operational spending and revenue budget balancing actions
 - Public support by voters and community projects
- Keep sales tax dollars for use in our community
- Participating in a June election to avoid competing with a November 2018 county-wide effort to provide comprehensive Housing Solutions

Slide repeated from 2/13/18 presentation

Dependable Projections indicate action now

5-Year City forecast of General Fund operations threatens ability to protect and maintain critical public safety & quality of life services



Oct 2017- Feb 2018 Ad-Hoc Revenue Committee

Slide repeated from
2/13/18 presentation

- Cynthia Chase (Chair), Chris Krohn, Cynthia Mathews
- Investigate current and long-term resource options for 2018 ballot considerations
 - Funding to maintain critical service levels
 - Funding to provide essential capital investments for infrastructure and community facilities
 - Approaches to balance general community needs

Examples of Leading Fiscal Stewardship

Awards

- National Budget Award recognition (GFOA)
- National Financial Reporting- CAFR (GFOA)

Bond Rating

- Increased Bond Rating in 2014 to AA+
- Within 9 comparable cities, only Berkeley & Palm Springs at this level

Pension Reforms

- Voluntarily adopted lower tier (before State reforms)
- Reset lower salary levels & higher employee contributions
- See next slide for more

Fiscal success

- Adopted major policies for Reserve, Surplus and Trusts
- Restrained position growth & streamlined operations
- Pro-active budget balancing including ensuring cost recovery for requested services
- Unique service contracts lowering tax payer costs (Library, UCSC, Lifeguards, Utilities)

Financial Planning

- Developed long-range, dependable forecasts
- Developed fiscal sustainability plan to maintain services and limit community tax increases
- Inclusion and support of community stakeholders (citizen, non-profit, business, education, etc.)

January 2018 League of California Cities: What Cities can do today *(re: increased payments to State for pensions)*

Slide repeated from 2/13/18 presentation

Develop plan to pay down liability	<ul style="list-style-type: none"> • 2011- City paid down significant portion of Liability (pension Bond issue; payments end FY2022) • 2015- Started annual pre-payments of Pension liabilities to lower interest payments • 2017- Fiscal plan includes paying down liabilities with beyond market interest rates
Consider local ballot measures	<ul style="list-style-type: none"> • 2016- City created Ad-Hoc committee providing first review of ballot measures • 2017- Ad-Hoc committee created to continue and recommend 2018 ballot measures
Create pension rate stabilization	<ul style="list-style-type: none"> • 2017- Created and allocated process to fund pension trusts • 2018- Pension trusts funded to generate returns to pay portions of future State payment increases
Change in Service Levels	<ul style="list-style-type: none"> • Restrained position growth & streamlined operations • Unique service contracts lowering tax payer costs (County Library, UCSC Fire, Lifeguards, utility services beyond City limits)
Use Bargaining to increase Employee payments	<ul style="list-style-type: none"> • All employees pay 2.5% to 5.0% of their salary towards pensions (beyond State required levels) • 2011- Adopted pension reforms prior to later State wide efforts • Reset to lower, base levels all salaries
Issue Pension Obligation Bond	<ul style="list-style-type: none"> • 2011- City paid down significant portion of public safety liability

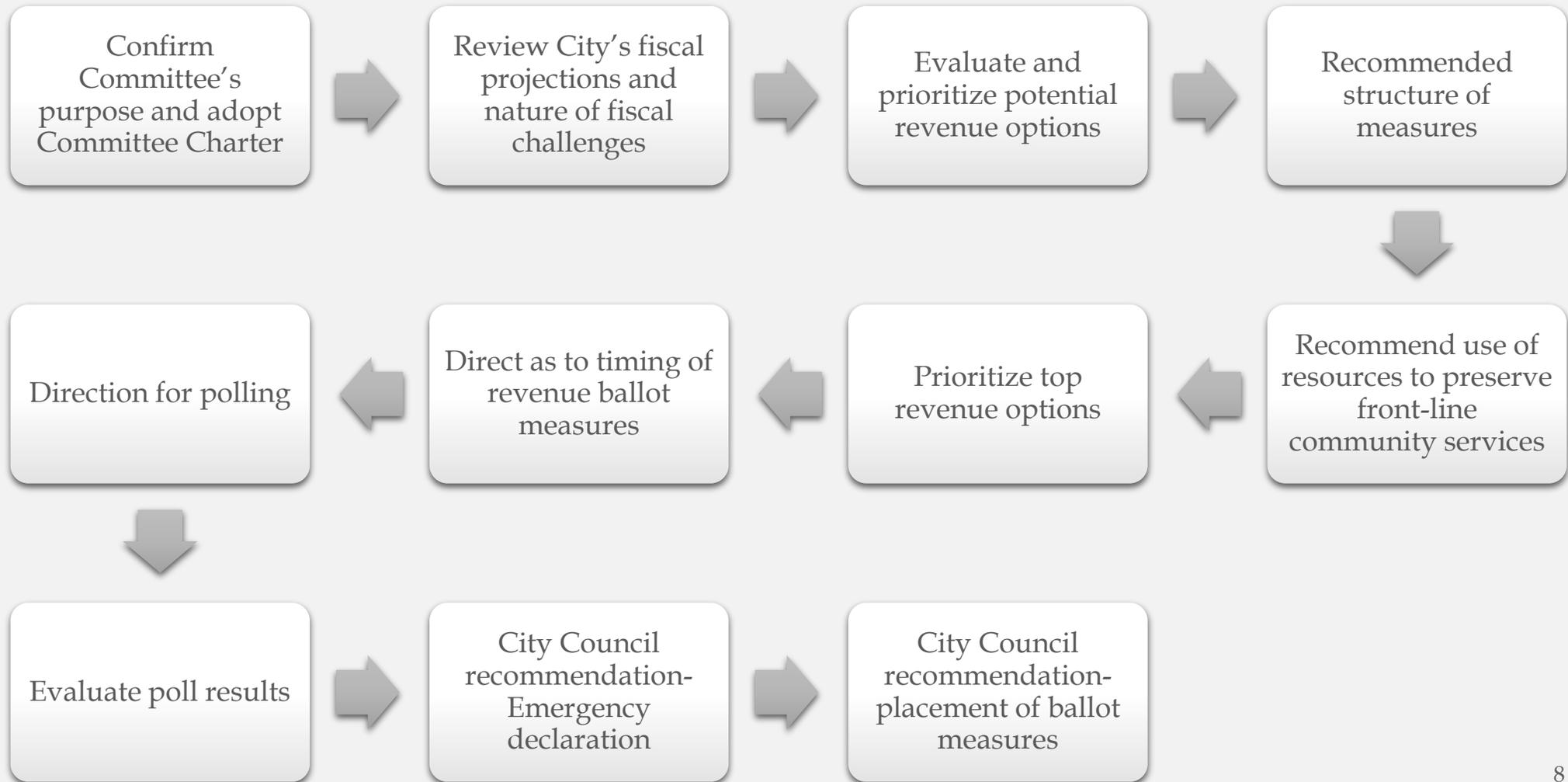
All already implemented

Committee Work Plan

Slide repeated from
2/13/18 presentation

Slide repeated from 2/13/18 presentation

Committee Work Plan



Evaluation of various new revenue options

Resource Options Evaluated

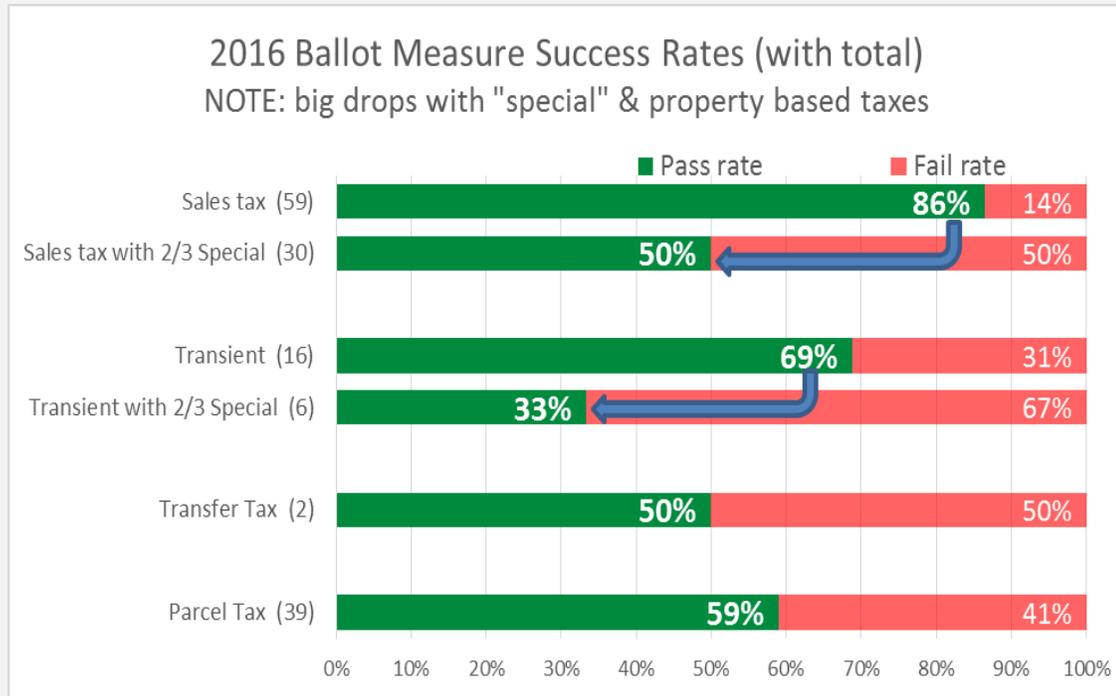
Admission Tax	Business License Tax	Cannabis Excise Tax
Franchise Taxes	Parcel taxes	Other Property taxes
Parking Tax	Property Transfer Tax	Sales Tax
Sugar-Sweetened Tax	Transient Occupancy Tax	Utility Users Tax

Examples of committee considerations

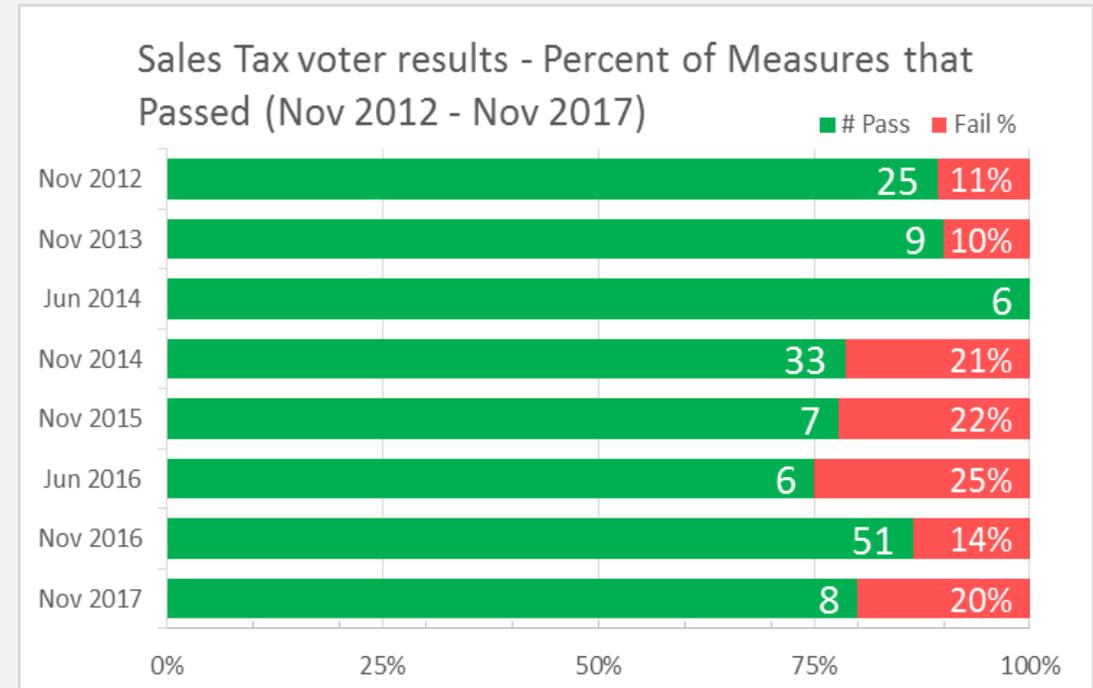
- Competition with other ballot measures (i.e., November county-wide housing)
- Success rate of a ballot measure balance with cost of election
- Revenue potential of new resource
- Voter support patterns of current and prior elections
- Community support
- Any urgency or timing considerations

Slide repeated from 2/13/18 presentation

Key Ballot Measure Considerations



Success rates fall quickly when measures "restricted" for a purpose



Nearly 75% of general purpose Sales Tax ballot measures have passed Statewide since 2012

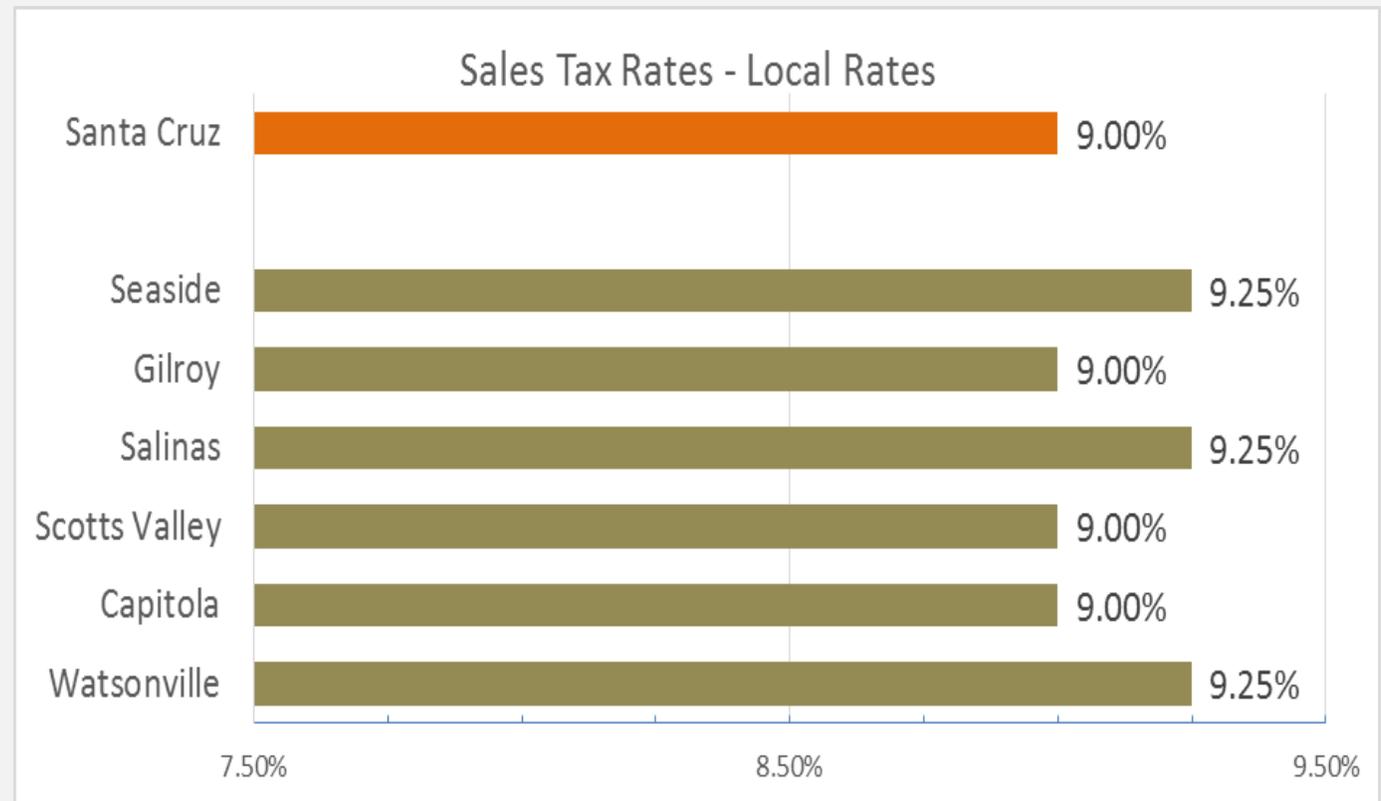
Sales Tax Measure Considerations

The City's current 9.0% rate and proposal to increase to 9.25% is consistent

In Santa Cruz, Watsonville is already at the State maximum rate of 9.25%

If approved, the rate would be capped by State law at 9.25%

Current Regional City Sales Tax Rates



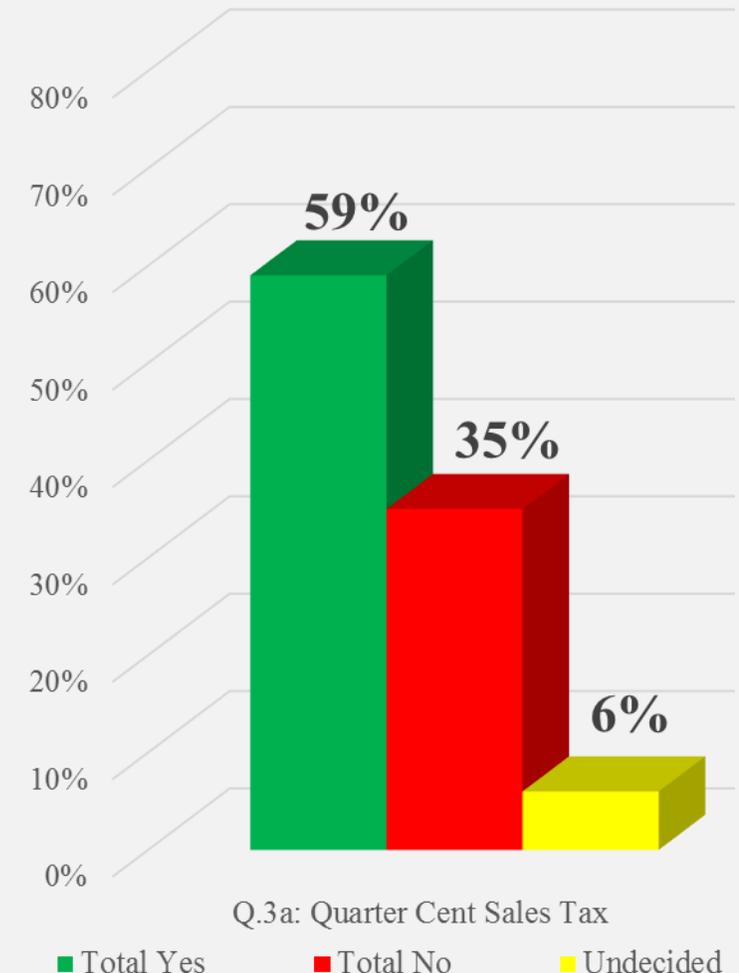
Sales Tax Measure Considerations – January 2018 Poll

(2/13/18 recap)

January 2018 Poll results showed strong support (59%)

Poll Results- Sales tax was supported because:

- All the money will be used here in our **local community**
- Without this tax money, children and at-risk youths may lose opportunities for **safe places to go after school and during summers**
- This measure will maintain safety and security for families with children, seniors and everyone else who uses the **parks, beaches and open space** areas throughout the City
- Reducing **park patrols and park maintenance** will likely lead to some areas becoming hot spots for drugs, gangs and other criminal activity
- This measure is needed to maintain many different kinds of **fire prevention** programs
- If this measure fails, **critical city services** and popular programs will have to be reduced or eliminated



Committee recommendations of top considerations

Key decision points for June 5th items

- Sales tax
 - Provide a credible \$3 Million resource
 - Based on recent City of Santa Cruz sales tax collections
 - Keeping sales tax for use in our community.
 - There is only 1/4-percent left for any agency to utilize
 - Any county-wide entity could propose a ballot measure for their use
 - Past examples used City sales tax to fund Metro Bus District, County Library, & Regional Transportation initiatives
 - Could include any government entities providing service within the City (such as County or other districts)

Prioritized Resource options

June 2018 Ballot	Sales Tax
Estimated annual revenue	\$3 million
FY 2020 gap*	<\$ 3.8 million>
FY 2021 gap*	<\$ 12.2 million>

* Funding gaps assume adoption of \$5.5 million in FY2019 budget balancing measures and if voters approve the sales tax measure

Questions

Recommended Actions

- 1) Resolution making emergency findings for placing ballot measures indicated on the June 5, 2018 special election
- 2) Place a 0.25% sales tax measure on June 5, 2018 (increase from 9.0% to 9.25%)
- 3) Motion to support the measure, identify authors, and prepare legal and fiscal analysis

