

TO: City Council
FROM: Jim Throop, Administrative Services Director
SUBJECT: Supplemental Revenue Options
DATE: July 19,2011

NEEDS: For the City Council to consider General Fund financial resource capacity, service demands, and need/options for supplemental revenue.

Facts:

1. The City's General (non-utility) services and facilities include police, fire, library, recreation, and other public services. (See Exhibit A)
2. The costs for these services and facilities are paid from taxes and fees (Exhibit B).
3. The recession has significantly impacted General Fund tax revenues.
4. Cost reduction initiatives to offset revenue losses began more than three years ago.
5. Cost reductions totaling over \$7,000,000 per year, and nearly \$38,000,000 for FY 2011-2015 have been achieved.
6. Public demand for services and facilities outpaces revenues, despite a significant reduction of City operating costs. Additional income will be required to restore lost services, target deferred facility maintenance, and meet growing demands.
7. Retail sales taxes are a vigorous and significant revenue source for general services and facilities. They are levied on all who shop in town, thus visitors contribute to the services and facilities that serve them during their visit.
8. A local supplemental sales tax can be considered with a vote of the people in increments of 0.25% up to 1.00%.
9. A general purpose sales tax requires a simple majority vote of the public. A sales tax with a defined or specific use requires a super-majority (67%) approval vote.
10. A general sales tax may be used to fund any General Fund service/activit. A specific or defined sales tax may only be used for the single purpose that is approved and may not at any time now or at a later date be used to fund any other General Fund activity.

ANALYSIS &
CONCLUSION:

A community's public services, educational opportunities, and cultural amenities play an essential role in creating a sense of place and being – a quality of life - that can be

attractive to business and investment, as well as residents and visitors. Likewise, the quality of the built environment, the condition of road networks, public facilities, and utility infrastructure, are fundamental to daily living and economic competitiveness.

If a community is to maintain its quality of life, it must generate adequate resources to sustain public services and facilities (infrastructure). Yet, looking forward, growth in public service and infrastructure demand does, and is predicted to continue to, outpace revenue growth.

As such, the City Council requested a presentation about increasing the City's sales tax rate to assist in closing the gap in the General Fund, provide for general services and facilities, and/or to fund road rehabilitation and maintenance.

The City currently receives 1.0% general use sales tax. The revenue from this 1.0% averages approximately \$6,300,000 per year. It is used to partially fund the City's general services and facilities.

The State of California allows cities to impose an additional sales tax of up to 1.0% (subject to a vote of the people). The sales tax may be increased in 0.25% increments up to the 1.0%.

The following are the requirements for any proposal to increase the sales tax:

1. Must be proposed by either a resolution or ordinance of the Council
2. The resolution or ordinance must specify the type of tax, general or specific, and the rate of tax to be levied
3. Method of tax collection must be identified
4. Specify the date upon which an election shall be held
5. If it is a general tax, it can only be voted on at a regularly scheduled election for city council members.
6. The next time a general sales tax rate increase may be presented would be in November 2012.
7. If the proposed sales tax is to be for a specific use, the ordinance or resolution must specify the purpose or service for which the money would be used.
8. If it is a special tax, it can be voted on at a special election or by mail, if it meets the conditions of Elections Code section 4000

The projected revenue from four different levels of sales tax are:

0.25% - \$1,575,000
0.50% - \$3,150,000
0.75% - \$4,725,000
1.00% - \$6,300,000

One example of general service funding demands is road repair. It is estimated the cost to bring the roads up to an 80% new quality is \$82 million and then \$3.5 million per year to maintain them. An additional \$1.0 million per year would be needed to address disabled access needs.

Policy

REFERENCE: Council goals – “Live within our means”;

FISCAL

IMPACT: The General Fund is currently projected to have a balanced budget over the next four years. This balance assumes services can be maintained at their currently reduced levels (down approximately \$7,000,000/year), deferred maintenance of roads and facilities can be delayed another 5+ years, and that the economy will continue to improve, albeit at a slow pace.

The projected annual revenue from four different levels of sales tax are:

0.25% - \$1,575,000
0.50% - \$3,150,000
0.75% - \$4,725,000
1.00% - \$6,300,000

- Options:
- a. Receive and file the report.
 - b. Direct staff to begin preparing for a general sales tax rate increase of XX% for the November 2012 general election; or
 - c. Direct staff to begin preparing for a specific sales tax rate increase of XX% using either a special election method or mail-in ballot with an election date of XXXX; or
 - d. Amend, modify, or reject the above option.

CITY OF PASO ROBLES General Services & Facilities

Public Safety

- Protection of life & property
- Emergency medical & paramedic service
- Building/construction plan review and inspection
- Fire suppression, prevention, inspection, & education
- Special enforcement, narcotics, & gang task units
- Police patrol & traffic enforcement
- Criminal & accident investigation
- Hazardous materials response
- Sex offender monitoring

Community Development

- Long-range community planning
- Private development environmental analysis & review
- Housing & urban development
- Economic development

Community Services

- Library
- Recreation
 - After-school programs
 - Senior Center
 - Aquatics
 - Classes
 - Sports
- Parks, trails & open space
- Veteran's Memorial Building
- Maintenance of roads, parks, & public buildings
- Trash & recycling pick-up & disposal
- Landfill operation
- Public information

CITY OF PASO ROBLES
Revenue Sources for General Services

Taxes

• Retail Sales	\$7,242,000
• Property	\$5,012,000
• Vehicle License	\$2,300,000
• Transient Occupancy	<u>\$3,070,000</u>
	<u>\$17,624,000</u>

Fees

• Franchise	\$1,874,000
• Fines & Forfeitures	\$ 874,000
• Charges for Services	\$ 821,000
• Building Permits	\$ 409,000
• Interest Earnings, Rentals, Etc.	\$ 633,000
• Business Licenses	<u>\$ 421,000</u>
	<u>\$5,032,000</u>

Other/Operating Transfers In \$ 1,451,000

TOTAL (Fiscal year 2012) **\$24,107,000**