

TO: City Council

FROM: Jim Throop, Administrative Services Director

SUBJECT: Rebuilding Public Services - Revenue Options

DATE: October 4, 2011

NEEDS: City Council requested discussion of revenue options to rebuild public services and/or address deferred maintenance of infrastructure.

FACTS:

1. The City's share of property and sales tax revenues go into the General Fund to partially fund police, fire, library, recreation, and other public services.
2. The recession has significantly reduced tax revenues.
3. Cost reduction initiatives to offset revenue losses began over three years ago.
4. The City has reduced spending more than \$7,000,000 per year, and prospectively nearly \$37,000,000 for Fiscal Years 2011-2015.
5. The reductions include elimination of 76 jobs (out of a total 226); Staffing of services is now at 1991 levels when the population was just 19,000.
6. The result is diminished police and fire services, road and public facility maintenance, and recreation - virtually all public services.
7. It is not clear when or if economic recovery will be sufficiently vigorous to offset reductions, even less clear when it might allow catch-up and/or progress on long-standing community needs.
8. Given the magnitude of reductions, and the prospect that recovery may not offset mounting shortcomings, the City Council scheduled discussion of revenue options that could, should the community so choose, provide for rebuilding of public services and infrastructure.
9. A variety of revenue (tax) structures could be considered. All require voter approval. A sales tax is flexible and vigorous, and provides the means for non-resident shoppers to aid in funding public services.
10. Sales tax measures can be for general (multiple) or limited (special) purpose. A general sales tax requires simple majority approval, while a special/limited purpose tax requires 2/3 voter approval. Either can be structured to provide a continuous or limited term revenue increase.
11. Local sales tax measures can be presented to the voters in ¼ cent increments, up to 1 cent per dollar retail.
12. A new 1% sales tax would generate approximately \$6,300,000 annually.

ANALYSIS &
CONCLUSION:

Rarely in any municipality do tax revenues meet the needs of citizens. Such is the case with the City of Paso Robles. Added to this has been an historic recession which is still reducing tax revenues used for police, fire, road/facility/park maintenance, and the like. Economic recovery will be slow, and likely not so vigorous as to recoup losses, or even less to offset mounting shortcomings (deferred maintenance). So, the City Council requested information about increasing the City's tax revenues to assist in rebuilding services and infrastructure.

The City currently receives 1.0% sales tax plus approximately 14.3% of the City's total collected property tax. The revenue from this 1.0% sales tax is approximately \$6,300,000, and property taxes \$8,100,000, per year. These taxes are used to partially fund services such as police, fire, parks, library, etc.

In addition to the sales tax, there are other revenue mechanisms that may be used including:

1. Parcel Tax
2. General Obligation Bond

Parcel Tax - A Parcel Tax is based on either a flat per-parcel rate or a rate that varies depending upon use, size, and/or number of units on each parcel. In most circumstances, Proposition 218 requires that a parcel tax be adopted as a special tax, i.e. 2/3rds voter approval.

The tax may be continuous or sunset after a set number of years. The tax may also include an annual inflationary increase.

General Obligation Bond - This is a bond issued with the City's commitment to use its full taxing and borrowing authority to make payments of interest and principal. The payments are secured by an increase in the property tax rate for all parcels in the City. The cost per parcel is dependent upon assessed value.

Issuance of a GO bond requires two-thirds voter approval, and can only be used for the acquisition or improvement of real property; it cannot be used for ongoing services or maintenance of public facilities. GO Bonds, thus the added property tax, typically have terms between 20-30 years.

NOTE: Other public agencies serving Paso Robles, especially schools, are impacted by the recession. Like the City, restoring services and building infrastructure may require supplemental tax revenues. Citizen willingness and/or capacity for additional taxes has a limit; it may be appropriate to examine, prioritize and coordinate local priorities.

POLICY
REFERENCE:

Council request; Cal.Const. Art. XIID, Section 3; Government Code Sections 37100.5, 50075; Rev. and Tax Code Sections 7200-7226.

FISCAL

IMPACT:

The General Fund is balanced over the next five years, but only because significant staff, service and expense reductions totaling more than \$37 million (over the next five years) have been effected (as well as incurring significant deferred maintenance liabilities).

Increasing the sales tax by 1% would generate approximately \$6,300,000 per year to partially rebuild services and/or infrastructure. A parcel tax, subject to 2/3rds voter approval, could be used for similar purposes, while a G.O. Bond could be secured (with a property tax) for acquisition and/or improvement of real property.

Options:

- a. Provide direction.
- b. Amend, modify, or reject the above option