

TO: City Council
FROM: Jim Throop, Administrative Services Director
SUBJECT: Sales Tax Initiative
DATE: June 5, 2012

NEEDS: For the City Council to consider placing a Sales Tax initiative on the November 2012 general election ballot.

FACTS:

1. The City's share of property and sales tax revenues partially fund police, fire, library, recreation, and other public services.
2. The recession and its lingering effect, has significantly reduced tax revenues.
3. Cost reduction initiatives to offset revenue losses began over four years ago.
4. 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.
5. The result is diminished police and fire services, road and public facility maintenance, and recreation - virtually all public services.
6. It does not appear that the economic recovery will be sufficiently vigorous to offset reductions, even less when it might allow catch-up on long-standing community needs.
7. At the March 24, 2012 Recovery Workshop, Council requested a report to consider a sales tax initiative, for 0.5%, on the November 2012 general election ballot.

ANALYSIS &

CONCLUSION: Looking forward, and assuming no substantive increases in costs (or recovery of staff, services, maintenance or additional State take-aways), a sluggish recovery is projected to yield only small surpluses through fiscal year 2015. While this is comparatively good news, it remains unclear if/when recovery may become sufficiently vigorous to restore recession losses, or generate enough income to confront the major challenges of deferred maintenance (roads, parks, public buildings), public education, poverty, hunger and homelessness.

With such large constraints on the City's budget, the City Council, at the March 24, 2012 Recovery workshop, requested a proposal for a sales tax initiative for the November 2012 general election ballot. Discussion centered on a 0.5% sales tax with a duration of 12 years. The type of tax, general or specific was not finalized.

NOTE: Revenues from limited term taxes typically are not used to fund recurring commitments.

A General Sales Tax requires a simple majority of the voters' approval (50% +1) and revenues could be directed by the City Council for any general fund purpose, such as road repairs, park or building maintenance or any other general fund related expense.

A special sales tax may only be used for the purposes approved by the voters, as stated on the ballot, and may not at any time now or in the future be used to fund any other General Fund activity. It requires a 2/3rds voter approval.

The following are the requirements for any proposal to increase 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 the 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 resolution or ordinance 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 general or special election or by mail, if it meets the conditions of Elections Code section 4000

Per the State Board of Equalization, the Council must adopt an ordinance for either the General Sales Tax or the Special Sales, even though the decision is ultimately up to the voters. The first reading of the ordinance may be done during the current council meeting and the second reading to follow at the next schedule council meeting.

POLICY

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

FISCAL

IMPACT: The General Fund is balanced (albeit tenuously) over the next five years, but only because significant staff, service, deferral of maintenance, and expense reductions totaling 29% of the budget have been effected.

The City currently receives 1.0% sales tax plus approximately 14.3% of the City's total collected property tax. The revenue from sales tax for FY2012 is approximately \$5,800,000 (this does not include the Triple Flip in-lieu of approximately \$1.8M, which is paid to the City from other State funds) and property taxes of approximately \$7,100,000, per year. These taxes are used to partially fund services such as police, fire, parks, library, etc.

A 0.5% sales tax will generate approximately \$2,900,000 per year in additional revenue, using FY2012 sales tax estimates.

- Options:
- a. Direct staff to begin the process for introducing an ordinance for a Special Sales Tax with a proposed rate of __%, to be administered by the State Board of Equalization, that will be placed on the November General Election ballot, with a proposed duration of ____ years; or
 - b. Direct staff to begin the process for introducing an ordinance for a General Sales Tax with a proposed rate of __%, with collections to be administered by the State Board of Equalization, that will be placed on the November General Election ballot, with a proposed duration of ____ years; or
 - c. Amend, modify, or reject the above options.