City of Carpinteria

COUNCIL AGENDA STAFF REPORT
March 12, 2018

ITEM FOR COUNCIL CONSIDERATION

Community survey results related to funding of City services and possible sales tax measure.

STAFF RECOMMENDATION

Action Item _X_ ; Non-Action Item ___

A. Receive Report on Community Survey results
B. Direct Staff to conduct community meetings and report back on the results.
C. Authorize the City Manager to engage consultant services related to the community outreach and appropriate an amount not to exceed $30,000 from balance of the General Fund.

BACKGROUND

In November of last year the City Council initiated a number of actions in response to the May 2017 Five-Year Financial Plan. The Plan identified strengths and weaknesses of the City's financial position. The Plan concluded that although the City has adequate revenue to pay for routine operating costs, it does not receive adequate revenue to address deferred maintenance and capital projects necessary to maintain the City's aging streets, sidewalks, parks, etc. Further, the Plan recognized the risk for law enforcement contract costs to go up significantly and, in fact, since the preparation of the report the City has learned that law enforcement contract costs are expected to rise significantly.

Among the actions initiated by the City Council was to engage Fairbank, Maslin, Maullin, Metz & Associates (FM3) to conduct a community survey related to a possible revenue generating ballot measure. The last such survey of this type was conducted in 2012. In initiating this work, the City Council recognized that the revenue situation threatens the City's ability to maintain services in support of the quality of life enjoyed by Carpinteria residents.

The purpose of this agenda matter is to allow the City Council to receive a presentation from FM3 on the survey findings and to direct staff concerning further related work. Attachment A to this report is the related presentation.

DISCUSSION

The purpose of the community survey completed by FM3 is to gauge community interest in a revenue measure adequate to maintain community services in years to come. The Council chose to explore a sales tax ad-on of 1.25%, which has the potential to generate approximately $2 million in annual revenue.

A voter approved increase in the sales tax was selected because it is paid equally by visitors and local residents; staff estimates that about 50% of the City's sales tax revenue is generated through visitors buying gasoline, eating at restaurants, etc., and it has the potential to generate an amount of revenue adequate to address the City's desire to maintain critical services and related quality of life.

Should the City Council elect to proceed, it can direct staff to conduct community meetings to discuss the City's financial needs and what the tax measure would achieve in terms of maintaining infrastructure and quality of life in Carpinteria. Should the Council elect to move forward based on the survey results, staff recommends that several meetings over the next two months be held to discuss these issues and report back to the Council in May. Should the Council elect to move forward at that time, the ballot measure could be approved for consideration as a part of the November 2018 election.

POLICY

Exploring revenue generating options is consistent with the City's mission statement that includes the making judicious use of limited financial resources to promote the highest possible quality of life for all Carpinteria residents.

Should the City Council elect to move forward, staff expects to engage consultant services for an amount not to exceed $30,000, to be appropriated for the balance of the General Fund.

FINANCIAL CONSIDERATIONS

The sales tax in Carpinteria is currently 7.75%, of which just over 1% comes directly to the City. Most sales tax revenue in California goes to the State and County governments for myriad services including courts, jails, health and social services. A ½% portion of the sales tax in Santa Barbara County is a voter approved transportation measure that funds, among other things, freeway improvements, public transit and street maintenance. The City's current annual sales tax revenue is approximately $2 million. A 1.25% increase would raise the sales tax rate in Carpinteria to 9.0%. Currently, nearly 30% of California cities have sales tax rates at 9% or greater (see Attachment B).

PRINCIPAL PARTIES EXPECTED AT MEETING

John Fairbank and Adam Sonenshein of FM3

ATTACHMENTS

A. FM3 Community Survey Presentation
B. List of Cities with 9% or greater sales tax rate
C. City Council Staff Report, November 27, 2017

Staff contact: Dave Durflinger, City Manager
(805 684-5405, x400, daved@ci.carpinteria.ca.us

Signature

ATTACHMENT A

FM3 Community Survey Presentation

Community Survey Staff Report
March 12, 2018

City of Carpinteria
Community Survey

Survey Conducted: January 20-29, 2018

FM3 RESEARCH
FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

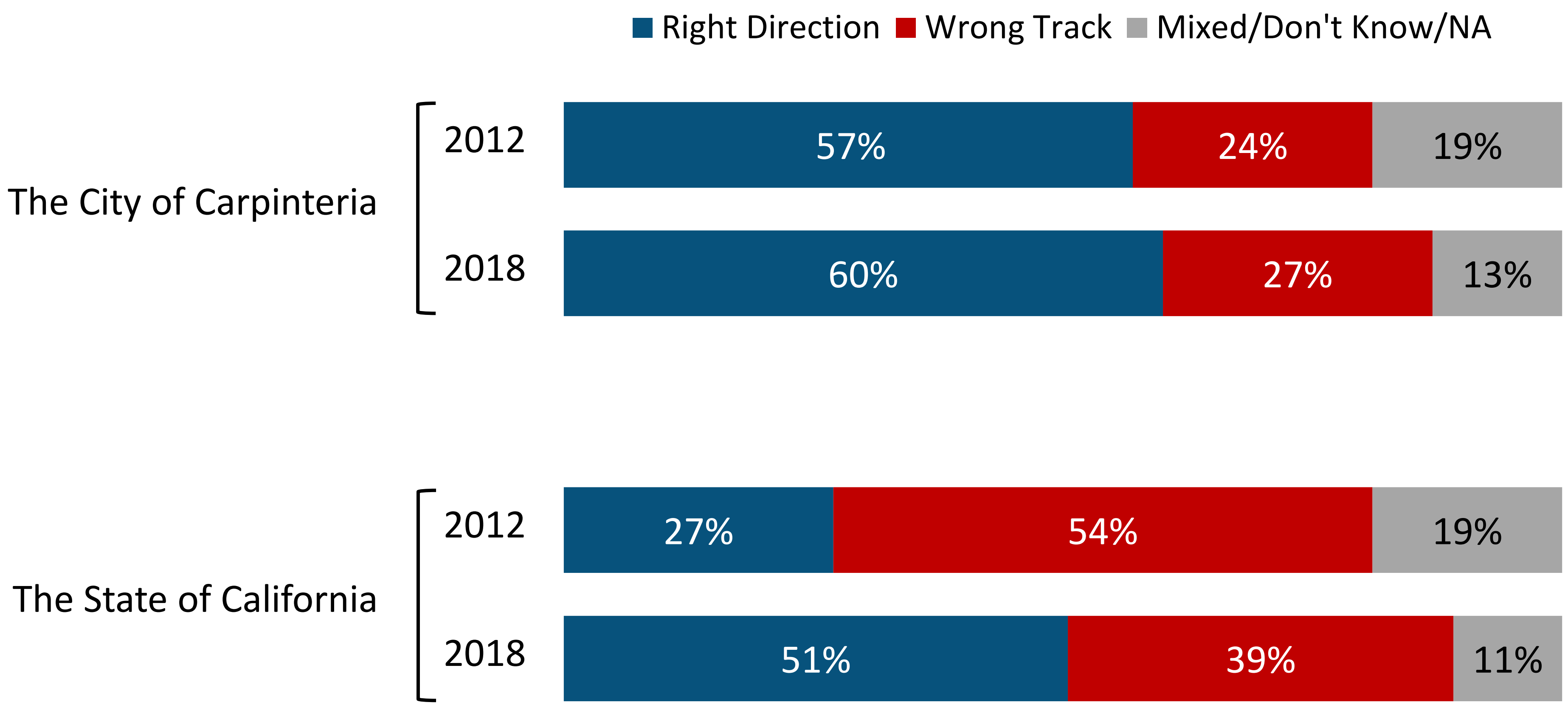
220-4940

Methodology

- ✓ 414 interviews with residents in the City of Carpinteria likely to vote in November 2018
- ✓ Interviews conducted January 20-29, 2018
- ✓ Survey conducted online and on landlines/cell phones
- ✓ Overall margin of error for full sample: ±4.6%
- ✓ Several questions tracked to previous City survey (March 2012)
- ✓ Some percentages may not sum to 100% due to rounding

General Community Attitudes

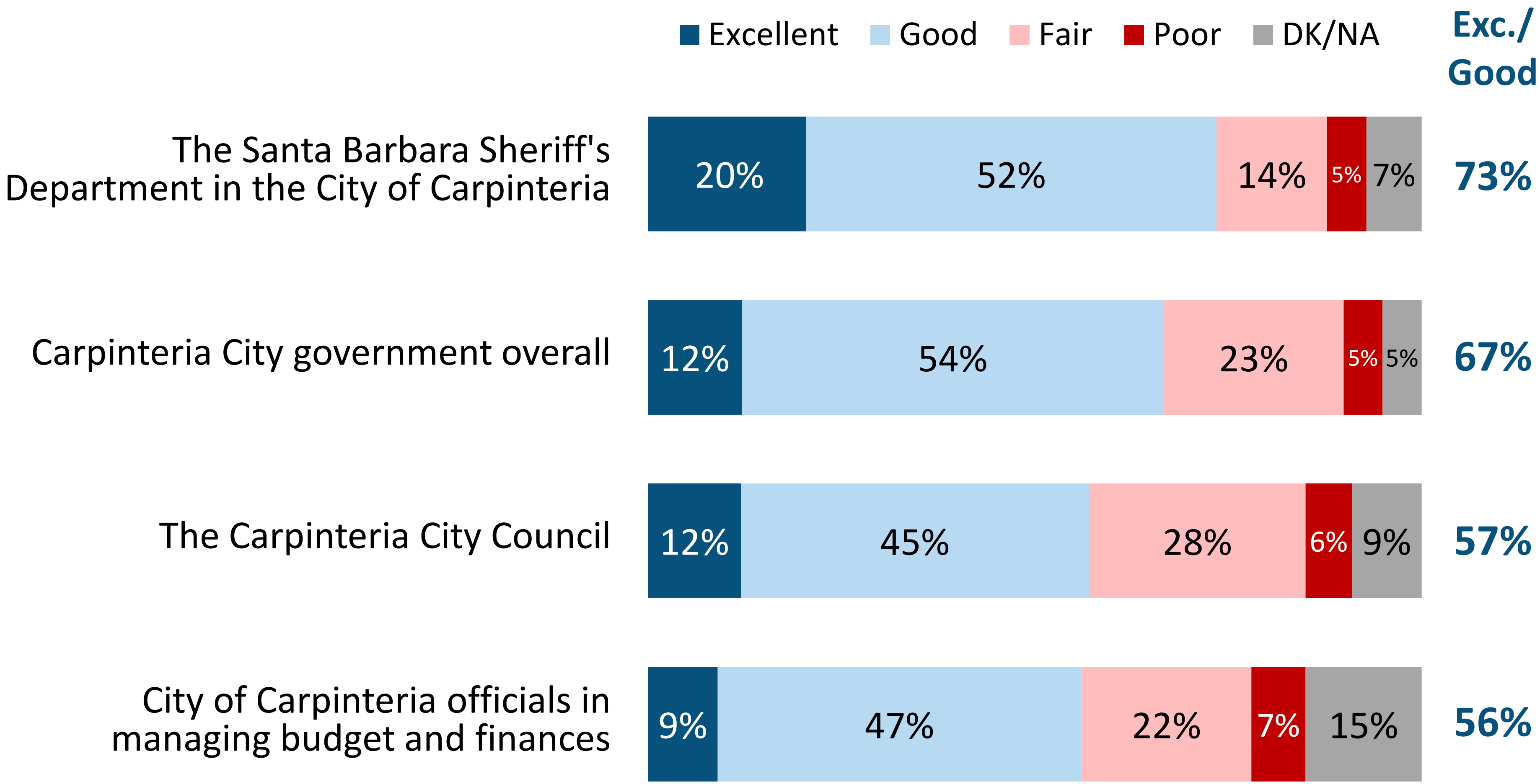
Voters continue to hold a positive view of the City and opinions about the direction of the state have vastly improved since 2012.



Do you think things in the ____________ are generally headed in the right direction, or do you feel things have gotten off on the wrong track?

FM3 RESEARCH

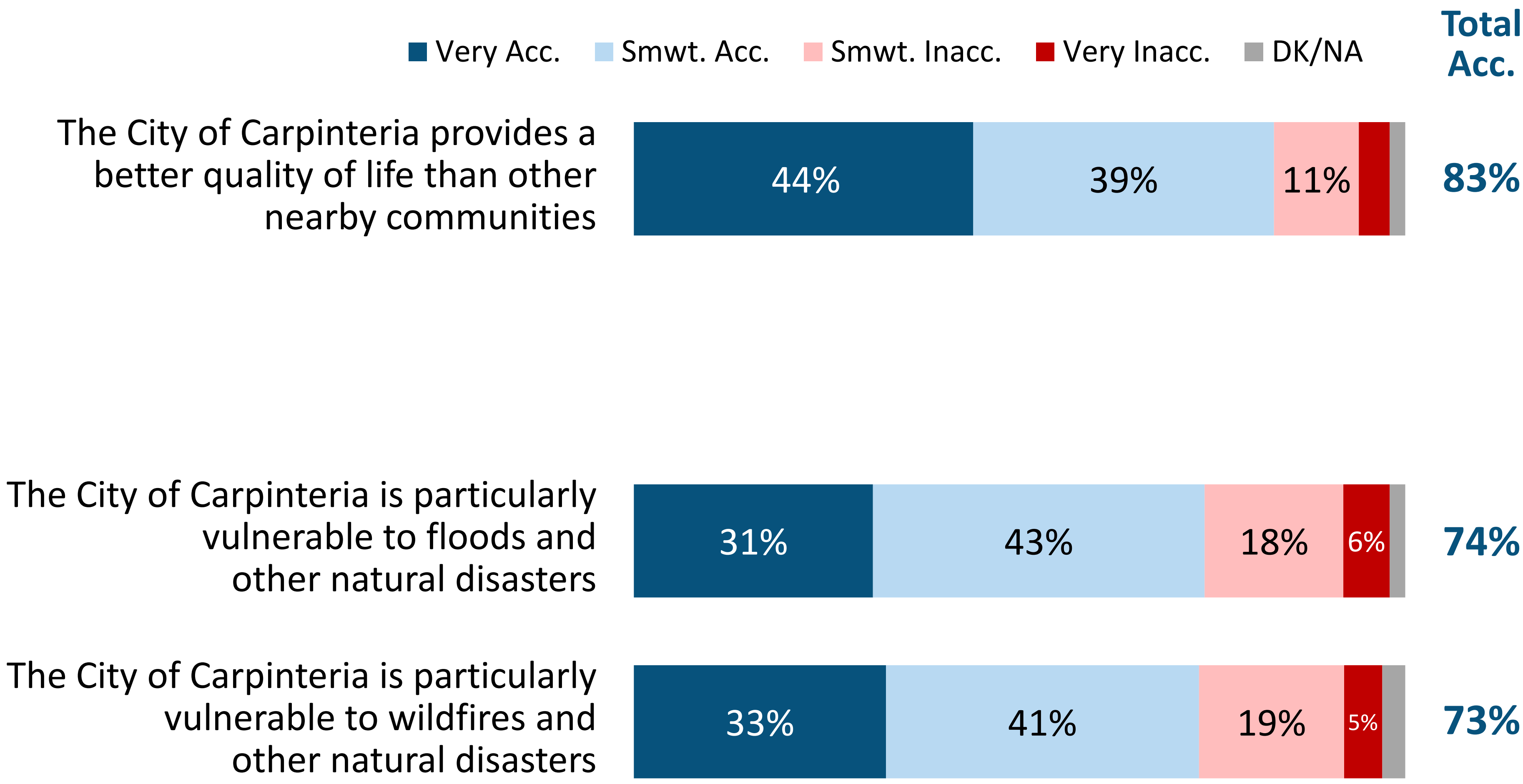
The majority of voters have favorable views of the City of Carpinteria's government.



FM3 RESEARCH

How would you rate the job being done by ___________? Would you say they are doing an excellent, good, fair, or poor job?

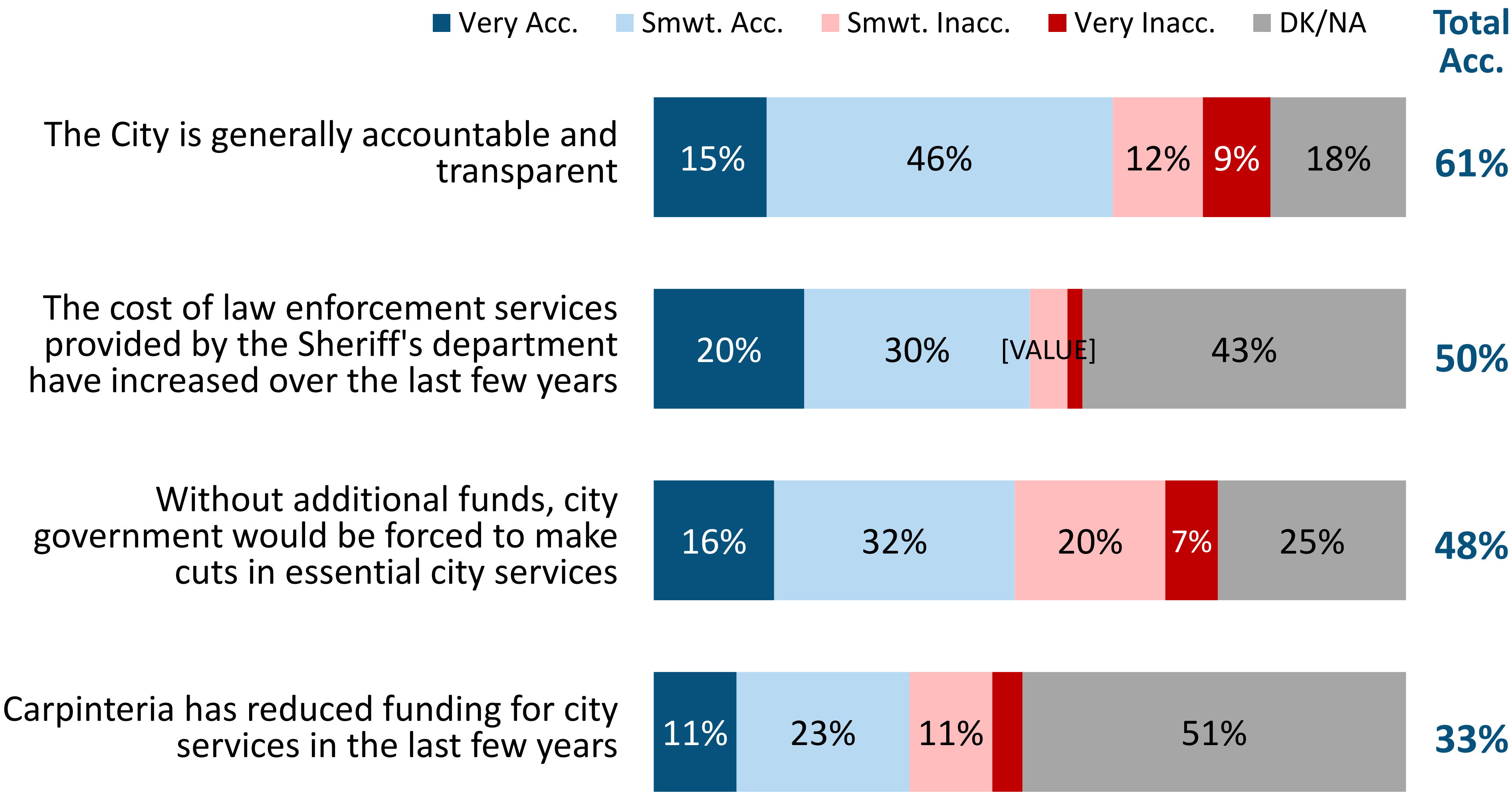
Voters in Carpinteria believe the city provides a better quality of life than other nearby communities and that the City is vulnerable to natural disasters.



FM3 RESEARCH

I would like to read you a series of statements that people have made about the City of Carpinteria. Please tell me if you believe it is accurate or inaccurate.
Split Sample

There is fairly low awareness of budgetary issues in the City.



FM3 RESEARCH

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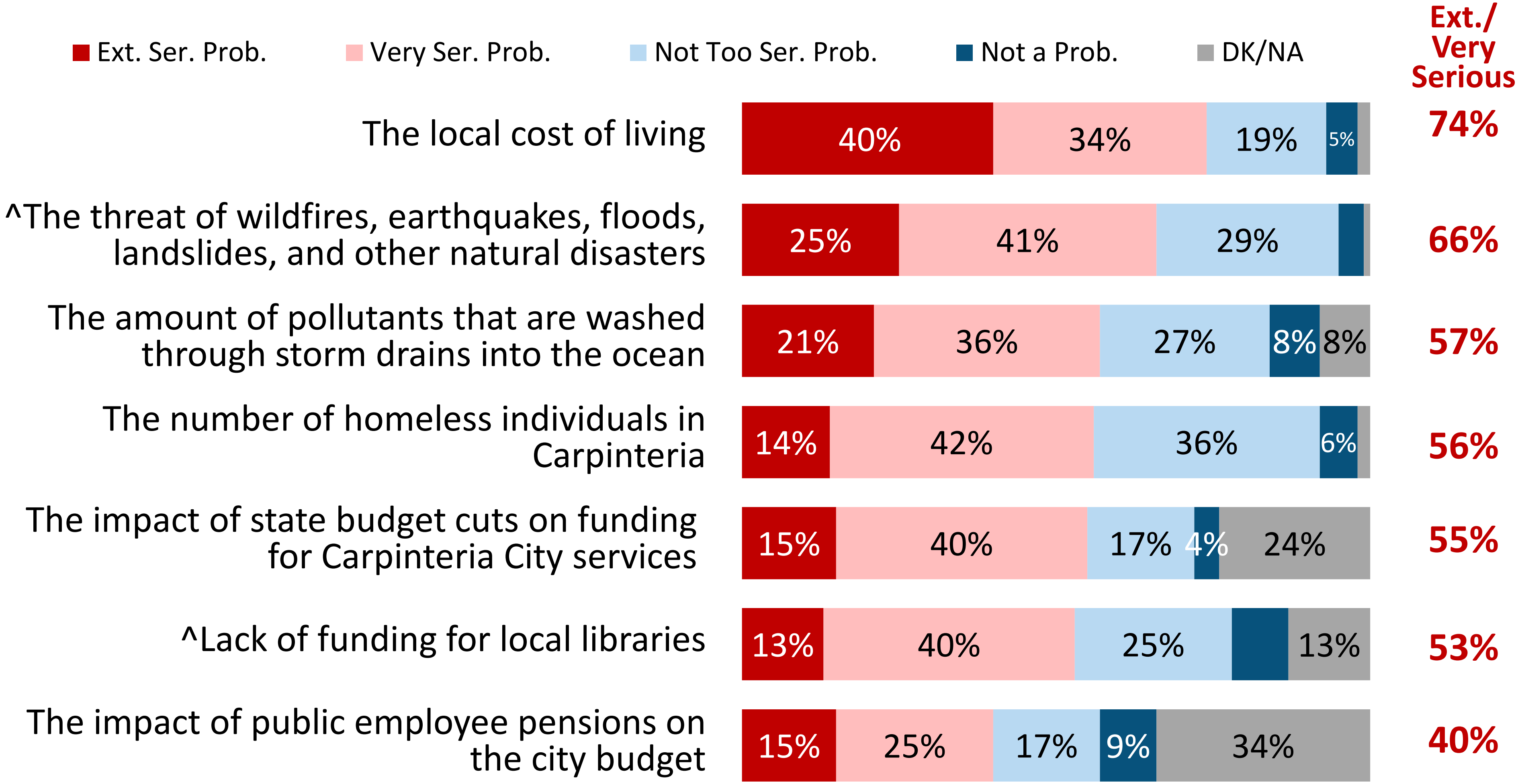
Split Sample

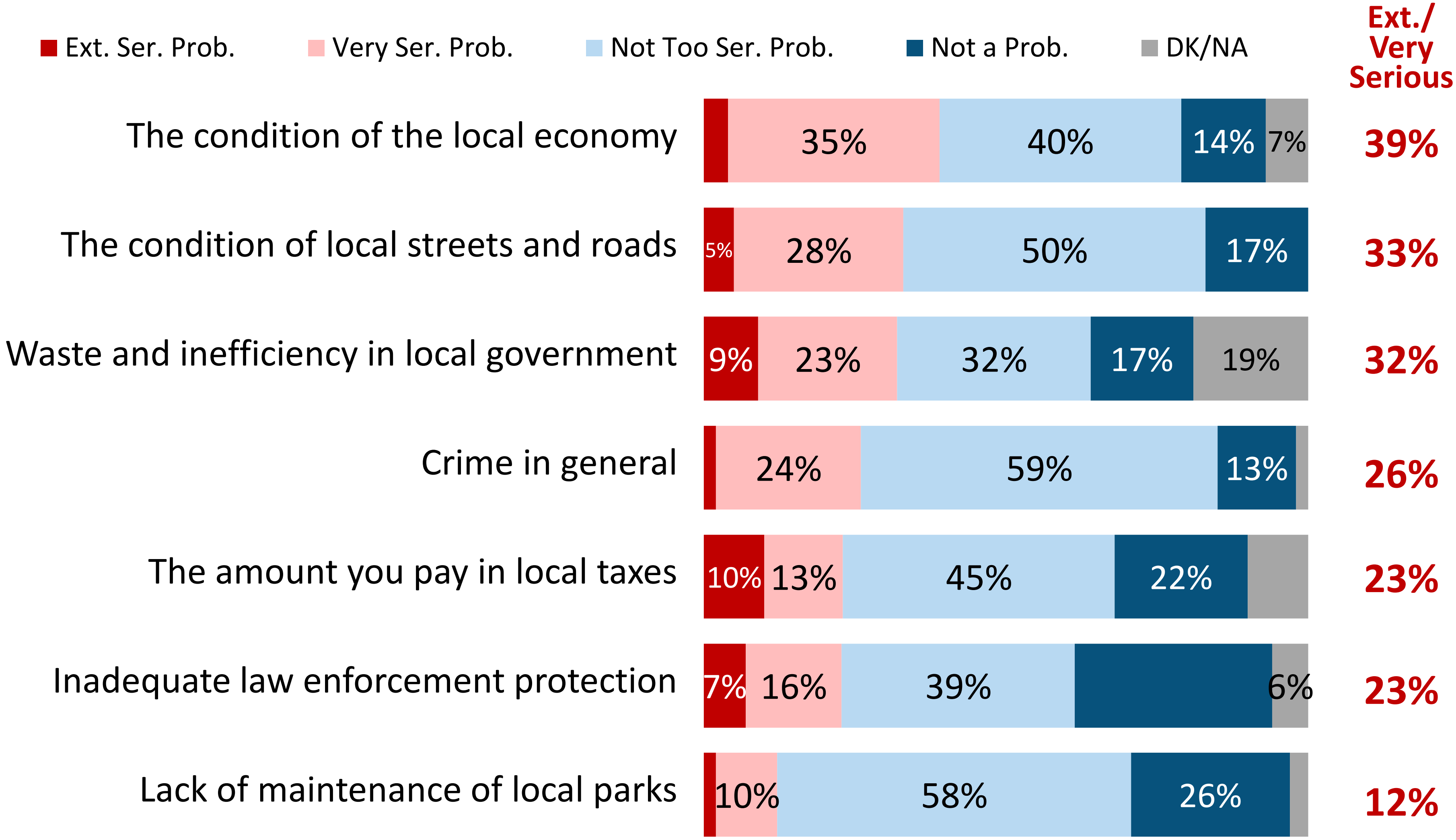
Voters are most concerned about the cost of living, and the threat of natural disasters.



I'm going to mention a series of issues some people say might be problems for residents of Carpinteria. Please tell me whether you personally consider it to be a problem for people living in Carpinteria or not. ^Not Part of Split Sample

FM3 RESEARCH

Less than a quarter of voters say the amount they pay in local taxes is at least a “very” serious problem.



FM3 RESEARCH

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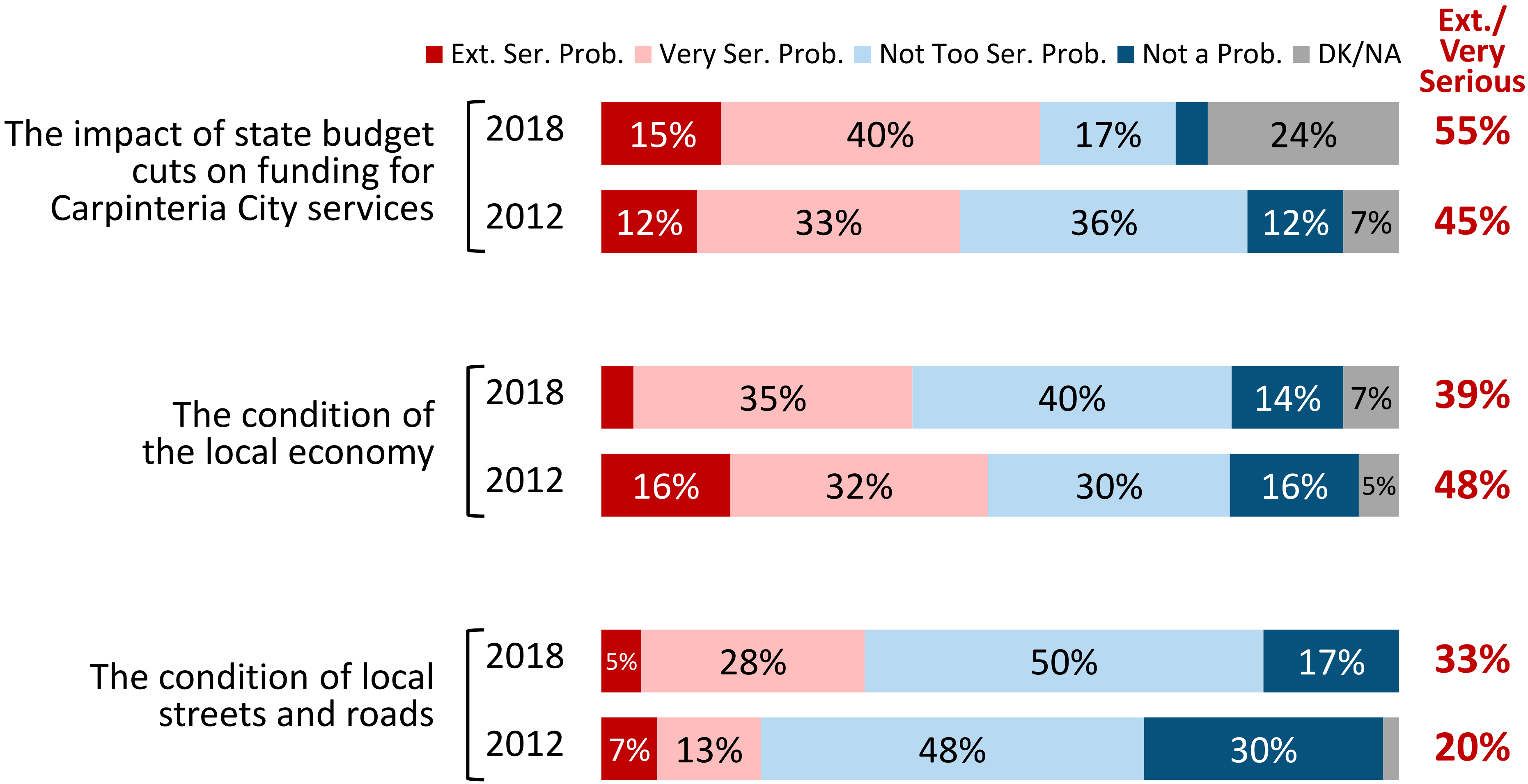
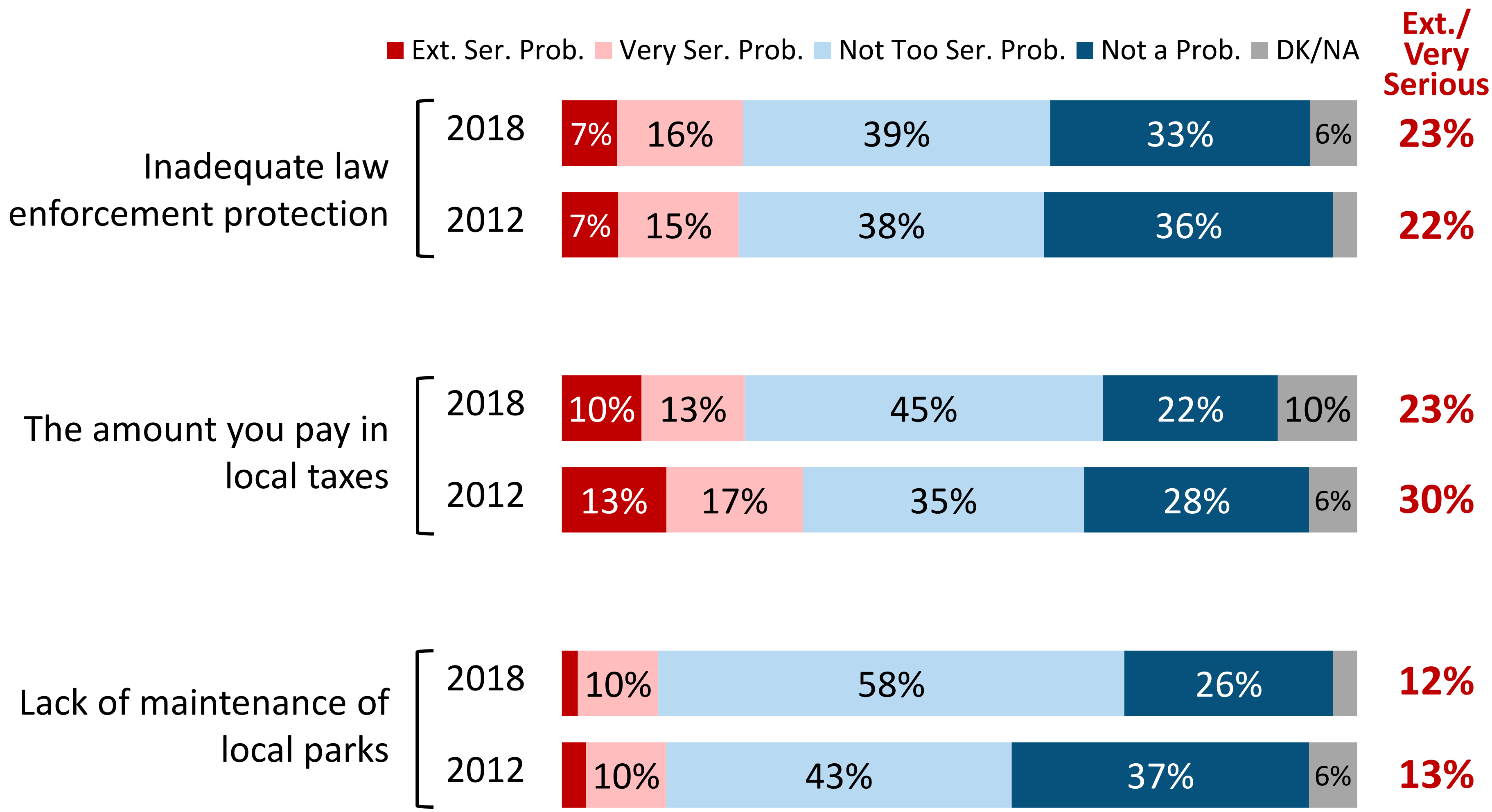
There has been somewhat of an increase in the percentage of voters who view state budget cuts as a problem, but less concern about the local economy.



Q7c, d, e, i, j, k. I'm going to mention a series of issues some people say might be problems for residents of Carpinteria. Please tell me whether you personally consider it to be a problem for people living in Carpinteria or not. Split Sample

FM3 RESEARCH

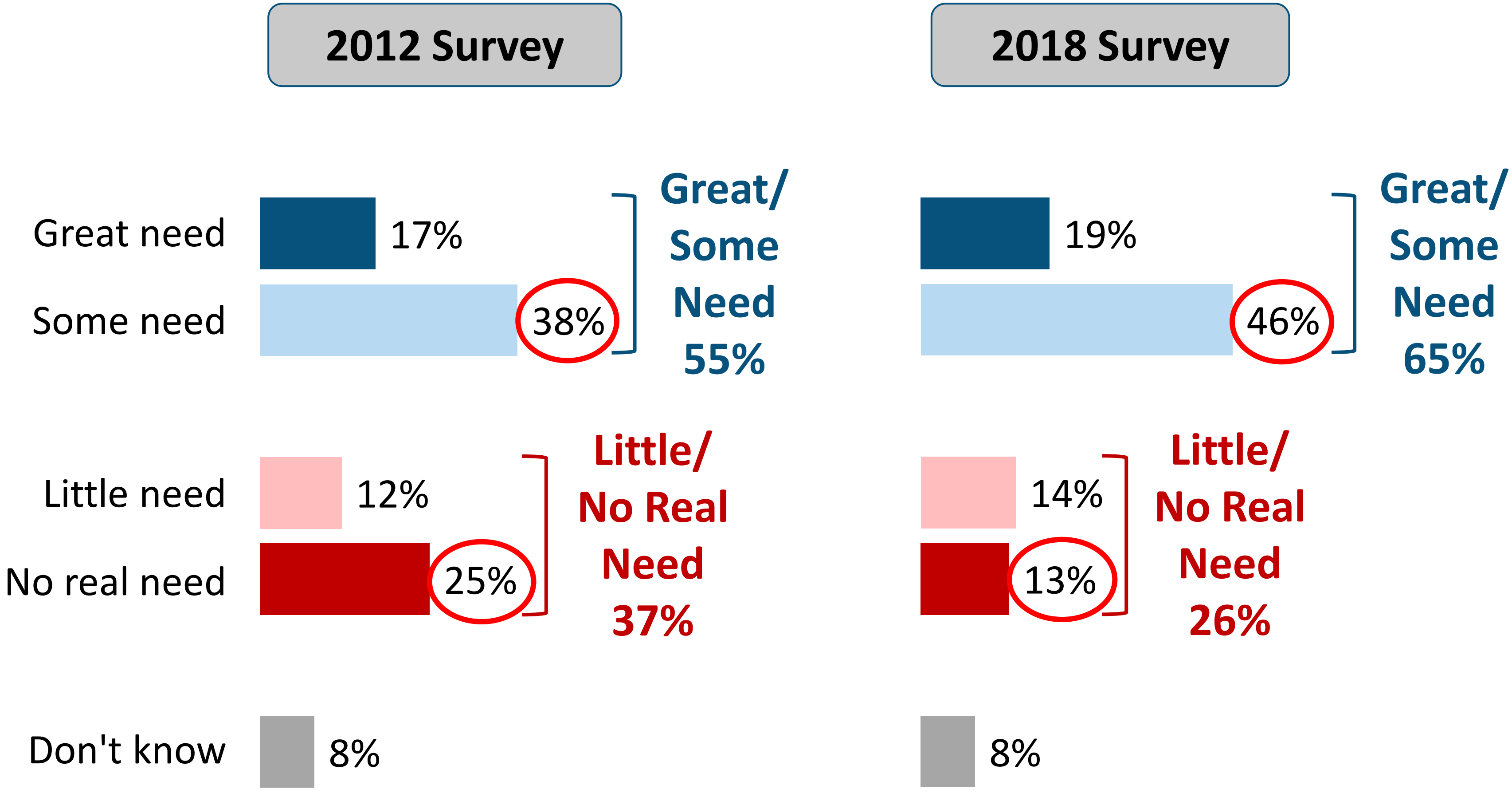
There is a continued lack of concern about inadequate law enforcement, local taxes and the maintenance of local parks.



FM3 RESEARCH

Q7c, d, e, i, j, k. I'm going to mention a series of issues some people say might be problems for residents of Carpinteria. Please tell me whether you personally consider it to be a problem for people living in Carpinteria or not. Split Sample

More voters believe there is a need for additional funds in the City of Carpinteria now than in 2012.



In your personal opinion, do you think there is a great need, some need, a little need, or no real need for additional funds to provide the level of city services that City of Carpinteria residents need and want?

FM3 RESEARCH

Initial Attitudes on Local Revenue Ballot Measure

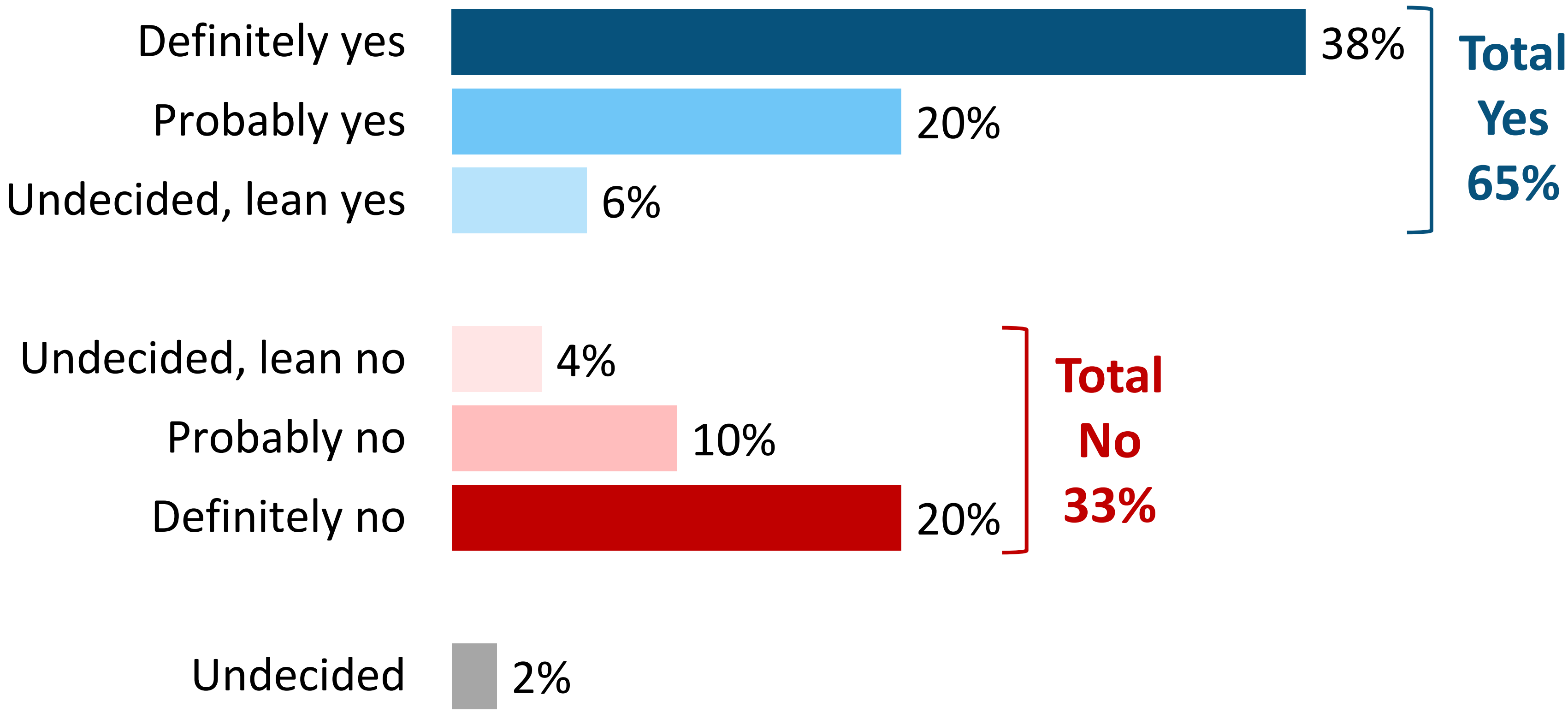
CITY OF CARPINTERIA PUBLIC SAFETY AND VITAL CITY SERVICES MEASURE

To repair streets and potholes; maintain sheriff's deputies; prepare for wildfires, floods, and natural disasters; upgrade and improve emergency communication systems; prevent cuts to the local library, senior, youth, and afterschool programs, neighborhood parks; address homelessness; protect beaches from pollution; ensure water resiliency; other general services; shall the City of Carpinteria establish a 1¼¢ sales tax providing $2,000,000 annually until ended by voters; requiring annual audits, citizen oversight, all funds for Carpinteria?

FM3 RESEARCH

Q4. If the election were held today, would you vote yes in favor of this measure or no to oppose it?

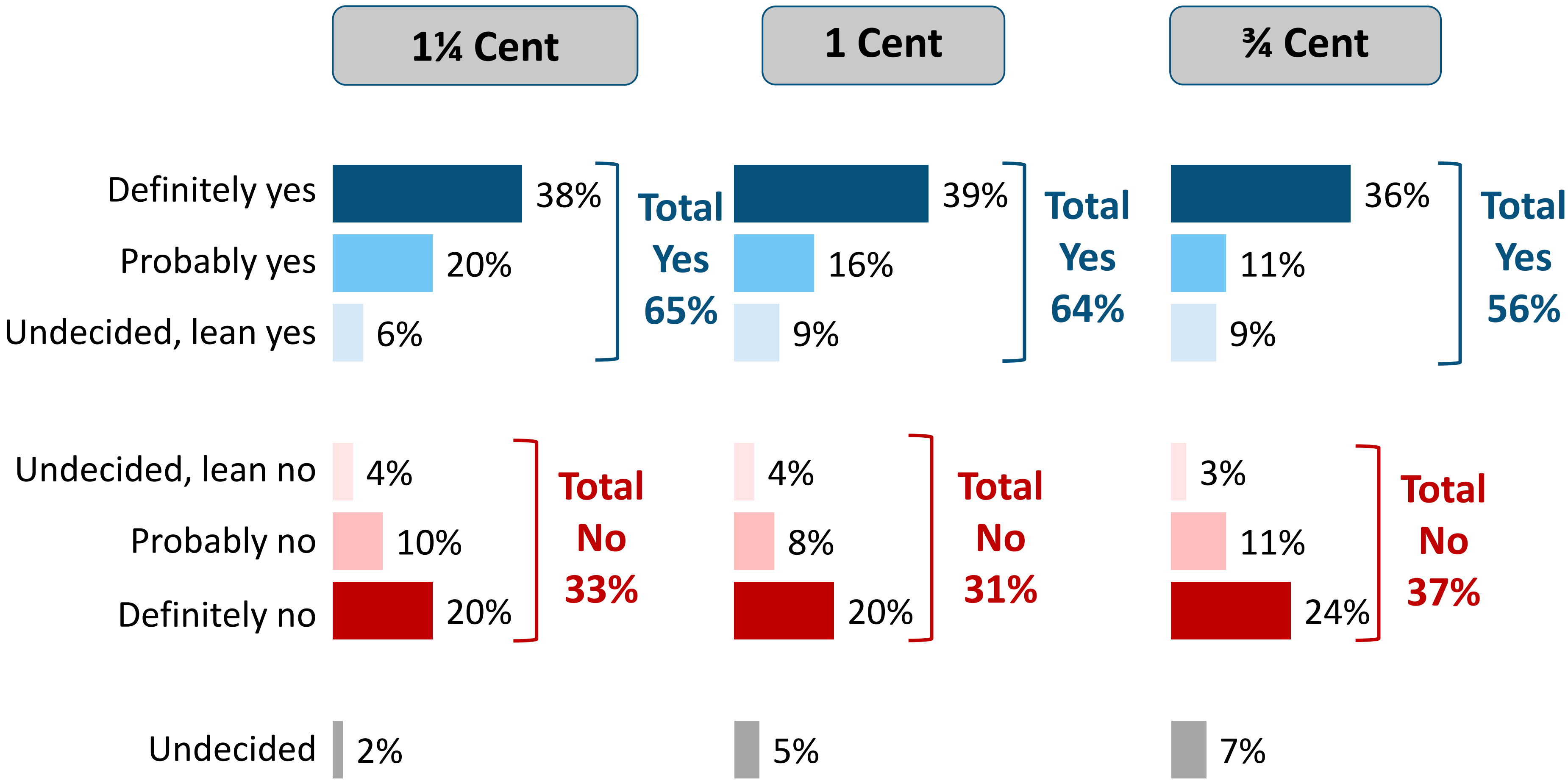
Two-thirds of voters support the ballot measure.



If the election were held today, would you vote yes in favor of this measure or no to oppose it?

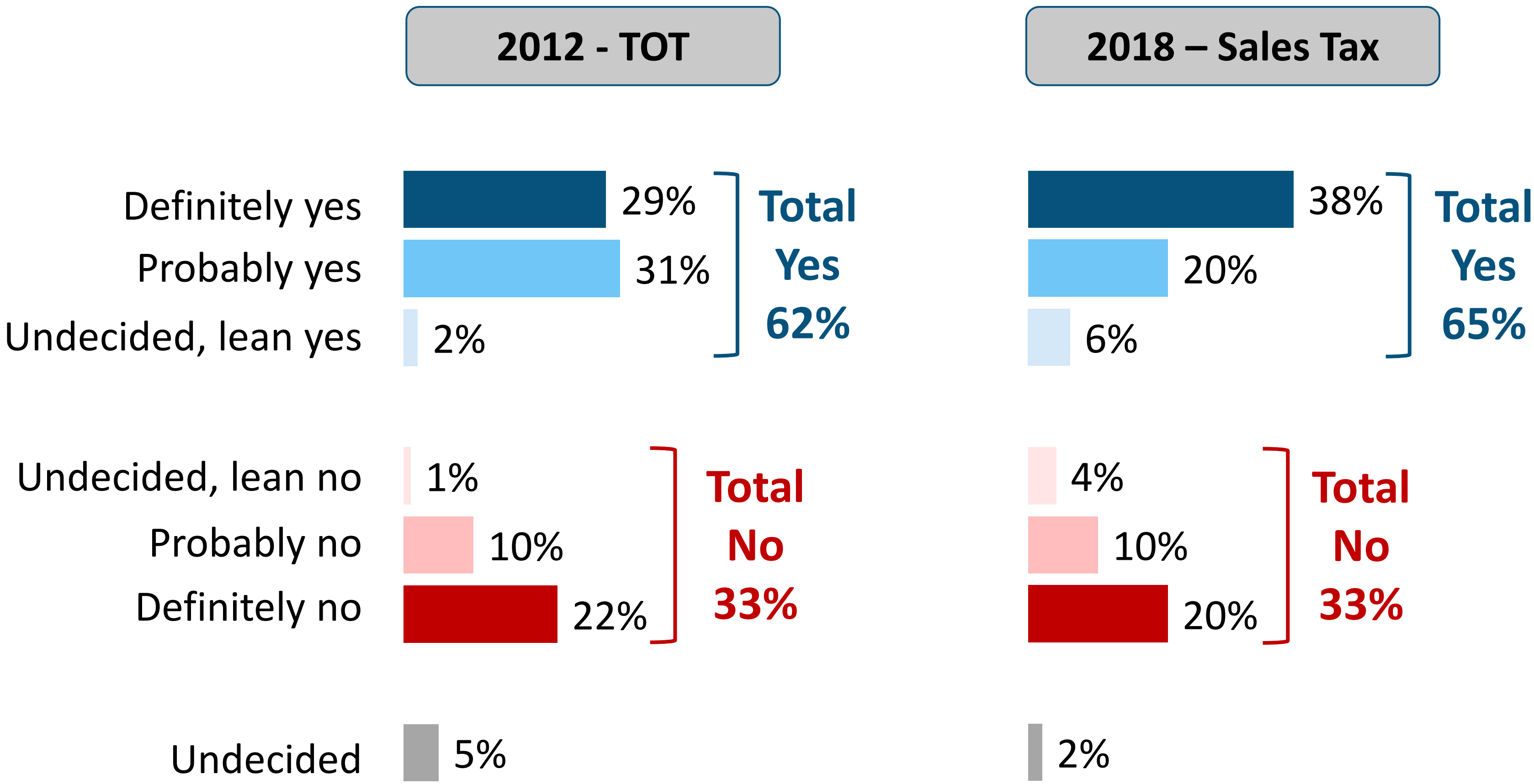
FM3 RESEARCH

Voters are less inclined to support the measure at lower tax rates.



If the election were held today, would you vote yes in favor of this measure or no to oppose it?
What if the local sales tax measure that I just described to you was for ______________, instead of one and one quarter cents providing $2 million? If that were the case, would you vote yes in favor of it, or no to oppose it?

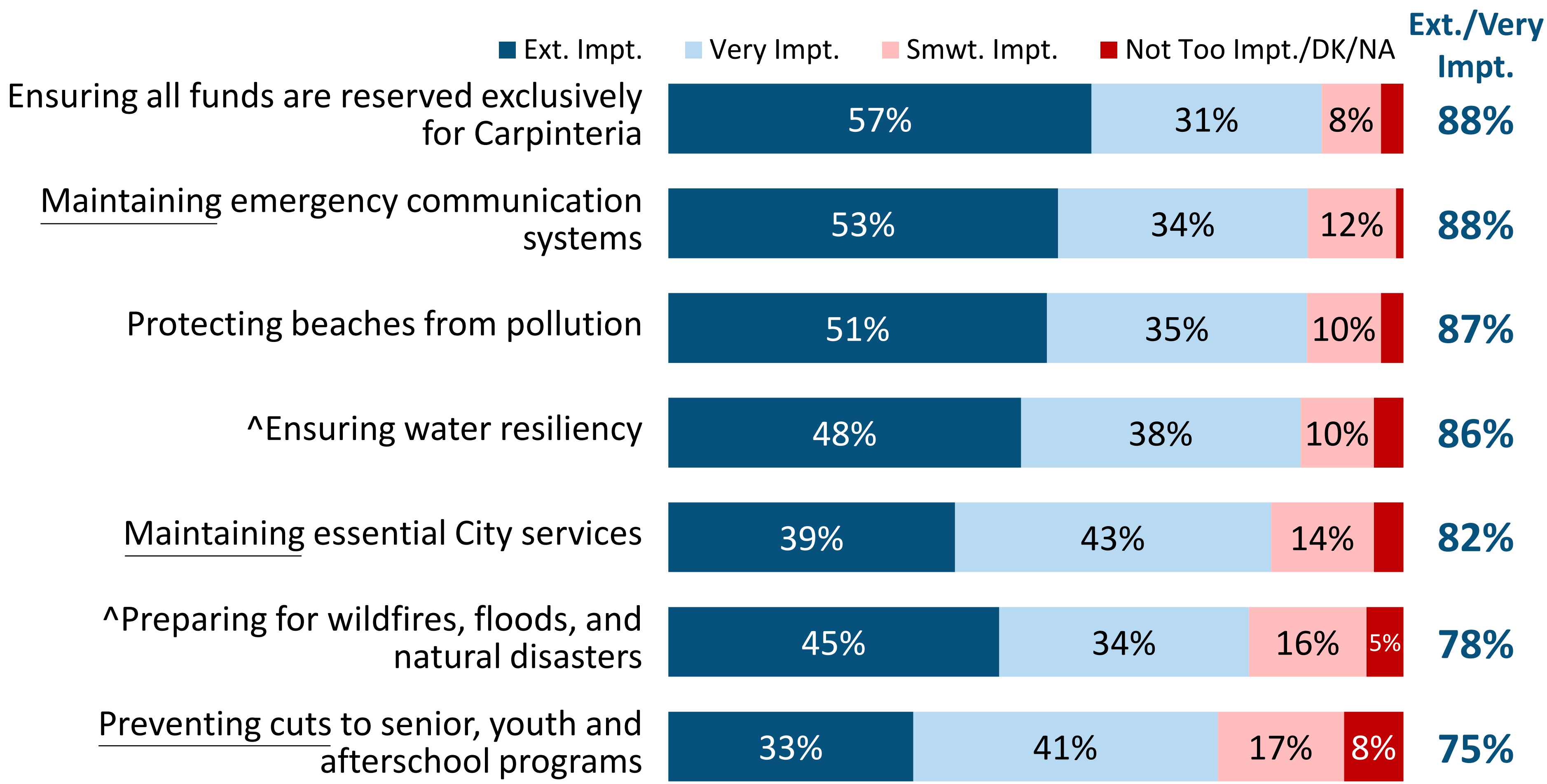
The sales tax measure starts in a slightly stronger position than the TOT measure did in 2012.



Q4. If the election were held today, would you vote yes in favor of this measure or no to oppose it?

Elements of the Ballot Measure

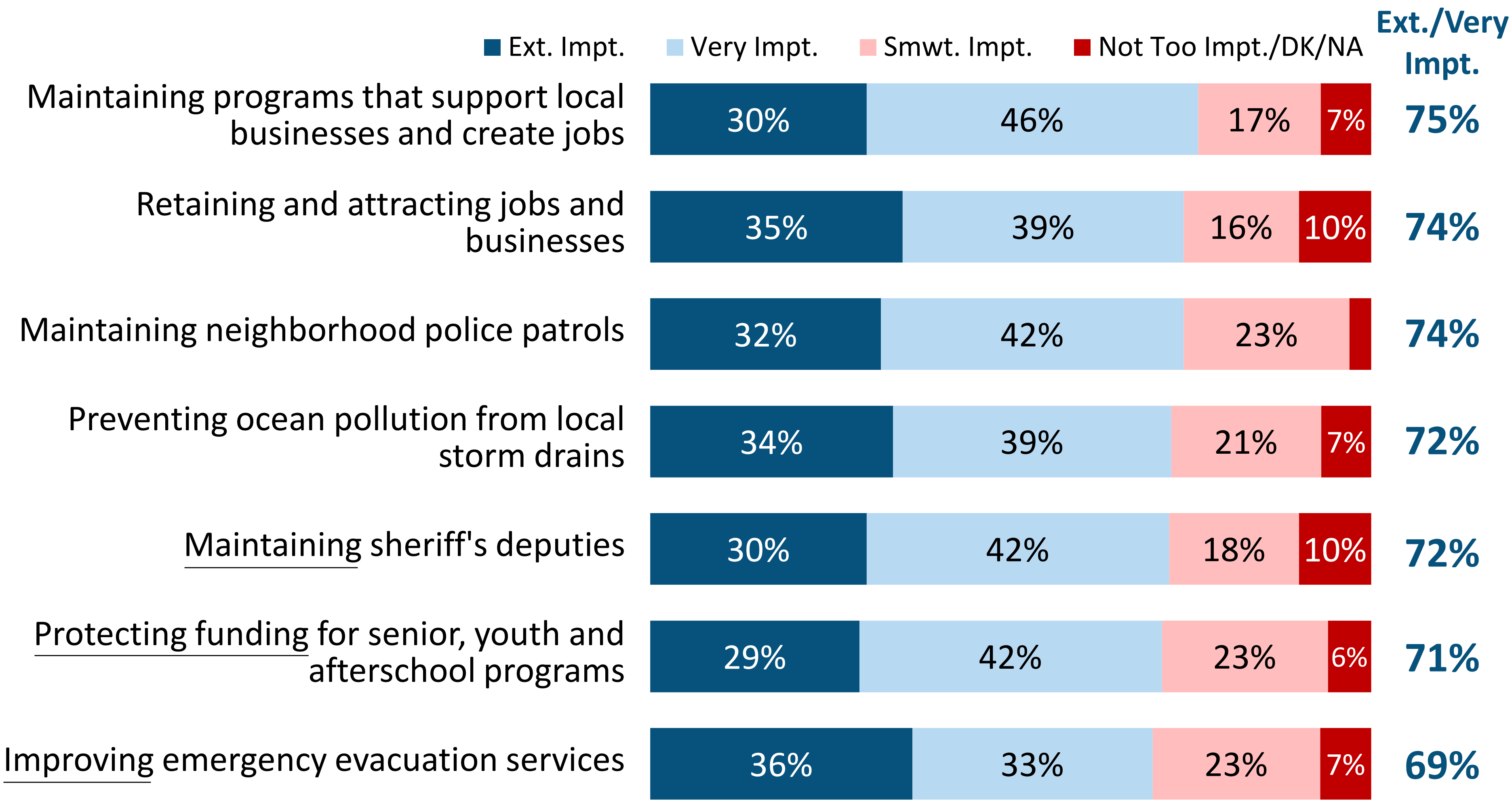
Ensuring all funds are reserved exclusively for Carpinteria, maintaining emergency communication systems, and protecting beaches from pollution are among the features of the ballot measure most often selected by voters as important priorities.



Q8. Let's return to the ballot measure I asked to vote on earlier. I am going to read you a list of possible projects, features, and provisions that might be included in this sales tax measure. Regardless of how you feel about this measure, as I read each one, please tell me how important it is to you personally that each of the following provisions or use of funds is included in the measure: extremely important, very important, somewhat important, or not too important.
^Not Part of Split Sample

FM3 RESEARCH

Nearly three-quarters of voters believe it is important to support/retain local businesses.



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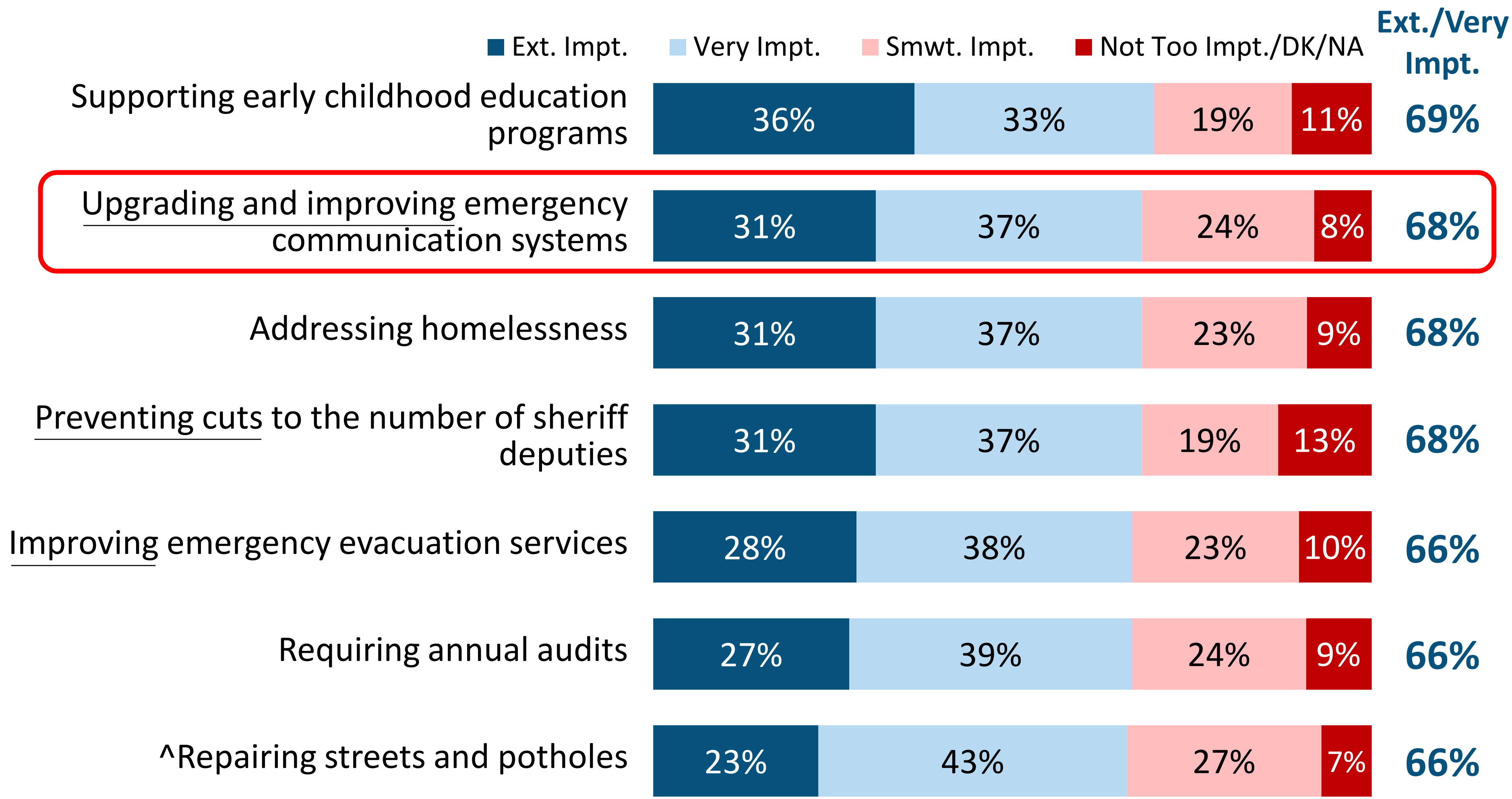
FM3 RESEARCH

There is a 20-point difference between "maintaining" emergency communication systems (88% ext/very impt) and "upgrading and improving" them (68%).



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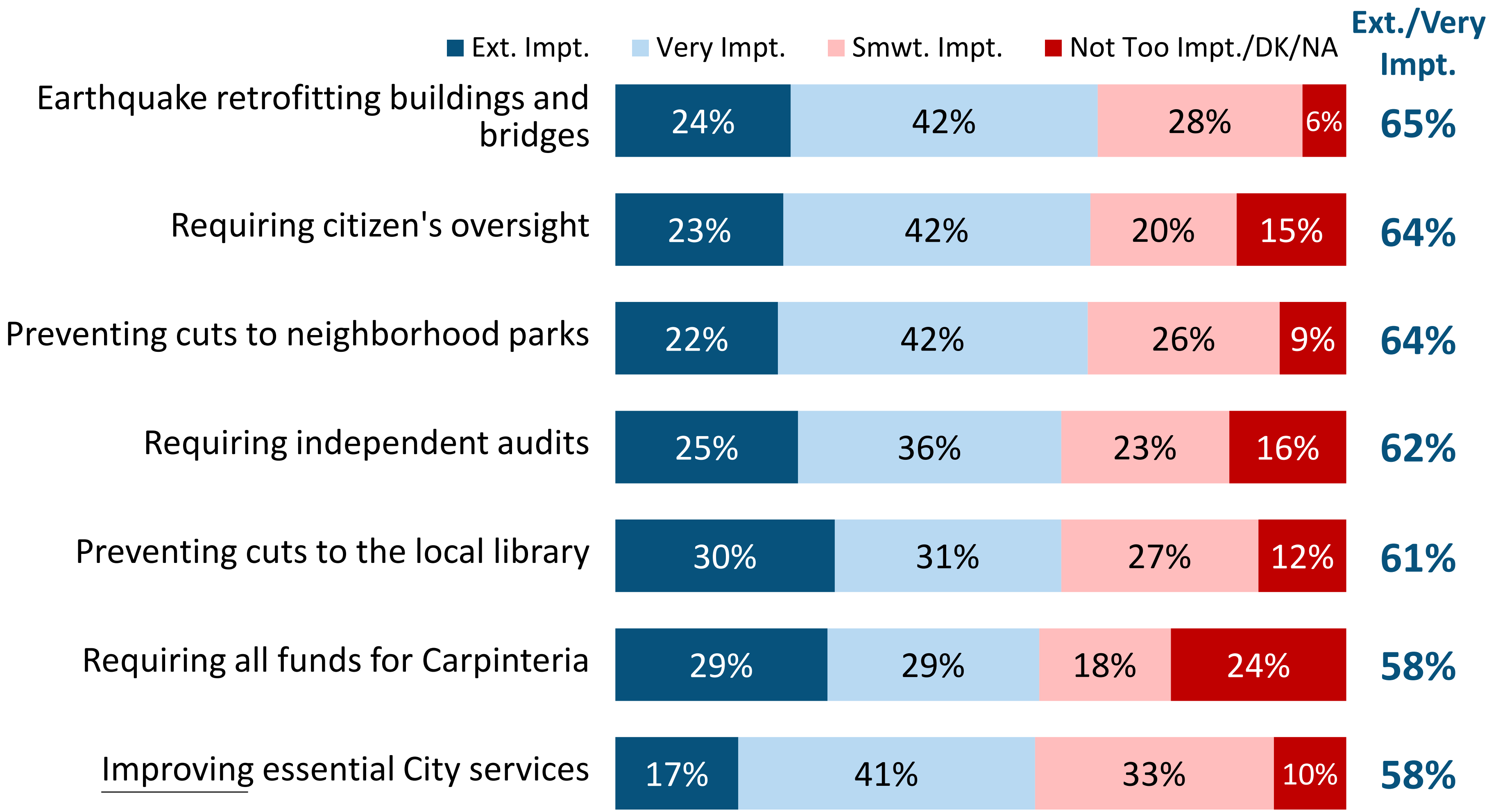
82% of respondents said it was important to "maintain" essential City services compared to 58% for "improving" them.



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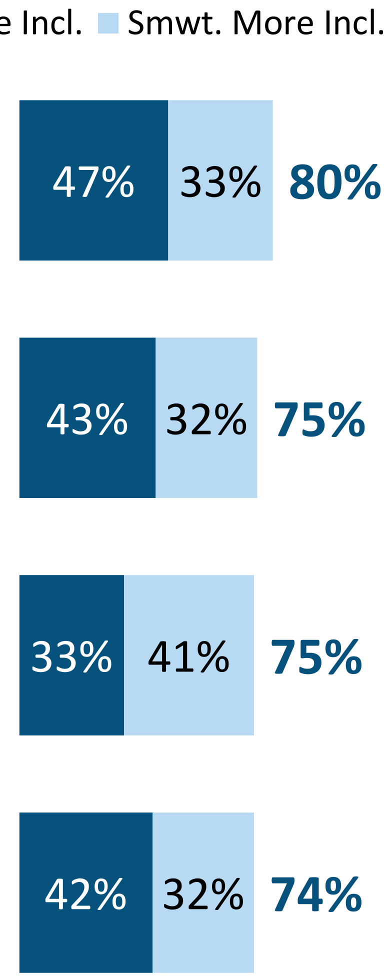
FM3 RESEARCH

Impacts of Messaging

Informational statements about the quality of life in Carpinteria, preparing for natural disasters, retaining sheriff's deputies, and fiscal accountability are the most likely to make voters more inclined to support the measure.



(QUALITY OF LIFE) People live in Carpinteria because it offers a better quality of life and better services than some other nearby communities. Passing this ballot measure and keeping our taxpayer dollars local will make sure Carpinteria will maintain public safety, repair streets and roads, and provide other services and programs that make our city a desirable place to live, visit, and do business, no matter what happens with the state or federal governments.

^**(EMERGENCY/DISASTER PREPAREDNESS)** Our community must be protected from wildfires and other natural disasters. This measure will help upgrade and maintain our roads to ensure fire trucks can get to emergencies in time, and residents are able to evacuate safely when necessary. It will also help improve emergency communications with residents to ensure accurate emergency information is quickly received.

(RETAINING SHERIFF DEPUTIES) The costs of the City's contract with the Sheriff's department is increasing by as much as 30% in the next five years. This measure will keep deputies on the street and improve law enforcement response times to all neighborhoods of our city, and is critical for saving lives.

(ACCOUNTABILITY) This measure includes strict accountability requirements including an independent oversight committee and annual independent financial audits and performance reports, which will be available online, and all money will be exclusively used in Carpinteria and cannot be taken by Sacramento.

*Q9. I am now going to read some statements made by people who favor the proposed **CITY OF CARPINTERIA PUBLIC SAFETY AND VITAL CITY SERVICES MEASURE** we have been discussing. Please tell me if it makes you more inclined to vote yes to support such a measure. ^Not Part of Split Sample*

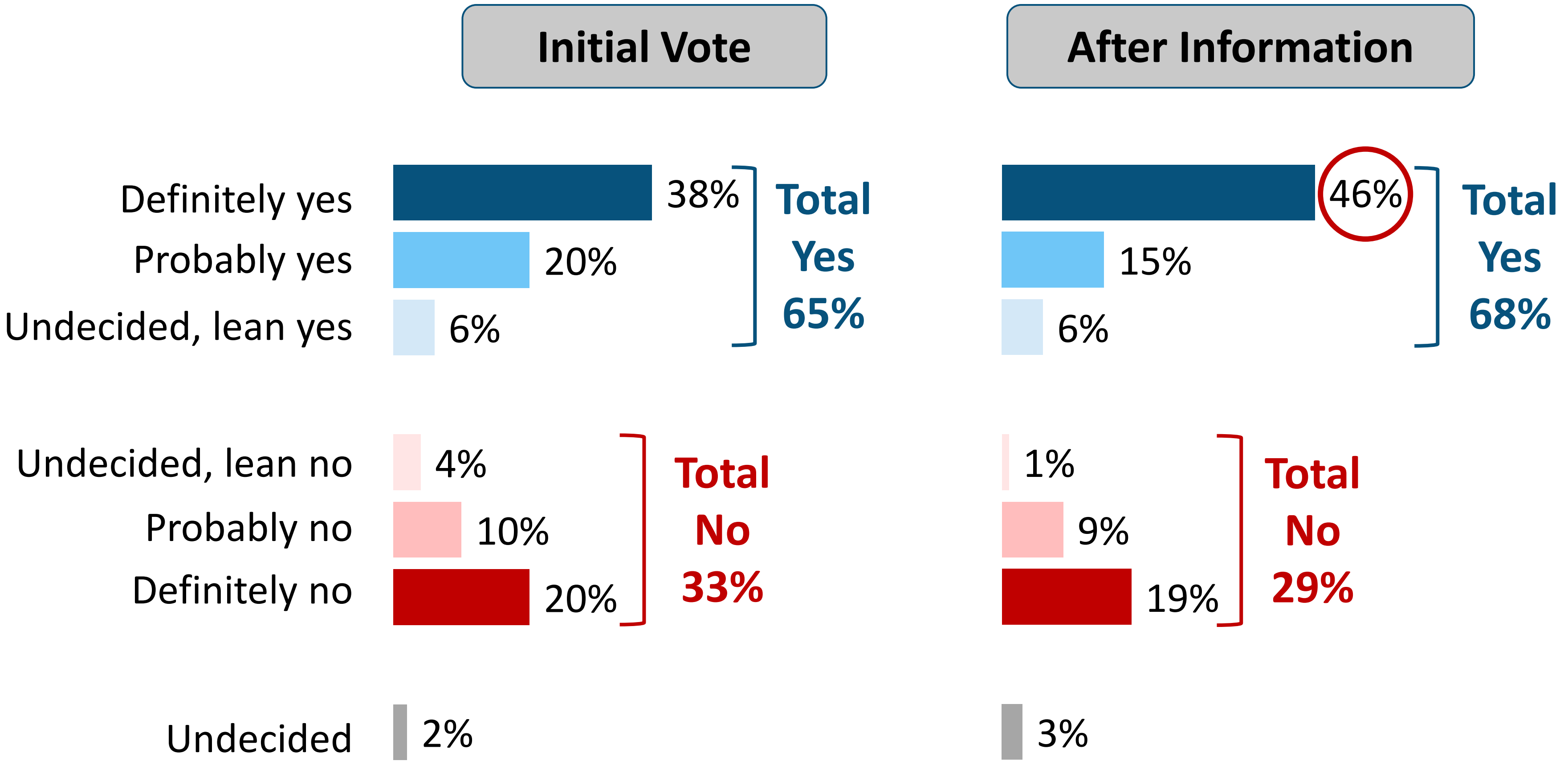
Statements about requiring visitors to pay their fair share for services and protecting youth programs also resonate well.

Statement	Much More Incl.	Smwt. More Incl.	Total
^**(SALES TAX)** Roughly 50% of all sales tax dollars collected in Carpinteria come from tourists and visitors from surrounding areas. This measure will help make sure they are paying their fair share to maintain our community and not leave it to be paid exclusively by city residents. And, this measure will not be applied to prescription medication or food purchased as groceries.	41%	32%	**73%**
(YOUTH) Passing this measure will maintain City-funded after-school and summer recreational programs, youth job training programs, and gang prevention programs for at-risk youth, as well as create funding for early childhood education programs. These programs provide hundreds of kids in our community with safe and supervised activities that keep them off the streets, away from gangs and out of trouble.	42%	29%	**71%**
(PROPERTY VALUES) Well-maintained streets, quality neighborhood parks, and safe and clean public spaces and neighborhoods are an investment that strengthens local property values and makes our community a more desirable place to live, do business and raise a family.	30%	41%	**71%**
(BUDGET CUTS) As a result of reduced state funding, increased demand for City services and increased costs to provide services to residents, the City projects that over the next several years it will have to cut $1.5 million annually to balance its budget. To accomplish this, it will have to make cuts to most services, such as police, fire, street maintenance, parks, recreational and after school programs. Passing this measure prevents harmful cuts to our local services so that residents can continue to receive services they need.	35%	34%	**69%**

Q9. I am now going to read some statements made by people who favor the proposed ***CITY OF CARPINTERIA PUBLIC SAFETY AND VITAL CITY SERVICES MEASURE*** *we have been discussing. Please tell me if it makes you more inclined to vote yes to support such a measure. ^Not Part of Split Sample*

FM3 RESEARCH

Overall support increases slightly after informational messages, but the intensity of support increases substantially.



Q4 & Q10. If the election were held today, would you vote yes in favor of this measure or no to oppose it?

FM3 RESEARCH

Conclusions

Conclusions

- ✓ Voters have generally positive views of the Carpinteria and its local government, although they are largely unaware of budgetary issues in the City.
- ✓ Voters believe that the City of Carpinteria offers a better quality of life than neighboring cities, and are concerned about high cost of living and the threat of natural disasters in the area.
- ✓ A 1 ¼-cent general purpose sales tax measure is viable for further planning, reaching nearly 70% support when voters hear more information about the City's needs, the potential uses of the funds generated by the measure, and its fiscal accountability protections.
- ✓ Voters generally want funds to be used to maintain current levels of service, including, but not limited to public safety.
- ✓ There are several themes that would help the City communicate its need for funding: preparing for a natural disaster, protecting the ocean/beaches, maintaining safety and the local quality of life, and providing services for young people.

For more information, contact:

FM3 RESEARCH

FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

12100 Wilshire Blvd., Suite 350
Los Angeles, CA 90025
Phone (310) 828-1183
Fax (310) 453-6562

John Fairbank
John@FM3research.com

Adam Sonenshein
Adam@FM3research.com

Laura Covarrubias
Laura@FM3research.com

ATTACHMENT B

List of Cities with 9% greater sales tax rate

Community Survey Staff Report
March 12, 2018

California Cities with Sales Tax Rates of 9% or Greater
As of October 2017

Agoura Hills	9.50%
Alameda	9.25%
Albany	9.75%
Alhambra	9.50%
Arcadia	9.50%
Artesia	9.50%
Avalon	10.0%
Azusa	9.50%
Baldwin Park	9.50%
Bell Gardens	9.50%
Bell	9.50%
Bellflower	9.50%
Belmont	9.25%
Berkeley	9.25%
Beverly Hills	9.50%
Bradbury	9.25%
Burbank	9.50%
Calabasas	9.50%
Campbell	9.25%
Capitola	9.00%
Carson	9.50%
Cerritos	9.50%
Commerce	10.0%
Claremont	9.50%
Compton	10.25%
Cotati	9.125%
Covina	9.50%
Cudahy	9.50%
Culver City	10.0%
Cupertino	9.00%
Del Rey Oaks	9.25%
Diamond Bar	9.50%
Downey	10.0%
Duarte	9.50%
Dublin	9.25%
E Palo Alto	9.25%
El Cerrito	9.75%
El Monte	10.0%
El Segundo	9.75%
Emeryville	9.25%
Fairfax	9.00%
Fremont	9.25%

Gardena	9.50%
Gilroy	9.00%
Glendale	9.50%
Glendora	9.50%
Greenfield	9.50%
Hawaiian Grs.	9.50%
Hawthorne	9.50%
Hayward	9.75%
Hermosa Bch.	9.50%
Hidden Hills	9.50%
Huntington Pk.	9.50%
Industry	9.50%
Inglewood	10.0%
Irwindale	9.50%
La Canada	9.50%
La Mirada	10.25%
La Puente	9.50%
La Verne	9.50%
Lakewood	9.50%
Lancaster	9.50%
Lawndale	9.50%
Livermore	9.25%
Lomita	9.50%
Long Beach	10.25%
Los Altos Hills	9.00%
Los Altos	9.00%
Los Angeles	9.50%
Los Gatos	9.00%
Lynwood	10.25%
Malibu	9.50%
Manhattan Bch	9.50%
Maywood	9.50%
Milpitas	9.00%
Monrovia	9.50%
Monte Sereno	9.00%
Montebello	9.50%
Monterey Pk.	9.50%
Moraga	9.25%
Morgan Hill	9.00%
Mt. View	9.00%
Newark	9.75%
Norwalk	9.50%

California Cities with Sales Tax Rates of 9% or Greater
As of October 2017

Oakland	9.25%
Palmdale	9.50%
Palo Alto	9.00%
Palos Verdes E.	9.50%
Paramount	9.50%
Pasadena	9.50%
Pico Rivera	10.25%
Piedmont	9.25%
Pinole	9.25%
Pleasanton	9.25%
Pomona	9.50%
R. Palos Verdes	9.50%
Redondo Bch.	9.50%
Richmond	9.25%
Rolling Hills E.	9.50%
Rolling Hills	9.50%
Rosemead	9.50%
Salinas	9.25%
San Dimas	9.50%
San Fernando	10.0%
San Gabriel	9.50%
San Jose	9.25%
San Leandro	9.75%
San Marino	9.50%
San Mateo	9.00%
San Rafael	9.00%
Santa Clara	9.00%
Santa Clarita	9.50%
Santa Cruz	9.00%
Santa Fe Spgs.	9.50%
Santa Monica	10.25%
Saratoga	9.00%
Scotts Valley	9.00%
Seaside	9.25%
Sierra Madre	9.50%
Signal Hill	9.50%
S. El Monte	10.0%
South Gate	10.25%
S. Pasadena	9.50%
S. San Franc.	9.25%
Stockton	9.00%
Sunnyvale	9.00%
Temple City	9.50%
Torrance	9.50%
Union City	9.75%
Vernon	9.50%
View Park	9.50%
Walnut	9.50%
Watsonville	9.25%
West Covina	9.50%
W. Hollywood	9.50%
Westlake Vil.	9.50%
Whittier	9.50%

ATTACHMENT C

City Council Staff Report, November 27, 2017

City of Carpinteria

COUNCIL AGENDA STAFF REPORT
November 27, 2017

ITEM FOR COUNCIL CONSIDERATION

Initiation of implementing actions related to the City's Five-Year Financial Plan, 2017-22

STAFF RECOMMENDATION

Action Item X ; Non-Action Item __

A. Receive an update on the funding gap for street maintenance and other facilities and services, and options for increasing the annual investment in this work.
B. Initiate the following actions:
   1. An amendment to the City's Reserve Policy, as it relates to the target level of the Financial and Economic Uncertainty Reserve; and,
   2. A Tax Exchange Agreement between the City and Street Lighting District; and,
   3. Establishment of a Pension Trust Fund.
C. Authorize the City Manager to negotiate and execute a not-to-exceed $30,000 contract for professional services with Fairbank, Maslin, Maullin, Metz & Associates to conduct opinion polling related to a possible revenue generating ballot measure.

Sample Motion: I move the following:

1. Direct staff to prepare and return for Council consideration an amended reserve policy, as discussed; and,
2. Direct staff to prepare and return for Council consideration a requisite tax exchange agreement between the City and City Street Lighting District No. 1, as discussed; and,
3. Direct staff to prepare and return for Council consideration a report on establishing an Irrevocable Supplemental Pension Trust pursuant Internal Revenue Code §115; and,
4. Authorize the City Manager to enter into a not-to-exceed $30,000 contract for professional services with Fairbank, Maslin, Maullin, Metz & Associates, and to approve the related budget amendment via use of the General Fund Reserve. (This budget amendment action requires a roll-call vote)

BACKGROUND

In May of this year, the City Council reviewed and approved the Five-Year Financial Plan: 2017-22 (Plan). Included in this important analysis of City finances is the conclusion that deferred maintenance of street right-of-way improvements, as well as delays in addressing needed capital projects is being exacerbated by a significant gap between the revenues and expenses associated with these programs. The Plan is attached to this report.

In response to the Plan, the Council directed that staff work with the Finance Committee to develop actions that could be taken to address the shortfall in the three option areas identified: Use of Reserves, Debt Financing, and New Revenue.

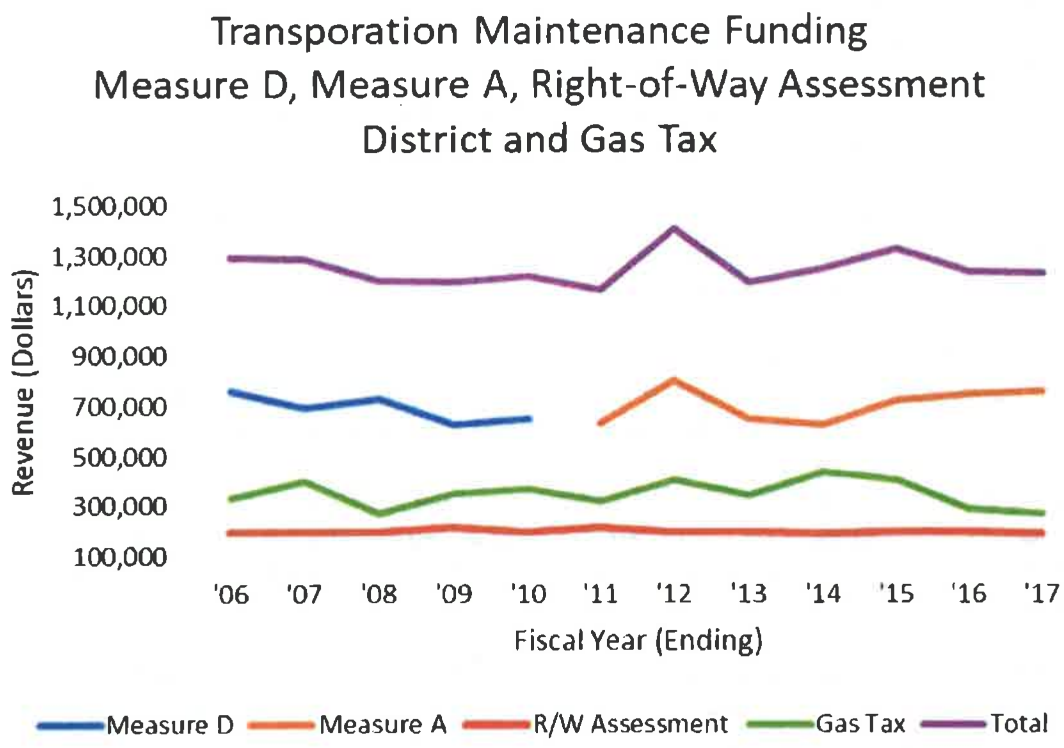
Staff has reviewed the implementation options and actions with the Finance Committee. The purpose of this agenda matter is to update the Council on deferred maintenance, capital projects and other unmet service demands and to provide an opportunity for the Council to initiate action items as implementation measures for the Five-Year Financial Plan.

DISCUSSION

As the Council is aware and has discussed at various budget and finance related meetings, funding for the City's street maintenance, as well as certain other services such as Park maintenance, was established via special assessments in the 1980's. For street maintenance, property owners are assessed based on formulas established through a Right-of-Way Assessment District. The amount of the assessment has changed little since 1995 while costs have increased due to aging infrastructure and new requirements.

In addition to these local assessment revenues, the City receives an allocation of Measure A revenue, the county-wide half-cent sales tax for transportation. This revenue has been essential to the City's ability to address street right-of-way maintenance and, in particular, capital projects, to the degree it has; however, it too has seen relatively little growth over the past decade. The City also receives revenue from the state for street maintenance through an allocation of the gas tax. For various reasons this revenue has declined.

The chart below illustrates flat revenues in these three key street maintenance revenue funds.



Finally, earlier this year the state enacted SB1, which establishes a new gas tax and vehicle registration fee. A portion of the state-wide revenues from the tax and fee will be allocated to cities for programs such as street maintenance. Once fully implemented, the City allocation is expected to be about $250,000 annually. The funding comes with a match requirement that, for the City, is about dollar for dollar. Currently, the City believes that this match is required to come from the cities' discretionary funds, i.e., General Fund. This revenue will be very helpful in addressing local street maintenance; however, it will not be enough to address the entire need.

In the City of Carpinteria, most streets were built during a 20 year period of growth that extended from the 1950's to 1970's. In the City's early years, these streets were new and required very little maintenance but now, increasingly, require much more expensive treatments and repairs. For example, in early years, application of an occasional, inexpensive slurry seal may have been adequate maintenance for most City streets. Today, most City streets are in need of more expensive treatments such as pavement overlays. Similarly, most City sidewalks initially required very little maintenance; however, after decades of age and related damage they require much more significant repair in some cases replacement. For example, the growth of street trees over the years can uplift concrete and damage pavement, requiring regular sidewalk, curb, gutter and asphalt repair. This work represents a significant part of the City's annual street maintenance spending. These increasing expenses combined with flat revenues has resulted in a growing amount of deferred street maintenance.

New state and federal requirements are also contributing to the City's growing street maintenance and improvement expenses. The City's gutters and storm drains are required to be modified and maintained in order to capture and eliminate water pollutants such as oil and dog feces. As these requirements are phased-in, the City's costs are projected to increase dramatically in both capital project costs, e.g., water filtering systems, and maintenance. The City currently budgets a small amount mainly for an employee to conduct inspections and comply with state reporting requirements. In the future, mandatory capital projects and maintenance will drive City storm water management program costs up significantly.

The City is also obligated to improve curb ramps, signs and other improvements to ensure they meet updated and changing standards for safety and accessibility. The standard for accessible curb ramps has evolved over the years and cities are obligated to update older ramps and install ramps where absent and needed. New standards for reflectivity will require the replacement of nearly every traffic control sign maintained by the City, such as stop signs. The City currently budgets annually for some sign replacement due to normal wear and tear but will need to increase this significantly in order to appropriately address the new standard.

The City's Five-Year Financial Plan was received by the Council in May of this year. The Plan's purpose is to identify the General Fund's ability over the next five years to continue current services and address long-term liabilities and capital improvement program (CIP) goals. The Plan included a forecast of ongoing revenues and operating and capital costs. The Plan concludes that the City faces significant challenges in addressing capital and major maintenance projects.

An annual funding gap of about $1.5 million occurs when annual projections for capital and major maintenance project costs are taken into consideration.

Since the preparation of the Plan there have been several other key, long-range, expense developments that have the potential to make it more difficult for the City to adequately address major maintenance and capital project needs.

Library. The City has learned that County branch library expenses have risen significantly, which is threatening greatly reduced hours of operation if not closure of the branch. The City, Friends of the Library, and County have worked together to ensure operations continue in the current fiscal year but a crisis is looming in FY 2018-19.

Law Enforcement Services Agreement. As a part of efforts to improve cost recovery, the County is proposing updating agreements for law enforcement services that it has with the Cities of Carpinteria, Goleta, Buellton and Solvang, as well as other entities such as the Chumash Tribe. Coupled with increased labor costs, staff believes that law enforcement service costs could increase as much as 30%, about $1 million, over the five-year period analyzed by the Plan.

Homelessness. A national crisis in rising numbers of people that are homeless is affecting Carpinteria with greater numbers of people with more significant health and behavioral problems living on City streets and in other public places, and negatively impacting businesses, residents and visitors. The City has been making increasing commitments of resources through its law and code enforcement and maintenance functions to respond to issues arising out of homelessness and this is expected to continue to grow.

The Five-Year Financial Plan identifies a path forward that includes some combination of use of reserves, debt financing, and new revenue. Staff and the City's finance committee have analyzed these options in more detail and the recommendations included in this report reflect a conclusion that stabilizing funding for capital projects and major street maintenance will require a multi-faceted and significant effort.

The following is discussion of each option the Finance Committee considered and the resulting recommendation.

<u>Use of Reserves.</u>

A. Reserve Policy Change

The City's healthy reserves represent a significant asset that may be applied in order to improve the City's long-term financial condition. Because reserves represent a type of one-time revenue, it is prudent to apply these funds in order that they have long-term benefit to City services and/or finances.

On September 26, 2011 the City Council adopted Resolution 5343, establishing three reserve categories and amounts as per Government Accounting Standards Board Statement 54. Those three reserve categories and amounts are as follows:

1. Financial and Economic Uncertainty Reserve. This reserve is maintained at a level equal to 55% of General Fund expenses plus or minus the mark to market adjustment for the City's Treasury note portfolio. This reserve is currently set at $4,447,500.
2. General Reserve Fund. This reserve is maintained at a level of $1,000,000 with interest earned on that balance segregated for use at the Council's direction. This reserve is currently set at $1,096,139.
3. Major Asset Replacement and Repair Reserve Fund. Similar to the General Reserve Fund this reserve is maintained at a level of $1,000,000 with interest earned segregated for use at the Council's direction. This reserve is currently set at $1,048,050.

The application of the City's reserve policy, in particular the Financial and Economic Uncertainty Reserve, affects the City's General Fund, resulting in an annual expense to the General Fund in most years. The initial 2011 Fund amount was $3.9 million and since then the General Fund has contributed just over $583,000. A growth of approximately 15%, or 2.5% annually, tracking growth in General Fund spending. Total expenditures since inception is about $36,000.

In FY 2017-18, $296,114 has been budgeted to meet the reserve level target of the policy.

The Financial and Economic Uncertainty Reserve should include an amount adequate to address many potential temporary financial issues such as the loss or decline in revenue or an unforeseeable one-time expense. Use of the reserve under such conditions could avoid or mitigate reduction in service levels. The type and amount of potential economic liabilities does not necessarily grow with City expenses and staff believes that maintaining the Financial and Economic Uncertainty Reserve amount at 40% of General Fund expenses will result in an amount in reserve adequate for the type of scenarios anticipated.

Staff recommends that the Council consider amending the Financial and Economic Uncertainty Reserve by changing the contribution level to 40% of General Fund spending. This would have the immediate effect of suspending contributions until such time as the current reserve amount falls below the target level. Staff projects that this would occur in four years.

B. Tax Exchange Agreement

In 1976, the City formed Street Lighting District No. 1, pursuant to state law (Street Lighting Act of 1919, Streets and Highways Code 18000, et al.). The purpose of the District is to pay for the cost of operating the City's public street lighting system. Since most of the street lights in the City are owned and operated by Southern California Edison, this primarily involves paying electricity bills; however, the City does own and operate some street lighting in the Downtown T and a few other locations. At these locations, in addition to paying the electric bill, the City has purchased decorative lighting poles and fixtures and maintains them.

The effect of establishing the District has been to dedicate a portion of the ad valorem property tax revenue of the City for the operating cost of the Lighting District. As an ad valorem tax, the District covers and benefits all properties in the City and revenue grows with the assessed valuation of the City's property tax base.

District revenue growth has outpaced expenses for some time, resulting in a fund balance. Current annual operating costs are estimated to be approximately $150,000, while annual revenues are approximately $350,000. The actual 2016-17 District fund balance is approximately $1.2 million.

Staff recommends that the City Council consider a property tax exchange agreement whereby a portion of the fund balance and annual revenue of the District is redistributed to the City.

C. Establishment of an Irrevocable Supplemental Pension Trust

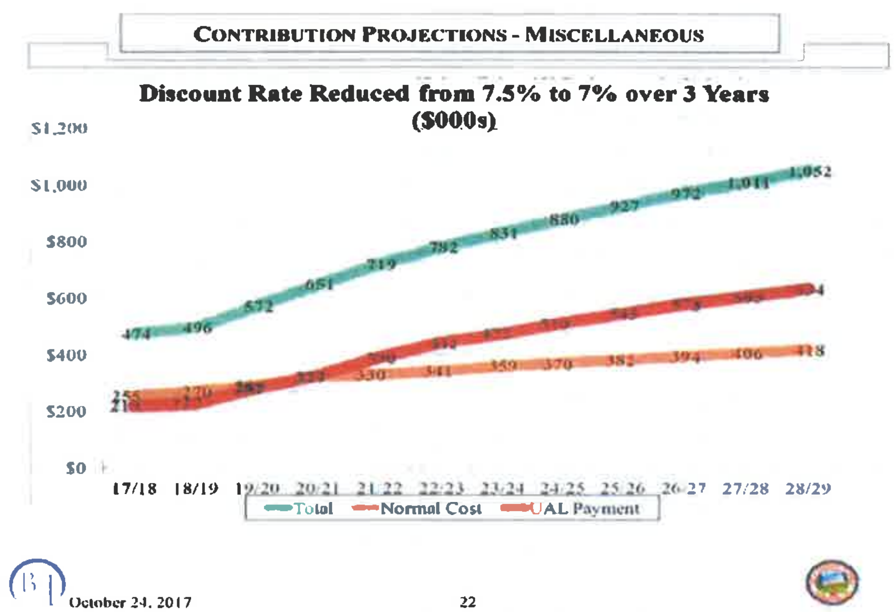
The Finance Committee has received reports[1] on the City's Unfunded Actuarial Liabilities (UALs) associated with pension obligations and retiree health insurance. The pension liability reports suggest that by paying more annually toward its UALs now, the City can save on interest expense over time and lower the amount required to be paid from the City General Fund based on projections of annual increases made by City's pension fund operator, CalPERS.

The City is required to make two types of annual payments to CalPERS, an Employer contribution based on a percentage of payroll and what amounts to an estimate of how much additionally is owed, i.e., a catch-up payment: the Unfunded Actuarial Liability. The City has two pension funds with UAL payment requirements, the Miscellaneous employee pension and the Safety fund (the Safety fund has no Employer or Employee contributions since it was effectively closed when the City Police Department was discontinued).

The annual Miscellaneous plan's Employer payment is currently $159,761, and the UAL payment is $218,889. CalPERS' projects the UAL payment will increase to approximately $337,000 by 2021.

The annual Public Safety UAL is currently $163,777, and the UAL payment is projected to increase to $274,000 by 2021.

Below is a table illustrating estimated City costs over the next decade. As discussed above, if no action is taken this rising expense would impact the General Fund.



[1] Retiree Healthcare Plan, GASB 45 Actuarial Evaluation, Bartel Associates, June 30, 2016, CalPERS Miscellaneous and Safety Pension Plans, Consolidated GASB 68 Reporting Information, Bartel Associates, June 30, 2017

The UAL reports estimate that should the City establish a Trust of $1 million, split between the two Plans, a larger annual UAL payment could be made from this fund, having the effect of keeping the UAL expense to the General Fund where it is at today and lowering the City's overall cost due to interest savings.

As the Council is aware, many public agencies are experiencing financial crises due in large part to pension liabilities. The investment losses experienced during the Great Recession have never recovered and earnings, on average, are not meeting assumptions. This, combined with increased benefits approved by many agencies during the period of time when "superfunded" status existed, i.e., interest earnings exceeded annual contributions, has undermined the foundation of the fund and is likely to require significant changes in the way public pensions in California work.

The City of Carpinteria has been a responsible player, sticking with a basic retirement formula and ensuring that employees make their full contributions. Nonetheless, the City will be impacted as pension costs skyrocket over the next decade. In consultation with the City's actuarial consultant, staff has determined that by investing City funds strategically now, it can mitigate annual cost increases over the next decade and reduce UAL costs in the long-term.

Staff is recommending that the Council direct that the final UAL report with options and procedures for establishing a Trust be scheduled for City Council consideration.

Debt Financing

The City of Carpinteria currently does not carry any debt, having this year retired 30 year Certificates of Participation (COPs). In July 1988 $2,015,000 in COPs were issued to be repaid through semi-annual lease payments by the City. The $2 million in proceeds was used for construction and delivery of a variety of capital improvements such as the construction of the community swimming pool, expansion of El Carro Park, City Hall improvements, and construction of Parking Lot No. 3. All construction and delivery was completed at the end of FY 1989-90. The balance remaining on the COPs at June 30, 2017 was $170,000. The final payment to retire the debt is scheduled for March 1, 2018.

The City's COP debt service expense was paid from the General Fund, which was determined at the time of issuance to be sufficient to support the annual servicing. Also, the City used the proceeds to fund projects that had a longer, i.e., greater than 30 year life. In this way, debt financing can make sense, allowing a city to deliver projects with significant public benefits up front while financing them over time.

Should the Council wish to consider debt financing of capital projects today, it would need to identify projects that warrant borrowing and a revenue source adequate to service the debt annually. The General Fund is currently not in a position to do that;

however, should SB1 revenue remain intact, this could be considered for capital project debt service.

SBCAG staff has consulted with other member agencies about borrowing against Measure A revenues with relatively short-term repayment, e.g., ten years. This could, for example, permit a city to invest in a larger amount of strategic pavement maintenance that reduces costs in the future.

New Revenue

As discussed in the Five-Year Financial Plan, City revenue growth is derived from various forms of growth and development and new or increased taxes or assessments. For the purposes of the Five-Year Financial Plan, the report concludes that because there are currently no projects in the pipeline that have the potential to impact revenues positively, such revenue growth should not be considered. Also, it would be highly speculative, given existing City land use and zoning policies and the build-out scenarios, to count on future growth or new business to generate revenue sufficient in the long-term to address the projected gap between rising costs for major maintenance and capital work and revenues.

The Finance Committee has considered a number of options for generating new tax or assessment revenue. All options require some type of voter approval. Examples include parcel taxes, special property assessments, General Obligation bonds with related property taxes, utility user tax, or increasing an existing tax such as the hotel bed tax or sales tax, or business license tax.

The Committee discussed the unique nature of each tax or assessment, who pays, and how various groups may be impacted. The Committee concluded that exploring an additional sales tax is the best option. In Carpinteria, a significant amount of sales tax is generated from businesses that are patronized heavily by visitors, i.e., Restaurants & Hotels and Fuel & Services Stations categories represent about 43% of total City sales tax revenue.

Many agencies across the state have proposed a sales tax measure in recent years and voters, recognizing local revenue needs and desiring local control, have been approving these tax increases. Attachment A to this report are 2016 and 2017 (preliminary) summaries of statewide Local Revenue Measures, as compiled by California City Finance, which illustrate that sales tax measures are one of the most common types of measures and have one of the highest pass rates. In 2016, 51 of 59 sales tax measures were passed and in 2017, 8 of 10 passed. Over this two year period, 41% of the measures that passed state-wide were for 1 cent.

Earlier this month, voters in the City of Santa Barbara passed a 1 cent increase in the local sales tax. This effectively doubles Santa Barbara's sales tax revenue, adding over $22 million for City projects, programs, and services. Approximately 56% voted yes for the measure, which does not have a sunset.

Currently, the County-wide sales tax rate is 7.75 cents on the dollar. The City receives a local allocation of the state sales tax, which is 1 cent of the full 7.75 cent sales tax. The City's local sales tax revenue is approximately $1.65 million. As such, it is projected that each quarter cent increase would generate about $412,500 in local revenue.

Should the City Council wish to explore a sales tax measure, the first step would be to evaluate the likelihood of voter approval for various scenarios, e.g., different rates, ½ cent, or 1 cent, with sunset provisions, local controls, etc. Staff has received a proposal from Fairbank, Maslin, Maullin, Metz & Associates (FM3) for research services to assist the Council in making a decision. Staff recommends that the Council authorize the City Manager to negotiate a professional services agreement in an amount not-to-exceed $30,000, and amend the budget as necessary to allocate revenue from the General Fund Available Fund balance. As proposed, FM3's survey work would be completed in early 2018 to allow the Council to consider the results and, if determined appropriate, take the necessary steps to place a measure on the November 2018 ballot.

POLICY CONSISTENCY

This matter concerns actions aimed at improving the City's long-term financial position and is consistent with the City's fiduciary responsibilities and goal to deliver services that meet community needs in an efficient and effective manner.

FINANCIAL CONSIDERATIONS

Recommended actions 1 through 3 to implement the City's Five-Year Financial Plan are policy matters expected to result in benefit to the City's financial position and delivery of needed projects, programs and services to the community. The financial impacts of these matters would be considered at the time the related reports are reviewed by the City Council.

The recommendation to authorize the City Manager to enter into a professional services agreement requires a budget amendment to transfer up to $30,000 of the General Fund balance for the related expense. This will reduce the available fund balance of the General Fund by $30,000 from the year end projection of $783,617.

LEGAL AND RISK MANAGEMENT CONSIDERATIONS

One of the purposes of the recommended actions is to put the City in a better position over the long-term to meet community service needs, in particular, street maintenance and capital project demands. A risk of not doing this and having the condition of City streets and rights-of-way continue to decline is a rise in claims against the City.

OPTIONS

Staff is making four separate but related recommendations concerning implementation of the City's Five-Year Financial Plan. The Council may act on all or some subset of the recommended actions. The Council may also amend any of the recommended actions.

ATTACHMENTS

A. Five-Year Financial Plan, 2017-22
B. Local Revenue Measure Results, November 2016, November 2017 (preliminary), California City Finance, CaliforniaCityFinance.com.

Staff contacts: John Thornberry, Administrative Services Director
805 755-4448, johnt@ci.carpinteria.ca.us

Signature

Dave Durflinger, City Manager
805 755-4400, daved@ci.carpinteria.ca.us

Signature

ATTACHMENT A

City of Carpinteria
Community Survey

Survey Conducted: January 20-29, 2018

FM3 RESEARCH
FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

220-4940

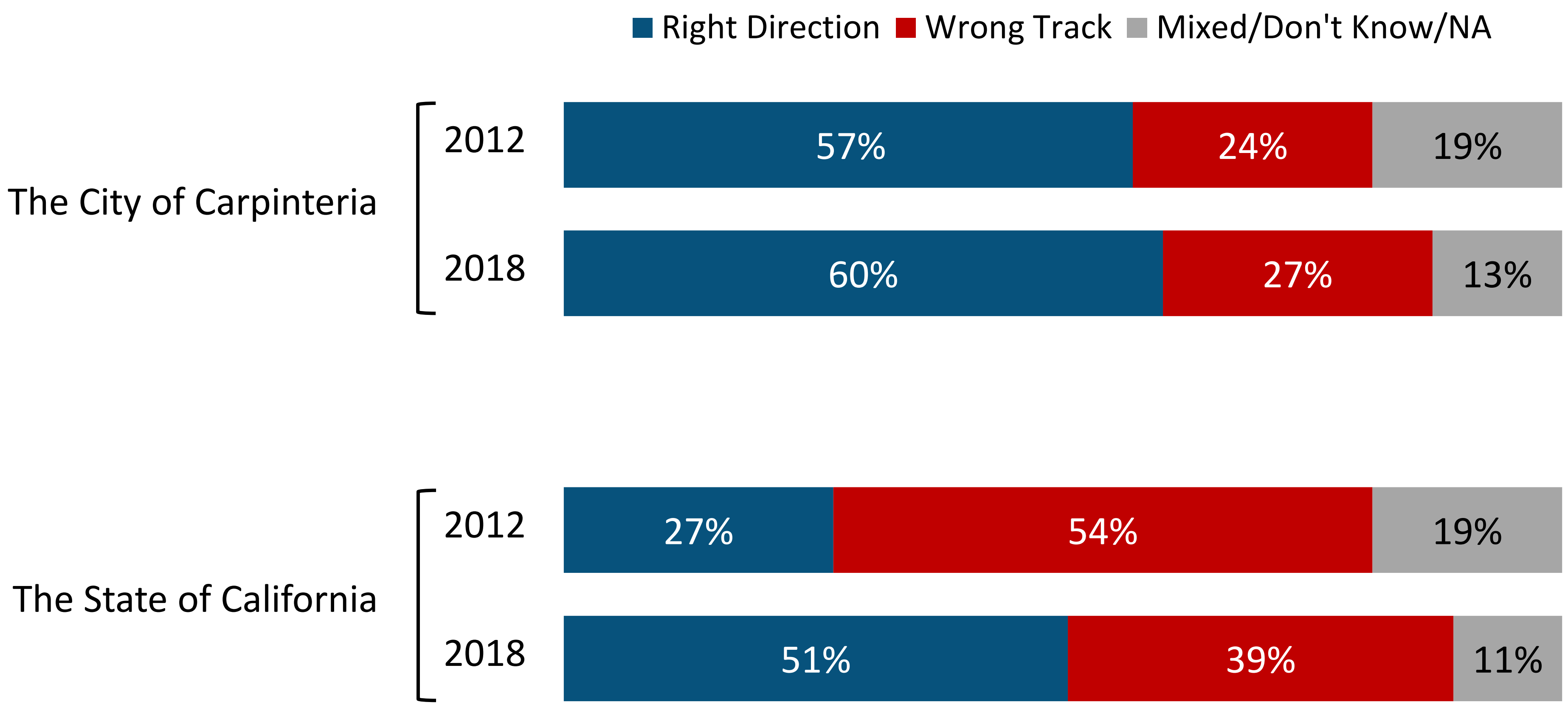
Methodology

- ✓ 414 interviews with residents in the City of Carpinteria likely to vote in November 2018
- ✓ Interviews conducted January 20-29, 2018
- ✓ Survey conducted online and on landlines/cell phones
- ✓ Overall margin of error for full sample: ±4.6%
- ✓ Several questions tracked to previous City survey (March 2012)
- ✓ Some percentages may not sum to 100% due to rounding

FM3 RESEARCH

General Community Attitudes

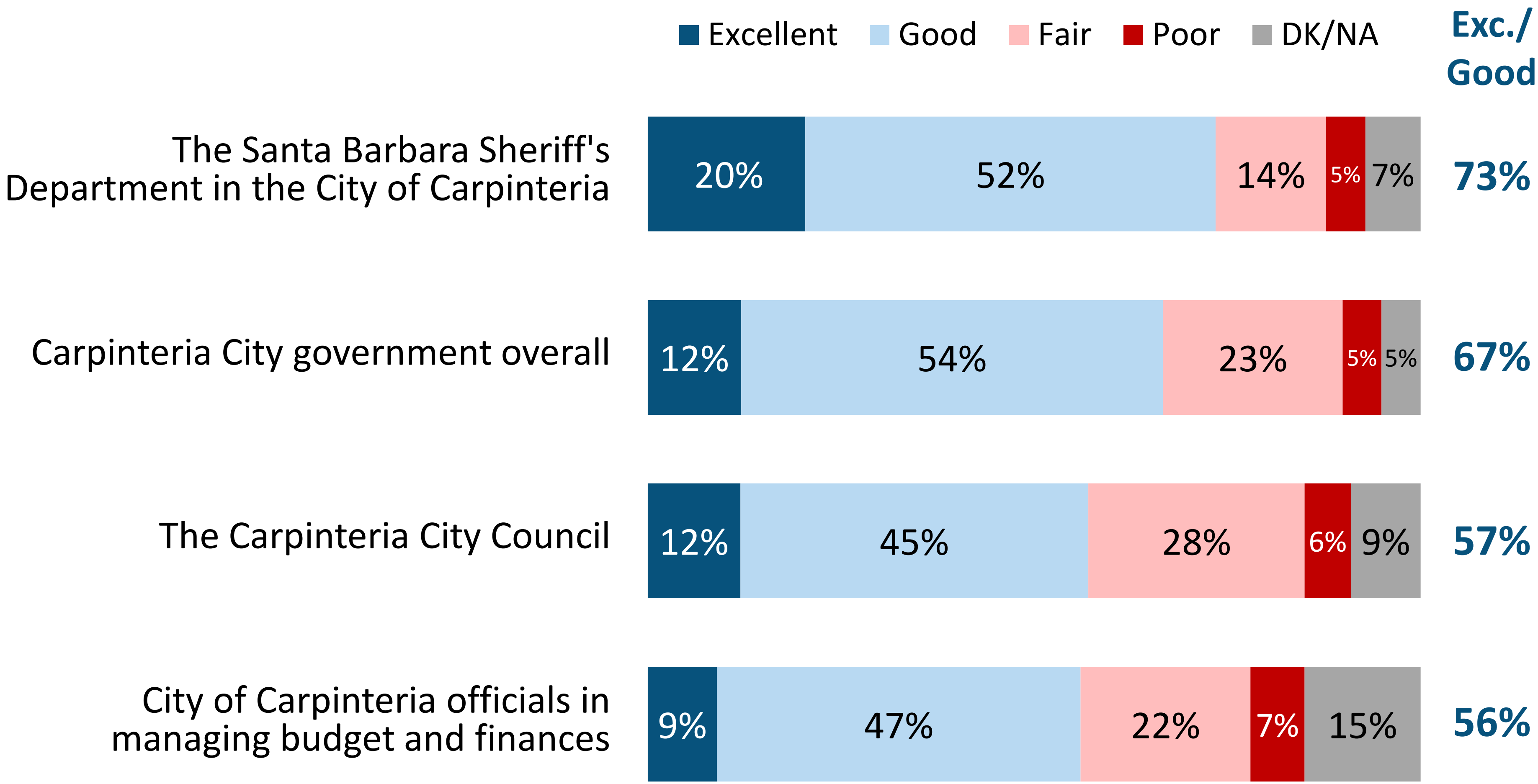
Voters continue to hold a positive view of the City and opinions about the direction of the state have vastly improved since 2012.



Do you think things in the ____________ are generally headed in the right direction, or do you feel things have gotten off on the wrong track?

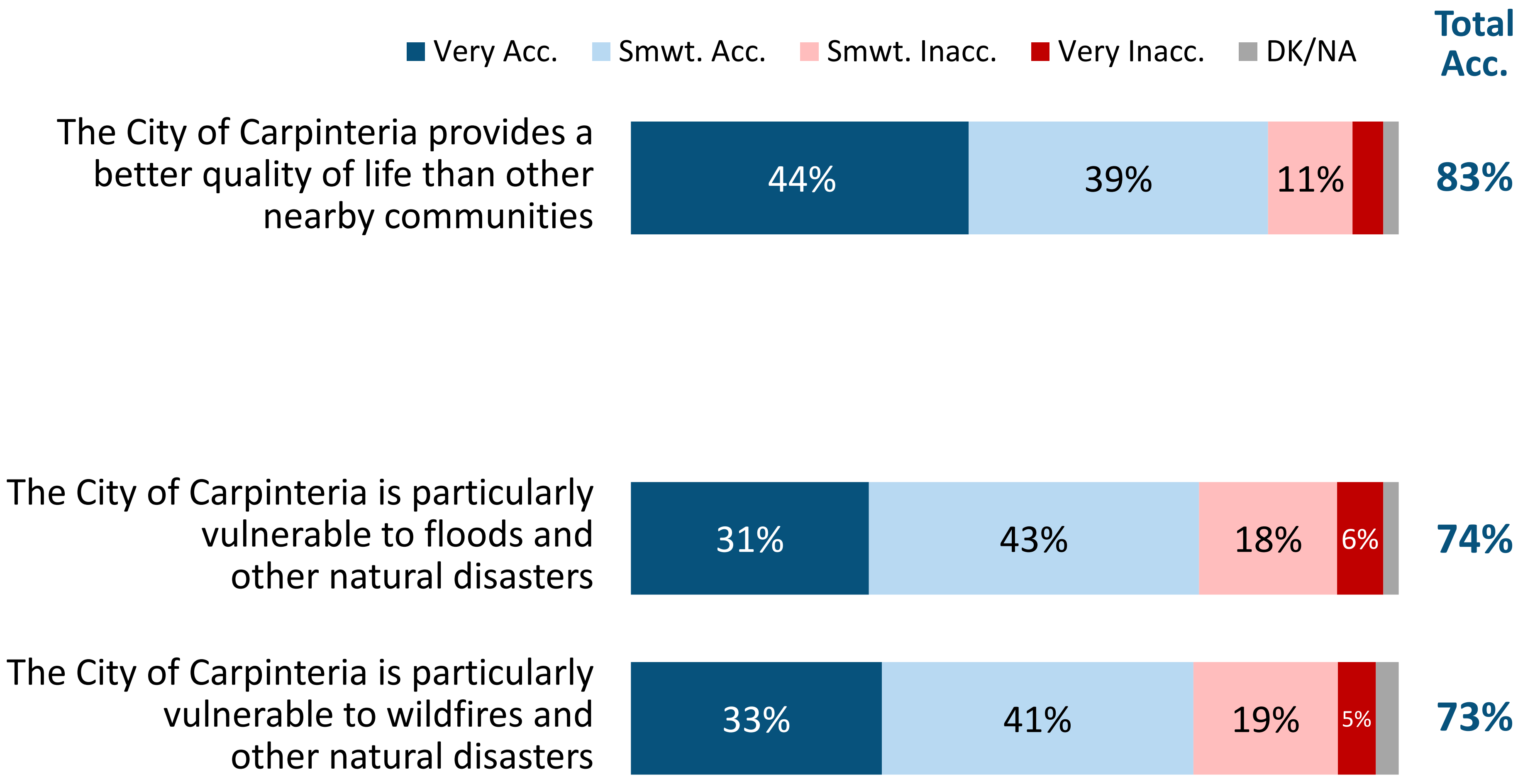
FM3 RESEARCH

The majority of voters have favorable views of the City of Carpinteria's government.



How would you rate the job being done by ___________? Would you say they are doing an excellent, good, fair, or poor job?

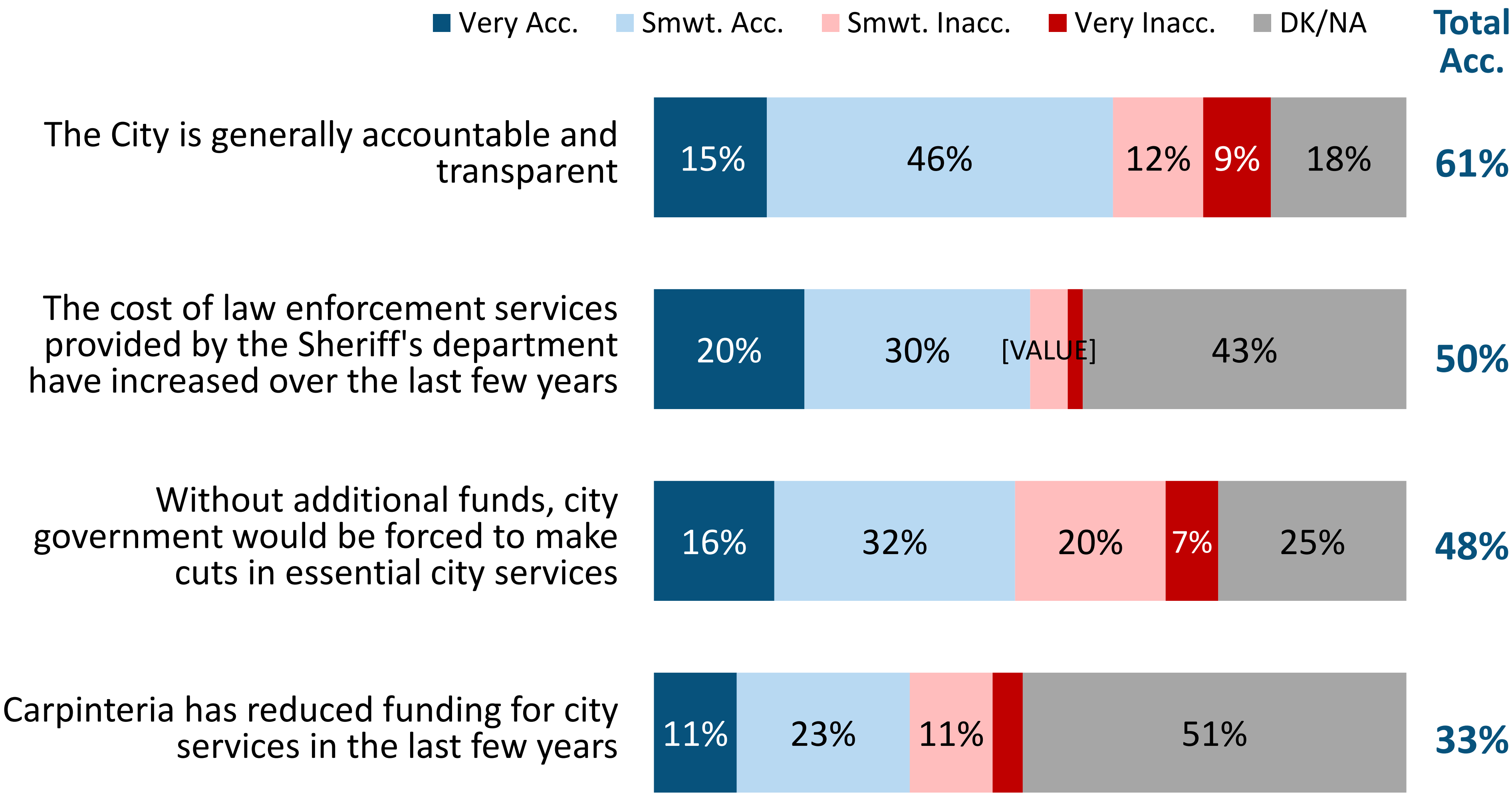
Voters in Carpinteria believe the city provides a better quality of life than other nearby communities and that the City is vulnerable to natural disasters.



I would like to read you a series of statements that people have made about the City of Carpinteria. Please tell me if you believe it is accurate or inaccurate.
Split Sample

FM3 RESEARCH

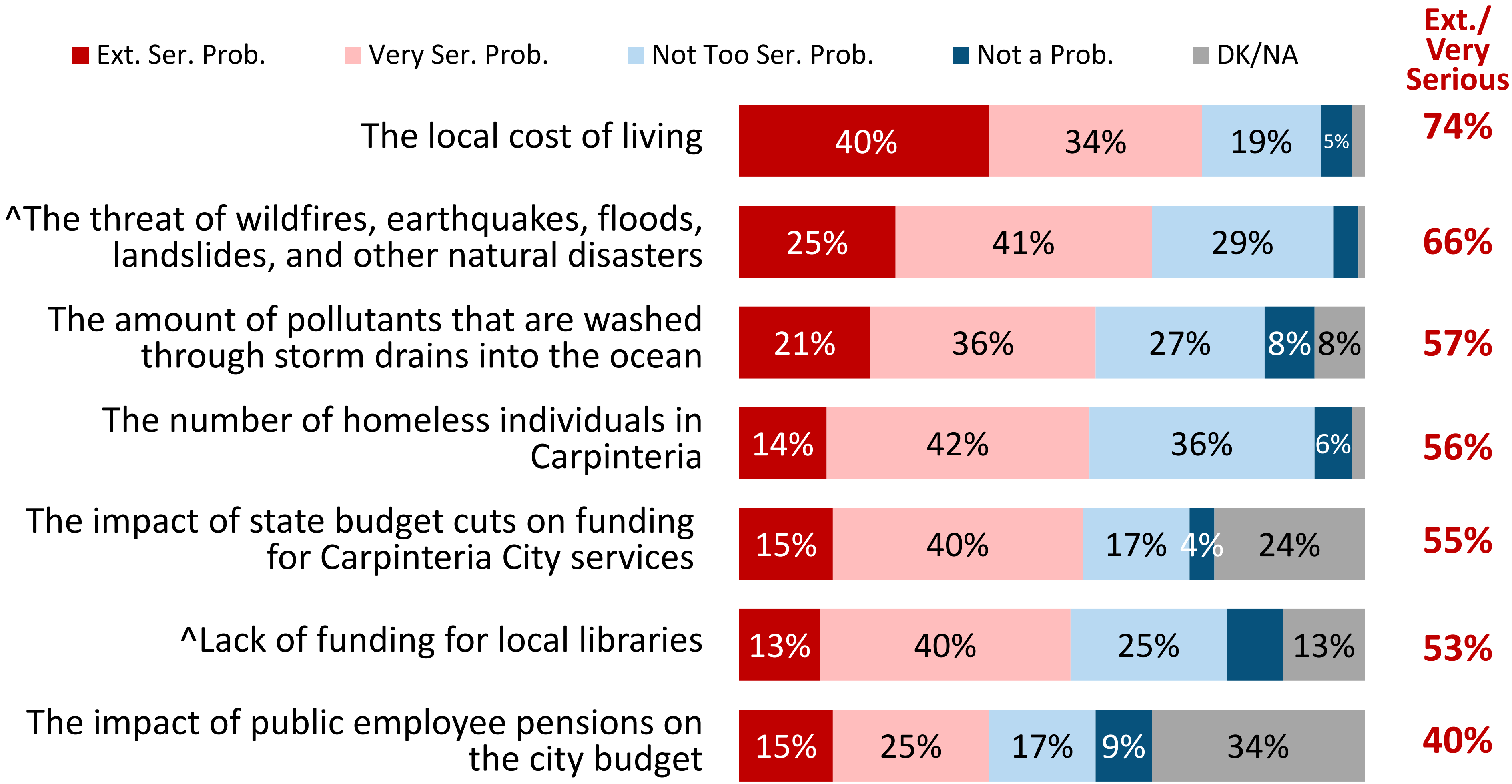
There is fairly low awareness of budgetary issues in the City.



I would like to read you a series of statements that people have made about the City of Carpinteria. Please tell me if you believe it is accurate or inaccurate.
Split Sample

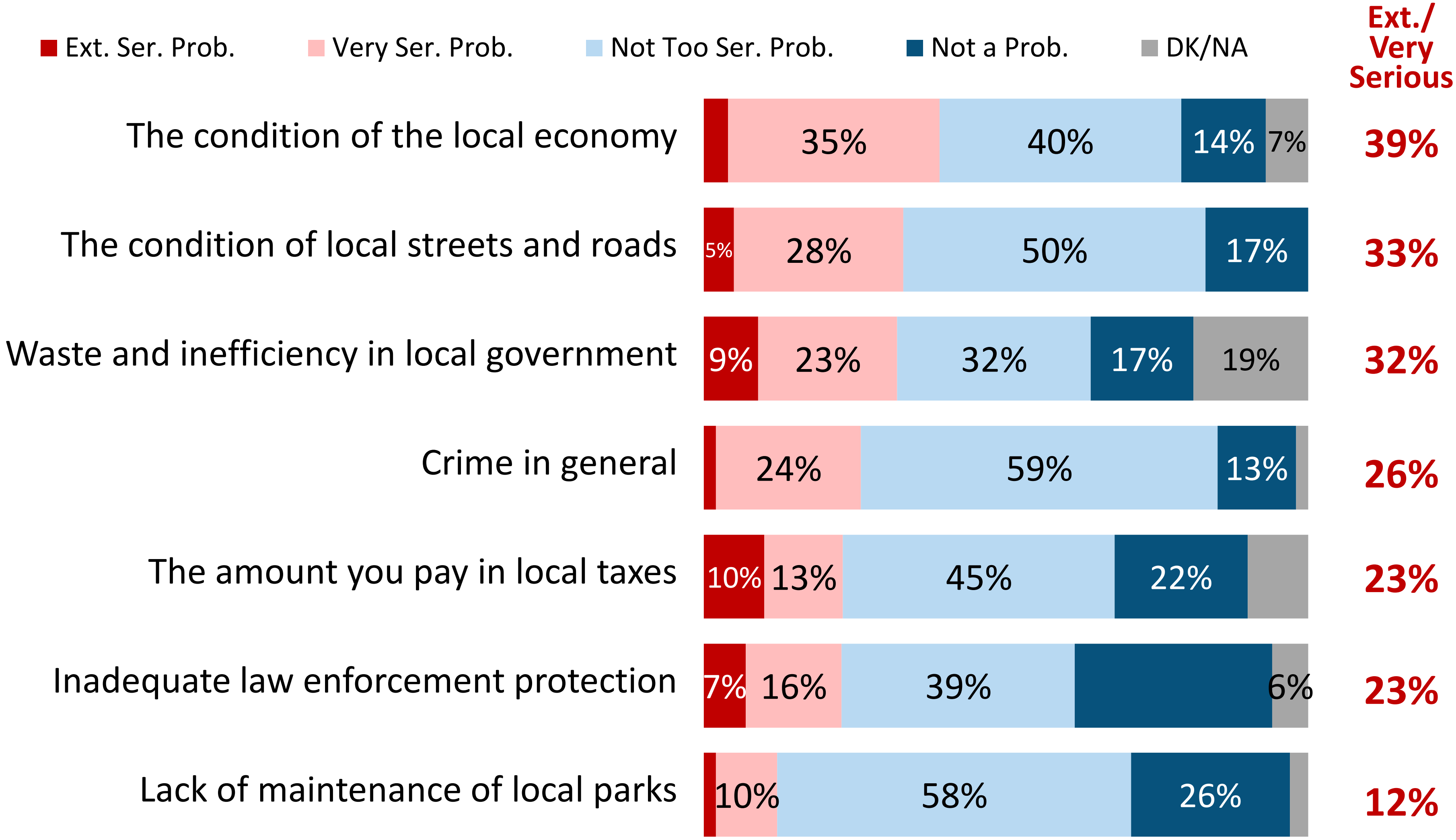
FM3 RESEARCH

Voters are most concerned about the cost of living, and the threat of natural disasters.



I'm going to mention a series of issues some people say might be problems for residents of Carpinteria. Please tell me whether you personally consider it to be a problem for people living in Carpinteria or not. ^Not Part of Split Sample

Less than a quarter of voters say the amount they pay in local taxes is at least a "very" serious problem.



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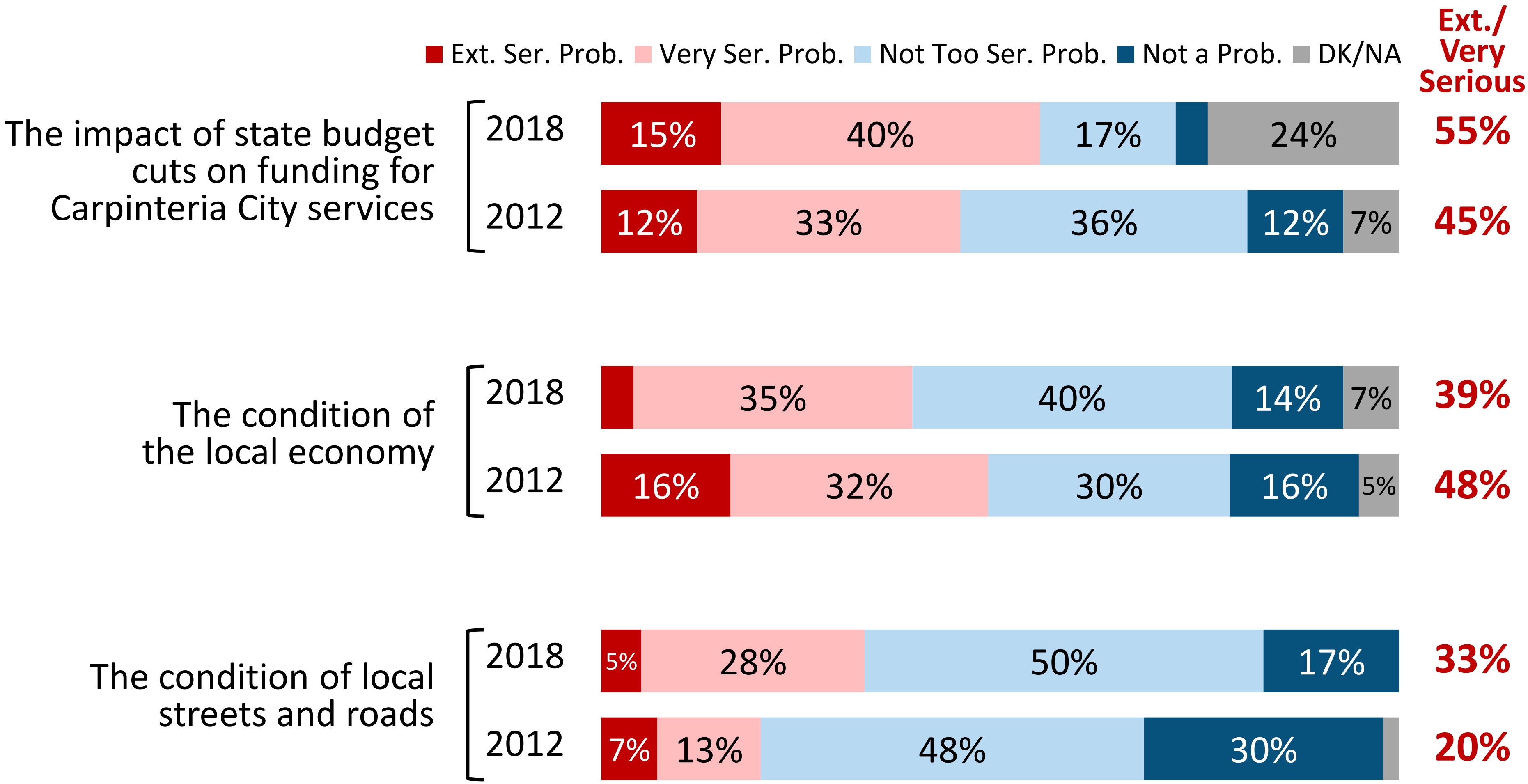
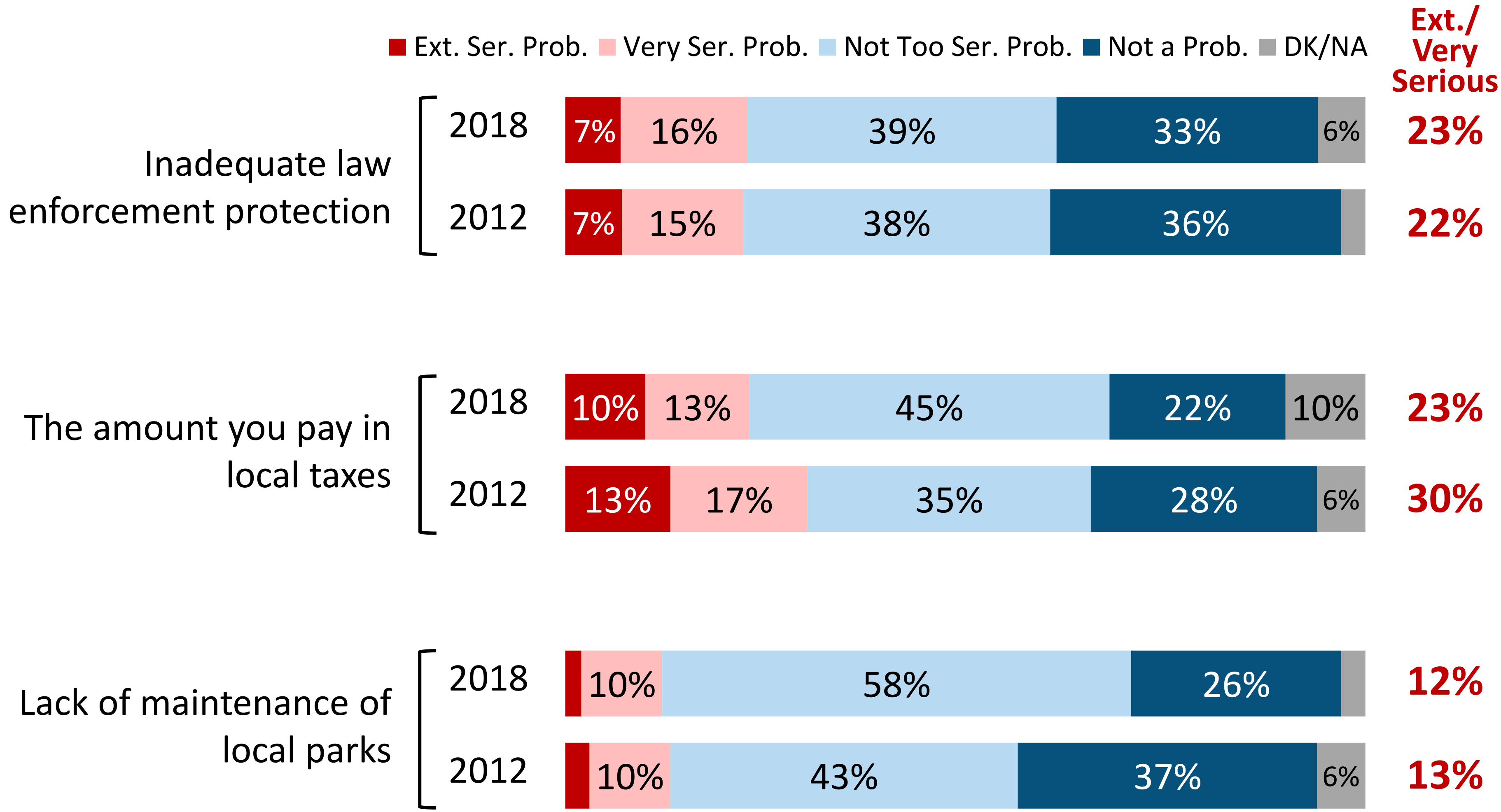
FM3 RESEARCH

There has been somewhat of an increase in the percentage of voters who view state budget cuts as a problem, but less concern about the local economy.



Q7c, d, e, i, j, k. I'm going to mention a series of issues some people say might be problems for residents of Carpinteria. Please tell me whether you personally consider it to be a problem for people living in Carpinteria or not. Split Sample

There is a continued lack of concern about inadequate law enforcement, local taxes and the maintenance of local parks.



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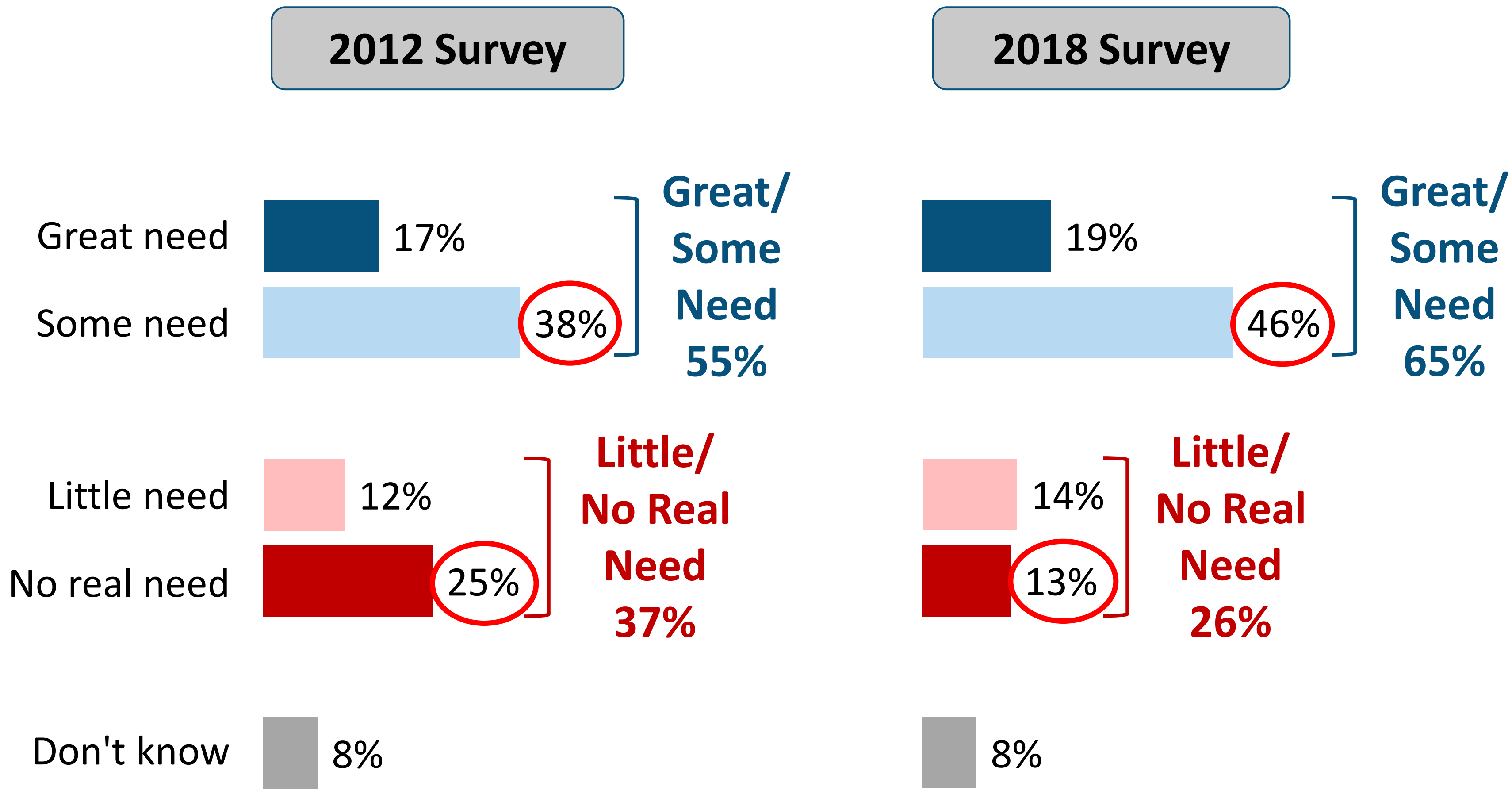
FM3 RESEARCH

More voters believe there is a need for additional funds in the City of Carpinteria now than in 2012.



In your personal opinion, do you think there is a great need, some need, a little need, or no real need for additional funds to provide the level of city services that City of Carpinteria residents need and want?

Initial Attitudes on Local Revenue Ballot Measure

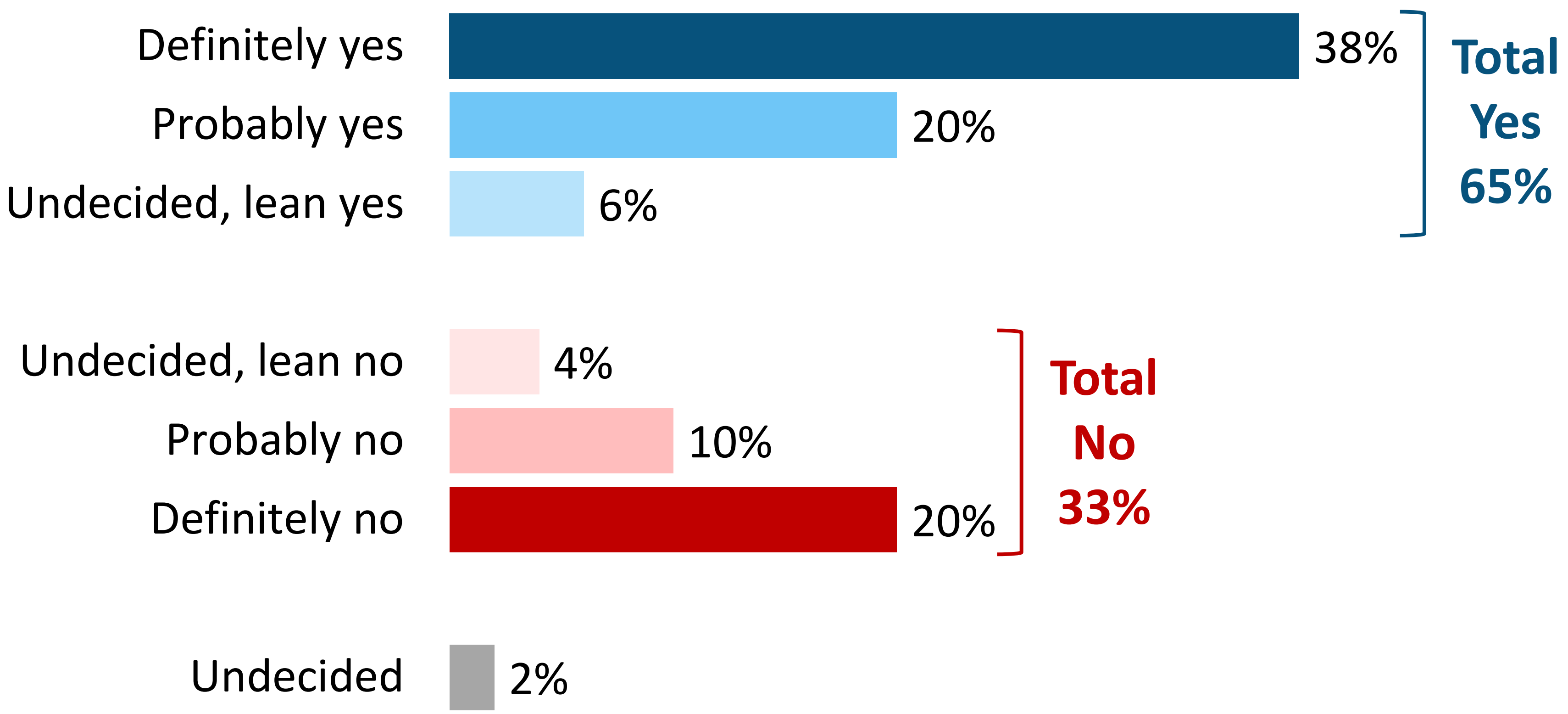
CITY OF CARPINTERIA PUBLIC SAFETY AND VITAL CITY SERVICES MEASURE

To repair streets and potholes; maintain sheriff's deputies; prepare for wildfires, floods, and natural disasters; upgrade and improve emergency communication systems; prevent cuts to the local library, senior, youth, and afterschool programs, neighborhood parks; address homelessness; protect beaches from pollution; ensure water resiliency; other general services; shall the City of Carpinteria establish a 1¼¢ sales tax providing $2,000,000 annually until ended by voters; requiring annual audits, citizen oversight, all funds for Carpinteria?

FM3 RESEARCH

Q4. If the election were held today, would you vote yes in favor of this measure or no to oppose it?

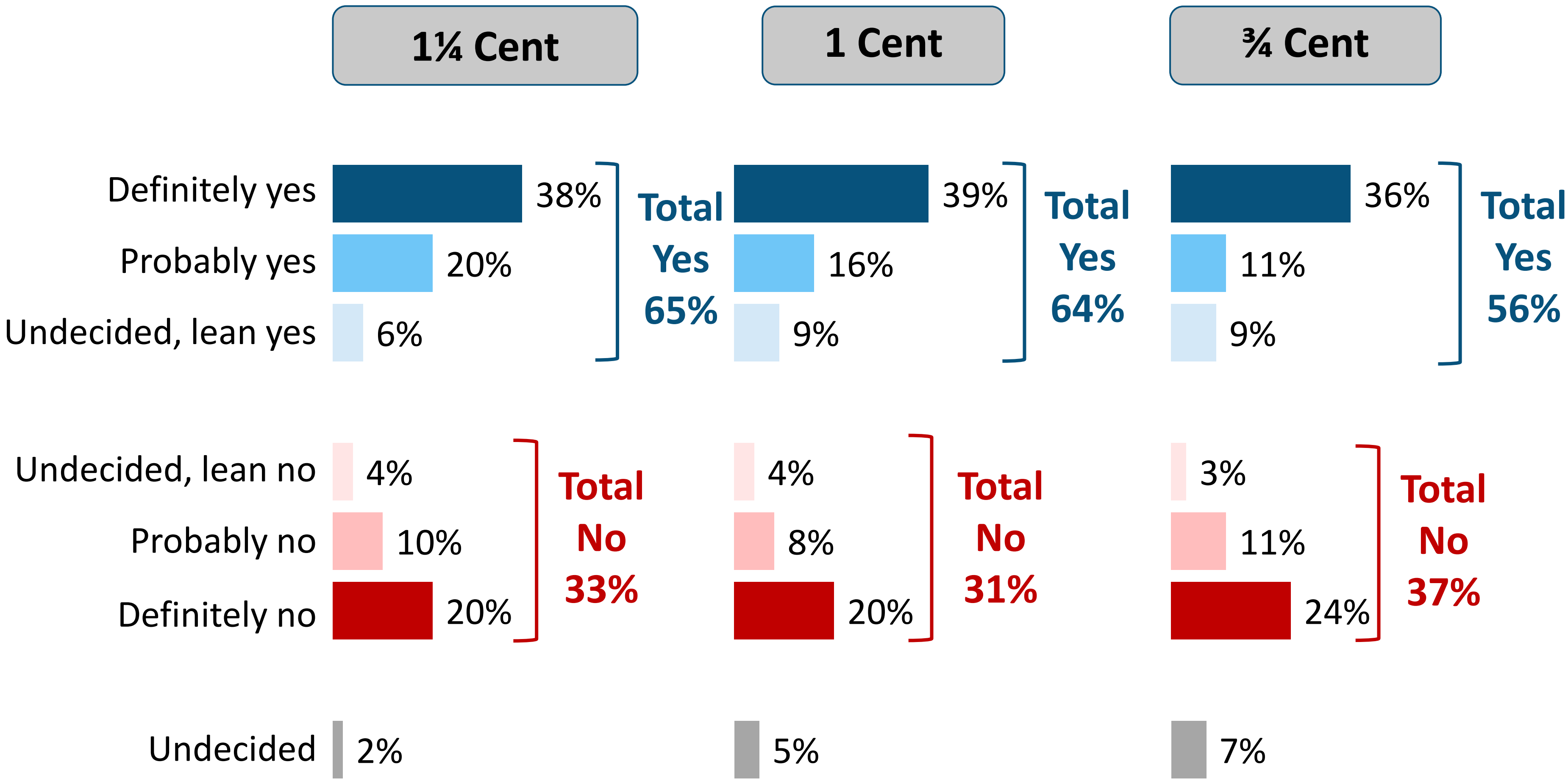
Two-thirds of voters support the ballot measure.



FM3 RESEARCH

If the election were held today, would you vote yes in favor of this measure or no to oppose it?

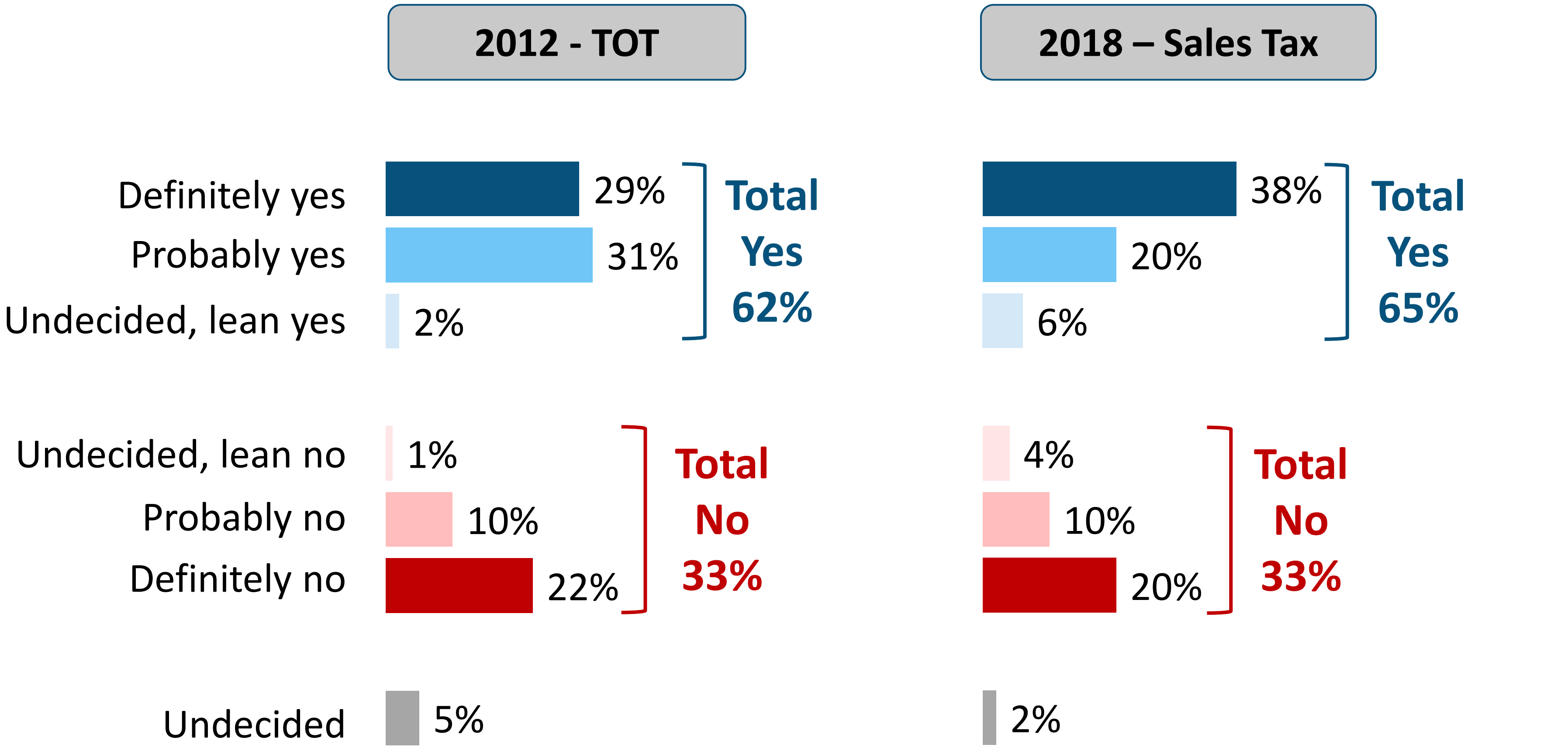
Voters are less inclined to support the measure at lower tax rates.



If the election were held today, would you vote yes in favor of this measure or no to oppose it?
What if the local sales tax measure that I just described to you was for ______________, instead of one and one quarter cents providing $2 million? If that were the case, would you vote yes in favor of it, or no to oppose it?

FM3 RESEARCH

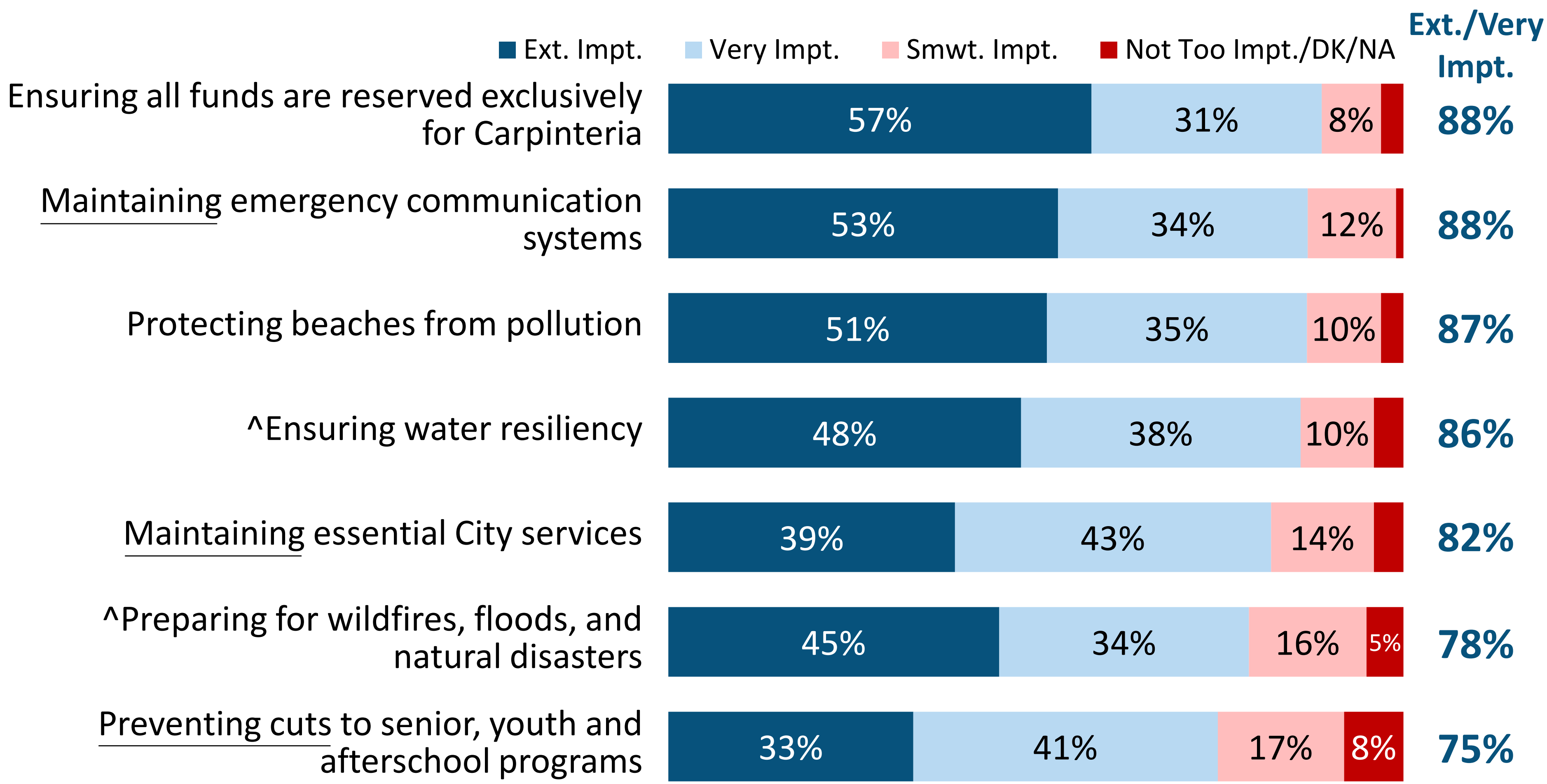
The sales tax measure starts in a slightly stronger position than the TOT measure did in 2012.



Q4. If the election were held today, would you vote yes in favor of this measure or no to oppose it?

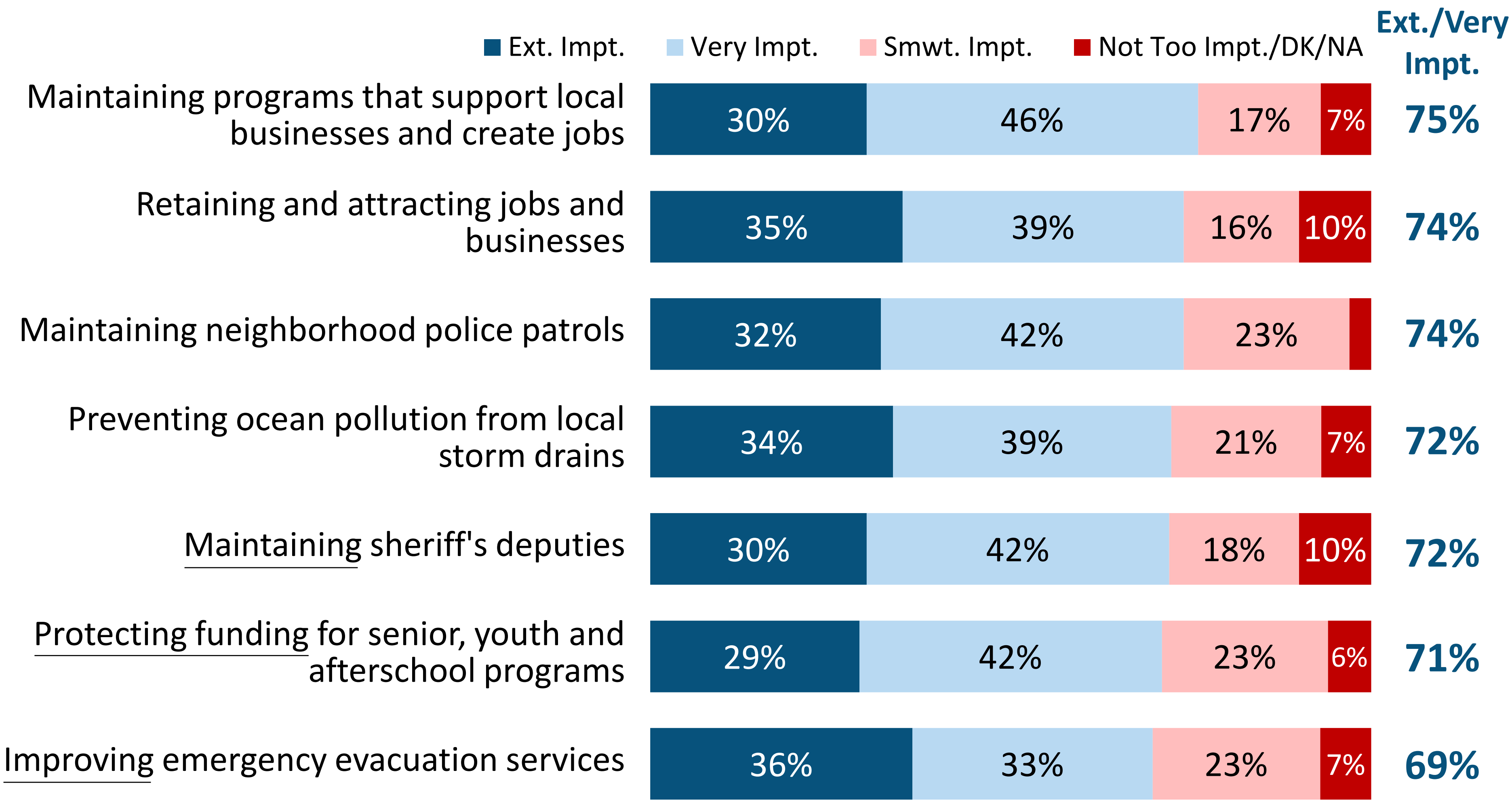
Elements of the Ballot Measure

Ensuring all funds are reserved exclusively for Carpinteria, maintaining emergency communication systems, and protecting beaches from pollution are among the features of the ballot measure most often selected by voters as important priorities.



Q8. Let's return to the ballot measure I asked to vote on earlier. I am going to read you a list of possible projects, features, and provisions that might be included in this sales tax measure. Regardless of how you feel about this measure, as I read each one, please tell me how important it is to you personally that each of the following provisions or use of funds is included in the measure: extremely important, very important, somewhat important, or not too important.
^Not Part of Split Sample

Nearly three-quarters of voters believe it is important to support/retain local businesses.



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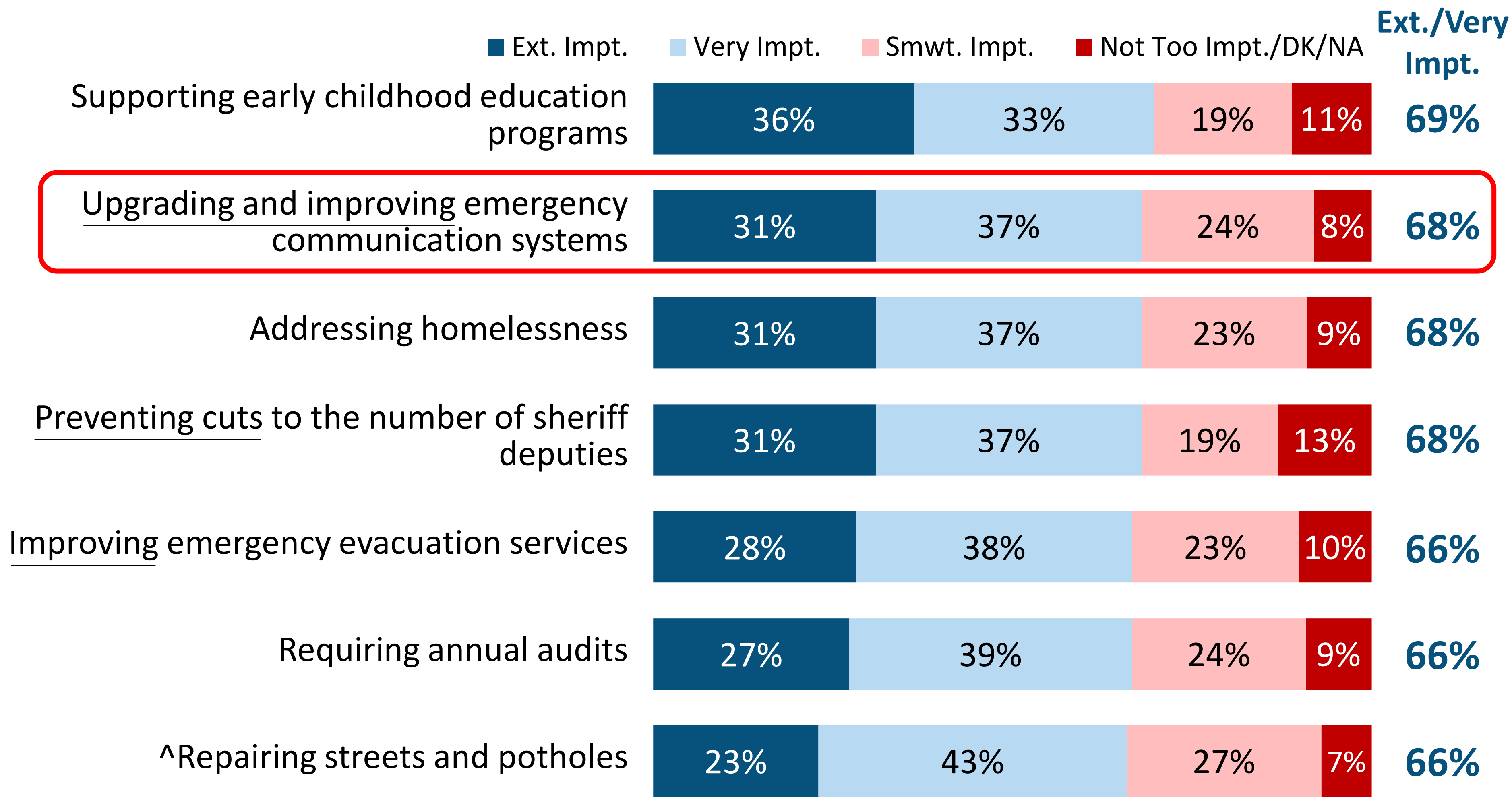
FM3 RESEARCH

There is a 20-point difference between "maintaining" emergency communication systems (88% ext/very impt) and "upgrading and improving" them (68%).



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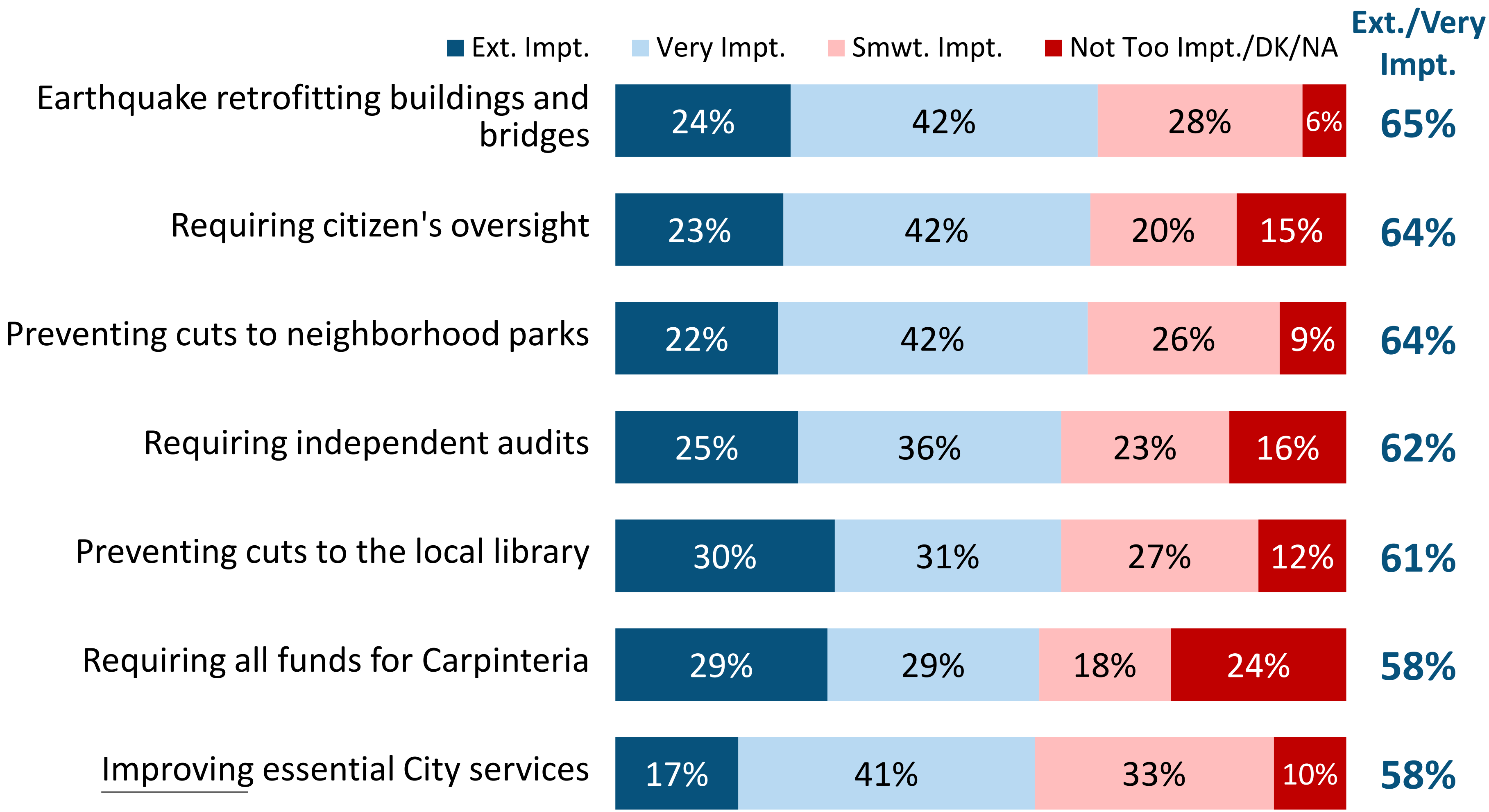
^Not Part of Split Sample

FM3 RESEARCH

82% of respondents said it was important to "maintain" essential City services compared to 58% for "improving" them.



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Impacts of Messaging

Informational statements about the quality of life in Carpinteria, preparing for natural disasters, retaining sheriff's deputies, and fiscal accountability are the most likely to make voters more inclined to support the measure.

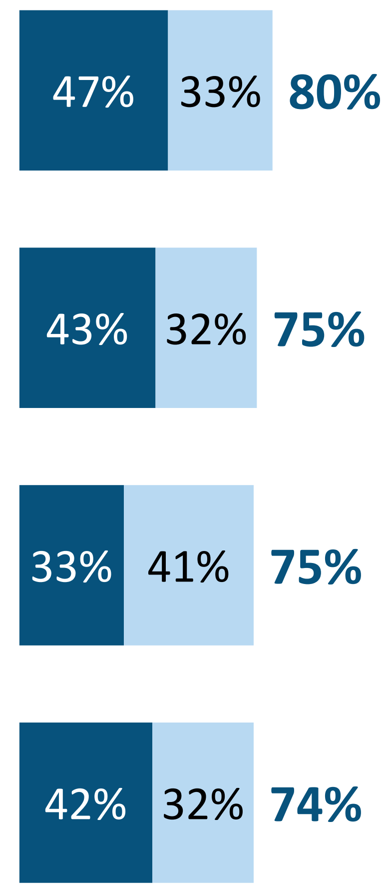
■ Much More Incl. ■ Smwt. More Incl.

(QUALITY OF LIFE) People live in Carpinteria because it offers a better quality of life and better services than some other nearby communities. Passing this ballot measure and keeping our taxpayer dollars local will make sure Carpinteria will maintain public safety, repair streets and roads, and provide other services and programs that make our city a desirable place to live, visit, and do business, no matter what happens with the state or federal governments.

^**(EMERGENCY/DISASTER PREPAREDNESS)** Our community must be protected from wildfires and other natural disasters. This measure will help upgrade and maintain our roads to ensure fire trucks can get to emergencies in time, and residents are able to evacuate safely when necessary. It will also help improve emergency communications with residents to ensure accurate emergency information is quickly received.

(RETAINING SHERIFF DEPUTIES) The costs of the City's contract with the Sheriff's department is increasing by as much as 30% in the next five years. This measure will keep deputies on the street and improve law enforcement response times to all neighborhoods of our city, and is critical for saving lives.

(ACCOUNTABILITY) This measure includes strict accountability requirements including an independent oversight committee and annual independent financial audits and performance reports, which will be available online, and all money will be exclusively used in Carpinteria and cannot be taken by Sacramento.



Q9. I am now going to read some statements made by people who favor the proposed ***CITY OF CARPINTERIA PUBLIC SAFETY AND VITAL CITY SERVICES MEASURE*** *we have been discussing. Please tell me if it makes you more inclined to vote yes to support such a measure. ^Not Part of Split Sample*

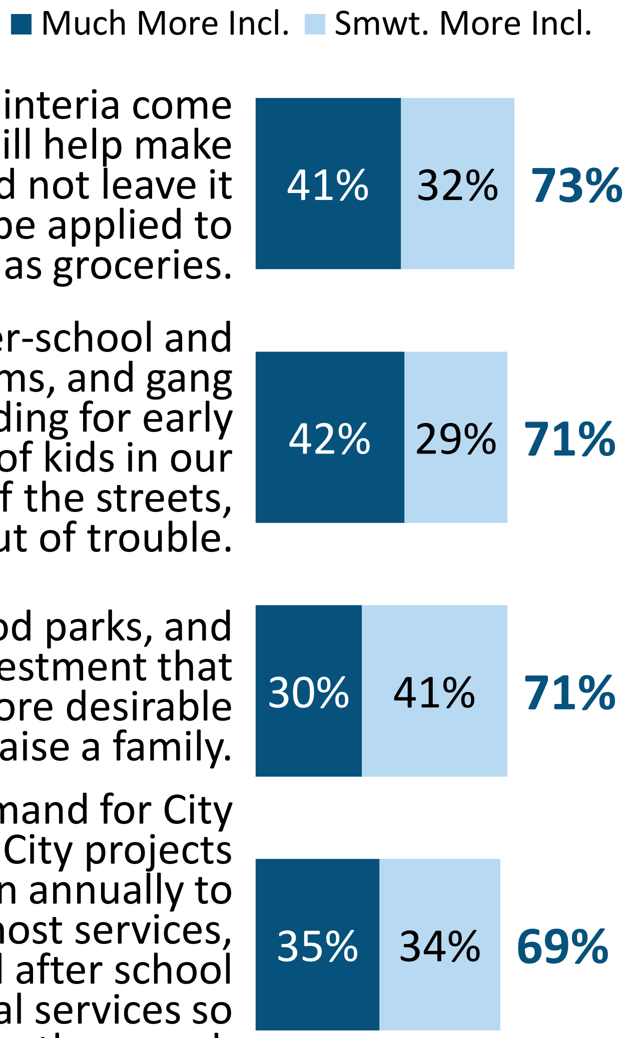
Statements about requiring visitors to pay their fair share for services and protecting youth programs also resonate well.

^**(SALES TAX)** Roughly 50% of all sales tax dollars collected in Carpinteria come from tourists and visitors from surrounding areas. This measure will help make sure they are paying their fair share to maintain our community and not leave it to be paid exclusively by city residents. And, this measure will not be applied to prescription medication or food purchased as groceries.

(YOUTH) Passing this measure will maintain City-funded after-school and summer recreational programs, youth job training programs, and gang prevention programs for at-risk youth, as well as create funding for early childhood education programs. These programs provide hundreds of kids in our community with safe and supervised activities that keep them off the streets, away from gangs and out of trouble.

(PROPERTY VALUES) Well-maintained streets, quality neighborhood parks, and safe and clean public spaces and neighborhoods are an investment that strengthens local property values and makes our community a more desirable place to live, do business and raise a family.

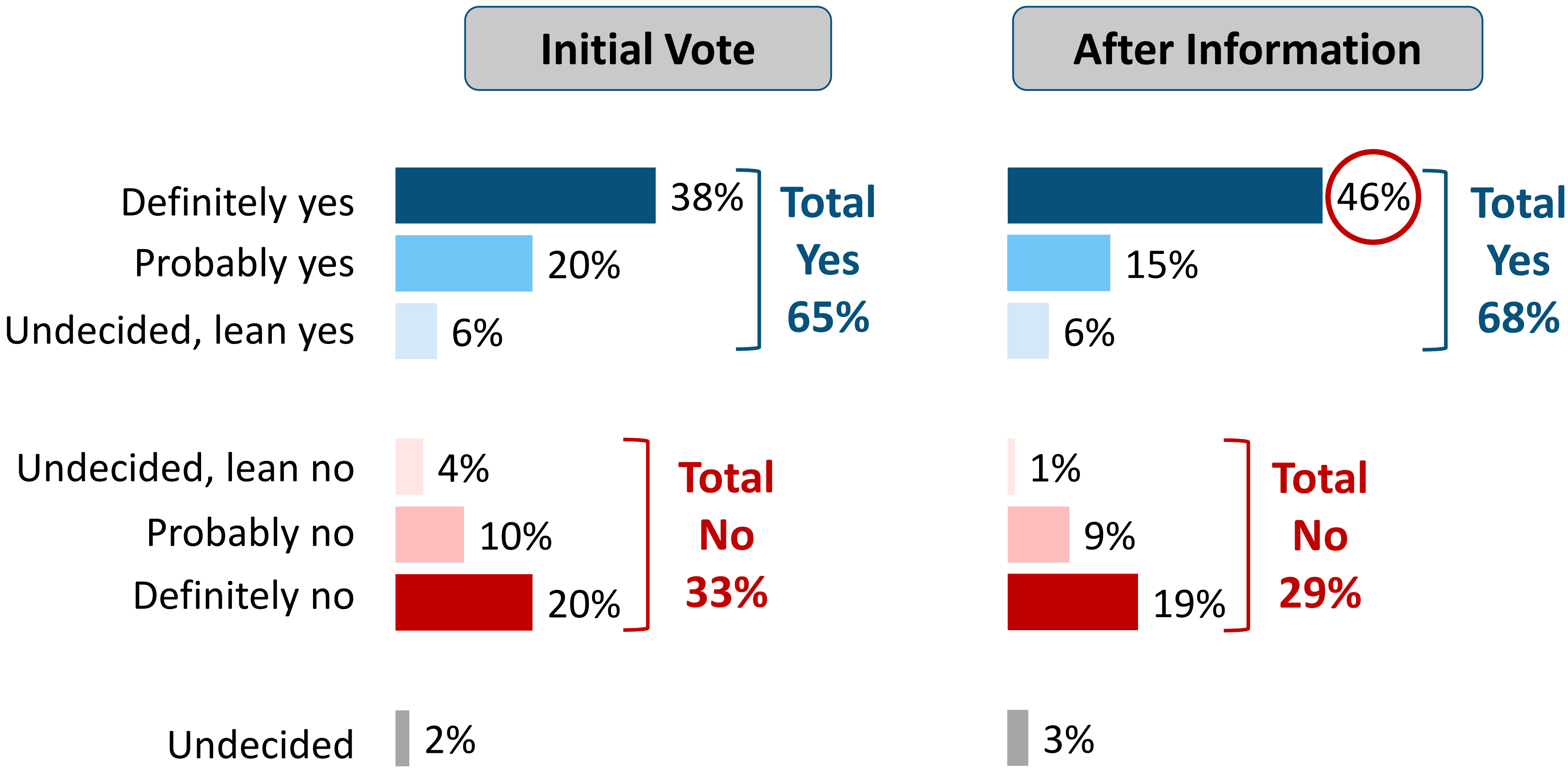
(BUDGET CUTS) As a result of reduced state funding, increased demand for City services and increased costs to provide services to residents, the City projects that over the next several years it will have to cut $1.5 million annually to balance its budget. To accomplish this, it will have to make cuts to most services, such as police, fire, street maintenance, parks, recreational and after school programs. Passing this measure prevents harmful cuts to our local services so that residents can continue to receive services they need.



FM3 RESEARCH

*Q9. I am now going to read some statements made by people who favor the proposed **CITY OF CARPINTERIA PUBLIC SAFETY AND VITAL CITY SERVICES MEASURE** we have been discussing. Please tell me if it makes you more inclined to vote yes to support such a measure. ^Not Part of Split Sample*

Overall support increases slightly after informational messages, but the intensity of support increases substantially.



FM3 RESEARCH

Q4 & Q10. If the election were held today, would you vote yes in favor of this measure or no to oppose it?

Conclusions

Conclusions

- ✓ Voters have generally positive views of the Carpinteria and its local government, although they are largely unaware of budgetary issues in the City.
- ✓ Voters believe that the City of Carpinteria offers a better quality of life than neighboring cities, and are concerned about high cost of living and the threat of natural disasters in the area.
- ✓ A 1 ¼-cent general purpose sales tax measure is viable for further planning, reaching nearly 70% support when voters hear more information about the City's needs, the potential uses of the funds generated by the measure, and its fiscal accountability protections.
- ✓ Voters generally want funds to be used to maintain current levels of service, including, but not limited to public safety.
- ✓ There are several themes that would help the City communicate its need for funding: preparing for a natural disaster, protecting the ocean/beaches, maintaining safety and the local quality of life, and providing services for young people.

For more information, contact:

FM3 RESEARCH
FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

12100 Wilshire Blvd., Suite 350
Los Angeles, CA 90025
Phone (310) 828-1183
Fax (310) 453-6562

John Fairbank
John@FM3research.com

Adam Sonenshein
Adam@FM3research.com

Laura Covarrubias
Laura@FM3research.com

City of
Carpinteria

General Fund
Five-Year Financial Plan: 2017-22

May 2017

124 Cerro Romauldo Avenue
San Luis Obispo, CA 93405
805 544.5838 ■ Cell: 805.459.6326
bstatler@pacbell.net
www.bstatler.com

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General Fund Five Year Financial Plan: 2017-22

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INTRODUCTION

OVERVIEW

Background

This report is in response to the City of Carpinteria's interest in preparing a long-term fiscal forecast and financial plan that assesses the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services in the aftermath of the worst recession since the Great Depression, address long-term liabilities and achieve capital improvement plan (CIP) goals; and if the forecast projects a negative gap between revenues and expenditures, to identify realistic options for the City's consideration in closing the gap.

Like virtually all other local governments in California, the City has been faced with major fiscal challenges over the past several years in the wake of the worst recession since the Great Depression.

Making good resource decisions in the short term as part of the budget process requires considering their impact on the City's fiscal condition down the road. Developing good solutions requires knowing the size of the problem the City is trying to solve: in short, the City cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead has the strong potential to misstate the size and nature of the fiscal challenges – and opportunities – ahead of the City.

For those local agencies that have prepared long-term forecasts and financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer-term outlook, more closely define the size and duration of the fiscal challenges facing them, and then make better decisions accordingly for both the short and long run. This will be true for the City as well.

In September 2016, the City contracted with William C. Statler to prepare the General Fund Five-Year Fiscal Forecast and Financial Plan. (An overview of consultant qualifications is provided in the Appendix.)

Forecast Purpose and Approach

The purpose of the forecast is to identify the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services in the aftermath of the worst recession since the Great Depression, address long-term liabilities and achieve CIP goals.

The forecast does this by projecting ongoing revenues and subtracting from them likely operating, debt service and capital costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" such as implementing CIP goals, addressing unfunded liabilities or improving service levels. On the other hand, if negative, it shows the likely "forecast gap" if the City continues current service levels or funds CIP/major maintenance projects without corrective action.

The forecast builds on the *General Fiscal Outlook* presented to the Council in December 2016, which prefaced this report by discussing the key economic, demographic and fiscal factors key factors that are likely to affect the City's fiscal future. These ultimately translate into key assumptions that drive forecast results.

It is important to stress that this forecast is not the budget.

It doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the General Fund's ability to continue current service levels and achieve CIP goals.

> *Can the City Afford New Initiatives?*
>
> This is a basic question of priorities, not of financial capacity. But the forecast assesses how difficult answering this question will be.

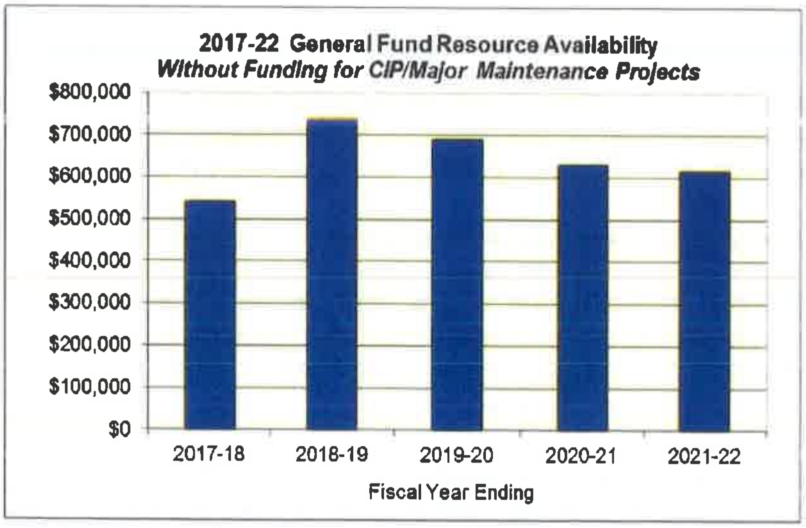
Ultimately, this forecast cannot answer the question: "Can the City afford new initiatives?" This is a basic question of priorities, not of financial capacity per se. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources. And by identifying and analyzing key factors affecting the City's long-term fiscal heath, the forecast can help assess how difficult making these priority decisions will be.

Stated simply, the forecast is not the budget. Rather, it sets forth the challenges – and opportunities – ahead of the City in adopting a balanced budget, next year and beyond.

FORECAST FINDINGS

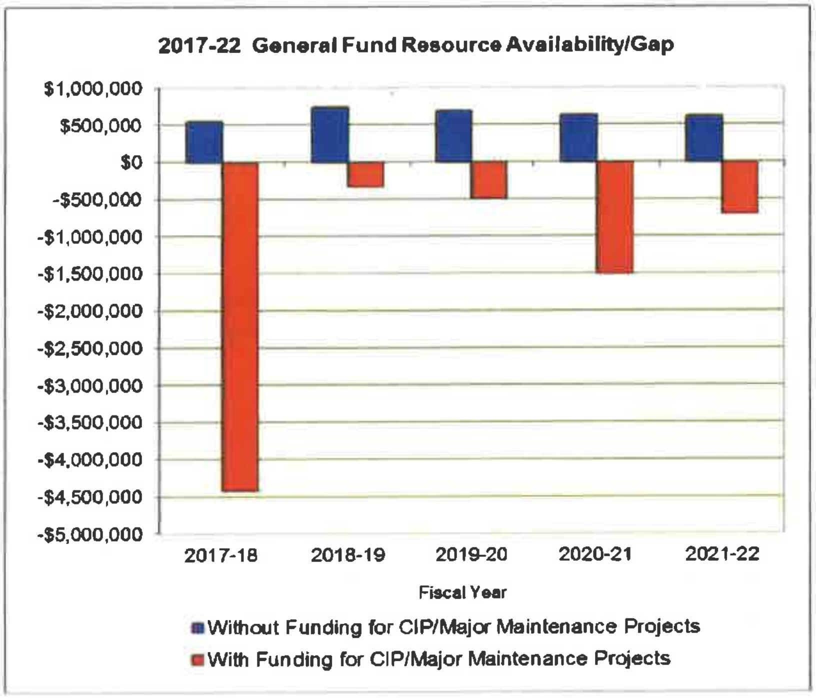
The Short Story

- The General Fund is in good shape in funding operating costs.
- However, there are significant challenges ahead in funding CIP and major maintenance projects (let alone improving service levels or addressing long-term liabilities).



Funding Operating Costs. As shown in the sidebar chart, forecast revenues exceed *operating* costs in every year, with an average "resource availability" of $643,000 annually. The projected ending fund balance increases to $11.8 million by the end of the forecast period (2021-22), about $3.4 million above the policy minimum.

These resources are available to fund improved service levels, CIP/major maintenance projects or address long-term liabilities like pensions and retiree health care. Put in perspective, this would allow a comparable level of funding to 2016-17, where in addition to operations the General Fund supported $500,000 in paving projects.



Funding With CIP/Major Maintenance Projects. The sidebar chart compares the forecast results for operating costs with what happens if CIP/Major Maintenance Projects are included in the forecast. (The basis for the CIP/Major Maintenance Projects is discussed below.)

Instead of projecting a "resource availability" of about $643,000 annually, the forecast shows an annual average "gap" of about $1.5 million when CIP/Major Maintenance Projects are included. The resulting ending fund balance would be $7.3 million below the policy minimum.

The Path Forward. As discussed below, there are several options available in funding CIP/Major Maintenance Projects (in full or part) that would result in a balanced budget and reserves at minimum policy levels, including:

- Using reserves to minimum policy levels.
- Debt financing some of the CIP projects.
- New revenues (which will require voter approval).
- Combination of these three.

Caveat: The Forecast Reflects Cautious Optimism. As discussed in more detail later in this report, the continued growth in the economy (and related growth in City revenues) is not a sure thing. At 92 months, the nation is now in its third longest period of economic expansion in over 80 years. And it is quickly closing in on the other two: 106 months of sustained economic growth (almost nine years) from 1961 to 1969; and 120 months (ten years) from 1991 to 2001. In short, avoiding a downturn over the next five years would mean setting a new post-Great Depression record for economic expansion.

Accordingly, with prospects of a favorable fiscal outlook, the City should strongly consider using available resources in funding CIP/Major Maintenance Projects and/or addressing its unfunded pension and retiree health liabilities before expanding operating program costs.

- Allocating funds for one-time CIP/major maintenance projects has the advantage of addressing infrastructure and facility needs, while positioning the City for the next downturn. Stated simply, it is much easier to reduce projects than it is to cut operating programs and staff.

- In the case of unfunded pension and retiree health liabilities, using funds for this purpose will reduce future year costs and reflects an implied 7.0% return on funds compared with current yields of 1.25% from investments in the City's portfolio.

Key Forecast Drivers

Assumptions drive the forecast results, which are detailed on pages 15 to 17. Stated simply, if the assumptions change, the results will change. As prefaced in the *General Fiscal Outlook* presented to the Council in December 2016, there are eight key drivers underlying the forecast results:

- General economic trends and outlook
- State budget situation
- Current financial condition
- Key revenues
- Operating cost drivers, including Sheriff contract renewal and unfunded liabilities for pensions and retiree health care
- General Fund subsidies
- Population growth and development
- Capital improvement plan

❶ *General Economic Trends and Outlook*

Where we are today. We have seen consistent growth nationally and in the State for more than seven years.

- National unemployment is 4.5%, down from peak of 10.0%.
- California unemployment is 5.0%, down from peak of 12.2%.
- The stock market has rebounded strongly: the Dow Jones Industrial Average has increased from a low in March 2009 of 6,500 to historic highs of about 21,000; and at over 2,300, the S&P 500 is also at historically high levels.
- Corporate earnings are up, with record highs nationally.
- The banking system is healthier.
- Interest rates continue to be low by historic standards (although access to credit is tougher).
- Housing prices have recovered (although this has resulted in affordability challenges).

Where we're headed. While there is uncertainty, many economists do not see significant economic storm clouds on horizon for the nation or the State.

- The Legislative Analyst's Office (LAO) – one of the most credible sources on State economic and fiscal issues – assumes modest growth nationally and strong economic performance in the State through 2018.

- Beacon Economics – also highly regarded for its State and regional economic forecasts – sees State unemployment staying below 5.5% though 2018, with continuing (albeit modest) growth in employment, personal income and taxable retail sales.

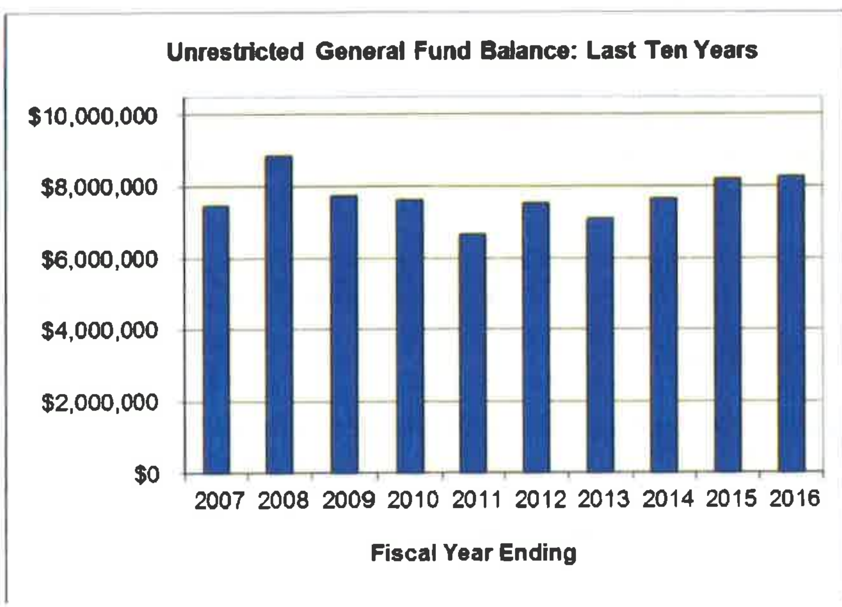
However, at 92 months, we are now in the third longest period of economic expansion in over 80 years; and closing in on the other two.

Stated simply, we're due for a downturn. Based on long-term trends, there is reasonable likelihood that we will experience some level of economic downturn over the next five years. Avoiding this would mean setting a new post-Great Depression record for economic expansion.

What this means for the City. Property tax, sales tax and transient occupancy tax (TOT) revenues account for about 85% of General Fund revenues (excluding transfers). These are driven by performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. While no significant economic downturns that will impact key General Fund revenues are projected in the forecast, this is not a sure thing.

2 Current Strong Financial Condition

The following chart shows the City's General Fund balance for the past ten years. In each year, the City exceeds its minimum policy. It also shows that reserves have remained relatively constant, which means that the City has been able to respond to tough fiscal times without relying on significant drawdowns on its reserves.



This was not the case for many cities in California. In short, as noted in the *General Fiscal Outlook,* while the City has not been immune from adverse economic forces resulting from the Great Recession and State takeaways, it has been more successful than many other communities in California in weathering these fiscal storms.

June 30, 2016 Ending General Fund Balance. As shown below, the City ended 2015-16 with General Fund balances that are $1.7 million higher than the policy minimum. This will serve the General Fund well in meeting the challenges ahead.

General Fund Balance	Amount
Unspendable/Restricted	408,518
Unrestricted General Fund Balance	
Financial and economic uncertainty	4,402,285
Capital asset replacement	1,039,531
Special projects	1,086,410
Unassigned	**1,734,662**
Total Unrestricted Fund Balance, June 30, 2016	8,262,888
Total Fund Balance, June 30, 2016	$8,671,406

2015-16 Audited Fund Balance

❸ *State Budget Outlook*

Over the past twenty-five years, the greatest fiscal threat to cities in California has not been economic downturns, dotcom meltdowns or corporate scandals, but rather, State takeaways. These included 20% reductions in property tax revenues in transferring revenues to schools via the Education Revenue Augmentation Fund (which in turn allowed the State to reduce its funding to schools by a commensurate amount), property tax administration fees, unfunded State mandates and most recently, dissolution of redevelopment agencies. These takeaways were on top of the fiscal challenges facing cities in light of their own revenue declines and cost pressures.

Fortunately, due to an improving economy combined with tax increases, constrained spending and more prudent fiscal policies (including required contributions to reserves), the State is in its best financial condition in many years. Accordingly, there are no further takeaways on the horizon – but neither are there any suggested restorations of past takeaways.

That said, while there are added constitutional protections in place since the last State raids on local finances, five years is a long time for the State to leave cities alone.

❹ *Key Revenues*

Based on trends for the past ten years (detailed on pages 27 and 28), it is clear the City has recovered from the Great Recession. The forecast generally assumes continued growth in the City's top three revenues – property tax, sales tax and transient occupancy tax (TOT). Together, these three sources account for 85% of General Fund revenues (excluding transfers in).

❺ ***Operating Costs Expenditures***

There are four key operating cost assumptions reflected in the forecast, which are described in greater detail on pages 15 and 16.

- **Operating cost "baseline."** The 2016-17 Budget is the "baseline" for the forecast. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding retirement costs, Sheriff contract costs and retiree health care.
- **CalPERS retirement costs.** Significant increases in retirement costs are assumed based on projections provided by the California Public Employees Retirement System (CalPERS).
- **Sheriff contract costs.** Excluding transfers out, these costs account for 40% of General Fund operating costs. As shown on page 29, increases in Sheriff contract costs have been modest over the past eight years. However, there are two factors that are likely to have an adverse impact on this key cost area: the current five-year contract with the County is coming to an end and is subject to renegotiation; and the County's Retirement System Board recently approved a reduction in the discount rate (investment yield) from 7.5% to 7.0%. As discussed on pages 30 to 33, while this change may appear modest, it will have a significant impact on annual pension costs, which will affect contract costs.
- **Retiree health care costs.** Under the City's "pay-as-you-go cost" approach to funding this obligation (versus funding on actuarial basis), this cost is modest at this time. However, it is likely to grow at a rate greater than inflation over the next five years.

❻ ***General Fund Subsidies***

As summarized below for 2016-17, the General Fund provides significant operating subsidies to four funds:

2016-17 Budget: General Fund Subsidies	
Park Development	34,149
Park Maintenance	154,299
ROW Assessment	97,597
Recreation Services	212,776
Total	$498,821

These subsidies are largely due to structural imbalances between revenues – which in the case of assessments are fixed – and increased costs due to aging infrastructure and deferred maintenance. As discussed on page 16, continued subsidies to these five funds are projected over the next five years.

❼ ***Population Growth and Development***

The City's population of about 14,000 has remained virtually unchanged over the past ten years. While there are some new residential developments in the pipeline, they are not likely to cause either significant operating revenue or cost increases over the next five years. On the other hand, there are two hotel projects (one on City property) and a business park development that may come on line in the next five years that could favorably affect General Fund revenues. However, these will be subject to discretionary reviews, and in the case of the potential hotel on City property, significant negotiations.

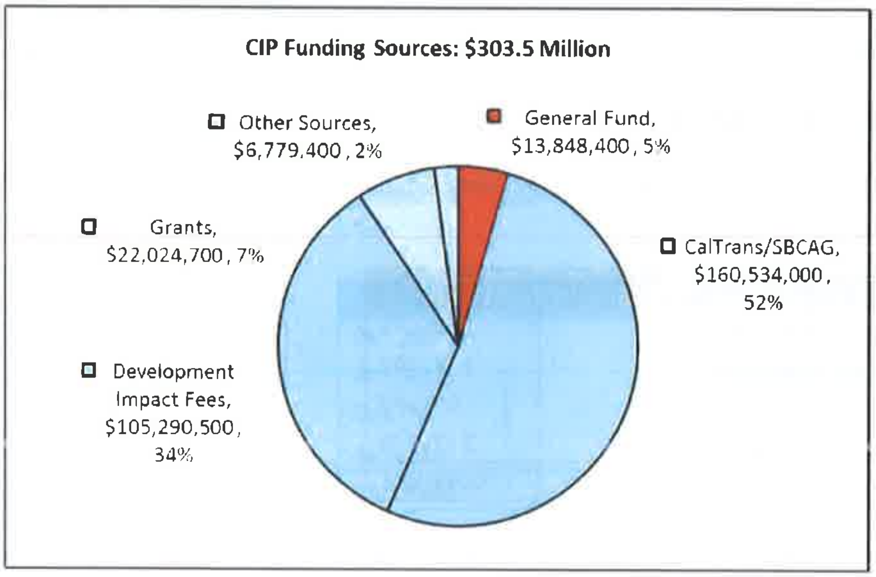
Regardless of City approvals, it is uncertain what the market for these projects will look like three to five years from now. Accordingly, no new revenues from new development are projected in the forecast.

❽ ***Capital Improvements and Major Maintenance Projects***

Five -Year CIP. In December 2016, the Council began consideration of a comprehensive, long-term CIP that covers needed improvements in wide range of areas, including general facilities, transportation, storm drainage and parks/recreation.

Based on the draft CIP, with some updates to costs, total costs are $303.5 million. However, this cost will be expended over a long period of time and funded from a variety of sources. For the purpose of this forecast and developing assumptions for CIP costs, City staff have prepared an initial assessment of funding sources and phasing for the next five years.

Based on this assessment, the following is a summary of funding sources:



As reflected in this summary, after estimates for funding from CalTrans and the Santa Barbara County Association of Governments (SBCAG), development impact fees, grants and other sources (such as Measure A, developer reimbursements and the Gas Tax, Lighting and Parking Funds), the General Fund share is estimated at $13.8 million.

The following is a summary of phasing assumptions for General Fund CIP projects for the next five years (with totals for the "out years"):

General Fund Capital Improvement Plan

Project	2017-18	2018-19	2019-20	2020-21	2021-22	Out-Years	Total
City Hall Remodeling/Reconfiguration	2,242,000						2,242,000
EOC/Sheriff Sub-Station Construction						5,000,000	5,000,000
Public Works Yard Cover Structure						785,000	785,000
Public Works Shop Fire Sprinkler System		138,000					138,000
City Hall HVAC			238,000				238,000
City Hall Painting						157,000	157,000
MTD City Hall Electric Station Relocation				500,000			500,000
Parking Lot #1 Reconfiguration					377,500		377,500
Parking Lot #2 Reconstruction	1,387,000						1,387,000
Parking Lot #1 Closure of Street Access from Linden to Holly				700,000			700,000
Playground Structure Replacement						1,012,000	1,012,000
Linden Avenue Beach End Beautification						94,400	94,400
El Carro Park Parking Lot Redesign						817,000	817,000
Storm Drain System Retrofit Program	400,500						400,500
Total	$4,029,500	$138,000	$238,000	$1,200,000	$377,500	$7,865,400	$13,848,400

Major Maintenance Projects. The long-term CIP only addresses "improvement" projects: it does not address "major maintenance" such as street paving and sidewalk maintenance and repair. For the purpose of assumptions in the forecast, City staff has prepared an assessment of "major maintenance" needs, which results in the following average annual costs:

Major Maintenance Projects Funding Sources

Category	**General Fund**	Gas Tax	Measure A	ROW	Total	Fiscal Year
Street Trees				93,750	93,750	2017-18
Curb & Gutter & Sidewalk		234,375	234,375		468,750	
Pavement	937,500				937,500	
Total	**937,500**	**234,375**	**234,375**	**93,750**	**1,500,000**	
Street Trees				93,750	93,750	2018-19
Curb & Gutter & Sidewalk		234,375	234,375		468,750	
Pavement	937,500				937,500	
Total	**937,500**	**234,375**	**234,375**	**93,750**	**1,500,000**	
Street Trees				93,750	93,750	2019-20
Curb & Gutter & Sidewalk		234,375	234,375		468,750	
Pavement	937,500				937,500	
Total	**937,500**	**234,375**	**234,375**	**93,750**	**1,500,000**	
Street Trees				93,750	93,750	2020-21
Curb & Gutter & Sidewalk		234,375	234,375		468,750	
Pavement	937,500				937,500	
Total	**937,500**	**234,375**	**234,375**	**93,750**	**1,500,000**	
Street Trees				93,750	93,750	2021-22
Curb & Gutter & Sidewalk		234,375	234,375		468,750	
Pavement	937,500				937,500	
Total	**937,500**	**234,375**	**234,375**	**93,750**	**1,500,000**	

As reflected above, the forecast assumption for General Fund major maintenance projects is $937,500 annually, compared with $500,000 in the 2016-17 Budget. This results in the following cost assumptions for combined General Fund CIP/Major Maintenance Projects costs:

General Fund CIP/Major Maintenance Projects					
Project	2017-18	2018-19	2019-20	2020-21	2021-22
CIP Projects	4,029,500	138,000	238,000	1,200,000	377,500
Major Maintenance Projects	937,500	937,500	937,500	937,500	937,500
Total	$4,967,000	$1,075,500	$1,175,500	$2,137,500	$1,315,000

Forecast Gap vs Budget Deficit

In those years where expenditures are greater than revenues due to CIP/Major Maintenance Projects, this forecast does not project a "budget deficit." Stated simply, a projected "forecast gap" is not the same as a "budget deficit." The City will have a budget deficit only if it does nothing to take corrective action. However, by looking ahead and making the tough choices necessary "*today*" to close any potential *future* gaps, the City will avoid incurring real deficits.

FORECAST FRAMEWORK

Background

There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or preparing various "scenarios" based on a combination of possible assumptions for revenues and expenditures. This forecast uses the "one set of assumptions" approach as being the most useful for policy-making purposes. However, it presents two "what ifs:"

- Operating Costs
- Operating Costs with CIP/Major Maintenance Projects. The assumptions in this case are the same as the "Operating Costs" forecast with the addition of CIP/Major Maintenance Projects.

The financial model used in preparing this forecast can easily accommodate a broad range of other "what if" scenarios.

Demographic and Financial Trends

The past doesn't determine the future. However, if the future won't look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City's fiscal outlook? Accordingly, one of the first steps in preparing the forecast is to take a detailed look at key demographic, economic and fiscal trends over the past ten years.

A summary of key indicators is provided in the *Trends* section of this report beginning on page 22. Areas of particular focus included:

- ***Demographic and Economic Trends.*** Economic trends, housing, population and inflation as measured by changes in the consumer price index (CPI).

- ***Revenues Trends.*** Focused on the City's top three General Fund revenues – property taxes, TOT and sales – which together account for about 85% of total General Fund revenues (excluding transfers in).

- ***Expenditure Trends.*** Overall trends in key expenditure areas, including sheriff contract costs, insurance, pensions and retiree health care.

Forecast Assumptions

As noted above, assumptions drive the forecast results. Sources used in developing forecast projections include:

- Long and short-term trends in key City revenues and expenditures.

- Economic trends as reported in the national media.

- Statewide and regional economic forecasts prepared by the University of California, Los Angeles, University of California, Santa Barbara, California Economic Forecast and Beacon Economics.

- Economic and fiscal information developed by the State Legislative Analyst (LAO), State Department of Finance and State Controller.

- Fiscal and legislative analysis by the League of California Cities.

- Analysis by the City's sales tax advisor (HdL Companies).

- Five-year employer contribution rate projections prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about performance of the local economy during the next five years, and how these will affect General Fund revenues and expenditures. A detailed description of the assumptions used in the forecast and the resulting projections are provided on pages 18 to 21.

What's Not in the Forecast

Grant Revenues. For operations, the forecast does not reflect the receipt of any "competitive" grant revenues over the next five years. However, based on past experience, it is likely that the City will be successful in obtaining grants for operating purposes. However, these are typically for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's. Moreover, experience shows given federal and state budget challenges, the amount of available grant funding is more likely to decline over the next five years than increase.

Operating Needs Not Funded in the 2016-17 Budget. It is likely that there are City needs that are not reflected in the 2016-17 Budget.

Transportation Funding Package Currently Under Consideration. It appears that the Governor and Legislature leadership have agreed on new transportation funding with substantial increases for state highways, public transportation and local streets and roads ("Road Repair and Accountability Act of 2017"). Based on analysis by the League of California Cities, this could result in added City revenues for street purposes of $80,000 in 2017-18 (partial year) and $239,000 annually thereafter if the package is approved as currently proposed.

What's Most Likely to Change?

By necessity, the forecast is based on a number of assumptions. The following summarizes key areas where changes from forecast assumptions are most likely over the next five years:

Top Revenue Projections. These are directly tied to the performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. As noted above, no significant economic downturns that will impact key General Fund revenues are projected in the forecast. However, it bears repeating that this is not a sure thing.

Revenue Projections from New Development. While none are reflected in the forecast, it is possible that some of the hotel and business park projects on the radar could move faster. If that's the case, then revenues – at least in the forecast out-years – may be better than the forecast.

Insurance Costs. Consistent with the assumption of using the 2016-17 Budget as the "baseline," the forecast assumes that general liability and workers' compensation and property insurance costs will grow by inflation (2% annually). However, in the past this has been a volatile cost for many cities in California (and the City's experience has shown the potential for wide swings as well). While loss experience plays a role, higher costs can also be incurred resulting from volatility in the financial markets. This can often have a far greater impact on insurance costs than actuarial loss experience.

Retirement Costs. The forecast uses CalPERS' rate projections for the next five years. While this is a reasonable assumption, experience has shown the potential for even steeper increases in employer contribution costs.

THE PATH FORWARD

As discussed above, the City is in good fiscal shape in funding operating costs – which has been the focus of past City budgets – with projected revenues exceeding operating costs by about $643,000 annually.

However, the forecast also shows an annual average "gap" of about $1.5 million when CIP/Major Maintenance Projects are included. The resulting ending fund balance would be $7.3 million below the policy minimum.

There are several options available in funding CIP/Major Maintenance Projects (in full or part) that would result in a balanced budget and reserves at minimum policy levels, including:

- Using reserves to minimum policy levels.
- Debt financing.
- New revenues (which will require voter approval).
- Combination of these three.

Using Reserves to Minimum Policy Levels. The forecast shows that without CIP/Major Maintenance Projects, the General Fund balance will rise to $3.4 million above the policy minimum. This could be used to partially fund the $10.7 million in projects assumed in the forecast.

Debt Financing. While there might be others, the City Hall Remodeling/Reconfiguration project is an excellent candidate for debt financing: it is a "lumpy" cost in the CIP; will serve the City for many years; and will result in very low debt service costs relative to General Fund revenues. For example, if financed for 15 years with conservatively estimated interest rate of 4%, annual debt service would be about $165,000. This represents less than 2% of General Fund sources and would leave about $2.6 million in available reserves for other projects on a "pay-as-you-go" basis, recognizing that there are likely to be competing interest for funds.

New Revenues. As discussed in the *New Revenue Options* section (pages 35 to 43), there are a wide variety of new revenue sources available to the City. This includes:

- Local option sales
- TOT
- Utility users tax
- Business license tax
- Parcel tax

However, as discussed in the side-bar, they virtually all require voter approval:

- Majority voter approval if for general purposes.
- Two-third voter approval if for special purposes or a parcel tax.

While discussed in greater detail in the *New Revenue Options* section, the most likely new revenue source that will meet the City's CIP/Major Maintenance Projects goals is a local option sales tax of ½-percent, which will generate about $1 million annually.

Council Approved Revenues

As discussed on the *New Revenue Options* section, the Council has very limited ability in approving new revenues for operating programs. The primary option is user fee cost recovery.

In February 2017, the Council reviewed a comprehensive cost of services study that assessed current costs and fees. Based on adopted cost recovery policies, the Council approved modest fee increases that are projected to raise about $156,000 annually in added revenues. This increase is reflected in the forecast beginning in 2017-18.

As such, given this recent review, voter-approved revenues are virtually all that remain as new revenue sources. The only other viable Council-approved option would be to increase the solid waste franchise agreement. However, this is not wholly within the Council' discretion: it would require the approval of the franchisee via a renegotiated agreement.

If this (or any other new revenue source) is proposed as a general-purpose tax, the soonest that a revenue measure could be placed before voters is November 2018, in conjunction with Council elections as required by the State Constitution. (Ballot measures for special purposes, or general purposes with unanimous Council declaration of a fiscal emergency, can be held at any time).

As discussed below, preparation for successful revenue ballot measure typically takes 12 to 18 months, so November 2018 is not far away.

Combination of Options. Rather than relying on only one option, the City could use a combination of them.

CONCLUSION

Favorable Outlook in Funding Operating Costs. The City is in good fiscal shape in funding operating costs – which has been the focus of past City budgets – with projected revenues exceeding operating costs by about \$643,000 annually. This would provide for funding Major Maintenance Projects at a similar level (\$500,000) as the 2016-17 Budget. The projected ending fund balance at the end of the forecast period (2021-22) would be about \$3.4 million above the policy minimum.

However, given the uncertainties ahead, the City should strongly consider using available resources in funding CIP/Major Maintenance Projects and/or addressing its unfunded pension and retiree health liabilities before expanding operating programs.

Challenges Ahead in Funding CIP/Major Maintenance Projects. The forecast shows an annual average "gap" of about \$1.5 million when CIP/Major Maintenance Projects are included. The resulting ending fund balance would be \$7.3 million below the policy minimum.

The Path Ahead. This report identifies three basic options for funding CIP/Major Maintenance Projects. Two of these – using reserves and debt financing for the City Hall Remodeling/Reconfiguration project – can be approved by the Council. However, any new revenue sources (except potentially an increase in solid waste franchise fees) will require voter approval.

KEY ASSUMPTIONS

DEMOGRAPHIC TRENDS

Population. Based on recent trends, no change in population (either up or down) is projected to materially affect revenues or expenditures over the next five years.

Inflation. Based on long-term trends and projections in recent statewide and regional forecasts, inflation – as measured by the consumer price index (CPI) – grows by 2% annually throughout the forecast period.

ECONOMIC OUTLOOK

At 92 months, the nation is now in its third longest period of economic expansion in over 80 years. And it is quickly closing in on the other two: 106 months of sustained economic growth (almost nine years) from 1961 to 1969; and 120 months (ten years) from 1991 to 2001. In short, avoiding a downturn over the next five years would mean setting new post-Great Depression record for economic expansion. Nonetheless, many economists do not see significant economic storm clouds on horizon for the nation or the State. Accordingly, no significant economic downturns that will impact key General Fund revenues are projected in the forecast. However, this is far from a sure thing.

EXPENDITURES

Operating Costs. The adopted 2016-17 Budget is the "baseline" for the forecast operating expenditures. From this, operating costs are projected to increase by inflation (projected at 2% annually), with the notable exception of retirement, Sheriff contract and retiree health care costs.

CalPERS. Based on projections provided by the California Public Employees Retirement System (CalPERS), these costs are projected to rise significantly. Accordingly, detailed cost projections based on factors provided by CalPERS have been separately calculated.

The underlying factors driving the increases are described in the *Trends* section of this report beginning on page 30. Based on these factors, the detail calculations for projecting retirement costs are provided on page 20.

Sheriff Contract Costs. As discussed in the *Trends* section of this report beginning on page 29, increases in Sheriff contract costs have been modest over the past eight years. However, there are two factors that are likely to have an adverse impact on this key cost area: the current five-year contract with the County is coming to an end and is subject to renegotiation; and the County's Retirement System Board recently approved a reduction in the discount rate (investment yield) from 7.5% to 7.0%. While this change may appear modest, it will have a significant impact on annual pension costs.

Based on this, the forecast assumes a 3.5% annual increase in Sheriff contract costs.

Retiree Health Care. Under the City's "pay-as-you-go cost" approach to funding this obligation (versus funding on actuarial basis), this cost is modest at this time. However, it is projected to increase by 10% annually over the next five years.

Other Operating Costs. The forecast assumption of 2% for operating cost increases (aside from retirement costs) based on CPI is lower than past trends. This is based on the following factors:

KEY ASSUMPTIONS

- In preparing and reviewing expenditure trends, special attention was focused separately on key "external" drivers like insurance, CalPERS retirement, retiree health care and Sheriff contract costs. Based on past trends for general liability and workers' compensation insurance costs (pages 29 and 30), these expenditures appeared to have stabilized and are not expected to exceed the CPI assumption.
- In the case of retirement costs, as noted above, these were prepared separately based on rate and cost information provided by CalPERS.
- And separate assumptions have been made for Sheriff contract and retiree health care.
- After accounting for these four external drivers, the remaining costs are largely within the control of the City. Staffing costs account for about one-third of operating expenditures. Setting aside the four costs that are accounted for separately, staffing costs rise (or fall) based on one of two factors: authorized staffing levels and compensation. Both are within the control of the City. Since this report is a forecast and not the Budget, CPI is a reasonable basis for projecting these other costs.

Accordingly, given the underlying assumptions of current service levels (and thus staffing), the forecast projects that core operating costs will increase from the 2016-17 baseline by projected increases in the CPI.

Capital Improvement Plan (CIP)/Major Maintenance Projects. Expenditures are based on funding and phasing assessments prepared by City staff. These are presented on pages 8 to 10, summarized as follows for the General Fund for the next five years:

General Fund CIP/Major Maintenance Projects					
Project	2017-18	2018-19	2019-20	2020-21	2021-22
CIP Projects	4,029,500	138,000	238,000	1,200,000	377,500
Major Maintenance Projects	937,500	937,500	937,500	937,500	937,500
Total	$4,967,000	$1,075,500	$1,175,500	$2,137,500	$1,315,000

INTERFUND TRANSFERS

Transfers in and out, including fund subsidies, are based on the 2016-17 Budget (excluding transfers to the Measure A Fund) and increase annually based on changes in the CPI (2% per year).

STATE BUDGET ACTIONS

The forecast assumes no added cuts nor restoration of past cuts to cities.

REVENUES

Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.
- State and regional economic forecasts prepared by the University of California, Los Angeles; University of California, Santa Barbara; California Economic Forecast; and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst (LAO), State Department of Finance and State Controller.

- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales tax advisor (HdL Companies).

Ultimately, however, in close consultation with City staff, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next five years and how these will affect General Fund revenues.

Top Three Revenues

The following describes the assumptions for the "Top Three" revenues in the forecast, which account for 85% of total projected General Fund revenues (excluding transfers).

Property Tax. This revenue source is driven by changes in assessed value. Following strong growth for the last two years, the forecast assumes modest "baseline" growth throughout the forecast period as follows:

2017-18	5.0%
2018-19	5.0%
2019-20	4.0%
2020-21	4.0%
2021-22	4.0%

Transient Occupancy Tax. Transient occupancy taxes (TOT), which are based on hotels and short-term vacation rentals, increased significantly from 2013-14 to 2014-15 (by 23%), leveling off in 2015-16. This flattening is likely due to the current moratorium on new short-term vacation rental permits. New short-term vacation rental regulations go into effect July 1, 2017, and will allow for a small amount of growth in the number of vacation rental units in the designated district. For this reason, growth of 2% based on inflation is projected in the first year of the forecast, increasing thereafter to 4% with a modest increase in short-term vacation rentals:

2017-18	2.0%
2018-19	4.0%
2019-20	4.0%
2020-21	4.0%
2021-22	4.0%

Sales Tax. The forecast assumes modest growth in sales tax revenues base on inflation of 2.0% annually.

Other Revenues

These are projected to remain flat or grow modestly by inflation (2%) during the forecast period, with one exception: based on Council adoption of a comprehensive Cost of Services Study in February 2017, the forecast projects added revenues of $156,000 (based on estimates in the Study) for Service Charges beginning in 2017-18.

Operating Costs

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2017-2022

	2014-15	2015-16	2016-17		FORECAST				
	Actual	Actual	Budget	Revised	2017-18	2018-19	2019-20	2020-21	2021-22
REVENUES									
Taxes and Franchise Fees									
Property Tax	$2,962,900	$3,142,600	$3,218,500	$3,299,700	$3,464,700	$3,637,900	$3,783,400	$3,934,700	$4,092,100
Transient Occupancy Tax	2,369,800	2,379,800	2,449,900	2,427,400	2,475,900	2,525,400	2,626,400	2,731,500	2,840,800
Sales Tax	2,054,000	2,090,000	2,104,000	2,131,800	2,174,400	2,217,900	2,262,300	2,307,500	2,353,700
Franchise Fees	634,800	660,200	614,800	673,400	686,900	700,600	714,600	728,900	743,500
Other Taxes	140,800	160,600	132,900	163,800	167,100	170,400	173,800	177,300	180,800
From Other Governments	235,000	33,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300
Service Charges	517,900	567,600	494,900	542,800	709,700	723,900	738,400	753,200	768,300
Other Revenues									
Interest Earnings and Rents	(86,300)	172,500	105,600	105,600	105,600	105,600	105,600	105,600	105,600
Other Revenues	88,700	95,500	102,700	102,700	102,700	102,700	102,700	102,700	102,700
Total Revenues	**8,917,600**	**9,302,100**	**9,250,600**	**9,474,500**	**9,914,300**	**10,211,700**	**10,534,500**	**10,868,700**	**11,214,800**
EXPENDITURES									
Operating Programs	7,851,900	8,106,300	8,743,800	8,743,800	9,038,700	9,243,600	9,614,400	10,005,600	10,360,300
Debt Service	176,100	109,000	111,400	111,400	111,400	-	-	-	-
Capital Outlay	11,700	59,800	44,000	44,000	50,000	50,000	50,000	50,000	50,000
Total Expenditures	**8,039,700**	**8,275,100**	**8,899,200**	**8,899,200**	**9,200,100**	**9,293,600**	**9,664,400**	**10,055,600**	**10,410,300**
CIP/Major Maintenance Projects									
OTHER SOURCES (USES)									
Transfers In	568,600	647,900	608,700	608,700	620,900	633,300	646,000	658,900	672,100
Transfers Out									
Fund Subsidies	(448,800)	(551,400)	(498,800)	(498,800)	(508,800)	(519,000)	(529,400)	(540,000)	(550,800)
Measure A Fund: Paving		(500,000)	(500,000)	(500,000)	-	-	-	-	-
Other Funds	(304,500)	(378,900)	(279,900)	(279,900)	(285,500)	(291,200)	(297,000)	(302,900)	(309,000)
Total Other Sources (Uses)	**(184,700)**	**(782,400)**	**(670,000)**	**(670,000)**	**(173,400)**	**(176,900)**	**(180,400)**	**(184,000)**	**(187,700)**
Sources Over (Under) Uses	**693,200**	**244,600**	**(318,600)**	**(94,700)**	**540,800**	**741,200**	**689,700**	**629,100**	**616,800**
FUND BALANCE, BEGINNING OF YEAR	7,733,600	8,426,800	8,428,500	8,671,400	8,576,700	9,117,500	9,858,700	10,548,400	11,177,500
FUND BALANCE, END OF YEAR	**8,426,800**	**8,671,400**	**8,109,900**	**8,576,700**	**9,117,500**	**9,858,700**	**10,548,400**	**11,177,500**	**11,794,300**
GENERAL FUND BALANCE, END OF YEAR									
Unspendable/Restricted	$221,300	$408,500	$408,500	$408,500	$408,500	$408,500	$408,500	$408,500	$408,500
Committed									
Financial and Economic Uncertainty Reserve: 55% of Annual General Fund	4,126,300	4,402,300	4,894,600	4,894,600	5,060,100	5,111,500	5,315,400	5,530,600	5,725,700
General Reserve Fund: $1,000,000 Minimum	1,076,700	1,086,400	1,094,500	1,102,700	1,111,000	1,119,300	1,127,700	1,136,200	1,144,700
Major Asset Replacement and Repair Reserve: $1,000,000 Whenever Possible	1,030,100	1,039,500	1,047,300	1,055,200	1,063,100	1,071,100	1,079,100	1,087,200	1,095,400
Unassigned	1,972,400	1,734,700	665,000	1,115,700	1,474,800	2,148,300	2,617,700	3,015,000	3,420,000
Total	**8,426,800**	**8,671,400**	**8,109,900**	**8,576,700**	**9,117,500**	**9,858,700**	**10,548,400**	**11,177,500**	**11,794,300**

Operating Costs and CIP/Major Maintenance Projects

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2017-2022

	2014-15	2015-16	2016-17		FORECAST				
	Actual	Actual	Budget	Revised	2017-18	2018-19	2019-20	2020-21	2021-22
REVENUES									
Taxes and Franchise Fees									
Property Tax	$2,962,900	$3,142,600	$3,218,500	$3,299,700	$3,464,700	$3,637,900	$3,783,400	$3,934,700	$4,092,100
Transient Occupancy Tax	2,369,800	2,379,800	2,449,900	2,427,400	2,475,900	2,525,400	2,626,400	2,731,500	2,840,800
Sales Tax	2,054,000	2,090,000	2,104,000	2,131,800	2,174,400	2,217,900	2,262,300	2,307,500	2,353,700
Franchise Fees	634,800	660,200	614,800	673,400	686,900	700,600	714,600	728,900	743,500
Other Taxes	140,800	160,600	132,900	163,800	167,100	170,400	173,800	177,300	180,800
From Other Governments	235,000	33,300	27,300	27,300	27,300	27,300	27,300	27,300	27,300
Service Charges	517,900	567,600	494,900	542,800	709,700	723,900	738,400	753,200	768,300
Other Revenues									
Interest Earnings and Rents	(86,300)	172,500	105,600	105,600	105,600	105,600	105,600	105,600	105,600
Other Revenues	88,700	95,500	102,700	102,700	102,700	102,700	102,700	102,700	102,700
Total Revenues	**8,917,600**	**9,302,100**	**9,250,600**	**9,474,500**	**9,914,300**	**10,211,700**	**10,534,500**	**10,868,700**	**11,214,800**
EXPENDITURES									
Operating Programs	7,851,900	8,106,300	8,743,800	8,743,800	9,038,700	9,243,600	9,614,400	10,005,600	10,360,300
Debt Service	176,100	109,000	111,400	111,400	111,400	-	-	-	-
Capital Outlay	11,700	59,800	44,000	44,000	50,000	50,000	50,000	50,000	50,000
Total Expenditures	**8,039,700**	**8,275,100**	**8,899,200**	**8,899,200**	**9,200,100**	**9,293,600**	**9,664,400**	**10,055,600**	**10,410,300**
CIP/Major Maintenance Projects					4,967,000	1,075,500	1,175,500	2,137,500	1,315,000
OTHER SOURCES (USES)									
Transfers In	568,600	647,900	608,700	608,700	620,900	633,300	646,000	658,900	672,100
Transfers Out									
Fund Subsidies	(448,800)	(551,400)	(498,800)	(498,800)	(508,800)	(519,000)	(529,400)	(540,000)	(550,800)
Measure A Fund: Paving		(500,000)	(500,000)	(500,000)	-	-	-	-	-
Other Funds	(304,500)	(378,900)	(279,900)	(279,900)	(285,500)	(291,200)	(297,000)	(302,900)	(309,000)
Total Other Sources (Uses)	**(184,700)**	**(782,400)**	**(670,000)**	**(670,000)**	**(173,400)**	**(176,900)**	**(180,400)**	**(184,000)**	**(187,700)**
Sources Over (Under) Uses	**693,200**	**244,600**	**(318,600)**	**(94,700)**	**(4,426,200)**	**(334,300)**	**(485,800)**	**(1,508,400)**	**(698,200)**
FUND BALANCE, BEGINNING OF YEAR	7,733,600	8,426,800	8,428,500	8,671,400	8,576,700	4,150,500	3,816,200	3,330,400	1,822,000
FUND BALANCE, END OF YEAR	**8,426,800**	**8,671,400**	**8,109,900**	**8,576,700**	**4,150,500**	**3,816,200**	**3,330,400**	**1,822,000**	**1,123,800**
GENERAL FUND BALANCE, END OF YEAR									
Unspendable/Restricted	$221,300	$408,500	$408,500	$408,500	$408,500	$408,500	$408,500	$408,500	$408,500
Committed									
Financial and Economic Uncertainty Reserve: 55% of Annual General Fund	4,126,300	4,402,300	4,894,600	4,894,600	5,060,100	5,111,500	5,315,400	5,530,600	5,725,700
General Reserve Fund: $1,000,000 Minimum	1,076,700	1,086,400	1,094,500	1,102,700	1,111,000	1,119,300	1,127,700	1,136,200	1,144,700
Major Asset Replacement and Repair Reserve: $1,000,000 Whenever Possible	1,030,100	1,039,500	1,047,300	1,055,200	1,063,100	1,071,100	1,079,100	1,087,200	1,095,400
Unassigned	1,972,400	1,734,700	665,000	1,115,700	(3,492,200)	(3,894,200)	(4,600,300)	(6,340,500)	(7,250,500)
Total	8,426,800	8,671,400	8,109,900	8,576,700	4,150,500	3,816,200	3,330,400	1,822,000	1,123,800

ASSUMPTIONS SUMMARY

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Population		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
REVENUES & OTHER SOURCES							
Property Tax		5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
Transient Occupancy Tax		2.0%	2.0%	4.0%	4.0%	4.0%	4.0%
Sales Tax		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Franchise Fees		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Taxes		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
From Other Governments		Budget	Flat	Flat	Flat	Flat	Flat
Service Charges: Average of Prior 2 Year Actual as Base		542,800	2.0%	2.0%	2.0%	2.0%	2.0%
Plus $156,000 for added revenues from 2017 Cost of Services Study beginning 2017-18		156,000					
Other Revenues		Budget	Flat	Flat	Flat	Flat	Flat
Transfers In		Budget	2.0%	2.0%	2.0%	2.0%	2.0%
EXPENDITURES & OTHER USES							
Operating Expenditures							
CalPERS							
Payroll Base: Grows by Inflation	Classic Employees	2,054,600	2,095,700	2,137,600	2,180,400	2,224,000	2,268,500
General Fund accounts for	PEPRA Employees	155,000	158,100	161,300	164,500	167,800	171,200
about 85% of total staffing costs	Total Payroll Base	2,209,600	2,253,800	2,298,900	2,344,900	2,391,800	2,439,700
Normal Contribution Rate	Classic Employees	9.846%	9.887%	9.900%	9.900%	9.900%	9.900%
	PEPRA Employees	7.660%	7.450%	7.000%	7.000%	7.000%	7.000%
Adjusted for Assumption Changes	Classic Employees	9.846%	9.887%	10.650%	11.400%	12.900%	12.900%
	PEPRA Employees	7.660%	7.450%	7.750%	8.500%	10.000%	10.000%
Normal Contribution Costs	Classic Employees	202,300	207,200	227,700	248,600	286,900	292,600
	PEPRA Employees	11,900	11,800	12,500	14,000	16,800	17,100
	Total Normal Contribution Costs	214,200	219,000	240,200	262,600	303,700	309,700
Unfunded Accrued Liability (UAL) Costs	Classic Employees	153,400	185,400	191,700	240,200	268,900	301,800
85% of Classic and PEPRA UAL	PEPRA Employees	200	800	900	900	900	200
to the General Fund; all Legacy UAL	Legacy Public Safety	132,900	163,800	206,300	246,700	266,700	286,800
costs allocated to the General Fund	Total UAL Costs	286,500	350,000	398,900	487,800	536,500	588,800
UAL Adjusted for Assumption Changes	Classic Employees	153,400	185,400	197,500	254,600	309,200	362,200
	PEPRA Employees	200	800	900	1,000	1,000	200
	Legacy Public Safety	132,900	163,800	212,500	261,500	306,700	344,200
	Total Adjusted UAL Costs	286,500	350,000	410,900	517,100	616,900	706,600
	Total CalPERS Costs	500,700	569,000	651,100	779,700	920,600	1,016,300

ASSUMPTIONS SUMMARY

EXPENDITURES & OTHER USES		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Retiree Health Care Costs: Increase Annually By	10.0%	148,400	163,200	179,500	197,500	217,300	239,000
Sheriff Contract Costs: Increase Annually By	3.5%	3,477,200	3,598,900	3,724,900	3,855,300	3,990,200	4,129,900
Debt Service: Last Payment in 2017-18		111,400	111,400	-	-	-	-
All Other Costs: Increase by Inflation		4,506,100	4,596,200	4,688,100	4,781,900	4,877,500	4,975,100
Total Operating Expenditures		8,743,800	9,038,700	9,243,600	9,614,400	10,005,600	10,360,300
Capital Outlay: $50,000 Annually in Forecast Period		44,000	50,000	50,000	50,000	50,000	50,000
Capital Improvement Plan (CIP)/Major Maintenance Projects							
CIP Projects			4,029,500	138,000	238,000	1,200,000	377,500
Major Maintenance Projects			937,500	937,500	937,500	937,500	937,500
Total (CIP)/Major Maintenance Projects			4,967,000	1,075,500	1,175,500	2,137,500	1,315,000
Transfers Out							
Fund Subsidies: Grow by Inflation		Budget	2.0%	2.0%	2.0%	2.0%	2.0%
Measure A Fund Paving: No Funding in Forecast Period		Budget	-	-	-	-	-
Other Funds: Grow by Inflation		Budget	2.0%	2.0%	2.0%	2.0%	2.0%
GENERAL FUND BALANCE							
Unspendable/restricted balance remain at 2015-16 levels.							
Financial and economic uncertainty reserve: 55% of expenditures.							
General Reserve Fund and Major Asset Replacement and Repair Reserve: Grow by estimated investment earnings (0.75% annually based on current LAIF yield).							

HISTORICAL TRENDS

DEMOGRAPHIC AND ECONOMIC TRENDS

General Economic Outlook

Where We've Been. The worst recession since the Great Depression officially began in December 2007 and ended in June 2009, which makes it the longest recession since World War II. Beyond its duration, the Great Recession was notably severe in several respects. Real gross domestic product (GDP) fell 4.3% from its peak in in the fourth quarter of 2007 to its trough in the second quarter of 2009, the largest decline in the postwar era.

The following highlights the key impacts of the "Great Recession" in the United States and California:

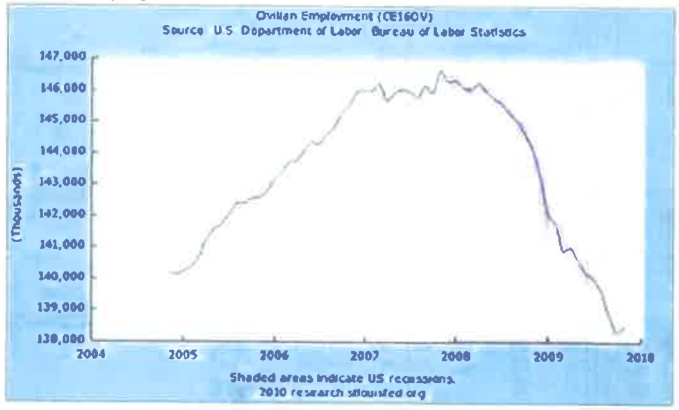
Employment

- The national civilian labor force plummeted: civilian employment dropped by 8.5 million jobs.
- The national unemployment rate doubled from 5.0%, where it was at or below this rate for 30 months before the start of the Great Recession, to 9.5% at its end (and peaking at 10.0% in October 2009).
- In California, the impact on unemployment was even worse. The unemployment rate increased from 5.0% at the start of the Great Recession and peaked at 12.2% in October 2010.

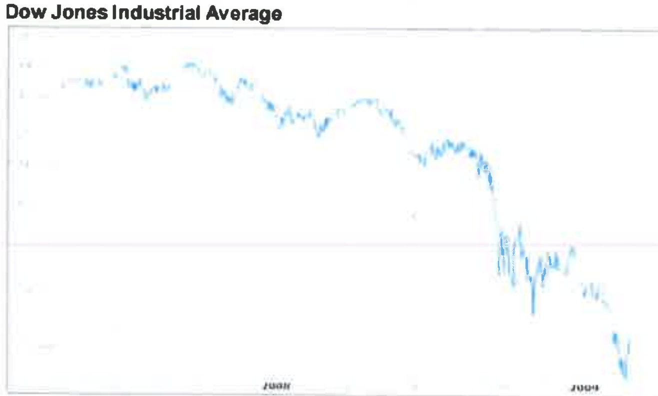
Stock Market

- The Dow Jones Industrial Average (DJIA) lost 46% of its value, falling from 14,100 in October 2007 to 6,500 in March 2009.
- The nation experienced its largest bank failure ever when Washington Mutual collapsed in September 2008.

Civilian Employment



Dow Jones Industrial Average



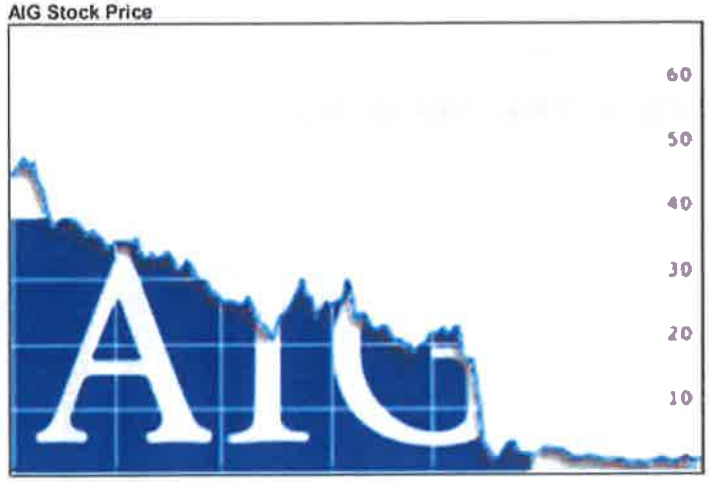
Washington Mutual Stock Price

- The failure of Lehman Brothers in October 2008 was a major precursor to the subsequent meltdown in the nation's financial markets.

Lehman Brothers Stock Price

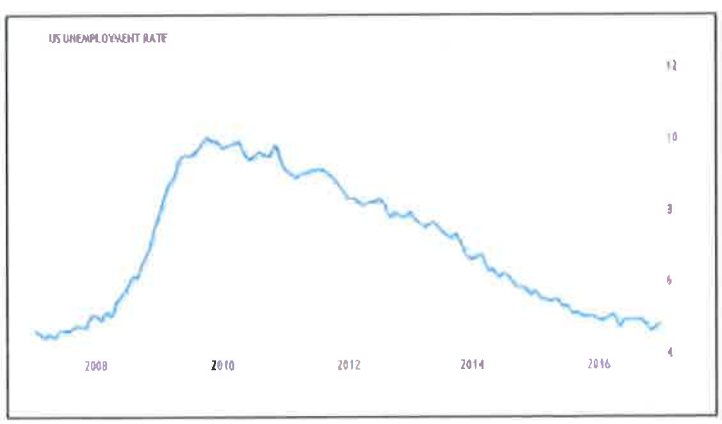
- The bankruptcy of AIG, the largest insurance company in the world, reflects financial markets spinning out of control as collateralized default swaps and their other insured financial obligations failed.

AIG Stock Price



Where We Are Today. While the recovery has been tepid, the reality is that the national and state economies have been consistently growing for over six years.

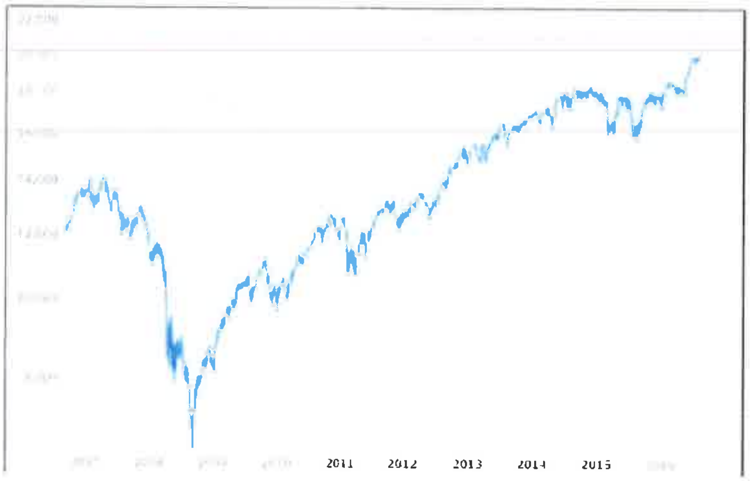
- Nationally, the unemployment rate is 4.5% compared with its peak of 10.0%.
- In California, the unemployment rate is 5.0%, down from its peak of 12.2%.
- The stock market has rebounded strongly, with the Dow Jones Industrial Average increasing from its low of 6,500 in March 2009 to historic highs of more than 20,700. And at over 2,300, the S&P 500 index is also at historically high levels.
- The banking system is healthier.



- Interest rates continue to be low by historic standards (although access to credit is tougher).
- And housing prices have recovered (although this has resulted in affordability challenges).

HISTORICAL TRENDS

A good "snap shot" showing where we've been compared with where we are today is the DJIA over the last ten years: from deep declines to steady recovery.



Population and Inflation

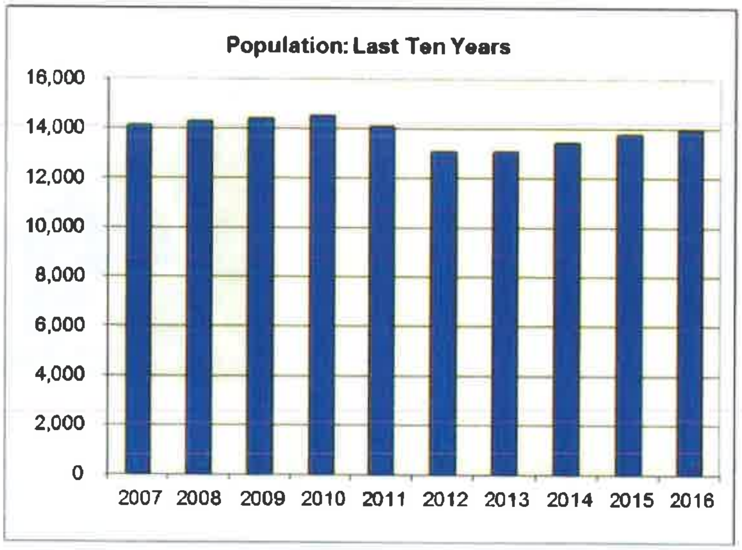
Population		
Fiscal Year Ending	Amount	% Change
2006	14,172	
2007	14,123	-0.3%
2008	14,271	1.0%
2009	14,409	1.0%
2010	14,528	0.8%
2011	14,103	-2.9%
2012	13,076	-7.3%
2013	13,099	0.2%
2014	13,442	2.6%
2015	13,798	2.6%
2016	13,928	0.9%

January 1 of Each Year

Average Annual % Change	
Last 2 Years	1.8%
Last 5 Years	-0.2%
Last 10 Years	-0.1%

The City's population has remained virtually unchanged for the past ten years.

Source: State of California, Demographic Research Unit

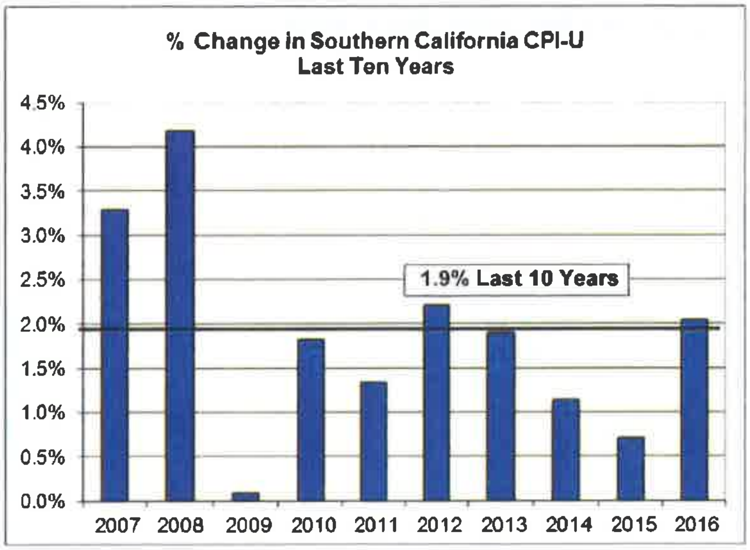


HISTORICAL TRENDS

Consumer Price Index: Southern California		
Fiscal Year Ending	Amount	% Change
2006	203.9	
2007	210.6	3.3%
2008	219.4	4.2%
2009	219.6	0.1%
2010	223.6	1.8%
2011	226.6	1.3%
2012	231.6	2.2%
2013	236.0	1.9%
2014	238.7	1.1%
2015	240.4	0.7%
2016	245.3	2.0%

Los Angeles-Riverside-Orange
All Urban Consumers, January 1 of Each Year

Average Annual % Change	
Last 2 Years	1.4%
Last 5 Years	1.6%
Last 10 Years	1.9%



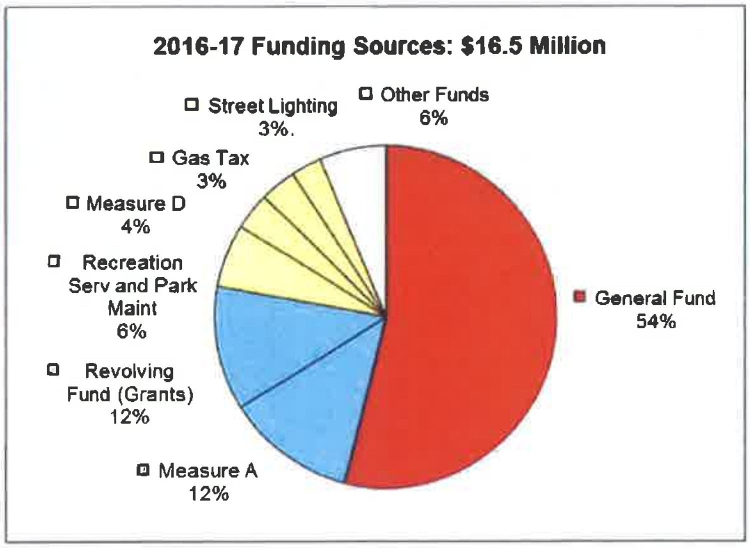
Consumer Price Index. Changes in the Consumer Price Index for All Urban Consumers (CPI-U) for the Southern California area increased by 2.0% in 2016; and by a similar amount over the past 10 years (1.9%).

Source: U.S. Bureau of Labor Statistics

EXPENDITURE AND REVENUE SUMMARIES: 2016-17 BUDGET

Funding Sources: 2016-17 Budget		
Source	Amount	% Total
General Fund	8,899	54%
Measure A	2,017	12%
Revolving Fund (Grants)	1,917	12%
Recreation Serv and Park Maint	983	6%
Measure D	575	3%
Gas Tax	557	3%
Street Lighting	479	3%
Other Funds	1,054	6%
Total	**$16,481**	**100%**

In Thousands of Dollars



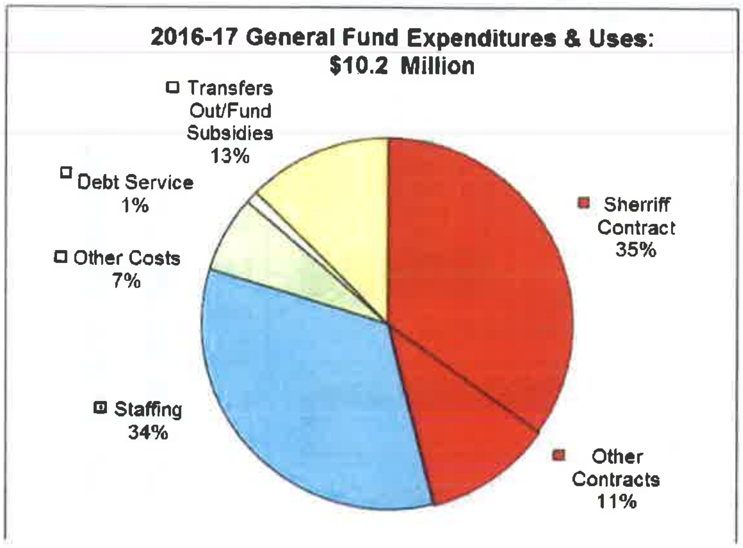
The General Fund – which is the focus of this forecast – accounts for over 50% of total City expenditures.

HISTORICAL TRENDS

General Fund Expenditures & Uses: 2016-17		
Function	Amount	% Total
Sherriff Contract	3,537	35%
Other Contracts	1,143	11%
Staffing	3,431	34%
Other Costs	677	7%
Debt Service	111	1%
Transfers Out/Fund Subsidies	1,279	13%
Total	**$10,178**	**100%**

In Thousands of Dollars

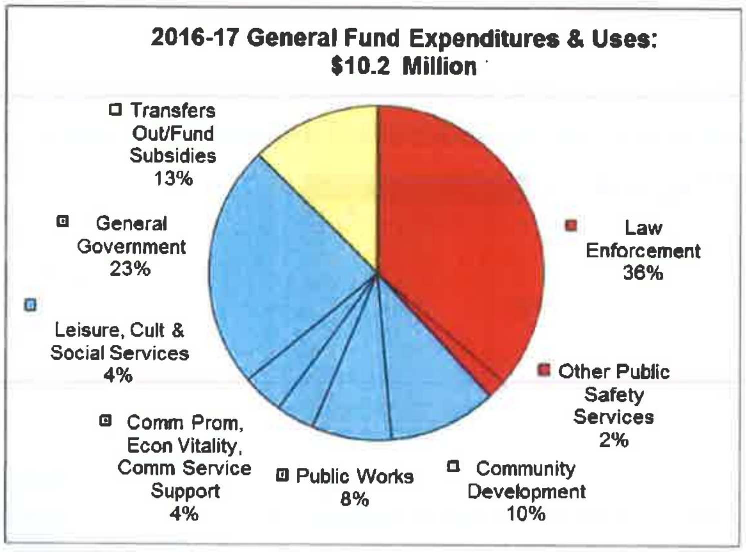
Contracts for Sheriff (35%) and other services (11%) account for almost 50% of General Fund uses (including transfers to other funds). Staffing costs are the next highest cost, accounting for about one-third of General Fund expenditures and uses.



General Fund Expenditures & Uses: 2016-17		
Function	Amount	% Total
Law Enforcement	3,686	36%
Other Public Safety Services	183	2%
Community Development	1,072	11%
Public Works	794	8%
Leisure, Cult & Social Services	372	4%
Comm Prom, Econ Vitality, Com	401	4%
General Government	2,391	23%
Transfers Out/Fund Subsidies	1,279	13%
Total	**$10,178**	**100%**

In Thousands of Dollars

At 36%, law enforcement costs are the largest use of General Fund resources.

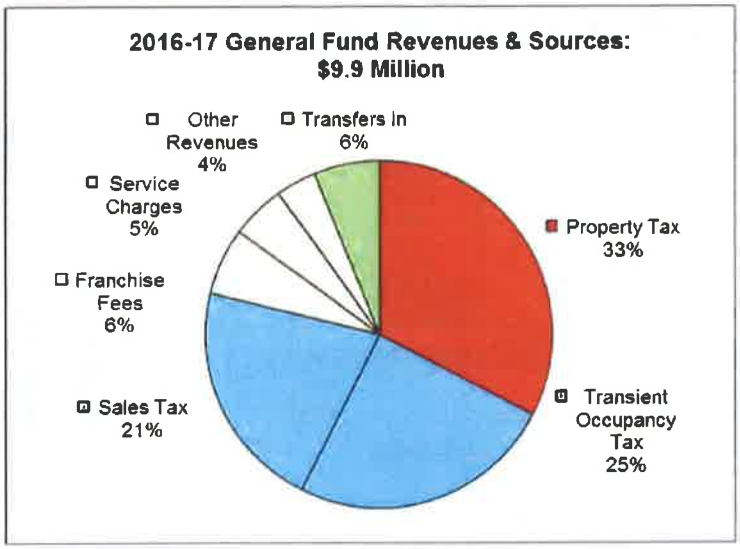


HISTORICAL TRENDS

General Fund Revenues & Sources: 2016-17		
Source	Amount	% Total
Property Tax	3,219	33%
Transient Occupancy Tax	2,450	25%
Sales Tax	2,104	21%
Franchise Fees	615	6%
Service Charges	495	5%
Other Revenues	368	4%
Transfers In	609	6%
Total	**$9,860**	**100%**

In Thousands of Dollars

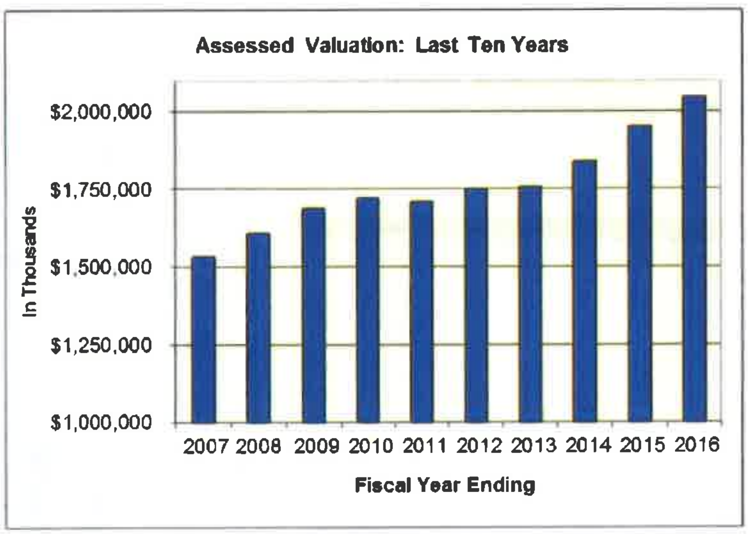
Three revenue sources account for 80% of total General Fund sources (85% of revenues excluding transfers in from other funds). Property tax is the top revenue (33%) followed by transient occupancy tax (25%) and sales tax (21%).



GENERAL FUND REVENUE TRENDS

The following tables and charts show long and short term trends in General Fund for the "Top Three" revenue sources, which account for 85% of total General Fund revenues (excluding transfers in).

Assessed Valuation Trends		
Fiscal Year Ending	Amount	% Change
2006	$1,425,402	
2007	1,533,617	7.6%
2008	1,609,531	4.9%
2009	1,687,791	4.9%
2010	1,720,995	2.0%
2011	1,709,708	-0.7%
2012	1,750,305	2.4%
2013	1,755,922	0.3%
2014	1,838,838	4.7%
2015	1,952,379	6.2%
2016	2,043,895	4.7%
Average Annual % Change		
Last 2 Years		5.4%
Last 5 Years		3.7%
Last 10 Years		3.7%



Property tax revenues, which are the top General Fund revenue source (accounting for over 33% of total General Fund sources, including transfers in), are driven by changes in assessed value as determined by the Santa Barbara County Assessor's office. (The apportionment of property taxes is determined by the State and subject to change; as such, assessed value is the underlying economic driver for property taxes.)

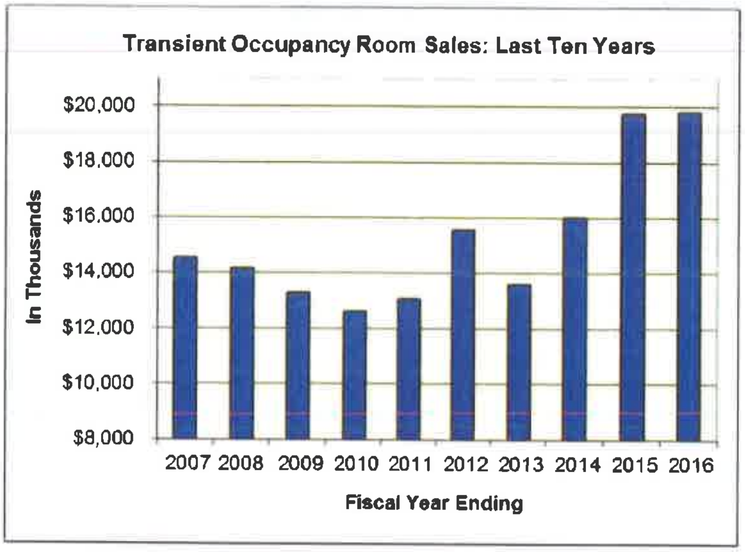
Unlike many other cities in California, which saw deep declines in assessed value during the Great Recession, this wasn't the case for Carpinteria: assessed value stayed relatively flat during this period, with strong growth since 2012-13.

HISTORICAL TRENDS

Hotel Room Sales		
Fiscal Year Ending	Amount	% Change
2006	$12,438	
2007	14,527	16.8%
2008	14,150	-2.6%
2009	13,269	-6.2%
2010	12,624	-4.9%
2011	13,060	3.5%
2012	15,552	19.1%
2013	13,595	-12.6%
2014	16,029	17.9%
2015	19,748	23.2%
2016	19,833	0.4%
Average Annual % Change		
Last 2 Years		20.6%
Last 5 Years		10.2%
Last 10 Years		6.0%

In Thousands

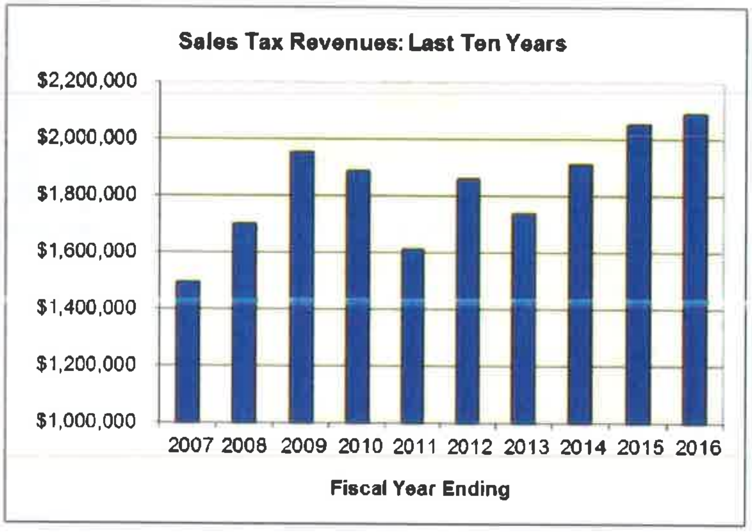
TOT rate increased from 10% to 12% in 2012-13



Unlike assessed value (and related property tax revenues), transient occupancy taxes (TOT), which are based on hotels and short-term vacation rentals, were affected by the Great Recession.

However, they increased significantly from 2013-14 to 2014-15 (by 23%), leveling off in 2015-16. This flattening is likely due to the current moratorium on new short-term vacation rental permits. New short-term vacation rental regulations go into effect July 1, 2017.

Sales Tax Trends		
Fiscal Year Ending	Amount	% Change
2006	$1,310,000	
2007	1,492,900	14.0%
2008	1,700,500	13.9%
2009	1,951,200	14.7%
2010	1,886,300	-3.3%
2011	1,610,900	-14.6%
2012	1,860,700	15.5%
2013	1,739,400	-6.5%
2014	1,910,000	9.8%
2015	2,054,000	7.5%
2016	2,090,019	1.8%
Average Annual % Change		
Last 2 Years		4.6%
Last 5 Years		2.3%
Last 10 Years		5.7%



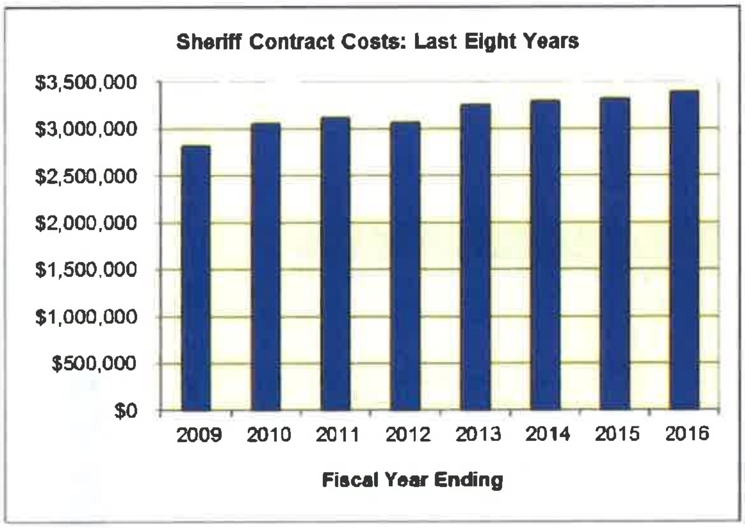
Sales tax revenues were also affected by the Great Recession. However, they recovered with strong growth in 2013-14 (9.8%) and 2014-15 (7.5%), leveling off in 2015-16 at 1.8%.

GENERAL FUND EXPENDITURE TRENDS

The following tables and charts show long term trends in five key General Fund expenditures/fund subsidies:

- Sheriff contract costs.
- Insurance: general liability and workers' compensation.
- General Fund subsidies.
- Employer retirement contribution rates to the California Public Employees Retirement System (CalPERS) as well as projected rates for the next five years.
- Retiree health care.

Sheriff Contract Costs		
Fiscal Year Ending	Amount	% Change
2009	2,820,053	
2010	3,053,731	8.3%
2011	3,114,642	2.0%
2012	3,068,664	-1.5%
2013	3,249,893	5.9%
2014	3,291,612	1.3%
2015	3,314,393	0.7%
2016	3,383,976	2.1%
Average Annual % Change		
Last 2 Years		1.4%
Last 5 Years		1.7%
Last 7 Years		2.7%



While cost increases have remained relatively modest, it should be noted that there was a downward revision in service levels (reduction of 1.0 Deputy Sherriff position) in 2011-12 in mitigating cost increases.

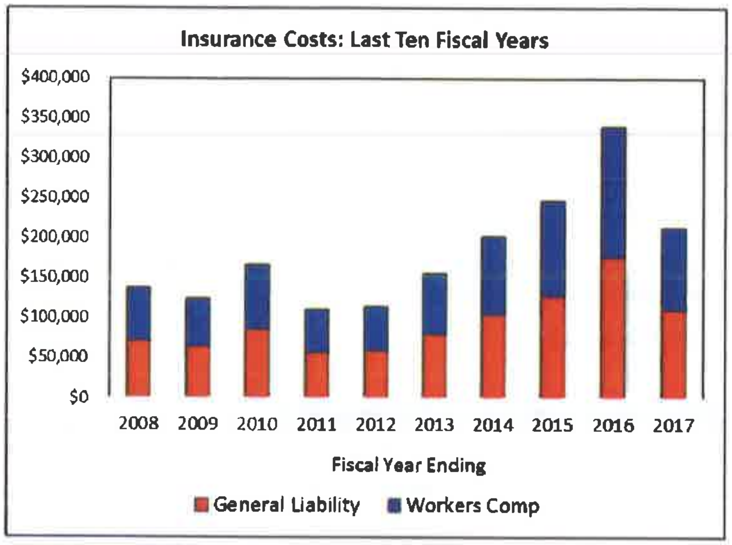
Based on past trends, Sheriff cost increases over the next five years for current service levels might appear to be modest. However, there are two factors that may have an adverse impact on this key cost area:

- The current five-year contract with the County is coming to an end and is subject to negotiation.
- The County's Retirement System Board recently approved a reduction in the discount rate (investment yield) from 7.5% to 7.0%. As discussed below under CalPERS retirement costs, while this change may appear modest, it will have a significant impact on annual pension costs.

Insurance Costs. Insurance costs have been a major concern for many agencies throughout the State. As reflected in the following chart for workers' compensation and general liability costs, the City has been on a roller coaster ride over the last ten years. However, insurance costs appear to have stabilized and are not projected to be a significant factor in the forecast. (Insurance costs are city-wide for all funds).

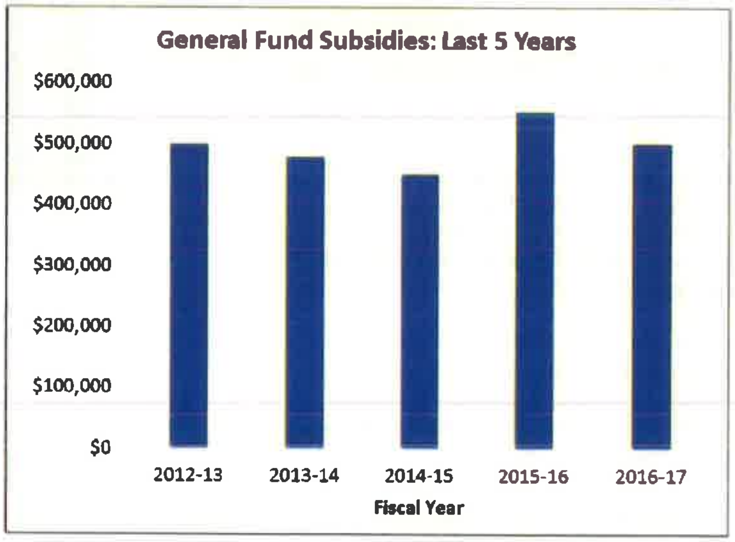
HISTORICAL TRENDS

Insurance Costs		
Fiscal Year Ending	General Liability	Workers Comp
2008	71,657	66,555
2009	64,492	59,899
2010	86,824	80,642
2011	57,770	53,656
2012	59,127	54,916
2013	80,523	74,789
2014	104,989	97,513
2015	128,485	119,336
2016	176,189	163,644
2017 (Budget)	110,823	102,931



2016-17 Budget: General Fund Subsidies	
Park Development	34,149
Park Maintenance	154,299
ROW Assessment	97,597
Recreation Services	212,776
Total	$498,821

As reflected above, the 2016-17 General Fund budget for subsidies to the Park Development, Park Maintenance, Right-of-Way (ROW) Assessment and Recreation Services Funds is about $500,000. Subsidies to these five funds have remained relatively stable over the past five years,



CalPERS Pension Costs

The City currently provides defined pension benefits to its regular employees through its contract with the California Public Employees Retirement System (CalPERS).

About CalPERS. While cities, counties, and special districts are free to create their own retirement systems, 460 of California's 482 cities are members of CalPERS. Dating back eighty years, CalPERS is now the largest pension fund in the United States, serving over 1.8 million members and managing $300 billion in assets. Members include state, city, county and special district employees.

Funding Pension Benefits. There are many actuarial factors that determine contribution rates, including inflation, employee earnings and life expectancy assumptions. However, the assumption for the "discount rate" - the projected long-term yield on investments – is one of the most important. For example, only about one-third of CalPERS retirement benefits are funded by employee and employer contributions: the other two-thirds are funded from investment yields.

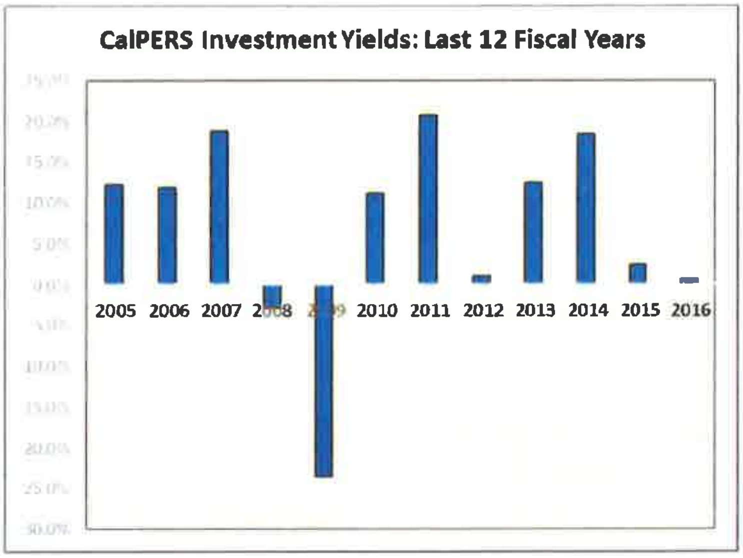
HISTORICAL TRENDS

CalPERS current discount rate is 7.5%. Even small changes in this rate – up or down – can significantly affect funding. By comparison, over the past 20 years (through June 30, 2015), CalPERS net yield on returns has averaged 7.8%. However, there have been significant swings from year-to-year, with net returns averaging 6.2% for the ten years ending June 30, 2015.

In December 2016, the CalPERS Board approved reducing the discount rate to 7.0% by 2020-21, phased as follows by fiscal year:

- 2018-19: 7.375%
- 2019-20: 7.250%
- 2020-21: 7.000%

The impact of the reduced discount rates will be phased-in over five years.



City Pension Plans

The City currently has three separate retirement plans with CalPERS:

Non-Sworn ("Miscellaneous") Employees

- ***Classic Miscellaneous Employees.*** For Classic employees, the City has a "2% at 55" plan for its non-sworn employees: under this plan, non-sworn employees retiring at age 55 will receive 2% of their single highest year of "regular" pay for each year of service. (Like sworn employees, regular pay does not include earnings like overtime.) For example, a Maintenance Technician with 25 years and "base" earnings of $54,900 (top of the salary range) retiring at age 55 would receive a pension of $24,450 annually.

- ***PEPRA Miscellaneous Employees.*** For PEPRA non-sworn employees, the City has a "2% at 62" plan: under this plan, miscellaneous employees retiring at age 62 will receive 2.0% of the average of their three highest years of regular pay for each year of service.

Legacy "Sworn" (Police) Plan

While there are no active employees, the City has pension obligations for former sworn police members when the City disbanded its Police Department and contracted for police services with the Santa Barbara County Sheriff in 1992.

Funding CalPERS Benefits

Along with investment earnings, CalPERS pension benefits are funded by contributions from both employees and employers. The most significant of these is the employer share, which is determined actuarially and can vary significantly – both up and down – based on changes in actuarial assets and liabilities.

Public Employees' Pension Reform Act

Effective January 1, 2013, the Public Employees' Pension Reform Act (PEPRA) created a "two-tier" retirement system under which benefits for "new" employees hired on or after January 1, 2013 are lower than those employees who were in the system before then.

"PEPRA" Employees. With the goal of reducing costs and future liabilities for state and local agency system members, major changes for "new" system (PEPRA) members include lower-cost pension formulas, increased retirement age requirements, use of "three years of highest average compensation" (rather than single highest year) in calculating pensionable pay and caps on maximum annual benefits.

"Classic" Employees. Retirement benefits for local agency employees hired before January 1, 2013 (Classic employees) are not affected by these "rollbacks:" they only affect PEPRA employees hired after this date. "Classic employees" also include those who established CalPERS membership before January 1, 2013 and were hired by a different CalPERS agency with a break in service of six months or less.

HISTORICAL TRENDS

The employer share has two components:

- ***Normal cost*:** The rate needed to meet current actuarial obligations.
- ***Unfunded liability*:** Funding needed to amortize any outstanding unfunded accrued liabilities (UAL), typically over 30 years.

Because it is the employer contribution that is subject to variation, it is the best indicator of retirement cost drivers. The following charts show past employer rates for "classic employees" and police legacy plan costs as well as projected rates for the next five years.

Projected Rates. The projected rates below are based on two factors:

- Projections provided by CalPERS in their most recent actuarial report (August 2016), which were developed before the discount rate reduction.
- Adjustment factors provided by CalPERS to account for the discount rate decreases. Stated simply, these adjustments for lower investment yields increase projected pension costs beyond the estimates provided in the August 2016 actuarial report.

August 2016 Rate and UAL Projections

	Normal Rate	UAL Cost*
Classic Miscellaneous Employees		
2017-18	9.887%	$185,400
2018-19	9.900%	191,700
2019-20	9.900%	240,200
2020-21	9.900%	268,900
2021-22	9.900%	301,800
PEPRA Employees		
2017-18	7.660%	$800
2018-19	7.000%	1,000
2019-20	7.000%	900
2020-21	7.000%	900
2021-22	7.000%	200
Legacy Police		
2017-18	0.0%	$163,800
2018-19	0.0%	206,300
2019-20	0.0%	246,700
2020-21	0.0%	266,700
2021-22	0.0%	286,800

* *General Fund share at 85% of total staffing costs for Classic and PEPRA employees*

Adjustments to these Rates and UAL Contributions Due to Discount Rate Reduction

		Normal Cost		UAL Payments	
Valuation Date	Fiscal Year Impact	Misc. Plans	Safety Plans	Misc. Plans	Safety Plans
6/30/2016	2018-19	0.25% - 0.75%	0.5% - 1.25%	2% - 3%	2% - 3%
6/30/2017	2019-20	0.5% - 1.5%	1.0% - 2.5%	4% - 6%	4% - 6%
6/30/2018	2020-21	1.0% - 3.0%	2.0% - 5.0%	10% - 15%	10% - 15%
6/30/2019	2021-22	1.0% - 3.0%	2.0% - 5.0%	15% - 20%	15% - 20%
6/30/2020	2022-23	1.0% - 3.0%	2.0% - 5.0%	20% - 25%	20% - 25%
6/30/2021	2023-24	1.0% - 3.0%	2.0% - 5.0%	25% - 30%	25% - 30%
6/30/2022	2024-25	1.0% - 3.0%	2.0% - 5.0%	30% - 40%	30% - 40%

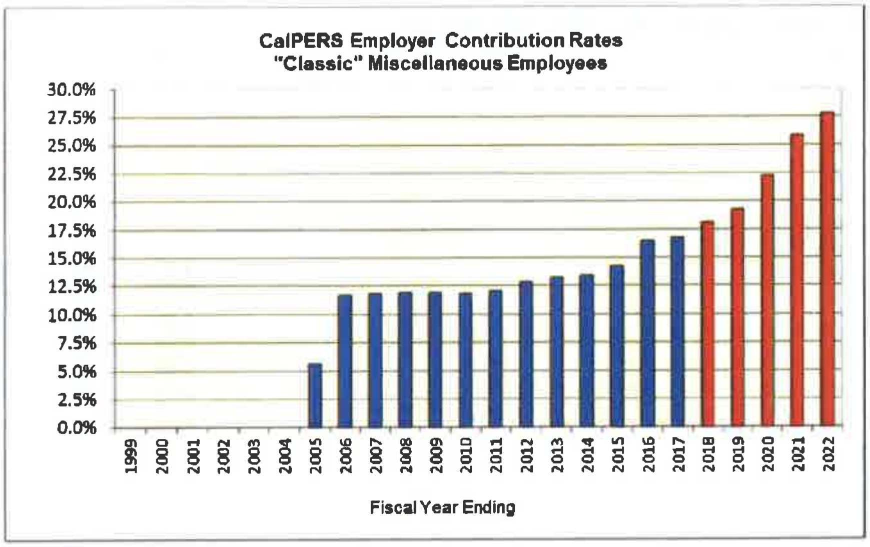
Classic Miscellaneous Employees

There were no required employer contributions from 1998-99 through 2003-04. This was due to significant excess assets at the time.

However, with the impacts (and related investment losses) from 9/11, the dot.com meltdown and corporate scandals, employer contribution rates rose to about 12% of payroll by 2005-06. (Due to CalPERS' smoothing methodology at the time, the impact of reduced investment earnings was delayed by several years.)

Significant increases again took place due to the impact of the Great Recession on investment yields, rising to about 17% by 2016-17.

Rates will take another sharp increase from 2017-18 to 2021-222 based on a combination of factors, including the phase-in reduction in the "discount rate" from 7.5% to 7.0%.



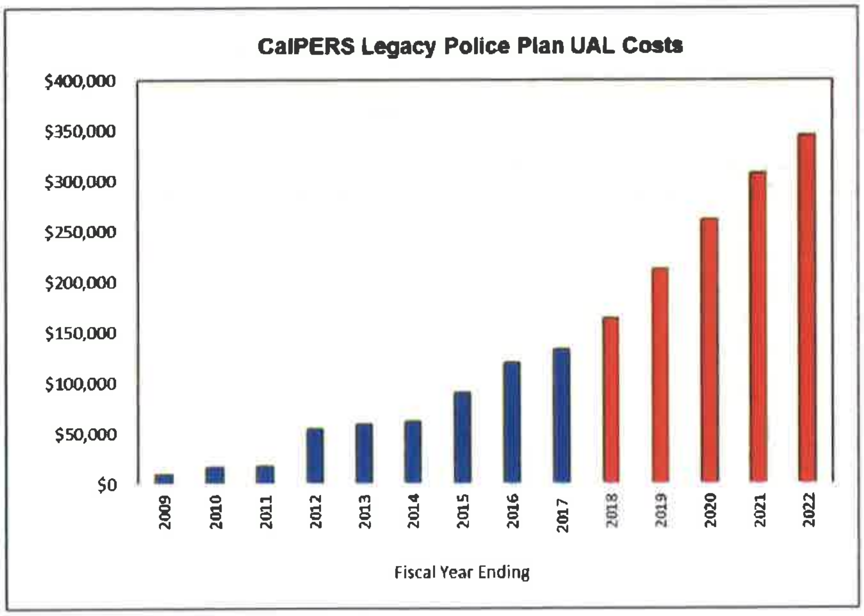
Note: Beginning in 2015-16, CalPERS discontinued including the amortization of unfunded actuarial liabilities (UAL) as part of the employer contribution rate: only the "normal" contribution rate is stated this way, with the UAL stated separately as a fixed amount. For comparison purposes, the fixed UAL amount is converted to a percent based on projected payrolls.

Legacy Police Plan

The City disbanded its own Police Department and began contracting for law enforcement services from the County in 1992.

At that time, CalPERS established a separate pool to account for the unfunded liabilities remaining for the previous safety employees.

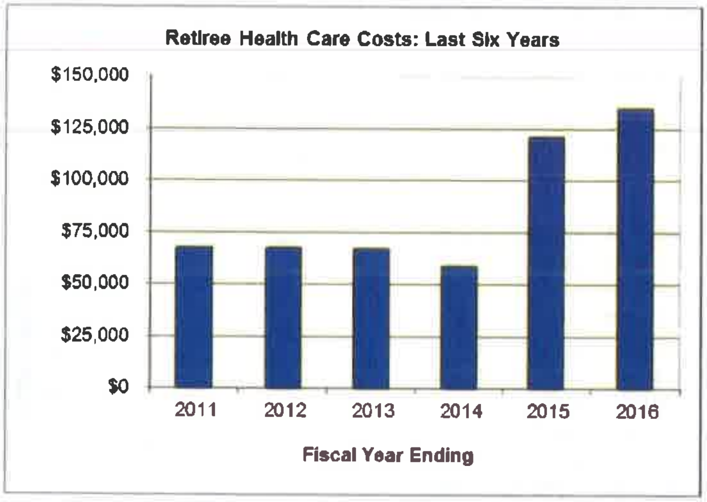
This cost began to increase significantly over the past five years; and it is projected to increase even more sharply in the next five years.



HISTORICAL TRENDS

Retiree Health Insurance Costs		
Fiscal Year Ending	Amount	% Change
2011	67,332	
2012	67,332	0.0%
2013	66,942	-0.6%
2014	58,629	-12.4%
2015	120,921	106.2%
2016	134,879	11.5%
Average Annual % Change		
Last 2 Years		58.9%
Last 5 Years		21.0%

The City's "pay-as-you-go" retirement costs have increased significantly in the past two years. The following provides background about the City's retiree health care benefit and the City's funding policy.



City Benefits. The City participates in this State Health Insurance Pool administered by CalPERS. Member agencies participating in the State Pool are subject to regulations of the Public Employees Medical and Hospital Care Act (PEMHCA), which requires that member agencies provide a minimum employer contribution for retired employees. The minimum employer contribution is currently $128 monthly (scheduled to increase to $133 in 2017-18). Further, the City has extended additional health insurance benefits to retirees that were employed on June 30, 1988 and who retired from the City after at least 20 years of qualified service. This benefit provides retirees and their spouses with life-time single-coverage HMO insurance through the City' insurance program at City expense.

City Funding Policy. Unlike defined pension plans such as CalPERS, where agencies are required to pay actuarially determined amounts each year, local government agencies are not required to do so for retiree health care benefits. Instead of paying an actuarially determined amount (known as the Annual Required Contribution: "ARC"), they can fund this on a "pay-as-you go basis." Pay-as-you go is the City's current funding policy for retiree health care. The current annual cost on this basis is about $135,000, compared with the City's ARC (based on amortizing the unfunded liability over 30 years) of about $400,000.

As discussed in the *General Fiscal Outlook*, in the early years, pay-as-you-go will typically be less expensive than paying the ARC (also known as "pre-funding"). However, around Year 15 for most agencies, the ARC will begin to be lower than pay-as-you go, since prefunded amounts have been invested.

The City is currently updating its actuarial analysis of its retiree health plan costs. Based on the results of this analysis, a strategy will be developed to address the City's long-term retiree health obligations.

OVERVIEW

This section of the report presents new revenue options available to the City in funding CIP/Major Maintenance Projects.

The Short Story: There is a broad range of reasonable revenue options available to the City. However, virtually all of them would require either majority or two-thirds voter approval.

Based on the experience of many cities in California, it is possible to successfully pass a revenue measure. However, doing so requires effective preparation by the City before placing the measure on the ballot; and an effective community-based group that will campaign for its passage afterwards.

SUCCESSFUL REVENUE MEASURES

Voter Approval Required for Most New or Increased Revenues

Under Proposition 218, a State constitutional amendment approved by the voters in November 1996, most new revenue measures will require voter approval at some level:

Taxes. New and increased taxes require voter approval as follows:

- **General purpose.** If the revenues will be used for general purposes, majority voter approval is required. This must occur at the same time as regular Council elections, unless the Council declares an emergency by unanimous vote (in that case, the election may be held at any time).

- **Special purpose**. If the revenues will be "earmarked" for a specific purpose, two-thirds voter approval is required. This election can be held at any time.

Special Assessments. Whether for capital improvements or ongoing maintenance services, special assessments require majority approval by those being assessed (who are property owners), with each property owner's vote "weighted" by the amount of their assessment. For example, an owner with a property with an assessment of $1,000 would have ten votes for that parcel compared with one vote for an owner with a parcel assessment of $100. Additionally, Proposition 218 sets specific rules for how the benefit of special assessments must be apportioned.

Property-Related Fees. For fees that are levied as "an incidence of property ownership" (just because you own property), majority approval by those who will have to pay the fee is required; or at the agency's option, by a two-thirds vote of the electorate residing in the affected area. There are several specific exemptions under Proposition 218, including development review and impact fees under "AB 1600" (Section 65000 of the Government). Additionally, there is consensus that many fees charged by cities – such as recreation fees and police reports – are not subject to Proposition 218, since they are usually based on use, not property ownership. Lastly, based on the State Supreme Court "Bighorn" ruling in 2006, while water, sewer and trash services are not subject to voter or property owner approval, they are subject to the procedural and protest provisions of Proposition 218.

This means that service charges unrelated to property ownership or enterprise operations (like water and sewer) are one of the few funding sources subject to Council decision-making: virtually all others require some form of voter or property owner approval.

Preparing for Successful Revenue Measures

One of the major "mega-trends" affecting governance today at all levels is a fundamental change in the way decisions are made. Over the past forty years, there has been a significant shift in voter preference from "representative democracy" to "direct democracy," especially in local government finance.

Proposition 13 did not start this trend, but it certainly resulted from it. Since its passage almost forty years ago in 1978, there have been an increasing number of citizen-approved limits on the ability of elected officials at the local level to make resource decisions on behalf of the community since then.

While there a number of possible explanations for this change, the fact remains that there is a decided shift to direct citizen decision-making in a broad range of issues previously thought to be too "technical" for this. While this has occurred in many areas such as insurance and campaign financing, it is especially prevalent in "ballot box budgeting." Citizens are no longer willing to give their proxy on financial issues to elected officials or to their interest group representatives on "blue ribbon" committees. City finance is an issue they want to decide directly for themselves.

How does this shift affect the City's long-term fiscal health? Cities now need broad-based community support—in evidence on Election Day—to implement new revenue sources. In this new model of direct democracy, creating support among elected officials and community leaders—even if it broadly crosses a number of interest groups—is no longer enough. With these profound changes in voter approval requirements, cities must communicate a compelling vision for new revenues at a grass roots level among likely voters.

Local Revenue Measures Since 2001
Through November 2016

	Total	Pass	Passing%
City Majority Vote	832	612	74%
County Majority Vote	94	53	56%
SpecialDistr Fee MajVote	3	2	67%
City 2/3 Vote	373	191	51%
County 2/3 Vote	138	60	43%
Special District (2/3)	424	196	46%
School ParcelTax2/3	351	228	65%
SchoolBond 2/3Vote	50	17	34%
School Bond 55%	1213	1026	85%
Total	3478	2385	69%

Source: California Local Government Finance Almanac

While this may seem a high-hurdle, many local agencies throughout the State have been successful in gaining voter approval for revenue measures, even at the two-thirds level.

As shown in the sidebar chart, since 2001 (when school districts were first allowed to pass general obligation bond issues with 55% voter approval, versus the prior two-thirds requirement), almost 2,400 local revenue measures – about 70% of those presented to voters – have been passed through November 2016.

- For cities, over 600 general-purpose, majority approval measures have passed statewide: almost 75% of those presented to voters for consideration.

- And almost 200 two-thirds voter approval measures have passed in cities, although with a much lower success rate: slightly more than half of those measures were approved. In short, while two-thirds measures can be successful, the track record shows that they are more difficult to pass than general purpose measures.

In summary, if the need is compelling—either to maintain current services or to improve them—and it is effectively communicated, the experience throughout the State shows that voter-approved revenue measures can be successful.

However, this experience also shows that doing so requires a significant commitment of time and resources in preparing for the measure. More importantly, it typically requires a strong community-based advocacy group that will aggressively raise funds and campaign for the measure once it is on the ballot.

This last issue cannot be stressed enough. Under State law, cities have broad discretion in using their funds for staff and professional assistance in analyzing issues, researching public opinion, conducting public education programs and developing voter support strategies. However, once an issue becomes a formal ballot measure, cities cannot participate as an advocate in any way. For this reason, unless there is a strong community-based group that is willing to aggressively raise funds and campaign for the measure, it is not likely to pass, no matter how much preparation was undertaken by the City before placing the measure on the ballot.

The first pre-condition—effective preparation—is within the control of the City; the second one—an effective community-based group—is not.

In summary, new revenues require community support—in evidence on Election Day. Gaining this support requires more than a compelling need: it also requires communicating this need in a compelling way. And this requires effective preparation by the City before placing the measure on the ballot; and an effective community-based group that will campaign for its passage afterwards. For this reason, for many cities, effective preparation was a 12 to 18-month process before placing a measure on the ballot.

Elements of a Successful Revenue Measure

There are three major steps that have been used successfully by local agencies throughout the State in preparing for a successful revenue measure:

- ***Feasibility Assessment.*** Conduct public opinion research and assess the likelihood of a successful revenue measure.

- ***Education Program.*** If the public opinion research is favorable, develop and implement an educational campaign on why new revenues are needed.
- ***Ballot Measure.*** Place the measure on the ballot if there is a community-based group that will aggressively campaign for its passage.

NEW REVENUE OPTIONS SUMMARY

The following is a "high level" summary of revenue options (further descriptions of the revenue source and basis for the estimate follow this chart).

	Revenue Source		Required Approval			Annual Revenues
	Increase in Existing	New	Council	Voter Majority	Voter Two-Thirds	
Local Option Sales Tax: ½%		x		If general purpose	If special purpose	$1,050,000
Transient Occupancy Tax: Each 1% increase: $200,000 (12% to 13% or 14%)	x			If general purpose	If special purpose	$200,000 to $400,000
Property Transfer Tax	x			If general purpose	If special purpose	Not allowed for General Law cities
Business License Tax: Move from largely flat rate to gross receipts	x			If general purpose	If special purpose	$269,000
General Obligation Bond (For capital improvements only)		x			x	Varies
Parcel Tax: Typically per "Equivalent Dwelling Unit" (EDU)		x			x	Varies depending on EDU
Utility Users Tax: Estimate of $25 per capita		x		If general purpose	If special purpose	$350,000
Admissions Tax		x		If general purpose	If special purpose	Not Viable
Parking Tax		x		If general purpose	If special purpose	Not Viable
Maintenance Assessments		x		x		Varies
Mello-Roos: Existing Development		x			x	Varies
Mello-Roos: New Development			*			Varies
Higher Cost Recovery	x		x			Already Implemented
Franchise Fees: Solid Waste Renegotiate fee from 8% to 10%	x		x			$35,000

As reflected in this summary chart, only three of these revenue options can be implemented by the Council:

- For Mello-Roos special taxes for new development, the revenues would only be available in new development areas: they could not be used to fund citywide improvements (such as public safety or storm drainage); and developer concurrence would also be required.

- Higher cost recovery has already been implemented with Council approval in February 2017 of a comprehensive cost of services study.

- And the revenue potential from the renegotiating the solid waste franchise is relatively small compared with the other options.

This underscores the findings of this report that any new significant revenues will require voter approval.

NEW REVENUE OPTION DESCRIPTIONS

The following provides brief descriptions of the revenue source and the basis for the estimate, organized by whether voter or Council approval is required to implement it.

Requires Voter Approval

Two-Thirds Voter Approval

Parcel Taxes. With two-thirds voter approval, parcel taxes are allowed in any amount as long as they are not based on property value. They may set based on either a flat rate per parcel or a variable rate depending on the size, use or number of units on the parcel. As a "special" tax, they must be levied for a specific service—such as police, fire, emergency medical service, libraries or storm drainage. The amount of revenue generated is solely determined by the City's revenue goal and the resulting apportionment methodology. Accordingly, further analysis would be required to provide estimates for this revenue source.

Mello-Roos Special Taxes: Operating or Capital. Mello-Roos "Community Facilities Districts" (CFD's) are typically formed to provide services or capital improvements to new developments (when there is usually just one "voter"—the developer/land owner), but they can be formed on a citywide basis in already-developed areas as well. Depending how they are structured when approved, Mello-Roos special taxes can pay for operations and maintenance as well as capital improvements. If there are twelve or more registered voters in the district, approval by two-thirds of the registered voters is required. However, if there are fewer than twelve registered voters, the district vote is by the property owners in the district. In this case, property owners have one vote for each acre of land they own in the District. For this reason, Mello-Roos CFD's are typically used in financing improvements and services for new development. It is rarely used for developed areas: given the similar two-thirds voter approval requirements, most cities use the more straightforward parcel tax approach instead.

Property Tax Increase as Part of General Obligation Debt. Adopted almost forty years ago in 1978, Proposition 13 does not allow an increase in general purpose property taxes above the "1% of market value" limit under any circumstances. However, subsequent amendments to this constitutional limit allow for increases in property taxes for voter-approved bonded indebtedness. General Law cities may incur general obligation debt up to 3.75% of assessed value, which for the City would be about $76 million. Under current market circumstances, this translates into an annual revenue-raising capacity to meet annual debt service requirements of about $4.5 million. The proceeds are restricted to specified capital improvements.

Majority (General Purpose) or Two-Thirds (Special Purpose) Voter Approval

The following revenue sources can be adopted by either majority or two-thirds voter approval, depending on their purpose. Revenue measures where the proceeds may be used for "general purposes" only require majority voter approval. However, revenue measures where the proceeds are "earmarked" and designated for specific purposes require two-thirds voter approval. In both cases, depending on how the revenue measure is structured, the proceeds could be used for operations or capital improvements (including debt service payments on capital projects financed by bonds).

Local Option Sales Tax. Cities are allowed to set their own "local option" sales taxes, and 176 have done so. The most common city rate is ½%. At this level, a local option sales tax would raise about $1,050,000 annually.

Transient Occupancy Tax (TOT). The City's TOT rate is 12%, which is projected to raise about $2.4 million in 2016-17. Each increase of 1% would raise about $200,000 annually. However, of the 432 cities that have adopted TOT rates, only 20 of them have set rates that are more than 12%.

Property Transfer Tax. Statewide, there is a property transfer tax of $1.10 per $1,000 of value when property is sold (or $220 on a property worth $200,000). For sales in a city, the proceeds are evenly divided between the city and the county, for an effective city rate of $0.55 per $1,000 of value. (For sales in unincorporated areas, the county retains all of the tax.)

Prior to the adoption of Proposition 62 by State voters in 1986, all cities were allowed to set their own rate, but they had to give up their share of the $1.10 rate to do so. With the passage of Proposition 62, general law cities lost the ability to do this, since among its many revenue-raising limitations (many of which were subsequently superseded by Proposition 218), is a prohibition on real estate transfer taxes.

However, because Proposition 62 was a "statutory initiative," its provisions only apply to General Law cities. As such, Charter cities are allowed to adopt this revenue source. Moreover, from 1986 until 1995, several appellate court rulings declared the provisions of Proposition 62 to be unconstitutional. For this reason, during this interim period, many General Law cities—along with Charter cities—implemented their own property transfer tax at rates ranging from $1.10 to $15.00 per $1,000 of value. The most common rate is $4.40 per $1,000. At this level, the City's own property transfer tax (which has averaged about $85,000 annually over the last four years) would raise about $670,000 annually, for a "net" increase of $586,000. However, in order to adopt this tax, the City would first have to become a Charter city. For this reason, while an option, it is not as viable as many of the other new revenue sources analyzed in this study.

Business License Tax. Anyone doing business in the City is required to pay a business license tax, which is levied solely for general revenue purposes. While there are over 40 different categories, the maximum that most businesses pay if they have 21 or more employees is $100, based on the following schedule for retailers, professionals and manufacturers:

No. of Employees	Annual Tax
1 to 5	$25
6 to 10	$50
10 to 20	$75
21 or More	$100

Combined with application fees for new businesses, this results in very modest revenues of about $46,000 annually.

Most modern business tax ordinances use gross receipts as the tax base to better reflect ability to pay. There are many ways of structuring the business taxes; and as such, more detailed analysis is required in estimating revenues from an updated business tax ordinance. However, based on a review of ratios between business tax and sales tax revenues in other California cities, a conservative estimate of 15% of sales tax revenues generates about $315,000 in revenues, for an increase of $269,000 (excluding any added administrative costs to implement and support the new ordinance).

Utility Users Tax. Half of the State's residents and a majority of businesses in California pay utility users taxes (UUT) at rates ranging from 1% to 11%. It is a tax on the consumption of utility services (such as natural gas, electricity, water, sewer, telephone and cable), similar in concept to the retail sales tax on commodities. For this reason, most cities set their rates based on the sales tax rate in effect at the time they adopted their UUT ordinance, which accounts for some of the variability in rates.

Statewide, for those 157 cities that levy UUT, the average rate is 5.4%, with per capita revenues ranging $4 in Pleasant Hill to $493 in El Segundo (and even higher in the largely industrial cities of Irwindale and Vernon). Stated simply, the cities with significant non-residential uses have higher per capita revenues. As such, a more detailed analysis is required in estimating revenues from a UUT. However, in a scan of similar cities, $25 per capita provides a ballpark estimate of $350,000.

Admissions Tax. This tax is levied on the consumer for the privilege of attending theaters, concerts, movies, sporting events, museums and other performances. The tax can be a flat rate, a percentage of the ticket value or a sliding rate depending on the cost of the ticket.

Although generally determined to be lawful, courts have struck down admissions taxes that are borne solely or primarily by activities protected by the First Amendment. These cases suggest that to implement this tax, a city must have substantial businesses or events that would be subject to it, which do not involve First Amendment rights and would bear a significant portion of the tax burden. For this reason, most cities that have this tax have professional sports teams, amusement parks or similar major event venues in their cities. As such, no revenues have been projected from this source: given the lack of any major venues in the City like those where this tax has been successfully implemented, it is unlikely that it would be legal to do so.

Parking Tax. This tax is imposed on occupants of off-street parking spaces for the privilege of renting the space within the City. It is typically levied when there are a large number of *privately-owned* and operated parking lots and garages, and there is a high demand for these spaces. Since this is not the case in Carpinteria, no revenues have been projected from this source.

Majority Property Owner Approval

Under Proposition 218, the approval process to establish or increase property-related fees and special assessments is very similar: they both require:

- A clear relationship between the costs and benefits per parcel.
- Mailed notice and public hearings.
- Majority approval by those responsible for paying the fee or special assessments, weighted by each property owner's fee or assessment benefit obligation.

Property related fees: operating or capital. Under Proposition 218, property-related fees are allowed with majority property owner approval, with votes weighted by the proportionate amount that each property owner would pay (or at the agency's option, by a two-thirds vote of the electorate residing in the affected area). Additionally, there must be a "nexus" between costs and benefits. Lastly, property related fees for services generally provided to the public, such as police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners, are not allowed.

Special assessments: operating or capital. Special assessments for either one-time improvements or ongoing maintenance are also allowed under Proposition 218; however, majority approval by those responsible for paying the special assessments, weighted by each property owner's benefit obligation, is required. Detailed assessment reports prepared by a registered civil engineer justifying the apportionments among properties are required. Under similar ground rules, special assessment districts can be formed for one-time capital improvements.

Could Be Approved by the Council

The following revenue sources could be set or increased by the Council.

Mello-Roos Districts for New Development. Many cities require that new development pay not only for the facilities needed to service them, but for day-to-day services as well. This could include park and landscape maintenance, street lighting, street sweeping, libraries and fire protection. While this sets up two classes of city residents—those who receive what may be perceived as general city services based on the general-purpose tax revenues they pay, and those who must pay an additional premium for those same services—many cities have moved to this out of fiscal necessity. The revenue impact of this is difficult to assess, since it would depend on what services were subject to the special Mello-Roos tax. However, as discussed above, this would require the concurrence of the property owner in establishing this special tax district (assuming there are less than twelve registered voters in the District) before the start of construction.

Development Impact Fees. The City can set impact fees at any level that will fully offset (but not exceed) the cost of constructing capital improvements needed to service new development. This can cover a broad range of public facilities, including water, sewer, transportation, parks, cultural facilities, community centers, civic center improvements and public safety facilities. Detailed procedures for developing and collecting impact fees are set forth in Government Code Section 66000 (commonly referred to as "AB 1600").

The City has already adopted a wide range of development impact fees.

Higher Cost Recovery. This is one of the few remaining areas where the Council has discretion in balancing funding for the cost of services between general purpose revenues and fees. In February 2017, the Council reviewed a comprehensive Cost of Services Study that assessed current costs and fees; and established maximum amounts that could be charged based on full cost recovery. It is important to note that the Council can set fees at less than full cost recovery; however, under Proposition 218, the Council cannot set fees above cost recovery (any excess would become a tax and thus subject to voter approval). The City's adopted cost recovery policies identify several areas where the goal is less than full cost recovery. Based on these policies, the Council approved modest fee increases. These are projected in the Study to raise about $156,000 annually in added revenues. This increase is reflected in the forecast beginning in 2017-18.

Franchise Fees. These fees are charged to public utilities – such as natural gas, electricity, refuse collection, water, sewer and cable television – for the use of City's right-of-way and their adverse impact on City streets in conducting their operations. However, the State prohibits franchise fees on telecommunications; and sets franchise fees for natural gas and electricity. Similarly, the Federal government limits franchise fees on cable television. As such the only area where the Council has some discretion is the solid waste franchise fee.

The current franchise agreement with E. J. Harrison & Sons was approved by the Council in October 2012, effective January 1, 2013. It is for ten years with a franchise fee of 8%. Many cities in the State have set their rate at 10% (with some cities at 15% to 20%). In many cases, the franchisee is indifferent to the rate, as long as the city is willing to set rates that will fully recover the fee.

The City currently receives about $140,000 annually from the 8% franchise fee. Renegotiating the franchise agreement and setting the rate at 10% would generate an additional $35,000 annually.

CONSULTANT QUALIFICATIONS

SENIOR FINANCIAL MANAGEMENT

Bill Statler has over 30 years of senior municipal financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. ***San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.***
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, ***San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.***
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.
- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

CONSULTING AND INTERIM ASSIGNMENTS

Fiscal Forecasts and Long-Term Financial Plans

- City of Bell
- City of Salinas
- City of Camarillo
- City of Grover Beach
- City of Pismo Beach
- Bear Valley Community Services District

Strategic Plans and Council Goal-Setting
In collaboration with HSM Team

- Strategic Planning: City of Monrovia
- Strategic Planning: City of Sanger
- Council Goal-Setting: City of Pismo Beach
- Council Goal-Setting: City of Willits

Organizational Analysis and Policy Advice

- Pro Bono Financial Management Transition Team and Policy Advice: City of Bell
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Fund Accounting Review: State Bar of California
- Financial Assessment: City of Guadalupe

- Financial Condition Assessment: City of Grover Beach
- General Fund Reserve Policy: City of Lompoc
- General Fund Reserve Policy: City of Willits
- Reserve Policy: State Bar of California
- Budget and Fiscal Policies: City of Santa Fe Springs
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Finance Organizational Review: Ventura Regional Sanitation District
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)

Interim Finance Director

- City of Monterey
- San Diego County Water Authority
- City of Capitola

Other Financial Management Services

- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Greenfield
- Cost Allocation Plan: City of Guadalupe
- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Cost Allocation Plan Review: State Bar of California
- Cost Allocation Plan Review: City of Ukiah
- Disciplinary Proceedings Cost Recovery Review: State Bar of California
- Water and Sewer Rate Reviews: Avila Beach Community Services District
- Water and Sewer Rate Reviews: City of Grover Beach
- Solid Waste Rate Review: County of San Luis Obispo, Los Osos Area
- Solid Waste Rate Review: County of San Luis Obispo, North County Area
- Joint Solid Waste Rate Review: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

PROFESSIONAL LEADERSHIP

- Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Board of Directors, CSMFO: 1997 to 2001
- Member, GFOA Budget and Fiscal Policy Committee: 2004 to 2009
- Chair, CSMFO Task Force on "GASB 34" Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter Chair: 1994 to 1996

CONSULTANT QUALIFICATIONS

TRAINER

Provided training for the following organizations:

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- National Federation of Municipal Analysts
- Probation Business Manager's Association
- California Association of Local Agency Formation Commissions
- Humboldt County

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Fiscal Health Contingency Planning
- Financial Analysis and Reporting
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- Transparency in Financial Management: Meaningful Community Engagement in the Budget Process
- What Happened in the City of Bell and What We Can Learn from It
- Debt Management
- Preparing for Successful Revenue Ballot Measures
- Multi-Year Budgeting
- Integrating Goal-Setting and the Budget Process
- 12-Step Program for Recovery from Fiscal Distress
- Strategies for Strengthening Organizational Effectiveness
- Financial Management for Elected Officials
- Top Challenges Facing Local Government Finance Officers
- Budgeting for Success Among Uncertainty: Preparing for the Next Downturn

PUBLICATIONS

- *Presenting the Budget to Your Constituents,* CSMFO Magazine, July 2016
- *Planning for Fiscal Recovery*, Government Finance Review, February 2014
- *Guide to Local Government Finance in California*, Solano Press, July 2012 (Co-Author)
- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011
- *Fees in a Post-Proposition 218 World, League of California Cites, City Attorney's Department Spring Conference, May 2010*

- *Municipal Fiscal Health Contingency Planning,* Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)
- *Financial Management for Elected Officials*, Institute for Local Government, 2007 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western City Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

HONORS AND AWARDS

- Cal-ICMA Ethical Hero Award (for service to the City of Bell)
- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Polices: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Leadership and Management Excellence
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors: University of California, Santa Barbara

ATTACHMENT B

Local Revenue Measure Results
November 2016

Local tax and bond measure activity in California in the November 2016 Presidential Election was unprecedented both in the number of measures placed on ballots by cities, counties, special districts and schools, and by the number approved by voters.

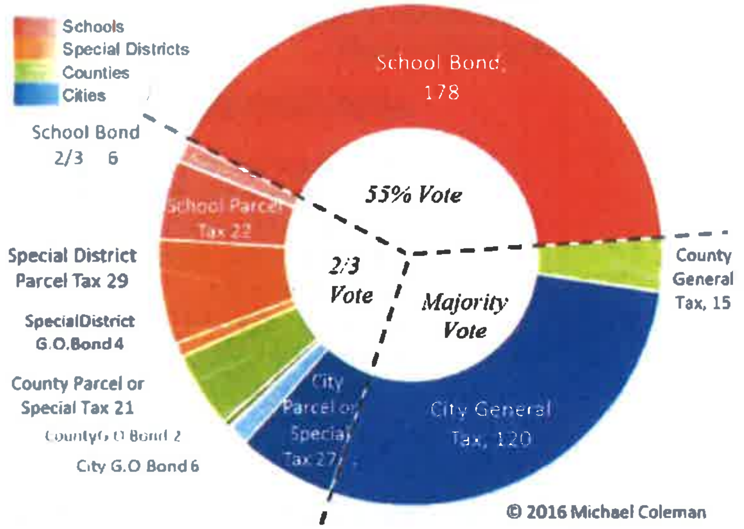
Voters in California considered over 650 local measures at the November 8, 2016 presidential election. Among these were 430 seeking approval for tax increases, expansions or extensions. K-12 schools districts and community colleges sought a total of $25.314 billion in 184 separate authorizations for bonds to construct facilities, acquire equipment and make repairs and upgrades. There were 22 measures to increase or extend (renew) school parcel taxes.

Among the 224 non-school local revenue measures were twelve measures asking for a total of $7.266 billion in bonds including the $3.5 billion Bay Area Rapid Transit (BART) Measure RR covering three San Francisco Bay area counties, the $1.2 billion Los Angeles homeless housing and services Measure HHH and Santa Clara County's $950 million affordable housing Measure A.

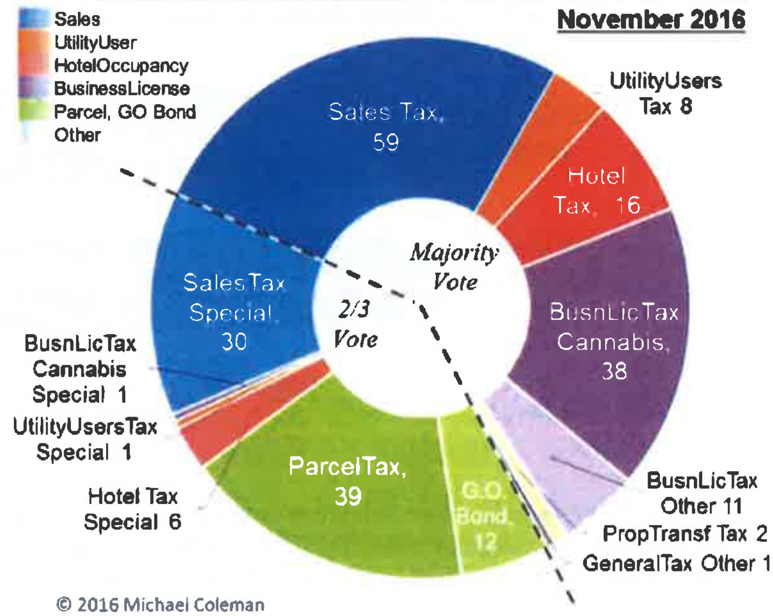
There were 88 measures to increase or extend Transactions and Use Tax (Sales Tax) rates. Thirty of these were special (earmarked) taxes requiring two-thirds voter approval. These include 13 countywide measures for transportation improvements. There were 58 city and county majority vote general purpose tax proposals ranging from ¼ percent to one percent.

There were 39 city, county and special district parcel taxes requiring two-thirds voter approval, including five street/road improvement measures, eight for parks /recreation /open space, 14 for fire

Proposed Local Revenue Measures
November 2016



Types of Non-School Local Tax Measures
November 2016



/emergency medical response, four for hospitals, and four for police.

Coinciding with the statewide Proposition 64 which legalizes marijuana in California, there were 63 local measures related to cannabis including 39 to impose local taxes on marijuana. There were also three measures to tax sugary beverages (in Albany, Oakland and San Francisco).

Overall Passage Rates

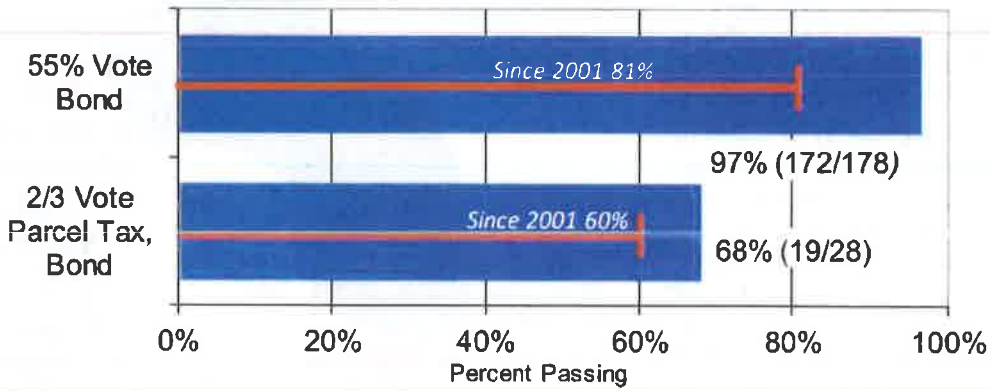
After final tabulations, 355 of the 430 tax and bond measures passed. Post election night counts of hundreds of thousands of mailed in and provisional ballots put a dozen measures into approval in the weeks following election night.

Local Revenue Measures November 2016

	Total	Pass	Passing'
City General Tax (Majority Vote)	120	102	85%
County General Tax (Majority Vote)	15	12	80%
City SpecialTax or G.O.bond (2/3 Vote)	33	19	58%
County Spec.Tax, G.O.bond (2/3 Vote)	23	10	43%
Special District 2/3	33	21	64%
School ParcelTax 2/3	22	17	77%
School Bond 2/3	6	2	33%
School Bond 55%	178	172	97%
Total	430	355	83%

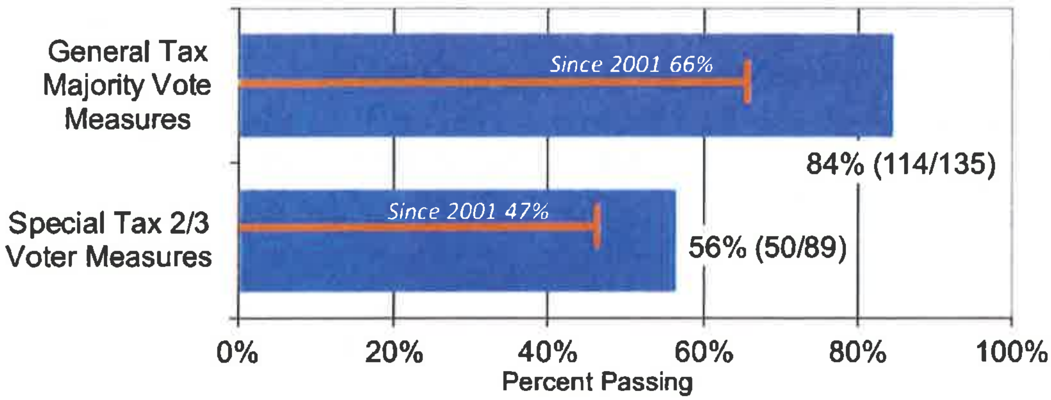
The proportion of passing 55 percent school bond measures exceeded historic passage rates. Just six of 178 fifty-five percent school bonds failed and five of the 22 school parcel taxes. However, just two of the six two-thirds vote school bonds met the that threshold.

School Tax & Bond Measures November 2016



The passage rate of local non-school majority vote tax measures also exceeded passage rates in prior years. A record 114 of the 135 majority vote taxes passed. Among the two-thirds vote city, county and special district special tax and bond measures, 50 of 89 passed.

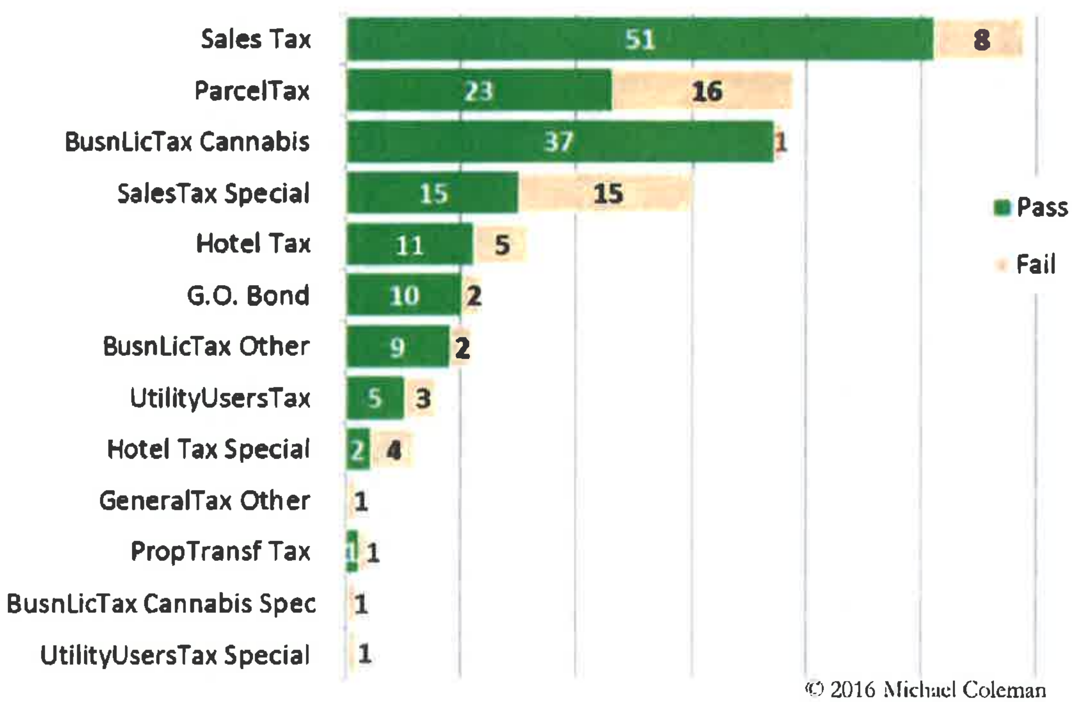
City / County / Special District Tax & Bond Measures November 2016



Measure Outcome by Category

Among non-school local measures, the most common type of measure was a majority vote add-on sales tax (transactions and use tax). Fifty-one of the 59 passed. By contrast, just half of the 30 special sales tax measures met the two-thirds approval needed for passage.

Passing and Failing City / County / Special District Measures by Type November 2016



Local Add-On Sales Taxes (Transaction and Use Taxes)

Voters in 56 cities (including San Francisco) and three counties considered general purpose majority vote add-on sales tax rates ranging from ¼ percent to one percent. Fifty-one were approved including all those that extended without increase an existing sun-setting tax.

Transactions and Use Tax (Add-on Sales Tax) - General Tax - Majority App

City	Measure	Rate	incr/ext	YES%	NO%	Pass/F
East Palo Alto	Measure P	1/2 cent	increase	**84.4%**	15.6%	PASS
Rio Vista	Measure O	3/4 cent	extend	**81.1%**	18.9%	PASS
Capitola	Measure F	1/4 cent	extend	**80.3%**	19.7%	PASS
Madera	Measure K	1/2 cent	increase	**80.1%**	19.9%	PASS
Hollister	Measure W	1 cent	extend	**78.1%**	21.9%	PASS
Yucca Valley	Measure Y	1/2 cent	increase	**77.4%**	22.6%	PASS
Fairfax	Measure C	by1/4to3/4cent	increase	**76.5%**	23.5%	PASS
Lynwood	Measure PS	1 cent	increase	**74.1%**	25.9%	PASS
Sonoma	Measure U	1/2 cent	extend	**72.7%**	27.3%	PASS
Santa Rosa	Measure N	1/4 cent	increase	**71.9%**	28.1%	PASS
Orland	Measure A	1/2 cent	increase	**71.8%**	28.2%	PASS
Indio	Measure X	1 cent	increase	**71.2%**	28.8%	PASS
Saint Helena	Measure D	1/2 cent	increase	**69.9%**	30.1%	PASS
County of San Mateo	Measure K	1/2 cent	extend	**69.9%**	30.1%	PASS
Del Rey Oaks	Measure B	1 cent	extend	**69.1%**	30.9%	PASS
Isleton	Measure C	1/2 cent	increase	**69.0%**	31.0%	PASS
Suisun City	Measure S	1 cent	increase	**68.4%**	31.6%	PASS
Fairfield	Measure P	1 cent	extend	**68.0%**	32.0%	PASS
Chula Vista	Proposition P	1/2 cent	increase	**67.5%**	32.5%	PASS
Del Mar	Proposition Q	1 cent	increase	**67.3%**	32.7%	PASS
Menifee	Measure DD	1 cent	increase	**67.1%**	32.9%	PASS
Pleasant Hill	Measure K	1/2 cent	increase	**66.2%**	33.9%	PASS
West Sacramento	Measure E	1/4 cent	increase	**65.7%**	34.3%	PASS
Wasco	Measure X	1 cent	increase	**64.4%**	35.6%	PASS
Woodland	Measure F	1/2 cent	extend	**64.0%**	36.0%	PASS
Visalia	Measure N	1/2 cent	increase	**63.8%**	36.2%	PASS
Vallejo	Measure V	1 cent	extend	**63.6%**	36.5%	PASS
Ridgecrest	Measure V	1 cent	increase	**64.0%**	36.0%	PASS
Santa Monica	Measure GSH	1 cent	increase	**63.0%**	37.0%	PASS
Tracy	Measure V	1/2 cent	increase	**62.8%**	37.2%	PASS
Vacaville	Measure M	3/4 cent	extend	**62.5%**	37.5%	PASS
Downey	Measure S	1/2 cent	increase	**62.3%**	37.7%	PASS
Lakeport	Measure Z	1 cent	increase	**61.8%**	38.2%	PASS
Newark	Measure GG	1/2 cent	increase	**61.1%**	38.9%	PASS
La Palma	Measure JJ	1 cent	increase	**60.7%**	39.3%	PASS
Westminster	Measure SS	1 cent	increase	**60.7%**	39.3%	PASS
Fountain Valley	Measure HH	1 cent	increase	**59.4%**	40.6%	PASS
Loomis	Measure F	1/4 cent	increase	**59.4%**	40.7%	PASS
Trinidad	Measure G	3/4 cent	extend	**59.3%**	40.7%	PASS
Hemet	Measure U	1 cent	increase	**59.1%**	40.9%	PASS
Fortuna	Measure E	3/4 cent	increase	**58.6%**	41.4%	PASS
San Buenaventura	Measure O	1/2 cent	increase	**57.5%**	42.5%	PASS

Transactions and Use Tax (Add-on Sales Tax) - General Tax - Majority App

City	Measure	Rate	incr/ext	YES%	NO%	Pass/F
Riverside	Measure Z	1 cent	increase	57.3%	42.7%	PASS
Santa Paula	Measure T	1 cent	increase	57.3%	42.7%	PASS
Yreka	Measure C	1/2 cent	increase	57.1%	42.9%	PASS
Belmont	Measure I	1/2 cent	increase	55.1%	44.9%	PASS
La Quinta	Measure G	1 cent	increase	53.7%	46.3%	PASS
El Centro	Measure P	1/2 cent	increase	53.2%	46.8%	PASS
Ukiah	Measure Y	by1/2cent to1cent	increase	52.4%	47.6%	PASS
Temecula	Measure S	1 cent	increase	50.5%	49.5%	PASS
Delano	Measure U	1 cent	extend	50.4%	49.6%	PASS
County of Solano	Measure A	1/4 cent	increase	45.3%	54.7%	FAIL
Oroville	Measure R	1 cent	increase	43.9%	56.1%	FAIL
Lafayette	Measure C	1 cent	increase	42.7%	57.3%	FAIL
South Lake Tahoe	Measure U	1/2 cent	increase	42.3%	57.7%	FAIL
Colusa	Measure A	3/4 cent	increase	42.3%	57.7%	FAIL
County of Siskiyou	Measure G	1/4 cent	increase	40.7%	59.3%	FAIL
Redding	Measure D	1/2 cent	increase	37.3%	62.7%	FAIL
San Francisco	Measure K	3/4 cent	increase	34.8%	65.2%	FAIL

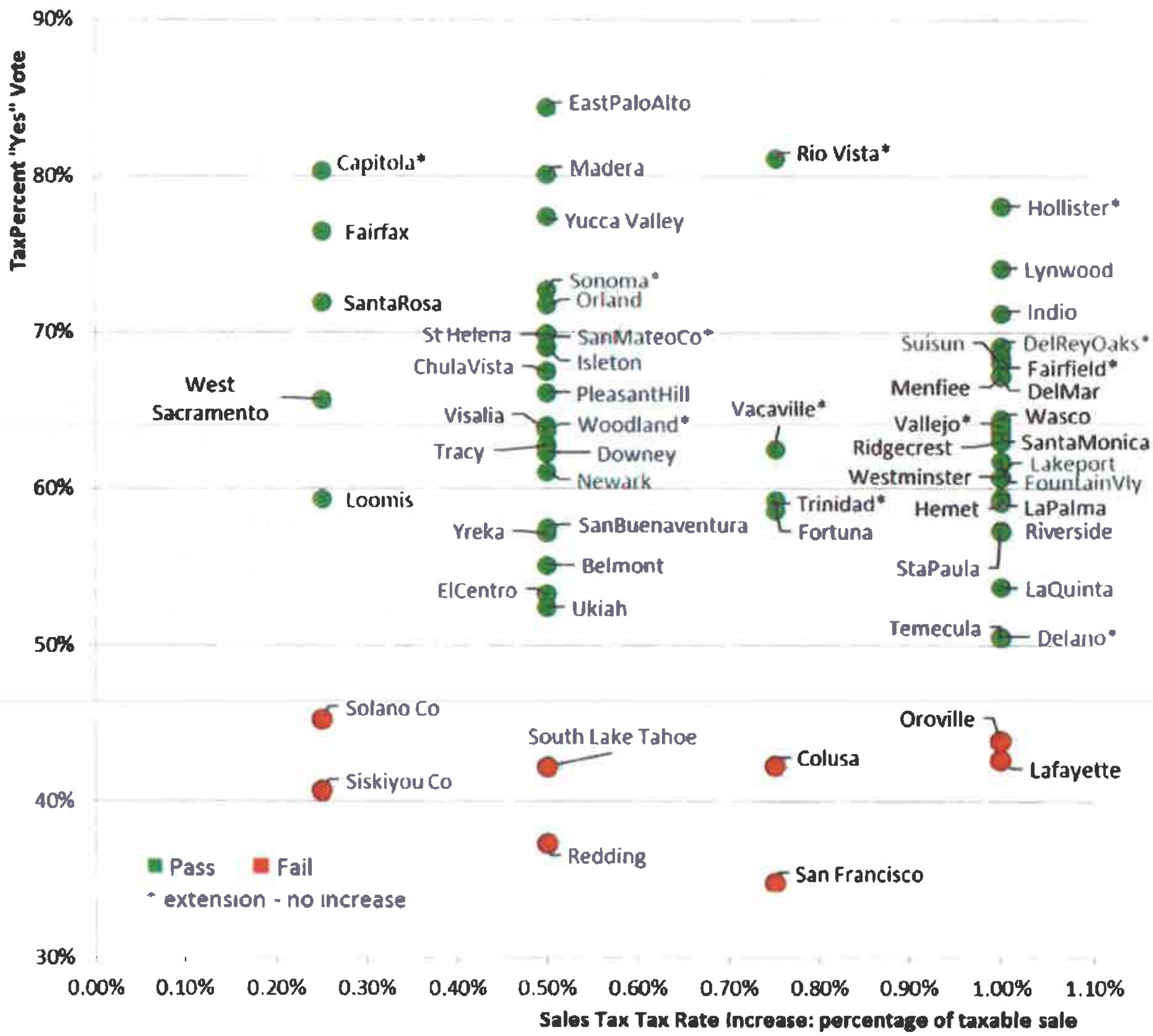
Six of these general purpose majority vote measures were accompanied by an advisory measure specifying the use of the funds should the tax measure pass. The Solano County, South Lake Tahoe and Redding measures failed regardless.

Advisory Measures as to Use of Proceeds - Transactions and Use Taxes

Agency Name		Rate	YES%	NO%	Companion Tax Outcome
Santa Monica	Measure GS	1/2 to education	70.0%	30.0%	PASS
Lynwood	Measure RD	10% to rainydayfund	65.6%	34.4%	PASS
Ukiah	Measure Z	roads/streets	65.4%	34.6%	PASS
Redding	Measure E	police/fire	65.2%	34.8%	FAIL
Loomis	Measure G	Library	63.8%	36.2%	PASS
County of Solano	Measure B	child health & safety	57.9%	42.1%	FAIL
South Lake Tahoe	Measure S	facilities	25.6%	74.5%	FAIL
South Lake Tahoe	Measure Q	housing	43.4%	56.6%	FAIL
South Lake Tahoe	Measure R	roads/streets	67.6%	32.4%	FAIL

The following chart shows the yes vote percentages of passing (green) and failing (red) transactions and use tax measures compared with the tax rates of the measures. There appears to be little connection between the tax rate and the percentage of success, but the proposed tax rate is typically selected considering the voter's level of support at various rate levels.

General Purpose Transactions and Use Tax Measures (majority approval) November 2016

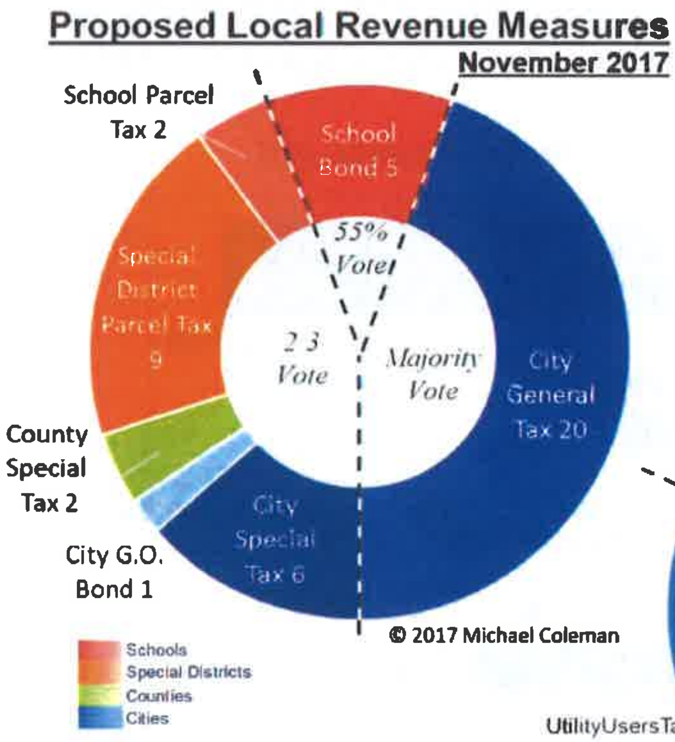


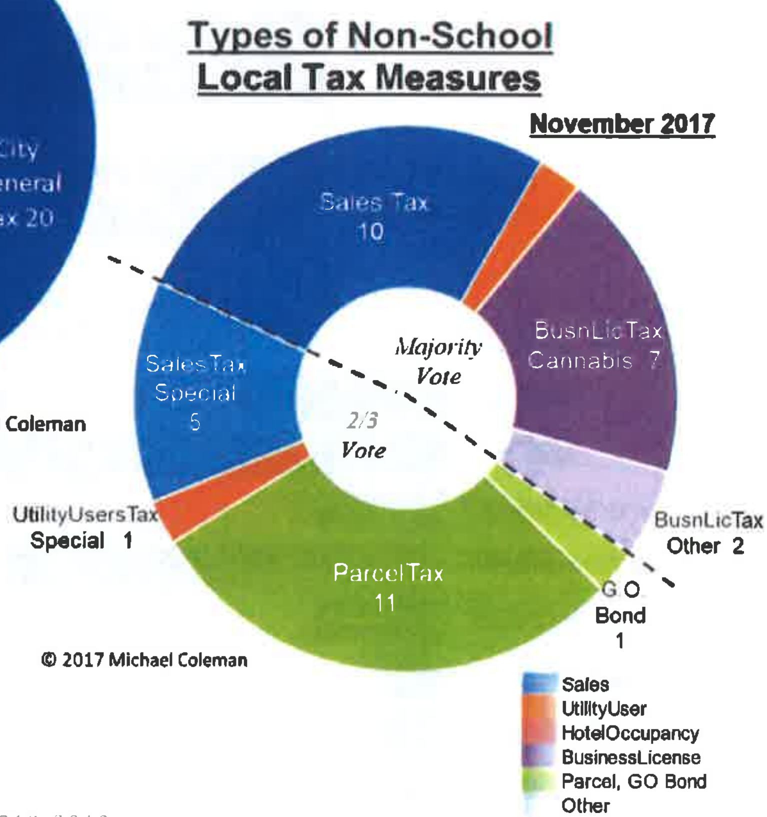
Local Revenue Measure Results November 2017

Local voters cast ballots on 60 local measures this Tuesday, including 45 measures to increase or extend local taxes or bonds. Most general purpose majority vote sales taxes and cannabis taxes were approved. But among two-thirds vote special taxes and parcel taxes, including school measures, more failed than passed.

Among the 45 fiscal measures at this election, more than half, 27, were for cities, including 20 majority vote general taxes and one general obligation bond for library facilities. There were nine special district parcel taxes and two county special sales taxes. There were seven school measures including five 55 percent approval school bonds and two parcel taxes.

Among the 38 non-school measures there were 15 sales tax increases or extensions, eleven parcel taxes and nine business license taxes, mostly concerning cannabis.





Passage Rates

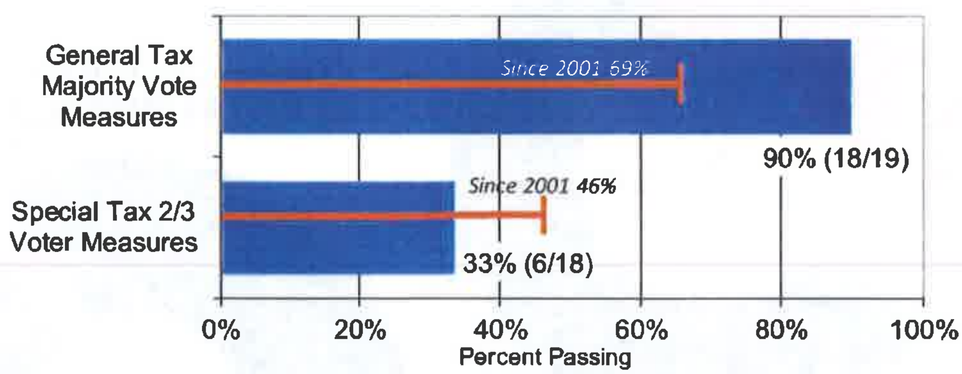
Based on election night tallies, with some ballots still to be counted, 27 of the 45 tax or bond measures passed. The library general obligation bond in the City of Wittier is currently trailing with 66.1 percent but has a good chance of passing when all votes are tallied.

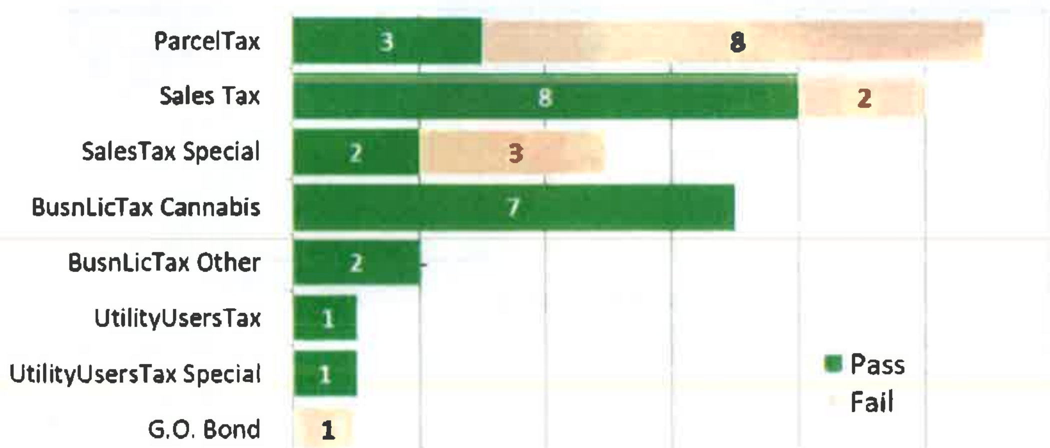
Local Revenue Measures November 2017

	Total	Pass	Passing%
City General Tax (Majority Vote)	20	18	90%
City SpecialTax or G.O.bond (2/3 Vote)	7	2	29%
County Special Tax (2/3 Vote)	2	2	100%
Special District 2/3	9	2	22%
School ParcelTax 2/3	2	1	50%
School Bond 55%	5	2	40%
Total	45	27	60%

The passage rate of local non-school majority vote tax measures exceeded passage rates in prior years. Just two of the 20 majority vote tax measures failed: a one percent sales tax in Coalinga and a 3/4 percent sales tax in Montebello. Among the two-thirds vote city, county and special district special tax and bond measures, six of 16 passed.

City / County / Special District Tax & Bond Measures November 2017





Local Add-On Sales Taxes (Transaction and Use Taxes)

Voters in 10 cities considered general purpose majority vote add-on sales tax rates ranging from ¼ percent to one percent. Eight passed.

Transactions and Use Tax (Add-on Sales Tax) - General Tax - Majority Approval

Agency Name	County		Rate	Sunset		YES%	NO%	
El Monte	Los Angeles	Measure EM	1/2 cent	10yrs	extend	**69.7%**	30.3%	PASS
Hawthorne	Los Angeles	Measure HH	3/4 cent		increase	**68.0%**	32.0%	PASS
Larkspur	Marin	Measure B	1/4 cent		extend	**66.7%**	33.3%	PASS
Woodlake	Tulare	Measure R	1 cent		increase	**64.5%**	35.5%	PASS
Burlingame	San Mateo	Measure I	1/4 cent		increase	**62.9%**	37.1%	PASS
Farmersville	Tulare	Measure P	1/2 cent		increase	**62.2%**	37.8%	PASS
Palm Springs	Riverside	Measure D	1/2 cent		increase	**56.5%**	43.5%	PASS
Santa Barbara	Santa Barbara	Measure C	1 cent		increase	**55.7%**	44.3%	PASS
Coalinga	Fresno	Measure C	1 percent		increase	46.7%	**53.3%**	FAIL
Montebello	Los Angeles	Measure S	3/4 cent		increase	37.9%	**62.1%**	FAIL

Two counties and three cities attempted two-thirds vote special sales taxes. The county measures passed, including a one-of-a kind ½ percent mental health services sales tax in Mendocino County and the extension of a 1/8 percent sales tax for libraries in Stanislaus. One-half percent sales taxes earmarked for police and fires services in Barstow and Victorville failed, although they received over 60 percent yes votes. A special sales tax for streets and roads in South Lake Tahoe garnered majority approval but failed.

Transactions and Use Tax (Add-on Sales Tax) - Special Tax - Two-Thirds Approval

City	County	Measure	Rate	Use	Sunset		YES%	NO%	
County of Mendocino	Mendocino	Measure B	1/2 cent	mental health	to 1/8 cent after 5yrs	increase	**83.0%**	17.0%	PASS
County of Stanislaus	Stanislaus	Measure S	1/8 cent	library	12yrs	extend	**81.2%**	18.8%	PASS
Barstow	San Bernardino	Measure J	1/2 cent	police/fire		increase	64.4%	**35.6%**	FAIL
Victorville	San Bernardino	Measure K	1/2 cent	police/fire		increase	62.1%	**37.9%**	FAIL
South Lake Tahoe	El Dorado	Measure C	1/2 cent	streets/roads		increase	54.0%	**46.0%**	FAIL

Utility User Tax

There were two Utility User Tax measures this election, both extensions of existing rates. Desert Hot Springs voters approved the extension without sunset of their special seven percent UUT earmarked for police and fire services. Brawley voters approved a five year extension of their four percent general purpose UUT.

Utility User Taxes

Agency Name	County		Rate			Sunset	%Need	YES%	NO%	
Desert Hot Springs	Riverside	Measure C	7% tele electr gas water sewer CATV	police/fire	extend	indefinately	66.7%	**76.3%**	23.7%	PASS
Brawley	Imperial	Measure W	4% tele electr gas water sewer trash CATV	general	extend	5yrs	50.0%	**62.2%**	37.8%	PASS

Cannabis – Local Excise Taxes

Voters in ten cities approved higher taxes on marijuana activities.

Cannabis Taxes - Majority Vote General Use

Agency Narr	County		Rate	YES%	NO%	
Rio Dell	Humboldt	Measure X	10%grossRcpts + $5/sf	**82.2%**	17.8%	PASS
Modesto	Stanislaus	Measure T	10%grossRcpts	**82.2%**	17.8%	PASS
Cotati	Sonoma	Measure G	8%grossRcpts + $25/sf	**78.9%**	21.1%	PASS
Pacifica	San Mateo	Measure G	10%grossRcpts	**78.6%**	21.4%	PASS
Palm Springs	Riverside	Measure E	15%grossRcpts + $10/sf	**78.5%**	21.5%	PASS
Woodlake	Tulare	Measure S	10%grossRcpts + $25/sf	**71.1%**	28.9%	PASS
Farmersville	Tulare	Measure Q	10%grossRcpts + $25/sf	**66.2%**	33.8%	PASS

Business License Tax - Other

Voters in the City of Brisbane approved a license tax on soil recycling businesses and increased he cap on the business tax that other recyclers pay.

Business License Taxes - Other - Majority Vote General Use

Agency Narr	County		Rate	YES%	NO%	
Brisbane	San Mateo	Measure D	20%grRcpt	**74.4%**	25.6%	PASS
Brisbane	San Mateo	Measure E	incrCapfr$3mto$4m	**78.5%**	21.5%	PASS

Parcel Taxes and Special Taxes (non-school)

There were eleven non-school parcel taxes including ten special districts and one city. Just three achieved the two-thirds "yes" threshold needed. Atherton voters rejected a three year extension of that city's general purpose property tax. The wealthy bedroom city is heavily property tax dependent with very little sales tax revenue.

City, County and Special District Parcel Taxes (2/3 vote)

Agency Name	County		Amount	Purpose	sunset		YES%	NO%	
Mesa Park Recreation District	Marin	Measure F	$49/parcel	parks	4yrs	increase	**81.2%**	18.8%	PASS
Desert Hot Springs	Riverside	Measure B	$103/parcel	police/fire	indef.	extend	**74.9%**	25.1%	PASS
Humboldt County Resort	Humboldt	Measure B	$100/Residparcel	fire/ems	indef.	increase	**69.3%**	30.7%	PASS
Central Calaveras Fire and Rescue	Calaveras	Measure E	$75/parcel	fire/ems	indef.	increase	60.5%	**39.5%**	FAIL
Cosumnes River Community	El Dorado	Measure B	+$150to $300/parcel	streets/ roads	indef.	increase	58.3%	**41.7%**	FAIL
Blue Lake Fire Protection District	Humboldt	Measure Y	$175/sf parcel	fire/ems	indef.	increase	51.3%	**48.7%**	FAIL
Atherton	San Mateo	Measure F	$450/parcel	general	3yrs	extend	50.5%	**49.5%**	FAIL
Crescent Mills Lighting District	Plumas	Measure E	$46/parcel	street lighting	indef.	increase	48.0%	**52.0%**	FAIL
Quincy Lighting District	Plumas	Measure D	$31/parcel	street lighting	indef.	increase	45.2%	**54.8%**	FAIL
Eastern Plumas Rural Fire	Plumas	Measure C	$65/parcel	fire	indef.	increase	44.4%	**55.6%**	FAIL
Marin County Flood Control	Marin	Measure E	$47/parcel	flood / water	18yrs	increase	32.8%	**67.2%**	FAIL

General Obligation Bonds

Voters in the City of Whittier considered the only local general obligation bond at this election, a $22 million bond measure for the construction of a library. The measure would increase annual property taxes by $24 per $100,000 of assessed valuation. Currently, the measure is narrowly trailing but may yet pass when all votes are tabulated.

City General Obligation Bond Measure (2/3 vote)

Agency Name	County		Amount	purpose	rate	YES%	NO%	
Whittier	Los Angeles	Measure L	$22 million	library	$24/$100kAV	66.1%	**33.9%**	FAIL CLOSE

School Bonds

Last November 2016 there was a record 182 local school bonds on local ballots. Among the 178 that required 55% percent approval, only 6 failed. That is, 97 percent of the measures passed. In this off-year election, there were just five local school bonds, all 55% approval. But just two passed, the largest in LA County and the smallest in tiny Trinity County.

School Bond Measures

School District	County	Measure	Amount	YES%	NO%	Pass/Fail
La Cañada Unified School District	Los Angeles	Measure LCF	$149 million	**71.3%**	28.7%	PASS
Mountain Valley Unified School District	Trinity	Measure J	$5.95 million	**65.2%**	34.8%	PASS
Glendora Unified School District	Los Angeles	Measure GG	$98 million	45.6%	**54.4%**	FAIL
North Monterey County Unified School Disti	Monterey	Measure F	$40 million	44.6%	**55.4%**	FAIL
North Monterey County Unified School Disti	Monterey	Measure E	$36 million	43.0%	**57.0%**	FAIL

School Parcel Taxes

There were just two school parcel taxes this election. It appears only one has passed. Last November 2016, 17 of the 22 school parcel taxes passed.

School Parcel Taxes (2/3 voter approval)

Agency Name	County		Rate	YES%	NO%	
Lagunitas School District	Marin	Measure A	$535+/parcel	**69.1%**	30.9%	PASS
Wilmar Union School District	Sonoma	Measure F	$65/parcel	64.3%	**35.7%**	FAIL

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For more information: Michael Coleman 530-758-3952. coleman@muniwest.com

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