



City of Carpinteria

COUNCIL AGENDA STAFF REPORT MAY 29, 2018

ITEM FOR COUNCIL CONSIDERATION

Report on outcome of community meetings concerning placement of a proposed local transactions and use tax ("Local Sales Tax") of 1.25% on the ballot as part of the November 6, 2018 General Election.

STAFF RECOMMENDATION

Action Item X ; Non-Action Item

Receive report on community meetings and direct staff to prepare for City Council consideration all necessary items related to placement of the proposed Local Sales Tax of 1.25% on the ballot as a part of the November 6, 2018 General Election.

Sample Motion:

I move to direct staff to prepare the requisite resolutions and draft ordinance for City Council consideration concerning placement of a proposed Local Sales Tax of 1.25% on the ballot as a part of the November 6, 2018 General Election.

BACKGROUND

In November of 2017 the City Council initiated a number of actions in response to the May 2017 Five-Year Financial Plan ("Plan"). The Plan identified strengths and weaknesses of the City's financial position and made recommendations regarding service needs and expectations. 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. The Plan calculated the annual shortfall to be approximately \$1.5 million. The Plan also discussed how this gap would be exacerbated by expected increases in costs for law enforcement, library, and other high priority service areas.

The City Council engaged Fairbank, Maslin, Maullin, Metz & Associates to conduct a community survey to gauge the public's interest in placing a Local Sales Tax measure on the ballot during the November 6, 2018 general election ("Community Survey").

The City Council Finance Committee (Clark, Stein) also held meetings to determine the appropriate amount of the Local Sales Tax. In California, cities receive 1% of the state-wide sales tax. Voters in Santa Barbara County have also approved a 0.5% transportation sales tax (Measure A). The City of Carpinteria, however, does not have a Local Sales Tax. A Local Sales Tax would have the benefit of 100% of the revenue staying in the City. Staff has also determined that approximately 50% of the Local Sales Tax generated in the City would be paid by visitors – splitting costs by active users of roads and parks.

The Finance Committee determined based on information for the City's sales tax consultant that a 1.25% Local Sales Tax could generate approximately \$2.3 million annually and that this amount could adequately address the identified revenue shortfall for deferred street and park maintenance, capital projects, and cost increases associated with law enforcement, library services, homelessness, and other high priority services. Based on this input from the Finance Committee, the Community Survey was designed to test the question of voter support for adoption of a Local Sales Tax of up to 1.25%.

At its regular meeting on March 12, 2018, the City Council received a report on the Community Survey conducted by Fairbank, Maslin, Maullin, Metz & Associates concerning a possible 1.25% Local Sales Tax ballot measure. Based on the favorable results of the survey, the City Council directed that staff conduct meetings to further inform the community on the need for additional revenue, including the benefits of adopting a Local Sales Tax, and to report back on the results as a part of the Council's consideration of whether to place the question on the ballot for voter consideration.

The purpose of this agenda matter is to report on the results of those community meetings and for the City Council to consider whether to direct staff to prepare the necessary documents for the City Council to consider, at its next regular meeting, placing a Local Sales Tax measure on the ballot as a part of the November General Election.

DISCUSSION

The Mayor, City Manager and Kirsten Ayars of Ayars and Associates, presented information about the Council's consideration of a local sales tax measure to eight community groups, including:

- Friends of the Library
- Rotary Club of Carpinteria, Morning
- Carpinteria Beautiful
- Carpinteria Valley Chamber of Commerce Board
- Rotary Club of Carpinteria

- State of the Community event
- Downtown Business Advisory Board
- Carpinteria Valley Association

Approximately 250 people attended the meetings and had an opportunity to ask questions after a brief presentation. Attendees were also asked to fill out response cards (sample attached) providing a general reaction regarding a sales tax increase and comments, questions, or concerns. Thirty eight (38) comment cards were returned. The responses were overwhelmingly supportive of the City moving forward with consideration of a Local Sales Tax ballot measure.

The following are representative examples of frequently asked questions and the City's response:

1. Why is the City considering a Local Sales Tax rate of 1.25%?

The City Council decided to explore a 1.25% increase based on a recommendation from the City's Finance Committee. The Committee determined that the revenue generated by a 1.25% City sales tax, estimated at approximately \$2.3 million, could address the \$1.5 million annual revenue shortfall for street and park capital projects and major maintenance identified in the Five-Year Financial Plan, as well as cost increases of many other critical services. Examples include law enforcement services, for which expenses are projected to increase 30% (totaling nearly \$1 million over the next five years), library services, costs for meeting clean water mandates, and costs related to disaster preparedness and response.

2. A 1.25% Local Sales Tax will increase the applicable sales tax in Carpinteria to 9%. How does this compare to other cities?

The City analyzed Local Sales Tax rate information for California cities that is available on the State Board of Equalization website. As of April 1, 2018, approximately 30% of California's 482 cities had sales tax rates of 9% and higher, with most cities at 9.5%.

3. Do people change where they shop when a City's Local Sales Tax increases?

No, people don't shop based on the cheapest Local Sales Tax rates. Examples of other cities that have raised their Local Sales Tax rate include: Agoura Hills (9.5%), Malibu (9.5%), Burbank (9.5%), Calabasas (9.5%), Long Beach (10.25%), Santa Cruz (9%), and Santa Barbara (8.75%).

4. Is it likely the City will ask voters to increase the Local Sales Tax rate in the future?

Revenue from Local Sales Tax adjusts with inflation on the price of purchases that are subject to the Local Sales Tax. Unlike the City's Right-of-Way Assessment District, which does not include an inflationary adjustment and has not increased since the early 1990's, Local Sales Tax revenue would be expected to increase over time which would help avoid the need to further increase a Local Sales Tax (assuming that the price of City services does not increase exponentially).

5. Will the City receive revenue from the cannabis (marijuana) industry?

The City does not expect to receive significant revenue related to cannabis businesses. Taxes being considered on cultivation businesses established in the unincorporated area of the Carpinteria Valley would generate revenue only for the County of Santa Barbara.

6. Isn't the City going to receive reimbursement from FEMA for disaster related expenses?

Qualifying expenses incurred during the Thomas Fire and January 9, 2018 Debris Flow disaster (currently estimated at approximately \$200,000) will be reimbursed by FEMA but will only cover some expenses directly related to those events. New revenue is needed to address the identified budget shortfalls identified above. This need is independent of any damage done by the fire and floods in December and January, respectively.

FINANCIAL CONSIDERATIONS

The City has estimated that the establishment of a Local Sales Tax of 1.25% would generate approximately \$2.3 million in revenue annually. As a general purpose tax, the revenues would go into the City's General Fund and be used for City services as determined by the City Council. The City's Five-Year Financial Plan has identified an annual revenue shortfall of approximately \$1.5 million for capital projects and major maintenance of streets, parks and other City infrastructure. The City also projects future increases in law enforcement services costs, library support, and other needed services.

LEGAL AND RISK MANAGEMENT

Should the Council move to include a Local Sales Tax measure on the ballot during the upcoming general election, staff will prepare the requisite resolution and a proposed ordinance for the City Council's consideration at its meeting tentatively scheduled for June 11, 2018. The resolution would approve placing the Local Sales Tax measure on the ballot, propose to the voters an ordinance enacting a 1.25% general purpose Local Sales Tax to take effect on April 1, 2019, and direct the City Attorney to prepare an impartial analysis.

OPTIONS

1. Authorize staff to include a Local Sales Tax measure, as discussed, as a part of the matters to be included in the 2018 municipal election. (Staff Recommendation)
2. Modify aspects of the proposed Local Sales Tax measure.
3. Decline to move forward with the Local Sales Tax measure at this time.

ATTACHMENTS

- A. Local Sales Tax measure Information Sheet
- B. Sample comment card

Prepared by: Dave Durflinger, City Manager



Signature

ATTACHMENT A

- Keeping Our Town Great -

CARPINTERIA CALIFORNIA



What?

The City is considering a 1.25% sales tax increase.
(current rate 7.75%)

Why?

Over the last decade, the City Council has been working on a series of budget adjustments to best utilize current funds. In May 2017, five-year budget planning identified a \$1.5 million annual shortfall going forward. This is based on increased costs associated with street and park maintenance - specifically road maintenance, meeting federal clean water requirements, maintaining the City's parks, increased water costs, and adhering to new federal ADA and safety requirements.

There are also increased costs with law enforcement (30% increase over next 5 years), the library, homelessness (formerly covered by state and county governments), and emergency preparedness.



1910s

Local Bridges Built



1950s

Freeway and Local Roads Built



1965

City of Carpinteria Established



2018

In the City's first few decades, road maintenance was achieved with smaller budgets, because roads were newer. Unfortunately, we are now at a point where road maintenance exceeds the annual public works budget.

1.25% Sales Tax Increase

How much **\$** is raised?

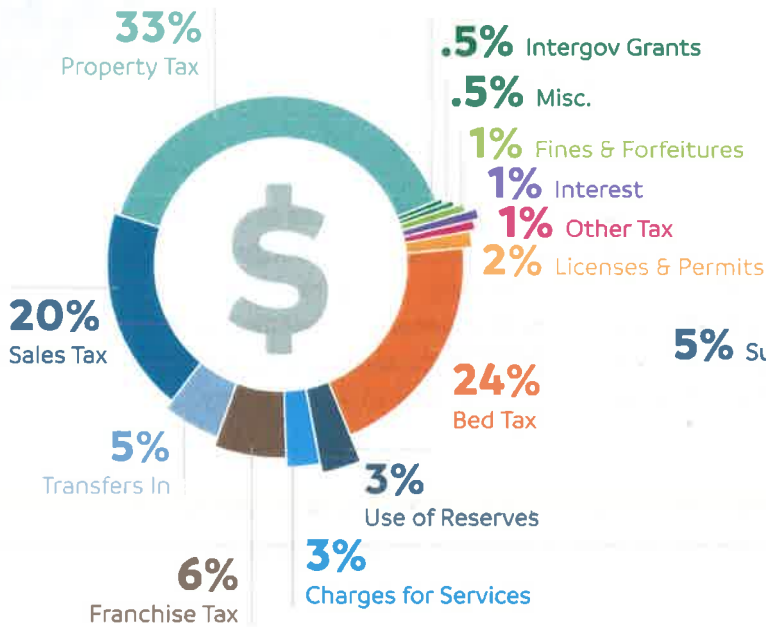
\$2.3 million annually
(approximately)



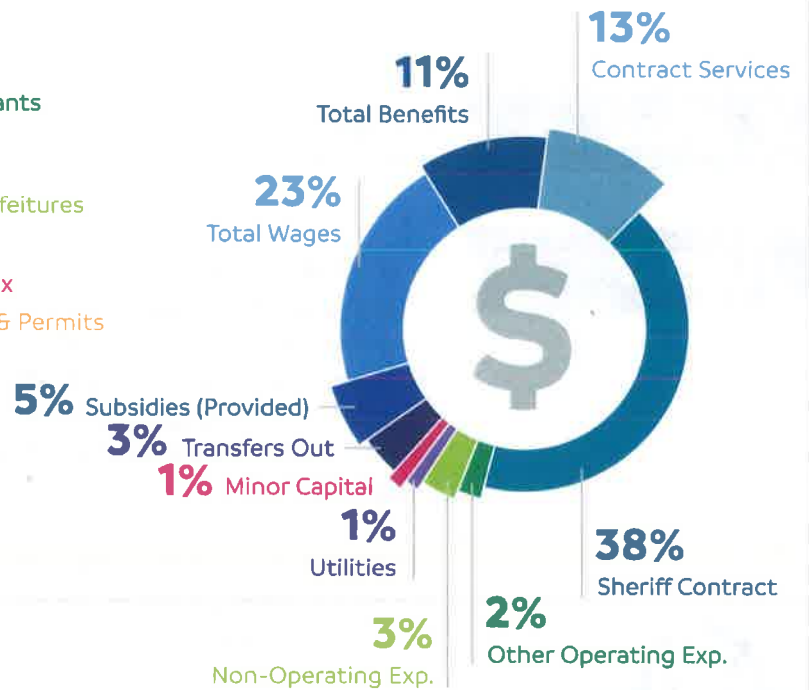
Here's the Scoop

The City of Carpinteria has 3 main sources of revenue: property tax, transient occupancy tax (hotel bed tax), and sales tax.

Main City Revenues



Main City Expenditures



What Else is the City Doing?

The City of Carpinteria has cut costs by reducing law enforcement services along with public employee cost sharing of health insurance and pension expenses. In 2012, the transient occupancy tax (hotel bed tax) was increased. Each year, the City works to find matching funds through grant programs. These include grants to pay for the Carpinteria Avenue Bridge Replacement, Community Garden, Memorial Park, and Carpinteria Bluffs.

What do PEOPLE think?

January 2018
public opinion survey:
65-68% people supported the idea
of a 1.25% sales tax increase

What if this Doesn't Pass?

Costs associated with street and park maintenance are expected to increase. Without additional funds, maintenance will be put off and likely cost more in the future. City Council will be faced with making more tough decisions related to cuts to public services.

ATTACHMENT B

- Keeping Our Town Great -

CARPINTERIA CALIFORNIA



Name

Phone Number

Email

Address

City

State

Zip

- I like the idea of a sales tax increase
- I do not like the idea of a sales tax increase

Comments / Questions / Concerns

