



Atascadero City Council

Staff Report - City Manager

Consideration of Sales Tax Measure

RECOMMENDATIONS:

Council:

1. Direct staff to prepare a resolution and ordinance for City Council consideration at the July 14, 2020 meeting to place a one cent local sales tax override measure on the November 2018 ballot; and,
2. Provide staff direction on what should be included in the draft ordinance.

REPORT-IN-BRIEF:

While the City does well with the funding that it has, general fund revenue growth has not kept pace with the increasing costs of providing services to a growing population. The City has the lowest per capita revenue in the County, has about half the national average of police officers per capita for a City our size, is amongst the lowest paying City employer in the County for most positions (and as such has difficulties retaining employees), and has deteriorating infrastructure including buildings, park, roads, sidewalks and zoo facilities. There are services that community members expect, that the City does not and cannot provide. The City is fiscally challenged.

Council adopted "Fiscal Sustainability" as one of the top three priority areas and included exploring a potential sales tax measure as part of the Council adopted action plan. In November 2019, the City hired True North Research to conduct statistically valid polling to determine if a sales tax measure was feasible. The January 2020 poll results showed support for a one-cent sales tax measure among 65% of likely November 2020 voters, with 33% indicating that they would definitely support the measure and 32% indicating they would probably support the measure. The poll was conducted in mid to late January and a lot has changed in Atascadero since that time.

COVID has had a large impact that will affect voters in unknown ways. Some of the impacts include: severe financial impacts on many families and individuals, changes in perception about government; social distancing hampering the ability to gather and share information and large financial impacts to the City.

The voters are the only ones who may approve an additional sales tax. The Council may place an item on the ballot for voter consideration, but the Council cannot impose an additional sales tax. The Council must adopt a resolution to submit a sales tax measure by mid-July in order for the County Clerk to place the measure on the November ballot.

The following draft language is proposed for the ballot measure:

To provide funding for fire protection, paramedics, and 911 emergency response, police, crime prevention and investigations, maintenance of parks, public facilities and infrastructure, graffiti removal, and recreation, community services, and other general city services in the City of Atascadero, shall an ordinance establishing a one-cent sales tax be adopted, providing approximately 5 million dollars annually for city services until ended by voters, with annual independent audits and all money locally controlled?

This language is similar to the language that was included in the January poll, but has a few minor changes based on recommendations from the polling consultant.

DISCUSSION:

The City Council held a Strategic Planning Workshop January 25 and 26, 2019, to discuss the many issues and concerns throughout the community, determine day-to-day priorities for the City, set goals/objectives, brainstorm creative ways to accomplish these goals/objectives and focus the organization on these priorities, goals and objectives. One of the three priorities identified by Council was fostering financial stability. The Council discussed this focus area at length to clarify their vision and expected outcomes. Utilizing the Council's newly established Decision Criteria and Strategic Priorities, staff developed an action plan to implement the Council's goals over the next two-year budget cycle.

On May 15, 2019, Council, staff and public gathered at a special Council meeting to discuss the Draft Action Plan and following clarifications and revisions, the City Council adopted the 2019-2021 Action Plan. Formal adoption of the Action Plan forces the organization to focus on those agreed upon actions that move the community and organization forward on the identified strategic priorities, keeping in mind the City Mission, 10-Year Vision and Decision Criteria.

As part of the strategic priority to foster financial stability, the first action identified in the Action Plan is to consider placing a tax measure on the November 2020 ballot. This action was broken into four parts:

1. Conduct a public outreach campaign to hear about priorities from the community and to educate community members about fiscal realities.
2. Conduct scientific polling to learn community thoughts on priorities, fiscal choices and receptiveness to additional taxes to fund priorities.
3. Explore different types and levels of tax measures to determine which would best be suited for the ballot measure.

4. Hold public hearings and prepare tax measure language.

Conduct a Public Outreach Campaign

Talk on the Block town hall meetings were held in several locations throughout the City in May, June and July of 2019 and then again in February 2020. At each of these sessions, City staff members gave a brief presentation sharing various facts about the City and each of the departments within the City.

As part of the presentation, City staff discussed the finances of the City and where the City ranks amongst the other cities in the County and State. The intent of the presentations was to increase understanding and awareness of City finances so attendees could make an informed choice in November if faced with a sales tax ballot measure.

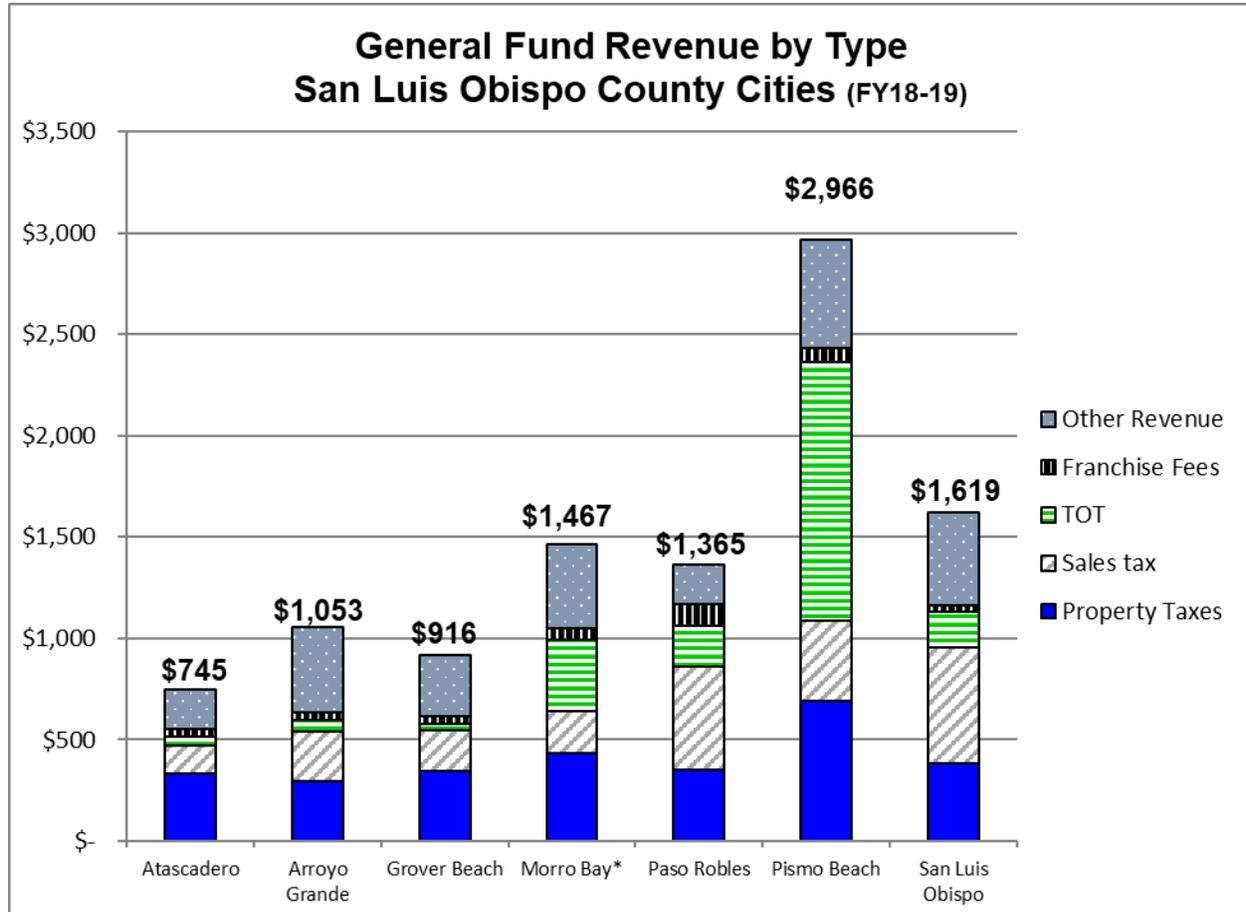
COVID-19 and the Shelter at Home order has severely hampered our ability to expand public outreach and conduct a public education campaign. It was hoped that staff would be able to attend various meetings and gatherings to discuss the potential sales tax ballot measure, informing attendees of both the underlying financial background information that is driving the need to consider a sales tax measure and the expected costs and downsides of increasing the sales tax. Unfortunately groups like Kiwanis, Rotary, and other community groups have not been allowed to meet for the last two months and this method of reaching out to people in an interactive setting has not been available. Once a city council votes to place a measure on the ballot, staff's ability to provide these educational talks will be hampered. While staff may provide educational information, the City may not use any resources to advocate once a measure is placed on the ballot.

Underlying Financial Information

Why should the citizens of Atascadero consider taxing themselves and visitors an additional 1% on the goods and services that they purchase here in Atascadero? There is a lot of underlying information that was shared with attendees at the various public outreach opportunities held before COVID-19 and the Shelter at Home order. A potential sales tax was only briefly mentioned, as a focus was put on the importance of understanding the City's current financial circumstances and some of the challenges and trade-offs that are being made every day and will need to be made in the future. From this basic understanding, attendees could better understand why some may want to consider an additional tax and why it might not be the best choice for others. The information that was shared at the *Talk on the Block* events has been updated and is included in the following section.

Revenues

Cities do not receive the same amounts in taxes per resident. Atascadero receives the lowest revenue per capita in Sales Tax, in Property Tax and in General Fund revenues among all SLO County cities. As shown below, Atascadero receives about half of the amount received per capita from each of our immediately adjacent cities.



* Morro Bay breakout has been estimated.

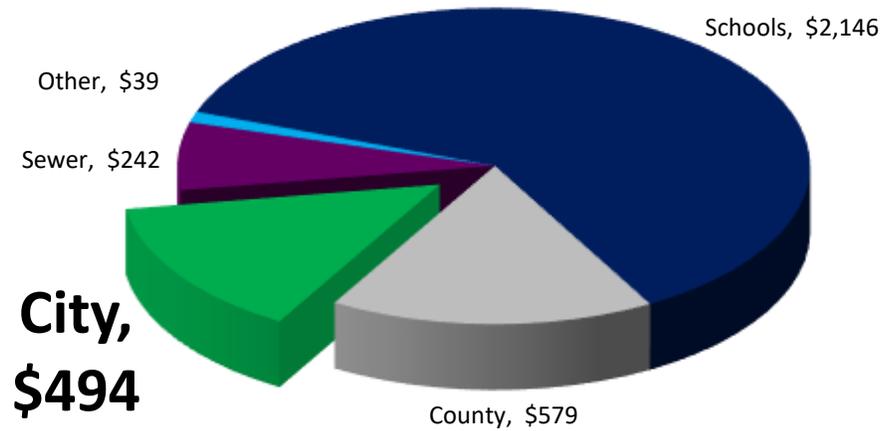
This inequity forces the City to manage resources in a fiscally responsible manner, consistently protecting and stretching our taxpayer’s dollars as far as possible. While the City does as much as it can, for as many as it can, as often as it can, unfortunately there is still much to be done and no funding available to do so.

At the Talk on the Block series, information about relative property tax and how it is distributed was also discussed. The City of Atascadero receives about \$332 per capita in property tax per year. While this is the second lowest per capita in the County, most of the cities in the County range between \$298 and \$437 per capita, with Pismo Beach being the outlier at \$690 per person.

A lot of attendees at Talk on the Block were unaware that the City receives only a small slice of the property tax that property owners pay. An example of where the funds from a typical \$3,500 annual property tax bill goes was provided.

Where Does Property Tax Go?

\$3,500 Annual Bill



Information was also provided on relative sales tax. The City of Atascadero receives the lowest per capita sales tax of any City in the County. Because the City does not have many retail outlets selling taxable goods, the City has the lowest per capita sales tax in the County. Sales tax on gasoline purchases from residents and those traveling along Highway 101 is the City’s largest sales tax producing sector with sales of building and construction materials a close second.

Expenditures

A lot of time in the recent Talk on the Block events was spent on expenditures and where the City does spend the limited funds available to it. Using data available on the ClearGov.com website, information was shared on what the City of Atascadero spends per capita compared to the State-wide average expenditure per resident. The data shows that the City is very frugal with expenditures, yet we continue to get a lot done.

	Atascadero Cost per Capita	State Avg. Cost per Capita	% of State Avg.
Police	\$ 240.00	\$ 677.00	35.5%
Fire	\$ 153.00	\$ 807.00	19.0%
Community Development	\$ 104.00	\$ 539.00	19.3%
Parks & Recreation	\$ 56.00	\$ 100.00	56.0%
Streets	\$ 39.00	\$ 432.00	9.0%
General Government	\$ 48.00	\$ 504.00	9.5%

Source ClearGov.com 2018

As the chart shows, the City, by necessity, spends a lot less per capita than other cities in the State. How has the City made it work? There are four main areas where the City is artificially keeping expenses low.

1. Fewer employees to get the job done
2. Paying employees less than neighboring jurisdictions
3. Postponing or ignoring deferred maintenance and replacement of infrastructure
4. Having fewer services and lower service levels than other cities

Fewer employees: About 72% of General Fund expenditures are for personnel, police officers, fire fighters, parks maintenance workers, building inspectors, planners and a host of other positions. Therefore, to keep expenses down in order to spend less than available resources, the City has kept employee expenses down. The Police Department is an example of what the City has done and continues to do to make ends meet.

The City has kept employee expenses down by not hiring employees at a pace that keeps up with the growth of the City population. About 20 years ago, the City had 30 sworn police officer positions to serve a population of just over 26,000 people which translated to about 1.1 police officer for every 1,000 residents. Today, 20 years later, the City has 29 sworn police officers at full-staffing to serve a population of over 30,000 residents. (about 0.9 sworn officers per 1,000 residents). The national average for a City of our size is 1.7 police officers per thousand residents. This means, that with no vacancies, the Police Department often has only 3 officers on duty. This low staffing combined with increased calls related to homelessness, the passage of Proposition 57 and Proposition 47, and the imposition of no-bail has made police work in the City difficult.

It is estimated that it would cost approximately \$800,000 - \$900,000 annually to hire five new officers, bringing the minimum number of officers per shift up to 4, and bringing our sworn officers back up to 1.1 per thousand residents. Similar needs and examples can be found in most departments in the City.

Paying Employees Less: The City has been able to stay within its financial constraints with the cooperation of its employees. The employees are used to doing more with less and this often carries over into salaries and wages. Below are the current comparisons to other jurisdictions for top step police officer positions:

Jurisdiction	Monthly Salary	
	Officer	Sergeant
City of San Luis Obispo	\$ 8,699	\$ 10,953
County Sheriff	\$ 8,417	\$ 10,221
City of Paso Robles	\$ 7,752	\$ 10,461
City of Pismo Beach	\$ 7,510	\$ 9,854
City of Grover Beach	\$ 7,129	\$ 9,212
City of Arroyo Grande	\$ 6,941	\$ 8,884
City of Morro Bay	\$ 6,929	\$ 8,642
City of Atascadero	\$ 6,693	\$ 8,379

While, there are some differences in benefit packages between jurisdictions, the City is consistently amongst the lowest total compensation for most positions at the City. While compensation is often not the only reason an employee chooses to work for an employer, when there are significant differences in pay, it is an important consideration. Because the cost of living is high in the area, and neighboring jurisdictions are able to pay more, the City's low wages are often a barrier to attracting, hiring and most important- retaining professional employees. This has a large effect on City operations as vacancies lead to even lower staffing levels and inefficiencies as new employees are trained.

There is no department where this is more visible than the Police Department. Unfortunately, being a police officer is not as popular of an occupation as it once was and there is a general shortage of qualified police officers nationwide. While the City has had occasional success in hiring qualified police officers, often there are no candidates available for long periods of time. This has led our Police Department to implement a Police Officer Recruit position. The City program hires a police officer recruit and pays the recruit a salary and benefits to attend the police academy. If the recruit passes the 27 week Police Academy, the recruit becomes a police officer and begins their field training in Atascadero. Once the recruit passes all field training requirements, they are then able to be on patrol in Atascadero. This means that that a single police officer leaving for another neighboring jurisdiction can leave the Police Department short staffed for a year.

This challenge is not uncommon throughout the City. There have been recruitments in several departments where the City did not receive a single qualified applicant. In these cases, after sometimes 2 or more recruitments, the City has chosen to re-organize, find a way to contract out, or hire someone at a lower level and provide a lot of training. In 2019, staff did an informal salary survey of the incorporated cities in the County. At that time it was determined that it would cost the City approximately \$850,000 to bring all City positions to the average salary level of cities in the County. The loss of employees due to higher wages in neighboring jurisdictions continues to be a barrier to providing services at the level that the community expects.

Deterioration of Infrastructure: The City has facilities such as parks, buildings and roads. In addition, the City also has vehicles such as fire engines, police cars, dump trucks, backhoes, tractors and police cars; and equipment such as breathing apparatus, jaws of life, cardiac monitors, radios, computer, software and more.

The City has been able to fund the routine replacement of smaller vehicles such as police cars and building inspector vehicles, but has not had the funding since 2008 to fund the replacement of more expensive (longer lasting vehicles) such as fire engines, the ladder truck, backhoes, tractors and dump trucks. Unfortunately, each piece of equipment is deteriorating and will need to be replaced. The City takes exceptionally good care of its major vehicles, but at some point the two 15 year old fire engines will have to be replaced at an estimated cost of \$500,000 each. At that point, the City will need to make cuts somewhere to either buy the engines or pay to lease the engines.

While City Hall was recently renovated and is good shape, the City has other facilities such as Fire Station #1 which is now 70 years old. The building does not meet current earthquake safety standards, has exhaust safety issues a failing roof, old plumbing and

generally does not meet the requirements of a modern fire station. In 2017, the City obtained an estimate of how much it would be to renovate the fire station to bring it up to current standards. The construction cost was estimated to be \$9.3 million in March of 2017. While Fire Station #1 is the City's oldest facility, the City has many buildings that need constant upkeep and rehabilitation such as the Pavilion, Fire Station #2, Police Station, Zoo Buildings, etc.

In addition to vehicles, equipment and facilities, the City's largest asset is the roads system. While the additional tax measure approved by the voters in 2014 has allowed the City to make significant progress in repairing and rehabilitating roads there is more to be done.

Lower Service Levels: While the City does the best it can to serve the community, there are some things that just cannot be done with the existing resource constraints of the City. There are services that other cities provide, that the City does not provide. There are things that the community wants to see done that the City does not have the funding to make happen. Atascadero has had success in asking the community to step up and raise funds or volunteer to get things done. Groups like Parents for Joy, the Friends of the Zoo and the Friends of the Lake all improve the quality of life for the community through their fundraising efforts to help build and maintain City assets.

While not in a current financial crisis (with the exception of the COVID impacts), the City is coming to a crossroads and cannot sustain the services it provides with the projected available resources. Even though the seven-year budgeted projection shows that the City can survive financially, it has some assumptions that may not be tenable for the community. It assumes that we will not hire any new personnel in the next seven years. It assumes that employees will not receive any raises or cost of living adjustments in the next seven years. It assumes that infrastructure such as Fire Station #1 and our fire engines will continue to function adequately.

Taxes are unpleasant and there are some in the community that have their own structural budget gap, and for them any new additional taxes may be a burden. For others who have concerns about the level of police service or fire protection, the sales tax is a must. The City's Financial Strategy, the City budget, the Annual Financial Report, and the Financial Update on tonight's agenda have additional financial information on why the City Council is considering placing a sales tax measure on the ballot to determine if voters are willing to tax themselves more to address some of the financial issues that the City is facing.

Sales Tax Information

The sales tax rate in the City of Atascadero is currently 7.75%. This includes the statewide sales tax rate of 7.25% plus an additional 0.5% transaction and use tax approved by the voters in 2014 (F-14). Sales tax rates can vary from jurisdiction to jurisdiction based on what the voters in that jurisdiction have approved. In looking through the State website, sales tax rates in California vary from 7.25% to 10.5%. Each incorporated city in the County currently has a sales tax rate of 7.75% and the County has a rate of 7.25%. Paso Robles, San Luis Obispo, Morro Bay, Grover Beach and Arroyo Grande are all considering putting an additional 1% sales tax measure on the ballot.

Under the California Sales and Use Tax Law, the sale of tangible personal property is subject to sales or use tax unless exempt or otherwise excluded. Sales tax is imposed on all retailers for the privilege of selling tangible personal property and is measured by the retailer's gross receipts. Use tax is imposed on the purchaser of tangible personal property from any retailer for storage, use or other consumption in California. Sales taxes, use taxes and transaction taxes are all typically just referred to as "sales tax".

Sales taxes are generally not imposed on groceries, medical products, utilities, services, real property, electronic products, art and various other products.

Like other California cities, Atascadero generally receives 1% of the cost of taxable goods purchased within the city limits of Atascadero in Bradley-Burns Sales tax. The remaining 6.25% of base sales tax goes to the State of California. The additional 0.5% F-14 sales tax is actually a transaction and use tax and is imposed on taxable goods that are delivered or "used" in Atascadero. (Items purchased at most retail stores are assumed to be used in the jurisdiction where it is purchased.) The sales tax measure being considered is a transaction or use tax and would be allocated similar to F-14.

There are many nuances for allocating and applying sales and transactions taxes. In general, for purchases at retail stores (in-store), both the sales and transaction tax are allocated to the jurisdiction where the store is located. So if you purchase an item in Atascadero, Atascadero receives both the 1% Bradley-Burns tax plus any additional transaction tax approved by the Atascadero voters. If you purchase an item in a different city, that different city receives the 1%, plus any additional transaction taxes approved by that city's voters. There are exceptions for registered vehicles (the city where you purchased the vehicle receives the 1% bradley-Burns; and the city where the vehicle is registered receives any applicable transaction tax) and other specific items. There is also a whole host of different rules for internet purchases and purchases for items that are delivered. Further information on sales taxes and allocations is available at the California Department of Tax and Fee Administration (CDTFA) website.

Potential Impact on Local Sales

The actual amount of proposed increase in the sales tax is minimal when compared to the actual cost of a product sold. For example, for every \$100 spent, an additional one percent sales tax increase would result in an additional \$1.00 paid by the consumer. Sales tax data trends show that an increase in the sales tax rate of one percent has no noticeable effect on the amount of taxable goods consumers buy. In other words, in other jurisdictions where the sales tax has been increased, the businesses did not see a decline in sales because the sales tax rate had been increased.

A one percent sales tax measure was estimated to bring in about \$4.7 million annually to the City if passed. While COVID-19 is having a substantial negative effect on the sales tax that the City receives, it is expected that eventually people will once again buy gas, go to restaurants, and buy building goods bringing the sales tax back up to a pre-COVID level.

Advantages and Disadvantages of Sales Tax Measure

As with most policy actions, enacting an increase to the sales tax has advantages and disadvantages.

Some arguments in favor include:

- Unlike property taxes, sales taxes are paid by a greater distribution of the population (including homeowners, renters, businesses, travelers and tourists); Sales taxes are not paid on many basic necessities such as rent, groceries, medicines and services.
- Sales taxes are paid based on consumption (those who can afford to spend more pay more), and they are paid incrementally instead of in a lump sum;
- Because the tax is established by a vote of the local electorate, it cannot be taken by the State.
- It would generate additional revenue to maintain police, fire, parks and other City services by:
 - Increasing minimum police staffing to four officers per shift (consistent to levels from 20 years ago)
 - Ensure preparedness for wildland fires
 - Ensure adequate staffing to respond quickly to 9-1-1 calls
 - Allow the City to keep up with basic repairs of parks, buildings, and equipment
 - Allow the City to rehabilitate aging infrastructure such as the 70 year old Fire Station #1
- Other jurisdictions in the County will be voting on a sales tax in their City:
 - There is no competitive advantage to having a lower sales tax rate
 - Atascadero citizens make many purchases outside of the City and may be paying a higher rate already. None of that tax supports services in Atascadero.
 - An Atascadero sales tax will help fund Atascadero police, fire and parks on purchases made in Atascadero.

Some arguments against include:

- Additional taxes reduce the discretionary income of Atascadero residents;
- Tax increases are not generally perceived positively by the citizenry and may erode trust in local government.
- COVID-19 has had a large financial effect on some in our community and now may not be the time to ask people to pay more in taxes.
- This is a general tax and there is no guarantee on the how the additional revenue will be spent.

Sales Tax Measure Process

Regarding increases to the sales tax rate, in order to make a change to any general tax rate, the change must be approved by the voters. The City Council does not have the authority to raise taxes, only to put a measure on the ballot. In order to place a tax measure on the November 3, 2020 ballot, it takes a 2/3 vote of the City Council (at least 4 members). If passed by the Council and the electorate, the tax would be effective no sooner than the first day of the first calendar quarter, commencing more than 110 days after the adoption of the ordinance. Therefore, the tax would be effective no sooner than April 1, 2021.

Proposition 218, approved in 1996, now requires that all City tax election measures be placed on the same election when City Council Members are selected unless a financial emergency is declared. The next Council election is scheduled for November 3, 2020. Subsequent Council elections are held every two years.

In order to place the local sales tax election on the next ballot the Council needs to act prior to August 7, 2020. In order to provide staff enough time to submit the proper paperwork, and related resolutions and ordinances a decision must be made at the July 14, 2020 Council meeting.

Staff discussed the potential effect of COVID-19 with True North Research, the firm that conducted the original poll in January. Not unexpectedly, there is not a lot of information available on how voter outlook will change from January to November. There is at least one city in the County that will be conducting a second statistical poll in late June. If the Council is interested in conducting a second statistical poll in June, it would cost around \$17,000 for an abbreviated poll.

Sales Tax Options

If the City Council decides to move forward with a sales tax measure, and in order to draft the measure, decisions on the following key issues will need to be made:

- Amount of Increase
Staff recommends that 1% be proposed as the local sales tax override amount. As discussed in the sales tax polling results, sales tax measures are not very rate sensitive. Experts opine, that citizens would rather pay what is needed to provide adequate services instead of paying less and receiving services that may not meet their expectations. Staff believes that the City needs the entire 1% to hire and retain additional personnel to keep up with current demands, and to address deteriorating infrastructure needs.
- Advisory Measure
Sunset Clause
Sunset clauses state that a tax measure ends or “sunset” after a certain period of time. Sunset clauses can be perceived as beneficial because the tax is temporary and voters retain control over the tax. They are particularly popular when the tax will be used for a project of limited duration or to fund one-time expenditures. In this case, the need for the tax is an ongoing need – maintenance of police, fire, parks and other services. It would not make sense to use the tax revenues to hire additional police officers, only to have to lay the officers off as the tax measure sunsets. Because the poll results do not show that a sunset clause is likely to measurably increase support for the measure, staff is not recommending that a sunset clause be added to the measure.
- Citizen Advisory or Oversight Committee
Citizen committees can also be popular with the electorate. The City’s measure F-14 sales tax has a citizen oversight committee that reviews how the funds are spent and reports to the Council and the community annually on where the funds are spent. Staff is not recommending a Citizen Advisory or Oversight Committee. The proposed sales tax measure is intended to be a general tax measure and the revenue is intended to be used to maintain police, fire, parks, recreation, and other

services and infrastructure. The ability to breakout and track expenditures similar to F-14 becomes exponentially more difficult for ongoing maintenance and personnel costs. A considerable amount of time and effort would need to be spent on administration if a citizen committee was formed.

Conclusion

The City of Atascadero is severely fiscally constrained. While the City does a lot with the small amount of revenue that it receives, the revenues have not kept pace with the increasing costs of providing police, fire, parks, recreation, and other services. The City has stretched the available resources as far as possible, but services continue to be eroded and facilities and infrastructure continue to deteriorate. The City has implemented many measures over the years to contain costs such as maintaining consistent personnel numbers, keeping compensation costs low, and making do with aging and inadequate facilities and equipment. The City has tried to increase revenues through economic development, full cost recovery fee levels and the community facilities district. These measures have all helped, but have not been enough and are generally unsustainable in the long-run.

Tonight, Council must decide whether there is enough interest to continue to move forward in placing a measure on the November ballot. If Council wants to continue moving forward, Council would need to direct staff to bring back an item at the July 14th meeting. At the July 14th meeting, Council must decide whether to ask the community if they want to accept the trade off of an additional one percent on taxable sales to be used to maintain City services. The Council will never be voting on whether the sales tax should be increased; but rather whether the voters should be given the opportunity to decide if an additional sales tax is the right thing for the community.

If Council decides to move forward tonight, the Council will also need to decide on:

- Does the proposed ballot measure language adequately convey the intent of the ballot measure?
- Is 1% the right amount to ask or should another amount be considered?
- Should the measure include a sunset clause?
- Should there be a citizens committee included in the ordinance?
- Are there other considerations that Council would like to see in the draft ordinance?

Because July 14th is the last day that Council can adopt the necessary resolutions and ordinance, it is important that Council give staff clear direction on what they expect to see in the ordinance as there would not be time to come back at a later Council date.

FISCAL IMPACT:

Directing staff to bring back a draft ordinance and resolutions necessary to place a sales tax measure on the November 2020 ballot would involve a small amount of staff time. If the Council later votes to put the tax measure on the ballot, the proposed sales tax measure would generate an estimated \$5 million annually in additional revenue. The total cost of placing the measures on the ballot is estimated to be approximately \$12,000 of budgeted General Funds.

ALTERNATIVES:

1. Council may not pursue an increase to the sales tax rate.
2. Council may ask staff for additional information.

ATTACHMENT:

Revenue Measure Feasibility Study, dated February 4, 2020