Atascadero City Council  
Staff Report - City Manager

Results of Community Poll and Consideration of Sales Tax Measure

RECOMMENDATIONS:

Council:

1. Direct staff to prepare a resolution and ordinance for City Council consideration at the June 24, 2014 meeting to place a ½ cent local sales tax override measure on the November 2014 ballot; and,

2. Direct staff to draft the resolution to include establishment of a Citizen’s Advisory Committee; and,

3. Direct staff to draft the resolution to include an advisory measure with language directing that the funds from the ½ local sales tax override would be used:

   A. Primarily for the purpose of repairing and maintaining the City’s roadways

   OR

   B. Primarily for the purpose of repairing and maintaining the City’s roadways, with remaining funds to be used for the repair and maintenance of other City infrastructure such as parks facilities, storm drains and zoo facilities.

REPORT-IN-BRIEF:

The maintenance, funding and condition of the City’s infrastructure, particularly roads, has been a critical concern of the City Council for some time. As part of the 2013-2015 budget, the Council allocated funds to conduct a poll to determine how potential voters would react to a ½ cent sales tax increase to fund infrastructure repairs. At the February 1, 2014 Council strategic planning session, the Council discussed critical infrastructure needs such as roads, storm drains, parks and zoo infrastructure, and
facilities infrastructure. The poll was developed to gauge citizen’s interest in the various infrastructure needs.

DISCUSSION:

Infrastructure Needs
Infrastructure includes the basic facilities and equipment needed to run the City. It includes public infrastructure such as streets, roads, storm drains, street lights, sidewalks, bridges and other large capital items needed for transportation and wastewater to flow smoothly. It also includes facilities such as fire stations, police station, parks, the Zoo, City Hall and other large capital assets that are needed to provide services to the public. Funding the replacement of these long-term assets of the City has been a challenge since prior to incorporation.

These roads/storm drains/facilities are used every day; however the cost of that use is not easily seen. The items will eventually have to be replaced as both time and use take their toll on them. These are costs that the City is incurring, but is not currently paying for. The City has had some success in the past in procuring grants and other funding sources for roads. With these grants, the City was able to slow the overall deterioration of roads; however we continued to slip backwards. General road funding and grant funding has been gradually reduced nationwide. Not only have state and federal grant funds dried up, but state and federal agencies are now looking to local jurisdictions to contribute more for repairs to state routes through their jurisdictions. These contributing factors have and will continue to increase the speed at which are roads are deteriorating.

The City’s ability to fund the long-term replacement of infrastructure and particularly roads has been a concern of the City Council for quite some time. Council has discussed costs and funding associated with maintaining roads, through the Atascadero Road Program and through the Comprehensive Financial Strategies. At Council direction, staff has also tried to educate the citizens of Atascadero about long-term infrastructure costs, through public speaking engagements, Council presentations and handouts.

As part of the Comprehensive Financial Strategy in 2013, Council reviewed funding for the repair and replacement of infrastructure. Due to continuing concerns regarding infrastructure deterioration, the Council approved funds as part of the 2013-2015 budget to investigate a half cent sales tax measure. The investigation would include a community poll to determine the community’s interest in approving the additional half cent sales tax. At the Council strategic planning on February 1, 2014 Council received a report on the City’s road conditions and a report from Jennifer Franz of JD Franz Research, a polling firm. While the Council was primarily concerned with repair and maintenance of the roads, they also directed the pollster to ask questions about all infrastructure needs.
Polling Results
On behalf of the City, JD Franz Research conducted interviews of 402 likely voters. JD Franz is a professional research firm with years of experience in the polling field. They have a strong reputation for the accuracy of their polling results.

The interviews were conducted between March 13 and March 19, 2014. While the primary purpose of the poll was to determine the extent to which those most likely to vote would support a proposed sales tax increase, the poll included inquiries into the following:

- Assessments of the quality of life in Atascadero
- Assessments of changes in the quality of life in the past year
- Ratings of the job the City’s government is doing of managing City affairs and services
- Perceptions of the level of City taxes and fees
- Awareness of the City’s sales tax rate
- Awareness that the sales tax rate in neighboring cities is higher than the rate in Atascadero
- Levels of support for the proposed tax increase
- Reasons for support
- Reasons for opposition
- Effect of various situations on levels of support
- Priority of two uses for the increased revenue
- Potential effect of an Atascadero Unified School District bond reauthorization measure on the same ballot
- Effect of possible uses for the increased revenue on levels of support
- Respondent demographics, including gender, length of residence in Atascadero, educational attainment, age, and cell phone usage
- Voter characteristics derived from the sample list, including registration status

Given that 402 interviews were completed, the margin of error for the survey at the 95 percent confidence level is ± 4.9 percent.

Overall, the majority of voters (89%) say the quality of life is good in Atascadero and believe that the quality of life has remained about the same over the last year. The City did not fare as well when respondents were asked how the City does in managing its affairs. Only half (50.4%) of the respondents stated that the City did a good or excellent job. (29.7% responded that the City did a fair job and 11.6% felt the City did a poor job).

The poll showed that most voters knew that the sales tax rate in Atascadero is 7.5%, but the majority did not know that all of the other cities in the County had an 8.0% sales tax rate.

The chart below displays levels of support for the proposed sales tax increase from seven and a half cents to eight cents. About four in ten support this proposal, while two in ten strongly support it, for a total of around six in ten (61%).
Citizens in favor of the sales tax measure cited the need to improve roads as the main reason for supporting the proposed sales tax increase. Other reasons included the need to maintain infrastructure and that a half cent sales tax increase was reasonable.

An advisory measure stating that the additional money be used primarily for the purposes of maintaining and repairing the City’s streets and roads is likely to increase support. Almost as likely to increase support is the proposal to establish a citizens’ advisory committee to oversee the spending of the additional money. Adding a 10 year sunset date only had a modest positive effect amongst both opponents of the tax and proponents of the tax.

The poll results showed that if the Atascadero Unified School District’s ballot measure to “reauthorize existing bonds to increase student access to computers, maintain and upgrade educational technology, and modernize classrooms and other school facilities” were on the same ballot as the City’s sales tax increase measure, support for the City’s measure would decrease to 54.4%, combining “vote only for City measure” and “vote for both”). Another nine percent do not know what they would do; the remainder would vote only for the school district measure or vote against both. It is interesting to note that if both measures were on the ballot, this poll shows that support for the school district measure would be at 52.7%, which is less than the support shown for the City’s sales tax measure. The chart below shows the weighted response.
The respondents were asked the extent to which various uses of the increase would change their minds in the direction of support or opposition. Both those likely to support the measure and those likely to vote against the measure felt that maintaining and repairing roads made them support the measure more (average of over 70% for supporters and over 40% for opponents.) Although some of the other proposed uses increased support in over 40% of the “supporter” respondents, none of the other uses have a majority impact on support.

Overall, the poll results showed that there is strong community interest in a sales tax measure, particularly if the proceeds of the sales tax were to go primarily to roads. While there is some interest in the community for some of the money to go to storm drains, parks infrastructure and facilities, it is clear that people are looking for the money to be spent primarily on maintaining and repairing our roads.

The Council does not have the authority to impose the half cent sales tax on taxpayers, instead Council may only place the sales tax measure on the ballot, asking the voters if they want to approve the half cent sales tax measure.

**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. In order to place a tax measure on the November 4, 2014 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, 2015.
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. The next Council election is scheduled for November 4, 2014. 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 8, 2014. In order to provide staff enough time to submit the proper paperwork, related resolutions and ordinances would need to be considered by the June 24, 2014 Council meeting.

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:

- It would generate additional revenue to assist in meeting the City’s long-term needs, particularly road repairs;
- Unlike property taxes, sales taxes are paid by a greater distribution of the population (including homeowners, renters, businesses and tourists);
- 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;
- The existing sales tax rate is currently at the legal minimum and lower than that paid by most residents in California; and,
- Because the tax is established by a vote of the local electorate, it cannot be taken by the State.

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.

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, the increase would result in an additional $0.50 paid by the consumer. Sales tax data trends show that an increase in the sales tax rate of one half 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. HDL, our sales tax consultants, do not believe that an increase of one half cent in the sales tax rate in Atascadero will affect local business sales volumes.

It is estimated that a half cent sales tax would generate between $1.7 million - $2.0 million annually.
Sales Tax Options
If the City Council decides to move forward with a sales tax measure, it will require decisions on the following key issues in order to draft the measure:

- **Amount of Increase**
  Staff recommends that .5% be proposed as the local sales tax override amount. As discussed in the recent roads report, this amount is necessary in order to produce revenue sufficient to meet the needs identified. This increase would bring the sales tax rate up to the comparable rate to that of the other cities in the county. Below is a comparison table of the sales tax rate in neighboring jurisdictions.

<table>
<thead>
<tr>
<th>SLO COUNTY</th>
<th>CURRENT SALES TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arroyo Grande</td>
<td>8%</td>
</tr>
<tr>
<td>Atascadero</td>
<td>7.5%</td>
</tr>
<tr>
<td>Grover Beach</td>
<td>8%</td>
</tr>
<tr>
<td>Morro Bay</td>
<td>8%</td>
</tr>
<tr>
<td>Paso Robles</td>
<td>8%</td>
</tr>
<tr>
<td>Pismo Beach</td>
<td>8%</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>8%</td>
</tr>
</tbody>
</table>

- **Advisory Measure**
  The trend in the industry for local general sales tax measures is to include an advisory measure with the tax measure. An advisory question is a type of ballot measure in which citizens vote on a non-binding question. This allows voters to have a say in how the additional revenues should be spent. While the advisory measure is not legally binding on the City, it is viewed as clear direction from the citizens to the City Council on where the voters would like to see the funds spent.

  Staff strongly recommends an advisory measure also be placed on the ballot stating where the funds will be spent if the measure is passed. Because repair and maintenance of the roads polled the strongest and is the City’s biggest need, it is a given that the advisory measure would contain language stating that funds will be spent primarily on roads. While not as popular, there is also a need for long-term funding for other infrastructure such as park facilities, zoo facilities and public safety facilities. Staff does not have a strong recommendation as to whether the advisory measure should include all infrastructure or just roads.

**Sunset Clause**
Sunset clauses state that a tax measure ends or “sunsets” 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 - repair and
maintenance of the City’s roads and infrastructure. 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 Committee**
  Citizen advisory committees can also be popular with the electorate. An advisory committee is often comprised of a group of citizens whose purpose is to analyze how new tax monies are being spent. While some respondents felt that an advisory committee added more administration, staff is recommending that a citizen advisory committee be established if the new tax is approved. The poll results showed that the voters are more likely to support the measure if there is a citizen’s advisory committee. The committee would be charged with meeting annually to review the previous year’s expenses from the proceeds of the increased sales tax. The committee would compile a report to the Council stating how the funds were spent and share with the community how the tax was being used.

**FISCAL IMPACT:**

The proposed sales tax measure would generate an estimated $1.7 - $2.0 million in additional annual revenue. The total cost of placing the measures on the ballot is estimated to be approximately $10,000 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.