

AGENDA STAFF REPORT



DATE: July 23, 2018

TO: Honorable Mayor and City Council

THRU: Jill R. Ingram, City Manager

FROM: Victoria L. Beatley, Director of Finance/City Treasurer

SUBJECT: **Placement of One Percent (1%) Transaction and Use Measure on the November 6, 2018 General Election Ballot for Voter Consideration**

SUMMARY OF REQUEST:

That the City Council adopt or approve the following:

1. Resolution 6845 of the Seal Beach City Council approving an Ordinance enacting a 1% Transactions and Use Tax to be Administered by the California Department of Tax and Fee Administration, and Ordering the Submittal of said Ordinance to the Voters at November 6, 2018 General Municipal Election;
2. Ordinance 1671 of the City of Seal Beach Imposing a 1.0% Transactions and Use Tax to be Administered by the California Department of Tax and Fee Administration;
3. Resolution 6846 of the Seal Beach City Council Requesting the Board of Supervisors of the County of Orange to Consolidate a General Municipal Election to be held on Tuesday, November 6, 2018, including a Seal Beach Ballot Measure, with the Statewide General Election to be held on that date pursuant to §10403 of the Elections Code; and
4. Resolution 6847 of the Seal Beach City Council, Providing for the Filing of Rebuttal Arguments for City Measures Submitted at the General Municipal Election to be held November 6, 2018.

BACKGROUND AND ANALYSIS:

The City of Seal Beach continues to suffer from the fiscal instability caused by the sources of revenue that are either declining, or not growing enough to fund necessary level of City services. State of California has taken local tax dollars from the City of Seal Beach and other cities on a regular basis over the last 20

years to solve the State's fiscal problems, without any concern of the impact on local government services that our residents, businesses, and visitors need. Most recently, with the dissolution of the Redevelopment Agency in 2012, the City was forced to turn over almost \$2.9 million to the County of Orange to be paid to other taxing entities in the County. The City continues to lose approximately \$2,700,000 in property tax revenue on an annual basis from the dissolution.

For at least the last five years, the City has had a very small budget surplus with increased demand for services. During the regular course of business, the City has seen unassigned reserve balances decline from over \$12 million in Fiscal Year 2014-2015 to a projected level of \$3.6 million at the end of the current fiscal year. This continued decline in reserves is in spite of the fact that the City has continued to reduce full-time staff positions, contracted-out various city services, and have all full-time employees pay their full share of pension costs.

During the budget adoption process for FY 2017 – 2018, staff identified significant challenges associated with bringing a balanced budget to the City Council. Specifically, there was great concern about the increasing costs related to pension liability, critical public safety services, retiree health, insurance, homelessness, the costs of improving infrastructure and complying with clean water mandates, and changes to the prevailing wage requirements for certain types of public works contracts.

To further highlight the challenges related to pension costs, in the last few years CalPERS has made dramatic modifications to various factors that impact the rates that cities are being charged for retirement contributions. Specifically, the amortization period has been lowered from 30 years to 20 years, the mortality assumptions have been increased to be more in line with current life expectancy, and the most significant change, the discount rate was reduced from 7.75% down to 7%. All of these factors resulted in increases to the amount the City pays to CalPERS annually.

Secondly, to further highlight the challenges related to homelessness, the regional impacts of homelessness in Orange County is the current focus of a Federal Judge. There is the potential for this Judge to rescind anti-camping ordinances in Orange County if cities are unable to provide shelter for the homeless population, which could potentially increase costs to the City to manage an influx of homeless. The additional shelter costs will likely be spread to every City in the County. Changes and increases in state clean water mandates are increasing the costs of compliance, and or City's infrastructure continues to require costly repair and upgrades.

Finally, there has been a great deal of discussion related to legislative changes made at the State level that have downgraded some felonies to misdemeanor status. More specifically, the passage of AB109, Proposition 47, and Proposition 57 have created the need for more reactive rather than proactive policing. To address this issue, the City Council identified "Enhance Public Safety" as one of

the five major goals in the City's Strategic Plan. Two major objectives in this significant effort that were accomplished include the City Council authorizing the hiring of two additional police officers to be paid for in the near-term with money set aside for a future use. Secondly, the City Council recently approved an agreement for the preparation of an independent Police Services Study to identify future sworn and professional staffing needs/levels relative to the size and uniqueness of the City of Seal Beach.

Additionally, some challenges have arisen with some key revenue sources not performing as expected. More specifically both Utility Users Tax (UUT) and Sales Tax revenues have declined and the anticipated increase in beach parking revenue has still not materialized as the Coastal Commission continues to consider a permit. Sales Tax has been impacted by the continued prevalence of on-line shopping, declining oil prices, and a lackluster economic development environment.

The Utility Users Tax was expected to decline because of the change in the rate approved by the voters in 2014, but the decline was greater than expected. Changes made by the California Public Utilities Commission (CPUC) on how revenue is calculated by companies such as Southern California Edison and Sempra (So Cal Gas) have been a large part of the on-going reduction.

In an effort to mitigate some of the economic losses, staff has continued to discuss the potential for oil-related revenue recovery and has highlighted the need to pursue other revenue-generating options up to and including a ballot measure.

So the City works hard to provide quality programs and services with less. At the June 11, 2018 City Council meeting the Seal Beach FY 2018-2019 Budget was adopted with a structural deficit of approximately \$80,000. However, the initial deficit was approximately \$4 million and was reduced by holding key staff positions vacant, reducing service levels throughout the City, not funding the annual vehicle replacement transfer, and eliminating the General Fund support for Marine Safety by utilizing one-time revenue from a pending insurance claim. If we do not address the identified fiscal dilemmas, the structural deficit will continue to grow. Currently no cuts have been made to critical public safety services or programs.

The following is a list of options that have been discussed over the last year (in no particular order):

- Sales Tax
 - Staff's recommendation for consideration this evening, the impacts of which would affect residents, businesses, and visitors.
- Parcel Tax
 - In order for this option to generate the same revenue as a 1% sales tax, the amount of the parcel tax would need to be approximately \$700 per parcel and would only impact property owners.

- Transient Occupancy Tax (Hotel Bed Tax)
 - A 1% increase in the rate could generate an additional \$132,000 annually.
- Utility Users Tax
 - A 1% increase in the rate could generate an additional \$415,000 annually.
- Fire Assessment Charge
 - Has the potential to generate significant revenue, would require an engineers report; a portion would be deemed “general benefit” and would be unrecoverable, and would only impact property owners.
- Adding meters to the Municipal Lot adjacent to the Fire Station
 - The Parking Project Management team is currently pursuing this option, which is expected to generate approximately \$100,000 annually.
- Allowing additional short-term rentals
 - The 12% TOT would apply and the financial impact is unknown.
- Proposition 218 – Street Lighting District, Street Sweeping, and Tree Trimming
 - Staff will pursue the recovery of these costs as the opportunity presents itself and the anticipated recovery is approximately \$100,000 annually.
- Pursuing full-cost recovery for user-based services
 - Requires the completion of a Cost Allocation Plan which will be contracted for if additional revenue is generated.
- Economic Development – car dealership, low footprint high revenue business model, shop local campaign, hotel, etc.
 - The financial impact is unknown as no specific opportunities are being considered at this time.
- Selling non-performing City assets such as the Girl Scout House which would generate one-time revenues.
 - The financial impact is unknown as no specific assets are being considered for sale at this time.

The cumulative revenue impact of these options other than the sales tax, parcel tax, or fire assessment charge could be as much as \$1,000,000 annually which is significantly below the anticipated revenue to be generated through the sales tax measure. Of note, any changes to TOT and UUT would require a ballot measure as would the parcel tax and fire assessment charge.

Many of the items previously outlined in this staff report can be directly correlated to the Strategic Objectives adopted by the City Council. It is important for the Strategic Plan to be highlighted as it is critical to the decision making process. Although all of the goals are critical and ultimately have a financial impact to the City, the most relevant goal is “Achieve Short- and Long-term Fiscal Sustainability.”

Earlier this evening you received a presentation from the City's Financial Advisor of the 5-Year Financial Projection. From that presentation we can see that without a viable solution the City's structural deficits will continue to increase as expenses continue to increase at a pace greater than the revenue base can support.

At the June 25, 2018 City Council meeting, staff received direction by the City Council to return to the July 23, 2018 City Council meeting with the documents required to place a 1% Transactions and Use Tax on the November 6, 2018 General Election Ballot for voter consideration. All the documents attached to this report are necessary to present the issue for voter consideration. It is important to note that State law requires that the attached ordinance be "approved" by the City Council by at least a 4/5th vote for it to go on the ballot.

The revenue generated if the new tax is approved will be used to fund vital City services that the community has come to rely on. If the measure is approved, the new revenue will be used to maintain and improve current levels of public safety through police, fire, marine safety, code enforcement, animal control services, and the school resource officer program. Additionally, it will enable the City to provide funding for projects including storm drain improvements, facilities improvements, infrastructure improvements, and expenditures for hazard mitigation in advance of extreme weather events. The importance of a number of these key services were highlighted and used as a basis to formulate questions asked in a survey that was conducted on behalf of the City. The respondents of that survey specifically identified the following as challenges on which the City should focus:

- Runoff contaminating local beaches and coastal waters.
- Traffic congestion on local streets and roads.
- The rate of growth and development.
- Crime.
- The condition of local streets, storm drains, public buildings, and other city infrastructure.
- 911 emergency response times.
- A lack of services and programs for local seniors.
- The condition of local parks and community centers.

Clearly the challenges on the City budget to maintain increased demands for service have been managed by sacrificing other areas of the budget where expenditures could be postponed. The City of Seal Beach is now at a crossroads and staff is recommending that the City Council allow the residents to decide the future of the City finances.

Pursuant to state law, the City Clerk has determined that August 6, 2018 will be the last day to file arguments for or against the proposed City Measure. Rebuttal arguments must be filed with the City Clerk no later than August 16, 2018. The City Council may designate any members to file an argument in favor of the

measure. It is also recommended the City Attorney be directed to draft an impartial analysis of the measure to appear in the sample ballot.

ENVIRONMENTAL IMPACT:

There is no environmental impact related to this item.

LEGAL ANALYSIS:

The City Attorney reviewed and approved as to form the resolutions and the ordinance.

FINANCIAL IMPACT:

If the ballot measure is successful the new revenue generated by a 1% Transactions and Use Tax is estimated to be \$5 million. The cost of the City's regular municipal election will be increased by approximately \$8,500 which has been included in the City Clerk's FY 2018-2019 Adopted Budget.

RECOMMENDATION:

That the City Council adopt or approve the following:

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SUBMITTED BY:

Victoria L. Beatley

Victoria L. Beatley, Director of
Finance/City Treasurer

NOTED AND APPROVED:

Jill R. Ingram

Jill R. Ingram, City Manager

ATTACHMENTS:

- A. Resolution 6845 – Ballot Measure
- B. Ordinance 1671 – Ballot Measure
- C. Resolution 6846 – Consolidation
- D. Resolution 6847– Rebuttal Arguments