



City Council Agenda Item

City Council Meeting Date: August 22, 2019

TO: Honorable Mayor and Members of the City Council

FROM: Jim Throop, City Manager
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SUBJECT: Special Sales Tax Option

Recommendation:

Staff recommends the City Council:

- 1) Discuss and provide direction on the special sales tax option as presented by Council Member Starbuck at the June 24, 2019, special Council workshop, as to whether staff should bring back to the City Council the required resolution and ordinance to place a special sales tax on the March 2020 election ballot; and
- 2) If the City Council desires to proceed with a special sales tax option, provide direction to staff regarding the wording of the ballot question; or
- 3) Provide other direction.

Estimated cost for the special election is between \$20,000 and \$25,000 which will be charged to the General Fund reserves. Current Fiscal Year 2019-20 year-end General Fund unassigned reserves are estimated to be \$1.7 million.

Background:

On June 24, 2019, Council Member Starbuck presented to the City Council an option for a special sales tax (see attachment). That proposed special tax included a possible 1.0% sales tax increase. A special tax, by definition, dictates exactly where, and in this case, how much, is to be spent on particular sections of the City. For instance, the special tax option could be designated as 75% to the City's General Fund Long-term Liabilities, which would be the PERS UAL (Unfunded Accrued Liabilities), and the remaining 25% to Public Safety, Parks, and Road/Street maintenance or improvements.

After discussion amongst the City Council members, staff was directed to schedule a special City Council meeting for additional discussion and possible action on a sales tax for the March 2020 primary election.

Discussion:

“A ‘*Special Tax*’ is a tax that is collected and earmarked for a specific purpose and deposited either into a separate account/fund. A two-thirds vote of the electorate is required to impose, extend, or increase any special tax.” In addition, the taxing agency must publish an annual report including: 1) the tax rate, 2) the amounts of revenue collected and expended, and 3) the status of any project funded by the tax.¹

The option presented was for a 1.0%, or 1 cent, special sales tax to be placed on the March 2020 primary ballot. The proposed ballot question could be:

“Shall the measure, known as **LOMPOC SALES TAX MEASURE**, estimated to generate \$4.9 million annually with 75% used exclusively to pay the City’s long-term liability obligations to CalPERS (mandatory State pension obligations), and 25% used exclusively to pay for the construction and maintenance of City streets, public safety, and/or City parks, by establishing a maximum one percent (1%) sales tax, to expire after 15 years, be adopted?”

Or another option could be:

“To fund public safety, construct and maintain Lompoc’s streets and parks, and fund State-required pension obligations under the California Public Employees’ Retirement System, shall the measure known as **LOMPOC SALES TAX MEASURE** be adopted to enact a maximum 1% sales tax, to expire after 15 years, estimated to generate \$4.9 million annually, with 75% of proceeds dedicated to fund Lompoc’s long-term pension obligations and 25% of proceeds dedicated to City streets, parks and public safety?”

The City Council may revise the ballot question wording in any way it sees fit, provided these rules are followed:

1. 75 words maximum (Elections Code [EC] 9501) (the first version above is 67 words, the second version above is 75 words).
2. Must use phrase: “Shall the measure (stating the nature thereof) be adopted?” (EC 13119(a)).
3. Must include estimate of annual revenues generated (EC 13119(b)).
4. Must state the rate (EC 13119(b)).
5. Must state the duration of tax (e.g., no sunset, 10 years) (EC 13119(b)).

¹ California Municipal Revenue Sources Handbook 2014, Michael Coleman, pg. 12.

6. The ballot question “shall be a true and impartial synopsis of the purpose of the proposed measure, and shall be in language that is neither argumentative nor likely to create prejudice for or against the measure.” (EC 13119(c)).
7. Including “maximum” rate of 1% will allow future City Councils to lower the rate without going back to voters, but not increase the rate.

The City Council should also keep in mind the following vote requirements:

1. To place a special tax on the ballot requires a “yes” vote of 3 City Council Members. This vote would occur when the resolutions to place the measure on the ballot are brought back to the City Council.
2. A special tax needs a 2/3 vote of the people to pass. (A general tax needs 50% +1 vote of people to pass.)

If the City Council wishes to proceed with a special sales tax at the March 2020 election, then the City Council should direct staff to draft the full sales tax ballot measure and bring back the required resolutions for placing the measure on the ballot. The City Council should also decide on the ballot question language, so that staff may place it into the resolution.

In order to place a ballot measure on the March 2020 ballot, Santa Barbara County Elections Office requires the following deadlines to be met:

Date	Deadline
10/24/19	Clerk of the Board Agenda deadline (City’s deadline to adopt resolution placing measure on the ballot)
11/5/19	Board of Supervisors meeting
11/10/19	Publication-Notice of Election/Submit Arguments
11/12/19-12/2/19	Period for Submitting Direct Arguments
11/22/19-12/2/19	10-day Public Exam Period
11/22/19-12/2/19	Period for Submitting Rebuttal Arguments
12/2/19	Deadline for Impartial Analysis
12/3/19-12/12/19	10-day Public Exam Period
12/6/19	Board of Supervisors Direct Auditor to Prepare Fiscal Impact Statement
12/12/19	Deadline for Fiscal Impact Statement
12/13/19-12/23/19	10-day Public Exam Period
12/23/19	Election Official’s Deadline for Submission of Local Measure Info to Printer

The new tax would not begin to be collected until 110 days, and beginning of next quarter, after the election, such that collection of the new tax would start approximately July 2020, with the first revenue reaching the City in October 2020.

Fiscal Impact:

The 1.0% special sales tax is estimated to generate approximately \$4.9 million per year. As the economy in Lompoc expands, there is the opportunity for this tax revenue to grow with it.

The cost to place the ballot measure on the March 2020 primary election is estimated between \$20,000 and \$25,000. The funding for this ballot measure will need to be from the General Fund reserves. The reserves are estimated to have a balance of approximately \$1.7 million at the end of FY 2019-20.

This special sales tax has the ability to assist in paying down the City's long-term liabilities which include the Unfunded Accrued Liability (UAL) from California Public Employees Retirement System (CalPERS), which is currently valued at \$84 million. Using funding from the sales tax would allow the City to pay down its UAL in approximately 15 years.

The remaining 25% of the new tax, or approximately \$1.25 million would be used for capital projects or capital equipment purchases for Public Safety, Roads/Streets, and Parks. It is the recommendation of staff to not use these funds for salaries as there is a proposed sunset date, and as such, any staff being paid with the tax would either need to be moved into a General Fund position, if available, or the position would need to be eliminated at the expiration of the sunset.

Conclusion:

The City Council will need to discuss whether to place a special sales tax of 1.0%, with 75% going towards the General Fund's long-term liabilities for CalPERS, and the remaining 25% going towards Public Safety, Roads/Streets, and Parks for capital projects and equipment on the March 2020 election ballot. If so, the City Council should provide direction on the ballot question language and direct staff to bring back the required resolutions to place the measure on the ballot.

Respectfully submitted,

Jim Throop, City Manager

Attachment: June 24, 2019 Presentation on Proposed Special Sales Tax