

AGENDA ITEM 4

REQUEST

**DISCUSS AND DECIDE WHETHER TO APPROVE ACTIONS RELATED TO THE PLACEMENT OF A TRANSACTIONS AND USE (SALES) TAX MEASURE OF UP TO ONE CENT ON THE NOVEMBER 8, 2016 BALLOT, INCLUDING**

- (1) CALLING FOR A MUNICIPAL ELECTION TO SUBMIT TO THE VOTERS A LOCAL BALLOT MEASURE TRANSACTIONS AND USE (SALES) TAX OF UP TO ONE CENT, TO PROVIDE FUNDING FOR LOCAL CITY SERVICES; DIRECTING THE CITY ATTORNEY TO PREPARE AN IMPARTIAL ANALYSIS OF THE MEASURE; AND SETTING THE DATES FOR ARGUMENTS ON THE MEASURE**
- (2) INTRODUCTION OF AN ORDINANCE ENACTING A TRANSACTIONS AND USE (SALES) TAX TO BE ADMINISTERED BY THE STATE BOARD OF EQUALIZATION UPON APPROVAL BY THE VOTERS AT THE NOVEMBER 8, 2016 ELECTION**

EXECUTIVE SUMMARY

At the June 27, 2016, City Council special meeting, City Council requested information on revenue enhancements. The Lew Edwards Group presented Council with information related to best practices and potential revenue enhancement options available to City Council. The presentation included area trends related to enhancing revenues to provide funding for infrastructure and quality of life service needs. They also presented the results of an April 2015 Godbe Research Survey, which focused on topics related to infrastructure sustainability and community service priorities.

The survey results indicated strong community support (sixty-eight percent) for re-establishing a half-cent sales tax measure, expiring in thirty years with resident oversight and annual independent audits, to help prevent additional budget cuts and maintain City services with all funds used for local City services only.

Council advised staff to proceed with an updated community survey conducted by Godbe Research to gather the public's opinion on providing local funding for services identified through more recent engagement and input activities over the past year, which engaged more than 2,000 residents. If a ballot measure is to be considered, and because time is of the essence should the City choose this route, Council requested that staff return on the July 19, 2016 regular City Council meeting with survey results and documentation for potential placement of a local, voter-approved revenue measure on the November 8, 2016 ballot. The San Joaquin County deadline for placing a measure on the ballot is Friday, July 22, 2016.

DISCUSSION

The City has made significant progress to reduce expenditures and enhance revenues since the great recession, housing crash, and state budget crisis. However, without

additional revenue the City does not have the resources to address local infrastructure and quality of life service needs, which is necessary to maintain the local quality of life that residents expect and enjoy. Due to the recent expiration of a voter-approved local funding measure, the City's long-range financial plan indicates an ongoing structural deficit into the future.

In February 2015, the City began preparing the City's 2015-2016 fiscal budget, which included only partial funding from voter-approved local funding. To gain a better understanding of community priorities, the City solicited community feedback on local infrastructure and service issues by commissioning Godbe Research, an independent marketing research firm, to conduct a community survey on important issues and service needs facing our City.

In March 2015, the City engaged the services of Management Partners to assist in reviewing and updating a comprehensive list of potential budget solution strategies in an effort to proactively address future budget deficits caused primarily by the expiration of a voter-approved revenue measure that was set to expire in March 2016.

On September 1, 2015, during a special meeting of City Council, staff presented options for enhancing revenue, such as service fee increases and the formation of Community Facilities Districts (property assessments for facilities and services). Council discussed budget solution recommendations provided by Management Partners, and based on the findings, Council directed staff to focus on revenue enhancement strategies rather than implement further budget cuts that would negatively impact City service levels.

In October 2015, City Council directed staff to solicit feedback, via survey, from the community to gauge whether or not there would be community support to help fund construction and operation of amenities and facilities. Polling results from the market research showed an extraordinarily high satisfaction with Tracy's quality of life and a desire that quality services be fully maintained or enhanced. Additionally, more than two-thirds of respondents conveyed potential interest for a local revenue measure to support local services, including public safety, street maintenance, and local business and revitalization efforts, among others.

Subsequent to the 2015 Godbe Research study, City staff engaged the public directly to identify their quality of life service priorities, making more than 10 community presentations and receiving more than 1,200 completed community surveys. Overall, the results showed respondents viewed public safety, economic development, maintenance of streets and roads, parks, and youth/teen recreation program activities as priorities.

A summary of final results (Attachment A) showed eighty percent of respondents indicated maintaining city streets, roads, and potholes were a priority. Results also showed respondents prioritize maintaining City parks and playgrounds (seventy-one percent), maintaining 9-1-1 emergency and medical response times (sixty-seven percent), and attracting, training, and retaining qualified firefighters and police officers (fifty-three percent). Maintaining youth after school programs and facilities for children and teens, as well as maintaining Tracy's senior center and senior support services

were also prioritized, garnering a response rate of fifty-two percent and forty-two percent respectively.

### Fiscal Considerations

The City of Tracy is currently operating within a structural deficit. Although the City currently has an adequate level of reserves, it is fiscally responsible to evaluate and plan to meet the community's quality of life needs and future budget deficits now in a strategic and measured way. The projected FY 2016-2017 budget requires the use of approximately \$3.7M in unallocated fund balance reserves and the projected FY 2017-2018 budget uses \$0.2M in unallocated fund balance reserves. Should the Council approve a General Fund budget of roughly \$51M over the next five fiscal years, reserves will draw down to the 20% reserve fund threshold by FY 2021-2022.

Previous voter-approved local funding initiated in 2011 financially sustained the City during the economic recession. Upon expiration of the measure in March 2016, the City realized a decrease of approximately \$7M in general fund revenue.

Staff has presented Council with revenue enhancement options such as service fee increases and the formation of Community Facilities Districts (property assessments for facilities and services). However, these funding mechanisms alone will not resolve the City's structural deficit. Therefore, a sales tax measure is proposed as a preferred revenue enhancement option.

Currently, Tracy's sales tax rate is lower than neighboring cities such as Manteca, Livermore, Lathrop, Dublin and Stockton:

<b>City</b>	<b>Sales Tax Rate</b>
Tracy	8.0%
Manteca	8.5%
Livermore	9.5%
Lathrop	9.0%
Dublin	9.5%
Stockton	9.0%

A one-cent sales tax increase is estimated to generate approximately \$14 million in revenue annually. Funding acquired through a general sales tax measure is required, by law, to be spent locally on City of Tracy needs only and cannot be taken by the state.

Through the budget process, this funding may be earmarked for specific operational or capital needs, such as roadway improvements, public safety services and facilities, and the maintenance and operations of recreation facilities.

If placed on the ballot and approved by voters, potential measure spending priorities include:

- Maintaining 9-1-1 emergency and medical response times, neighborhood police patrols, crime prevention and investigation programs, youth crime prevention and intervention programs, and fire protection services

- Maintaining and repairing city streets / roads
- Maintaining neighborhood services, including blight and graffiti removal, and vandalism prevention
- Maintaining parks and recreation programs, Tracy senior center programs, and restoring youth and teen services
- Supporting the local economy, including increasing local jobs

Should no action be taken to undergo proactive steps to address the City's community service needs and structural deficit, and if revenues remain status quo, the Council may need to take action to prevent depletion of General Fund reserves within the next five years, which would likely include service reductions.

City staff is responsible for presenting and maintaining a balanced budget. When the estimated annual operating budget exceeds the estimated revenue, the result is an estimated deficit. In Fiscal Year 2014-2015, as presented in the Comprehensive Annual Financial Report (CAFR), Council approved \$11.5M in transfers-out of the general fund reserves to help finance capital projects and for debt service payments.

#### Godbe Survey Results – June 2016

Godbe Research has conducted a community tracking survey. Results of the survey will be presented to Council at the July 19, 2016 City Council meeting.

Given the results of community feedback and identification of a local revenue measure as the best revenue option available to the City to provide funding for City services and maintain fiscal stability, staff recommends that Council, by resolution, place a one cent transactions and use (sales) tax measure on the November 8, 2016 ballot. Revenue from this type of measure assists the City in achieving the objective of maintaining current levels of service, such as maintaining firefighters, police officers, 9-1-1 emergency response services, neighborhood police patrols and fire protection, and other essential City services, including economic/business revitalization, repair of street/road infrastructure and support for recreation and parks programs.

If the Council decides to place a measure on the ballot, the deadline to do so is July 22, 2016. Since time is of the essence on this matter and to preserve the ability of the City to place a measure on the ballot, there is one resolution and one proposed ordinance for Council consideration. The first resolution submits to the voters a measure to approve a one cent transactions and use (sales) tax measure to fund Tracy city services on the November 8, 2016 ballot, directs the City Attorney to prepare an impartial analysis, and sets a submission date of August 2, 2016 for arguments in favor or against the measure. Under California Elections Code section 9287, if more than one argument for and/or against the measure is submitted, the city elections official shall give preference and priority, in the following order: first to the City Council or members of the City Council authorized by the City Council; second to bona fide associations of citizens; and third to individual voters eligible to vote on the measure.

If approved by voters, the proposed ordinance imposes a transactions and use tax to be administered by the State Board of Equalization. This ordinance makes all the

necessary adjustments to the Municipal Code to clarify how the tax would be imposed, collection procedures, and use of tax proceeds. The ordinance also clarifies that the authority to levy the tax expires thirty years from the date the tax starts being collected. Additionally, the ordinance specifies that the Residents' Oversight Committee will be established no later than March 1, 2017, so that it may review the expenditures of the revenue from the proposed transactions and use (sales) tax. Staff from the California State Board of Equalization have reviewed and approved the form of the proposed ordinance.

#### STRATEGIC PLAN

This item is in accordance with Goal 2, Objective 2c of City Council's Governance Strategy:

- Goal 2: Ensure continued fiscal sustainability through budgetary and financial stewardship.
- Objective 2c: Identify new revenue opportunities.

#### FISCAL IMPACT

Funds to cover the cost of the City's General Municipal Election have been allocated in the budget for FY 2016-2017. Should a one-cent General Purpose transactions and use (sales) tax be approved by the electorate, the City could realize \$14M in revenue annually.

#### RECOMMENDATION

Staff recommends that City Council:

- (1) Adopt a resolution calling for a municipal election to submit to the voters a local ballot measure adopting up to a one cent transactions and use (sales) tax, to provide funding for local City services; directing the City Attorney to prepare an impartial analysis of the measure; and setting the dates for arguments on the measure
- (2) Introduce an ordinance enacting a transactions and use (sales) tax to be administered by the State Board of Equalization upon approval by the voters at the November 8, 2016 election

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Approved by: Troy Brown, City Manager

#### ATTACHMENTS

Attachment A: Resident Survey Summary Results



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## Results

### Survey 942569

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Number of records in this query:	1279
Total records in survey:	1279
Percentage of total:	100.00%



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## Field summary for A1

Please check what items are important to you:

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Answer	Count	Percentage
Maintaining city streets, roads and repairing potholes (SQ001)	724	80.71%
Programs that help attract and retain local businesses (SQ002)	584	65.11%
Maintaining 9-1-1 emergency and medical response times (SQ003)	603	67.22%
Maintaining Tracy's senior center facility and senior support services (SQ004)	380	42.36%
Maintaining neighborhood police patrols and crime prevention and investigation programs (SQ005)	719	80.16%
Maintaining city parks and playgrounds (SQ006)	641	71.46%
Maintaining youth after-school programs and facilities for children and teens (SQ007)	468	52.17%
Maintaining anti-drug and gang prevention programs (SQ008)	580	64.66%
Programs that support the local economy and increase local jobs (SQ009)	551	61.43%
Maintaining fire protection services (SQ010)	521	58.08%
Maintaining city transit services and facilities (bus, airport, etc.) (SQ011)	309	34.45%
Attracting, training and retaining qualified firefighters and police officers (SQ012)	480	53.51%
Maintaining neighborhood blight, graffiti removal and vandalism prevention (SQ013)	626	69.79%