

“Placerville, a Unique Historical Past Forging into a Golden Future “



City Manager’s Report
April 26, 2016 City Council Meeting
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Item#:12.3

Subject: Authorize Staff to Proceed with Development of a Sales Tax Measure to be Placed on the November 2016 Ballot for Roads, Water, and Sewer, Based on Parameters Established by Council.

Background: At the City Council Meeting on April 12, 2016, Council reviewed the following information in relation to a potential Sales Tax Measure for the November Ballot. At that meeting the following comments were received regarding the measure:

Sue Rodman: Support a ½ cent measure, specific for 20 years
 David Zelinsky: Support a General tax. Should also consider a Mello Roos Tax
 Jackie Neau: We should also be prepared to look at Plan B, possibly a Parcel Tax
 Kathi Lishman: Support a ½ cent measure, general tax
 Jim Connerley: Support a ½ cent measure, general tax
 Marian Washburn: Support a specific tax
 Mickey Kaiserman: Support a ½ cent measure, specific tax

Discussion: In September of last year and February of this year, Council and Staff held Community Meetings to discuss ways to fund an unfunded deferred maintenance of approximately \$45.5 million in water, sewer and street needs. At those meetings, we discussed several options to help fund this gap. These included increased commercial growth, annexations, parcel tax, utility user tax, and sales tax. Based on the review and analysis of the information provided, it seemed to be the consensus of the public at the meetings that a sales tax would best meet our needs. On March 8, 2016, Council considered contracting for a survey regarding a sales tax measure. Council decided not to proceed with the survey, however there seemed to be consensus that we should move forward with a sales tax measure.

Staff presented the following data for costs to obtain \$1,000,000 per year in revenue to fund these items:

Commercial Growth:	Over 2 million sq. ft. of additional development
Utility User Tax:	\$24 per month for each home
Parcel Tax:	\$20 per month for each parcel
Sales Tax:	\$2.75 per month for each home

The reason for a lower sales tax amount is that much of the revenue would come from visitors and those who use our facilities such as roads, water, and sewer, but would not pay a utility user tax or a parcel tax. A much broader base would pay sales tax.

Several major questions presented at the meetings were not completely decided upon such as whether to do a specific tax for water, sewer, and roads or a general tax for those items. However, the funding from a general tax would be discretionary. The main difference is the required voter approval. A specific tax would require a $\frac{2}{3}$ vote or 67%. A general tax would require a majority vote or 51%. Another question requiring consideration is the amount of the tax. Add-on sales tax can be adopted in $\frac{1}{8}$ cent increments. Revenue from sales tax based on our current year budget would be as follows:

$\frac{1}{8}$ cent:	\$509,751
$\frac{1}{4}$ cent:	\$1,019,502
$\frac{1}{2}$ cent:	\$2,039,004

Currently, the City contributes approximately \$400,000 - \$500,000 per year to streets and road maintenance through gas taxes and Regional Surface Transportation Program funds (RSTP). This is the total amount of those funds received each year. Some years, the \$200,000 in RSTP funds can also go toward capital projects rather than maintenance, so the amount can be lower. In addition, gas tax funds have been decreasing for the past several years. At our peak, we received approximately \$348,231 per year in gas tax. Next year, we are estimated to receive closer to \$224,739. In addition, the Board of Equalization just took action to reduce gas tax by an additional 2.2 cents effective July 1, 2016, so gas tax revenue will likely reduce even further. In addition to these funds, the City dedicates approximately \$500,000 per year of Measure H funds to water and sewer improvements. There is also a minimal amount of capital funds from rates that are dedicated to maintenance; however, the majority of rates go toward day to day operations.

Based on this information, Staff recommends that in order to have a meaningful impact on our deferred maintenance, we need to generate a minimum of \$2,000,000 a year. This amount would be split between water, sewer, and roads.

A final question posed was whether or not to place a sunset or expiration on any tax measure. Staff feels if we implement a $\frac{1}{2}$ cent measure, then we should consider a sunset clause. The State has on-going discussions on how to better fund road maintenance. It is possible that some meaningful proposal could be adopted in the future; however, to date, that has not happened. In addition, it is anticipated that any amount adopted by the State would assist with on-going maintenance rather than catching up on deferred maintenance. Therefore, we should anticipate the need to take care of the deferred maintenance on our own. During our discussion on water and sewer needs, it was presented to consider phasing out the sewer charge discount provided to customers, which is funded by the Measure H sales tax, and applying that money towards sewer and water capital improvements. This would increase funding for water and sewer to approximately \$1,000,000 per year from the Measure H fund. Based on this analysis, a sunset on the measure could be considered.

In 2014, the City considered a $\frac{1}{2}$ cent tax measure on the November ballot. The measure was designed as a general tax requiring a majority vote and failed by not receiving 10 votes (9 to tie).

Staff is seeking Council direction on how to proceed with a sales tax measure if any. In order to proceed at this time, we need to answer the following two questions:

Issue	Staff Recommendation	Council Direction
What should the amount of the Sales Tax measure be, in $\frac{1}{8}$ cent increments, up to 1 cent?	$\frac{1}{2}$ Cent. This should generate approximately \$2 million each year.	
Should the Sales Tax measure be General or Specific?	No Recommendation, Staff is open to Council direction.	

At the meeting on April 12, the following questions were also asked:

1. If funding came through to make these improvements, what does it take to eliminate the $\frac{1}{2}$ cent tax?

Answer: Since the tax is voted in by the people, the only way to eliminate it would be another vote of the people. Therefore, we would need to continue to fund projects for the purpose that it is designed for. Based on current forecasts, this should not be an issue.

2. What are our options if the measure does not pass?

Answer: It was suggested at the last meeting that perhaps a parcel tax or a Mello Roos tax may work. Either of these could possibly work but do also require a vote to approve. A parcel tax has similar characteristics to the sales tax in relation to specific or general and the voting requirements. A Mello Roos Tax is a bit more complicated but it requires a $\frac{2}{3}$ vote of the property owners to establish the tax. Those who are only on City sewer and not City water would need to be assessed a lesser amount. It is Staff's opinion that both of these options would be as hard or harder to pass than a sales tax. In addition, to adopt the parcel tax we would need to wait for the next general election. A Mello Roos tax could be called for a special election within the requirements of the Elections Code.

A third option, and the only one that would not require a vote of the citizens, would be to fund the needed maintenance through water and sewer rates. Based on our current assessment of needs, to raise \$1,000,000 a year through water and sewer rates, we have two options:

Water \$500,000:	30.79% increase
Sewer \$500,000:	8.5% increase

The current analysis shows a need of \$10 million (35%) in Water projects and \$18.5 (65%) million in Sewer projects. If the rates were assessed based on this division, the required rate increases would be as follows:

Water \$350,000:	11.05% increase
Sewer \$650,000:	21.55% increase

These increases would be in addition to any other costs increases for normal operations of these functions. The increases can be dedicated to Capital by the Council.

Options:

1. Authorize staff to proceed based on direction for the type of measure as outlined above.
2. Request additional information from Staff prior to proceeding.
3. Decline proceeding with a sales tax measure at this time.

Cost: The cost of placing this measure on the ballot will not be significant but could be an additional \$3,000 - \$4,000 to our normal costs of participating in the election. There could also be additional costs for education on the measure.

Budget Impact: If approved, costs associated with the election and potential education costs will be budgeted in the 2016-2017 fiscal year budget.

Recommendation: Authorize Staff to Proceed with Development of a Sales Tax Measure to be Placed on the November 2016 Ballot for Roads, Water, and Sewer, Based on Parameters Established by Council.



M. Cleve Morris, City Manager