



**CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT**

5/23/2022

SUBJECT:

Vision 2025 & Beyond – Potential Local Revenue Options, Public Opinion Research Findings, and Council Direction on Next Steps on Potential Ballot Measures Related to Transactions and Use Tax, Utility Users Tax, and Transient Occupancy Tax

RECOMMENDED ACTION:

Receive and discuss public opinion research findings on potential local revenue options available to the City, community priorities and perspectives, and provide direction to the City Manager about which potential revenue measure needed to maintain the current level of City services, if any, should advance to the next phase of City Council consideration, including the development of a draft ordinance and related documents to place such a measure on the November 2022 General Election Ballot and return to City Council to consider such actions at an upcoming City Council meeting in June 2022

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BACKGROUND:

At the December 13, 2021, City Council meeting, staff presented an update to the City Council on the Vision 2025 & Beyond Strategic Financial Sustainability Study. This study, which was identified by the City Council as a priority beginning in Fiscal Year 2019-20, has the following Purpose Statement as refined by the City Council on October 12, 2020:

The Purpose of the Pacifica Vision 2025 & Beyond project is to tell Pacifica's story of the many priority infrastructure projects, and enhanced programs and services envisioned for Pacifica's mid to long-term future that are equitable and inclusive and will help all Pacificans thrive, and to articulate the City's financial opportunities, challenges, and strategies to achieve this vision and resiliency.

As presented in December 2021, the study includes these five components:

1. Financial Forecasting and Revenue Enhancement Strategies
2. Economic Opportunities Study
3. Pacifica Marketing Study & Marketing Plan
4. Public Engagement and Surveys
5. Public Information Final Report

Progress is underway on the numerous components of this study. Regarding Financial Forecasting and Revenue Enhancement Strategies, on February 14, 2022 the City Council held a meeting in which they discussed the City's 10 Year Financial Forecast. This forecast shows that the City's Operating Budget, which covers essential ongoing services to the community (including Police, Fire, Public Works and Parks, Recreation and Beaches), is projected to have a significant structural deficit of more than \$2 million beginning in the 2023-24 fiscal year, which begins on July 1, 2023, just one year from now. The most recent budget estimates place that deficit at approximately \$2.7 million. In addition, the current 2021-22 fiscal year and the upcoming 2022-23 fiscal year are balanced with revenues exceeding expenditures only because one-time federal American Rescue Plan Act (ARPA) funds are available.

During the February 14, 2022 meeting, the Council directed the City Manager to retain outside expertise to conduct independent public opinion research. This research would explore community views, priorities and perspectives on three potential revenue measures to maintain the current level of City services that could be placed on the November 2022 General Election ballot - a new half cent Local Sales Tax (Transactions and Use Tax) that would generate \$2.6 Million per year, a Utility User Tax (reduce the existing rate from 6.5% to 5% on gas and electrical utilities and broaden the applicability of the tax to include telecommunications and water utilities) estimated to raise \$2 Million per year, or a Transient Occupancy Tax (a proposed increase from 12% to 15%), also known as a "hotel tax" paid by lodging guests estimated to raise \$350,000 per year.

Public Opinion Research Key Findings

The City Manager retained Lew Edwards Group and FM3 Research to research the priorities and perspectives of Pacifica residents and gauge potential interest in three potential local revenue options. The analysis has been completed and the results will be presented at tonight's City Council Meeting. As will be seen in the more detailed presentation to be provided by FM3 Research at the meeting, some of the basic survey results can be summarized as follows:

1. A UUT modernization measure is not viable at this point in time and would likely require extensive community outreach and education-and perhaps a re-conception of its scope;
2. However, there appears to be consistent, majority support for a general-purpose ballot measure and, as of this snapshot in time, a TOT measure on its own appears viable, and a Sales Tax (Transactions and Use Tax) measure is also potentially viable, though with less of a cushion for success than the TOT;
3. The highest priority spending areas for any new revenue generated by a potential ballot measure relate to emergency response and fire protection, maintaining storm drains to prevent flooding, keeping pollution off beaches, attracting and retaining businesses, and maintaining the City's vital services.

Understanding the Magnitude of Pacifica's Structural Deficit Projection

Attachment A shows again the 10-year Financial Forecast presented to Council during Budget Session #1 on April 11, 2022 (note that the FY 2022-23 estimates have been refined during budget development since April 11, now estimated at an approximately \$2.7 million deficit). Once one-time American Rescue Plan Act funding runs out, the City faces a structural deficit increasing from approximately \$2+ Million for FY 2023-24 to \$3 Million for FY 2029-30. This

forecast reflects current levels of service and operations.

If potential revenue measures are not adopted to close the upcoming gap in revenues compared to projected expenses, the City Manager will be tasked to submit recommendations for additional budget cuts that will significantly reduce the City’s organizational capacity and, as a result, a reduction in service levels and operations. For illustrative purposes, and as presented in more detail in the Budget Session #2 report, which is also being presented to the City Council tonight, the impact of a \$2.7 Million deficit spread equally across all City Departments would be as follows:

**City of Pacifica
General Fund Hypothetical Deficit Cuts Distribution**

Expenditure By Department	FY 2021-22 Mid-Yr. Revised Budget	Distribution Based on Mid-Year Revised Budget	Deficit Distribution	% Cut
General Government	5,469,351	13%	(338,400)	-6%
Police Department	10,792,423	25%	(667,800)	-6%
Fire Department	7,541,377	17%	(466,600)	-6%
Planning & Building	4,045,777	9%	(250,300)	-6%
Public Works	4,825,068	11%	(298,500)	-6%
Parks, Beaches & Recreation	5,068,645	12%	(313,600)	-6%
Non-Departmental	6,010,965	14%	(371,900)	-6%
Total	\$ 43,753,606	100%	\$ (2,707,100)	-6%

Personnel cost is the largest City expense. The following list shows the average salary and benefits costs for various classifications:

- Firefighter: \$154,300
- Police Officer: \$145,400
- Maintenance Worker: \$134,700
- Management Analyst II: \$159,200

An analysis of the above deficit distribution based on the above average salary and benefit levels reveals that the following number of positions, and associated service levels, would need to be reduced to close the deficit (for illustrative purposes only, as actual expenditure reductions and personnel cuts are unlikely to be made evenly across-the-board depending on Council policy guidance).

- General Gov’t: 2 positions
- Police: 5 positions
- Fire: 3 positions
- Planning/Building: 2 positions
- Public Works: 2 positions
- Parks, Beaches, Recreation: 2 positions

These levels of personnel reductions would severely hamper the City’s ability to provide the current level of programs and services delivered to the Pacifica community. As noted in tonight’s separate Budget Session #2 report, a 2019 staffing comparison study for the City showed that Pacifica’s staffing levels are an average for all departments of 23% lower than comparably sized cities in the area.

City Manager's Recommendation

As articulated in previous Vision 2025 & Beyond Financial Sustainability study presentations to the City Council, a financially sustainable vision for the organization and Pacifica's future can be achieved through a combination of continued expenditure containment, increased economic development activities, and a voter-approved tax measure. The above summarized public opinion research findings, and the more detailed information to be presented tonight by FM# Research show that, at this time, both a ½ cent Transactions and Use Tax increase and an increase in the Transient Occupancy Tax from 12% to 15% are feasible to varying degrees. However, the TOT increase is estimated to increase revenues by only \$350,000 per year, while the Transactions and Use Tax would increase annual revenues by \$2.6 Million. Based on the opinion research and the City's projected deficit, the City Manager recommends the City Council's consideration of pursuing the ½ cent Transactions and Use Tax for the November 2022 ballot. An additional reason to pursue this revenue measure option at this time is that, in San Mateo County, Countywide measures have already taken up 1.5% of the available 2% cap allowed for sales tax. Therefore, if the remaining 0.5% were not secured by a Pacifica local transactions and use tax in 2022 and there was another countywide tax passed in the future, this capacity would no longer be available to Pacifica in the future.

Next Steps

Depending on City Council direction about which potential revenue measure to pursue to maintain the current level of City services, if any, staff would develop a draft ordinance and related documents to place such a measure on the November 2022 General Election Ballot and return to City Council to consider such actions at an upcoming City Council meeting in June 2022.

RELATION TO CITY COUNCIL GOALS AND WORK PLAN:

This item advances the Vision 2025 & Beyond program and furthers the City Council's Strategic Goals and the City's efforts towards **Fiscal Sustainability**.

FISCAL IMPACT:

As staff works to further develop any potential revenue measure for the November 2022 ballot, any additional expenditures for public information, community engagement, research, and ballot measure preparation will be assessed to determine if there is a need for additional funding.

ORIGINATED BY:

City Manager's Office

ATTACHMENT LIST:

Attachment A: 10-Year Financial Forecast, April 11, 2022 (PDF)