



**CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT**

6/27/2022

SUBJECT:

Resolution of the City Council of the City of Pacifica Calling and Giving Notice for Holding a General Municipal Election on Tuesday, November 8, 2022, for Submission to the Qualified Voters of the City a Ballot Measure Regarding a ½ Cent Transactions and Use (Sales) Tax for General City Revenue Purposes and Requesting San Mateo County to Consolidate the City's General Municipal Election with the November 8, 2022 Statewide General Election and to Provide Election Services.

RECOMMENDED ACTION:

Move to adopt a Resolution of the City Council of the City of Pacifica Calling and Giving Notice for Holding a General Municipal Election on Tuesday, November 8, 2022, for Submission to the Qualified Voters of the City a Ballot Measure Regarding a ½ Cent Transactions and Use (Sales) Tax for General City Revenue Purposes and Requesting San Mateo County to Consolidate the City's General Municipal Election with the November 8, 2022 Statewide General Election and to Provide Election Services.

A Transactions and Use Tax is a General Tax that requires a 2/3 majority vote of the City Council (4 out of 5 Councilmembers) to be placed on the ballot and a simple majority vote (50% + 1) of the voters to pass. Tonight's action by the City Council, if adopted, would place the proposed revenue measure before the voters of the City of Pacifica for their consideration.

STAFF CONTACT:

Kevin Woodhouse, City Manager
(650) 738-7409
kwoodhouse@ci.pacifica.ca.us <<mailto:kwoodhouse@ci.pacifica.ca.us>>

Yulia Carter, Assistant City Manager
(650) 501-6004
ycarter@pacifica.gov <<mailto:ycarter@pacifica.gov>>

Michelle Kenyon, City Attorney
(650) 738-7409
mkenyon@bwslaw.com <<mailto:mkenyon@bwslaw.com>>

BACKGROUND:

At the May 23, 2022 City Council meeting, the City Council received and discussed public opinion research findings on potential local revenue options available to the City, community priorities and perspectives. The Council provided unanimous direction to the City Manager to develop a draft ordinance and related documents to place a ½ cent Transactions and Use (Sales) Tax Measure on the November 2022 General Election Ballot and return to City Council

to consider such actions at a Council meeting in June 2022.

DISCUSSION:

Previous to the City Council’s direction on May 23rd, the City Council had been presented information at the February 14, 2022 City Council meeting, as part of the Vision 2025 & Beyond Fiscal Sustainability Study, about the City’s long-term financial forecast. That information showed a significant projected structural deficit for the City, and a variety of revenue measures requiring voter approval that could be considered to help close the deficit and maintain the current level of City services.

Projected Structural Budget Shortfall

The City Council’s direction from May 23rd meeting focused on the ½ cent Transactions and Use (Sales) Tax Measure as being the most feasible to maintain City services because it is estimated to increase annual revenues by \$2.6 million and the City faces a structural deficit increasing from approximately \$2.7 Million for FY 2023-24 to \$3 Million for FY 2029-30.

Attachment 1 shows the 10-year Financial Forecast presented to Council during Budget Session #1 on April 11, 2022 (note that the estimates have been refined during budget development since April 11 and are now showing a structural budget shortfall estimated at \$2.7 million for the 2023-24 fiscal year).

Local Transactions and Use (Sales) Tax

The City currently receives one percent of the local Bradley-Burns Sales and Use Taxes from the State which generates about \$2.6 Million per year in General Fund revenues.

Cities in California may impose local add on taxes that are added to the statewide "base". Transactions and Use (Sales) Taxes are implemented through a voter-approved ballot measure. As of January 1, 2020, there were 321 transactions and use tax districts in California, of which 62 are countywide and 259 are in cities. According to estimates from HdL, the City's Revenue Consultant, if Pacifica were to adopt a Local Transactions & Use (Sales) Tax of one-half cent it would generate approximately \$2.6 Million per year.

Cities In San Mateo County With Local Transaction and Use (Sales) Taxes

There are 8 cities in San Mateo County that have adopted Transaction and Use (Sales) Taxes. Cities with 1/2 Cent Transaction and Use (Sales) Taxes are Belmont, Daly City, East Palo Alto, Redwood City, San Bruno, and South San Francisco. They are summarized in the table below:

City	Rate	Effective Date	Expires
Belmont	0.50	4/1/2017	3/31/2047
Daly City	0.50	4/1/2021	
East Palo Alto	0.50	4/1/2017	
Redwood City	0.50	4/1/2019	
San Bruno	0.50	4/1/2020	
South San Francisco	0.50	4/1/2016	3/31/2046
Burlingame	0.25	4/1/2018	
San Mateo	0.25	4/1/2010	3/31/2048

Limits on Local Transactions and Use (Sales) Tax in San Mateo County

State law provides that combined rate of all Transactions and Use (Sales) Taxes imposed part in any county may not exceed a total of 2 percent. Previously adopted transactions and use (sales) taxes at the county level mean that the Transactions and Use (Sales) Tax proposed for the City of Pacifica cannot exceed ½ cent per dollar.

Differences Between The 1% Sales Tax and a Transactions and Use Tax

The State levies and collects the local 1% Bradley-Burns Sales Tax and Use Tax. This is considered to be a “place of sale” tax that is generally allocated to the jurisdiction where the sale is negotiated, or the order is taken.

With a Local Transactions and Use (Sales) Tax (TUT), as is being proposed in the attached Resolution and Ordinance, the TUT is allocated to the jurisdiction where the goods are delivered or placed into use. For most transactions, TUT revenue is allocated to the place where the buyer takes possession of the purchased good. The City can expect to receive transactions tax revenue from normal sales tax generating businesses like retail stores and restaurants. Both residents and visitors alike will pay the transactions tax on purchases that they consume or take possession of at the place of business within the City. In addition, any purchases shipped or delivered into the City from other places (business, medical and industrial supplies, construction materials, catalog and internet purchases, furniture, appliances, bulk fuel, etc.) will generate additional transaction tax revenue.

Vehicle purchases are a key exception. As the transaction tax relates to registered vehicles, boats and motorcycle purchases, the tax will only be paid by City residents and businesses regardless of where the purchase is made. Therefore, if a Pacifica resident purchases a vehicle from an auto dealer inside or outside the City, the auto dealer will collect and remit the City's transaction tax. TUT revenue from vehicle sales goes to the local government where the vehicle is registered, regardless of where the buyer takes possession of it.

In Pacifica, a number of purchases by residents (including online sales and vehicle purchases) occur outside the City resulting in what some refer to as "sales tax leakage". This explains why a 1/2 cent TUT in Pacifica generates a similar amount of revenue as the 1 cent Bradley Burns Sales Tax (\$2.6 Million per year).

Placing a General Revenue Measure on the Ballot

A Local Transactions and Use (Sales) Tax is a General Tax that would require a 2/3 majority vote of the City Council (4 out of 5 Councilmembers) to be placed on the ballot and a simple majority vote (50% + 1) of the voters to pass.

By law, a General Tax may only be placed on the ballot when there is a City Council election, except in cases of emergency declared by a unanimous vote of the City Council. California Constitution Article XIII C Section 2(b) governs this requirement, which restricts the placement of such a measure during such election years. For Pacifica, the next opportunity after 2022 to place a General Tax on the ballot would be November 2024.

Community Input

Recent community engagement gauged community priorities for maintaining vital local services. The following outlines current preliminary needs and priorities identified by the Pacifica Community for using additional funds if the City Council places a local revenue measure on the November 2022 ballot. The City would use this nonexclusive listing of needs and priorities to

guide its spending allocations, should the measure be enacted.

Community Identified Needs and Priorities
Public Safety
Maintain 911 fire, police, medical emergency response times and essential public safety services that keep our community safe, including local fire protection and regular neighborhood police patrols. Maintain storm drains to prevent flooding.
Protect Unique Resources
Keep pollution and trash off local beaches, protect coastal, help- prevent coastal erosion, , and continue funding seawall maintenance and inspection to protect homes and livelihoods.
Parks & Recreation
Keep parks, playgrounds, and trails well-maintained for current and future generations to enjoy. Preserve open space. Maintain youth and senior recreational programs and opportunities that help kids and families be healthy.
Roads Safety
Make essential repairs and pave streets and roads, repair potholes, provide safe routes to school for children. Address traffic congestion.
Economic Development
Attract and retain local businesses and jobs to promote a robust local economy.
Fiscal Stability & Vital Local Services
Maintaining fiscal stability such as offsetting revenue shortfalls to protect local control and preventing cuts to vital local services.

Proposed Pacifica ½ Cent Transactions and Use (Sales) Tax

The resolution (**Attachment 2**) places the ordinance (**Attachment 3**) on the ballot for consideration by voters in the City of Pacifica.

If adopted by the City Council, the voters would be presented with the following ballot question to consider the ordinance:

Shall the measure establishing a ½ ¢ sales tax for general government use to maintain the City of Pacifica’s vital services, such as police, fire, medical 9-1-1 emergency response; keeping pollution / trash off beaches; attracting / retaining jobs/businesses; street paving; storm drain maintenance to prevent flooding; preventing coastal erosion, and generating approximately \$2,600,000 annually for 9 years, with regular financial audits, independent citizens’ oversight, and requiring funds be used locally, be adopted?

If adopted by voters, the ordinance would have the following key features:

1. It would impose a transactions and use tax of one-half of one percent in accordance with applicable provisions of state law (Part 1.6 of Division 2 of the Revenue and Taxations Code).
2. In accordance with state law, the City of Pacifica would be required to enter into a contract with the California Department of Tax and Fee Administration to collect and administer the tax.
3. Under the ordinance, the tax would begin being collected at the beginning of the first quarter that is at least 110 days after certification of the election results (slated for

April 1, 2023), and would be in effect for nine years total, and would sunset unless extended by voters at a subsequent election.

4. The ordinance would require that the proceeds resulting from the transactions and use tax shall be deposited into the city’s general fund and become subject to the same audit requirements as other general fund revenue. Any auditor’s report shall include an accounting of the revenues received from the transactions and use tax and shall be presented to the city council and made available for public review.
5. Additionally, the Council would be required to establish a citizens’ oversight committee to review the revenue and expenditure of funds generated by the tax.

ALTERNATIVE ACTION:

If a revenue measure is not placed on the November 2022 General Election ballot by the City Council and approved by the voters to close the upcoming gap in revenues compared to projected expenses, the City Manager will be tasked to submit recommendations for additional budget cuts. These cuts would significantly reduce the City’s organizational capacity and, as a result, a reduction in service levels and operations.

For illustrative purposes, and as presented at the May 23rd Council meeting, 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. 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.

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:

If the City Council moves forward with a Transactions and Use (Sales) Tax Ordinance for the November 7, 2022 ballot and the revenue measure is approved by the voters, the proposed 1/2 cent transactions and use tax will generate approximately \$2,600,000 in additional annual revenue. This revenue will help address the City's projected General Fund deficit of \$2.7 Million in the 2023-24 fiscal year.

ORIGINATED BY:

City Manager's Office

ATTACHMENT LIST:

- Attachment 1 - 10 Year Forecast - City of Pacifica General Fund - April 2022 (PDF)
- Attachment 2 - Resolution Placing Transactions and Use Tax on Ballot (DOCX)
- Attachment 3 - Ordinance Adopting Half Cent Transactions and Use Tax (DOCX)

