

CITY COUNCIL STAFF REPORT

Current Business Item No. 24

July 15, 2020

File No. 0650-20

SUBJECT: Consideration of Resolution and Ordinance Placing the *Escondido Public Safety and Essential Services Revenue Measure* Before Voters at the Municipal General Election on November 3, 2020

DEPARTMENT: City Manager's Office

RECOMMENDATION:

It is recommended that the City Council: (a) adopt Resolution No. 2020-97 calling for an election submitting a proposed one percent general transactions and use (sales) tax increase to the voters; and (b) introduce Ordinance No. 2020-19 amending the Escondido Municipal Code to establish a one percent sales tax to be administered by the California Department of Tax and Fee Administration, including provisions for citizens' oversight and accountability.

While the introduction of additional taxes on people, especially at this time, should never be done casually, staff recommends placing this item on the November 2020 ballot to allow the voters the opportunity to consider an issue which will address the fiscal health of the City for years to come.

FISCAL ANALYSIS:

The Registrar of Voters estimates that the cost of placing the Essential Services Revenue Measure on the citywide ballot will be approximately \$110,000, which include printing and distributing the ballot question, impartial analysis, opposing view, and rebuttal. If the measure passes, preparatory costs and ongoing administration costs charged by the California Department of Tax and Fee Administration will be paid from the revenues received.

The City of Escondido would receive an additional one percent of sales tax collected within the City. The increase is projected to generate an estimated \$25 million in annual revenue. State law requires that the ballot measure question include the amount of money to be raised annually and the rate and duration of the tax to be levied, which is included in the proposed ballot question.

BACKGROUND:

Over the past decade, the City of Escondido's revenues have not kept pace with the growing costs associated with providing municipal services and facilities. It is becoming increasingly challenging to maintain the quality of City Services such as crime and gang prevention, 911 response, pothole repair, street and park maintenance, graffiti eradication, homelessness issues, and other core services.

During the past 10 years, the City has been proactive in reducing costs in a variety of ways. Measures include instituting pension reform, increasing employees' share of benefit packages, reducing the City's workforce by 126 full-time employees below pre-recession levels (while Escondido grew by 8,000 residents during this time), updating City fees, installing cost-saving technology, establishing a citywide Community Facilities District, deferring maintenance on projects, and more.

Even after instituting deep budget cuts and enhanced efficiencies, however, Escondido is facing a structural deficit exceeding \$176+ million over the next 18 years. Effects from the COVID-19 pandemic economic shutdown further impact the City’s budget with reduced spending in the community translating to fewer revenue collections, which directly impacts the General Fund.

During the development of the FY 2019-2020 budget, the City Manager recommended evaluating a potential one percent sales tax measure that would annually generate \$25 million to structurally increase revenues for maintaining essential city services. Local jurisdictions can obtain voter approval for local transactions and use taxes (sales tax) at a general election; the City’s next scheduled municipal election is November 3, 2020. A general tax measure requires approval of 50 percent of voters, plus one. The deadline to place a measure on the November 2020 ballot is August 7, 2020, and requires approval by two-thirds of the City Council (four affirmative votes).

Within California, 235 of the state’s 482 cities (49 percent), and 33 of the state’s 58 counties (57 percent), have approved transaction and use taxes, (Attachment 1). San Diego County cities are depicted below:

<i>City</i>	<i>Total Sales Tax Rate</i>	<i>Local Rate</i>	<i>Election Date</i>	<i>Voter Approval</i>
Chula Vista	8.75%	1.0%	June 2018	52.56%
Del Mar	8.75%	1.0%	November 2016	67.30%
El Cajon	8.25%	0.5%	November 2008	51.77%
La Mesa	8.50%	0.75%	November 2008	55.51%
National City	8.75%	1.0%	June 2006	58.10%
Oceanside	8.25%	0.5%	November 2018	55.68%
Vista	8.25%	0.5%	November 2006	53.97%

Other Southern California cities with local sales taxes include Temecula (8.75%), Pasadena (10.25%) Long Beach (10.25%) Santa Barbara (8.75%).

Feasibility Survey and Public Outreach

The City Council approved evaluating the merits of a revenue measure, which included contracting True North Research, Inc. to conduct a survey in the fall of 2019 gauging voter sentiment for the sales tax increase. The revenue measure survey involved a sample size of 1,084 registered voters and was conducted between October 14-25, 2019. The results were presented to the City Council on November 20, 2019, which indicated 65 percent support for such a measure with a +/-2.95 percent margin of error. The survey is online at:

<https://www.escondido.org/Data/Sites/1/media/PDFs/11.20.19SRAttachment1-EscondidoRevenueMeasureSurvey19.pdf>

The City Council commissioned a community opinion survey that was conducted between June 2-12, 2020, by True North Research, Inc. to gauge residents’ opinions with the level and type of municipal services provided in the community. The economic downturn of the local economy caused by the COVID-19 pandemic raised concern of potentially shifting voter sentiment regarding a proposed revenue measure. The June survey included a question to gauge whether or not voter support for a revenue measure remained strong.

Collectively, 71 percent of respondents comprising registered voters, as well as adults not registered to vote, responded “Definitely Yes” or “Probably Yes” regarding their support for the measure. Those responding “No” or “Not Sure” totaled 20 percent and seven percent respectively. The consultant isolated the responses from registered voters and calculated the same level of support. The scientific opinion satisfaction survey was administered by phone and online in English and Spanish to a random sample of 2,000 registered voters and non-voting adults equally distributed amongst all four City Council districts in the City of Escondido. The margin of error for this sample size is +/-2.17 percent. The survey is online at:

<https://www.escondido.org/Data/Sites/1/media/PDFs/11.20.19SRAttachment1-EscondidoRevenueMeasureSurvey20.pdf>

In order to expand outreach efforts, gather input, and educate the public on the City’s current and projected financial condition, staff developed a website: <https://www.escondido.org/2020-revenue-ballot-measure.aspx> that includes Frequently Asked Questions, Responsible Spending Pledge, and other pertinent information. Staff has presented details about the City’s budget and potential sales tax measure to neighborhood groups and service organizations. The COVID-19 pandemic has limited staff’s ability to personally meet with groups. A video presentation was also prepared allowing individuals and organizations to remotely access information about the revenue measure available online at: <https://www.escondido.org/Data/Sites/1/media/video/revmes.mp4>

ANALYSIS:

The sales tax rate currently applied in the City of Escondido is 7.75 percent, which is the base rate for San Diego County. This includes a combined statewide rate of 7.25 percent and a San Diego county district tax of 0.50 percent for the TransNet program. Of the total 7.75 percent collected, Escondido receives only one percent. California Revenue and Taxation Code Section 7251.1 requires that the combined taxes in any county (above the statewide tax rate) cannot exceed two percent. A general-purpose tax increase of one-percent is recommended, which would generate an estimated \$25 million in annual revenues.

California Revenue and Taxation Code also mandates that food items (groceries), prescriptions, certain medical devices, and other “Necessities of Life” are exempt from sales tax. Staff received information from MuniServices (a consultant for the City which provides analytics on revenue and collections) who analyzed Escondido’s current sales tax revenue and demographics and estimated that 67 percent of sales tax revenues come from residents and the remaining 33 percent paid by non-residents, tourists, and businesses.

In order to enact a local sales tax, the City Council must first approve an ordinance amending the Escondido Municipal Code to add Chapter 25, Article 2, Division 2, Sections 25-33.1 through 25-33.17 establishing a one-cent general transactions and use tax to be administered by the California Department of Tax and Fee Administration including provisions for citizens’ oversight and accountability.

The next step is adoption of a resolution calling and giving notice of a consolidated general election to be held on November 3, 2020, and ordering submission of a measure at said election for voters to consider approval of the ordinance. The City Council must approve the ordinance and resolution with a two-thirds majority, which requires four affirmative votes. Majority voter approval is required to approve the local sales tax (50 percent of voters, plus one).

The ballot language to be presented to the voters is as follows:

ESCONDIDO PUBLIC SAFETY AND ESSENTIAL SERVICES MEASURE.

To provide funding for public safety; gang and crime prevention; fire protection, paramedic services, and 911 emergency response; street maintenance; pothole repair; addressing homelessness; graffiti removal; park maintenance, library and other city services, shall an ordinance establishing a one percent sales tax be adopted, providing approximately 25 million dollars annually for general city services until ended by voters, with independent audits, citizen oversight, and all money locally controlled?

The revenue from the measure would be paid in addition to the existing sales tax and would be collected at the same time and in the same manner as the existing sales tax. An exception to this would be for vehicle sales, which are taxed based on where the vehicle will be registered by the owner, rather than where the vehicle is sold. This avoids creating a competitive disadvantage for automotive and other vehicle dealers in cities with local sales taxes.

As with the existing tax, the new revenue would be collected by the California Department of Tax and Fee Administration (formerly part of the State Board of Equalization), however all revenue generated would be dedicated to the City of Escondido and could not be diverted to the state, county, or other agencies. Because the measure is a proposed “general tax,” the revenues would go into the City’s general fund and could be use for any legal municipal purpose.

The ordinance provides that the tax would go into effect on the first day of the first calendar quarter commencing more than more than 110 days after approval of the ordinance by the electorate. Staff anticipates an effective date of April 1, 2021, if voters approve the revenue measure in November 2020.

Citizen Oversight and Accountability

The ordinance contains the following provisions to provide oversight, transparency and accountability for the funds received from the sales tax:

- *Separate Fund Accounting.* All revenue generated by the tax shall be accounted in the General Fund as a separate line item entitled with the name of the measure. Any and all expenditures of the measure will be tracked and accounted for by the City Finance Department staff in accordance with General Accepted Accounting Principles (GAAP), and presented annually in a report (the “Finance Department Report”) to the Citizens’ Oversight Committee (COC).
- *Citizens’ Oversight Committee.* The City Council shall create a Citizens’ Oversight Committee (COC) not later than April 1, 2021. The Committee members shall include those with a range of expertise including accounting, finance and engineering. The COC shall operate under the Brown Act, which includes requirements that meetings be noticed in advance and held in public. The COC will be responsible for review and comment on the Finance Department Report, Spending Plan and Annual Audit. Additionally, the COC will prepare and annually report regarding compliance with the Spending Plan and work with staff to identify and apply ‘best practices’ for tracking and reporting.

- *Spending Plan.* The City Manager shall prepare an annual Spending Plan for review and recommendation by the COC prior to City Council consideration of the annual budget. The Spending Plan shall include specific proposals for near-term expenditures and a plan for expenditures while the tax is in effect.
- *Annual Independent Audit.* Beginning with the fiscal year that ends June 30, 2021, a review of the collection and expenditure of the tax revenues generated by the measure shall be included in the annual audit by the City's independent auditors. The audit shall be presented each year to the COC for its review for compliance with the terms of the revenue measure ordinance, and transmitted to the City Council for its consideration at a public meeting.

Impartial Analysis

Pursuant to Elections Code section 9280, the proposed resolution directs the City Attorney to prepare an impartial analysis of the measure not exceeding 500 words showing the effect of the measure on the existing law and the operation of the measure.

Ballot Arguments

Election Code Section 9282 allows the legislative body, any member or members of the legislative body authorized by the body, any individual voter who is eligible to vote on the measure, bona fide association of citizens, or any combination of voters and associations, to submit an argument for or against a measure placed on the ballot by the legislative body. Arguments may not exceed 300 words in length, and must be submitted to the City Clerk by a deadline established by the Registrar of Voters.

Staff is recommending, and the resolution authorizes, that the Mayor submit arguments in favor of the measure, on behalf of the City Council. Pursuant to Elections Code 9285, the author or a majority of the authors of an argument relating to a city measure may prepare and submit a rebuttal argument or may authorize in writing another person or persons to prepare, submit, or sign the rebuttal argument. A rebuttal argument shall not exceed 250 words.

REVENUE MEASURE COMMITTEE

Government Code Section 54964(a) prevents City employees from expending public funds for, and/or being actively engaged in, promoting a ballot measure during their "on duty" working hours. All material produced by the City regarding the measure must be presented in an informational manner, without advocating for a particular outcome.

Members of the community representing economic, social, educational, spiritual, law enforcement, religious, health and legal organizations have formed a Revenue Measure Committee. This Committee will work independently of staff and City government to prepare information for distributing to the public.

The Committee held a 'kick-off' meeting on July 7, 2020, where they charted an agenda for the months leading up to the election outlining steps and efforts for promoting the revenue measure in the community.

CONCLUSION AND NEXT STEPS

Staff recommends that the City Council adopt Resolution No. 2020-97 calling for an election submitting a proposed one percent general transaction and use (sales) tax increase to the voters, and introduce Ordinance No. 2020-19 amending the Escondido Municipal Code to add a section establishing a one percent sales tax to be administered by the California Department of Tax and Fee Administration including provisions for citizens oversight committee.

Staff will work with the Mayor to develop the ballot arguments and provide necessary documentation to the Registrar of Voters for scheduling the revenue measure on the November 3, 2020, general municipal election ballot. If the measure is successful, staff will draft an application and procedures for consideration at a later date prescribing the City Council's selection of the future Citizens' Oversight Committee ("COC").

APPROVED AND ACKNOWLEDGED ELECTRONICALLY BY:

Jay Petrek, Assitant City Manager
7/9/20 3:01 p.m.

ATTACHMENTS:

1. Attachment 1: California Sales and Use Tax Rates by County and City
2. Resolution No. 2020-97
3. Ordinance No. 2020-19

ATTACHMENT 1 (1 of 2)
California Sales and use Tax Rates by County and City

CDTFA-95 (FRONT) REV. 19 (7-20)
SALES AND USE TAX RATES

STATE OF CALIFORNIA
 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

California Sales and Use Tax Rates by County and City*
Operative July 1, 2020 (includes state, county, local, and district taxes)

<p>ALAMEDA COUNTY 9.25% City of Alameda 9.75% City of Albany 9.75% City of Emeryville 9.50% City of Hayward 9.75% City of Newark 9.75% City of San Leandro 9.75% City of Union City 9.75%</p> <p>ALPINE COUNTY 7.25%</p> <p>AMADOR COUNTY 7.75%</p> <p>BUTTE COUNTY 7.25% City of Oroville 8.25% Town of Paradise 7.75%</p> <p>CALAVERAS COUNTY 7.25% City of Angels Camp 7.75%</p> <p>COLUSA COUNTY 7.25% City of Williams 7.75%</p> <p>CONTRA COSTA COUNTY 8.25% City of Antioch 9.25% City of Concord 8.75% City of El Cerrito 9.75% City of Hercules 8.75% City of Martinez 9.25% Town of Moraga 9.25% City of Orinda 8.75% City of Pinole 9.25% City of Pittsburg 8.75% City of Pleasant Hill 8.75% City of Richmond 9.25% City of San Pablo 8.75%</p> <p>DEL NORTE COUNTY 7.50%</p> <p>EL DORADO COUNTY 7.25% City of Placerville 8.25% City of South Lake Tahoe 7.75%</p>	<p>FRESNO COUNTY 7.975% City of Coalinga 8.975% City of Fowler 8.975% City of Huron 8.975% City of Kerman 8.975% City of Kingsburg 8.975% City of Parlier 8.975% City of Reedley 9.225% City of Sanger 8.725% City of Selma 8.475%</p> <p>GLENN COUNTY 7.25% City of Orland 7.75%</p> <p>HUMBOLDT COUNTY 7.75% City of Arcata 8.50% City of Eureka 8.50% City of Fortuna 8.50% City of Rio Dell 8.75% City of Trinidad 8.50%</p> <p>IMPERIAL COUNTY 7.75% City of Calexico 8.25% City of El Centro 8.25%</p> <p>INYO COUNTY 7.75%</p> <p>KERN COUNTY 7.25% City of Arvin 8.25% City of Bakersfield 8.25% City of Delano 8.25% City of Ridgecrest 8.25% City of Wasco 8.25%</p> <p>KINGS COUNTY 7.25% City of Corcoran 8.25%</p> <p>LAKE COUNTY 7.25% City of Clearlake 8.75% City of Lakeport 8.75%</p> <p>LASSEN COUNTY 7.25%</p>	<p>LOS ANGELES COUNTY 9.50% City of Alhambra 10.25% City of Arcadia 10.25% City of Avalon 10.00% City of Azusa 10.25% City of Burbank 10.25% City of Commerce 10.00% City of Compton 10.25% City of Covina 10.25% City of Cudahy 10.25% City of Culver City 10.25% City of Downey 10.00% City of Duarte 10.25% City of El Monte 10.00% City of Gardena 10.25% City of Glendale 10.25% City of Glendora 10.25% City of Hawthorne 10.25% City of Huntington Park 10.25% City of Inglewood 10.00% City of Irwindale 10.25% City of La Puente 10.00% City of La Verne 10.25% City of Lakewood 10.25% City of Lawndale 10.25% City of Long Beach 10.25% City of Lynwood 10.25% City of Monrovia 10.25% City of Montebello 10.25% City of Norwalk 10.25% City of Paramount 10.25% City of Pasadena 10.25% City of Pico Rivera 10.25% City of Pomona 10.25% City of San Fernando 10.00% City of San Gabriel 10.25% City of Santa Fe Springs 10.50% City of Santa Monica 10.25% City of Sierra Madre 10.25% City of South El Monte 10.00% City of South Gate 10.25% City of South Pasadena 10.25% City of Whittier 10.25%</p> <p>MADERA COUNTY 7.75% City of Chowchilla 8.75% City of Madera 8.25%</p>	<p>MARIN COUNTY 8.25% Town of Corte Madera 9.00% Town of Fairfax 9.00% City of Larkspur 9.00% City of Novato 8.50% Town of San Anselmo 8.75% City of San Rafael 9.00% City of Sausalito 8.75%</p> <p>MARIPOSA COUNTY 7.75%</p> <p>MENDOCINO COUNTY 7.875% City of Fort Bragg 8.875% City of Point Arena 8.375% City of Ukiah 8.875% City of Willits 8.375%</p> <p>MERCED COUNTY 7.75% City of Atwater 8.25% City of Gustine 8.25% City of Los Banos 8.75% City of Merced 8.25%</p> <p>MODOC COUNTY 7.25%</p> <p>MONO COUNTY 7.25% Town of Mammoth Lakes 7.75%</p> <p>MONTEREY COUNTY 7.75% City of Carmel-by-the-Sea 9.25% City of Del Rey Oaks 9.25% City of Gonzales 8.25% City of Greenfield 9.50% City of King City 8.75% City of Marina 9.25% City of Monterey 9.25% City of Pacific Grove 8.75% City of Salinas 9.25% City of Sand City 8.75% City of Seaside 9.25% City of Soledad 8.75%</p>
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*For more details, refer to www.cdtfa.ca.gov/taxes-and-fees/sales-use-tax-rates.htm.

Note: Some communities located within a county or a city may not be listed. If you are in doubt about the correct rate or if you cannot find a community, please call our toll-free number at 1-800-400-7115 (CRS:711), or call the local California Department of Tax and Fee Administration office nearest you for assistance.

ATTACHMENT 1 (2 of 2)
 California Sales and use Tax Rates by County and City

CDTFA-95 (BACK) REV. 19 (7-20)
SALES AND USE TAX RATES

<p>NAPA COUNTY 7.75% City of St. Helena 8.25%</p> <p>NEVADA COUNTY 7.50% City of Grass Valley 8.50% City of Nevada City 8.375% Town of Truckee 8.25%</p> <p>ORANGE COUNTY 7.75% City of Fountain Valley 8.75% City of Garden Grove 8.75% City of La Habra 8.25% City of La Palma 8.75% City of Placentia 8.75% City of Santa Ana 9.25% City of Seal Beach 8.75% City of Stanton 8.75% City of Westminster 8.75%</p> <p>PLACER COUNTY 7.25% Town of Loomis 7.50% City of Roseville 7.75%</p> <p>PLUMAS COUNTY 7.25%</p> <p>RIVERSIDE COUNTY 7.75% City of Cathedral City 8.75% City of Coachella 8.75% City of Hemet 8.75% City of Indio 8.75% City of La Quinta 8.75% City of Menifee 8.75% City of Murrieta 8.75% City of Norco 8.75% City of Palm Springs 9.25% City of Riverside 8.75% City of Temecula 8.75% City of Wildomar 8.75%</p> <p>SACRAMENTO COUNTY 7.75% City of Galt 8.25% City of Isleton 8.75% City of Rancho Cordova 8.25% City of Sacramento 8.75%</p>	<p>SAN BENITO COUNTY 8.25% City of Hollister 9.25% City of San Juan Bautista 9.00%</p> <p>SAN BERNARDINO COUNTY 7.75% City of Barstow 8.75% City of Montclair 8.00% City of San Bernardino 8.00% Town of Yucca Valley 8.75%</p> <p>SAN DIEGO COUNTY 7.75% City of Chula Vista 8.75% City of Del Mar 8.75% City of El Cajon 8.25% City of La Mesa 8.50% City of National City 8.75% City of Oceanside 8.25% City of Vista 8.25%</p> <p>SAN FRANCISCO COUNTY 8.50%</p> <p>SAN JOAQUIN COUNTY 7.75% City of Lathrop 8.75% City of Lodi 8.25% City of Manteca 8.25% City of Stockton 9.00% City of Tracy 8.25%</p> <p>SAN LUIS OBISPO COUNTY 7.25% City of Arroyo Grande 7.75% City of Atascadero 7.75% City of Grover Beach 7.75% City of Morro Bay 7.75% City of Paso Robles 7.75% City of Pismo Beach 7.75% City of San Luis Obispo 7.75%</p> <p>SAN MATEO COUNTY 9.25% City of Belmont 9.75% City of Burlingame 9.50% City of East Palo Alto 9.75% City of Redwood City 9.75% City of San Bruno 9.75% City of San Mateo 9.50% City of South San Francisco 9.75%</p>	<p>SANTA BARBARA COUNTY 7.75% City of Carpinteria 9.00% City of Guadalupe 8.00% City of Lompoc 8.75% City of Santa Barbara 8.75% City of Santa Maria 8.75%</p> <p>SANTA CLARA COUNTY 9.00% City of Campbell 9.25% City of Los Gatos 9.125% City of San Jose 9.25%</p> <p>SANTA CRUZ COUNTY¹ 8.50% City of Capitola 9.00% City of Santa Cruz 9.25% City of Scotts Valley 9.75% City of Watsonville 9.25% Santa Cruz (Unincorporated Area)² 9.00%</p> <p>SHASTA COUNTY 7.25% City of Anderson 7.75%</p> <p>SIERRA COUNTY 7.25%</p> <p>SISKIYOU COUNTY 7.25% City of Dunsmuir 7.75% City of Mount Shasta 7.50% City of Weed 7.50% City of Yreka 7.75%</p> <p>SOLANO COUNTY 7.375% City of Benicia 8.375% City of Fairfield 8.375% City of Rio Vista 8.125% City of Suisun City 8.375% City of Vacaville 8.125% City of Vallejo 8.375%</p> <p>SONOMA COUNTY 8.25% City of Cotati 9.25% City of Healdsburg 8.75% City of Rohnert Park 8.75% City of Santa Rosa 9.00% City of Sebastopol 9.00% City of Sonoma 8.75%</p>	<p>STANISLAUS COUNTY 7.875% City of Ceres 8.375% City of Oakdale 8.375%</p> <p>SUTTER COUNTY 7.25%</p> <p>TEHAMA COUNTY 7.25% City of Corning 7.75% City of Red Bluff 7.50%</p> <p>TRINITY COUNTY 7.25%</p> <p>TULARE COUNTY 7.75% City of Dinuba 8.50% City of Farmersville 8.75% City of Lindsay 8.75% City of Porterville 9.25% City of Tulare 8.25% City of Visalia 8.50% City of Woodlake 8.75%</p> <p>TUOLUMNE COUNTY 7.25% City of Sonora 7.75%</p> <p>VENTURA COUNTY 7.25% City of Oxnard 7.75% City of Port Hueneme 8.75% City of Santa Paula 8.25% City of Ventura 7.75%</p> <p>YOLO COUNTY 7.25% City of Davis 8.25% City of West Sacramento 8.25% City of Woodland 8.00%</p> <p>YUBA COUNTY³ 7.25% City of Marysville 8.25% City of Wheatland 7.75% Yuba (Unincorporated Area)⁴ 8.25%</p>
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¹ This county tax rate applies to areas that are within the boundaries of any incorporated cities within the Santa Cruz county.
² This county tax rate applies to areas that are not within the boundaries of any incorporated cities within the Santa Cruz county.
³ This county tax rate applies to areas that are within the boundaries of any incorporated cities within the Yuba county.
⁴ This county tax rate applies to areas that are not within the boundaries of any incorporated cities within the Yuba county.