



**ITEM NO. 1**

## **STAFF REPORT**

DATE: MAY 4, 2022

TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS

FROM: BILL SMITH, CITY MANAGER

PREPARED BY: STACEY DABBS, FINANCE DIRECTOR

SUBJECT: LOCAL BALLOT INITIATIVE TO ESTABLISH A ONE CENT (1¢) CITY TRANSACTIONS AND USE TAX, TO CONSOLIDATE THE GENERAL MUNICIPAL ELECTION WITH THE STATEWIDE GENERAL ELECTION, AND TO SET THE DEADLINE AND RULES FOR PRIMARY ARGUMENTS AND REBUTTAL ARGUMENTS REGARDING A CITY MEASURE FOR THE NOVEMBER 8, 2022 ELECTION, RESOLUTIONS R-31-22, R-32-22, R-33-22

### **RECOMMENDED ACTION**

Staff recommends that the City Council take the following action:

1. Adopt Resolution R-31-22, a Resolution of the City Council of the City of Colton calling for placement of a general tax measure on the ballot for the Tuesday, November 8, 2022 General Municipal Election for the submission to qualified voters of an Ordinance to enact a one-cent (1¢) General Transactions and Use (Sales) Tax; and
2. Adopt Resolution R-32-22, a Resolution of the City Council of the City of Colton requesting the Board of Supervisors of the County of San Bernardino to consolidate a General Municipal Election to be held on Tuesday, November 8, 2022 with the Statewide General Election to be held that date pursuant to §10403 of the Elections Code; and
3. Adopt Resolution R-33-22, a Resolution of the City Council of the City of Colton providing for the filing of primary and rebuttal arguments and setting rules for the filing of written arguments regarding a City measure to be submitted at the November 8, 2022 General Municipal Election.

## **BACKGROUND**

The City of Colton provides a variety of essential general municipal services, including fire, police, and emergency 911 medical response; after-school programming for youth; senior and library services; parks maintenance; homelessness response, and other general maintenance and services. In recent years, the City's ability to maintain these services has become more challenging due to operating costs rising at a faster pace than sustainable revenues. Based on current projections, unless a new revenue source is identified, the City faces substantial budget deficits and service reductions, jeopardizing the City's essential services to the community.

The City's rich history provides the basis for many things Colton residents currently enjoy, but it also means that its infrastructure, things like traffic signals, community centers, fire stations, and sidewalks, require larger investments in order to maintain them at an acceptable standard. Colton also proudly operates its own local fire and police departments, independent from County control. This also requires more investment in capital and ongoing costs, like staffing expenses, fire and police equipment, additional insurance coverage, and technology.

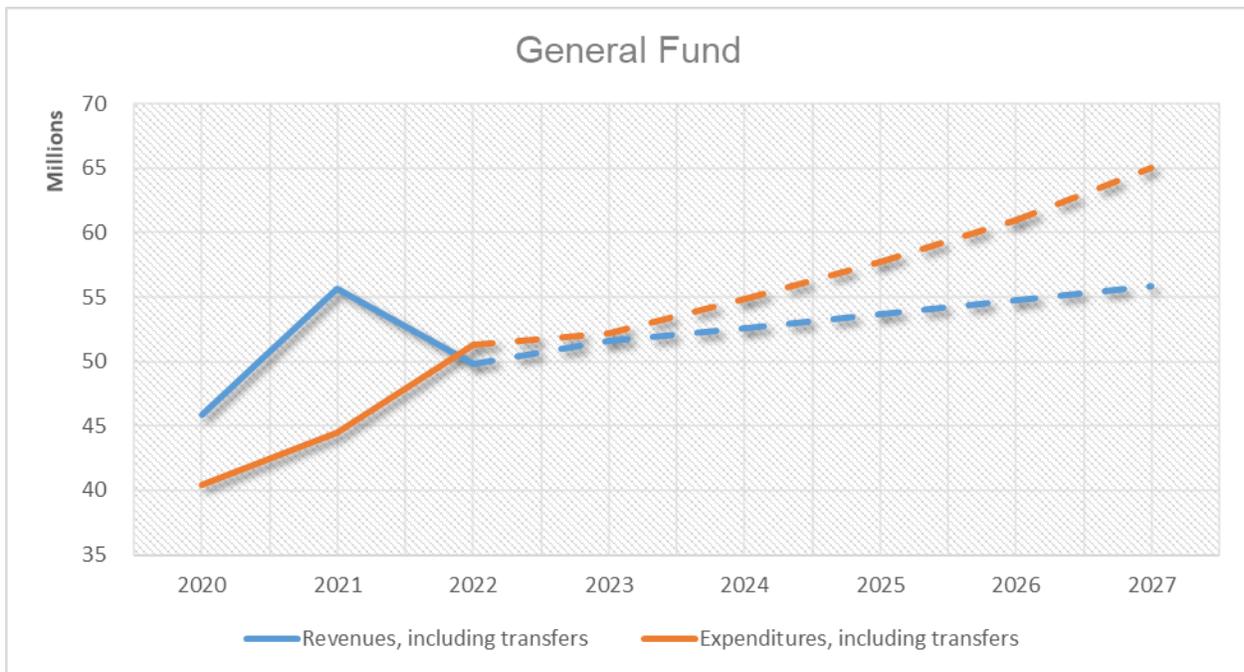
Compounding these fiscal pressures even further is the economic outlook resulting as a consequence of the COVID-19 pandemic. For the City to maintain the level of service to the public during the economic impacts of the pandemic and to work towards funding deferred capital needs, additional revenues will be necessary, in conjunction with cost containment strategies.

In recent years, the City has made several service and operations reductions to remedy shortfalls and has been diligent about financial planning to ensure sustainability and continuity in service to the community. These measures included freezing positions, concession bargaining with employee groups, seeking grant funding for capital replacement and projects, deferring and extending capital replacement and maintenance, and passing a General Fund Transfer revenue measure. Additionally, the City Council adopted a revised General Fund Balance policy which has been the most impactful component to ensuring the City's long-term financial sustainability. The revised policy is multifaceted, addressing both the minimum level of required General Fund reserves and the year-end closing procedures to allocate excess revenue over expenditures to address areas of significant financial concern. Specifically, the General Fund Balance Policy has resulted in reserves for Pension and Other Post Employment Benefits (OPEB) and transfers to internal service funds to address deferred building maintenance, vehicle replacement, and risk management. However, these strategies alone are not sufficient to maintain our community's current level of service.

## **ISSUES/ANALYSIS**

Five-year financial projections for the City's General Fund are presented to the Finance Committee for the annual budget and mid-year budget processes. These projections include the current fiscal year, a two-year look back, and a five-year future projection. The financial model

forecasts revenue and expenditures based on several known factors. For expenditures, the model assumes a status quo staffing and service model and factors in contractual obligations, existing debt obligations, bargained salaries and benefits increases, actuarially-determined contributions to CalPERS for the City's Unfunded Accrued Liability (UAL), and a marginal and steady rise in maintenance and operational costs to account for customary inflation. Local officials have limited choices in raising revenues to provide services to their communities, as voters have placed restrictions and protections in the State Constitution. Therefore, the financial model assumes a smoothed, standard growth trend in revenues, factoring in new revenues from entitled development and other reasonable assumptions and factoring out one-time revenues in previous years, such as CARES Act funds. As shown below, expenditure growth is expected to outpace revenue increases in the forecast model, given the assumptions discussed.



As soon as the Fiscal Year (FY) 2023-24 budget adoption, the financial forecast model shows that the City will struggle to meet its General Fund reserve requirement of 15%, and by FY2025-26, the City's unassigned fund balance will be in a deficit position. Absent proactive measures to pass an initiative for a new revenue source or a reduction in services to the community, or a combination of both, the General Fund deficit will grow each year, rendering the City insolvent.

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	AS OF JUNE 30							
	2020	2021	2022	2023	2024	2025	2026	2027
Beginning Fund Balance	21,168,452	26,583,187	37,690,536	36,215,143	35,620,525	33,356,458	29,275,984	22,984,206
Revenues, including transfers	45,827,008	55,616,546	49,852,166	51,560,715	52,591,929	53,643,768	54,716,643	55,810,976
Expenditures, including transfers	40,412,273	44,509,197	51,327,559	52,155,333	54,855,997	57,724,241	61,008,422	65,077,949
Surplus/(Deficit)	5,414,735	11,107,349	(1,475,393)	(594,618)	(2,264,068)	(4,080,474)	(6,291,779)	(9,266,972)
<b>Total Fund Balance</b>	<b>26,583,187</b>	<b>37,690,536</b>	<b>36,215,143</b>	<b>35,620,525</b>	<b>33,356,458</b>	<b>29,275,984</b>	<b>22,984,206</b>	<b>13,717,233</b>
Unassigned Fund Balance	7,128,758	8,776,561	8,601,168	8,006,550	5,742,483	1,662,009	(4,629,769)	(13,896,742)
Committed for Litigation	-	1,300,000	-	-	-	-	-	-
Committed for Pension	13,314,508	19,820,872	19,820,872	19,820,872	19,820,872	19,820,872	19,820,872	19,820,872
Committed for OPEB	6,139,921	7,793,103	7,793,103	7,793,103	7,793,103	7,793,103	7,793,103	7,793,103
% Reserve		20%	17%	15%	10%	3%	-8%	-21%

The Finance Committee recommended placing a one-cent transactions (sales) and use tax on the November 2022 ballot to ensure voters have a voice in determining the level of service they want for their community. A financial forecast including a one-cent sales tax shows the City can stabilize and maintain the current service levels and continue to meet its reserve requirement throughout the five-year forecast model.

	AS OF JUNE 30							
	2020	2021	2022	2023	2024	2025	2026	2027
Beginning Fund Balance	21,168,452	26,583,187	37,690,536	36,215,143	37,995,525	45,231,458	50,745,984	54,145,156
Revenues	45,827,008	55,616,546	49,852,166	51,560,715	52,591,929	53,643,768	54,716,643	55,810,976
Transaction & Use Tax	-	-	-	2,375,000	9,500,000	9,595,000	9,690,950	9,787,860
Expenditures	40,412,273	44,509,197	51,327,559	52,155,333	54,855,997	57,724,241	61,008,422	65,077,949
Surplus/(Deficit)	5,414,735	11,107,349	(1,475,393)	1,780,382	7,235,932	5,514,526	3,399,171	520,887
<b>Total Fund Balance</b>	<b>26,583,187</b>	<b>37,690,536</b>	<b>36,215,143</b>	<b>37,995,525</b>	<b>45,231,458</b>	<b>50,745,984</b>	<b>54,145,156</b>	<b>54,666,043</b>
Unassigned Fund Balance	7,128,758	8,776,561	8,601,168	9,046,264	10,855,247	12,233,879	13,083,671	13,213,893
Committed for Litigation	-	1,300,000	-	-	-	-	-	-
Committed for Pension	13,314,508	19,820,872	19,820,872	20,711,063	24,329,029	27,086,292	28,785,878	29,046,322
Committed for OPEB	6,139,921	7,793,103	7,793,103	8,238,199	10,047,182	11,425,813	12,275,606	12,405,828
% Reserve		20%	17%	17%	20%	21%	21%	20%

Transactions (Sales) and Use Tax

State law imposes a “cap” on the amount of sales tax the County and a city within that County may levy together. California Revenue and Taxation Code § 7251.1 states that “the combined rate of all taxes imposed in accordance with this part in any county may not exceed 2 percent.” San Bernardino County Transportation Authority has already used 0.50% of the “cap” and could propose its own additional sales tax measures in a future election, further reducing the amount available specifically to the City of Colton. If the County or other local districts or agencies pass local sales tax measures and meet the cap, it would leave Colton voters no opportunity to implement a local sales tax measure to support local City services. Rather, sales taxes on sales

of goods within the City of Colton would become part of the County funding pool, only a portion of which would be returned to the City to support its programs. With a City-approved sales tax measure, all tax dollars generated in Colton will remain in Colton to benefit our community directly. An additional benefit of a sales tax in the City is that visitors would share in the cost of providing services to the community.

Pursuant to the heightened revenue constraints now facing all local governments, it is Staff's recommendation that the City Council take action to adopt a resolution to place a general sales tax measure on the ballot for the November 8, 2022 General Election. The ballot language asks voters to consider whether they want to preserve the general City services by voting in favor of a one-cent sales tax. Placing the initiative on the ballot ensures the City's voters are afforded the opportunity to decide the level of service the City provides.

<p>“To maintain funding for police patrols, to address homelessness, gang, drug and crime prevention, fire protection, paramedics, 911 emergency response, to maintain senior and youth services, library services, parks, sidewalks, roads, to clean and maintain public areas, and for general government use; shall a measure establishing a one-cent sales tax providing approximately \$9,500,000 annually until ended by voters, requiring independent audits and guaranteeing all funds are controlled locally be adopted?”</p>	<p>YES</p>
	<p>NO</p>

Tax Measure Process

The City Council does not have the authority to establish or raise taxes, only to put a measure on the ballot for voter consideration. In order to place a tax measure on the November 8, 2022 ballot, the City Council must approve the submission of the measure to the voters by a 2/3 vote of the City Council (at least five members). Resolution R-31-22 also includes the specific language for the ballot question that will be presented to voters as required by the Elections Code. If passed by the City Council and the electorate, the tax would be effective no sooner than the first day of the first calendar quarter, commencing more than 110 days after the adoption of the ordinance by the voters. Therefore, the tax would be effective no sooner than April 1, 2023.

**FISCAL IMPACTS**

If approved by voters in November 2022, a one-cent sales tax would take effect on nearly all taxable transactions in the City as of April 1, 2023. While a precise estimate of the revenue generation cannot be made, the City's sales tax consultant estimates that a one-cent sales tax would generate approximately \$9,500,000 annually. These funds would be locally generated and therefore be safe from seizure by the State. In addition, they would enable the City to invest in services and infrastructure that the community values.

Total election costs for the ballot measure are currently estimated at approximately \$50,000, which will be included accordingly in the FY2022-23 budget. In addition, under the Revenue and Taxation Code section 7272, the California Department of Tax and Fee Administration (CDTFA) will assess the City for preparatory charges to administer the new local sales tax based on actual costs. The statutory maximum amount of these costs shall not exceed \$175,000.

### **ALTERNATIVES**

1. Prioritize essential City services in preparation for service cuts
2. Provide alternative direction

### **ATTACHMENT**

1. Resolution R-31-22
2. Resolution R-32-22
3. Resolution R-33-22