



CITY OF PACIFIC GROVE
300 Forest Avenue, Pacific Grove, California 93950

AGENDA REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Thomas Fruthey, City Manager
Patty Maitland, Finance Director

MEETING DATE: March 18, 2015

SUBJECT: Revenue Options

CEQA: Does not constitute a “project” under California Environmental Quality Act (CEQA) guidelines.

RECOMMENDATION

1. Receive a report on revenue options
2. Provide direction to staff

BACKGROUND

One year ago, the City was reasonably assured that it had until FY 2017-08 before projected expenditures for current programs would exceed projected revenues. The City committed to using the intervening period to take the required steps to ensure Pacific Grove’s long term financial stability.

Since then, however, the CalPERS Board revised many of its key assumptions--such as participant longevity, investment risk, and salary increases—used when determining employer contribution rates for covered personnel. As a result, the employer contributions imposed on member agencies starting July 1, 2015 will jump significantly. The increases will vary, by city, based on each city’s ratio of current employees to retirees, average retiree age, and inflation, among other factors. Of the 400+ cities that are member agencies, Pacific Grove’s increase, on a percentage basis, was the 8th highest. The increases in the required employer contributions next year will total over \$1.6 million (including unfunded liabilities).¹ The CalPERS changes in key assumptions have moved Pacific Grove into a deficit position for FY 2015-16 and for the remainder of the forecast period.

The City’s response needs to occur at two levels. First, the City must continue to work collaboratively with legislators, the League of California Cities, and other member agencies to achieve necessary changes to the CalPERS system. Second, the City must make adjustments to its services and budgets to ensure it remains financially sound. While the first set of actions is addressed by the City and the Council via other avenues, the second response is the focus of the remainder of this report.

DISCUSSION

City Council received the Five-Year Forecast on February 18, 2015. The forecast showed that without increased or new revenues, the City will more rapidly reduce the general fund balance than was previously forecast. Beginning in FY 2015-16, the projected revenue shortfall would grow from \$1.1 million to \$1.8 million by FY 2019-20.

¹ Pacific Grove’s employer contribution rates will continue to increase over the next five years. Assuming the CalPERS investment earnings continue to meet the 5.75% target, and all other things being equal, both of which are questionable assumptions, the City should then start to see a decrease.

The forecast projected an overall 1% increase in expenditures for existing programs for FY 2015-16. However, the CalPERS-mandated contributions plus the payment to unfunded liabilities for FY 2015-16 (show in the table below) effectively requires the departments to significantly decrease expenditures in other areas of their budgets.²

	FY 2015-16	
	Employer Rate	Unfunded Liability
Classic Miscellaneous	8.512%	\$ 445,142
Classic Safety	18.524%	\$ 775,371
PEPRA Miscellaneous	6.237%	-
PEPRA Safety	11.153%	-

Absent further direction from Council, the requested operating budget will reflect these decreases.

Pacific Grove is already operating at a “service deficit”: the services currently being provided are fewer than the community has expressed its need and desire for. For example, the City has not adequately addressed the needs of Pacific Grove’s working poor³. And although recent strides have been made, infrastructure maintenance is also insufficient. The City cannot make further cuts in necessary services before fully vetting other options.

There are a number of potential options for addressing the remaining shortfall:

Reducing costs:

1. *Seek others to pick up services now provided by the City*—This can be accomplished by public-private partnerships (such as that created in 2009 for the Museum) and other approaches. For example, the Pacific Grove Unified School District is considering assuming responsibility and costs for school crossing guards. Similarly, the City could seek a private service provider to take over the pre-school at the Community Center and lease space from the City or another landlord.
2. *Cease providing discretionary services that the City is not able to find others to pick up--*
3. *Become more cost-effective at providing the services the City does offer*—This has been a constant theme these past five years, leading to improvements in many City-provided services as well as the contracting out of services (such as turf mowing) that can be more cost-effectively provided by others.
4. *Reduce personnel costs through compensation reductions, furloughs, and, if necessary, layoffs, etc.*—There was little choice but for this to be the centerpiece of the budget adjustments necessary at the beginning of the Great Recession. The City has worked hard to recover from the disruptions in services, decreases in morale, and other long-term effects of such actions.

Increasing revenues:

1. Grants – Major capital projects undertaken by the City are currently majority-funded by grants. The City has not sought to cultivate ongoing expertise in this area, however.

² CalPERS provided employer contribution rates and unfunded liability payments from the City’s Annual Valuation Report dated October 2014.

³ Many of those needs are the direct responsibility of other units of government, not the City’s.

2. Bequests – The City can actively market bequest opportunities through the Community Foundation.
3. Fees – Most but not all services designed to benefit a select group (e.g., Youth Camp, Building Inspection) are covered by fees set so as to recover Full City costs. Some are not. Current Planning fees, for example, are pegged at 75% cost recovery, as current policy acknowledges that planning activity initiated by property owners benefits not just the applicant but also the surrounding neighborhood.
4. Lease revenue, in the City's role as landlord – Renegotiate leases to obtain the highest and best use for city-owned properties.
5. Economic Development – Much more can be done here. Economic development can have great benefits for the City. For example, experiences in other cities show that raising the downtown height limit by one story and permitting additional mixed-use developments could increase annual sales and property taxes, as well as bring vitality to the downtown.
6. Selling lesser-used assets – The Community Center site is severely underutilized. If rezoned and developed for housing or other uses, it offers a one-time revenue infusion and, depending on the use, potentially future tax revenues.
7. Ensuring equitable collection of existing taxes – For example: anecdotal evidence suggests that a significant number of PG homes have rented rooms, without having secured the appropriate permits and paying the required taxes.
8. New Revenue Sources – This includes fees (such as a storm water utility), assessment districts (such as landscaping and lighting district for Forest Hill) and tax measures. Tax measures could include a single tax measure or a group of tax measures that share a tax increase among visitors, businesses, and residents. Any such measure would require a vote of the people.

Work continues on the first 11 options. They are areas of activity in recent years. Each can have some impact in the budget year. They are all long-term strategies that deserve ongoing effort. This report addresses the last option, focusing on revenue options that require a public vote.

Process. As a charter city, Pacific Grove has the ability to levy a general tax which could be used for any governmental purpose as determined by the City Council. General taxes, such as those listed in the table below, would require a two-thirds vote of the City Council, and be approved by a majority vote of voters voting in an election on the tax. Gov. Code section 53724 requires the measure be proposed by an ordinance or resolution that includes the type and rate of tax to be levied, the method of collection, the date upon which an election shall be held on the issue, and, if a special tax, the purpose or service for which its imposition is sought. If the election on the tax measure is not consolidated with a statewide primary election, a statewide general election, or with a regularly scheduled general election for members of the city council, the council must unanimously declare an emergency exists to justify placing the tax before the voters at a special election.

	Commercial TOT	Residential TOT	Total TOT @ 10%	Total Gross	Total TOT @ 12%	Revenue Increase
Increase Transient Occupancy Tax	\$ 3,278,458	\$ 453,048	\$ 3,731,506	\$ 37,315,060	\$ 4,477,807	\$ 746,301
	Current \$1.00/\$1000 Gross Receipts		200 Licensees		\$1.50/\$1000 Gross Receipts	Revenue Increase
Increase Business License Tax	\$ 340,000				\$ 510,000	\$ 170,000
Require Transient Use Licensee to Obtain a Business License			\$ 8,000			\$ 8,000
	Average Annual Property Sales	Average Price			1.5% of Price	Revenue Increase
Real Estate Transfer Tax	25	\$ 681,000			\$ 255,375	\$ 255,375
	Entrants				\$.50 Per Entrant	Revenue Increase
Admission to Places of Amusement and Entertainment	1,500,000				\$ 750,000	\$ 750,000
Total All Revenue Measures						\$ 1,929,676

The advantages and disadvantages of each of these revenue measures is addressed in the accompanying PowerPoint presentation (Attachment 1).

Timing. A proposed general tax measure must be consolidated with a statewide primary election, a statewide general election, or a regularly scheduled local election at which all of the electors of the local government or district are entitled to vote. Or, by unanimously declaring a fiscal emergency, the City Council may hold the tax measure election on any election date, but the City would then bear the expense of such an election. Therefore, the City Council has three options with regard to the timing of the general tax measures:

1. June 2016 Ballot
2. November 2016 Ballot
3. Special Election (cost may be \$10.00 - \$12.00 per voter; unanimous declaration of emergency needed)

Depending on the timing of the general tax measures on a qualified ballot, the earliest receipt of revenues to the City would likely be in calendar year 2017. The City Council could also vote for a special election on an earlier date than the slated elections, but there would be a cost associated with that election.

FISCAL IMPACT

There is no impact to the General Fund by the receipt of this report. Direction by the City Council to Staff to pursue the revenue measures, and subsequent action by the City Council, could impact the General Fund.

RESPECTFULLY SUBMITTED:

Patty Maitland

Patty Maitland
Finance Director

Thomas Frutchey

Thomas Frutchey
City Manager

Mayor
Bill Kampe

Council
Members
Robert Huitt
Ken Cuneo
Rudy Fischer
Casey Lucius
Daniel Miller
Bill Peake

City Manager
Tom Fruthey

Finance Director
Patty Maitland



CITY OF PACIFIC GROVE REVENUE MEASURE OPTIONS

March 18, 2015

Summary of Possible Revenue Measures

	Commercial TOT	Residential TOT	Total TOT @ 10%	Total Gross	Total TOT @ 12%	Revenue Increase
Increase Transient Occupancy Tax	\$ 3,278,458	\$ 453,048	\$ 3,731,506	\$ 37,315,060	\$ 4,477,807	\$ 746,301
	Current \$1.00/\$1000 Gross Receipts		200 Licensees		\$1.50/\$1000 Gross Receipts	Revenue Increase
Increase Business License Tax	\$ 340,000				\$ 510,000	\$ 170,000
Require Transient Use Licensee's to Obtain a Business License			\$ 8,000			\$ 8,000
	Average Annual Property Sales	Average Price			1.5% of Price	Revenue Increase
Real Estate Transfer Tax	25	\$ 681,000			\$ 255,375	\$ 255,375
	Entrants				\$.50 Per Entrant	Revenue Increase
Admission to Places of Amusement and Entertainment	1,500,000				\$ 750,000	\$ 750,000
Total All Revenue Measures						\$ 1,929,676

Transient Occupancy Tax



Benefits

- Increases City's discretionary revenue by \$750K
- TOT has not increased since 1985
- Ongoing stabilization of finances in the face of increasing costs
- Residents do not pay the tax

Challenges

- Requires majority voter approval
- General tax -- can be used for any purpose
- Perceived effects on occupancy rates and tourism

Business License Tax



Benefits

- Increases City's discretionary revenue by approximately \$180K
- Transient Use Licensees also pay for a business license (fair share)

Challenges

- Requires majority voter approval
- Tax increase yields minimal revenue benefit
- Effect on local business

Real Estate Transfer Tax



Benefits

- Increases City's discretionary revenue by approximately \$260K
- Recovers some revenue from Prop 13 properties
- Affects an estimated 25 transactions annually
- Tax is flexible for the real estate seller/buyer

Challenges

- Requires majority voter approval
- Potential dampening effect on home sales
- Cannot have both a document transfer tax and real estate transfer tax (\$.55 per \$1,000)

Admissions Tax



Benefits

- Increases City's discretionary revenue by approximately \$750K
- Recovers infrastructure expenses associated with attendance at shows, performances, displays, or exhibitions

Challenges

- Requires majority voter approval
- Potentially taxes both visitors and residents
- Increases the cost of entry to an event for the attendee

Questions & Discussion



GOVERNMENT CODE

SECTION 53720-53730

53720. DEFINITIONS.

As used in this Article:

(a) "local government" means any county, city, city and county, including a chartered city or county, or any public or municipal corporation; and,

(b) "district" means an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.

53721. All taxes are either special taxes or general taxes. General taxes are taxes imposed for general governmental purposes. Special taxes are taxes imposed for specific purposes.

53721.5. A transactions and use tax imposed by an ordinance adopted pursuant to Chapter 13.6 (commencing with Section 26290) of Part 2 of Division 2 of Title 3 shall be deemed to be a general tax for the purposes of this article, unless the transactions and use tax ordinance, or an amendment thereto, either declares the tax to be a special tax or requires the proceeds of the tax to be placed in a fund other than the general fund of the San Joaquin County Regional Justice Facilities Financing Agency, or a similar fund, and irrevocably restricts the use of the proceeds to specific purposes of more limited scope and type than the general governmental purposes of the San Joaquin County Regional Justice Facilities Financing Agency set forth in Section 26291.7. The receipt or retention of the proceeds of the transactions and use tax, imposed by an ordinance adopted pursuant to Chapter 13.6 (commencing with Section 26290) of Part 2 of Division 2 of Title 3 by a bond trustee for bonds secured by the proceeds of the tax shall not cause a general tax to become a special tax.

53721.6. (a) A retail transactions and use tax imposed by an ordinance adopted pursuant to Chapter 13.7 (commencing with Section 26295) or 13.8 (commencing with Section 26299.000) of Part 2 of Division 2 of Title 3 shall be deemed to be a general tax for the purposes of this article unless the transactions and use tax ordinance, or an amendment thereto, either declares the tax to be a special tax or requires the proceeds of the tax to be placed in a fund other than the general fund of the county regional justice facilities financing agency, or a similar fund, and irrevocably restricts the use of the proceeds to specific purposes of more limited scope and type than the general governmental purposes of the county regional justice facilities financing agency set forth in

Section 26298.18 or 26299.031.

(b) The receipt or retention of the proceeds of the transactions and use tax, imposed by an ordinance adopted pursuant to Chapter 13.7 (commencing with Section 26295) or 13.8 (commencing with Section 26299.000) of Part 2 of Division 2 of Title 3 by a bond trustee for bonds secured by the proceeds of the tax shall not cause a general tax to become a special tax.

53722. No local government or district may impose any special tax unless and until such special tax is submitted to the electorate of the local government, or district and approved by a two-thirds vote of the voters voting in an election on the issue.

53723. No local government, or district, whether or not authorized to levy a property tax, may impose any general tax unless and until such general tax is submitted to the electorate of the local government, or district and approved by a majority vote of the voters voting in an election on the issue.

53724. (a) A tax subject to the vote requirements prescribed by Section 53722 or Section 53723 shall be proposed by an ordinance or resolution of the legislative body of the local government or district. The ordinance or resolution proposing such tax shall include the type of tax and rate of tax to be levied, the method of collection, the date upon which an election shall be held on the issue, and, if a special tax, the purpose or service for which its imposition is sought.

(b) No tax subject to the vote requirement prescribed by Section 53723 shall be presented at an election unless the ordinance or resolution proposing such tax is approved by a two-thirds vote of all members of the legislative body of the local government or district.

(c) Except as provided in subdivision (d), the election on any tax proposed pursuant to this Article shall be consolidated with a statewide primary election, a statewide general election, or a regularly scheduled local election at which all of the electors of the local government or district are entitled to vote.

(d) Notwithstanding subdivision (c), the legislative body of the local government or district may provide that the election on any tax proposed pursuant to this Article shall be held at any date otherwise permitted by law. The local government or district shall bear the cost of any election held pursuant to this subdivision. An election held pursuant to this subdivision shall be deemed at the request of the local government or district calling such election, and shall not be deemed a state mandate.

(e) The revenues from any special tax shall be used only for the purpose or service for which it was imposed, and for no other purpose whatsoever.

53725. (a) Except as permitted in Section 1 of Article XIII A of the California Constitution, no local government or district may

impose any ad valorem taxes on real property. No local government or district may impose any transaction tax or sales tax on the sale of real property within the city, county or district.

(b) Taxes permitted by Subdivision (b) of Section 1 of Article XIII A of the California Constitution shall not be subject to the vote requirements prescribed by this Article.

53726. Except as set forth in Section 53727, this Article shall not be construed to repeal or affect any statute enacted prior to August 1, 1985 which authorizes the imposition of a special tax.

53727. (a) Neither this Article, nor Article XIII A of the California Constitution, nor Article 3.5 of Division 1 of Title 5 of the Government Code (commencing with Section 50075) shall be construed to authorize any local government or district to impose any general or special tax which it is not otherwise authorized to impose; provided, however, that any special tax imposed pursuant to Article 3.5 of Division 1 of Title 5 of the Government Code prior to August 1, 1985 shall not be affected by this section.

(b) Any tax imposed by any local government or district on or after August 1, 1985, and prior to the effective date of this Article, shall continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue of imposition, which election shall be held within two years of the effective date of this Article. Any local government or district which fails to seek or obtain such majority approval shall cease to impose such tax on and after November 15, 1988.

53728. If any local government or district imposes any tax without complying with the requirements of this Article, or in excess of its authority as clarified by Section 53727, whether or not any provision of Section 53727 is held not applicable to such jurisdiction, the amount of property tax revenue allocated to the jurisdiction pursuant to Chapter 6 of part 0.5 of Division 1 of the Revenue and Taxation Code (commencing with Section 95) shall be reduced by one dollar (\$1.00) for each one dollar (\$1.00) of revenue attributable to such tax for each year that the tax is collected. Nothing in this section shall impair the right of any citizen or taxpayer to maintain any action to invalidate any tax imposed in violation of this Article.

53729. This Article may only be amended by vote of the electorate of the State of California.

53730. If any provision of this Article, or the application thereof to any person, organization, local government, district, or circumstance is held invalid or unconstitutional, the provision to

other persons, organizations, local governments, districts, or circumstances shall not be affected thereby but shall remain in full force and effect.