



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

**AGENDA REPORT**

**TO:** Honorable Mayor and Members of the City Council  
**FROM:** Patty Maitland, Finance Director  
**MEETING DATE:** August 19, 2015  
**SUBJECT:** Revenue Measure Options  
**CEQA:** Does not constitute a “project” under California Environmental Quality Act (CEQA) guidelines.

**RECOMMENDATION**

Receive a report on revenue measure options and provide direction to staff

**DISCUSSION**

The City has never fully recovered by the cuts in services required to be implemented as a result of the Great Recession. The following chart identifies current estimates of the level of funding necessary to restore those services that were cut:

<b>Under-Funded Services</b>			
Street Maintenance	\$ 600,000	Recreation	\$ 200,000
Sidewalk Maintenance	\$ 85,000	Code Compliance	\$ 100,000
Park Maintenance	\$ 150,000	Police Services	\$ 200,000
Library Hours	\$ 250,000	Fire Services	\$ 225,000
Workers' Compensation		Long-Range Land Use	
Negative Fund Balance	\$1,152,491	Planning	\$ 200,000
Tree and Turf Removal	\$ 200,000	Capital Replacement Fund	\$ 300,000
<b>Total Estimate Annual Cost = \$3,662,491</b>			

In addition, there are further stressors being placed on the City’s financial stability. The February 2015 Five-Year Forecast incorporated the first round of significant increases in pension costs resulting from recent changes in actuarial assumptions and pooling algorithms by CalPERS. This is only the first round of increases the City should expect, as there are at least five other factors that CalPERS will address in the coming years that will undoubtedly increase rates substantially: reducing the discount rate; reducing volatility in rates; an increase in the discount rate set by the Fed; a second round of changes in assumptions regarding mortality of retirees; and the next recession.

In addition, unfunded State mandates continue to be imposed on the City. Recently imposed storm drain standards will require at least \$50M in infrastructure upgrades, if the City is to meet the standards by proven means.

In an effort to provide the Council with potential solutions for the disparity in the revenue to expenditure ratio, in March of 2015 Staff presented several potential revenue measures options for

placement on a future ballot. This agenda report brings forward additional information and a timeline on two of the revenue measure options for Council to consider.

In response and in anticipation, the City will continue to reduce costs, wherever possible. The City will also make needed changes to some existing revenue sources, including the business license tax, fees for short-term vacation rental licensing, etc. to ensure that it is collecting all revenues that it is owed.

And finally, the City has also accelerated economic development efforts. Several projects are in the pipeline or currently anticipated that could bring substantial additional revenues to the City, including additional transient occupancy taxes and sales taxes. These projects are by no means a sure thing, however, especially given the inability to obtain additional water credits. The likely revenues generated are not sufficient to offset all of the projected deficits. And finally, even if one or more of these projects do proceed, they would not come on line for five or more years, long after the City will need the additional revenues in order to maintain its financial stability. Thus, the only feasible solution if for the City to fully consider the implementation of a new revenue source.

The forecast showed that without increased or new revenues, the projected revenue shortfall will grow from \$1.1 million to \$1.8 million by FY 2019-20. In March, staff noted that the only revenue options with the capacity to fully address the anticipated remaining shortfall are those that require a public vote. During the budget adoption process in May and June 2015, Council revisited the potential revenue measures focusing its consideration on an admissions tax and transient occupancy tax, as shown below:

	<b>Entrants</b>				<b>\$.50 Per Entrant</b>	<b>Revenue Increase</b>
<b>Admission to Places of Amusement and Entertainment</b>	1,500,000				\$ 750,000	\$ 750,000
	<b>Commercial TOT</b>	<b>Residential TOT</b>	<b>Total TOT @ 10%</b>	<b>Total Gross</b>	<b>Total TOT @ 12%</b>	<b>Revenue Increase</b>
<b>Increase Transient Occupancy Tax</b>	\$ 3,278,458	\$ 453,048	\$3,731,506	\$37,315,060	\$4,477,807	\$ 746,301

While the chart addresses a flat rate admissions tax, the Council may also want to consider an Admissions Tax based on a percentage of any given admission fee

*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 Admissions Tax and increasing Transient Occupancy Tax, 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.

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.

A “Resolution Ordering Election, Requesting County elections to Conduct the Election and Requesting Consolidation” and a “Notice to Registrar of Measure Submitted to the Voters” must be submitted to County Elections 88 days prior to the date of election. The table below provides the time frames for placing a revenue measure on both the June and November 2016 ballots, and the latest date on which the Council could take action to place a measure on either ballot. If the measure(s) is successful, the earliest receipt of revenues to the City would occur in calendar year 2017 (depending on the language of the measure and the effective date specified).

	June 2016 Ballot	November 2016 Ballot
Council Action	No later than February 2016	No later than September 2016
Submit to County Elections	March 11, 2016	August 12, 2016
Election	June 7, 2016	November 8, 2016
Revenue Received if Measure(s) Pass	January 1, 2017	July 1, 2017

Local Revenue Measure Results and Trends. In December 2014 (based on November 2014 election results), California City Finance published a summary of local revenue measures results. Of the 88 City General Tax measures that required a majority vote, 62 passed (a 70% passing percentage). Of the 14 measures to increase or expand transient occupancy taxes, only 4 passed. This is significantly lower than in prior elections. While no admissions tax measures were on November 2014 ballots, another, long term study by California City Finance shows that from 2002 to 2013, only one out of two admissions tax measures have been successful.

Public Outreach and Polling Consultant. Those municipalities that have had success have tended to utilize outreach and polling consultants to assist in preparing measure feasibility, consensus building with the community, and aligning the measure with Council and community priorities. Utilizing a professional consultant to assist the City in proceeding with a revenue measure will promote community involvement and organizational effectiveness. Staff is developing a request for proposals to engage such a consultant.

**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, would impact the General Fund.

RESPECTFULLY SUBMITTED:

*Patty Maitland*

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Patricia Maitland  
Finance Director

REVIEWED BY:

*Thomas Frutche*

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Thomas Frutchey  
City Manager