

**MOORPARK CITY COUNCIL  
AGENDA REPORT**

**TO:** Honorable City Council  
**FROM:** Ron Ahlers, Finance Director *RA*  
**DATE:** April 23, 2015 (City Council Meeting of May 6, 2015)  
**SUBJECT:** Consider Revenue Enhancement Measures

**SUMMARY**

The Finance, Administration and Public Safety (FAPS) Committee met on March 4, 2015 and April 15, 2015 to discuss revenue enhancement measures. These measures require a vote of the citizenry of Moorpark. The various measures discussed include: Sales Tax, Parcel Tax, Assessments, Business License Tax, Transient Occupancy Tax and Utility Users Tax. The FAPS Committee discussed these measures and is recommending the City Council consider pursuing a city-wide Parks Assessment along with a Business License Tax.

**BACKGROUND**

The City's General Fund revenues come from a variety of sources, most notably: property taxes (22%); sales taxes (21%); property taxes in lieu of motor vehicle license fees (19%); cost plan revenues from other funds (18%); franchise fees (7%); investments and use of property (4%); all other revenues (9%).

The top two sources of revenue the City relies on, property taxes and sales/use taxes are economy driven. Property taxes, while currently showing "no-growth" in the 2014-15 budget, in reality have increased by 2.9% from the high reached in 2008-09. That is just 2.9% growth cumulatively in six years. In order to generate an additional \$1 million in property tax revenue the assessed value would have to increase approximately \$1.1 billion. For example: 2,000 new homes constructed with an initial AV of \$550,000 each. A new commercial or multi-family development, valued at \$40 million, would generate an additional \$36,000 in property tax revenue for the City.

Sales tax revenues have shown a slight increase over the past few years. The fourth quarter of 2014 saw a decrease of four percent from the prior year. The decrease is primarily attributable to internet sales and the gasoline price decline. On a per capita basis the City is very much below the average for Ventura County. Even the build-out of current approved commercial development will not produce adequate increases in this source. In 2014 a few businesses closed, including Albertsons, Do-it-Center and

Staples. The remaining revenue sources are largely dependent upon a prosperous economy. Given the volatility of almost all of the City's revenue sources, the FAPS Committee discussed different ways in which the City can diversify and enhance its revenue stream.

Interest income has declined dramatically since the "Great Recession" began in 2008. In FY 2007-08 the General Fund earned interest revenue of \$784,124. The City's portfolio earns about 1.2%, which is estimated to earn about \$425,000 in FY 2014-15 for the General Fund. The General Fund Interest revenue history is listed below:

2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
784,124	719,611	304,989	299,920	381,145	80,574	338,740	425,000

The City has long-term needs for additional General Fund revenue to address the following:

- The ongoing utilities and maintenance costs of the Police Services Center, Moorpark Public Services Facility and within three to five years a new city hall and possibly a new library.
- Long-term street maintenance needs since the Gas Tax and Transportation Development Act (TDA) provide only for staff and basic maintenance. The City currently spends about \$800,000 of TDA funds per year for street purposes. The City's street projects are beginning to require support from the General Fund. In addition, there are a number of potential capital projects that could individually or collectively, require the use of a significant portion of the General Fund reserve. For example, maintenance of a splash pad costs about \$60,000. In addition, the annual operating costs of a city pool is estimated to be \$250,000 or greater.
- If the City spends the reserves on capital projects then there is a reduction in interest revenue for the General Fund. Current reserves in the General Fund and Special Projects Fund equal about \$24 million.
- The cost allocation plan, while appropriate, does transfer dollars from other funds. The goal should be to have enough General Fund to fund this cost (\$2 million in 2014/15).
- Assessment district subsidies are projected to be approximately \$335,000 for FY 2014/15. The Gas Tax Fund and General Fund split these deficits; however, additional General Fund support has been required, since the Gas Tax Fund has a very small reserve.

- Continuing cost increases for law enforcement services that exceed the Consumer Price Index (CPI) and growth in General Fund Revenues.
- The Community Development Fund has not been self-sufficient for several years. The Council needs to determine an appropriate amount of General Fund revenue to be available for City Planning and Engineering programs. This fund is expected to receive a \$778,000 transfer from the General Fund in 2014/15.
- Staff has developed strategies to balance the General Fund budget for each of the past five years. The strategies include:
  1. Reduction in services, including reducing staff by eight positions;
  2. Operational efficiencies;
  3. Fee adjustments; and
  4. Deferred maintenance and capital projects.

New and enhanced revenues such as Business License Tax, Sales/Use Tax, Utility Users Tax, General Property Tax, and updated assessments for park maintenance, street lighting and landscaping have been discussed but would require a public vote.

There are different ways the City can enhance its revenue streams. The most common methods are through increasing taxes and special assessments. In order to increase these revenue sources, State law requires that certain steps be taken before the increase can occur.

## **Taxes**

### **Voting on Taxes**

Staff has gathered information regarding voting. State law requires that if a tax measure is consolidated with a regularly scheduled election of members of the City Council, it would require a two-thirds vote by the Council. Therefore, four out of five Council members would need to vote for the tax measure proposal to be placed on the ballot. If not consolidated with a Council election, unanimous declaration of "emergency" is required by the City Council. Therefore, the City can really only have a tax measure on a November ballot in the even numbered years. The November 2016 election is the next ballot to place a tax measure before the voters.

**General and Special:** General tax revenues may be used for any purpose. General tax revenues include sales tax, property tax, utility users tax and business license tax. Special tax revenues are levied for a specific purpose. In order to adopt a new or increase an existing general tax, a majority of those voting in the City must approve the tax in the same election in which City Council members are elected. For a special tax, a two-thirds affirmative vote of those voting in the City must approve the tax. The earliest

the City might place a tax increase measure on an election ballot would be November 2016. Several of these tax measures are summarized below:

Sales Tax: Municipalities may adopt additional increments of local sales tax with the approval of two-thirds of voters for revenue for specified services such as police and fire. A simple majority vote would be required for general purpose revenues. An additional 1/4% tax would produce approximately \$925,000 per year.

For Sales Tax, staff has gathered the following information. In 2003, Governor Gray Davis signed SB566 (Scott) which gave every county and every city the ability to seek voter approval of local transactions and use tax increase under the following conditions:

1. the transactions and use tax may be imposed at a rate of 0.25% or a multiple thereof,
2. the ordinance proposing the tax must be approved by a two-thirds vote of all members of the governing body,
3. if for general purposes, the tax must be approved by a majority vote of the voters in the city or county,
4. if for specific purposes, the tax must be approved by a two-thirds vote of the voters in the city or county, and
5. Maximum combined rate of transactions and use taxes in any location may not exceed 2%.

Of the 99 cities that currently impose a transactions and use tax, only eight do so under special legislation from prior to 2003. Altogether, there are currently 80 cities with general purpose rates and 22 with special purpose transactions and use taxes. The table below shows the frequency of rates and the uses of the 22 special taxes.

Number of currently approved taxes; effective as of April 1, 2013

	<u>0.250 %</u>	<u>0.375 %</u>	<u>0.500 %</u>	<u>0.750 %</u>	<u>1.000 %</u>
General	14	1	59	6	20
Special	6		17	2	
<b>Special Tax Uses</b>					
Police and/or Fire	4		9	2	
Streets/Roads/Transit			5		
Hospital/Medical			1		
Parks/Rec/Open Space			2		
Libraries	1				
Wastewater	1				

Some cities have two rates: Capitola, El Cajon, El Cerrito, Eureka, Ft Bragg, Nevada City, Placerville, Santa Rosa, Sebastopol, Woodland.

Ventura County cities with add-on sales taxes:

City	County	Rate	Effective	End	Purpose	Authority in State Law
Oxnard	Ventura	0.50%	4/1/2009	3/31/2029	General	Rev & Tax Code § 7285.9
Port Hueneme	Ventura	0.50%	4/1/2009	None	General	Rev & Tax Code § 7285.9

**Business License Tax:** This tax is imposed on businesses for the privilege of doing business in the City. It is most commonly based on gross receipts or levied as a flat rate. The adoption of a business license tax also requires voter approval with a simple majority. The City currently collects a Business Registration Fee that is limited to the recovery of administrative costs for its collection and generates about \$125,000 annually. A Business License Tax enacted with a typical formula could generate approximately \$500,000 annually.

**Property Tax:** There are 9,627 single family homes with a total assessed value of \$4 billion. This includes condominiums and excludes mobile homes and multi-family dwellings. In October 2007, a Voter Opinion Poll revealed varying levels of support for a property tax increase levied at between \$9 and \$32 per \$100,000 of assessed valuation. Revenues from such tax increases on residential parcels would be as follows:

**RESIDENTIAL PARCELS ONLY**

<u>\$/ 100,000 of Assessed Value</u>	<u>Revenue Generated</u>	<u>% of Voters Polled that would vote YES*</u>
\$ 9.00	\$ 360,000	64
15.00	600,000	60
21.00	840,000	52
27.00	1,080,000	48
32.00	1,280,000	42

*\* 2/3 or 66.6% vote required for adoption*

**Parcel Tax:** A parcel tax is a special tax on a parcel or unit of real property. Unlike the property tax, a parcel tax is not based on the value of the property. Instead parcel taxes are generally based on a flat per-parcel rate. Parcel taxes always require a two-thirds majority voter approval and are imposed for any number of purposes including funding police services, neighborhood improvement and revitalization and open space protection. The Voter Opinion Poll did not test this measure. Based on the number of parcels included in the City's General Taxing District (approximately 11,000) a flat rate of \$10.00 per parcel would only generate an additional \$110,000 annually. An increase to \$20 would generate \$220,000.

Utility User Tax: Utility user taxes can be imposed with simple majority voter approval (for general purposes) on the residential and commercial consumers of any combination of electric, natural gas, cable television, water, cell phone, landline telephone and trash services. Such taxes are imposed by ordinance as a percentage of sales and typically collected by the utility provider. Staff has no current calculation for this tax.

Transient Occupancy Tax: Municipalities may impose the transient occupancy tax on persons staying 30 days or less in a room(s) in a hotel, inn, motel, tourist home, non-membership campground or other lodging facility. The City has enacted a transient occupancy tax that could generate an estimated \$200,000 to \$250,000 with the approved 112-room hotel project. This project has recently submitted plans for plan check but is not anticipated to open until at least FY 2016-17.

### **Assessments**

The City has enacted benefit assessments for park maintenance and a lighting and landscaping district (L&L) assessment for the maintenance of street and parkway landscaping and for street lighting costs. In recent years these assessments have not been enough to cover expenses and have been supplemented by the City's General Fund and Gas Tax Fund. The City's 2014-15 Operating Budget includes a General Fund appropriation of \$1,522,000 to supplement the Park Maintenance Fund. The L&Ls required actual transfers of \$62,000 from Gas Tax and \$67,000 from the General Fund during FY 2014-15 to cover actual deficits for FY 2013-14. Staff's current projections for these amounts for FY 2014-15 are \$334,000 from the General Fund and **ZERO** from the Gas Tax Fund. The Gas Tax Fund does not have the capacity to transfer money into these districts anymore. A staff report was presented and approved by the City Council on January 21, 2015.

In order to increase assessments or add a new district a City must follow a number of steps. First, the City must determine if the property owners will receive a "special benefit" from the project or service proposed to be financed by the assessment. The special benefit must be a benefit to land and buildings or else it cannot be financed with the assessment. Once it has been determined that the property owners will receive a special benefit, then the City is required to use a professional engineer's report to estimate the amount of special benefit landowners would receive from the project or service, as well as the general benefit. If the split of special benefit to general benefit is 50/50 then the assessment can only pay for 50% of the total project cost. Once the amount is set, the City must set individual assessment charges so that no property owner pays more than their fair share of the total cost. This may require setting assessment rates on a parcel by parcel basis.

The current, fiscal year (FY) 2014-15, single family assessment for parks is \$56.97. A new parks assessment at a single family rate of \$30 per year would generate about \$397,000 in new revenue.

Once all of this information has been calculated and completed, the City must mail information regarding the assessments to all property owners. Each notice must contain a mail-in ballot for the property owner to indicate approval or disapproval of the assessment. After the notices are mailed, the City must hold a public hearing, at the conclusion of which, the ballots will be tabulated and weighted based on the amount of the assessment that each property owner would pay. An affirmative majority of property owners is needed in order to impose the assessment.

### Revenue Diversification

Diversification of the City's revenue sources will improve the City's ability to handle fluctuations in revenues and help distribute the cost of providing services. As previously discussed, State law does not allow for random levying of taxes and assessments and imposes many requirements, including majority or two-thirds approval by voters.

In addition, the Voter Opinion Survey conducted in late 2013, showed that there would be some support for a sales tax increase either at the ¼% or ½% level; however, none of the tested tax rates reached the fifty percent plus one majority support level.

If the Council decides to proceed with a park assessment and or a tax measure an opinion survey would need to be completed prior to December 2015. Staff would then submit a schedule of actions and proposed costs for Council consideration. When this was considered in early 2014 it was estimated to cost \$20,000 for the opinion survey and about \$50,000 for the communications consultant services to the City. At that time staff estimated a Citizen's Committee would need to raise \$50,000 to \$90,000 in private funds to support a possible sales tax measure.

### Conclusion

Based on the increased transfers from the General Fund to the landscaping and lighting districts along with the continued low level of development activity which affects Community Development Fund and General Fund revenues, preliminary projections indicate the City will need to address an approximate \$ one-half million gap between operating revenue and expenses for FY 2015-16. This can be in the form of enhanced revenue, use of general fund reserve, or reductions in services and staffing or any combination of such.

### STAFF RECOMMENDATION

Review and discuss various revenue enhancement measures. Direct staff to hire a consultant and pursue establishing a city-wide Parks Assessment prior to July 2016 via a city-wide mail ballot and to assess the possible inclusion of a Business License Tax measure on the November 8, 2016 ballot.