



City of Pleasant Hill

CITY COUNCIL STAFF REPORT

Meeting Date: August 1, 2016

TO: THE HONORABLE MAYOR AND CITY COUNCILMEMBERS

SUBJECT: PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS AND USE TAX RATE OF ONE HALF OF ONE PERCENT

SYNOPSIS

Due to the recession and historical State takeaways of local tax dollars, the City is faced with significant deferred maintenance of current infrastructure, unfunded new infrastructure projects, and a library that has significant structural and safety issues. Following months of community outreach and engagement on these issues to assess community priorities, staff has prepared a potential ballot measure that would establish a ½ cent City transactions and use tax (one-half of one percent) for 20-years as the best solution to address these financial challenges. The measure, if approved by Pleasant Hill voters in the November 2016 election, would take effect April 1, 2017 and generate more than \$4 million in annual revenue for the City's General Fund, with dollars that legally could not be taken by the State. This additional local revenue would be used for City services, aligned with community priorities, including repaving and maintaining neighborhood streets, fixing potholes, maintaining and upgrading the City's storm drain system, adding new sidewalks and bike paths, constructing a new community library, and funding other city projects and services as determined by the City Council.

DISCUSSION

Background

During the recession, the City of Pleasant Hill, like most other municipalities, deferred investments in capital assets. In addition, State funding reductions over a number of years have had a significant impact on resources, leaving the City with over \$39 million in deferred maintenance and another \$27 million in additional unfunded infrastructure needs, according to the Fiscal Years 2016-2021 Capital Improvement Plan.

While the economy has begun to improve, the City now faces the need for additional investment in order to maintain infrastructure that was deferred during the recession. Continuing to defer maintenance and repair will cost local taxpayers millions more for major reconstruction in the future. In addition, the 55-year old library facility does not meet current safety standards of libraries built today. There is strong community interest in replacing the library with one that meets health, safety, fire and seismic standards. Although the current library building is owned and managed by the County, the County does not intend to replace the facility. Therefore, the City would bear the responsibility of replacing it with a new community library.

**PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS
AND USE TAX RATE OF ONE HALF OF ONE PERCENT**

August 1, 2016

Page 2

State Takeaways

In 1992, the state enacted legislation that appropriated local government revenue for State purposes. Known as the 'Educational Revenue Augmentation Fund' (ERAF), the State shifted property taxes that had gone to cities and counties and used them for State funding. ERAF has resulted in approximately \$10 million in reduced funding to the City of Pleasant Hill.

In addition, Pleasant Hill has had a net reduction of approximately \$10 million in tax increment revenue since the state dissolved redevelopment agencies in 2011. Upon the dissolution of redevelopment in 2011, the Successor Agency was also required to remit to the State \$7 million in unencumbered funds held by the former Redevelopment Agency.

City Infrastructure Needs

The City owns and manages over 110 miles of roadway and approximately 20 miles of storm drains. City facilities include the City Hall complex, Public Safety Building (Police), Public Services Center (Maintenance), and the Downtown Parking Garage.

In the recently adopted Capital Improvement Plan (CIP) for FY 2016-21, staff identified \$39 million in deferred maintenance and infrastructure needs that are not currently funded. These include:

- \$14.6 million for deferred street maintenance
- \$9.1 million in storm drain deferred maintenance and improvements
- \$4.3 million in sidewalk repairs and upgrades
- \$8.5 million in improvements to pedestrian walkways and bike paths; and
- \$2.3 million in ADA improvements

The CIP also identified 17 other unfunded infrastructure projects with an estimated cost of approximately \$27 million. This includes major improvement projects on Contra Costa Boulevard, Pleasant Hill Road, and Gregory Lane.

The most significant challenge facing the City at this time is deterioration of neighborhood streets and the storm drain system. Although the City has budgeted \$3.4 million for the Street Resurfacing Program over the next two years, this allocation will only maintain the City's overall Pavement Condition Index (PCI) at its current level. Even with the additional spending in this two year budget cycle on the Street Resurfacing Program, Engineering Division staff has estimated that the cost of deferred street maintenance will remain at just under \$15 million by the end of FY 2017-18. In order to eliminate all deferred maintenance on City streets by 2025, staff has estimated that an annual expenditure of approximately \$4.2 million is needed on street resurfacing during that period.

Pleasant Hill Library

The current library building at 1750 Oak Park Boulevard is 55 years old and cannot satisfy the community's current needs for large programming spaces and 21st century learning facilities. The building has numerous physical constraints and significant structural issues. Among other concerns, it is not energy efficient with an inadequate HVAC system; and there are no meeting rooms in the community library or areas for students to congregate after school other than in the main area along

**PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS
AND USE TAX RATE OF ONE HALF OF ONE PERCENT**

August 1, 2016

Page 3

with other patrons. A 2007 Contra Costa County evaluation of the building identified almost \$10 million in deferred maintenance needs.

In spite of numerous limitations, Pleasant Hill Library is a vibrant gathering place for students, families, and local organizations. The library receives over 1,200 visitors per day, including hundreds of teens on schooldays. In 2015, over 25,000 children and their families came to events such as puppet shows, science nights, musical performances and story-times.

A new community library could offer a wide variety of services and programs, including library collections; an expanded children and family area; a large teen area with 21st-century technology; flexible program spaces to accommodate large or small groups; conference rooms and study spaces for tutoring, homework and business meetings; and a Friends of the Library bookstore.

The estimated cost of designing and constructing a new community library is between \$15 and \$20 million depending on a number of factors, including the size and attributes of the building. The annual cost for maintenance and building operations is estimated to be approximately \$250,000 based on a 25,000 square feet facility.

Revenue Measure Feasibility Survey

Godbe Research, an independent polling firm, conducted a survey of 427 likely Pleasant Hill voters on behalf of the City between March 23 and April 3, 2016. The survey indicated that almost 85% of residents were either very satisfied or somewhat satisfied with the level of services provided by the City. With a margin of error of +/- 4.7%, the survey also found that 69.3% of residents would support a half-cent sales tax increase over 20 years to fund City services and programs, including the construction of a new community library; fixing potholes and resurfacing neighborhood streets and roads; maintaining storm drains and sidewalks; and creating additional walking and biking paths.

Specifically, when asked to indicate their level of support for a potential tax measure based on funding certain improvements or programs, the items in Table 1 below ranked highest among survey respondents:

Table 1. Godbe Research Survey – Ranking of Top Issues (Percentage of respondents indicating support for a ½ cent sales tax measure to fund these components)

1. Fix potholes and repair neighborhood and city streets and roads	77%
2. Maintain neighborhood police patrols	74%
3. Maintain storm drains	71%
4. Repair and maintain sidewalks throughout the city	70%
5. Provide a library that meets current health, safety, fire and seismic standards	67%
6. Enhance neighborhood services, including graffiti removal, vandalism prevention, and code enforcement	67%
7. Provide improved library access for seniors and disabled residents	64%
8. Create additional walking and biking paths	63%

**PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS
AND USE TAX RATE OF ONE HALF OF ONE PERCENT**

August 1, 2016

Page 4

Community Engagement

Staff developed a robust community engagement program using the community priorities in Table 1 as a guide and initiated additional community outreach to assess resident priorities. This included providing outreach materials for the public on the City's website at www.pleasanthillca.org/community which included an online survey, frequently asked questions document, and a presentation regarding infrastructure needs. The City proactively engaged and made presentations to a number of local civic organizations and commissions over the past few months regarding the issues and challenges mentioned in this report. These groups included:

- Pleasant Hill Library Task Force
- Pleasant Hill Chamber of Commerce Board of Directors
- Chamber of Commerce Government Affairs Committee
- Rotary Club of Pleasant Hill
- Pleasant Hill Senior Center Board of Directors
- Pleasant Hill Community Foundation
- Pleasant Hill Education Commission
- Pleasant Hill Civic Action Commission
- Friends of Pleasant Hill Library

The feedback from the community engagement effort strongly mirrored the results of the April 2016 Godbe Research poll. As the community remains interested in funding these services, and the City does not currently have sufficient funding to enact many of these priorities, an additional revenue mechanism is recommended.

Transactions and Use Tax

Under California law, city and county residents may adopt local transactions and use taxes in addition to the normal State sales and use tax. Transactions and use taxes are levied upon merchandise that is delivered (or used) in a jurisdiction that has imposed such a tax. In practice, the application and allocation of a transactions and use tax is identical to that of the State's normal sales tax for most retail sales. There are, however, some differences, such as in the case of a vehicle or boat purchase, where a transactions and use tax would be charged and allocated based on the location in which the property is registered rather than purchased.

Currently, the existing tax on retail sales in Pleasant Hill is 8.5% of the purchase price, split between the City (1.0%), County/State (6.5%), Contra Costa Transportation Authority (0.5%), and BART (0.5%). This proposed measure for a ½ cent transactions and use tax, if approved by the voters, would increase Pleasant Hill's overall transactions and sales tax rate to 9.0% for transactions conducted in the City.

The benefit of funding local needs with a transactions and use tax as opposed to a parcel tax or general obligation bond is that much of the revenue is raised from purchases by visitors to Pleasant Hill, whereas a parcel tax or general obligation bond would solely be funded by Pleasant Hill residents.

**PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS
AND USE TAX RATE OF ONE HALF OF ONE PERCENT**

August 1, 2016

Page 5

The City's sales tax consultant, HDL Companies, has estimated that a ½ cent local transactions tax for Pleasant Hill would generate approximately \$4,036,000 in additional revenue in FY 2016-17 if the tax were in effect for the entire year. However, it should be noted that a tax approved by the voters at the November 2016 general election would become effective April 1, 2017 and the Board of Equalization would issue the first monthly payment to the City in June 2017.

Ballot Measure Text and Ordinance

The text of the proposed ballot measure to enact the tax is as follows:

“To provide and maintain Pleasant Hill city services and facilities, including fixing potholes, and repairing neighborhood and city streets; replacing the aging library with a 21st century facility including space for after-school homework and tutoring; creating additional walking and biking paths; maintaining storm drains; and other city services; shall the City of Pleasant Hill levy a 1/2 cent sales tax, providing \$4,000,000 annually for 20 years, providing locally controlled funding that cannot be taken by the State?”

In order for the measure to be considered a general tax measure, where a simple majority plus one of voters is required for passage, the measure must be placed on the ballot coinciding with a general City Council election. The general election for City Council this year takes place on November 8, 2016. Therefore, the proposed ordinance (Exhibit A to the resolution) calls for the consolidation of the ballot measure, City Council election, and all other elections and measures on the ballot for Pleasant Hill voters on this day. It should be noted that the ordinance requires a two-thirds vote of the City Council for adoption.

To be included on the November 2016 ballot, the text of the measure must be submitted to the Elections Division of Contra Costa County no later than Friday, August 12, 2016. Arguments for and against the ballot measure must be submitted to the City Clerk's office no later than August 15, 2016 by 5:00 p.m. and subsequently to the County Elections Division, along with the City Attorney's impartial analysis, no later than Friday, August 19, by 5:00 p.m. Rebuttal arguments must be submitted to the City Clerk's office by August 24, 2016 and subsequently to the County Elections Division by Monday, August 29, 2016, by 5:00 p.m.

If approved by Pleasant Hill voters at the November election, the proposed ordinance would add the Pleasant Hill Transactions and Use Tax Ordinance as Chapter 5.27 to Title 5 of the Pleasant Hill Municipal Code. Although the ordinance would go into effect ten days after the election result has been certified by the City Council, the effective operational date of the ordinance would be April 1, 2017. The ordinance would expire after 20 years, on March 31, 2037.

The ordinance calls for the establishment of a citizen oversight committee to be appointed by the City Council to review the collection and expenditure of funds generated by the tax, and to make recommendations to the City Council. It also requires an annual audit to review whether the revenue collected has been managed and expended in accordance with the requirements of the ordinance.

**PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS
AND USE TAX RATE OF ONE HALF OF ONE PERCENT**

August 1, 2016

Page 6

Analysis

In order to meet the fiscal challenges presented by more than \$39 million in deferred maintenance and infrastructure needs, and construction of a new library, staff concluded that a transactions and use tax is the best option at this time. If passed, it would provide a guaranteed source of revenue for 20 years. Revenue resulting from this measure cannot be taken by the State. In effect, the measure would provide local revenue for local needs with complete control by the City Council over the use of the funds, subject to review by an independent oversight committee appointed by the City Council.

Pleasant Hill has strong per capita sales, almost twice the average for Contra Costa County and approximately 35% greater than Bay Area per capita sales. This suggests that many shoppers in Pleasant Hill are out of town residents. That being the case, a transactions and use tax ensures that non-residents who use the Pleasant Hill Library and City streets would also contribute every time they shop in Pleasant Hill.

The proposed measure is expected to generate more than \$80 million over a 20 year period. As anticipated new retail projects open for business in the City, this revenue could increase. Because the proposed tax is a general purpose measure, the additional revenue would be used to fund City programs and projects, including, but not limited to, repaving neighborhood streets, fixing potholes, maintaining and upgrading the City's storm drain system, adding new sidewalks and bike paths, and the construction of a new community library.

If the measure is approved by voters, the Council could soon thereafter set spending priorities based on identified needs that have been mentioned in this report, and other projects as determined by the Council.

The Funding Mechanisms Subcommittee of the City Council reviewed various options for financing City projects such as a new library. One possible scenario that was presented to the Subcommittee was the issuance of "Tax Revenue Bonds" specifically for the library project. A 20-year bond issuance to fund a \$20 million project at current interest rates would cost approximately \$26 million with annual debt service of \$1.29 million. Using these estimated numbers, almost \$3 million in additional annual revenue could be used to fund other infrastructure projects such as those mentioned above.

FISCAL IMPACT

The estimated cost to place the measure on the ballot for the November 8, 2016 election is \$3,000 (in addition to the City Council and City Treasurer elections cost). Should the measure pass, the annual Board of Equalization administrative fee to implement the tax is estimated at \$53,000. HDL Companies, the City's financial advisor on sales tax revenue, has estimated that the half-cent transactions and use tax would generate additional annual revenue of \$4,036,000 (based on Fiscal Year 2016-17 sales tax projections).

**PROPOSED BALLOT MEASURE TO ESTABLISH A CITY TRANSACTIONS
AND USE TAX RATE OF ONE HALF OF ONE PERCENT**

August 1, 2016

Page 7

PUBLIC CONTACT

Public contact was made through posting of the City Council Agenda on the City's official notice bulletin board, posting of the agenda and staff report on the City's web page, and availability of the agenda and staff report in the City Clerk's office, at the Pleasant Hill Library, and at the Pleasant Hill Police Department.

RECOMMENDED CITY COUNCIL ACTION

Adopt the resolution and proposed ordinance allowing for the measure to be placed on the ballot at the November 8, 2016 General Election. It should be noted that the ordinance requires a two-thirds vote of the City Council for adoption.

ALTERNATIVES TO RECOMMENDED ACTION

Amend or reject the resolution and ordinance.

Prepared by: Martin Nelis, Public Information Officer

Reviewed by: Andrew Murray, Assistant City Manager
Janet E. Coleson, City Attorney

Approved by: June M. Catalano, City Manager

Attachment 1: Resolution

Exhibit A: Proposed Sales Tax Ordinance