



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Grant Yates, City Manager

Prepared by: Nicole Dailey, Assistant to the City Manager

Date: July 28, 2020

Subject: Placement of a One-Cent Transactions and Use Tax on the November 3, 2020 General Municipal Election Ballot

Recommendation

Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ORDERING THE SUBMISSION TO THE QUALIFIED ELECTORS OF THE CITY OF LAKE ELSINORE A TRANSACTIONS AND USE TAX (SALES TAX) ORDINANCE AT THE GENERAL MUNICIPAL ELECTION TO BE HELD ON TUESDAY, NOVEMBER 3, 2020 AS CALLED BY RESOLUTION NO. 2020-35 AND APPROVING THE FORM OF THE ORDINANCE TO BE SUBMITTED TO THE VOTERS.

Background

Last month, on June 23, 2020, the City Council adopted the Fiscal Year (FY) 2020/21 Annual Operating Budget to ensure the City continued providing existing service levels through June 30, 2021. However, due to the impacts of the COVID-19 pandemic, the City was forced to use its Economic Uncertainty Reserve Fund, which has been maintained at a healthy 17.5%. As a result, the Economic Uncertainty Reserve Fund is expected to decline to approximately 11.36%, or from \$8.3 million to \$5.4 million for FY2020-21. At this time, it is difficult to know the full impact of COVID-19 on cities. The City estimates it will suffer a \$2.3 million deficit in FY2019/20.

With so much uncertainty ahead, it is more important than ever that the City explores all possible ways to ensure a balanced FY2021-22 Operating Budget while working toward a sustainable Five (5) Year General Fund Financial Plan. In addition to concerns related to COVID-19, the City faces several looming challenges in the years ahead due to rising public safety costs, State takeaways of local funding, and additional State and Federal requirements with little to no funding support.

In the last several years, voters from cities throughout Riverside County have voted in support of Transaction and Use Tax measures, including Wildomar, Menifee, Murrieta, and Temecula, to secure much needed local funding to maintain City services. The City of Lake Elsinore remains one of a few cities in the County without a local sales tax measure.

Since 2016, the City has regularly conducted community opinion surveys to gauge overall community satisfaction with City services and gather opinions, perceptions, and priorities about the City, its services, and future projects or needs. The results from these surveys have provided critical information to assist the City in making sound, strategic decisions in a variety of areas, including prioritization, planning, performance measurement, policymaking, community engagement, and budgeting.

Over the last year, the City has been regularly engaging its residents and businesses citywide to have a dynamic discussion as part of Let's Talk Lake Elsinore to understand better what services and needs are most important to our community. More specifically, this effort is aimed at helping the City better prioritize its limited budget to meet the needs of its residents.

Due to Coronavirus (COVID-19), this conversation has quickly shifted to also identifying our own local needs for relief and recovery. To date, there have been more than 850 survey responses received as part of our Let's Talk Lake Elsinore efforts. Based on this effort and these ongoing community opinion surveys, residents have identified the following spending priorities for the City:

- Preparing for any public health or catastrophic emergency
- Having adequate 911 emergency capacity
- Continuing to address homelessness and supporting residents and families in transition
- Improving fire protection and paramedic services
- Keeping public areas safe, healthy, and clean
- Continuing law enforcement services including effectively staffed neighborhood patrols
- Supporting residents and local businesses through our local recovery

Looking ahead, the City must remain focused on serving the community's needs while also planning for the future recovery that will be necessary following COVID-19. The City agrees with our community on the priorities identified.

During these unprecedented times, the health and safety of our residents remain our highest priority. We must work together to ensure our community is prepared for any future medical or catastrophic emergency, including adequate, effective public safety, paramedic, fire, 9-1-1 emergency response times.

By maintaining a 9-1-1 emergency response capacity, the City will continue to be prepared and self-sufficient for any future emergency or catastrophe. The City must ensure that we have enough law enforcement officers, firefighters, and paramedics to respond effectively to any emergency in the uncertain weeks ahead.

The City seeks to keep Lake Elsinore healthy, safe, clean, and well maintained to help protect the community through this pandemic and improve local property values

Although the City has made great strides toward maintaining our streets and roads, there are still many of our local streets that have not been repaired or resurfaced in 20 years. Addressing the community's desires to fix potholes and repave our streets will also improve the ability of our first responders to safely and quickly reach people who need help.

While the economy continues to show signs of some improvement and the development activity momentum is building within the City, the Coronavirus (COVID-19) pandemic has added another layer of complexity in meeting these needs in the short and long-term.

During our recovery and as we look toward our future strength, the City we must continue to operate in a fiscally prudent manner, maintain public safety service levels, and provide the critical recovery and relief services that our citizens expect. Because of the uncertainty whether the City will receive any help from the State or Federal governments, Lake Elsinore must continue to be self-reliant through this crisis and in the event of any future state of emergency.

Discussion

For several years, the City has been creative and strategic in its efforts to remain fiscally prudent while meeting the increasing demands and rising costs to serve our growing community. Since 2005, the City of Lake Elsinore's population has increased by nearly 67 percent, and the City has continuously been ranked amongst the fastest growing cities in the State and Nation.

However, with public safety cost increases reaching unsustainable levels, the State continuing to shift revenues and funding away from cities, and now with conditions worsening due to COVID-19, the City must look for new ways to increase revenues to provide the services the community needs and deserves well into the future.

Therefore, City staff is recommending that the City Council allow the voters to decide during the General Municipal Election on November 3, 2020, whether to support a proposed ordinance (Exhibit B) to impose a local transactions and use tax that, if approved by a majority of the electorate, would be imposed at a rate of one-cent and would be collected by the State Board of Equalization and remitted to the City. Proceeds of the tax would be unrestricted general funds that could be used to pay for any general municipal services, including but not limited to police and fire services, road maintenance, and homelessness solutions.

In April 2020, the City assembled a City Manager's Roundtable to look closely at the City's challenges and opportunities related to meeting the needs of the community while remaining financially sustainable. At our most recent meeting on July 14, 2020, the Roundtable members recommended to the City Manager that the City allow voters to decide whether they support a sales tax measure to ensure the City can continue to address and meet the needs of our community. Members of the Roundtable include City Staff, the City's Police and Fire Chief, and the following community and business stakeholders:

- Allen Baldwin
- Ashlee DePhillippo
- Brett Masters
- Butch Noll
- Heidi Dodd
- Kim Joseph Cousins
- Michael Lujan
- Pauli Tehrani
- Rick Morsch

During the most recent professional community opinion survey completed in July, as many as 70 percent of respondents indicated they would support this simple majority funding measure.

The City's primary revenue sources include sales and property taxes. The Sales and Use Tax Rate in the City of Lake Elsinore is currently 7.75%. However, the City only receives 1% of these taxes collected in the City. Most of this funding currently goes to the County and State. Other key

sources of revenue for the City include Transient Occupancy Taxes, fees, fines, and special assessments.

Cities are struggling financially to meet rising demands due to ongoing State takeaways of critical sales and property tax revenues. The proposed funding measure would generate approximately \$10 million per year in new, direct funding to the City. Unlike other tax revenues, all this funding would come to the City to be spent only on local needs. Existing Government Codes place limits on point-of-sale purchases. By allowing the City to capture this new revenue stream, the funds will be protected from future State and County sales tax takes. In addition, local revenue measures approved by the voters, are protected by Proposition 1a and cannot be accessed by the State. Therefore, if approved, all funding generated by the Transactions and Use Tax would be locally controlled and spent to make sure we can maintain the services our residents expect and deserve for years to come.

To maintain financial transparency and assure residents that all funds are spent as approved by the voters, an independent Citizens Oversight Committee would be established to oversee the spending and use of these funds as specified in the proposed ordinance (Exhibit B). These efforts would include conducting community opinion surveys every two years to gather critical feedback from the community in determining how best to spend these funds and to ensure they are spent as promised to taxpayers.

If the City Council adopts the attached resolution placing the measure on the November 3, 2020 ballot, the City Attorney and City Clerk will submit the required documentation to the Riverside County Registrar of Voters and perform other related tasks by the following deadlines:

- Before August 7, 2020 – Submit Resolution and Ordinance for Measure Placement;
- August 17, 2020 – Deadline to File Primary Arguments and Impartial Analysis;
- August 18 – 27, 2020 – Public Examination Period for Primary Arguments and Impartial Analysis;
- August 27, 2020 – Deadline to File Rebuttal Arguments;
- August 28, 2020, thru September 6, 2020 – Public Examination Period for Rebuttal Arguments.

A supermajority vote of the City Council is required to approve the proposed resolution to place the tax measure on the ballot for the voters.

Fiscal Impact

Placing the transactions and use tax measure on the ballot will result in expenses related to conducting the election. The County estimates the measure's election cost to be an additional \$15,000 above the costs the City is incurring to conduct Council elections. If the ballot measure is approved, it will result in additional revenues to the City's general fund in the estimated amount of \$10 million annually.

Exhibits

- A - Resolution
- B – Ordinance (Exhibit A to the Resolution)