



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 4, 2024

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Proposed Ballot Measure on Transaction and Use Tax Increase to Maintain Essential Local Services for the November 5, 2024, General Election

RECOMMENDATION:

That Council hear a presentation from staff regarding an update on Vision 2030 and Fiscal Sustainability Initiative and the need to pursue additional revenue sources to maintain essential City services, and direct Staff to place an appropriate resolution and ordinance for the proposed transaction and use tax increase for formal action on the June 11, 2024 meeting agenda.

DISCUSSION:

Executive Summary

As a full-service City that provides a broad range of services to the local community and that is also charged with maintaining infrastructure for public safety, recreation, and other critical functions, balancing the City's annual operating and capital budget has become increasingly challenging given the slow growth of tax revenues in comparison to substantial increases in expenses related to staffing, services, contracts, insurance, and many others. Focusing on fiscal sustainability is a core component of Vision 2030 aimed at continuing to provide essential City services for the long-term. Along with implementing process improvements and reducing expenses wherever possible, additional, on-going revenue is required to balance the City's budget and meet the needs of the community going forward. A half-cent sales tax measure is being proposed for the upcoming November 2024 election that will fund local services for the Santa Barbara community.

Recent Impacts on Essential City Services

Prior to COVID and 2020, the City did not have to take substantial actions to balance its budget. During COVID, the rapid and substantial decline of the City's sales tax and

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Transient Occupancy Tax (TOT) revenues resulted in a \$30.0 Million reduction in revenue across all funds. Of this, the impact to the General Fund, which provides funding for essential City services like public safety, is estimated to be over \$20.0 Million, or more than 10% of revenues.

The City was forced to take additional steps to control and reduce costs by eliminating nearly all hourly employees, delaying projects, and reducing services. Some examples of this have been reducing staff or not filling open positions in nearly all City departments – including Public Safety.

Vision 2030 and Fiscal Sustainability Initiatives

The City of Santa Barbara's Vision 2030 boldly responds to current civic challenges through a commitment to staff and community for smart, collaborative, and resilient government. It is the framing of an initiative to preserve the best of what makes Santa Barbara unique, and direct us to where we are headed over the next 50 years. It positions the City as a leader in smarter, proactive government, ensuring the City is sustainable, fiscally responsible, and the community is thriving.

As part of Vision 2030, staff initiated a Fiscal Sustainability Initiative to develop recommendations and solutions to ensure the City continues to meet the needs of the Santa Barbara community now and for many years to come. The objectives of this initiative are to identify and assess options that will increase revenues, create efficiencies, eliminate redundancies, and make continual process improvements to reduce costs.

On June 14, 2022, the Finance Committee received a presentation from staff regarding the Fiscal Sustainability Initiative. Staff presented an overview of a number of budgetary and financial challenges that the City has faced in recent years including challenges that were addressed with budget balancing strategies and challenges that are anticipated to continue into future fiscal years.

Within Vision 2030, the Revenue Working Group was established to develop and evaluate potential revenue-generating options and policies for the Council's consideration. Revenue-generating options include those that may require voter approval, and fee and other revenue changes that require Council approval. The working group evaluated 70 individual revenue generating options by considering legal requirements, types of funding, longevity of revenue, revenue volatility, approval processes, technological requirements, and staff and other resources to implement and administer.

The Revenue Working Group identified a need for clear cost recovery guidelines to be implemented across the City. On June 13, 2023, the Council adopted a resolution implementing a Cost Recovery and Revenue Policy, which serves as a guideline for staff and the Council in establishing the appropriate level of cost recovery and subsidy that may be required for various fees for government services. This policy has been implemented and, over time, additional revenues are projected to be recovered for direct services the public may receive from the City.

Fiscal Year (FY) 2025 General Fund Budget Overview

Like many California cities, the increasing cost of maintaining services continues to exceed projected revenues, and despite aggressive efforts to balance the budget, the City is projected to face a structural deficit anticipated to grow to 5-7% of the General Fund (between \$11M - \$15M annually) within the next three years.

The recommended General Fund budget in FY2025 has a structural budget deficit requiring the use of \$7.1 Million of reserves to balance the budget. Due to the anticipated inadequate growth of many General Fund revenues to pay for known increases to expenditures, particularly pension costs, the FY2025 forecast shows a continued need to rely on reserves and implement on-going budget balancing strategies, including continued expenditure reductions,, with very little capacity to replenish General Fund reserves and implement any new programs or initiatives.

On October 10, 2023, the Council took decisive action to address the budget impacts related to pension costs by approving a revision to the reserve policy that allocates any actual revenues that exceed expenditures to address pension-related expenses and future liabilities instead of being allocated to capital. General Fund reserves stayed relatively flat in FY2023 and are projected to decline in FY2024 and FY2025, with the use of reserves as one of many tools being used to balance the budget. It continues to be the City's priority that recovery efforts include a plan to replenish reserves to achieve the policy target as the economy recovers and the City's budget stabilizes.

Public Opinion Polling

To help the Council consider whether to place a transaction and use (sales) tax measure on the ballot, a poll was conducted in April 2023, and a tracking poll was conducted in April 2024, to gather community input on specific funding options for continuing to provide essential City services to the Santa Barbara community. Fairbanks, Maslin, Maulin, Metz & Associates (FM3) conducted community surveys online and by telephone with registered voters, including bilingual surveys. The poll gauged interest in a general-purpose transaction and use tax increase that would require voter approval (greater than 50%). An overview of the poll was presented to the Finance Committee and will also be presented at this meeting.

Recent Public Outreach

Staff embarked on an extensive public outreach campaign to inform and educate the community about the services the City provides and to discuss budget challenges that the City faces. This included key business groups as well as over a dozen community meetings with civic clubs, homeowners' associations, non-profit organizations, and other key community groups. The City also held a series of Townhall meetings in each Councilmember's district in late April and early May to have a discussion with the community about these topics, answer questions, and gather survey responses to further

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inform staff's and the City Council's process when considering a possible transaction and use tax increase.

Meetings held to-date include the following:

1. Downtown Santa Barbara (BID) - 10/10/23
2. The Riviera Association - Santa Barbara - 10/22/23
3. Santa Barbara Library Foundation - 10/26/23
4. Housing Authority - 11/1/23
5. Our Mesa Neighborhood Inc "OMNI" - 11/9/23
6. Library Board - 11/9/23
7. Parks and Recreation Commission - 11/15/23
8. Community Environmental Council - 11/16/23
9. Visit Santa Barbara - 11/28/23
10. Santa Barbara South Coast Chamber of Commerce - 11/25/23
11. Santa Barbara Foundation - 12/4/23
12. Realtors Association - 12/6/23
13. Santa Barbara League of Women Voters - 12/6/23
14. Concerned California - 12/13/23
15. Santa Barbara Elks Lodge - 2/29/24
16. Independent Living Resource Center - 4/3/24
17. Community Townhall at Valle Verde - 4/29/24
18. Community Townhall at Peabody Charter - 5/2/24
19. Community Townhall at Franklin Community Center - 5/4/24
20. Community Townhall at Monroe Elementary School - 5/6/24
21. Community Townhall at Harding School - 5/8/24
22. Community Townhall at Carrillo Recreation Center - 5/10/24
23. Visit Santa Barbara - 5/16/24

The City launched the bilingual Essential SB website (<https://SantaBarbaraCA.gov/EssentialSB>) as public outreach efforts began. Over 1,000 community members completed an online survey found on this website to provide feedback regarding the importance of various City services. Five informational videos featuring departments that provide essential services to the community can be found on the site, including Police, Fire, Parks and Recreation, Library, and Community Development. Bilingual communications regarding this site were completed through social media channels, E-Newsletters, website news, and utility billing inserts.

For the Community Town Hall meetings that occurred in late April and early May, bilingual outreach to the community included press releases, webpage and City News updates, event listings on the City's website calendar and other community calendars, social media posts across X, Facebook, Instagram, Nextdoor, and YouTube, City E-Newsletters, event emails to all City subscribers, City staff, and Mayor and Council, a citywide mailer to all addresses within City zip codes, an event flyer that was distributed to local townhall venues and communications staff, and Spanish Radio public service announcements.

Proposed Ballot Measure

Direction is needed from the Council to officially place a half-cent transaction and use tax increase on the November 2024 ballot. The proposed tax would be a general tax requiring a simple majority approval of voters.

If Council approves of placing a measure on the ballot, the ballot language is proposed as follows:

| CITY OF SANTA BARBARA ESSENTIAL LOCAL SERVICES MEASURE | |
|---|------------|
| Shall the measure maintaining 9-1-1 emergency/fire/paramedic/police response, keeping neighborhood fire stations open; improving housing affordability; addressing homelessness; keeping public areas/parks safe, clean; maintaining library services; stormwater protection; improving natural disaster preparedness; retaining local businesses/jobs, and for general government use; by establishing a ½¢ sales tax providing approximately \$15,600,000 annually until ended by voters; requiring audits, public spending disclosure, all funds used locally, be adopted? | YES |
| | NO |

To officially place this measure on the ballot, Council would introduce and subsequently adopt a proposed ordinance authorizing the Essential Local Services Tax subject to voter approval of a measure authorizing levy of a half-cent cent transaction and use (sales) tax and adopt the accompanying resolution that:

1. Approves and places the Santa Barbara Essential Local Services Measure on the November 5, 2024, ballot.
2. Directs the City Attorney to prepare an impartial analysis.

The proposed ordinance would require an annual audit of taxes collected to be performed by an independent accounting firm. The audit results may be combined with the audit of other City funds, as long as proceeds are reported separately. The Council shall discuss the results of such audit at a meeting of the Council that is open to the public and the audit shall be posted on the City’s website. The ordinance must be introduced and adopted by the affirmative vote of five members of the Council (two-thirds vote).

Staff will plan to provide the proposed resolution and ordinance to the City Council during the regular City Council meeting on June 11, 2024. At this meeting, staff would like to receive Council direction to bring back the resolution and ordinance at the June 11, 2024 meeting.

BUDGET/FINANCIAL INFORMATION:

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A half-cent transaction and use tax is projected to generate approximately \$15.6 Million annually. If the voters approve of the tax measure on the November 2024 ballot, the new sales tax rate of 9.25% would take effect on April 1, 2025. Approximately 25.0% of the \$15.6 Million annual projected revenue amount, or \$3.9 Million, is anticipated to be collected in FY2025, with the first full year of annual revenue projected in FY2026.

The General Fund has a projected deficit in FY2025 of \$7.1 Million, with deficit projections growing in future fiscal years. Implementing additional revenue generating options, along with continuing to implement operational efficiency and expenditure reduction strategies are required to balance the City's General Fund budget going forward.

If this transaction and use tax measure is not approved, staff will continue to work with the Council to evaluate and consider alternative revenue measures as well as other budget balancing measures that might need to include more drastic reductions to City services. General Fund reserves will continue to deplete if additional revenue sources are not identified to continue to fund essential City services. The depletion of General Fund reserves could result in even more impactful outcomes, including a significant decrease in the City's credit rating or impacts to the City's ability to respond to disasters in a manner in which the community expects.

PREPARED BY: Keith DeMartini, Finance Director

SUBMITTED BY: Rene Eyerly, Assistant City Administrator

APPROVED BY: Kelly McAdoo, City Administrator