

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To: Scott C. Stiles From: Maria Stipe
Dept.: City Manager Dept.: City Manager
Subject: PLACEMENT OF A ONE CENT (1%) SALES TAX (TRANSACTIONS AND USE) MEASURE ON THE NOVEMBER 6, 2018 GENERAL ELECTION BALLOT FOR VOTER CONSIDERATION Date: July 24, 2018

OBJECTIVE

The purpose of this report is for the City Council to consider placement of a local funding measure, known as the **Garden Grove Public Safety/9-1-1 and Vital City Services Measure**, a one cent (1%) sales tax (transactions and Use) measure on the November 6, 2018 General Election Ballot for voter consideration. The proposed ballot measure question would read:

To provide effective 9-1-1 emergency response by preventing cuts to police/firefighter/paramedic staffing levels; maintain neighborhood police patrols/gang/drug prevention; protect local drinking water supplies; repair streets/potholes; address homelessness; support affordable housing options, and protect vital city services, shall the City of Garden Grove establish a one-cent sales tax providing \$19,000,000 annually until ended by voters, requiring annual independent audits, citizens oversight, all funds used locally?

BACKGROUND

The State of California has taken several million annually in local tax dollars from Garden Grove since 1992. The City will continue to lose another \$3.5 million dollars every year in General Fund property tax revenues due to the State's required shift of Education Revenue Augmentation Fund (ERAF). In addition, the City lost a total of about \$13.7 million dollars in Redevelopment/Housing Tax Increment funding from 2003 through 2011.

In 2012, the City was forced to return to the State of California approximately \$9.8 million of redevelopment and housing tax increment that has been legally collected for critical economic, redevelopment and housing activities in Garden Grove. In addition, the dissolution of Redevelopment Agencies by the State has required the City's General Fund to pick up prior Redevelopment Agency obligations of over \$3.9 million each year starting in 2012. These obligations include interfund loan

repayments and debt service on bonds sold to acquire properties for redevelopment along the Harbor Corridor.

DISCUSSION

The City has faced financial challenges since the recession in 2008. In order to combat those challenges the City and City Council have been proactive in addressing the problem by making significant cuts in operating costs, including:

- Reducing full-time staff from 687 to 643
- Implementing a two tiered retirement structure
- Requiring all City employees to contribute to their own retirement ranging from 8% to 12%
- Reduced healthcare subsidies for City employees
- Restructuring animal care service delivery
- Contracting out City services including building permitting & inspections; tree and landscaping services; janitorial; utility billing printing and mailing; fire plan check; and street sweeping
- Implementing an early-retirement incentive program to achieve labor savings; and
- Implementing a 5% budget reduction in FY 2018-19.

Public Safety Needs

Public safety is a top priority in Garden Grove and represents about 71% of the City's Basic Fund. However, Public Safety staffing levels have not been restored to pre-recession levels even after making other significant citywide cuts and adding seven additional police officers over the past three fiscal years. Moreover, due in large part to statewide early prison release laws and voter approved initiatives that have changed many felonies to misdemeanors, overall Part I crimes (e.g., robberies, burglaries, aggravated assault and homicide) have increased by over 45% in Garden Grove since 2015 and homeless/mentally ill calls for service have increased by an alarming 47%.

Without a continued local funding source the City will be forced to cut public safety services, including gang and drug prevention; neighborhood police patrols; police officer staffing at local schools; and consider reducing firefighting services. The City needs additional funds to continue to provide citywide crime prevention, gang and youth violence prevention and intervention programs and keep police officers in schools to keep kids off the streets and away from gangs and drugs.

Additionally, the City needs funds to maintain firefighters and paramedics levels, and keep rapid 9-1-1 emergency response times so that people suffering from heart attacks, strokes or other medical emergencies continue to receive the immediate, life-saving care they need.

Local Infrastructure Needs

Over the last few decades the City has used General Fund revenues to help support the maintenance of the community's local streets; fund park and playground equipment at the City's 21 neighborhood parks; and maintain City owned buildings, which include Police public safety buildings and fire stations. Going forward, starting with the FY 2019-20 Fiscal Year budget, none of these vital programs will be funded beyond the City's required allocation for OCTA grant eligibility. Additionally, all non-emergency facility improvements aside from the Siemens energy efficiency project will be deferred.

Community Engagement and Feedback

City staff has held numerous resident and business group presentations about the City's finances. These meetings have been held at the Community Meeting Center, local services clubs, neighborhood watch sites, City parks, churches, school facilities, hotel meeting rooms, family resource centers and local residences across all districts. Copies of the community survey have been sent to each utility customer, emailed to Chamber of Commerce members, mailed to community leaders, distributed at City counters and community meetings, included in the Garden Grove Parks and Recreation Guide and placed on the City's website. The City has received over 1,700 responses to the community survey asking for feedback on what City services are most important.

Based on feedback from community members the top priorities for Garden Grove include in priority order:

- Maintain 911 emergency response times
- Prevent cuts to the number of police officers, paramedics, and firefighters
- Maintain neighborhood police patrols
- Fight gangs and drugs
- Protect local drinking water supplies
- Address homelessness
- Provide affordable housing options

Deficit Reduction Alternatives

The best way to reduce Garden Grove's structural deficit is through expenditure reductions. However, as was previously mentioned, a large number of cost-cutting efforts have already been implemented. Reductions were made in the FY 2018-19 budget which will have a long-term negative impact on roadways, parks, and other important City-wide infrastructure. Some of the reductions to date include:

- Reduce tree trimming
- Rotate closures of park restrooms

- Reduce plan check contracts
- Reduce Garden Grove Community Foundation support
- Eliminate Citizen Emergency Response Team (CERT) program
- Reduce Master Reserve Officer program and civilian Police staffing
- Restructure school crossing guard program funding
- Reduce school resource officer
- Reduce building repair/maintenance
- Reduce City Attorney contract
- Reduce training/customer support
- Eliminate Open Government software
- Reduce recreation programming
- Reduce median maintenance
- Reduce traffic signal maintenance
- Defer capital projects

Additional cuts will further reduce vital City services to a level that will be unacceptable for our residents and business community based on community feedback of wanting to maintain current service levels.

Revenue Augmentation Alternative

Staff believes additional staffing or other operational expense cuts would result in service levels that would not be in the best interest of the residents of Garden Grove and would impact the quality of life. Feedback from the community also placed a high priority on maintaining vital service levels. Various options to increase revenue have been carefully considered, most require voter consideration. As Staff evaluated the revenue options a commitment was made that the recommended revenue enhancement must:

- Have local control – State cannot touch a penny of any voter approved funds
- Be for local Garden Grove community needs only
- Maintain local service levels and especially vital Police and Fire services
- Create long term fiscal sustainability
- Be funded by both residents and visitors to Garden Grove
- Not be a specific parcel tax on individual homes or property
- Have community accountability and transparency

City Council established a Budget Sub-Committee last year to explore possible revenue opportunities and determine each City department's current and future critical needs. The Sub-Committee reviewed the following:

- City Revenue Sources: An in-depth review of the City's General Fund revenue sources and projections under the City's existing revenue authority. This included all revenues from property, sales, hotel, and motor vehicle taxes, as well as gas tax, property transfer taxes, City fees for permits, franchises,

business licenses, traffic, parking, and other fines, grant overhead support, recreation, municipal support, interest, and street repair charges.

- Business License: Information regarding the City's current business license tax structure and rates were provided and compared to cities of Anaheim, Orange, Santa Ana, Huntington Beach, Irvine, and Fullerton.
- Internal Service Funds: Financial data regarding the City's internal service funds, which includes Risk Management, Workers' Compensation, and Fleet Management. The review included 10-year cash flow statements and an overview of the funds' purpose and program costs.
- Community Priorities and Preferences: A survey was conducted to analyze Garden Grove resident's general attitudes and concerns about their community and City services.
- Department Review: A review of each City department's budget, challenges, critical needs, and impact of budget reductions.
- Revenue Tax Benchmarking Data: Various tax rates were reviewed and compared to all other Orange County cities. A review of potential revenue enhancement measures were considered and discussed. Less viable options for increases in tax revenue were analyzed including utility taxes, increases in hotel taxes, and property/parcel taxes.

After carefully assessing the options and listening to community feedback which overwhelmingly indicated a desire to maintain and restore public safety service levels, it is Staff's belief that a local transaction and use (sales) tax measure is the only option that would:

- Maintain vital City services and meet the needs of residents and the business community; and
- Begin to address the General Fund structural deficit; and
- Move the City towards its stated goal of fiscal sustainability, which includes cash solvency / budget solvency / long term solvency / service solvency.

The most viable option which meets the goals of local control and local use is:

- Establishing a sales tax (transactions and use tax) measure. A one cent (1%) increase on sales made in the City of Garden Grove (per California Department of Tax and Fee Administration - excludes food purchased as groceries or prescription medication) would raise approximately \$19 million per year. This tax would be a shared tax, as non-residents making purchases in the City would be picking up a share of the cost. This revenue source is protected by the State constitution whereby the State of California cannot take sales tax from local agencies. In order to pass the measure, 50% + 1 of voting residents would need to approve it in an election.

It should be noted the City Council does not have the unilateral authority to enact a tax increase, and must place a measure on the ballot for voter consideration.

This additional revenue would accomplish the following for the community:

- Maintain and/or restore vital City services
 - o Maintain 911 emergency response times
 - o Maintain current level of police protection as well as firefighters and paramedics
 - o Add Police officers to address increased crime and homeless calls for service
 - o Restore funding for maintaining City streets, parks and infrastructure
 - o Maintain quality public City facilities including Police and Fire stations; recreation and senior centers; City Hall and City Yard
- Address other required obligations
 - o Sufficiently fund the unfunded liability for both pension and OPEB obligations
 - o Restore reserves to adopted policy levels
 - o Fund essential public works City facility maintenance needs
- Commitment to Accountability and Transparency
 - o Including specific information during mid-year financial review and annual budget process
 - o Annual Report to City Council
 - o Accountability reports posted on City Website

There are a number of reasons why a local sales tax measure is a preferred option to any other voter-approved revenue alternative, including:

- Local control for vital Garden Grove community service needs
- Costs would be shared by residents, businesses and visitors to Garden Grove who purchase certain taxable goods and products
- The measure would not be applicable to certain indispensable items such as groceries and medicine
- The measure would ensure the funds cannot be taken by Sacramento and they would stay in Garden Grove. In 2004 and 2010, two statewide ballot initiatives (Propositions 1A and 22) were approved by California voters, both of which increased protection against State reallocation of local sales tax revenues to fund the State's agencies or programs. Article XIII, Section 24(b) of the State Constitution, enacted by Proposition 22, provides, "The Legislature may not reallocate, transfer, borrow, appropriate, restrict the use of, or otherwise use the proceeds of any tax imposed or levied by a local government solely for the local government's purposes." A recent appellate court case confirmed the

broad language and protection afforded cities by this provision. Therefore, revenues from a city-approved sales tax, used for the city's purposes, are constitutionally protected from State-mandated revenue shifts away from the city pursuant to a State statute, including a shift that is part of a "budget trailer bill" enacted as part of the annual State Budget Act.

- Is not a parcel tax on homes or property
- The goal to pay off the debt and unfunded liabilities and help maintain vital City services could be accomplished with this measure in place.

As such, staff recommends City Council approve Resolutions calling for the placement of a general tax measure on the ballot of the November 6, 2018 election to adopt a transactions and use tax and authorizing guidelines regarding the measure for voter consideration.

Ballot Measure

Approval of the recommended action would place the one cent (1%) sales tax measure on the November 6, 2018 ballot. The City Clerk would file a certified copy of the resolution with the Board of Supervisors of Orange County and the Registrar of Voters of Orange County on or before August 10, 2018. Passage of the measure would require 50% + 1 approval of the voters in the City of Garden Grove.

FINANCIAL IMPACT

The City would have the opportunity to maintain firefighters and paramedics as well as its current level of police protection and other essential City services. The City would be available to maintain 9-1-1 emergency response times and neighborhood police patrols; protect local infrastructure, including streets and aging public safety buildings; fight gangs and drugs; and address homelessness. This measure would address the City's current structural deficit and provide the ability to maintain reserves at GFOA recommended levels and set aside funds for pension and OPEB unfunded liabilities.

RECOMMENDATION

It is recommended that the City Council:

1. Declare that this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment), and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly;

2. Adopt Resolution calling for the placement of a general tax measure on the ballot of the November 6, 2018 consolidated election to adopt a transactions and use tax.

Attachment 1: Resolution Submitting Tax Measure to Voters

Exhibit A: Transactions and Use Tax Ordinance