

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda Date: 6/18/12

SUBJECT: Sales tax ballot measure for November 6, 2012 election

REPORT BY: Beth Pollard, City Manager

STAFF RECOMMENDATION

That Council review the draft ordinance and ballot language for a one-half cent sales tax measure before the voters at the General Municipal Election of November 6, 2012, and provide direction to staff on ballot wording to bring back to the Council in July.

BACKGROUND

Since 2009, the City of Albany has seen its revenues flatten and decline. One of the more dramatic revenue decreases has been in annual property transfer tax revenue, which has declined by approximately \$1 million over the course of the last several years. The City Council and city staff have restructured, reduced costs, and made budget cuts to adapt to the diminished resources, including:

Freezing, eliminating, and restructuring staff positions. For example, there are police officer and public safety dispatcher positions being held vacant. Other positions have not been filled or have been restructured or eliminated in recreation programming, public works, planning, and administration. In addition, the City of Albany is sharing a Fire Chief with the City of Piedmont and an Information Technology Manager with the City of Emeryville.

Reducing employee compensation. Most city employees' take-home pay has dropped by four (4) percent or more in the past year. All employees in a pension program are in line to pay the full cost of the employees' side of the pension costs. New employees will receive lower pension benefits.

Revenue and Expense Review

In 2011, the City conducted staff and community workshops to generate ideas for ways to reduce costs or increase revenues. Short-term cost reduction and revenue ideas were incorporated into the 2011-12 budget. Medium to long-range ideas were reviewed by the City Council on November 21, 2011. From that review emerged the Council direction to conduct a random-sample telephone survey to determine whether there was public support for a tax measure to support city services and projects.

The survey was conducted in late February – early March 2012 by Godbe Research. The results of the survey were presented to the City Council on April 2, 2012. (Attachment 1).

In summary, the key findings were that about 80% of those surveyed said they would either definitely or probably support a one-half cent sales tax; “Definitely Yes”: 56.0%; “Probably Yes”: 24.0%. A sales tax measure that is not designated for a special purpose requires a simple majority (50% + 1) vote. The City Council directed staff to return with proposed ballot wording for a sales tax measure to maintain city services.

The maximum sales tax rate that the voters of Albany can approve to levy in the city is ½ cent.

DISCUSSION

The City has worked to remain stable in the midst of the economic turmoil that has reduced resources and has been a hard hit to local governments throughout the state and country. However, the continued strained revenues is compromising the city’s ability to provide critical, necessary, and desired services

At the City Council meetings of April 2 and 16, 2012, staff presented a “Capacities Limitations” report that summarized where the city is falling short in meeting requirements, needs and expectations, falling behind in maintaining safe facilities, and vulnerable in not keeping pace with mandates, safety concerns, and changing demographics and technology. In summary, the report noted the city’s limitations in the following areas:

- Code Enforcement
- Homelessness
- Technology
- Communications between city and the community
- Public Safety
- Employee compensation
- Economic Development
- Long range planning
- Implementation of city plans
- Sustainability and greenhouse gas reduction
- Staff support to advisory bodies
- Buildings, grounds, and other facility maintenance
- Vehicle and equipment maintenance and replacement
- Capital improvements

Attached is a copy of the presentation, as well as the report itself. The report has been amended to indicate cost estimates on some of the items to provide context for the magnitude of city duties and responsibilities not currently funded, which total more than \$1 million.

ANALYSIS

Rate

The current sales tax rate in Albany is 8.25%. There was an additional one cent applied by the State of California from 2009 until it expired June 30, 2011. A list of the sales tax rates in all cities in California effective July 1, 2012 is included as Attachment 4. Since the publication of that list, eight cities increased their sales tax rates by voter approval at the June 5, 2012 election, as noted on Attachment 5. Other cities are considering placing sales tax measures on the November 6, 2012 ballot; Sacramento, Moraga, and Berkeley are among those cities.

State legislation regulates the rate of sales tax voters may approve in their cities. Generally speaking, local sales tax measures are limited to two (2) cents, not including the one (1) cent local sales tax in cities statewide. The two cent limit includes sales tax measures approved and applied countywide. In Alameda County, these are:

- ½ cent - BART
- ½ cent – Measure A Essential Health Care Services Initiative
- ½ cent – Measure B Transportation tax

The Alameda County Board of Supervisors has placed a measure on the November 6, 2012 ballot to extend the existing Measure B half-cent tax in perpetuity for transportation related purposes, and to add a half-cent cent also for transportation purposes. The additional ½ cent is not subject to the two-cent county cap by virtue of special State legislation – AB 1086. The existing half-cent Measure B is not due to expire until 2022, and therefore it will remain in place until that date even if the November transportation tax measure fails.

With the half-cent cent Measure B currently in place, the city is limited to a maximum local additional rate of one-half cent. The rate can be levied in increments of one-eighth (1/8) cent.

The Governor has proposed a tax measure for the November ballot that includes a one-quarter cent sales tax statewide.

A sales tax passed in November 2012 would become effective April 1, 2013. The City would begin receiving proceeds in June, 2013.

Duration

The City Council has discretion in the duration of a sales tax measure it presents to the voters. The public opinion survey showed the following results on the question of duration:

Number of Years	Definitely Yes	Probably Yes	Total Support
15	24.4%	37.7%	62.1%
10	40.6%	24.6%	65.2%
5	54.0%	24.8%	78.8%

Ballot wording

Based on the survey and its results, the draft ballot language reads:

To preserve the quality of life and maintain critical city services and facilities, with funding that can't be taken by the State, including:

- *Maintaining police and fire services*
- *Maintaining recreational programs, parks, playgrounds, and open space*
- *Maintaining senior and youth programs and facilities; and*
- *Other city services,*

Shall the City of Albany enact a one-half cent sales tax, with annual independent audits, with all funds spent only in Albany?

The funds cannot be earmarked for a special purpose, but the ballot measure can give examples of types of services and uses supported by general revenues, but with “other city services” included in the language.

Draft Ordinance

The measure that would be put before the voters would include an ordinance that would become effective upon voter approval. A preliminary draft ordinance provided by the State Board of Equalization is attached for initial review. The ordinance must still undergo legal review and editing to be incorporated into the Municipal Code.

SUSTAINABILITY IMPACT

Among the variety of city services and programs funded by the General Fund are environmental and sustainability initiatives. The stronger the City’s financial resources, the greater its ability to fund these efforts.

FINANCIAL IMPACT

As the proposed 2012-13 budget shows, the General Fund revenues to the City of Albany are projected to increase by only one (1) percent in next fiscal year. This amount of increase is not sufficient to maintain city services and facilities.

Not all of the sales tax in the City's budget is received from local sales; a portion of it is sales and use tax distributed statewide. For planning purposes at this time, staff recommends an estimate of \$300,000 for each additional one-quarter cent local rate, or an estimated \$600,000 for a one-half cent rate. The actual proceeds will vary with the amounts of sales activity in the city in any given year.

Attachments

1. Sales tax measure feasibility survey
2. Capacity Limitations report, April 16, 2012, as amended to include cost information
3. Capacity Limitations presentation, April 16, 2012
4. Sales tax rates in all cities effective July 1, 2012 (does not include tax measures approved by voters June 5, 2012, which will go into effect October 1, 2012)
5. Local Revenue Measures in California, June 2012 Preliminary Results, by Michael Coleman
6. Draft proposed ordinance to the voters to impose a transaction and use tax