



# City of La Quinta

**CITY / SA / HA / FA MEETING DATE:** May 20, 2014

**ITEM TITLE:** DISCUSS AND PROVIDE DIRECTION ON A SALES TAX MEASURE FOR THE NOVEMBER 2014 ELECTION

**AGENDA CATEGORY:**

**BUSINESS SESSION:** 2

**CONSENT CALENDAR:**

**STUDY SESSION:**

**PUBLIC HEARING:**

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## **RECOMMENDED ACTION:**

Discuss and provide direction on a sales tax increase for the November 2014 election.

## **EXECUTIVE SUMMARY:**

- At the May 6, 2014 City Council meeting, the City held a study session on revenue enhancement options.
- The Council provided direction to explore a sales tax increase on the November 2014 election.
- Staff conducted a financial forecast to outline the City's financial needs and evaluate the community threshold regarding the tax increase amount.
- In addition, information was collected from other cities on best practices to achieve successful passage of a local ballot measure.

## **FISCAL IMPACT:**

An add-on sales and use tax can be increased by a  $\frac{1}{4}$ ,  $\frac{1}{2}$ ,  $\frac{3}{4}$  or 1% level. Annual revenue generated from such measure:

- $\frac{1}{4}$  % increase - \$1,750,000
- $\frac{1}{2}$  % increase - \$3,500,000
- $\frac{3}{4}$  % increase - \$5,250,000
- 1 % increase - \$7,000,000

## **BACKGROUND/ANALYSIS:**

The City Council first discussed revenue increase measures in the spring of 2012. At that time, the elimination of the Redevelopment Agency significantly decreased City investment, capital improvement and operations revenue and General Fund operating budget deficits were forecasted. When the City had a redevelopment agency, it used redevelopment funding to grow the community's revenue base by funding capital improvements and public facilities. The improvement and facilities cost were impediments to development.

When the City adopted the 2012/13 operating budget, the budget anticipated a \$2,100,000 deficit that was scheduled to be closed using reserves. In response the City Council elected to reduce the City's non-public safety workforce by 25%; this reduction reduced operating costs by \$2,800,000. While personnel costs have been reduced, other operations costs continue to increase. And, the City does not have resources to fund a capital improvement program. Going forward, the City's financial projections indicate the capacity to annually fund \$1,500,000 to \$2,000,000 of capital improvements.

When the City Council discussed revenue measures on May 6, 2014, the Council expressed interest in exploring increasing the City's 1% sales tax rate. The amount of an increase was the subject of much debate. In order to provide parameters in which to consider the amount of increase, a long-term General Fund revenue and expenditure forecast was prepared. Attachment 1 presents the forecast summary. Revenues were annually increased by an average of 2% and expenditures by an average of 4.5%. Factored into these projects are the California Public Employees' Retirement System increases. Additional detail will be provided at the Council meeting.

Since 2004, there have been 169 general-purpose, majority vote add-on sales tax measures in California (with a total of 115 receiving a majority vote approval). In the Coachella Valley, the Cities of Palm Springs, Cathedral City and Coachella have in recent history placed a local sales tax measure on the ballot (with Palm Springs and Cathedral City receiving majority vote approval). In researching practices from other cities, key findings that assisted successful passage of add-on sales tax measures are as follows:

- Cities initiated feasibility of tax measure at least 10 to 12 months in advance of the election,
- Community surveys were utilized to identify funding priorities,
- A citizens/stakeholders committee assisted City staff in assessing the need for a tax measure,
- Active dialogue took place with the community about the City's financial needs,
- Informational mailers were sent to the community.

Cities that did not utilize any of these elements in their add-on sales tax measures generally saw the measure fail, which was the case for Coachella receiving 27% favorable support.

Should the City Council consider moving forward this year, a resolution placing a tax measure on the November ballot must be sent to the Riverside County Registrar of Voters by August 8, 2014, which means the Council would need to consider the item by the July 15, 2014 Council meeting. Once a measure is adopted by the Council, the City can only engage in information-only activity in an impartial manner.

In looking at the impact to households at various income levels, the table below shows the cost increase of an add-on sales tax measure. This analysis assumes that 30% of a household's annual income is expended on housing expenses, and 40% of a household's annual income (after housing expenses) is spent on taxable transactions that would occur in the City of La Quinta.

Annual Income	Current Income	¼ % Increase	½ % Increase	¾ % Increase	1 % Increase
\$30,000	\$60	\$15	\$30	\$45	\$60
\$60,000	\$120	\$30	\$60	\$90	\$120
\$95,000	\$152	\$38	\$76	\$114	\$152
\$200,000	\$320	\$80	\$160	\$240	\$320

**ALTERNATIVES:**

As the timeline for a November 2014 ballot measure is short and several elements need to be evaluated to position the City for a successful outcome, the Council could elect to initiate efforts for a November 2016 measure.

Report prepared by: Chris Escobedo, Assistant to City Manager

Report approved for submission by: Frank J. Spevacek, City Manager

Attachment: Revenue and expenditure forecast.

**CITY OF LA QUINTA GENERAL FUND FORECAST**

Fiscal Year Model Year	Base Year					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	0	1	2	3	4	5
<b>REVENUES</b>						
Property Tax	6,825,000	7,165,630	7,364,330	7,643,790	7,929,977	8,223,030
Sales Tax	8,128,000	8,247,000	8,601,468	8,842,842	9,087,352	9,335,032
Document Transfer Tax	460,000	525,000	482,628	500,756	519,320	538,328
Transient Occupancy Tax	5,665,000	6,276,000	6,401,520	6,897,769	6,934,164	6,998,812
Franchise Fees	1,541,500	1,455,000	1,549,217	1,553,090	1,556,973	1,560,865
Business License/Film Permits	350,100	337,100	351,853	352,732	353,614	354,498
Development Related Permits	705,000	770,300	705,000	706,741	705,000	706,741
Motor Vehicle In-Lieu	3,157,300	3,419,445	3,173,106	3,181,039	3,188,992	3,196,964
Fire Service Credit	5,451,500	5,536,256	5,703,589	5,789,143	5,875,980	5,964,120
Other Intergovernmental	317,700	311,800	313,361	314,144	314,930	315,717
Charges for Services	633,500	1,014,394	1,019,472	1,022,021	1,024,576	1,027,137
Fines & Assessments	243,000	138,150	138,842	139,189	139,537	139,886
Other Revenues	908,100	929,545	934,199	936,534	938,875	941,223
<b>TOTAL REVENUES</b>	<b>34,385,700</b>	<b>36,125,620</b>	<b>36,738,585</b>	<b>37,879,791</b>	<b>38,569,290</b>	<b>39,302,353</b>
		1.05060	1.01697	1.03106	1.01820	1.01901
<b>EXPENDITURES</b>						
Salaries (PERS)	(5,487,722)	(5,549,241)	(5,830,171)	(5,975,926)	(6,125,324)	(6,278,457)
Salaries (Non-PERS)	(262,578)	(193,719)	(203,526)	(208,614)	(213,830)	(219,175)
PERS Costs	(804,500)	(870,100)	(973,639)	(1,057,739)	(1,084,182)	(1,111,287)
Medical Insurance Costs	(1,247,000)	(1,220,300)	(1,282,078)	(1,314,130)	(1,346,983)	(1,380,657)
Other Personnel Costs	(238,700)	(227,700)	(239,227)	(245,208)	(251,338)	(257,622)
Maintenance & Operations	(10,703,000)	(11,923,662)	(12,405,378)	(12,653,486)	(12,906,556)	(13,164,687)
Policing Contract	(13,217,200)	(13,560,025)	(15,437,939)	(16,472,281)	(17,575,924)	(18,753,510)
Capital Outlay	(2,425,000)	(1,924,000)	(1,075,000)	(1,075,000)	(1,075,000)	(1,075,000)
<b>TOTAL EXPENDITURES</b>	<b>(34,385,700)</b>	<b>(35,468,747)</b>	<b>(37,446,958)</b>	<b>(39,002,383)</b>	<b>(40,579,136)</b>	<b>(42,240,395)</b>
			1.05577	1.04154	1.04043	1.04094
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>656,873</b>	<b>(708,373)</b>	<b>(1,122,592)</b>	<b>(2,009,846)</b>	<b>(2,938,042)</b>