

MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

SUBJECT: Consideration of 5-Year Review of Local Sales Tax

DATE: May 24, 2022

SUMMARY OF ACTION:

Conduct a public hearing to review and approve the continuation of the local sales tax.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Total revenue received from FY 2016-17 to FY 2020-21 was \$11.8 million and total expenditures were \$8.8 million. Revenue from the local sales tax in FY 2021-22 is projected to be approximately \$2.8 million and is anticipated to grow modestly during the next five-year period. The beginning fund balance is \$4.7 million. Expenditures, including carryover of unfinished projects from prior years, are estimated at \$3.1 million in FY 2021-22, which will result in an ending fund balance of approximately \$4.5 million.

RECOMMENDATION:

Conduct the public hearing, receive and file the 5-year report covering the period of July 2016 through June 2021, and approve continuation of the local sales tax.

BACKGROUND:

In November 2006, the voters of Arroyo Grande approved Measure O-06, which established a half-percent local sales tax to meet City needs identified in the City's long-range financial plan. As a result of this voter-approved 0.5% local sales tax, the total sales tax rate in Arroyo Grande has been 7.75% since April 1, 2007, when Measure O-06 became operative. The total sales tax rates in other nearby jurisdictions, as of April 1, 2022, are provided in Table 1 for reference:

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Table 1
Sales & Use Tax Rates (Effective April 1, 2022)

City	Rate	County
Monterey	9.25%	Monterey
Salinas	9.25%	Monterey
Carmel-by-the-Sea	9.25%	Monterey
Del Rey Oaks	9.25%	Monterey
Gonzales	8.75%	Monterey
Greenfield	9.50%	Monterey
King City	8.75%	Monterey
Marina	9.25%	Monterey
Pacific Grove	8.75%	Monterey
Sand City	8.75%	Monterey
Seaside	9.25%	Monterey
Soledad	9.25%	Monterey
Arroyo Grande	7.75%	San Luis Obispo
Atascadero	8.75%	San Luis Obispo
Grover Beach	8.75%	San Luis Obispo
Morro Bay	8.75%	San Luis Obispo
Paso Robles	8.75%	San Luis Obispo
Pismo Beach	7.75%	San Luis Obispo
San Luis Obispo	8.75%	San Luis Obispo
Unincorporated SLO County	7.25%	San Luis Obispo
Goleta	7.75%	Santa Barbara
Santa Barbara	8.75%	Santa Barbara
Santa Maria	8.75%	Santa Barbara
Carpinteria	9.00%	Santa Barbara
Guadalupe	8.75%	Santa Barbara

Advisory Measures K-06, L-06, M-06, and N-06 were placed on the ballot alongside Measure O-06 to ask voters if a portion of the revenue from the sales tax should be used to fund specific needs identified in the City's long-range financial plan. Advisory Measure K-06 (transportation improvements) asked:

If the proposed sales tax measure is approved, should a portion of the proceeds be used to fund transportation improvements, including, but not limited to, upgrade of the Brisco Road/Halcyon Road – Highway 101 Interchange?

This Advisory Measure passed favorably by 70.45%.

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Advisory Measure L-06 (infrastructure improvements) asked:

If the proposed sales tax measure is approved, should a portion of the proceeds be used to fund maintenance and upgrade of City's infrastructure, including, but not limited to, street maintenance and improvements, upgrade of the drainage system, and projects to prevent pollution, erosion and sedimentation in the creek system from storm water runoff?

This Advisory Measure passed favorably by 68.57%.

Advisory Measure M-06 (public safety equipment, staffing, facilities) asked:

If the proposed sales tax measure is approved, should a portion of the proceeds be used to fund public safety expenses, including, but not limited to, expansion of the Police Station, purchase of Fire apparatus, and additional Fire Department staffing?

This Advisory Measure passed favorably by 59.89%.

Advisory Measure N-06 (improving City facilities/ADA compliance) asked:

If the proposed sales tax measure, is approved, should a portion of the proceeds be used to fund improvements to City facilities to meet Federal Americans with Disabilities Act (ADA) requirements, including, but not limited to, upgrade of the City Hall Complex?

This Advisory Measure did not pass, receiving 58.85% "No" votes.

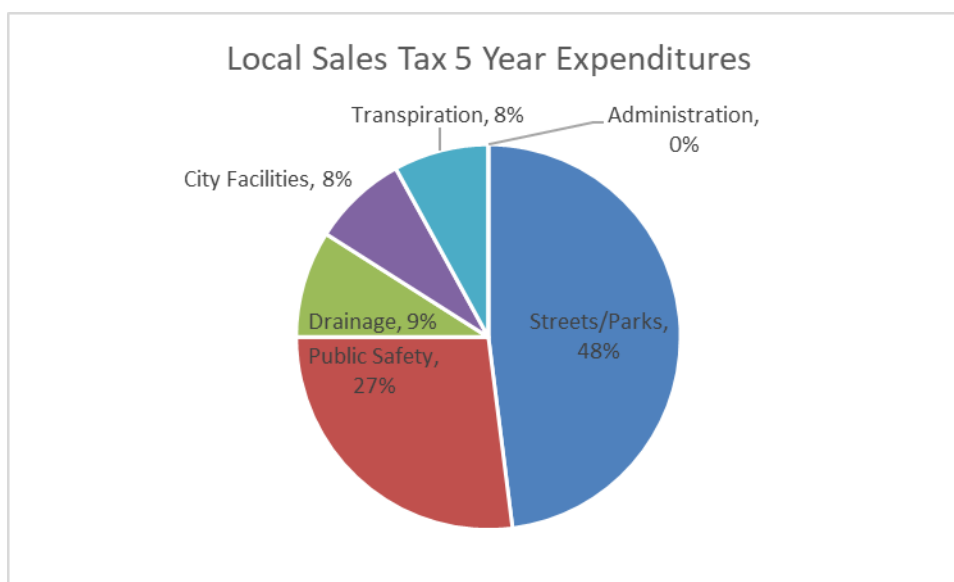
The Advisory Measures are not legally binding; however, they provide important information to the City to help establish funding priorities and the City has spent its Measure O-06 funds consistent with the advisory measures' directions since 2007. On May 12, 2015, the City Council confirmed that "infrastructure improvements" funded through Measure O-06 revenue may also include information technology infrastructure, such as network servers, switches and enterprise-wide software.

To ensure accountability, Measure O-06 required: 1) the City to publish and distribute an annual report to each household on the revenues and expenditures from the sales tax proceeds; and 2) a review and public hearing by the City Council every five years to determine whether the sales tax is necessary to remain in effect. The first 5-year review occurred on April 10, 2012, the second 5-year review occurred on April 11, 2017, and it is now time for the third review, which will address the period of July 2016 to June 2021.

ANALYSIS OF ISSUES:

Local Sales Tax History

Attachment 2 presents a revenue and expenditure history of all local sales tax funds received during fiscal years 2016-17 through 2020-21. Approximately \$8.8 million was spent over the five-year period. The most significant percentage of funding has been used for street and park improvements, with 48% of funds dedicated to this purpose. Nearly 27% of expenditures were used in enhancing public safety services, 9% for drainage improvements, 8% for City facilities, and 8% for transportation projects. Therefore, the funds have been utilized for the purposes intended and expenditures reflect the priorities identified by the community.



Local Sales Tax Projections and the Updated 5-Year Plan

Attachment 3 includes a proposed updated 5-Year Plan for expenditures of local sales tax funds. The proposed 5-Year Plan continues to maintain funding for the City's highest priorities as outlined when the Measure was proposed. Over the upcoming 5-year period, approximately \$18.5 million is proposed to be allocated to multi-year projects. Some of the most significant projects and spending items are outlined in the following sections.

Street and Sidewalk Improvements

The 5-Year Plan maintains \$942,800 - \$3,641,763 annually for the Pavement Management Program and approximately \$630,000 for sidewalk and other street improvements. In addition, \$110,000 is identified to complete Guardrail Replacements around the City. In total, over \$9.7 million is allocated over the five-year period for street and sidewalk improvements. As detailed in a staff report presented at the April 26, 2022 City Council meeting and its attached 2022 Pavement Management Plan Update, this amount

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falls well short of the funding required to maintain the City's streets at current Fair-Poor conditions.

Five Cities Fire Authority

Local sales tax funds have been instrumental in paying for enhancements to fire and emergency response operations prior to and following formation of the Five Cities Fire Authority (FCFA). Annually, over \$2.9 million is programmed from the local sales tax fund for this purpose on an ongoing basis. Under the current terms of the FCFA Joint Powers Agreement (JPA), additional funding will be needed in order to increase staffing at the Oceano Fire Station, which provides services to the western part of Arroyo Grande, and to provide the level of service to the community called for in the FCFA's Strategic Plan. The City utilizes local sales tax revenue to pay for 25% of its share of current costs under the JPA. Any reduction or elimination of local sales tax funds would significantly impact the City's ability to provide critical public safety services. In addition, local sales tax funds are needed to pay for two equipment needs: 1) the City's share of debt service costs for the replacement of a Type III Wildland Fire Engine and Ladder Truck; and 2) the replacement of the Fire Station 1 Generator estimated to cost \$544,000, with San Luis Obispo County Office of Emergency Services, CA Nuclear Power Preparedness (NPP) Program grant funds paying 50% of the costs and the City's local sales tax fund paying the remaining 50%.

Police Services

The 5-Year Plan includes ongoing funding for one Police Senior Officer position, the City's required contribution for the countywide Narcotics Task Force (NTF), and a portion of the Public Safety Video Camera Capital Improvement Project. These are critical to the ongoing operations of the Police Department, and any reduction or elimination of local sales tax funds would significantly impact the City's ability to provide critical public safety services. The funding of one Senior Officer position is an important component in the Police Department's investigations division. Participating in the NTF allows the City to utilize staffing from other police agencies and the Sheriff's Office when dealing with narcotics related crimes. The Public Safety Video Cameras will replace the failed public safety video system with a local vender in order to monitor City buildings and identified intersections. Additionally, the Police Firing Range contract expires in FY 2024-25 and, if this contract is not renewed, the City is responsible for lead abatement and returning the premises back to its original condition. The costs of this effort are included in the proposed Updated 5-Year Plan.

Transportation Projects

Approximately \$2 million in transportation related projects are included in the Updated 5-Year Plan. The 5-Year Plan provided in Attachment 3 does not include local sales tax funding for the Brisco/Halcyon Intersection Project, which was previously programmed to use \$1.2 million in local sales tax revenue for construction in future years. On April 26, 2022, Council received an update regarding the project and consideration of design services proposals. At that time, Council provided direction to staff to pursue a funding from the United States Department of Transportation's Multimodal Project Discretionary Grant

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program with the intent of the grant application is to fully fund the project through grants and otherwise-identified impact fee revenue.

City Facilities

Over the past five years, approximately \$660,000 has been expended improving City facilities, in particular the Council Chambers Accessibility Project and upgrades to the Corporation Yard and Mark M. Millis Community Center. Included in the 5-Year Plan are funds to improve several City facilities, including the Elm Street Park Playground Structure update, Open Space Fuel Management, Le Point Street Parking Lot Expansion, a portion of the Financial Management Software upgrade, and various IT replacement and expansion projects. Approximately \$1.7 million in City facilities-related projects are budgeted in the 5-Year Plan.

Budget Development

The 5-Year Capital Improvement Program and 5-Year Local Sales Tax Fund Expenditures are being reviewed at tonight's meeting during Item 11a. Efforts are currently underway to develop the FY 2022-23 Mid-Cycle Budget, which may propose changes to the 5-Year Plan as currently presented in Attachment 3, for informational purposes.

ALTERNATIVES:

The following alternatives are provided for the Council's consideration:

1. Conduct the public hearing, receive and file the 5-Year local sales tax report, and approve staff's recommendation to maintain the local sales tax;
2. Conduct the public hearing, receive and file the 5-Year local sales tax report, do not approve staff's recommendation to maintain the local sales tax, and direct staff to prepare a measure for voter consideration to eliminate the local sales tax at either a special election or as part of the November 2022 ballot; or
3. Provide other direction to staff.

ADVANTAGES:

Maintaining the local sales tax funds is critical to meeting the City's future infrastructure maintenance, public safety and operating funding needs.

DISADVANTAGES:

Maintaining the existing local sales tax creates additional costs to the City's visitors and residents.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

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Attachments:

1. Measure O-06 Advisory Measures
2. Local Sales Tax History FY 2016-2021
3. Local Sales Tax 5-Year Revenue and Expenditure Projections