

# Revenue Generation Discussion

7/19/2017

# Overview

- Previous closed session discussion on topic led to Council's request for additional information on the types of potential tax measures and revenue estimates
- Desire to wait until the Ward 5 election concluded
- Discussion in response to reoccurring economic conditions which have not allowed for any incremental expansion of services or staffing in response to community growth
- CalPERS increases

# Overview

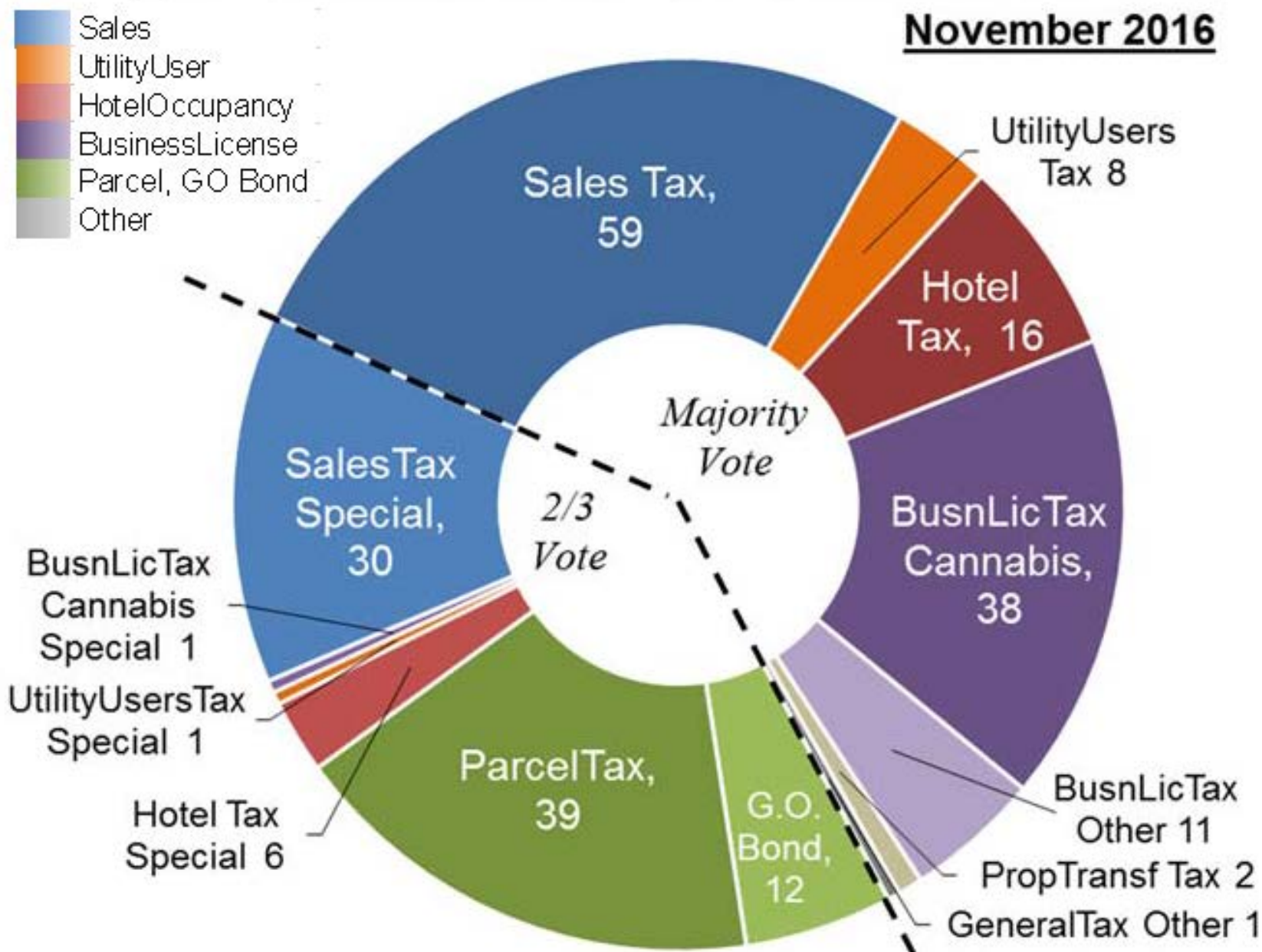
- Outside of the property tax, cities have authority to impose a broad range of taxes, however...
- Proposition 218 (1996) requires voter approval for all local tax increases
- Kern County and City of Bakersfield voters/legislators historically have rejected the concept of new or additional taxes; however....
- November 2016 Local Election Results:
  - Delano voters approved extension of 1% add-on sales tax
  - Ridgecrest voters approved 1% add-on sales tax
  - Wasco voters approved 1% add-on sales tax
  - 7 of 8 Kern school bond measures passed, including countywide college district bond (\$502 million)

# Common Local Revenue Measures

- Add-On Sales Tax
- Parcel Tax
- Hotel Tax
- Business License Tax
- Utility User Tax

# Types of Non-School Local Tax Measures

November 2016



# General vs. Special Tax Measures

- General tax measure: approved by a simple majority - 50 percent plus one vote - if the tax revenue is designed to go into the general fund for unspecified use
- Special tax measure: If tax is earmarked for a specific use or special fund, a two-thirds supermajority vote is required for approval
- Hybrid: general tax measure + advisory measure
  - Advisory measure is a separate majority + one ballot measure that specifies the use of the general tax measure funds should that tax measure pass
- Historical data shows general tax measures, regardless of type, have a 66 percent success rate since 2001
- Special tax measures, regardless of type, have a 47 percent success rate since 2001

# Local Add-On Sales (Transactions and Use) Taxes

- The transactions and use tax may be imposed at a rate of  $1/8^{\text{th}}$  cent (.125 percent) or a multiple thereof
- The ordinance proposing the tax must be approved by a two-thirds vote of all members of the City Council
- Ballot measure costs are determined by several factors; Expect \$100,000+ in election costs
- If for general purposes, the tax must be approved by a majority vote of the voters in the city
- If for specific purposes, the tax must be approved by a two-thirds vote of the voters in the city
- The maximum combined rate of transactions and use taxes in any location may not exceed 2 percent (not applicable in Bakersfield)

# Local Add-On Sales (Transactions and Use) Taxes

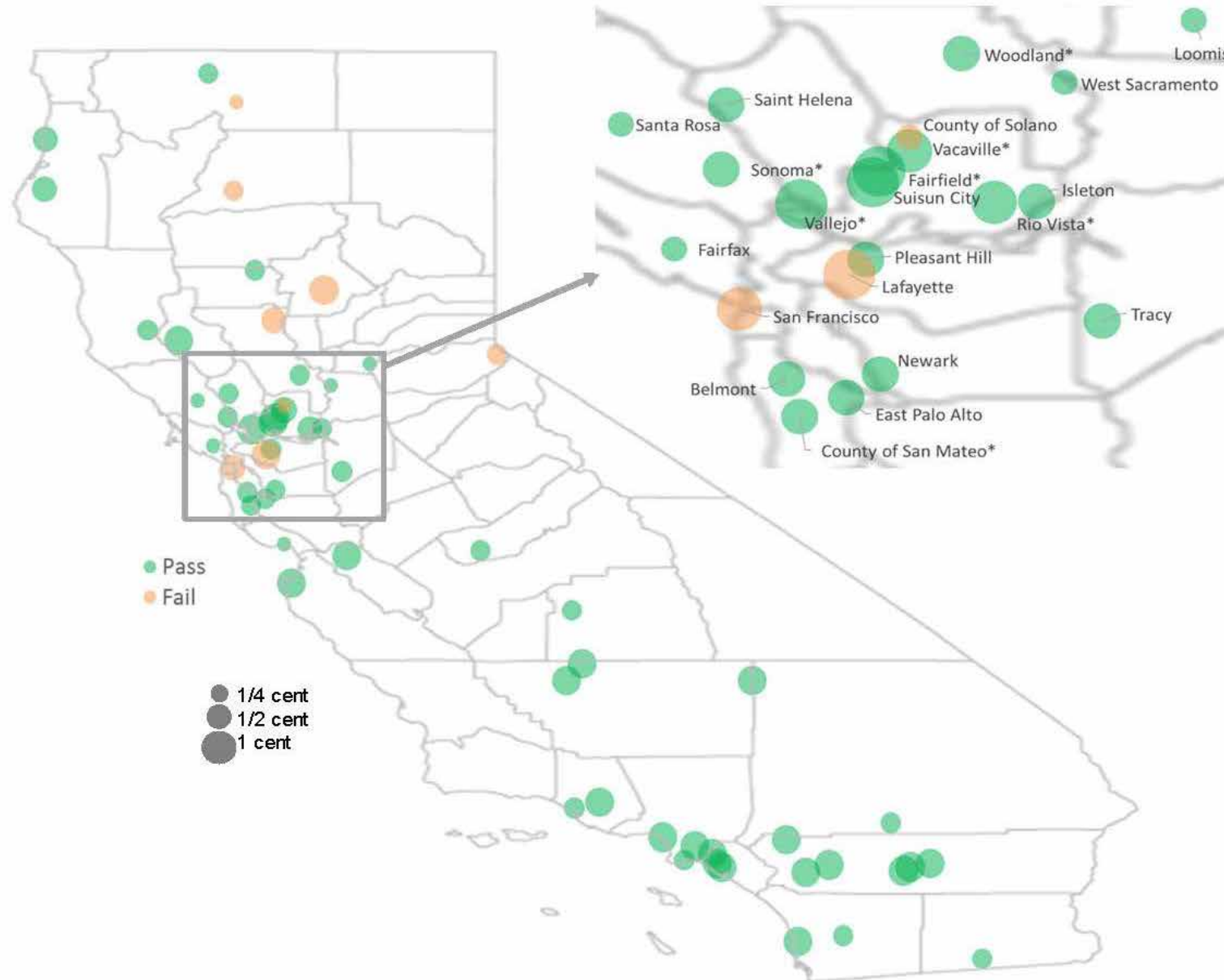
- If approved by voters, the new tax becomes effective the first day of the first calendar quarter more than 110 days after the adoption of the ordinance by the voters
  - Example: November approval = collections begin in April
- Board of Equalization charges a one-time processing fee not to exceed \$175,000 to implement the new tax district
- BOE also charges ongoing administrative fees to remit the new sales tax revenues to the City, dependent on a variety of factors (City is charged a similar fee now for the base 1 percent)



# Local Add-On Sales (Transactions and Use) Taxes

- 68 City add-on sales tax measures active throughout CA as of April 2017
- Local tax measure results from the November 2016 election:
  - The most common type of local revenue (non-school) tax measure was a general add-on sales tax measure
  - 51 of the 59 general measures passed (86 percent)
  - 15 of the 30 special measures passed (50 percent)
- Historical Data, 2001 to 2012
  - 174 general sales tax measures on ballot; 116 passed (66 percent)
  - 61 special sales tax measures on ballot; 27 passed (44 percent)

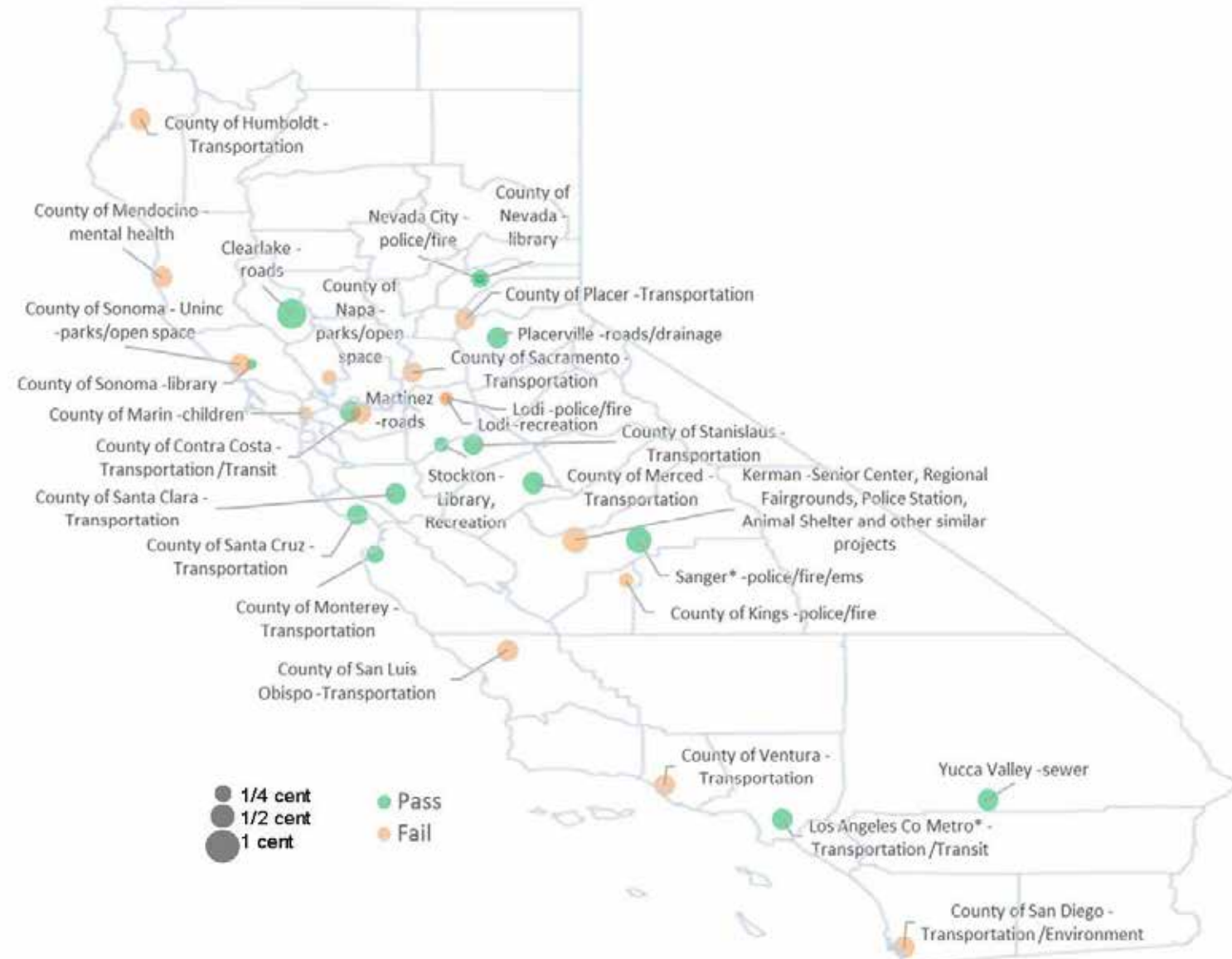
**Transactions and Use Taxes**  
**Majority Vote, General Purpose**  
November 2016



# Transactions and Use Taxes

## Two-thirds Vote, Special Purpose

November 2016



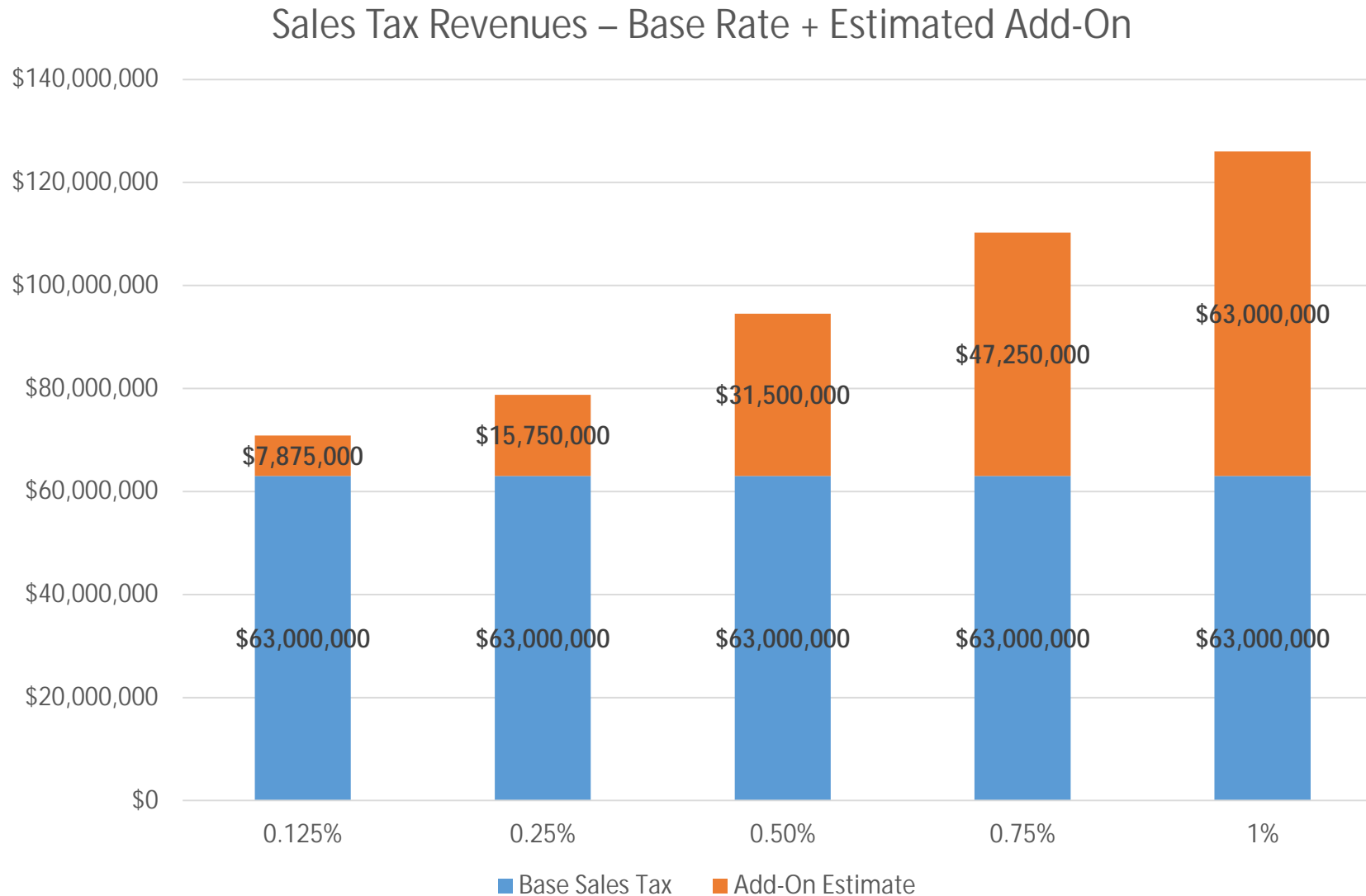
# Local Add-On Sales (Transactions and Use) Taxes

Rank	City	County	State Base Sales Tax Rate	County Add-On Rate	City Add-on Rate	Total Sales Tax Rate
1	Los Angeles	Los Angeles	7.25%	1.50%	0%	8.75%
2	San Diego	San Diego	7.25%	0.5%	0%	7.75%
3	San Jose	Santa Clara	7.25%	1.50%	0.25%	9.00%
4	San Francisco	San Francisco	7.25%	1.25%	N/A*	8.50%
5	Fresno	Fresno	7.25%	0.73%	0%	7.98%
6	Sacramento	Sacramento	7.25%	0.50%	0.50%	8.25%
7	Long Beach	Los Angeles	7.25%	1.50%	1%	9.75%
8	Oakland	Alameda	7.25%	2%	0%	9.25%
9	Bakersfield	Kern	7.25%	0%	0%	7.25%
10	Anaheim	Orange	7.25%	0.50%	0%	7.75%
11	Santa Ana	Orange	7.25%	0.50%	0%	7.75%
12	Riverside	Riverside	7.25%	0.50%	0%	7.75%
13	Stockton	San Joaquin	7.25%	0.50%	1.00%	8.75%
14	Chula Vista	San Diego	7.25%	0.50%	0%	7.75%
15	Irvine	Orange	7.25%	0.50%	0%	7.75%
16	Fremont	Alameda	7.25%	2.00%	0%	9.25%
17	Santa Clarita	Los Angeles	7.25%	1.50%	0%	8.75%
18	San Bernardino	San Bernardino	7.25%	0.50%	0.25%	8.00%
19	Modesto	Stanislaus	7.25%	0.125%	0%	7.38%
20	Fontana	San Bernardino	7.25%	0.50%	0%	7.75%

# Local Add-On Sales (Transactions and Use) Taxes

- The City currently receives 1 percent of the 7.25 percent sales and use tax; \$63 million projected in FY 2017-18
- No additional sales tax currently assessed beyond the 1 percent
- Additional add-on sales tax allocated within General Fund is unrestricted in use
  - New positions, programs and services
- Potential revenue from an add-on sales tax measure varies based on percentage of the additional sales tax

# Local Add-On Sales (Transactions and Use) Taxes



# Parcel Tax

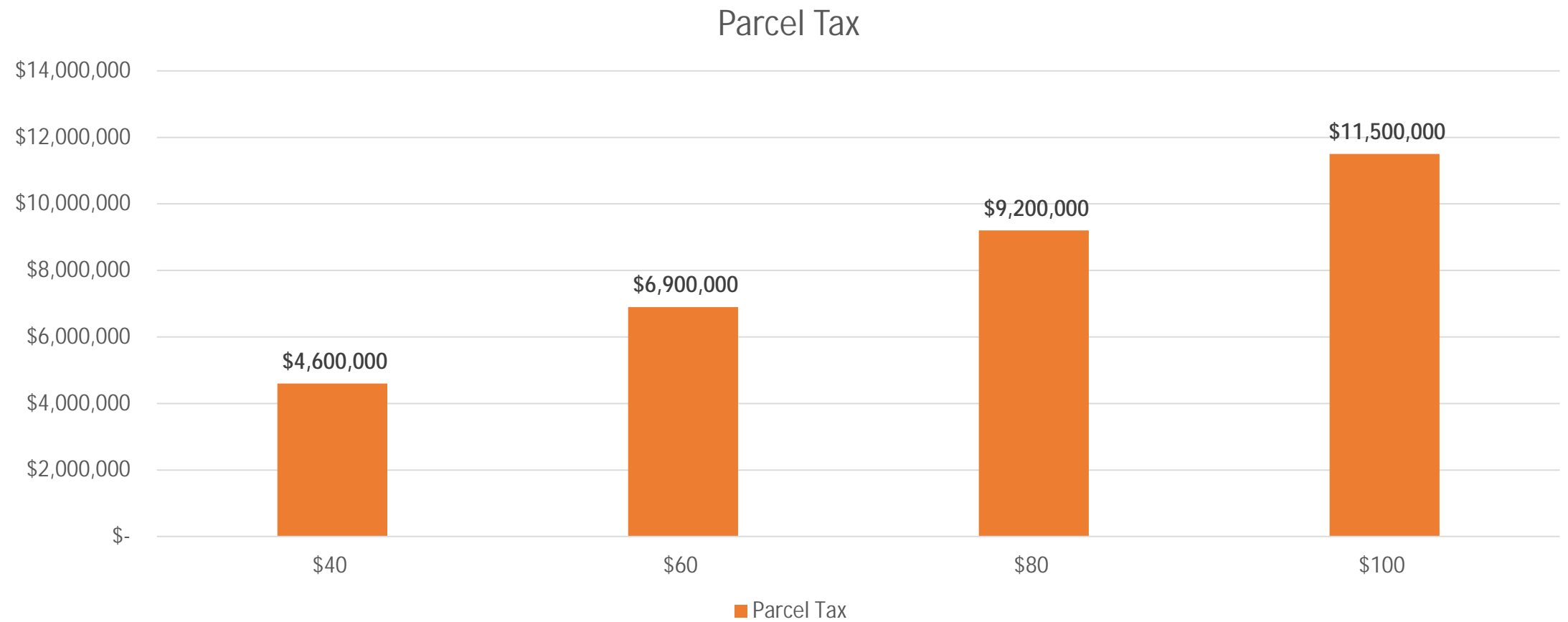
- Local governments that may impose parcel taxes include cities, counties and special districts, such as schools, hospitals and public safety districts
- Parcel taxes are imposed on parcels of property – sections of land identified by number by the assessor of each county
- A parcel tax is different from a traditional ad valorem property tax, in that it is imposed on a per parcel basis, and is not based on the value of the property
  - Not tax deductible
- Based on either a flat per-parcel rate or a rate that varies depending upon use, size, and/or number of units on each parcel
- Two-thirds vote of the public is required to approve parcel taxes (no exceptions)
- Exemptions can be written into the measure – senior citizens, undeveloped property, government property, low-income, etc.

# Parcel Tax

- Among cities that enacted flat-rate parcel taxes between 2002 and 2012, the median was \$60 per parcel
- Local tax measure results from the November 2016 election:
  - The second most common type of local revenue (non-school) tax measure was a parcel tax:
  - 23 of the 39 parcel tax measures passed (58 percent)
- Historical Data, 2002 to 2013
  - 396 parcel taxes measures on ballot; 180 passed (45 percent)
- Generally, measures for fire and emergency medical services were more successful than others
- The most successful measures were more broad-based public safety measures which permitted use of the funds for fire, medical and police services
- 115,000± individual parcels within the City boundaries



# Parcel Tax



# City Involvement in Tax Measures

- City can:
  - Place a measure on the ballot
  - Prepare an objective and fact-based analysis on the effect of a ballot measure on the City and those the City serves
  - Distribute the analysis through regular City communications channels (web site, Gen Info, etc.)
  - Study a ballot measure and distribute report about the impacts
  - Make public presentations on staff recommendations in the event that the measure passes or fails
  - Adopt a position on the measure, as long as that position is taken at an open meeting where public comment is received

# City Involvement in Tax Measures

- Staff and elected officials cannot:
  - Engage in campaign activities on while on City time or using City resources
  - Use City resources (including office equipment, supplies, staff time, vehicles or public funds) to engage in advocacy-related activities, including producing campaign-type materials, Door-to-door canvassing or performing campaign tasks
  - Use public funds to pay for campaign-related expenses (for example, television or radio advertising, bumper stickers, and signs) or make campaign contributions
  - Use City computers or email addresses for campaign communication activities
  - Use City communication channels to distribute campaign materials (for example, internal mail systems, City bulletin boards, or the City's email or intranet systems)
  - Post links to campaign websites on the City's website
  - Give preference to campaign-related requests to use City facilities

# Timelines

- General tax elections must be consolidated with a regular election of the governing body (November 2018)
- Special taxes may be on the ballot for a regular or special election
- Consultant? Voter surveys?
- City council must call election on measure 88 days before election

Questions?