



**CITY OF MODESTO
COUNCIL AGENDA REPORT**

DATE OF MEETING:

June 28, 2022

Date: June 7, 2022

TO: Mayor and City Council

FROM: Joseph P. Lopez, City Manager

SUBJECT: City of Modesto General Sales Tax Ballot Measure

CONTACT: Steve Christensen, Budget Manager, schristensen@modestgov.com
209-577-5390

DESCRIPTION:

Consider: (1) Approving a resolution of the Modesto City Council calling an election to be held on November 8, 2022, for voter consideration of a ballot measure seeking voter approval to impose a one-cent transactions and use (sales) tax for general city services; requesting the Board of Supervisors of the County of Stanislaus to consolidate the municipal election with the general election to be held on November 8, 2022; requesting certain services of the Registrar of Voters of Stanislaus County with respect to the consolidated General Municipal Election; and establishing policies and procedures in connection with such an election; and (2) Introduce by title only and waive the first reading of an ordinance adding Article 12 to Chapter 2 of Title 8 of the Modesto Municipal Code imposing a transaction and use tax. (Funding Source: General Fund)

STRATEGIC PLAN ELEMENT:

This item supports the City of Modesto 2020-2025 Strategic Plan focus on Governance and Service Delivery under Goal H: Achieve Financial Sustainability.

BACKGROUND:

On January 12, 2022, the City Council held a workshop and was provided information showing the state of the City's General Fund as well as its various revenue and expenditure benchmarks compared to seven other cities comparable in size and service. The benchmark information provided by the firm, Management Partners, demonstrated how much Modesto lags behind other similar cities in terms of General Fund revenues and expenditures per capita, sales tax revenue per capita, and public safety full-time equivalent (FTE) position counts, as well as parks and recreation expenditures.

After being presented this information, Council directed staff to begin exploring the idea of a possible sales tax ballot measure through the initial step of having a consultant conduct a public opinion/polling survey to gauge citizen response to a possible general sales tax measure.

Through an informal Request for Proposal (RFP) process, the firm TBWBH Props & Measures and True North Research was chosen to conduct this survey.

On April 21, 2022, during the Finance Committee Budget Workshops, True North Research and TBWBH Props & Measures presented their findings from the survey that was conducted. The random sampling survey was done with a random sampling of 1,117 registered voters likely to participate in the November 2022 election. It was conducted with a mixed approach using email, text, and telephone to conduct the survey with a random sample in both English and Spanish over interviews that lasted an average length of 16 minutes. The overall margin of error was $\pm 2.9\%$.

The results of the survey showed favorable results for a potential ballot measure that would establish a one-cent sales tax, until ended by voters, with citizen oversight. The survey showed that 65% of the sample would be in favor from this initial ballot test with an answer of “definitely yes” or “potentially yes.” The survey then went a step further by introducing negative statements about a potential sales tax measure to the sample and then gauging the responses after hearing potential arguments against the measure. The survey showed that this final ballot test only changed the outcomes by 5%, with those in favor decreasing to 60% with a “definitely yes” or “probably yes” answer in support of a potential measure.

Below are the key takeaways from the results of the public opinion/polling survey:

Positive Signs

- Voters value the services they receive from the City and see an opportunity for improvement.
- Strong natural support for proposed measure (65%).
- All ballot tests are well above the simple majority (50% + 1) required for passage of a general tax, even after opposition arguments.

Challenges

- Negative arguments gain some traction.
- Potential hyper-partisan November 2022 election environment.
- Unknowns: trajectory of pandemic, inflation, international conflict.

At the end of the Finance Committee Budget Workshops and after hearing the results of the public opinion/polling survey, the Finance Committee passed a motion directing the City Manager to prepare a Measure for a one-cent sales tax increase and forward it to Council.

DISCUSSION:

The City of Modesto continues to face deficits that it has seen in its budget since the Great Recession in 2008. This structural deficit has been systemic and ongoing. In fact, it took 10 full years for the City’s revenues to recover from the Great Recession. Despite the increase in service demands over the years, significant cuts have been made to every portion of the City’s budget, impacting public safety, parks, road conditions and traffic safety, and our ability to combat blight and homelessness.

Staffing has been reduced by 27% (224 FTEs) in the General Fund departments. This includes 77 sworn police positions, 56 fire personnel, and 92 positions in other General Fund departments. These reductions in staffing have corresponded to reduced levels of services

which are detrimental to the City and achieving the Council's goals. These reductions have occurred over time and have resulted in Public Safety now being 80% of the City's General Fund Operating Budget. Simply put, revenues have never caught up with the costs of providing services to citizens.

The City continued through the shutdowns of the COVID-19 pandemic and weathered the economic uncertainty that surrounded the last few years, but that was only done through the addition of one-time funds from the State and Federal governments in the form of Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan Act (ARPA) funding. These dollars are running out in the next fiscal year and will no longer be available to assist in balancing the budget and addressing any General Fund shortfalls beyond Fiscal Year 23-24.

Due to state funding formulas, the City of Modesto simply doesn't receive enough General Fund revenue as compared to other benchmark cities. In a study completed by Management Partners, information was provided to Council at the Council Workshop held on January 12, 2022, that showed the disparity in general fund tax revenue (property and sales tax) that is received by the City of Modesto in comparison to seven other comparable cities in California. The cities used in the study were Bakersfield, Glendale, Oxnard, Roseville, San Bernardino, Santa Rosa, and Stockton. Below are two key takeaways from the study:

- Modesto's sales tax revenue (per capita) is 61% less than the average of other benchmark cities and is growing at a slower rate.
- Modesto's General Fund expenditures per capita are 36% less than the peer average, and if Public Safety expenditures are excluded, Modesto's General Fund expenditures per capita are 87% less than the peer average.

The last point underscores the stark difference in funding for non-Public Safety functions such as Parks and Recreation, Code Enforcement, Economic Development, Finance, Human Resources, etc., through the General Fund. The Management Partners study also suggests that other California cities' revenues recovered while Modesto's did not. Other cities' economies recovered on their own, or they asked their voters for increases to their sales tax that were approved and augmented their General Fund revenues.

The City of Modesto is a close-knit community that is facing big-city issues like homelessness, blight, and criminal activity. A potential influx of revenue that could be generated from a one-cent sales tax measure would allow the City to proactively develop a plan to improve City services and the quality of life for the citizens of Modesto. This additional funding would help to improve City Services such as:

- Addressing homelessness.
- Providing quicker responses to 911 emergencies, including DUIs, gang, and drug-related crimes.
- Supporting neighborhood police patrols, crime prevention, traffic enforcement, fire protection, and paramedics.
- Fixing and maintaining roads and sidewalks.
- Keeping parks, recreation facilities, and public areas safe and clear of trash and litter.

One important distinction to make is that all funds raised by the one-cent sales tax measure would be used to fund community services and facilities in Modesto. The monies received through the tax would be utilized to address Modesto's unique needs and priorities. No funds could be taken away by the State or County.

Community oversight will be put into place to ensure that all funds are spent appropriately. Pursuant to the proposed Sales Tax Ordinance, if adopted by the voters, the Council will appoint a nine-member Oversight Board by June 30, 2023, to meet publicly at least semi-annually to review all revenues and expenditures of funds from the tax authorized by this Ordinance, review annual audit reports related to the tax measure, and make at least one written annual report to the City Council at a public meeting summarizing the Oversight Board's findings. Nothing would prevent the Oversight Board from providing the Council with additional reports. The Oversight Board will consist of a representative from each Council district and three "at-large" Modesto residents. Strong preference for members that represent a cross-section of the community, possibly including, but not limited to, representatives of schools, local trade associations, chambers of commerce, nonprofit organizations, senior citizen groups, non-partisan political organizations (such as the League of Women Voters), tax-payer association, and neighborhood organizations (including individuals retired from such groups).

As a result of staff analysis, City Council discussions, and community input, the Finance Committee directed the City Manager to prepare the required documents placing a general one-cent sales tax Ballot Measure on the November 8, 2022 election for voter consideration. The attached Resolution would place the sales tax measure on the November 8, 2022 election, which includes the attached sales tax ordinance. The Resolution also requests that the Board of Supervisors and the Registrar of Voters of Stanislaus County consolidate the election and set forth policies and procedures in connection with the election. If adopted by the Council, the Resolution would place the following question for voter consideration at the November 8, 2022 election:

"To fund general city services in the City of Modesto, such as police patrols, gang, drug, and crime prevention; fire protection, paramedic/911 emergency response; addressing homelessness; cleaning-up trash and illegal dumping; keeping streets, parks, sidewalks, landscapes and infrastructure safe, clean, and well-maintained, shall an ordinance establishing a one-cent sales tax be adopted, providing \$39,000,000 annually for general government use in Modesto until ended by voters, with citizen oversight and all money locally controlled?"

FISCAL IMPACT:

If a one-cent sales tax measure is placed on the ballot in November and were to be approved by the voters with a 50% + 1 vote, the City would receive approximately \$39 million annually in additional sales tax revenue into its General Fund. These additional funds would then be made available to fund general City Services, such as police patrols, gang, drug and crime prevention units, fire protection, paramedic, and 911 emergency response. The funds would be made available to use for addressing homelessness, cleaning-up trash and illegal dumping, and keeping streets, parks, sidewalks, landscapes, and infrastructure safe, clean and well-maintained. If enacted, the City would not begin to see revenue from the sales tax ballot measure until April 2023. The first year of revenue from the measure would be estimated to be \$9.75M.

The spending from the general sales tax augmentation would be reviewed by a Community Oversight Board that would receive periodic updates on the spending made from the sales tax measure proceeds. Additionally, financial audits of the funds would be made, and the City Council would receive annual updates to ensure that all voter-approved funds are spent as promised.

If the measure does not pass, the City would not be able to maintain or enhance critical areas that are important to the citizens of Modesto. The General Fund long-range forecast shows that the deficit continues to increase in the out-years, which will only lead to additional reductions or the use of the City's General Fund reserves to balance future budgets. Without additional funding, the City will be required to align expenditures with current revenue streams in such a way that critical services will need to be reduced or eliminated. In order to provide a balanced budget, the City has reached a point where future cuts will need to come from the largest portions of the budget that can ill afford further reductions, Public Safety.

COMMITTEE RECOMMENDATION:

This item was not presented to a sub-committee, but it is being brought forward to City Council based upon the motion from the Finance Committee at the April 21, 2022 Finance Committee Budget Workshop meeting that directed the City Manager to prepare a Measure for a one-cent tax increase and forwarding to Council. The motion was passed with a 3-0 vote.

RECOMMENDED COUNCIL ACTION:

Staff Recommendations:

Resolution of the Modesto City Council calling an election to be held on November 8, 2022, for voter consideration of a ballot measure seeking voter approval to impose a one-cent transactions and use (sales) tax for general City Services; requesting the Board of Supervisors of the County of Stanislaus to consolidate the municipal election with the general election to be held on November 8, 2022; requesting certain services of the Registrar of Voters of Stanislaus County with respect to the consolidated General Municipal Election; and establishing policies and procedures in connection with such an election.

Introduce by title only and waive the first reading of an ordinance adding Article 12 to Chapter 2 of Title 8 of the Modesto Municipal Code imposing a transaction and use tax. (Subject to voter approval)

Approved by:

Joseph P. Lopez, City Manager

Attachments:

1. Resolution
2. Ordinance