

Capitola City Council

Agenda Report

Meeting: April 11, 2024

From: City Manager Department

Subject: Potential Ballot Measures



Recommended Action: Provide staff direction regarding potential tax measure(s) for placement on the November 5, 2024, General Election Ballot.

Background: In 2021, the City Council decided against proposing a revenue measure for the 2022 General Election ballot and directed staff to research and provide information about the viability of such measures in conjunction with the 2024 General Election. The adopted FY 2023-24 Budget allocated funding to poll Capitola voters to determine the viability of potential tax revenue measures before the 2024 General Election.

In November 2023, the Capitola Finance Advisory Committee (FAC) discussed polling potential revenue measures for the 2024 General Election and recommended polling an extension of Measure F and a General Obligation Bond, to assess how each type of tax measure would be received by voters. On November 21, 2023, the City Council authorized a contract with EMC Research to conduct polling with Capitola voters on potential revenue measures.

On March 14, 2024, EMC Research presented polling results from the survey their team conducted in January. The survey showed generally favorable results on the potential success of a ballot measure extending Measure F. The survey's key findings were:

- Capitola voters are optimistic about the City's job and essential functions.
- Majority of voters recognize the City's need for additional funding and are willing to maintain services through taxes.
- The top priorities for voters are maintaining public safety response; roads, sidewalks, and bike lanes; and the beach and new wharf.
- Support for renewing the expiring sales tax is well above the threshold.
- Support for a potential bond measure was closer to 50%; such a measure would require a supermajority to pass.

Since the March 14 meeting, staff has also learned that the Central Fire District is considering a bond measure for the November ballot of \$31 per \$100,000 assessed home value to address fire protection and life-saving services.

Discussion: As seen in the City's budget forecast (attached), a fiscal shortfall in coming years is projected due to the expiration of Measure F, increased pension liabilities, and the steady erosion of retail sales tax when adjusted for inflation. The forecast assumes a 4.25% annual personnel cost increase for the next ten years, based on the average personnel cost increase from the past ten years (FY2013-14 to now). Steady general fund revenue ensures the City's ability to serve Capitola residents and to accomplish community-driven projects, such as visioning the Capitola Wharf.

At prior City Council meetings, several potential tax measures for the November ballot have been discussed, including:

Extension of Measure F: The extension of Measure F, a quarter-cent sales tax, polled favorably with 78% of likely voters supporting the sales tax renewal. This extension would maintain the current \$1 million general fund revenue the City receives annually from Measure F.

Replacing Measure F with New Half-Percent Sales Tax: Replacing Measure F with a new half-percent sales tax would provide \$2 million in annual general fund revenue, beginning in 2025. Ballot language

that includes “replacing” an existing measure typically receives more support from voters than an entirely new tax.

Based on survey data, potential measure language that aligns with voters’ top priorities would include maintaining public safety response, roads, the beach, and new wharf. Many other priorities, such as youth recreation programs and support for small businesses, also resonate with large portions of the community.

While a general obligation bond measure of \$49 per \$100,000 assessed home value (totaling \$30 million) was also polled, results showed a more difficult path to approval. Support was tested after the sales tax opposition argument, which may have impacted those surveyed. Only 50% of likely voters responded that they would vote yes to approve such a measure.

Revenue from a general obligation bond would be restricted to facilities and would be unavailable to fund public safety and general municipal operations. Bond measures also currently require a 66% voter approval rate, because they raise restricted revenue. Staff recommends revisiting this idea as an option in future election years.

In collaboration with EMC Research and the City Attorney, staff developed potential draft language for a half-percent ballot measure:

To protect essential city services including public safety and emergency services; repair potholes, maintain streets, sidewalks, bike lanes, beaches, the new wharf, and recreation programs for youth; improve traffic safety; and support local businesses, shall City-of-Capitola replace its quarter-percent sales tax, approved by voters in 2016, with a one-half percent sales tax, generating an estimated \$2.2 million annually for general government use, for ten years, with independent audits, and all funds staying local?

Staff requests that, during the April 11 meeting, the City Council identify a preferred ballot measure option from the options outlined above. Upon receiving direction, staff will proceed by engaging community stakeholders and informing voters about impacts of a potential ballot measure.

Staff recommends that the adoption of a resolution to place a measure on the ballot be considered in June, in conjunction with the resolutions requesting an election. The last day for the City to submit a measure to be placed on the ballot is August 9.

Fiscal Impact: The Santa Cruz County Elections Department provided an estimate of \$17,405 for each measure placed on the November ballot. The cost is determined per voter per contest, and the registered voter count in the City of Capitola is approximately 6,900.

Attachments:

1. Long-Term Budget Forecasts

Report Prepared By: Chloé Woodmansee, Assistant to the City Manager

Reviewed By: Jim Malberg, Finance Director; Julia Gautho, City Clerk

Approved By: Jamie Goldstein, City Manager