



STAFF REPORT

July 27, 2022
File Number 0650-20

SUBJECT

CONSIDERATION OF RESOLUTION AND ORDINANCE PLACING THE ESCONDIDO PUBLIC SAFETY AND ESSENTIAL SERVICES REVENUE MEASURE BEFORE VOTERS AT THE MUNICIPAL ELECTION ON NOVEMBER 8, 2022.

DEPARTMENT

City Manager

RECOMMENDATION

Request the City Council (a) adopt Resolution No. 2022-98R calling for an election submitting a proposed one cent general transactions and use (sales) tax increase to the voters; (b) introduce Ordinance No. 2022-15 amending the Escondido Municipal Code to establish a one cent sales tax to be administered by the California Department of Tax and Fee Administration, including provisions for citizens' oversight and accountability; and (c) adopt Resolution No. 2022-99 expressing the Intent of the City Council in adopting Ordinance No. 2022-15.

While the introduction of additional taxes on people at any time should never be done casually, after several months of outreach and engagement with residents and community groups joining this important discussion, staff recommends placing this item on the November 2022 ballot to allow the voters the opportunity to consider an issue which will address the long-term fiscal health of the City of Escondido for years to come.

Staff Recommendation: Approval (City Manager: Sean McGlynn)

Presenters: Joanna Axelrod, Deputy City Manager/Director of Communications & Community Services; Christina Holmes, Finance Director

FISCAL ANALYSIS

The Registrar of Voters estimates that the cost of placing the Public Safety and Essential Services Revenue Measure on the November 8, 2022 ballot will be up to \$80,000, which includes printing and distributing the ballot question, impartial analysis, supporting/opposing view, and rebuttal. If the measure passes, preparatory costs and ongoing administration costs charged by the California Department of Tax and Fee Administration will be paid from the revenues received.

PREVIOUS ACTION

On October 13, 2021, City Council appointed Mayor McNamara and Councilmember Morasco to serve on the Revenue Measure Subcommittee.

On October 25, 2021, the Revenue Measure Subcommittee met to review the City's long-range financial forecast, proposed timeline, and discuss analytical and Community Survey needs.

On November 8, 2021, the Revenue Measure Subcommittee met to discuss the timeline, community survey interests and topics and to review previous Community Survey questions.

On November 17, 2021, the Revenue Measure Subcommittee met to review Community Survey questions.

On December 13, 2021, the Revenue Measure Subcommittee met to review and consider the draft Council presentation.

On January 12, 2022, the Revenue Measure Subcommittee met to review the Community Survey results.

On January 24, 2022, the Revenue Measures Subcommittee met to receive a budget outreach update.

On January 26, 2022, City Council received information on the City's [California Employees Retirement System pension obligations](#).

On February 2, 2022, City Council received a Financial Status Report for the [FY2021/22 Second Quarter Ending December 31, 2021](#).

On April 4, 2022, the Revenue Measure Subcommittee met to review revenue scenarios.

On April 20, 2022, the Revenue Measure Subcommittee provided an [update to the full City Council](#), and it provided direction to staff to move forward with conducting a survey of likely November 2022 voters as to their support for a sales tax increase. The [Potential Local Funding Scenarios spreadsheets](#) that were presented with that agenda item are included here as Attachment "1".

On May 2, 2022, the Revenue Measure Subcommittee met to receive a staff update on City Council requests for information.

On May 9, 2022, the Revenue Measure Subcommittee met in executive session to review poll questions.

On May 11, 2022, City Council received a Financial Status Report for the [FY2021/22 Third Quarter Ending March 31, 2022](#) and held the [FY2022/23 Operating Budget Briefing](#).

On May 25, 2022, a [Pension Obligation Bond Workshop](#) was conducted.

On June 8, 2022, a Public Hearing for the [adoption of the FY2022/23 Operating Budget](#) was conducted and continued to June 22, 2022.

On June 20, 2022, the Revenue Measure Subcommittee received a briefing on the topline results of the survey.



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On June 22, 2022, the City Council adopted Resolution No. 2022-69 [approving the FY2022/23 Annual Operating Budget](#) and adopted Resolution No. 2022-89 authorizing [judicial validation proceedings](#) relating to the issuance of bonds to refund certain pension obligations.

On July 13, 2022, the City Council [reviewed and considered the revenue measure survey results](#) and provided direction to staff.

On July 18, 2022, the Revenue Measure Subcommittee met to discuss the next steps for consideration of placing a local sales tax measure on the November 2022 ballot.

BACKGROUND

Financial Needs, Challenges, Cost Control Measures, and Revenue-Generating Efforts

Like many other cities in California, the City of Escondido (“City”) is experiencing significant financial challenges as a result of continued state revenue take-away, dissolution of redevelopment, state and federal mandates, increasing service demands, and a growing population. Furthermore, nearly all of the sales tax generated locally goes to the State, County or SANDAG. A locally controlled sales tax measure will ensure that Escondido has local control over local funding for the services residents expect and deserve. In addition, and perhaps most significantly, as a service-based organization, approximately 84% of the City’s budget is devoted to employee-related costs, which are growing primarily as a result of pension-related payments the City is required to make. The City provides retirement benefits to its employees who provide the City services residents rely on, by contracting with the California Public Employees Retirement System (CalPERS). Retirement benefits are funded by contributions from both employees and the City (“normal” annual service costs) as well as investment earnings. CalPERS invests contribution payments with the goal of earning sufficient returns over the long-term to pay defined benefits as promised and cover CalPERS expenses. Historically, more than 60% of all funds paid to CalPERS retirees comes from investment earnings. The estimated long-term average return expected to be earned on investments is referred to as the “discount rate”. When lower investment earnings occur, future contributions must increase to make up the expected difference and an unfunded accrued liability (“UAL”) is created. The UAL represents the shortfall or gap between what is needed to pay retiree benefits versus how much in current assets the City actually has in its accounts with CalPERS. The UAL is calculated annually and changes depending on the demographic trends of the plan participants. As noted above, the UAL is essentially the City’s debt owed to CalPERS, and CalPERS currently charges the City a 6.8% interest rate on this debt with a mandatory payment schedule.

Pension cost increases are one of the most significant financial challenges facing most cities throughout the state and are primarily due to factors outside of the cities’ control, namely actuarial assumption changes made by CalPERS and below average investment returns. Required annual payments to CalPERS are 15% of the total General Fund operating budget at \$19.7 million in FY2022/23, and are expected to continue to grow over the next twenty years. CalPERS and the League of California Cities have detailed

various options available to help manage pensions. There is no perfect solution to managing a City's pension obligations and many agencies employ multiple methods to manage their pension obligations. The following actions have been taken to address pension costs.

- Lower Benefit Tiers for Employees. Taking advantage of state legislation, two new lower benefit tiers have been established with CalPERS: Tier 2 Employees hired in 2011-12 (depending on employee group) are required to pay the full employee contribution upon hiring. Tier 3 was created in 2013 as a result of the California Public Employees' Pension Reform Act (PEPRA) and establishes a reduced tier of benefits for new CalPERS employees. The employee share for PEPRA employees is higher than that for Tier 1 and Tier 2 employees.
- Employee Cost Sharing. In 2018, to help address the long-term budget impacts as a result of CalPERS pension liabilities, the Firefighters Association, Police Officers Association, and Maintenance & Operations bargaining units agreed to share in the costs of the employer's CalPERS contribution. Prior to the agreements, Classic CalPERS Safety members were contributing 9% and Classic CalPERS Miscellaneous members were contributing 8% of their salary towards the employee's retirement benefit. The amount increased by 1% each year until the additional contribution reached 3% for each group. Classic CalPERS Safety members are currently contributing 12% and Classic CalPERS Miscellaneous members are contributing 11% towards their CalPERS retirement benefit.
- Prepayments to CalPERS. Since FY2017/18 the City has prepaid the annual Unfunded Accrued Liability payment at the beginning of each fiscal year to save 3.5% (approximately \$800,000/year).
- Section 115 Pension Trust. In February 2018, City Council authorized the establishment of a Section 115 Irrevocable Pension Trust Fund. The Trust Fund is used to set aside and hold money to meet future pension liabilities and can be used to provide economic relief during recessionary cycles and/or rate increases that are significantly above anticipated projected employee rate increases. Funds placed in this Trust can also be used to offset the City's "normal" CalPERS costs, such that if funds are necessary for other purposes, a certain amount of flexibility is present. Another benefit is that funds held in the Trust can be invested in the same manner as funds in a typical pension fund rather than as part of the City's General Fund, which means a potentially higher rate of return. As of March 31, 2022, the Section 115 Pension Trust Fund has a balance of \$25,840,638 which includes City contributions of \$24,406,430 plus investment earnings net of expenses of \$2,616,620.
- Pension Obligation Bonds. In June 2022 City Council authorized and the City initiated judicial validation proceedings to consider issuing Pension Obligation Bonds (POBs). Actual savings achieved from a POB will depend on market conditions. During the validation period, which typically takes about four months, staff and the financing team will refine the various options for the POBs. These options may include evaluating different sizes of POBs, amortization shapes, maturities (length of term,) and targeted funded ratios.

Despite all of these measures, and the City's efforts to fund projects with grants and other sources of onetime funds, it has not been enough to meet growing costs and demand for services.

Operating revenue has not kept pace with the growing costs of providing City services, and as a result, the General Fund long-term financial plan has projected annual deficits creating a structural budget deficit. To address this projected shortfall, the City has maintained a hardline on expenditures and staff are continuously seeking measures that ensure efficiency, while enhancing basic operations. Decreased spending has been accomplished by:



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- Reducing City staff by over 140 employees from 2008 to 2021 (10% reduction) as the City's population grew by more than 10%.
- Controlling pension and employee benefit costs by transferring the responsibility to employees to fund a larger portion of the total costs.
- Forming strategic partnerships to provide services, such as the Escondido Library, to save an estimated \$400,000 annually.
- Investing in technology to reduce ongoing costs and expand online services.
- Deferring maintenance and capital project costs of more than \$8 million annually for the City's parks, playgrounds, libraries, recreation centers, pools, streets, sidewalks, bridges, storm drains, fleet, and other City facilities. Deferred maintenance costs will only continue to increase in the future.

While these actions have resulted in controlling annual operating expenses, this has resulted in the lowest per capita spending for the services Escondido provides in comparison to other cities in San Diego North County. Escondido spends approximately \$703 per citizen compared to the two other full-service cities in North County, the City of Carlsbad has a per capita expense of \$1,368, and Oceanside's per capita expense is \$912. The City of Escondido has been consistently doing more with less.

In addition to cost-control measures, revenue-generating opportunities have also been explored:

- In April 2020, City Council adopted an updated fee schedule and cost allocation plan to ensure that certain fees charged by the City for the services being delivered equal the City's cost of providing the services including direct and indirect costs, departmental overhead, and City administration.
- A fiscal analysis was performed to evaluate the cost of providing police, fire, public works, community and general services to new residential development, and the results determined that the revenue received is less than the cost to provide ongoing services.
- In May 2020, the City Council established the CityWide Community Facilities District that would fund City services for new residential development by offsetting ongoing costs of new development with a special tax collected from the new residential property owners in the District. Future revenue resulting from the Services CFD is dependent on future development in the City.
- In May 2021, staff presented City Council options for legalizing the cultivation and sale of cannabis products in Escondido. City Council's direction to staff was not to pursue any legalization efforts due to the significant costs associated with the administration of cannabis regulation and the potential public safety issues.
- City staff continues to explore the options for creation of a Short-Term Rental Program, which may generate additional revenue from short-term rental hosts. The establishment of a program

would involve a large degree of administrative expense, the future fiscal impact is uncertain. A preliminary review provided by a prospective consultant estimates additional annual lodging taxes of less than \$100,000 potentially recoverable by the City.

Outreach and Education

Over the last several months and as part of this year's budget process, the City engaged over 2,000 residents through The Escondido Discussion and scientifically conducted surveys to assess City service needs and resident priorities.

Through this extensive conversation, residents identified funding priorities for City services including addressing homelessness; repairing and maintaining local streets, sidewalks and infrastructure; keeping parks and public facilities safe, clean and well-maintained; providing quick responses to 911 emergencies; and providing fire protection and paramedic services.

Escondido residents continue to prioritize fast emergency response times for 911 calls. This locally controlled funding would help the City to have enough police officers, firefighters, dispatchers, and paramedics to respond to 911 emergencies.

Public works services were also at the top of resident priorities. Additional locally controlled funding is needed to keep up with basic repairs and maintenance to public facilities, storm drains, streets, and sidewalks. If these repairs are not taken care of now, they will be a lot more expensive to fix in the future.

In addition to holding four City hosted events, including one at the Park Avenue Community Center for Seniors, City staff outreached to the following groups:

- Auto dealership owners
- Brookside HOA
- Casa de Amigos
- Community Alliance for Escondido (Café)
- Downtown Business Association
- East End Club
- Emerald Heights HOA
- Escondido Democratic Club
- Escondido Education COMPACT
- Escondido Republican Club
- Greater Escondido Chamber of Commerce
- Kiwanis
- Library Support Groups
- Mercado District
- Neighborhood Leadership Forum
- Old Escondido Neighborhood
- Orchard Church
- Rotaries
- San Diego County Taxpayers Association
- Universidad Popular

As part of each discussion and through extensive outreach including social media, utility bills, partnerships with the local school districts, and City newsletters, community members have been encouraged to complete an online survey to share their priorities for the City of Escondido. As of July 1, 2022, feedback from 904 community members has been provided. Based on the responses received, the community confirmed the five priorities identified in the Community Opinion Survey.

In addition, information regarding the City's financial challenges and updated status reports have been shared at public City Council meetings during Quarterly financial updates, three budget workshops, and three pension workshops.

On October 13, 2021, City Council appointed Mayor McNamara and Councilmember Morasco to serve on the Revenue Measure Subcommittee. Over the course of 11 meetings, the Subcommittee has performed the following responsibilities:



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- Reviewing the budget and anticipated structural budget deficit
- Soliciting, gathering, and discussing community input
- Exploring options for increasing revenue and closing the structural budget deficit
- Making a recommendation to the full Council about a path forward for securing additional, locally-controlled funding

The Subcommittee has been meeting regularly since October of 2021 and worked with the full City Council to approve the FY2022/23 budget once again utilizing one-time sources of funds, deferring necessary expenses, and making cuts to services.

Transparency and Resolution of Intent

In addition to the Resident Satisfaction Survey, the full City Council provided direction to the Subcommittee to move forward with conducting a scientific poll of potential November 2022 voters to determine their support for a potential revenue measure. The survey was conducted from May 19 – May 29, 2022, on a random sample of 1,022 registered voters likely to participate in the November 2022 election. Participants were recruited via email, text message, and telephone. Data was collected in both English and Spanish. With an overall margin of error of +/- 3%, the survey concludes that:

- Respondents continue to be highly satisfied with the quality of life and City services provided in Escondido;
- Respondents continue to prioritize public safety, public works, and addressing homelessness; and
- A one cent sales tax until ended by voters shows solid viability for the November ballot across all demographic categories.

The final report was presented to City Council on July 13, 2022 and is included here as Attachment “2” It states in part:

“Most Escondido voters have a positive opinion of the quality of life in the city, and they value the services they receive from the City of Escondido while also seeing opportunities for improvements. Together, these sentiments translate into solid *natural* support (ranging between 62% to 68%) for establishing a one cent sales tax to provide funding for general city services such as police patrols and crime prevention, fire protection, paramedic, and 911 emergency response, keeping streets, sidewalks, infrastructure, parks, and facilities safe, clean, and well-maintained, addressing homelessness, traffic

management, and other city services. The natural support levels for the measure tested in this study are well above the simple majority (50% +1) that is required for passage.

The results of this study suggest that if structured appropriately, focused on projects and services that voters identify as their priorities, *and* combined with effective public outreach/education and a solid independent campaign, the proposed sales tax measure has a good chance of passage if placed on the November 2022 ballot.

Consistent with the findings of other similar studies, this survey found that voters tend not to assign much weight to the duration of a measure in their decision calculus. At the Initial Ballot Test, overall support for the sales tax measure was modestly lower for the measure that would last until ended by voters (62%) when compared to the measure with a 20-year duration (68%.) However, this difference evaporated quickly as the interview proceeded, with support at the Final Ballot Test being 63% for a measure that would last until ended by voters, 64% for a measure that would extend for 20 years. At no point after the Initial Ballot Test was there a statistically significant difference in support for the proposed measure based on the duration.”

If the Measure is placed on the ballot and approved by voters, beginning in FY-2023/24, the following financial accountability measures would be required to ensure transparency, citizens’ oversight, and strategic reviews and evaluation.

- Funds from a revenue measure would be budgeted, tracked, accounted, and reported separately from all General Fund revenues;
- A Citizens’ Oversight Committee (COC) would be appointed by the City Council with a range of expertise including but not limited to finance, accounting, and engineering. These meetings would be subject to state Brown Act open meeting regulations;
- An initial and annual spending plan shall be prepared by the City Manager and presented to the COC and City Council for their consideration and final decision prior to the Council’s consideration of the City’s annual budget;
- An annual independent audit conducted by the City’s independent auditors;
- A page dedicated to sharing educational information about the City’s financial status, pension liability, service needs, and how the revenues generated by this measure are spent would be created on the City’s website.

As the Revenue Measure Subcommittee suggested, Resolution No. 2022-99 – Resolution of Intent builds on the Ordinance requirements around transparency and oversight and includes the following highlights:

- Upfront acknowledgment of the impact of the Unfunded Accrued Liability on the City’s finances and the existence of critical financial circumstances that warrant placement of a local sales tax measure on the ballot for voter consideration;
- Commitment to engage the community in the yearly budget process in a transparent, honest, and meaningful way;
- Intention that at least 50% of any additional revenue be directed to support the City’s police and fire departments;
- Strategic review every 5 years by the Citizens’ Oversight Committee and City Council.

Ballot Language Options

On July 13, 2022, City Council provided direction to staff to return with options. Elections Code §13247 requires the ballot question to be limited to 75 words.



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Option A – Staff Recommendation

To provide funding for general services in the City of Escondido, such as police patrols and crime prevention; fire protection, paramedic, and 911 emergency response; keeping streets, sidewalks, infrastructure, parks, and facilities safe, clean, and well maintained; addressing homelessness, traffic management, and other City services, shall an ordinance establishing a 1 cent sales tax be adopted, providing approximately \$28,000,000 annually for City services until ended by voters, with independent audits, citizen oversight, and all money locally controlled?

The ballot language presented in Option A sticks very closely to that tested in the recent survey. There are just three changes:

- '28 million dollars' is shown as a single number (\$28,000,000). This saves two words and was always intended – spelling out '28 million dollars' was done in the survey to make sure the interviewer read the figure correctly.
- 'one cent' is changed to 1 cent
- 'for general government use' is changed to 'for City services'. General government use was referenced in the survey in anticipation of a particular statewide proposition qualifying for the November 2022 ballot that would change how general tax ballot language must appear. The measure did not qualify for the ballot, so the easier to understand 'for City services' language, is recommendation, which also uses 1 less word.

Because Option A sticks closely to the ballot language that was tested in the survey, the survey results are applicable to this version and the survey remains a statistically reliable estimate of voters' opinions about the proposed measure.

Differences in the duration (e.g., until ended by voters, 20 years, etc) and tax rate (1 cent, ¾ cent, ½ cent) are also not expected to significantly impact the viability of the measure, as the survey tested differences in duration and tax rate and found similar levels of support and viability.

Changes to the ballot language, on the other hand, can have significant impacts on how voters respond to a measure and its viability – especially when these changes **introduce** items that voters do not fully understand, find confusing, or simply don't agree should be a use of measure proceeds, or **remove** items that voters find appealing. Even small changes to the ballot language in this manner can have large impacts

on the viability of a measure. For this reason, the recent survey results do not provide a statistically reliable estimate or guide to how voters may perceive Option B as it deviates from the tested language.

Thanks to City Council's leadership in soliciting multiple surveys of the community, we have verified that constituents clearly trust the City as a fiscal steward and the way funding is currently being spent. Strong support and viability for this option exist across every subgroup within the voting population of our community including:

- Political Party
- Age
- Gender
- Years in Escondido
- Child in household
- Household Party Type
- Homeownership
- Likely to Vote my Mail
- Likely June 2022 Voter

Option B – Pension

To provide funding for general services in the City of Escondido, such as police patrols, crime prevention, fire protection, paramedic, 911 emergency response; keeping streets, infrastructure, parks, and facilities safe, clean, and well maintained; reducing pension costs; addressing homelessness, traffic management, and other City services, shall an ordinance establishing a 1 cent sales tax be adopted, providing approximately \$28,000,000 annually for City services until ended by voters, with independent audits, citizen oversight, and all money locally controlled?

It is critical to note regarding Option B:

- Many other cities throughout the state of California are faced with similar financial hardships resulting from unfunded pension liability. However, out of the 201 sales tax revenue measures placed on ballots between April 2018 – June 2022, the City Clerk could only find one that included language referencing pensions from Carmel-by-the-Sea. As a community with a very high median income and a heavy reliance on tourists to pay the bulk of that sales tax, this example is an outlier.
- The City's consulting team who have assisted in hundreds of revenue measure efforts throughout their careers, strongly advise against the inclusion of the new language in Option B.
- The additional language in Option B has not been tested and therefore the statistical reliability of the poll results would no longer be applicable with this option.
- The poll tested pensions as both a potential negative argument and a potential use of the funds, which voters rated very low on their list of priorities. It can be reasonably assumed that adding this language into the ballot question will not be supported strongly enough to result in passage.

Sales Tax Cap



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The sales tax rate in Escondido is 7.75%, which is the base rate for San Diego County. This includes the statewide rate of 7.25% and a Countywide District tax of .50% for the TransNet Program initiated by SANDAG. *Of the total 7.75% collected, Escondido receives only 1%.*

- Under California Law, the combined taxes in any county cannot exceed 2%.
- The .50% for the TransNet Program is included in this cap, reducing the available Local Tax capacity in Escondido to 1.5%.

The state-imposed cap on sales tax means that the City has a limited window to approve an additional tax that would be locally controlled and stay in Escondido before another taxing agency claims the remaining 1.5%.

Critical Decisions for City Council to Make

Language:

- Option A – Staff recommendation and viable per poll results
- Option B - Pension

Rate:

To assist in the discussion at the April 20, 2022 City Council meeting, staff used its professional expertise, knowledge of the community, and the results of the Resident Satisfaction Survey to compile a series of scenarios at each potential funding rate exemplified by the terms “No New Revenue”, “Survive”, “Stabilize”, and “Thrive”. These are included again for reference as Attachment “2”. These do not represent an approved spending plan but are merely illustrative of the choices and conversations the City Council, Citizens’ Oversight Committee, and community would be able to have in order to determine what the appropriate investment should and will be if a measure is placed and adopted by voters.

- 1 cent – Staff recommendation and viable per poll results; estimated to generate ~\$28 million annually
- $\frac{3}{4}$ cent – Estimated to generate ~\$21 million annually
- $\frac{1}{2}$ cent – Estimated to generate ~\$14 million annually

Duration:

- Until ended by voters – Staff recommendation and viable per poll results
- Number of years (e.g. 15, 20, etc.)

Ballot Argument in Favor

California Elections Code (section 9282 (b)) allows for arguments to be filed by the City Council, a member or members of the Council authorized by the Council, individual voters eligible to vote on the measure, bona fide associations of citizens, or any combination of voters and associations. Should the City Council vote to approve placing this revenue measure on the November 2022 ballot, City Council will have the option to write the argument in favor.

If multiple arguments for or against the measure are received, the City Clerk will select the arguments to be presented to the voters in the voter information pamphlet based on priorities described in state law. If the City Council or individual Councilmembers prefer to submit an argument in support of the proposed measure, the City Council or Councilmember argument would take precedence over any other submissions.

Recommendation

Staff requests the City Council:

- Adopt Resolution No. 2022-98R calling for an election submitting a proposed general transactions and use (sales) tax increase to the voters;
- Introduce Ordinance No. 2022-15 amending the Escondido Municipal Code to establish a sales tax to be administered by the California Department of Tax and Fee Administration, including provisions for citizens' oversight and accountability; and
- Adopt Resolution No. 2022-99 expressing the Intent of the City Council in adopting Ordinance No. 2022-15.

ATTACHMENTS

- a. Attachment "1" - Potential Local Funding Scenarios Spreadsheets
- b. Attachment "2" - Revenue Measure Poll Report

RESOLUTIONS

- a. Resolution No. 2022-98R
- b. Resolution No. 2022-99 – Resolution of Intent

ORDINANCES

- b. Ordinance No. 2022-15