



## Santa Cruz County CA

Adopted  
Aug 7, 2018 9:00 AM

### Agenda Item DOC-2018-697

Consider report on revenue options and funding strategies to address the County's critical unmet needs, resolution to provide for the submission of a countywide measure authorizing a one-half cent increase in the sales tax on transactions in the unincorporated area to the qualified voters of the County of Santa Cruz at the General Election to be held on November 6, 2018, and resolution establishing budget priorities should voters approve the sales tax measure, as outlined in the memorandum of the County Administrative Officer

#### Information

<b>Department:</b>	County Administrative Office	<b>Sponsors:</b>	County Administrative Officer Carlos J. Palacios
<b>Functions:</b>	General Government		

#### Links

**Reference** [DOC-2018-661](#) : Consider report on the County's critical unmet needs, and direct the County Administrative Officer to return on August 7, 2018 with a further report on revenue options and funding strategies to address the County's critical unmet needs, as outlined in the memorandum of the County Administrative Officer

#### Attachments

[Board Memo](#)  
[Resolution 181-2018 Calling Election, Sales Tax Measure \(eSign\)](#)  
[Resolution 182-2018 Supporting Budget Priorities \(eSign\)](#)  
[05\\_Web comments, Citizens\\_UserDiscussion](#)  
[\(Upload New Attachment\)](#)

#### Financial Impact

As identified during budget hearings, the County's critical unmet needs include ongoing programs estimated at \$1,840,000 and one-time matching funds for park improvements of \$4,325,000 for a total immediate need estimated at \$6,165,000. If approved, a half-cent sales tax could generate \$5,750,000 annually and address the County's critical unmet needs and other essential County services and infrastructure improvements.

#### Board Letter

##### **Recommended Action(s):**

- 1) Accept and file report on revenue options and funding strategies to address the County's critical unmet needs;
- 2) Adopt resolution calling for a special election to be held on Tuesday, November 6, 2018, to submit to the qualified electors of the County of Santa Cruz a countywide measure of whether an ordinance authorizing a one-half cent increase in the sales tax on transactions in

the unincorporated area of the County for a period of twelve years should be adopted and consolidating said special county election with the gubernatorial general election to be held on November 6, 2018;

- 3) Adopt resolution establishing budget priorities should voters approve the sales tax measure on November 6, 2018;
- 4) Advise the Auditor-Controller-Treasurer-Tax Collector and County Counsel of the requirements for independent analysis contained in the resolution calling for the election and to transmit it to the Santa Cruz County Clerk no later than 5:00 pm on August 17, 2018;
- 5) Direct the Clerk of the Board to submit the resolution calling for the election to the Santa Cruz County Clerk no later than 5:00 p.m. on August 10, 2018; and
- 6) Direct the County Administrative Office to return after the November 6, 2018 General Election with necessary actions should an increase be authorized by the voters.

## **Executive Summary**

Despite good fiscal stewardship, including increasing reserves and improving credit ratings, lowering pension liabilities and maintaining prudent staffing levels, the County still has critical unmet needs that require funding strategies to provide for the general welfare of the community and to leverage additional state and federal funds. This includes funds for parks capital improvements, a year-round homeless shelter and navigation center to reduce unsheltered individuals and families living on the streets, and behavioral health crisis intervention through an evidence-based focused deterrence program matching law enforcement with treatment and supportive services. The purpose of this memo is to provide a report on addressing these needs.

## **Background**

On June 26, 2018, the Board received a report on the County's critical unmet needs that were raised by departments during budget hearings. On the same day, the Board approved a Strategic Plan that establishes goals in the areas of Comprehensive Health and Safety, Attainable Housing, Reliable Transportation, Sustainable Environment, Dynamic Economy, and County Operational Excellence. The County's critical unmet needs and Strategic Plan goals are interrelated and described in further detail below.

## **Critical Unmet Needs**

The County exercises financial discipline and has largely avoided many of the difficult fiscal choices facing local governments throughout California, meeting Board-established goals for fiscal reserves ahead of schedule and improving credit ratings to levels not seen since the Great Recession. However, the County still has critical unmet needs in the areas of homeless services, behavioral health intervention, parks improvements and more. The County's ability to meet these needs is impeded by low levels of funding due to a variety of factors, including historically low federal support for homelessness compared to other jurisdictions, reduced economic activity and sales tax revenues compared to other Bay Area counties, and other factors.

Based on information brought forward by departments, the County Administrative Office has summarized the most critical unmet needs and estimated costs below.

## Ongoing Unmet Needs

- **Focused Deterrence Initiative**

The County currently offers a suite of low-income mental health programs, including crisis respite services, supportive housing, drop-in services, and a variety of outreach through the Homeless Persons Health Project, Downtown Outreach Workers, Mobile Emergency Response Teams and law enforcement liaisons. However, a small subset of clients remain resistant to services, including some who engage in criminal conduct.

This evidence-based proposal would match law enforcement with behavioral health treatment professionals through a team approach that brings focused, intensive resources to those in highest need and impact on public safety. It is estimated that this team will require up to eight new professional staff in the Sheriff's Office and Health Services Agency, along with equipment and funding to maximize success, costing an estimated \$1 million annually. This supports the Health Equity, Community Support, Local Justice and Behavioral Health goals in the Strategic Plan.

- **Homeless Navigation Center**

To establish year-round, 24-hour shelter and service centers for homeless in both North and South County. The South County center would serve approximately 40 adults, and the North County center would serve approximately 150. Currently, the County funds a winter emergency shelter operation for \$290,000. It is estimated that a regional year-round navigation center could cost \$765,000-\$880,000, leaving an ongoing unmet need of approximately \$590,000. This supports the Homelessness goal in the Strategic Plan.

- **Parks Operations and Maintenance**

To fund up to three park maintenance and recreation staff, costing an estimated \$250,000 annually, to provide additional oversight for new parks and park improvements, as well as staff to increase youth and senior programs. This supports the Outdoor Experience, Natural Resources, County Workforce and County Infrastructure goals in the Strategic Plan.

## One-time Unmet Needs

### **Parks Capital Improvements**

- **Chanticleer Park**

To fulfill the County's commitment of \$1.125 million to match private-sector funding of \$2.5 million in grants and donations and build Chanticleer Park including "LEO's Haven," the County's first all-inclusive playground for children of all abilities, which will include numerous accessible structures and features. Staff continue to work with the community on funding additional improvements not reflected here, including a community garden and picnic tables, a paved lot and security lighting, a water recharge system and tank house, and more.

- **Simpkins Family Swim Center**

To restore aging pool infrastructure including pumps, heaters, and deck. These

improvements, which are estimated at \$1.35 million, will result in savings on heating costs and reduce water loss from the pool itself, and improved lighting around the pool would allow the County to offer more night classes, helping Simpkins become more financially self-sufficient.

- **Heart of Soquel Linear Parkway Phase II**

To provide matching funds of \$530,000 and unlock \$1 million in secured grants and other funding to create a linear parkway adjacent to Heart of Soquel Park, providing greater connectivity between Soquel Creek, the Soquel Village Commercial Corridor, Soquel Elementary School and Lions Park. Opening the river to the surrounding neighborhoods has additional benefits as we look to further activate Heart of Soquel Park with events and other attractions, such as ongoing Family Movie Nights.

- **The Farm Park**

To provide matching funds of \$235,000 and unlock \$460,000 in secured grants and other funding to replace the pedestrian bridge between Tee Street and the Farm Park and make other improvements. This project would also improve Americans with Disabilities Act (ADA) accessibility, safety lighting and neighborhood connectivity throughout the park.

- **Felton Nature Park**

To provide funds of \$400,000 that match \$440,000 in grants and other funding to design and construct a Nature Park adjacent to the planned new Felton Library. The project is the first of its kind on the San Lorenzo Valley, offering an outdoor learning space for environmental literacy programming, interactive nature discovery zones, and an interpretive nature loop trail. This may be the first local library in California to pair the many offerings of a modern library with an outdoor education facility and nature park.

- **Aptos Village Park**

To renovate the Aptos Village Park Community Center and kitchen, upgrade windows and lighting, add parking, replace irrigation and stairway and various other improvements, which are estimated at \$435,000. This facility was previously the site of several community festivals, and site improvements will help restore its potential as a venue for similar events, as well as for weddings and other smaller occasions.

- **South County Parks**

To provide matching funds of \$250,000 that unlock other resources to address deferred maintenance, increase park safety and access, and establish new or expanded park facilities focusing on youth-oriented outdoor education and recreation.

Together, these parks improvements support the Outdoor Experience and Community Vitality goals in the Strategic Plan.

## **Analysis**

### **County Revenue Authority**

Boards of Supervisors can raise local revenues through taxes, assessments or fees. Each of these local revenue sources has its own constitutional and statutory authority and unique laws governing its use. A county can only impose those taxes, assessments and fees, which the Legislature or the Constitution allows the county to impose and which are approved by either a simple or two-thirds majority of local voters, per Propositions 13 and 62.

A Board of Supervisors may not impose new taxes without a vote of the people. Subject to a vote, a Board may impose a utility users tax, a business license tax, a sales tax (transactions and use tax) and a transient occupancy tax (hotel or bed tax). If the proceeds from these taxes are designated for general purposes, a majority voter approval is required. If the tax proceeds are restricted to special purposes, two-thirds voter approval is required. Proposition 218 applies additional constraints to county taxing authority, as well as fees and assessments.

**Revenue Options**

After careful consideration, and per Board direction, staff have identified two primary revenue options to fund these critical unmet needs:

- Local Transactions and Use Tax (Sales Tax) in the Unincorporated Area
- Local Transient Occupancy Tax in the Unincorporated Area

**Sales and Use Taxes** are collected on consumer goods and services as a percentage of the amount purchased. The sales tax rates by local jurisdiction is as follows:

	Capitola	Santa Cruz	Scotts Valley	Watsonville	Unincorporated
<b>Bradley Burns</b>					
State	<b>6.00%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>6.00%</b>
Local Jurisdiction s	<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>
Local Transportation Fund	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>
<i>Subtotal</i>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.25%</b>
<b>District Taxes</b>					
SC MET RO	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>
Library Authority	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>
Measure D	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>
<i>Subtotal</i>	<b>1.25%</b>	<b>1.25%</b>	<b>1.25%</b>	<b>1.25%</b>	<b>1.25%</b>
<b>Local Voter Approved</b>	<b>0.50%</b>	<b>0.75%</b>	<b>0.50%</b>	<b>0.75%</b>	<b>0.00%</b>
<i>Total</i>	<b>9.00%</b>	<b>9.25%</b>	<b>9.00%</b>	<b>9.25%</b>	<b>8.50%</b>

Under current state law, the maximum combination of transactions and use tax rates in any location may not exceed 2% above the statewide base of 7.25%, or 9.25%. The City of Santa Cruz recently added a new transactions and use tax of 0.25% for a new total of 9.25%.

Based on actual FY 2017-18 Sales Tax revenues, every 0.25% increase to the sales tax generates an estimated \$2,875,000 in new revenue. Therefore, the following table outlines different rate increase along with the amount that would be collected:

<b>Sales Tax Rate</b>	<b>Estimated Sales Tax Revenue</b>
<b>1/4 Cent</b>	<b>\$2.87M</b>
<b>1/2 Cent</b>	<b>\$5.75M</b>
<b>3/4 Cent</b>	<b>\$8.62M</b>

Sales taxes can be levied as either a general tax or special tax. In practice, most sales taxes are general taxes that support general local government services. General taxes can be used at the discretion of the governing body, while special taxes require a two-thirds super-majority voter approval and can only be used for the special uses outlined in the approving ballot measure.

**Transient Occupancy Tax (TOT)** is imposed by most cities and counties on hotels, motels and similar lodging establishments on persons staying overnight for thirty days or less. Typically, the lodging provider collects the tax from the guests and turns the funds over to the County or City. The County currently imposes an 11% TOT, which was approved by voters as a general tax. Together with local cities, TOT has been levied locally for more than two decades.

The last increase to the TOT, Measure N, was passed by voters in November 2012 and increased the TOT in the unincorporated area from 9.5% to 11%, a figure arrived at after careful negotiation with the Santa Cruz County Hospitality and Lodging Association (SCCHLA) and the Cities of Santa Cruz and Capitola. Though it only required a simple majority, Measure N passed with 72.8% support.

Based on actual FY 2017-18 TOT tax revenues, every 0.5% increase to the TOT generates \$381,000 in new revenue. Therefore, the following table outlines different rate increases along with the amounts that would be collected:

<b>TOT Rate</b>	<b>Estimated TOT Revenue Increase</b>
<b>11.5%</b>	<b>\$381K</b>
<b>12.0%</b>	<b>\$762K</b>
<b>12.5%</b>	<b>\$1.1M</b>

When proposed as a general tax, TOT generates wide public support. In the November 2016 election, 11 out of 16 general TOT measures around California passed. Conversely, TOT measures as a special tax only had one passage out of five measures around the State.

Should the County pursue TOT, the lodging/tourism industry will want to know the added value of the tax increase. Additionally, the County will want to work with the incorporated cities to raise TOT rates in conjunction so that TOT rates are consistent. Currently, staff believe more work needs to be done amongst the jurisdictions and the lodging industry to raise the TOT rate beyond the current 11%. Furthermore, the limited supply of lodging facilities in the unincorporated area mitigates the revenue generated from any tax increase.

### **Funding Strategy**

Based on the County's critical unmet needs, staff recommends that the Board approve a funding strategy to place a measure on the November 2018 ballot to increase the sales tax on transactions in the unincorporated area for a limited period of time. Doing so would make County sales taxes consistent with rates charged in local cities. A sales tax increase could generate ongoing revenue estimated at \$5.75 million annually. If approved on November 6th, the tax would be effective 110 days later. Approximately 25% of sales tax revenues, or \$1.4 million, would be received in FY 2018-

19. These revenues could be used to fund critical programs at mid-year for approximately \$437,500, as identified during budget hearings. The remaining balance of \$1 million could be used to augment funding needed for critical park capital improvements.

Staff also propose using \$1.85 million of the State reimbursement for unfunded mandates, which is owed to the County for prior year services, and \$1 million of FY 2017-18 budget to actuals savings. With the reserve goal having been met, these one-time savings totaling \$2.85 million could be used to augment the funding needed for critical park capital improvements, for a total of \$3.85 million. These funds could be also used to leverage other funding sources, such as park funds from Proposition 68 estimated at \$500,000, which would complete the funding for the park projects with most immediate needs.

### **Ballot Measure**

The procedure for increasing the current general sales tax for transactions in the unincorporated area is to submit the proposed measure to the electorate by either resolution or ordinance under provisions of the Government Code and the Elections Code. Attached is a resolution calling an election for November 6, 2018 on the question of whether the County should add a one-half cent increase in the transactions and use tax for a period of twelve (12) years in the unincorporated area.

If the Board adopts the resolution, the ballot question would read as follows:

**Unincorporated Area Retail Transaction and Use Tax.** To continue funding 9-1-1 emergency response, paramedic, sheriff, fire, emergency preparedness, local street repairs, mental health services, homelessness programs, parks, economic development programs and other general county services, shall the County of Santa Cruz be authorized to increase by ordinance the sales tax on retail transactions in the unincorporated area of the County by one-half cent for twelve years, providing approximately \$5,750,000 annually, subject to annual audits and independent citizens oversight?

Yes       No

As a separate and distinct action, the Board must adopt an ordinance that adds the one-half cent transactions and use tax. There is no requirement that the ordinance be adopted prior to referring the question to the voters. Instead, the Board is being asked to consider the attached resolution supporting budget priorities that address the County's critical unmet needs and other essential County services.

If the voters approve the increase, the Board will need to consider and approve an amendment to the sales tax ordinance. In addition, staff will return with an amendment to the contract with the California Department of Tax and Fee Administration (CDFTA) for the administration of the increase to the transaction and use tax for the unincorporated area.

### Body

#### **Strategic Plan Elements:**

The agenda item supports all goals in the Strategic Plan by providing funding for the County's critical unmet needs and other essential County services and infrastructure improvements.

### Meeting History

**Aug 7, 2018 9:00 AM Video Board of Regular Meeting**  
**Supervisors**

 **Draft**

- 1) ACCEPTED AND FILED report on revenue options and funding strategies to address the County's critical unmet needs;
- 2) ADOPTED Resolution No. 181-2018 calling for a special election to be held on Tuesday, November 6, 2018, to submit to the qualified electors of the County of Santa Cruz a countywide measure of whether an ordinance authorizing a one-half cent increase in the sales tax on transactions in the unincorporated area of the County for a period of twelve years should be adopted and consolidating said special county election with the gubernatorial general election to be held on November 6, 2018;
- 3) ADOPTED Resolution No. 182-2018 establishing budget priorities should voters approve the sales tax measure on November 6, 2018;
- 4) Advised the Auditor-Controller-Treasurer-Tax Collector and County Counsel of the requirements for independent analysis contained in the resolution calling for the election and to transmit it to the Santa Cruz County Clerk no later than 5:00 pm on August 17, 2018;
- 5) Directed the Clerk of the Board to submit the resolution calling for the election to the Santa Cruz County Clerk no later than 5:00 p.m. on August 10, 2018; and
- 6) Directed the County Administrative Office to return after the November 6, 2018 General Election with necessary actions should an increase be authorized by the voters.

**RESULT: ADOPTED [UNANIMOUS]**  
**MOVER:** John Leopold, First District Supervisor  
**SECONDER:** Greg Caput, Fourth District Supervisor  
**AYES:** John Leopold, Zach Friend, Ryan Coonerty, Greg Caput, Bruce McPherson

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