

## **MEASURE Q – CITY OF DEL MAR ONE CENT SALES TAX**

*August 2016*

**SDCTA Position:**

**NEUTRAL**

**Rationale for Position:**

The City of Del Mar operates with responsible financial planning and monitoring practices. Its budget has been balanced the last ten fiscal years, and it consistently maintains responsible reserve levels. The City has made several adjustments to its pension, staffing, sewage, and other programs that have resulted in significant savings for taxpayers.

The City's debt per capita has been slowly increasing, namely due to capital improvement projects. One area of concern to the SDCTA is that the City's budget for FY 2016 and FY 2017 increased by 75.6% and 50.9% from FY 2015, respectively. This is largely due to plans for funding the development of a new City Hall/Town Hall and infrastructure, street, and utility projects.

Notwithstanding the potentially misleading "independent oversight committee" on this general sales tax for which promised expenditures are not binding, the sales tax does have the potential of accelerating Del Mar's capital improvement projects. Such acceleration of projects can save on future increases in construction costs.

**Title:** Measure Q – City of Del Mar Sales Tax

**Jurisdiction:** City of Del Mar

**Type:** One cent sales tax

**Vote:** Simple majority

**Status:** On the November 8, 2016 General Election Ballot

**Issue:** Ongoing sales tax increase

**Description:** An ongoing sales tax increase of 1.00%, raising the total sales tax to 9.00%, for the purpose of funding City services and infrastructure.

**Fiscal Impact:** The measure is expected to generate approximately \$2 million per year, all of which would go to the City's General Fund. Direct costs of the measure are estimated to be between \$8,000 and \$15,000, plus a maximum of \$175,000 unknown charges from the Board of Equalization to cover its direct and indirect costs.

**Proposal:**

The Mayor of Del Mar has proposed an ongoing 1.00% sales tax increase. Passage of the measure would increase the sales tax rate within the City of Del Mar from 8.00% to 9.00%. The proposed language placed before voters on the November 8, 2016 ballot would read:

“To provide funding for general city services and infrastructure projects, such as improvement of streets and sidewalks, utility undergrounding, public landscapes, improvement of community parks, trails and recreation facilities; police, crime prevention, fire protection and other public safety services, shall an ordinance that establishes an ongoing one-cent sales tax be adopted, providing an estimated 2 million dollars annually for the City of Del Mar, requiring citizen oversight and independent audits, and all funds controlled locally?”

The City Council Staff Report indicated that revenues from the new tax are estimated to be \$2 million per year. If the measure were to pass, direct costs of the measure are estimated to be between \$8,000 and \$15,000, plus a maximum of \$175,000 unknown charges from the Board of Equalization to cover its direct and indirect costs, and an annual administrative fee. The tax would be implemented April 1, 2017.

#### *Citizens Oversight Committee*

The ordinance outlines the creation of a Citizens Oversight Committee to be appointed by the City Council that will contain no more than five Del Mar residents. Its purpose is to review and annually report on tax revenue and expenditure of said revenue. City employees, consultants, and vendors are not permitted to serve on the committee. The committee’s reports are to be presented to the City Council and available publicly.<sup>1</sup>

While oversight is beneficial to the taxpayer, the ordinance does not guarantee that the reviews and reports created by the committee will be completed by qualified independent sources. Furthermore, the language regarding the responsibilities of the committee is vague, and the City does not outline how the committee will be funded. Most importantly, this proposal is a general sales tax. Legally, legislators are permitted to appropriate such funds in whatever manner they see fit, so this “oversight” is potentially misleading to voters.

#### **Background:**

The statewide sales tax rate is 7.5%, and 6.5% of that revenue goes directly to the state. However, counties and municipalities can elect to implement additional local sales taxes to fund needs such as operations and transportation.

In 2003, California Senator Jack Scott introduced SB566, which amended the law regarding state Transactions and Use taxes to set the combined local rate limit to 2%. These taxes must be approved by two-thirds of the City Council. The taxes must be levied at a rate of 0.25% or a multiple thereof, and can be used for either general or specifically stated purposes. Taxes for general purposes need to be approved by a majority of voters (50%+1), whereas taxes for specific purposes need to be approved by a two-thirds vote.<sup>2</sup>

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<sup>1</sup> Del Mar City Council. *Meeting Materials from Monday, August 1 Regular Meeting*. Del Mar: Del Mar City Council, 2016.

<sup>2</sup> California Senate. *SB-566*. California Legislature, 2003-2004 Reg. Sess. Web.

Sales taxes cannot be applied to the purchase of necessities of life, including under specific circumstances food, health services and items, and housing; items and services that provide general public or industry benefit; and some other exempt and excluded items and services.<sup>3</sup>

The City of Del Mar has not implemented a sales tax before, so to gauge interest the Council hired a consultant to poll close to 25% of the city electorate. Approximately 71% of likely November 2016 voters expressed support for the measure, with a 3.5% margin of error<sup>4</sup>.

## **Municipal Profile:**

### Key Findings

- The City has run budget surpluses the last 10 fiscal years.
- The number of city employees has been relatively stable over the last ten years, with only 3 additional total employees since FY 2006. The ratio of employees per 1,000 residents has increased from 11.48 in FY 2006 to 12.98 in FY 2015 due mostly to a decrease in population.
- The City's debt ratio per 1,000 residents has been steadily increasing, most recently due to a loan with SANDAG meant to fund road and sidewalk improvements.
- The City has made several changes to reduce pension costs, including implementing second tiers for CalPERS, full employee contributions, and the creation of a pension reserve fund.

### Revenues vs. Expenditures

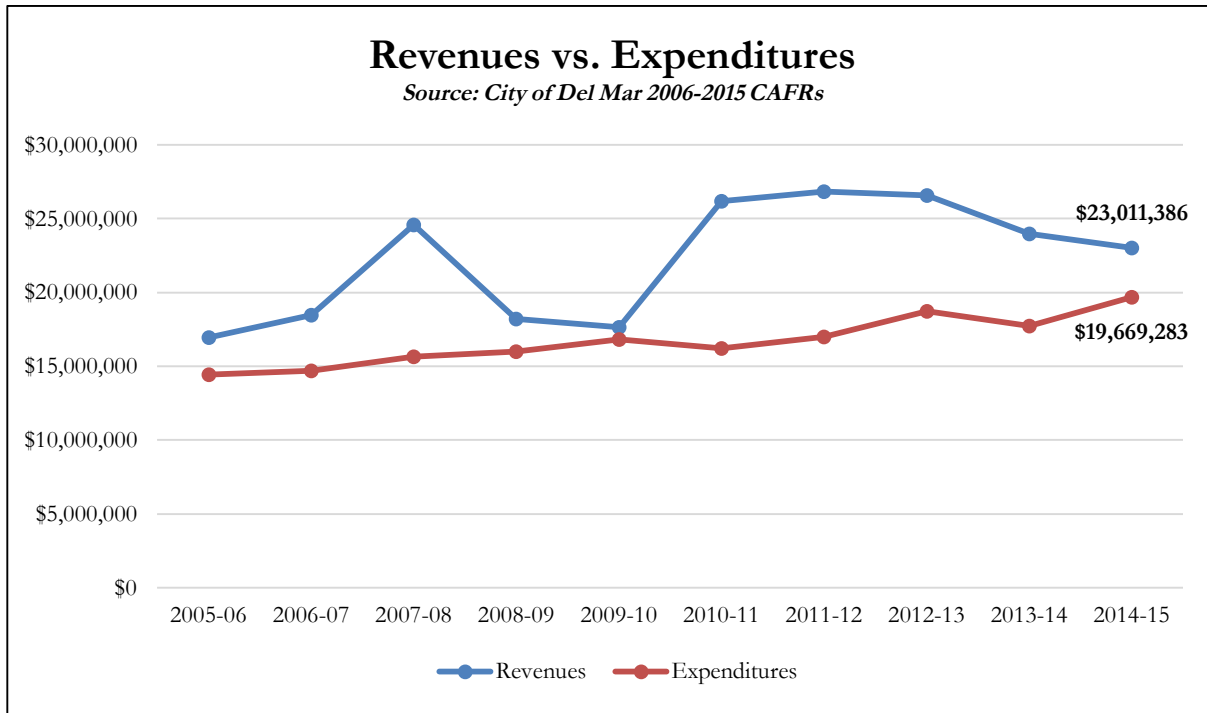
The city has run a budget surplus over the past ten fiscal years. The City's net position increased by 4.06% in FY 2014-2015, and its governmental fund expenditures decreased from the prior fiscal year due to completion of the North Torrey Pines Bridge project<sup>5</sup>.

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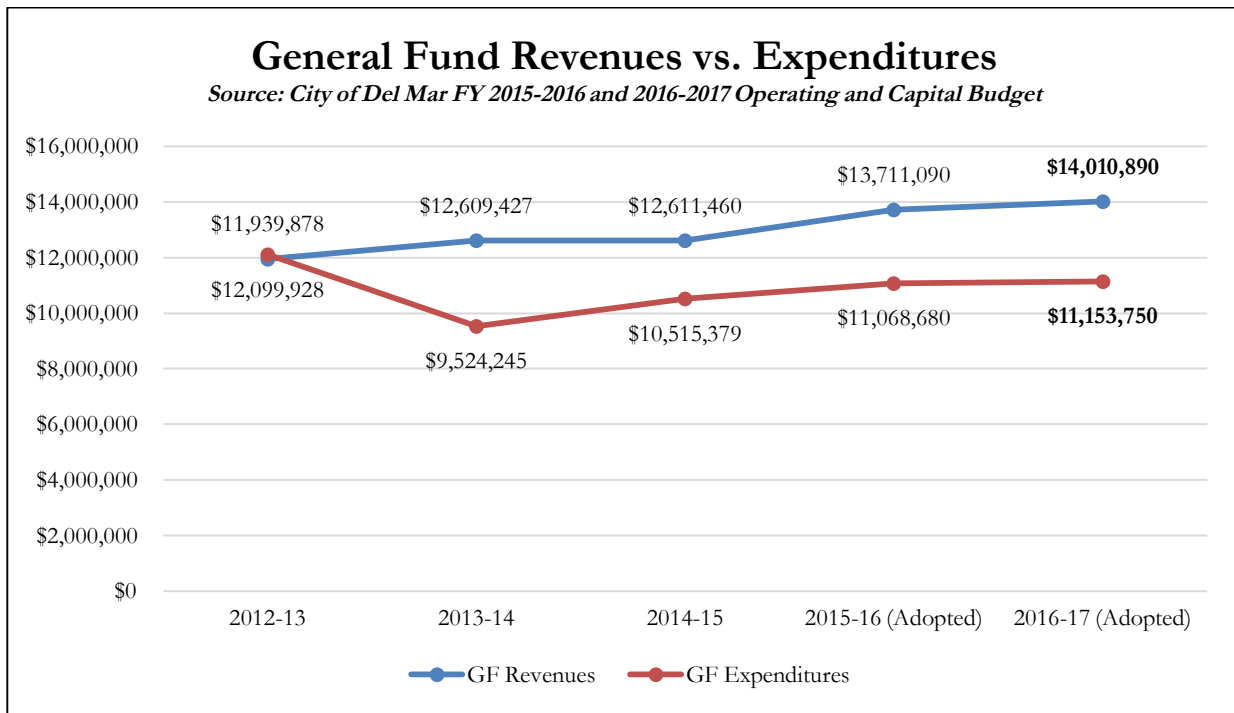
<sup>3</sup> California State Board of Equalization. *Sales and Use Taxes: Exemptions and Exclusions*. Board of Equalization, July 2014. Web.

<sup>4</sup> Information gathered from correspondence with the City of Del Mar.

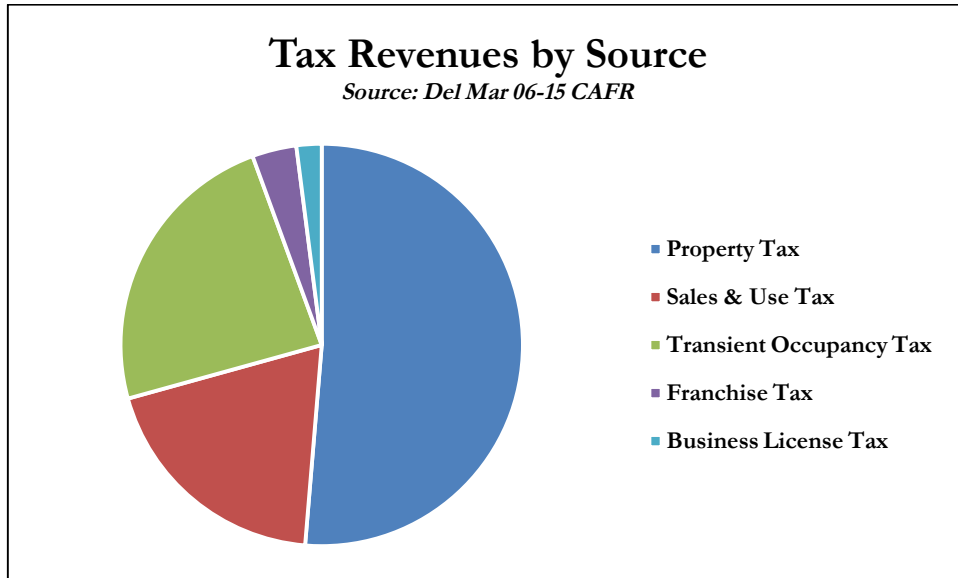
<sup>5</sup> Unless otherwise noted, data retrieved from City of Del Mar Comprehensive Annual Financial Report, June 2015.



When observing only General Fund revenues and expenditures, the city has had a balanced budget 4 of the last 5 fiscal years (including adopted budgets for FY 2016 and FY 2017). The only exception was FY 2013, during which the budget would have truly been balanced had it not been for \$528,168 in funds spent from the City’s equipment replacement reserve.



The City of Del Mar obtains most of its revenue from its stable and sizable property tax base, as its coastal location keeps it cushioned from the devaluation that usually occurs during difficult economic times. Transient Occupancy Tax (TOT) and Transactions (sales) and Use Tax are its next biggest revenues, bolstered by increasing tourism. These taxes make up a combined 69.94 percent of the City’s General Fund revenue.



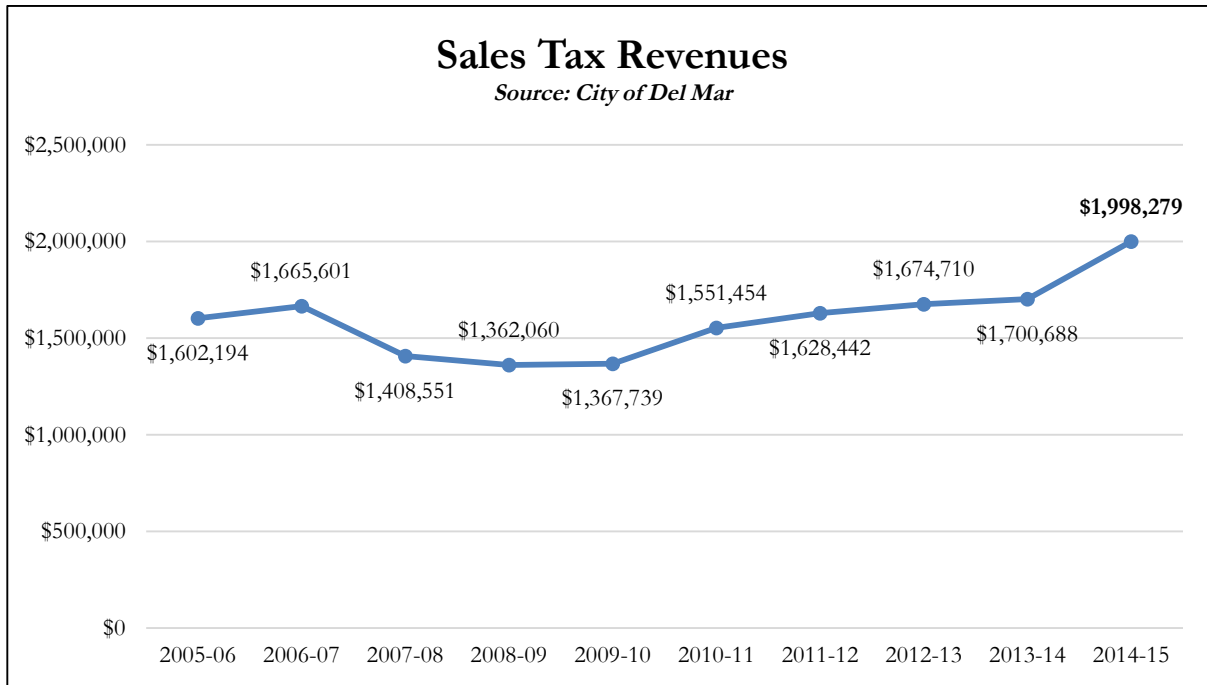
According to the City’s latest Comprehensive Annual Financial Report (CAFR), it actively seeks out low-cost financing, donations from community members, and grant opportunities for projects.

The City’s budget has been relatively flat over the last four fiscal years, but its adopted FY 2016 and 2017 budgets indicate increases of \$14.6 million and \$9.8 million from FY 2015, respectively. This is largely due to capital improvement projects like the construction of a new City/Town Hall and utility improvements<sup>6</sup>.

Sales Tax Revenues

Since FY 2009, sales tax revenues within the city have increased by approximately 46.7%, or \$636,219. Sales tax revenues increased by approximately 17.5% in the last fiscal year alone.

<sup>6</sup> City of Del Mar Operating and Capital Budget for Fiscal Years 2015-2016 and 2016-2017.



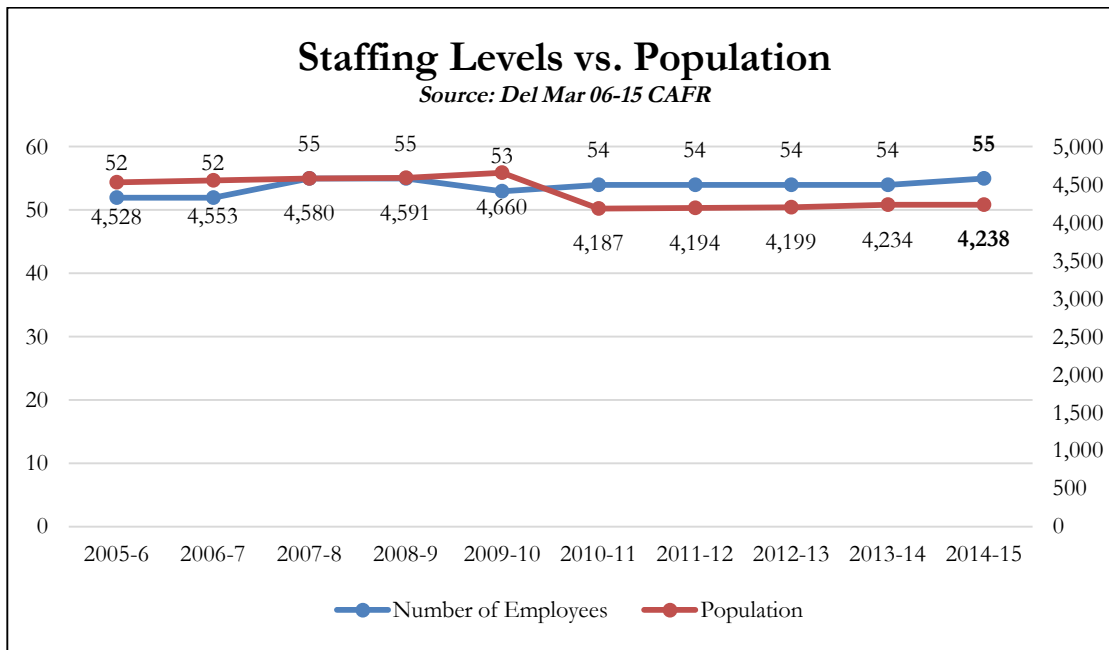
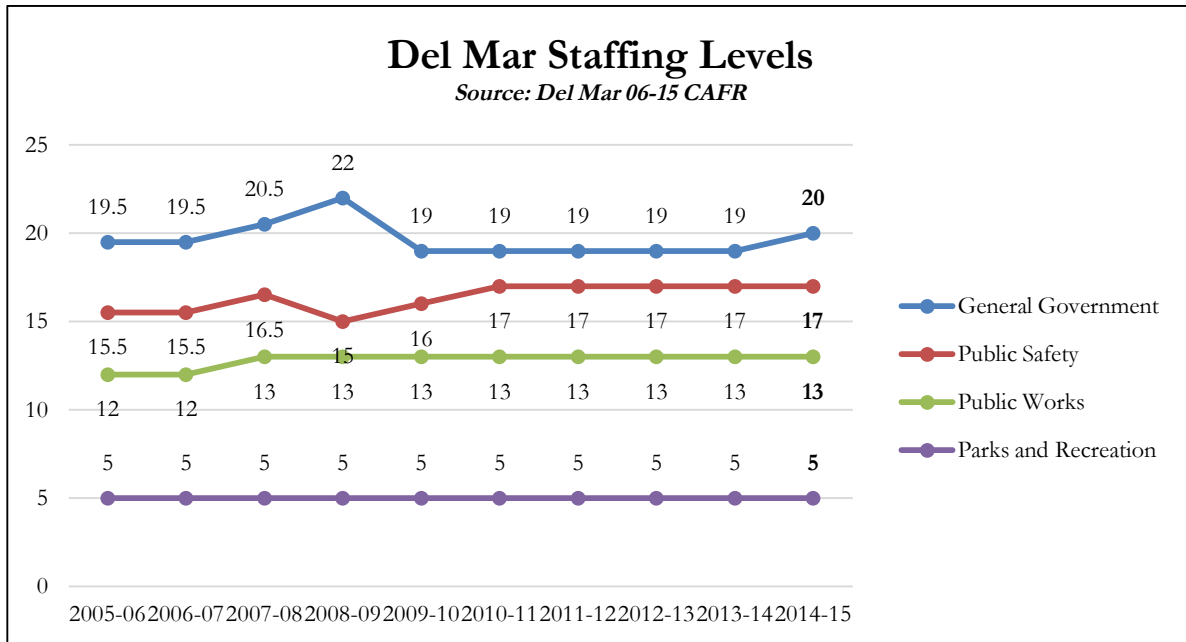
As previously stated, the City estimates that its new proposed 1-cent sales tax will bring in approximately \$2 million per year. The City hopes to use the new sales tax revenue to provide services to its many out-of-town visitors, as well as execute its capital program more quickly than it now can, as revenues only exceed expenditures by a small margin.

### Staffing Levels

The city maintains a Fire Department and employs its own lifeguards, while it contracts with the County Sheriff's Department for police officers and traffic enforcement personnel. It also has a contract for its ambulance service, and receives additional safety services through participation in several regional safety organizations.

The city currently has a Memorandum of Agreement (MOA) with two unions. The MOA with the Del Mar City Employees Association will be implemented from January 2016 through July 2018, and involves salary increases of 2.5%, 3.0%, and 3.0% over 2016, 2016, and 2018 respectively. The MOA for the Del Mar Firefighters Association, effective 2013 through 2017, includes a provision to implement a 12-step plan where employees receive a 2.5% pay increase each year provided they demonstrate satisfactory performance evaluated by the Fire Chief.

In 2009, Del Mar entered into a Cooperative Fire Management Services Agreement with Encinitas and Solana Beach in order to senior fire staff for operational, administrative, and Fire Chief services. This had led to cost savings for the City.



Whereas in FY 2009 the City’s employed 11.9 employees per 1,000 residents, that ratio has been closer to 13 employees per 1,000 residents since FY 2010.

The City does not have precise data on the number of visitors to Del Mar’s beaches, and thus it is difficult to gauge how much of the City’s services support non-Del Mar residents. City lifeguards estimate that Del Mar hosts approximately 2 million beach days annually, and if generally correct, that would indicate—liberally assuming each Del Mar resident went daily to the beach 365 days a year—that at a minimum, 25% of lifeguards’ duties are dedicated to visitors.

Pensions

The City contributes to the California Public Employees Retirement System (CalPERS), which is a state government agency that manages retirement, disability, death, and health benefits for public employees and their beneficiaries. In recent years, the City has undergone pension reform through measures such as implementing second tiers for its CalPERS pensions, meaning that employees can opt for a lower-contribution and lower-benefit plan. Furthermore, all of the City’s employee labor groups pay the full employee contribution.

As of June 30, 2015, the City’s net pension liability totaled \$6,762,328. This was a net \$548,212, or 8% decrease since the previous fiscal year.

In FY 2013, Del Mar City council approved to payoff the City’s \$3 million Side Fund liability for CalPERS. This reduced the City’s pension contribution by \$450,000 annually, saved roughly \$1.1 million in interest payments, and decreased future unfunded pension liability.

The City also moved to a monthly stipend system for its contribution to medical plans, increasing the number of options for employees while implementing significant savings.

Debt

City of Del Mar’s Outstanding Long-Term Debt as of June 30, 2015	
<b>Certificates of Participation</b>	\$440,000
<b>Loan Payable</b>	\$2,273,106
<b>Note Payable</b>	\$4,771,694
<b>Compensated Absences</b>	\$512,210
<b>Claims Payable</b>	\$319,697
<b>Total</b>	<b>\$8,316,707</b>

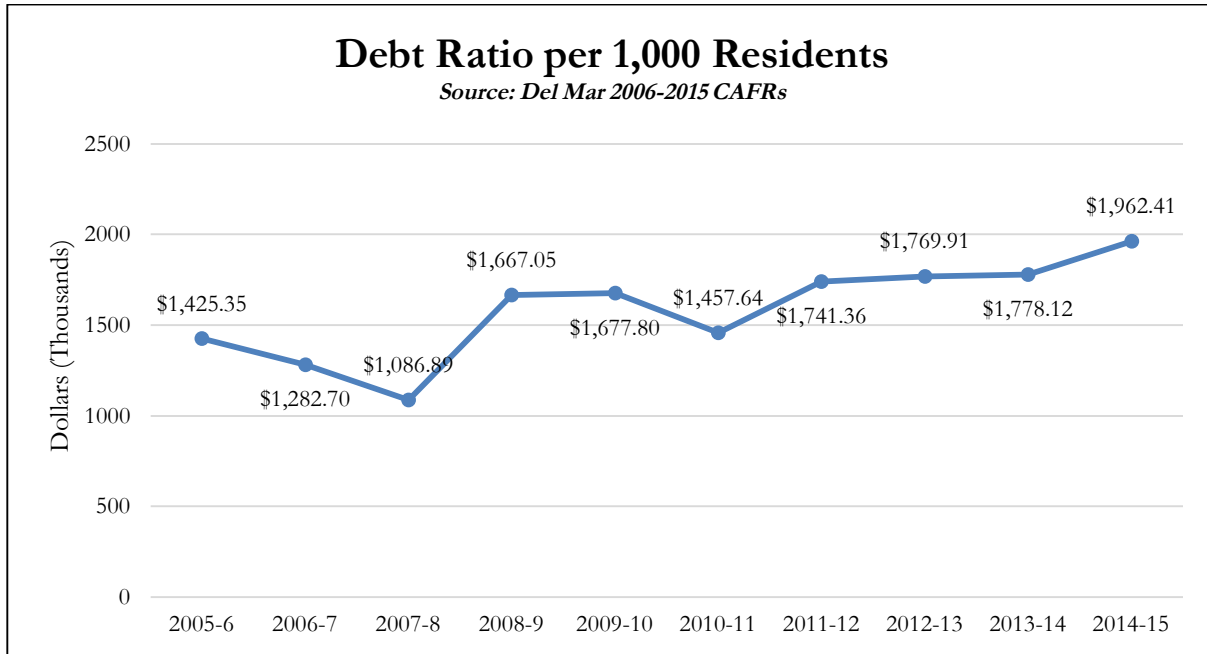
Business-type activities for the City are meant to be reimbursed for their costs through charges and fees to the user. Operating revenues are pledged to be used to pay off all long-term debt in business-type activities, such as activities related to water and wastewater. The City’s debt for Certificates of Participation and notes payable fall under the Wastewater fund, and thus will be repaid with operating revenues.

Governmental activities, which are mainly funded by taxes and federal and state revenue, are to be paid off with particular stated revenue sources. The City’s loan payable, compensated absences, and claims payable account for its debt in governmental activities.

The City’s debt obligation has increased since 2014, due to an increase in compensated absences and a new \$2.29 million bond payable through SANDAG. SANDAG offers a program through which municipalities can obtain SANDAG-issued debt for transportation projects, which it can help pay off using Transnet sales tax revenue. Del Mar participated in this program in 2013 to make



improvements to its roads and sidewalks. Total debt service on this SANDAG loan, including principal and interest payments through 2044, will be \$5,729,750.



The City’s debt ratio is **\$1,962,413 per 1,000 residents**, or \$1,962 per resident. This ratio has been trending upward since FY 2006.

Reserves

The City’s policy is to maintain between 10% and 20% of its General Fund operating expenditures as a contingency reserve, as well as to maintain a \$500,000 reserve for revenue loss and \$150,000 for equipment replacement. The City has also created a Pension Reserve to help pay off its unfunded pension liability in the next 15 years.

The City’s estimated reserves for all funds at the beginning of FY 2016 were \$29,238,963. It has estimated that reserve levels will be at \$28,539,903 at the beginning of FY 2017<sup>7</sup>.

Income Distribution

As of 2010, the City’s median household income was \$112,566, which is 78% above the regional median<sup>8</sup>.

City leadership claims this sales tax proposal will mostly burden out-of-town visitors at the Del Mar Fairgrounds. The business opposition to this sales tax anecdotally concur in conversation with

<sup>7</sup> City of Del Mar Operating and Capital Budget for Fiscal Years 2015-2016 and 2016-2017

<sup>8</sup> City of Del Mar Community Plan Housing Element 2013-2021 (Originally: Bureau of the Census, American Community Survey, 2006-2010)

SDCTA staff that many Del Mar residents do not frequent their shops, lending further credibility to the city leadership’s claims. Though there are no data to evaluate such claims, it seems likely given the income distribution in Del Mar and the likely visitor profile to Del Mar that the regressivity of this sales tax proposal is not a significant concern.

