



CITY OF WHEATLAND

CITY COUNCIL MEETING STAFF REPORT

July 14, 2020

SUBJECT: Introduce and Waive the First Reading of Ordinance No. 476 to Amend Wheatland Municipal Code Chapter 3.34, *Transactions and Use Tax*, and Extend the One-half Cent Transactions and Use Sales Tax for Essential City Services

PREPARED BY: Susan Mahoney, Finance Director

Recommendation

Introduce and waive the first reading of Ordinance No. 476, which will amend Chapter 3.34 of the Wheatland Municipal Code and, subject to voter approval, extend the one-half cent transactions and use sales tax for essential City services for 10 years.

Background

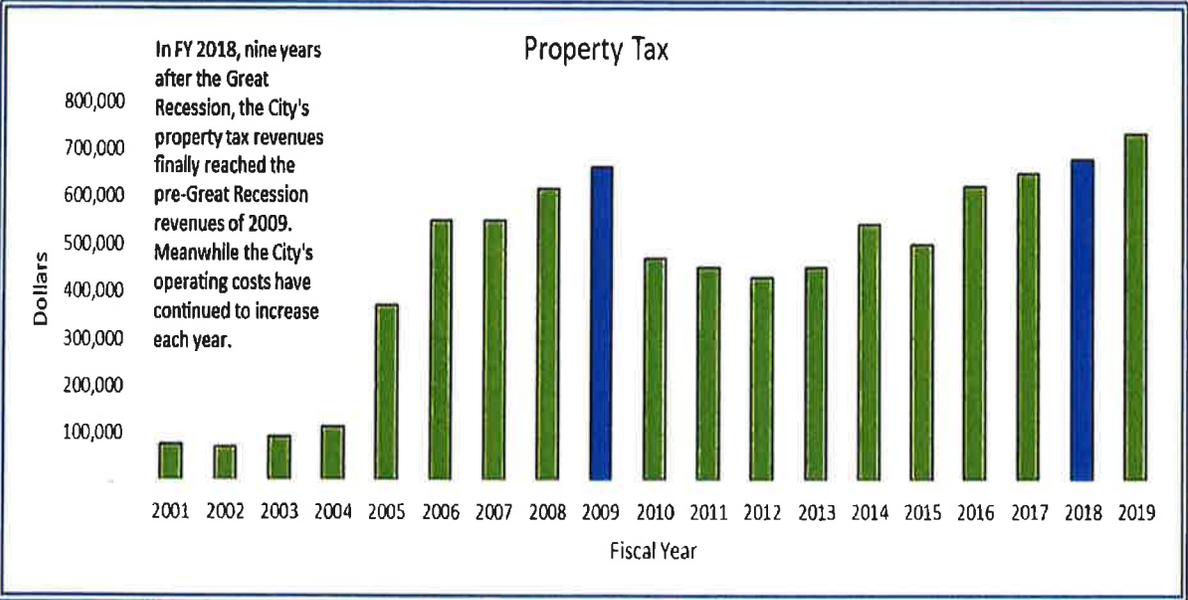
Amending Chapter 3.34 is a required step to place a measure on the November 3, 2020 regular statewide election for the voters to extend the City of Wheatland one-half cent transactions and use sales tax for 10 years. At the July 28, 2020 Council meeting the City Council will be asked to waive the second reading of and adopt Ordinance No. 476 and adopt a resolution calling an election on a City of Wheatland one-half cent transactions and use sales tax extension measure to be included on the November 3, 2020 ballot.

The Great Recession that began in 2007 resulted in plummeting property valuations throughout the State including the City of Wheatland. Revenue reductions caused by lower property tax revenues forced the City to reduce staff, reduce wages and benefits, and eliminate or reduce non-essential services. To partially offset these reductions, the City in 2010 proposed and the voters approved, a one-half cent sales tax imposed on all retailers in the City. The purpose of the tax is to provide General Fund revenue to pay for essential services such as police and fire, and streets and parks maintenance.

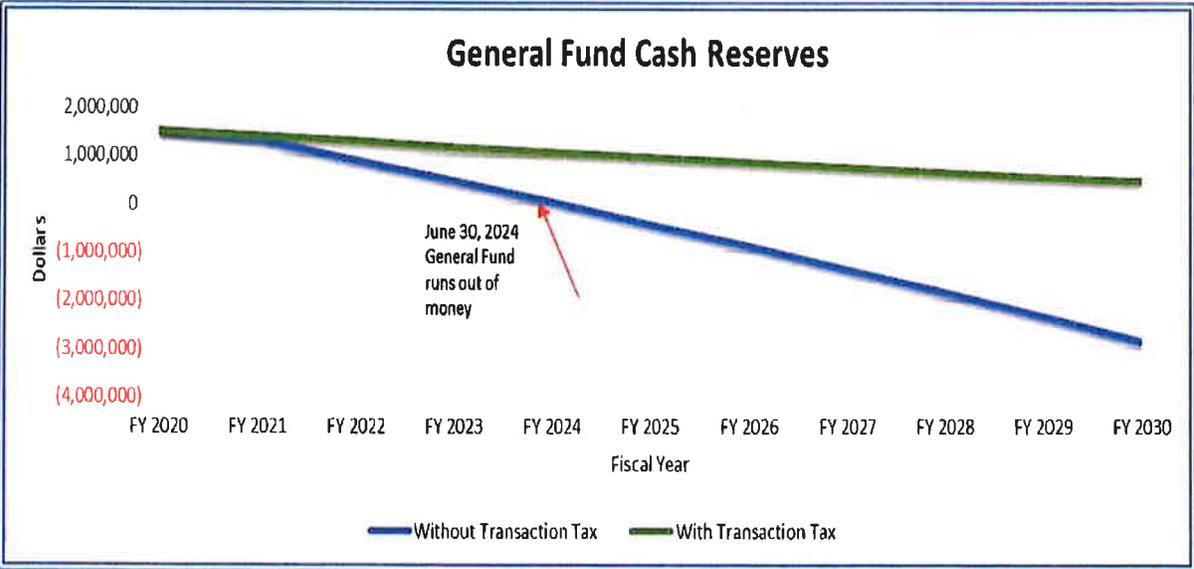
Discussion

The existing City of Wheatland voter approved one-half cent transactions and use sales tax began on April 1, 2011 and is set to expire on March 31, 2021. The tax was enacted to partially offset the revenue reductions suffered as a result of the Great Recession with funding that cannot be taken by the State. It was anticipated that significant growth would occur in the City between 2011 and 2021 and that the additional property tax and sales tax revenue generated from this growth may eliminate the need for the transaction tax after March 2021.

Unfortunately, the anticipated growth did not occur, and future growth is not projected to generate sufficient revenue to sustain public safety and park and street maintenance at current or adequate service levels.



The following chart shows projected General Fund Cash Reserves with and without the one-half cent sales tax revenue and assuming a continuation of current annual expenses. General Fund Cash Reserves are necessary for cash flow, for generating interest earnings, and for providing funds to maintain City services in the event of an unforeseen economic event like the recent COVID-19 pandemic and last year's Malone Culvert collapse.



If the tax extension measure is placed before the voters and subsequently approved, projected revenues and expenses are expected to increase in tandem over the next ten years given historical growth patterns. Slight adjustments to expenses will be needed for the City to maintain its target General Fund Reserve equal to 25% of annual expenses.

If the tax extension measure is not placed before the voters, revenues are projected to be \$420,000 less than expenses in FY 2022 and the disparity will continue to grow each year. At this rate, General Fund Cash Reserves would be depleted by FY 2024 unless there are significant reductions to essential public safety services and park and street maintenance. These reductions would need to begin in December 2020 and must be drastic to have any impact. With a workforce of only 22 employees, key service areas such as planning, building permits and inspections and engineering already contracted out to control overhead expenses, no PERS unfunded liability, and 58% of the General Fund dedicated to public safety, the City of Wheatland is already a lean, fiscally prudent operation.

It is important to note that extension of the one-half cent sales tax with no increase in the tax rate will allow the City to continue to provide *existing* levels of public safety services and park and street maintenance. It will not provide revenue to enhance City services. The failure to either extend the tax or implement drastic service reductions will result in the City of Wheatland General Fund being completely out of cash by June 30, 2024.

A proposed ordinance to extend the one-half cent sales tax for 10 years, subject to voter approval, is attached. The ordinance does not modify the existing one-half cent tax rate. In 2017 the California legislature transferred sales tax administration responsibilities from the Board of Equalization to a new Department of Fee and Tax Administration. Consequently, the proposed ordinance also changes "State Board of Equalization" to "California Department of Tax and Fee Administration."

The timeline for placing a measure on the November 2020 ballot and the steps to implement the tax if approved by the voters are as follows:

Jul 14, 2020	Introduce and waive the first reading of Ordinance No. 476 to amend Wheatland Municipal Code Chapter 3.34, <i>Transactions and Use Tax</i> and extend the one-half transactions and use sales tax for essential City services
Jul 28, 2020	Waive the second reading of and adopt Ordinance No. 476 and adopt a resolution calling an election on a one-half cent sales tax extension measure for Wheatland in the statewide general election
Nov 3, 2020	General Election
Dec 8, 2020	Upon successful passage of the tax measure, extend the contract with the Department of Fee and Tax Administration to perform all functions incident to the ongoing administration and operation of the tax
Dec 8, 2020	Upon successful passage of the tax measure, adopt a resolution authorizing an amendment to the contract with HDL to continue auditing the City's sales and use taxes
Mar 31, 2021	Existing one-half cent transactions and use sales tax sunsets (unless extended by the voters)
Apr 1, 2021	Upon successful passage of the tax measure, operative date of extended transaction sales and use tax
Mar 31, 2031	Extended transactions and use sales tax sunsets

Alternatives

Do not introduce and waive the first reading of Ordinance No. 476 and instead direct staff to prepare a plan to implement the necessary service reductions.

Fiscal Impact

The attorney costs to prepare the amended Ordinance will be paid out of the approved FY 2020-2021 General Fund budget. Should the Council approve all of the steps necessary to put a measure on the November ballot, there will be Yuba County election costs. It is anticipated that the election costs included in the FY 2020-2021 budget to pay for the election of Council member offices will also cover election costs associated with the measure.

Attachments

Ordinance No. 476

ORDINANCE NO. 476

**AN ORDINANCE OF THE CITY COUNCIL
OF THE CITY OF WHEATLAND
EXTENDING ONE-HALF CENT TRANSACTIONS AND
USE SALES TAX FOR ESSENTIAL CITY SERVICES**

The City Council of the City of Wheatland does ordain as follows:

SECTION 1. Recitals. This ordinance is adopted with reference to the following background recitals:

A. In 2010, the City Council adopted and the City voters approved Ordinance No. 421 that imposed a one-half cent transactions and use sales tax within the City of Wheatland (now codified at Wheatland Municipal Code chapter 3.34; the "Tax"). The Tax expires on March 31, 2021.

B. The City wishes to maintain fiscal stability, the City's community character, and essential local services that Wheatland residents expect and deserve.

C. In these challenging times the City needs to maintain public safety services such as emergency preparedness, neighborhood police patrols, attracting and retaining qualified police officers, and crime prevention and investigation services that keep the City safe.

D. The City needs to continue repairing and maintaining 17 miles of local roads and address local traffic congestion, which if delayed will only become more expensive to address.

E. The City needs to continue maintaining parks and play equipment that enhance property values and provide a place for recreational activities for children and adults.

F. The City needs to continue supporting the Wheatland Fire Authority, including dedicated volunteers that provide firefighting and emergency medical response services that continue to protect our community amid the increasing threat of wildfire.

G. If voter-approved locally controlled funding is not continued (with no increase in the tax rate), the City would be forced to make significant local services reductions.

H. Cities of Wheatland's size cannot expect adequate state or federal funding to address its local recovery, public health, and safety preparedness – and therefore the City needs to continue to be self-reliant.

I. The City Council therefore desires to submit to the City voters the question of whether or not to extend the Tax for 10 years (without any change to the tax rate) and that this question be submitted to the voters at the statewide general election on November 3, 2020.

J. All funds from an extension of the existing, voter-approved Tax would continue to stay in Wheatland in order to maintain essential local services. The revenue generated by the Tax cannot be taken by the State of California or the federal government.

K. If the voters vote to extend the Tax, all Tax proceeds would continue to be subject to mandatory independent financial audits and public review.

SECTION 2. Purpose and Authority. The purpose of this ordinance is to extend the one-half cent Tax for 10 years. This ordinance is adopted pursuant to California Constitution Article XI, sections 5 and 7, and Article XIII C, section 2, Government Code section 53723, Revenue and Taxation Code sections 7285.9 - 7285.92, and other applicable law.

SECTION 3. Tax Extension. The one-half cent transactions and use tax imposed by Wheatland Municipal Code chapter 3.34 is extended for 10 years.

SECTION 4. Code Amendments

A. The definition of "termination date" in Wheatland Municipal Code section 3.34.020 is amended to read as follows:

"Termination date" means March 31, 2031.

B. The phrase "State Board of Equalization" wherever it is found in Wheatland Municipal Code chapter 3.34 is changed to read "California Department of Tax and Fee Administration".

SECTION 5. Election. An election on the measure regarding whether the City should extend the one-half cent transactions and use tax for 10 years shall be held together with the statewide general election on November 3, 2020.

SECTION 6. Voter Approval Required; Effective Date. This ordinance shall become effective only if it is approved by a majority vote of the City voters voting on the measure at the November 3, 2020 election. If approved by the voters, this ordinance shall take effect 10 days after the election voting results are declared by the Wheatland City Council. (Elections Code section 9217.)

SECTION 7. Posting. Within 15 days after the date of passage of this ordinance, the City Clerk shall post a copy of it in at least three public places in the City.

INTRODUCED by the City Council on July 14, 2020.

PASSED AND ADOPTED by the City Council of the City of Wheatland on July 28, 2020 by the following two-thirds vote:

