



County of Santa Cruz

COUNTY ADMINISTRATIVE OFFICE

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SUSAN MAURIELLO, J.D., COUNTY ADMINISTRATIVE OFFICER

March 13, 2008

AGENDA: March 18, 2008

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

BALLOT MEASURE FOR TRANSPORTATION PURPOSES

Dear Members of the Board:

On February 26, 2008, upon the recommendation of Supervisor Pirie, your Board directed this office to begin gathering information on the matter of a revenue measure for transportation purposes for the November 2008 ballot.

Background

There are essentially three types of revenue measures, each of which has a different approval requirement. The different types of revenue measures and the associated approval requirements are:

■ General Fund Tax Measures

General Fund taxes are levied for general purposes, which may include roads and transportation. An example of a General Fund Tax that the County is authorized to levy is a utility tax for the unincorporated area. New General Fund tax measures can be approved with a simple majority vote of the electors.

■ Special Tax Measures

Special taxes are levied for a specific rather than a general purpose and may include a parcel tax on real property. New special taxes require approval by a two thirds vote of the electors.

■ Assessments on Real Property

Assessments are charges on real property or business to pay for facilities or services within an area that benefit real property. Assessments are not approved by the electors but by a majority vote of the property owners weighted by the amount of the charge paid.

We discussed each of these approaches with Gene Bregman, of Gene Bregman and Associates. Gene Bregman and Associates have done polling for the City of Santa Cruz and the County going back to the countywide sales and use tax passed after the Loma Prieta earthquake. Mr. Bregman said that because of the current recession this is a very difficult time for measures involving new taxes and that special taxes are generally more difficult than general taxes because of the two-thirds requirement.

County Responsibilities

The County of Santa Cruz bears the heavy burden of operating and financing both:

- 1) a broad range of countywide, State mandated programs including the property tax system, the justice system, and health and welfare programs; and
- 2) municipal services to approximately 50% of the County's population.

Because the current issue involves the County's responsibilities for municipal type service in the unincorporated area, we have gathered information on the tax strategies our local cities use to finance their municipal services including roads.

Our Local Cities Use General Fund Taxes

The table below illustrates the tax strategies of our local cities. The table shows the amount and rates for the array of general fund taxes levied by each city.

Tax Effort by Jurisdiction

Jurisdiction	General Fund Taxes			
	Utility Tax	Admission Tax	Business License Tax	Add On Sales & Use Tax
City of Santa Cruz	\$ 9,211,000	\$ 1,900,000	\$ 773,000	\$ 4,870,000
City of Watsonville	3,053,000		337,000	1,170,000
City of Capitola			308,700	1,034,200
City of Scotts Valley	767,368		325,000	1,071,575
Tax Rates				
Santa Cruz	5% - 7%	5%	Varies	0.50%
Watsonville	6%		Varies	0.25%
Capitola			Varies	0.25%
Scotts Valley	4%		Varies	0.50%
	Gas/Electric Only			

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In summary, each of the cities has an add-on sales tax and a business license tax; each of the cities with the exception of Capitola has a utility tax; and the City of Santa Cruz has an admissions tax. The admissions tax is unique to the City of Santa Cruz because of the boardwalk.

With voter approval the County could levy a utility tax and business license tax in the unincorporated area for unincorporated area services including roads. At this time the County does not have the authority equivalent to the cities for an add-on sales and use tax measure for the unincorporated area. The authority for an add-on sales use tax for the unincorporated area has been part of the County's legislative program for the last two years.

Questions

On February 20, 2008 your Board requested that we address a series of questions concerning tax measures as part of our report. Below are the questions and our preliminary answers.

- ✓ How much money can be raised annually by either of these methods, i.e., sales tax or County Service Area No. 9D Assessment?

▪ Sales Tax Unincorporated Area Only	\$2,000,000
▪ Sales Tax Countywide	8,300,000
▪ CSA No. 9D Assessment	TBD ¹

- ✓ Capitola and Santa Cruz currently have a quarter cent sales tax being used for this purpose. Could this measure replace their existing sales tax measures?

All of the city sales and use taxes are general fund taxes. It is unlikely that the cities would exchange a general fund tax for a special tax.

Additionally, the mechanics for replacing an existing tax with a proposed tax would be complex. How would the tax be shared? How would one be phased out and the other phased in?

- ✓ Would the cities of Capitola, Santa Cruz, Watsonville and Scotts Valley be willing to join with the County in such a ballot measure?

We would anticipate that the cities' interest in joining the County would depend on the timing of the measure; how the proceeds were shared and preliminary polling. Regarding the matter of sharing the proceeds, the cities, which have the majority of the commercial activity, would want to share based on point of sale. The County, which has the population, would want a population-based formula.

¹ On February 26, 2008 the Department of Public Works presented a strategy for using a County Service Area No. 9D Benefit Assessment for smaller benefit assessment areas that would be subzones within the existing County Service Area. We believe this is a very effective strategy for addressing residential roadways.

The Capitola City Manager has indicated that Capitola may be on the ballot in November to extend its ¼ cent sales tax. Staff discussed the possibility of creating a Mello Roos district.

A Mello Roos district, which is the mechanism successfully utilized in Felton to finance the public acquisition of the Cal Am water system, is an option that could be explored. The disadvantage of this approach is that it requires a two thirds approval and on a large scale, it is both time consuming and expensive to set up the community facilities district to have a measure voted on by electors.

- ✓ If one or more of the cities chooses not to participate, what are the County's options?

As a practical matter it would be hard to pass a countywide measure without the support of the cities.

- ✓ What would be the cost and recommended funding source for a public opinion poll to be conducted prior to the decision about whether or not to place a measure on the ballot?

A poll would cost between \$20,000 and \$30,000 depending on the complexity and length of the poll. If the poll involves both general fund and special taxes, we recommend the cost be shared between the general fund and road fund.

Conclusion

In conclusion, the current recession makes voter approval of a measure involving new taxes difficult. A successful tax measure requires good polling numbers and an effective campaign. An effective campaign requires an organization and money to pay for the campaign. A new tax measure will not pass by itself.

If your Board desires to pursue a measure for the November ballot we would recommend that as a first step you authorize this office to negotiate an agreement with Gene Bregman and Associates at a cost not to exceed \$30,000 for a poll to explore the feasibility of a range of general and special tax options and determine if either a general fund tax or special tax is feasible for November. Because of the recession, we are not optimistic about the outcome the poll. We would recommend that the General Fund and the Road Fund share the cost of the poll equally.

At this time it is **RECOMMENDED** that your Board consider the information in this report and determine if you wish to authorize an opinion poll as a first step in determining whether to place a tax measure on the November 2008 ballot.

Very truly yours,



Susan A. Mauriello
County Administrative Officer

cc: Department of Public Works
Each City Manager