



## AGENDA STAFF REPORT

**MEETING DATE:** 12/5/2023

**AGENDA SECTION:** STUDY SESSION

**SUBJECT:**

Presentation, discussion and direction from Council regarding a 2024 Proposed Revenue Measure development process and schedule

**RECOMMENDATION:**

Recommendation: Staff recommends that City Council receive the presentation, discuss the report and provide direction regarding a 2024 Proposed Revenue Measure development process and schedule

Recommended motion: That council provide input and direction as desired, AND provide direction on development of a Proposed Revenue Measure Advisory Committee.

**BACKGROUND:**

On November 7, 2023, City Council was presented with options for potential revenue measures out of concern for the City's financial health. Council directed staff to continue looking into the needs of the City in order to further develop a path for identifying the best options for a potential revenue measure. As part of this presentation, staff will present City Council with a planning level look across all departments in the General Fund. In addition, staff requests that the City Council provide direction to staff in the development of a Proposed Revenue Measure Advisory Committee.

Today's items for review or direction:

- Parks and Community Services Department needs
- Public Works Department needs
- Police Department needs
- Fire Department needs
- General City needs
- Proposed Revenue Measure Advisory Committee development

Previously, the City Council has expressed concern for the fiscal health of the General Fund and has directed staff to find ways for improvement. As was shown during the adoption of the 2023/2024 & 2024/2025 biennial budget, there are many and substantial demands of the General Fund that are not able to be financially supported. The City Council was able to adopt a balanced budget.

However, the adoption relied on one-time increased revenue and cost-saving items along with many needs, such as facility improvements and maintenance, and vehicle reserves being deferred. These needs were deferred to assist in improving the financial condition and recovering the General Fund Reserve, but must begin being addressed soon otherwise they will create heavy financial stress for the City in the future.

Enterprise funds such as Water, Sewer, Storm Drain and Refuse are supported by rates paid by the utility users. These funds are **not** a part of this discussion as Council has previously approved separate studies and rate changes specific to those rates.

### *The City's General Fund*

The General Fund is the City's most discretionary funding source that receives revenues from Sales Tax, Property Taxes, Business Tax, Transient Occupancy Tax among other revenues including fees for recovery of costs. There are several areas of essential services that are paid for out of the General Fund, including Police, Fire, Streets, Administration, Parks/Recreation and Planning/Community Development. The City's budget for fiscal year 2023/2024 is just under \$43.6 million for the General Fund, Table 1 shows the appropriation across areas of operation/use.

**Table 1: City of Hanford 2023/2024 General Fund appropriation**

#### **Expenses\***

General Fund (Non Departmental)	161,302
Admin	4,363,156
Com. Develop	1,323,488
Eng & Streets	4,734,203
Parks & CS	4,884,531
Fire	7,368,398
Police	16,781,493
<b>Total Expenses</b>	<b>39,616,571</b>
* Capital Outlay Included	
Debt Liability	2,722,754
Debt Service	1,070,624
Debt Service Transfers to Non-GF	162,688
<b>Total General Fund Appropriation</b>	<b>43,572,637</b>

For the most recent budget adoption, the City had a significant challenge having a balanced budget as required by Council-adopted resolution. In addition, economic forecasts indicate a slow-down in revenue, so cost increases due to inflation and salary increases are projected to be hard-pressed to be fully offset. For the past several years, the City has been 'tightening its belt' financially. However, there are limits as to what can be done as personnel costs are the majority of costs (over 70% of General Fund expenditures) and there are essential costs of operating that must be covered. All non-fixed costs are continually scrutinized by staff.

In addition, proving to be a significant challenge to balancing the City's General Fund was the \$12.5 million settlement agreed to in early 2023 of which \$7.5 million has been paid. This depleted the GF reserve to approximately 6%, well below the 35% goal (15% operating, 20% fiscal emergency). The remaining \$5 million must be paid over the next four years at \$1.25 million annually. This will have a direct impact on the General Fund budget over the next four years as the City must set aside funding for this debt payment in addition to all other operating, capital and existing debt demands. Items like this are temporary. However, with increasing costs for current operations and emergency capital

needs, there is little to no room in the budget for increasing services/operations, improving services or proactively meeting capital needs.

*Types of Measures to Consider*

There are several options that City Council may consider of the potential revenue measures that would increase discretionary revenue for the City's General Fund. These will be discussed in more detail during the presentation. Table 2 provides a summary of revenue measure options and requirements for passage, Table 3 depicts the position of the City of Hanford and nearby cities and what measures are in place.:

**Table 2: Summary of potential revenue measures with requirements for passage**

	TAX- General	TAX- Parcel or Special (earmarked)	G.O. BOND (w/tax)	Fee / fine / rent
City / County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*

**Table 3: Revenue rates of City of Hanford and surrounding cities**

	County Base %	Local %	Sales Tax Total %	Utility User Tax	Transient Tax %	City Parcel Tax
<b>City of Hanford</b>	<b>7.250</b>	<b>0.000</b>	<b>7.250</b>	<b>0</b>	<b>8 No</b>	
City of Lemoore	7.250	0.000	7.250	0	8 No	
City of Avenal	7.250	1.000	8.250	0	6 No	
City of Corcoran	7.250	1.000	8.250	0	8 No	
City of Tulare	7.750	0.500	8.250	6	10 No	
City of Selma	7.975	0.500	8.475	0	12 No	
City of Dinuba	7.750	0.750	8.500	7	10 No	
City of Visalia	7.750	0.750	8.500	0	10 No	
City of Exeter	7.750	1.000	8.750	5	8 No	
City of Lindsay	7.750	1.000	8.750	6	8 No	
City of Kingsburg	7.975	1.000	8.975	0	12 No	
City of Porterville	7.750	1.500	9.250	6	8 No	
<i>Average</i>	<i>7.621</i>	<i>0.750</i>	<i>8.371</i>	<i>3</i>	<i>9</i>	

A major detail selection involves the type of measure sought. The two main alternatives generally obtained by cities are a general or special revenue measure. Special measures can be sales, property, utility users or parcel taxes or a general obligation bond and general measures are typically sales tax measures.

*What if the City was to have additional revenue?*

A revenue measure would increase discretionary tax revenue (in the General Fund) available for City Council's use in funding City services. The City's current discretionary revenues in the General Fund include sales tax, property tax, utility user's tax, franchise tax, transient occupancy tax, licenses, permits, etc. Areas currently funded directly by the General Fund Revenues are General Government, Parks and Community Services, Public Safety (Police and Fire) and Streets (primarily Maintenance of Effort funding as required by the State). **These funds do not pay for Enterprise Fund costs such as Water, Sewer and Refuse, which can only legally be funded by their associated rates.**

Through the public process of a budget adoption, City Council would determine how the City spends these additional revenues and adhere to a plan developed during a ballot initiative. The amount of

funding potentially available would vary greatly depending on what the Council may consider for voters to decide on.

Typically, an initial proposal is developed that will begin discussions and evaluation, quite often with adjustments being made through a vetting process by Council, the community and staff.

**FISCAL IMPACT:**

Through the development process, some activities will have associated costs such as legal (\$10,000), polling/surveying (\$40,000) and information distribution (\$50,000). Placing an item on the ballot will also have associated costs (approximately \$30,000). Total approximate costs for the entire process could be approximately \$130,000 which would be paid from the General Fund.

If a revenue measure is ultimately passed, additional revenue would occur with the amount dependent on the revenue details in the passed measure.

**ATTACHMENTS:**

None