

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, NOVEMBER 8, 2005**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, November 8, 2005, commencing at 7:01 a.m.

**A. ROLL CALL**

Present: Council Members – Hansen, Hitchcock, Johnson, Mounce, and Mayor Beckman

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Blackston

**B. TOPIC(S)**

B-1 "Review of citizens' Fire and Facilities Sales Tax Initiative fiscal impact study"

City Manager King stated that the Fire and Facilities Sales Tax Initiative has qualified for the November 7, 2006 ballot. It will ask voters to increase the sales tax in Lodi by one quarter cent for a ten-year period (i.e. from 7.75% to 8%). The initiative designates specific purposes for the proceeds, so it will require a two-thirds vote to pass.

With the aid of an overhead presentation (filed), Finance Director Krueger reported that the measure would garner \$28.6 million in revenue over a ten-year period. He mentioned that last year's sales tax growth rate was 8%; however, the average over the last several years was 5.7%. The initiative has \$22 million worth of capital costs and \$6.6 million in operating costs. In the first year, \$2.3 million in revenue would be received and \$700,000 is earmarked for paramedics, leaving a balance of \$1.6 million. In the second year, \$2.3 million would be received, with \$700,000 spent toward paramedics, leaving a balance of \$3.2 million. In year three, \$2.5 million in revenue will be generated, with \$700,000 spent on paramedics, and \$2 million expended toward Fire Station 5. Mr. Krueger estimated the operations cost of Fire Station 5 to be \$1,453,000, which is not included as costs to be covered in the initiative. In year four, \$2.6 million would be received, with \$700,000 spent toward paramedics, and \$4 million expended toward the aquatics center. By year five, the cost of the aquatics center will be two-thirds funded, with \$700,000 again devoted to paramedics. Year six is the last year that paramedics are to be funded within the initiative, and in that year the remaining \$3 million toward the \$9 million aquatics center will be expended. Mr. Krueger pointed out that at the end of year six, another funding source would have to pick up the \$5.8 million in anticipated operations costs. In year seven, Fire Station 2 would be rehabilitated for an estimated \$2 million, and there would be \$1 million available to begin work on the indoor sports facility. Mr. Krueger reported that by year seven there would be a cumulative unfunded amount of nearly \$8 million. In year eight and nine, more of the indoor sports center could be constructed and completion would occur in year ten. If the estimates were accurate, there would be \$2.4 million remaining in year ten that could be used toward operations costs, still leaving an estimated \$12 million in unfunded costs. Mr. Krueger stated that a quarter cent sales tax increase would result in a per capita increase of \$40 per year.

In answer to Council Member Hansen, Fire Chief Pretz stated that 18 paramedics would be needed to fully staff the fire stations.

Mr. Krueger reported that currently public safety expenditures total \$23 million and revenues are just under \$19 million. Public safety expenses consume 125% of property and sales tax. He suggested that a long-term financial goal from a stability standpoint would be to set it no higher than 130%.

Council Member Mounce pointed out that, as the community grows, Fire Station 5 would be needed with or without the initiative. She felt that if a fifth Fire Station could not be sustained then no more new homes should be built.

Mayor Beckman recalled that he had initially welcomed the concept of a sales tax initiative that could pay for building recreational facilities that would be self sufficient; however, the Fire and Facilities Sales Tax Initiative locks the City into long-term costs that the initiative cannot fund, which he believed to be very detrimental. He noted that there is no ongoing funding source for the cost of paramedics and the initiative discontinues its funding after year six.

PUBLIC COMMENTS:

- John Johnson, representing Lodi Citizens for Public Facilities, distributed and reviewed three documents (all filed). He commented that Mr. Krueger's presentation used a sales tax growth percentage of 4.71%; however, this is below Lodi's historical average. He believed the per capita cost of \$40 was grossly misleading and countered that the quarter cent sales tax increase would cost the average household only \$50 per year. He pointed out that \$2.4 million is left over to fund maintenance and operations costs. There is flexibility included in the initiative through an advisory committee who may change the order of priority following a public hearing and concurrence of the City Council. For example, if Fire Station 5 was funded through another source, there would be \$4.4 million available for other projects. In response to Mayor Beckman's comment, Mr. Johnson challenged the City to submit an improved measure if the Fire and Facilities Sales Tax Initiative is not acceptable.

Council Member Hansen pointed out that estimates do not factor in inevitable increases to construction costs.

Mr. Johnson acknowledged that the aquatic center would at best break even and if it followed Parks and Recreation Department pool trends it would likely be a money loser. He noted that there would be indirect revenue sources that would come to the City as a result of having an aquatics center and indoor sports facility. The Lodi Chamber of Commerce has endorsed the initiative because of the indirect revenue sources from which it believes the City will benefit. Mr. Johnson recalled that a conceptual plan had been done some years ago to incorporate the indoor sports center at the Grape Bowl. In summary, Mr. Johnson felt that Mr. Krueger's fiscal impact study of the initiative was incomplete and did not mention the benefits the projects would bring to Lodi such as direct and indirect revenue by having the athletic facilities, or that response times would be reduced if there were a fifth Fire Station.

Mayor Pro Tempore Hitchcock expressed concern regarding the long-term maintenance and operation costs the City would be burdened with when the ten-year sales tax increase ends.

Council Member Mounce stated that she was excited about the opportunities that the Fire and Facilities Sales Tax Initiative presents.

Council Member Johnson recalled that preliminary discussion took place regarding a quarter cent sales tax increase to fund public safety. He asked what the relief would be on other aspects of the general fund if that were done and suggested that presenting such an alternative to citizens should be considered.

Council Member Hansen warned against getting into a conflict between Council and the citizens who signed the Fire and Facilities Sales Tax Initiative. He hoped that a compromise or unified approach could be developed.

**C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**D. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at 8:37 a.m.

ATTEST:  
Susan J. Blackston, City Clerk

**AGENDA ITEM**



**CITY OF LODI  
COUNCIL COMMUNICATION**

**AGENDA TITLE:** Review of Fire and Facilities Citizens Sales Tax Initiative fiscal impact study  
**MEETING DATE:** November 8, 2005  
**PREPARED BY:** James R. Krueger, Finance Director

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The attached memorandum evaluates the fiscal impact of the Fire and Facilities Citizens Sales Tax Initiative to be reviewed with the Council at the Shirtsleeve Session on November 8, 2005. Staff will present a power point presentation to Council at the meeting.

  
James R. Krueger, Finance Director

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APPROVED:   
Blair King, City Manager

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**TO:** Honorable Members of the City Council

**THROUGH:** Blair King, City Manager *BK*

**FROM:** Jim Krueger, Finance Director *JKR/K*

**DATE:** November 4, 2005

**SUBJECT:** Evaluation of Citizens Sales Tax Initiative

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The City Council requested an evaluation of the Citizens Sales Tax Initiative several months ago. This evaluation focuses on the effects of the increase in revenues to the General Fund of the City of Lodi. It does not identify the broader issues related to the effect that a Sales Tax increase might have on the local economy.

**Primary effects of the Initiative would be as follows:**

- The Sales Tax rate would be adjusted by ¼ cent (7.75% to 8.00%) for ten years. The local portion of the sales tax that would go to the City of Lodi General Fund would increase by as much as 25% (1.0% current rate would be adjusted to 1.25%). Increases to the local share are capped at 2.0% and increases can be approved in ¼ cent increments. If the initiative passes, then the remaining allowable increases would be 1.25% (2.0% allowable less .5% approved previously, less .25% for this initiative)
- Estimated revenue to be generated from the ¼ cent increase would be \$28,585,000 over the course of ten years. This is based on annual average growth in the sales taxes volume of 5.7% (growth in 2004/05 was approximately 8%). The projected annual amounts would range from \$2,300,000 in the first year to \$3,486,000 in the tenth year.
- One measure of the impact on Lodi citizens from the sales tax increase is the per capita amount that citizens would pay. A ¼ cent sale tax rate increase would result in a per capita increase of approximately \$40 per

year. Since a good portion of the sales taxes paid in Lodi result from point of sale transactions, revenues would also be generated from those that reside outside of Lodi. Conversely, transaction taxes (the amounts paid by those who purchase an automobile) would be paid by Lodi citizens regardless of where the purchase occurs.

- Total estimated resources to be garnered from this initiative are \$28.5 million. As stipulated in the initiative language, these resources would be directed as follows: 1) Capital costs of approximately \$22,000,000 and 2) operating costs of \$6,585,000. The ongoing cost of personnel added to fully staff and equip the new Fire Station and for paramedics as stipulated in the initiative, would add annual operating costs of \$2,153,000 (\$700,000 for paramedics and \$1,453,000 for Station 5). The sales tax initiative would fund \$4.2 million of these costs (\$700,000 for paramedics in the first six years). The initiative would not fund any of the additional operating costs after Fire Station 5 is built and not fund the cost of paramedics after year six.
- The City Council directs (through the annual budget process) how services will be delivered and the priorities for these services. Since the ultimate decision on how the additional sales taxes would be spent rests with the City Council, the stipulations on how the proceeds from the additional sales taxes are not necessarily binding on the City Council. Therefore, the decisions related to when and how many paramedics to be hired and utilized rest with the City.
- The general fund is currently funding about 67% of Public Safety expenditures with property taxes and sales taxes. This percentage improves with the sales tax initiative to 93% by the end of the ten years. However, the percentage drops off again at the end of the ten year period.
- One problem that could arise relates to the possibility that sales taxes and other funding sources used to fund public safety might decrease during an economic downturn. Therefore, the additional sales taxes generated from the rate increase, could be needed to help fund the shortfall that would be created in an economic downturn.
- In conclusion, the revenues that would be generated from the initiative are not sufficient to pay for the additional expenditures that are stipulated in the initiative. At the end of the 10 years, the General Fund will be faced with funding the additional expenditures stipulated in the initiative and no source for revenue for continued funding.

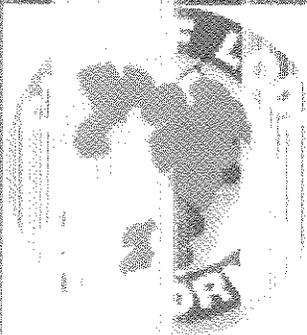
**Discussion:**

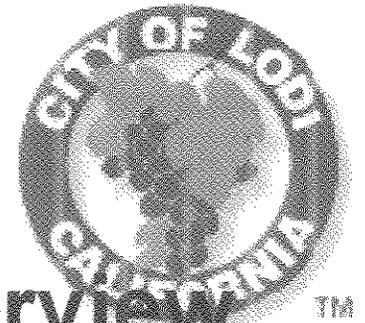
- There may be a negative economic impact from a sales tax increase. Although sales taxes are considered to be a progressive tax (those with higher incomes would most likely bear the burden of the increase), the net effect on consumer spending may be negative and there may be less revenues generated from the initiative as a result. Other revenue options would be a parcel tax and higher development fees.
- Revenues traditionally used for General Government purposes are restricted as stipulated by the initiative. There may be other funding sources that could be used to fund the Capital Facilities, for which almost 78% of the ¼ cent special tax revenues are designated.
- The initiative stipulates that the current General Fund service delivery model be adjusted to include paramedics and operating costs for new sports facilities. This question rests with the City staff and City Council Stipulations on how many and when paramedics should be hired is an issue that needs to be discussed in the City's budget process. Although it does not appear to be the intention that the City's decision process be subverted by the advisory board stipulated in the initiative, there are issues that will arise related to how to fund costs that are not included in the current city revenue stream. These costs are estimated to be as high as \$2.1 million per year when the initiative sunsets.
- The current General Fund budget is \$43.8 million. There will be continuing stress points in this budget over the course of the 10 years of the initiative. Costs for Public Safety (other areas too) will continue to increase and there will be a need to find other sources of funding for these costs. It may be necessary to ask citizens to support a general sales tax levy in order to support the increase in costs for the continued delivery of current services. There may be less support for the passage of a general tax levy while a special tax levy is in force.

*filed 11-8-05*

**Evaluation of Citizens Sales Tax  
Initiative  
November 7, 2006 General Election**

City Council Shirtsleeve  
Meeting  
November 8, 2005





# Citizens Sales Tax Initiative Overview

- The Sales Tax initiative will be placed on the November 2006 ballot for consideration of a  $\frac{1}{4}$  cent increase in the Sales Tax rate for the City of Lodi.
- Staff has been asked to provide an evaluation of the fiscal impacts to the City of Lodi of this initiative. They are as follows:
  - If approved the Sales Tax rate would increase by  $\frac{1}{4}$  percent and result in a sales tax rate of 8.00% (current rate it is 7.75%). Out of the 7.75% current rate the city share is currently 1.0% and with approval would be increased to 1.25%.
  - State Law allows the local sales tax rate to be increased (as a result of a 2/3rds vote in a special election) by  $\frac{1}{4}$  cent increments up to a maximum of 2 cents in total. With the passage of Measure K (local share is .50%), the remaining local share could be increased by as much as 1.50%.



# Citizens Sales Tax Initiative

- Based on current trends, it is estimated that the total amount of revenues to be garnered from the initiative would be approximately \$28.6 million over a ten year period.
- **Total estimated resources to be garnered from this initiative are \$28.6 million. As stipulated in the initiative language, these resources would be directed as follows: 1) Capital costs of approximately \$22,000,000 and 2) operating costs of \$6,585,000.**



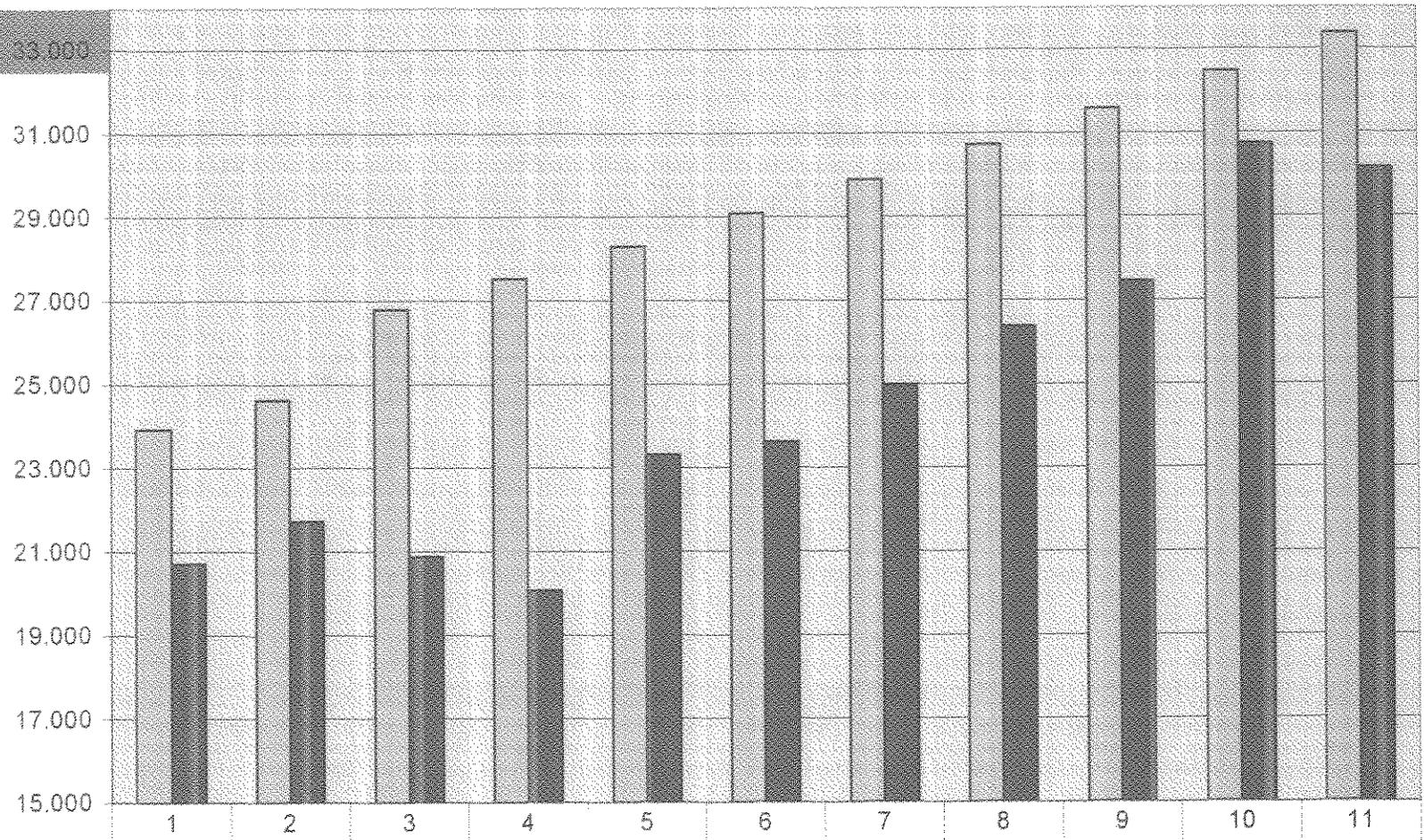
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>Estimated Revenues</b>	2.303	2.339	2.473	2.612	2.747
<b><u>Costs funded by initiative</u></b>					
Paramedics	-0.700	-0.700	-0.700	-0.700	-0.700
Construction Fire Station 5			-2.000		
Aquatics Center				-4.000	-2.000
Fire Station 2 Rehabilitation					
Indoor Sports Arena					
Operations Station 5					
Cumulative \$ (Rev.- Cost)	1.603	3.242	3.015	0.927	0.974
<b><u>Additional Costs not funded by initiative</u></b>					
Paramedics					
Operations Fire Station 5			-1.453	-1.453	-1.453
Total not funded by Initiative			-1.453	-2.906	-4.359



	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	<u>Totals</u>
Estimated Revenues	2.895	3.048	3.206	3.475	3.486	28.585
<u>Costs funded by initiative</u>						
Paramedics	-0.700					-4.200
Construction Fire Station 5						-2.000
Aquatics Center	-3.000					-9.000
Fire Station 2 Rehabilitation		-2.000				-2.000
Indoor Sports Arena		-1.000	-3.000	-3.500	-1.500	-9.000
Operations Station 5					-2.385	-2.385
Cumulative \$ (Rev.- Cost)	0.169	0.218	0.424	0.399	0.000	-28.585
<u>Additional Costs not funded by initiative</u>					2.385	2.385
Paramedics		-0.700	-0.700	-0.700	-0.700	-2.800
Operations Fire Station 5	-1.453	-1.453	-1.453	-1.453	-1.453	-11.624
Total not funded by Initiative	-5.812	-7.965	-10.118	-12.271	-12.039	-12.039

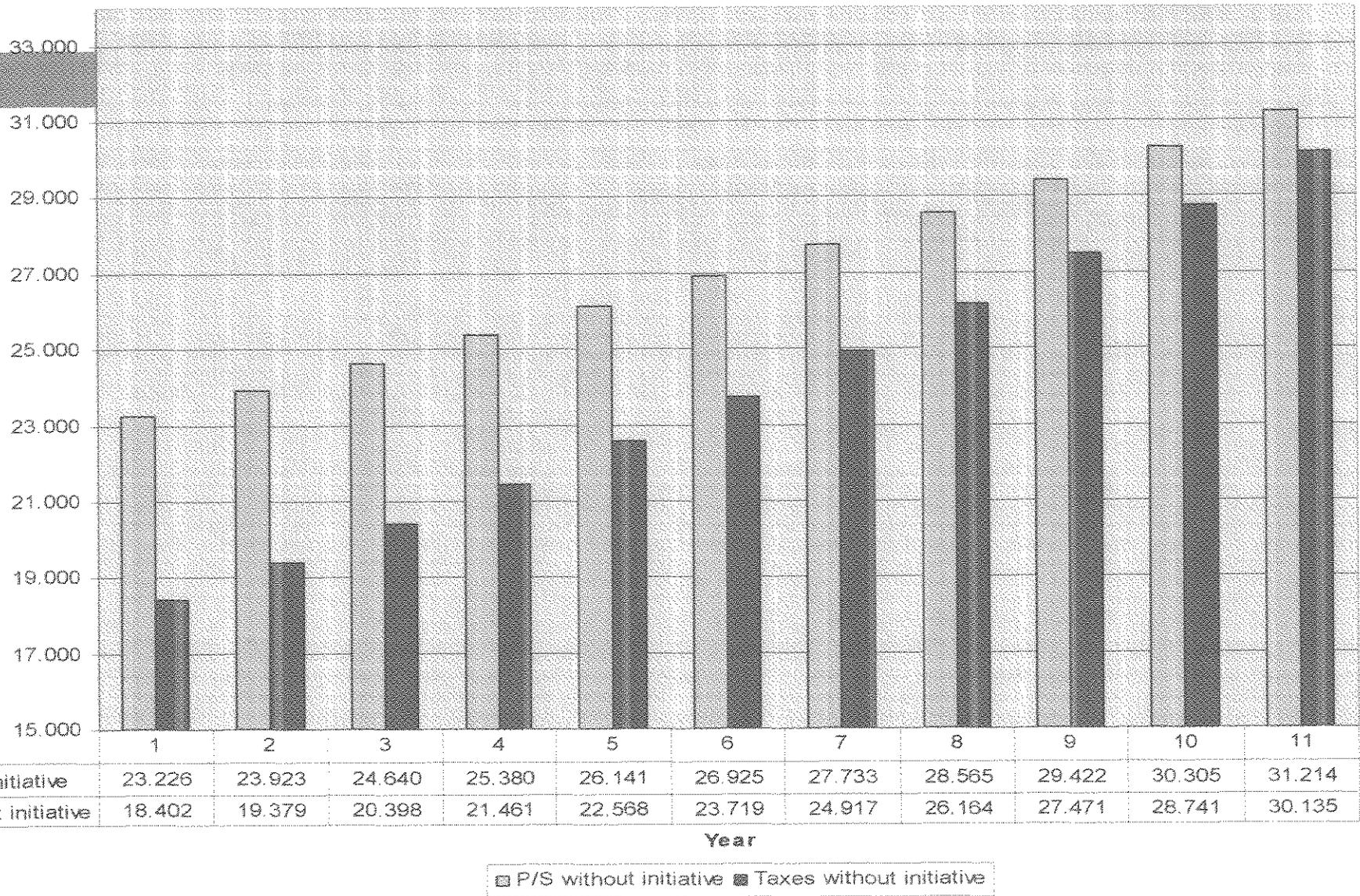


### Public Safety funding

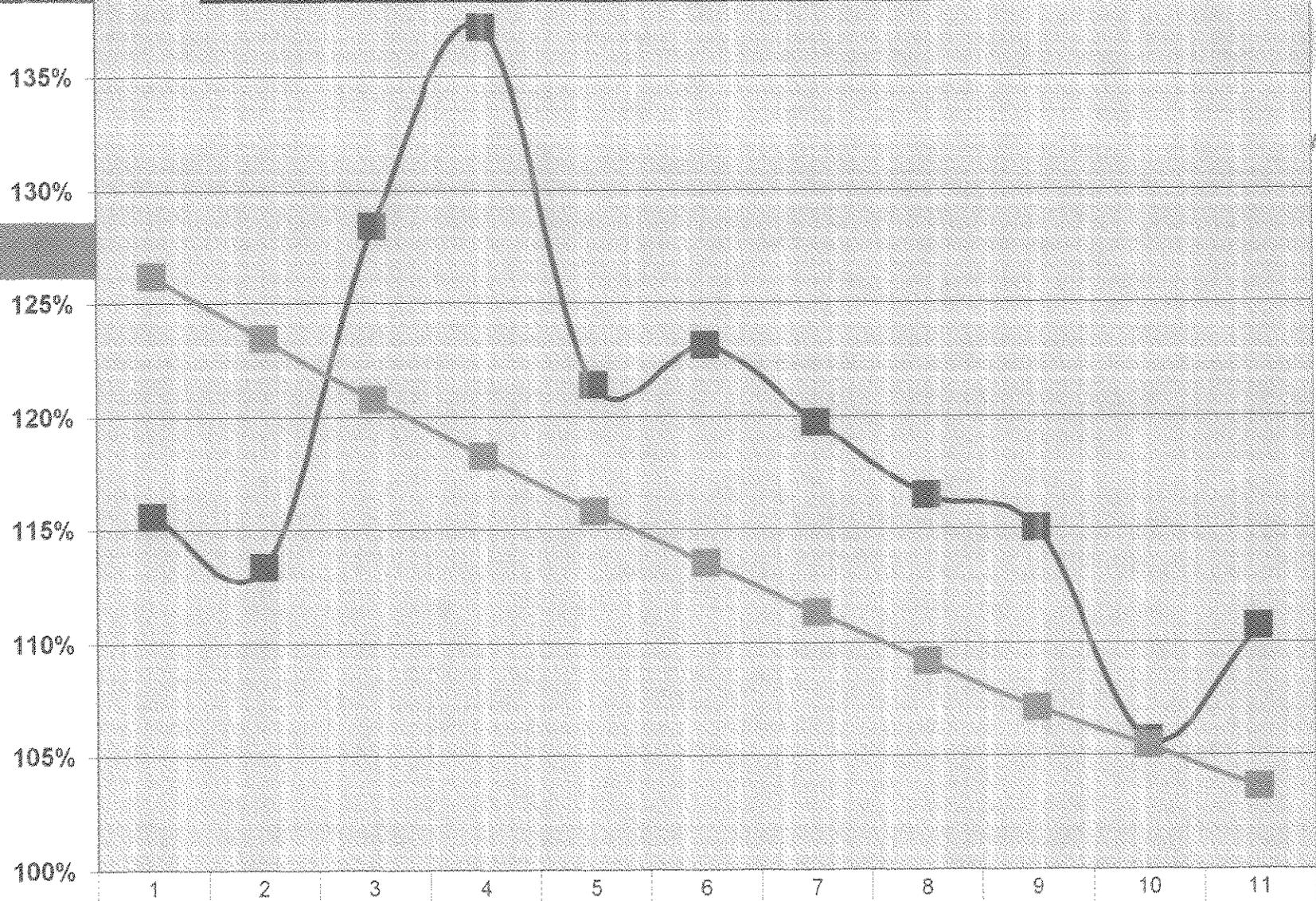




## Funding without initiative



**Public Safety % of Tax Revenues**  
 Assumes Services Not Added in Status Quo Scenario  
 In other scenario, Services Added as stipulated in Initiative



With Initiative	1.156	1.134	1.284	1.372	1.214	1.231	1.197	1.165	1.150	1.056	1.107
Without Initiative	1.262	1.234	1.208	1.183	1.158	1.135	1.113	1.092	1.071	1.054	1.036

Initiative Year

—■— With Initiative    - - - ■ - - - Without Initiative



# Expenditure Control Strategy

## 2005-06 Budget compared to Revenues

- Police Department \$13 million
- Fire Department 8 million Total \$ 21 M
  
- Sales Taxes \$ 9 million
- Property Taxes 8 million Total \$ 17 M = ~125%
  
- Long Term Strategy, % Should be < 130%



# Citizens Sales Tax Initiative

- One measure of the impact on Lodi citizens from the sales tax increase is the per capita amount that citizens would pay. A  $\frac{1}{4}$  cent sale tax rate increase would result in a per capita increase of approximately \$40 per year. Since a good portion of the sales taxes paid in Lodi result from point of sale transactions, revenues would also be generated from those that reside outside of Lodi.



# Citizens Sales Tax Initiative

- **Public Safety expenditures currently are 125% of Property Taxes and Sales Taxes.**
- **Our long term financial stability goal is that this percentage not grow any larger than 130%.**



# Citizens Sales Tax Initiative

- What happens with an economic downturn?
- Additional sales taxes generated from the rate increase, could be needed to help fund the shortfall that would be created in an economic downturn



# Citizens Sales Tax Initiative

- In summary the revenues generated from the initiative are not sufficient to pay for the additional expenditures.



## Citizens Sales Tax Initiative Other Things to Consider

- There may be a negative economic impact from a sales tax increase.
- Revenues traditionally used for General Government purposes are restricted as stipulated by the initiative.
- The initiative stipulates that the current General Fund service delivery model be adjusted to include paramedics and operating costs for new sports facilities.



## Citizens Sales Tax Initiative Other Things to Consider

- The current General Fund budget is \$43.8 million. There will be continuing stress points in this budget that will require additional revenues or cost reductions to continue to deliver services

Filed 11-8-05  
John Johnson

**INCREASING THE SALES TAX BY .25%**

PROJECTED				
<u>ADDED REVENUE</u>		4.71%	5.21%	5.71%
2006	\$	2,303,619	\$ 2,314,619	\$ 2,325,619
2007	\$	2,412,118	\$ 2,435,209	\$ 2,458,411
2008	\$	2,525,728	\$ 2,562,083	\$ 2,598,785
2009	\$	2,644,688	\$ 2,695,566	\$ 2,747,174
2010	\$	2,769,252	\$ 2,836,003	\$ 2,904,036
2011	\$	2,899,682	\$ 2,983,758	\$ 3,069,855
2012	\$	3,036,256	\$ 3,139,210	\$ 3,245,142
2013	\$	3,179,262	\$ 3,302,761	\$ 3,430,438
2014	\$	3,329,003	\$ 3,474,833	\$ 3,626,314
2015	\$	3,485,798	\$ 3,655,870	\$ 3,833,375
<b>TOTAL</b>	<b>\$</b>	<b><u>28,585,404</u></b>	<b><u>29,399,912</u></b>	<b><u>30,239,148</u></b>

**THE ESTIMATED PROJECT COSTS**

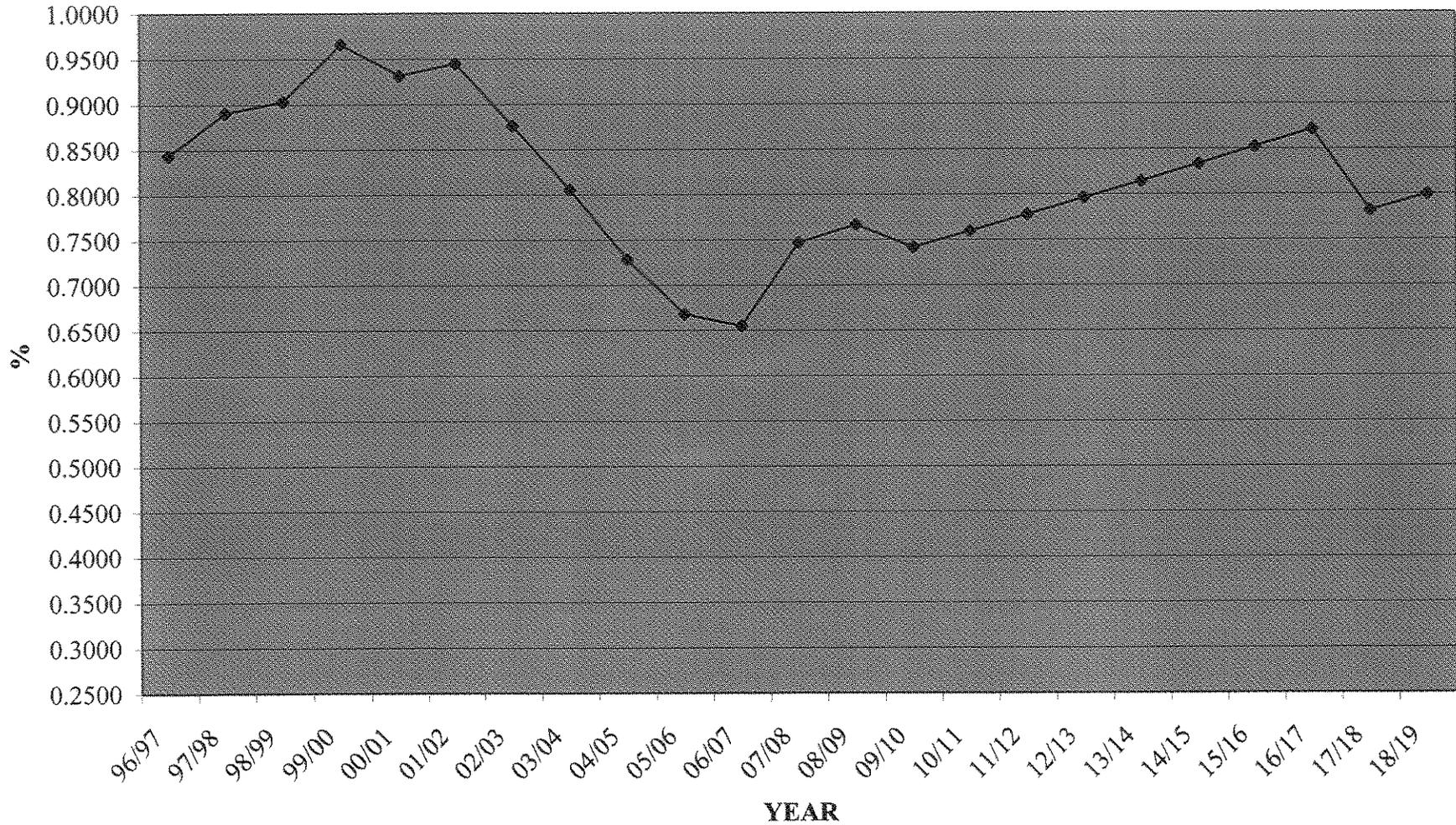
PARAMEDICS	\$	4,200,000
STATION #5	\$	2,000,000
AQUATICS CENTER	\$	9,000,000
REMODEL #2	\$	2,000,000
INDOOR CENTER	\$	9,000,000
M&O	\$	1,500,000
	\$	<u>27,700,000</u>

**LODI HISTORICAL SALES TAXES**

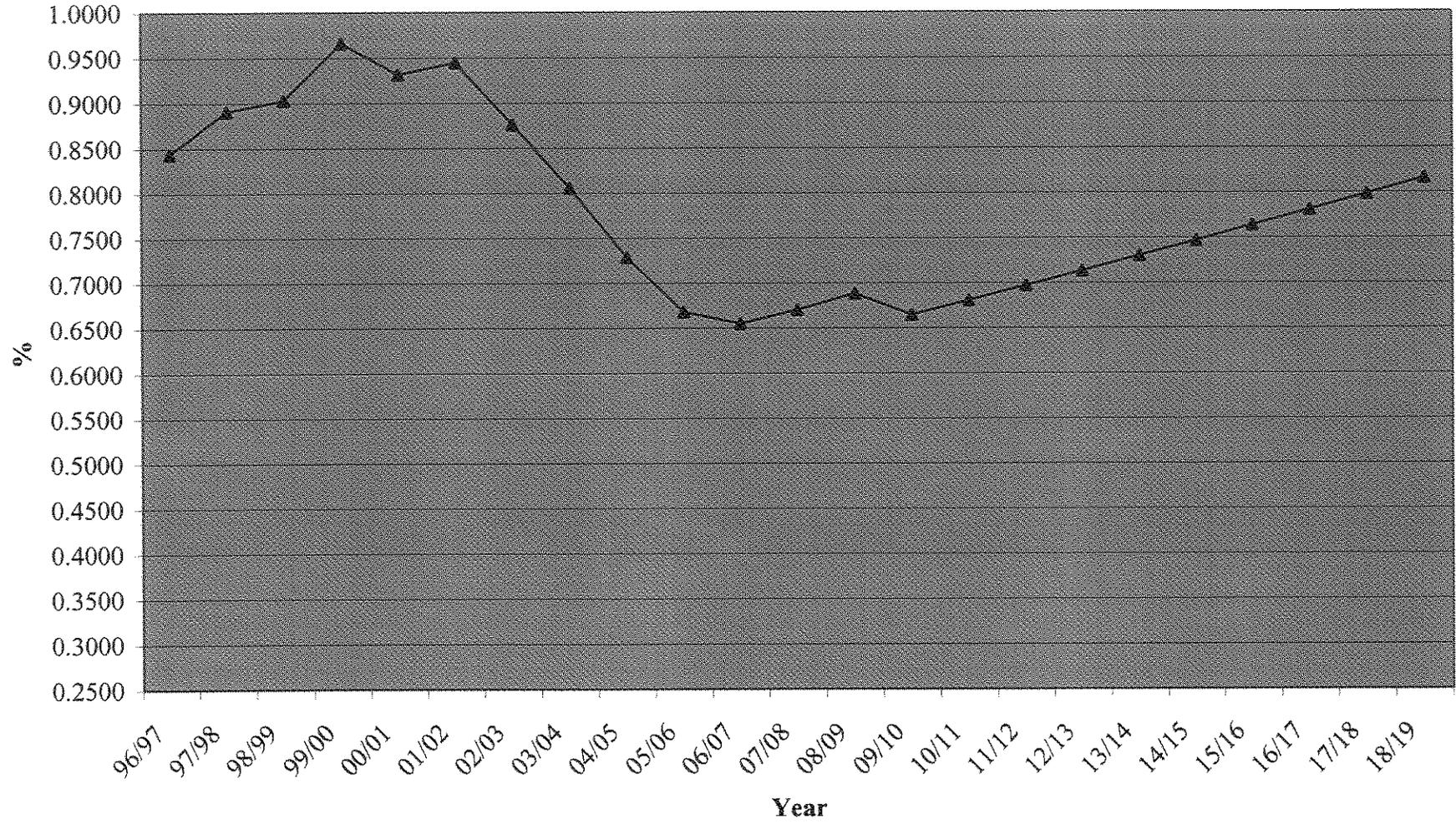
<u>FISCAL YEAR</u>	<u>TAXABLE SALES</u>	<u>CURRENT 1.0%</u>	<u>ADDED 0.250%</u>
1993	\$ 451,952,000	\$ 4,519,520	\$ 1,129,880
1994	\$ 459,316,000	\$ 4,593,160	\$ 1,148,290
1995	\$ 486,843,000	\$ 4,868,430	\$ 1,217,108
1996	\$ 517,867,000	\$ 5,178,670	\$ 1,294,668
1997	\$ 540,751,000	\$ 5,407,510	\$ 1,351,878
1998	\$ 562,229,000	\$ 5,622,290	\$ 1,405,573
1999	\$ 624,871,000	\$ 6,248,710	\$ 1,562,178
2000	\$ 709,546,000	\$ 7,095,460	\$ 1,773,865
2001	\$ 802,826,600	\$ 8,028,266	\$ 2,007,067
2002	\$ 828,463,100	\$ 8,284,631	\$ 2,071,158
2003	\$ 863,958,200	\$ 8,639,582	\$ 2,159,896
2004	\$ 875,500,000	\$ 8,755,000	\$ 2,188,750
2005	\$ 880,000,000	\$ 8,800,000	\$ 2,200,000
<b>ANNUALIZED GROWTH</b>		<b>5.71%</b>	<b>5.71%</b>

Filed 11-8-05  
John Johnson

### % of Public Safety Covered by Sales & Prop. Taxes Initiative Passes



**% of Public Safety Covered by Sales & Prop. Taxes**  
**Initiative fails but 5th station is built**



Filed 11-8-05  
John Johnson

**POSSIBLE TIMING OF EXPENDITURES**

<u>YEAR</u>	<u>BEGINNING BALANCE</u>	<u>ESTIMATED REVENUE</u>	<u>PARAMEDICS</u>	<u>STATION #5</u>	<u>AQUATICS CENTER</u>	<u>STATION #2</u>	<u>INDOOR CENTER</u>	<u>BALANCE</u>
1	\$ -	\$ 2,303,619	(700,000)					\$ 1,603,619
2	\$ 1,603,619	\$ 2,412,118	(700,000)	(2,000,000)				\$ 1,315,737
3	\$ 1,315,737	\$ 2,525,728	(700,000)					\$ 3,141,465
4	\$ 3,141,465	\$ 2,644,688	(700,000)					\$ 5,086,153
5	\$ 5,086,153	\$ 2,769,252	(700,000)					\$ 7,155,405
6	\$ 7,155,405	\$ 2,899,682	(700,000)		(9,000,000)			\$ 355,087
7	\$ 355,087	\$ 3,036,256				(2,000,000)		\$ 1,391,343
8	\$ 1,391,343	\$ 3,179,262						\$ 4,570,605
9	\$ 4,570,605	\$ 3,329,003						\$ 7,899,608
10	\$ 7,899,608	\$ 3,485,798					(9,000,000)	\$ 2,385,406
TOTAL		<u>\$ 28,585,406</u>	<u>\$ (4,200,000)</u>	<u>\$ (2,000,000)</u>	<u>\$ (9,000,000)</u>	<u>\$ (2,000,000)</u>	<u>\$ (9,000,000)</u>	