CITY OF GOLETA

Agenda Item A.1
WORKSHOP
Meeting Date: March 31, 2022

TO: Mayor and Councilmembers

FROM: Michelle Greene, City Manager

CONTACT: Luke Rioux, Finance Director

SUBJECT: Potential Revenue Enhancement Options

RECOMMENDATION:

A. Discuss options for creating and generating new revenue for the City and provide direction to staff on which option(s) to pursue;

B. Discuss options for updating the Cannabis tax rates for the City and provide direction to staff on which option(s) to pursue.

BACKGROUND:

On December 10, 2020, the City Council held a workshop and received a presentation from staff on its long-range financial forecast over a twenty-year period, which included various revenue and expenditure scenarios, information on revenue enhancement options and funding strategies to address unfunded priorities and projects. At the workshop, recommendations on revenue options were presented for both for the near term and the long term. The near-term recommendations included staff to evaluate existing cannabis business tax rates with its cannabis consultants, HdL. The long-term recommendations included staff continuing evaluation other types of general fund tax measure options, including Transaction Use Tax (TUT), Utility Users Tax (UUT), Parcel Tax, Transient Occupancy Tax (TOT) increase, Business License Tax and Real Property Transfer Tax.

DISCUSSION:

Staff consulted with its tax consultants HdL and their cannabis and ECONSolutions divisions on providing additional analysis on these tax revenues. HdL has completed its fiscal analysis on both cannabis tax and the tax revenue enhancement options to help inform discussion and consideration of potential ballot measures. The tax revenue enhancement analysis is provided in full as Attachment 1 and the cannabis tax analysis is provided as Attachment 2.

<u>Revenue Enhancement Options – Summary</u>

Staff has worked with its tax consultants to further refine revenue generation estimates, including consultant analysis on reviewing the nature of the tax, the process to implement, the potential estimates, and evaluating the pros and cons of each. The full report is provided as Attachment 1. The following table summarizes the estimated annual revenues by tax type followed by a brief summary of each type provided by HdL:

Table 1: Tax Revenue Measure Estimates

Revenue Measure Options	Annual Revenue Projection	Tax Rate Factor
Transaction and Use Tax	$2.2M - $2.4M	For every 0.25% increase.
Utility User Tax	$4.7M	Assumes 6% across all utilities
Parcel Tax	$960,000	Assumes $100 per parcel
Transient Occupancy Tax	$920,000	For each 1% increase
Business License Tax	$2.2M - $3.3M	Gross receipts model or Classification based rates
Real Property Transfer Tax	$300,000	For every $0.55 cents

Transaction Use Tax (TUT)

From experiences of other cities, a TUT (also referred to as a sales tax) has one of the higher feasibilities of voter approval as compared to other tax options. Some of the reasons are that almost half of the revenue collected will come from non-residents making purchases within the City and the fact that many surrounding communities already impose a similar tax at a higher rate than the City of Goleta's current rate. The potential revenue generated is on the higher side of other options between $2.3 million to $9.3 million depending on the percent of the TUT. The cost of administration is less than some of the options because the TUT is collected by the State and remitted to the City. To place a measure on the ballot requires supermajority City Council approval (4 out of 5 for the City of Goleta). Once on the ballot, the measure must have a two-thirds voter approval for special purpose funding or a simple majority (50% plus 1) for general purpose funding to pass.

Utility User Tax (UUT)

A UUT like the 6% UUT of the City of Santa Barbara could generate approximately $4.7 million to the City. The payers of a UUT are exclusively residents and businesses within the City. The feasibility of passage of a UUT measure is less than other tax forms because of this fact. Businesses may pass on the cost they pay in a UUT in higher prices. The cost to administer a UUT may be higher in auditing collections from utilities depending on the number of utilities and variations in rates. To place a measure on the ballot requires City Council approval with a two-thirds vote for general purpose funding or a simple majority for special purpose funding. Voter approval of a majority (50% plus 1) is required for general purpose funding and two-thirds for special purpose funding.

Parcel Tax

Based upon the revenue projections a parcel tax can generate between $960,000 to $4.8 million in revenue. However, this revenue can only be used for the specific purpose for which the tax is levied. Like a UUT, the tax is borne by the property owners within the city. The feasibility of passing of a ballot measure is less than other tax forms because of this fact and the ability to demonstrate the need for the revenue for the specific purpose of the tax. The cost of administration is less than other tax options because the collection is the responsibility of the County. To place a measure on the ballot requires City Council approval with a two-thirds vote. Voter approval also requires a two-thirds vote regardless of the use of the funds.

Transient Occupancy Tax (TOT)
The feasibility of voter approval of a TOT increase is greater than other tax options because the payers of the tax are for the most part non-residents. However, the revenue projections are limited. The current TOT in Goleta is 12%, which is the statewide average. It is estimated that each 1% increase can generate an additional $960,000. There is a point where an increase beyond the average of surrounding communities may have a negative impact in guests choosing to stay in the city. There is no additional cost to administer an increase in TOT since the City already administers TOT remittance. To place a measure on the ballot requires City Council approval with a majority vote. Voter approval also requires a majority vote.

Business License Tax
The feasibility of voter approval of a business license tax may be slightly less than a TUT. The tax is borne by the businesses in the city, who may pass on the additional cost in higher prices for goods and services. There are many variations on how the tax is structured. The models used in the report indicate potential revenue between $2.2 million and $2.7 million. This revenue option has the highest cost of administration because it would require the city to set up the structure and collect the tax either in-house or using a third party. To place a measure on the ballot requires the City Council approval with a two-thirds vote regardless of whether the funds will be used for general purpose funding or special purpose funding. Voter approval also requires a two-thirds vote regardless of the use of the funds.

Documentary Transfer Tax and Real Property Transfer Tax
This is the least feasible revenue option. It would require the City to become a charter city to be eligible to consider this option. The cost, time and politics to consider becoming a charter city are economically infeasible based upon the potential revenue projections.

Next Steps for a Tax Revenue Measure

Based on Council direction, staff will return with draft ballot measure language for Council's consideration. Below is a sample timeline, including steps that staff will take if Council decides to move forward with a ballot measure.

Next Steps - Project Timeline
2022 Tax Revenue Measure

Dates	**Description**
April – May 2022	Staff to return with draft ballot measure language for Council's consideration
April-November 2022	Conduct a public outreach and education effort on the financial need and potential uses of a funds related to a proposed tax measure; including drafting a priority spending plan

April – June 2022	If pursuing a TUT (add-on sales tax), contract with California Department of Tax and Fee Administration (CDTFA). Cities are required to contract with the CDTFA for administration of the ordinance imposing the tax. There are two contracts. One is for setting up the tax; the second is for ongoing administration.
April – May 2022	Follow-up Tracking Survey conducted.
May 17, 2022	City Council considers draft ordinance approving tax ballot measure language for the November 8, 2022 Election.
June 7, 2022 (latest date this item can be considered is June 21, 2022)	City Council adopts: 1) Resolution approving the Council-sponsored ballot measure to be submitted to the voters; 2) Resolution calling and giving Notice of Election and whether rebuttal arguments will be permitted, and if so, adoption of Resolution providing for the filing of rebuttal arguments for City measures submitted at Municipal Elections; and 3) Resolution directing the City Attorney to prepare an impartial analysis of the measure to be placed on the November 8, 2022 General Election
July 2022	Deadline to submit documentation to County Clerk of the Board of Supervisors
November 8, 2022	Election Day

Cannabis Tax Analysis Summary

The cannabis tax analysis included a review that found the City's current tax rates are competitive with other nearby jurisdictions and with common rates seen across the state. It considered impacts to business attraction, retention and success, including to the City's revenues. The analysis reports how retail cannabis sales may be influenced by tourism and visitor traffic, along with the impact of UCSB. HdL also provided six recommendations which are summarized below:

Recommendation 1
HdL recommends that the City work within the existing limitations of Measure Z when making any desired changes to its current cannabis tax rates.

Recommendation 2
HdL recommends that the City consider applying its cannabis taxes evenly to both adult-use and medicinal cannabis businesses and sales.

Recommendation 3
HdL recommends that the City retain the existing gross receipts-based tax on cannabis cultivation and continue to set the rate at 4.0%.

Recommendation 4
HdL recommends that any desired adjustments to the City's current tax rates for cannabis business types other than cultivation stay within the minimum and maximum ranges described in Figure 1.

Figure 1 – Tax Range Recommendation:

Business Type	HdL Std. Initial Rate	HdL Std. Maximum Rate	Current City Rate	Recommendation
Cultivation	$7 per SF or 1.75% GR	$10 per SF or 2.5% GR	4.0% GR	No Change
Nurseries	$1 per SF or 1.0% GR	$2 per SF or 2.0% GR	1.0% GR	No Change
Manufacturing	2.5% GR	4.0% GR	2.0% GR	2.5%
Distribution	2.0% GR	3.0% GR	1.0% GR	2.0%
Retail, Adult Use	4.0% GR	6.0% GR	5.0% GR	No Change
Retail, Medicinal	4.0% GR	6.0% GR	0.0% GR	5.0%
Testing	1.0% GR	2.5% GR	0.0% GR	No Recommendation
SF = Square Feet GR = Gross Receipts				

Recommendation 5

HdL recommends that the City exercise caution and discretion in applying increases to the tax rates for any existing businesses. As an alternative, the City may wish to consider a tiered tax rate for high-earning businesses when revenues exceed a certain amount. An example of this is seen in Figure 2.

Figure 2- Example of Incremental Tax Rate Model

Incremental Tax Rate Model					
Increment	**Range**	**Taxable Amount**	**Increment Rate**	**Revenues**	**Effective Rate**
1st Increment	$0 to $25 million	$25,000,000	2.00%	$500,000	
2nd Increment	$25 million to $50 million	$25,000,000	1.50%	$375,000	
3rd Increment	$50 million and above	$25,000,000	1.00%	$250,000	
		$75,000,000		$1,125,000	1.50%
Flat Rate Model					
	Flat Rate	$75,000,000	1.00%	$750,000	
	Flat Rate	$75,000,000	2.00%	$1,500,000	

Recommendation 6

HdL recommends that the City consider extending the allowable hours of operation for cannabis retailers to 10:00 p.m., rather than the current 8:00 p.m. Extending these hours could allow the City's retailers to recapture sales (and related sales tax revenue) that are likely being lost to retailers in the City of Santa Barbara during these hours.

Next Steps and Staff Recommendation on Cannabis Tax Updates

Cannabis tax revenues is a new revenue stream to the City and is highly volatile. There is lots of uncertainty on the stability and consistency of what this revenue stream can generate and staff is still learning its impacts as other new businesses begin operating within city limits and nearby city limits. At this time, staff recommends City Council making a change only to the retail rate for the medicinal category to be set at the current retail for adult use at 5% and to work towards implementing recommendation 6, which is extending the hours of operation from 8:00pm to 10:00pm to be consistent with retailers in the City of Santa Barbara. Staff recommends that other potential rate changes be put on hold until additional information and another full fiscal year has been experienced to review further.

Should Council support staff's current recommendation, staff will return with a separate staff report and resolution to enact the tax rate change for medicinal and an ordinance update for the hours of operation for Council approval. Given current staff capacity and other work priorities, this work effort will be programmed for the upcoming FY 22/23 work program and will target August 2022 for implementation.

Finance Committee Review

The Finance Committee met to review the cannabis tax analysis on October 11, 2021, and the tax revenue enhancement analysis on Mach 24, 2022.

FISCAL IMPACTS:

There are no fiscal impacts associated with this report, as the information provided is for informational purposes and feedback from Council of which revenue options to pursue. Further action taken based on the information provided may result in future fiscal impacts and will be provided in a later report.

ALTERNATIVES:

Council may direct staff to provide further analysis on certain tax measures or explore more in detail the tax measures discussed. Council may also direct staff to not move forward with a ballot measure, directing staff to table the effort or continue to consider it for a future year.

Reviewed By:

Kristine Schmidt
Assistant City Manager

Approved By:

Michelle Greene
City Manager

ATTACHMENTS:

1. Draft Revenue Enhancement Opportunities Analysis for the City of Goleta
2. Draft Fiscal Analysis of the Commercial Cannabis Industry for the City of Goleta
3. Long Range Financial Forecast, Revenue and Funding Options Workshop
4. PowerPoint Presentations

ATTACHMENT 1:

Draft Revenue Enhancement Opportunities Analysis for the City of Goleta

CITY OF GOLETA REVENUE ENHANCEMENT OPPORTUNITIES REPORT

BACKGROUND

The City of Goleta is exploring potential revenue enhancement opportunities to raise additional general fund tax revenue. The City retained the services of HdL Companies to prepare a report evaluating various revenue enhancement opportunities.

Hinderliter de Llamas Associates (HdL) is a 37-year-old consulting firm with corporate offices in Brea California, along with offices in Pleasanton and Fresno, as well as offices in Texas, Colorado and Georgia. HdL is a highly respected consulting firm working in sales tax, property tax, tax & fee administration, revenue analysis, economic development and cannabis management. HdL ECONSolutions was formed by HdL in 2014 to provide a variety of economic development products, services and special projects in further serving local governments. HdL ECONSolutions has done work for 145 local governments in California and presently is working for 30 California cities and several private sector developers on a variety of economic development related services.

SUMMARY

The report identifies six potential revenue enhancement opportunities:

- Transaction Use Tax (TUT)
- Utility Users Tax (UUT)
- Parcel Tax
- Transient Occupancy Tax (TOT)
- Business License Tax
- Document Transfer Tax

The report evaluates each of these revenue opportunities by describing:

- The nature of the tax
- The process to implement the tax and feasibility of implementation
- The potential revenue estimates
- The pros and cons of each including – Regressiveness comparison, potential impacts on the residents and business within the community

The report does not make a recommendation of preference of one revenue source over another. However, it clearly outlines the above-described evaluation of each possible opportunity.

TRANSACTION USE TAX

Description

A Transaction and Use Tax (TUT) is an additional sales tax levy on top of the Bradley-Burns Local Sales and Use Tax imposed by individual cities. The TUT would apply to all purchases of goods and services that are applicable to existing sales and use taxes. A city does not have the ability to make exemptions as to what goods and services are exempt from the TUT. The TUT would be applicable to all goods and services subject to the statewide sales and use tax. Items that are exempt from TUT include certain food products for human consumption (many groceries), sales to the U.S. Government, sales of prescription medicine and certain medical devices, and sales of items paid for with food stamps. The sales and use tax currently applied in the City of Goleta is 7.75%, which is the lowest sales and use tax within Santa Barbara County and shared with Buellton and Solvang. The City can impose a TUT in increments up to the state cap amount of 9.25%. For example, if the City were to approve a 1% TUT, the sales tax rate in the city would be 8.75%, which would be 0.50% below the state cap.

Implementation Process

Enactment of a TUT requires a ballot initiative approved by the residents of the City. To place a measure on the ballot requires supermajority City Council approval (4 out of 5 for the City of Goleta). Once on the ballot, the measure must have, a two-thirds voter approval for special purpose funding or a simple majority (50% plus 1) for general purpose funding to pass.

Currently there are 120 cities in the state that have approved a TUT. The Cities in Santa Barbara County that have TUT's include the following:

- Buellton (7.75% sales tax rate)
- Carpinteria (9% sales tax rate)
- Goleta (7.75% sales tax rate)
- Guadalupe (8.75% sales tax rate)
- Lompoc (8.75%)
- Santa Barbara (8.75% sales tax rate)
- Santa Maria (8.75% sales tax rate)

In the November 2020 election there were 71 jurisdictions that had TUT initiatives on the ballot with 84% of them being approved by voters including a 1% sales tax increase in the City of Lompoc which passed with a 69.37% voter approval.

A TUT would be implemented no sooner than 110 days after the election date. For a November ballot measure, it will be implemented on April 1 of the following year, unless a later date is stated in the measure. For financial purposes, an April 1 start date means cash flow will start in June. With a normal 60-day accrual period, the City can expect 1 quarter worth of revenue for that fiscal year - with the first full fiscal year impact not felt until the following year. A sample implementation timeline is provided below:

- November 2022 - successful ballot measure
- April 2023 - first cash flow
- FY 22-23 - one quarter fiscal impact
- FY 23-24 - first full year fiscal impact

Pros and Cons

<u>Pros</u>

Based upon 2019 revenue estimates, 42.4% of the 1%% Bradley Burns Sales tax is estimated to be paid by non-residents of Goleta. This indicates that 42% of a new TUT tax would be paid by non-residents as well. This demonstrates that a TUT tax would be borne by both residents and non-residents in a roughly equal manner.

As shown above, many of Goleta's nearby cities have a variation of a TUT, so adoption of a similar TUT would not put the City in an economic disadvantage.

<u>Cons</u>

Sales taxes are regressive by nature. Taxes on general goods and services consume a greater proportion of a lower/moderate income family's income.

Potential Revenue Estimate

In previous reports, City staff and HdL prepared estimates of potential revenue that could be generated from a TUT. The estimates are based upon historic actual sales tax revenue received by the city. Table 1 summarizes the estimated TUT revenues at various levels of additional sales tax rates.

Table 1: Estimated TUT Revenues (as of August 2021)

Rate	0.25% TUT Estimate	0.5% TUT Estimate	0.75% TUT Estimate	1.0% TUT Estimate
TUT Estimated Revenue (Rounded)	$2,300,000	$4,600,000	$6,900,000	$9,300,000
Range (+/-) 5%)	$2.2M- $2.4M	$4.4M - $4.8M	$6.6M - $7.2M	$8.8M - $9.8M
Combined City Tax Rate	8.00%	8.25%	8.5%	8.75%

In rounded numbers the estimate of new revenue generated from a TUT is $2.3 million per 0.25% increase.

UTILITY USER TAX

Description

A Utility User Tax (UUT) may be imposed by a city on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including cell phone and long distance), sanitation and cable television. There currently is an issue of whether streaming services can be taxed under a city's UUT. Involving streaming services is a grey area since they are evaluated on a city-by-city basis. Thus, each city may determine whether a tax should be applied. Assembly Bill 252 of 2017 proposed that streaming services constitute an entertainment service and, therefore, should be a state matter and not subject to local utility taxes. However, it did not pass Until this is resolved by the judicial or legislative process, most cities have deferred imposing UUT on these services. The rate of the tax and the use of its revenues are determined by the city. The rate of tax may also vary by the utilities being taxed. For example, a city may choose to tax some types of utilities at a 6% rate and others at 4% or not at all. The city may also choose to tax only residential or only commercial customers for each type of utility. The tax is collected by the utility as part of its regular billing cycle and then remitted to the city. Most city UUT levies are general taxes. Over 150 cities in California levy utility user taxes.

UUT rates vary from one to 11 percent. The average rate is 4-5 percent.

For those cities with utility user taxes, it provides an average of 15 percent of a general fund revenue and often as much as 22 percent of their general fund revenue. Typically, UUT's are for a specified period of time.

Currently there are three communities in the County of Sant Barbara that impose a UUT - the City of Santa Barbara, Isla Vista Community Services District and the City of Guadalupe.

Implementation Process

Implementation of a UUT requires a ballot initiative approved by the residents of the city. To place a measure on the ballot requires City Council approval with a two-thirds vote for general purpose funding or a simple majority for special purpose funding. Voter approval of a majority (50% plus 1) is required for general purpose funding and two-thirds for special purpose funding. Depending on the specifics of how a tax measure is proposed it may require "sunset" of the tax.

Most cities with UUTs adopted the tax prior to 1986 by vote of their City Council. After 1986, any increase or extension or new UUT levy requires voter approval as described above. Most city UUT levies in California are general taxes.

From June 2002 through November 2020 there were 97 measures to increase or adopt a new UUT. Eleven were special taxes designated for a specific purpose. Among the 86 general taxes, 12 were accompanied by advisory measures.

Currently in California all but two UUTs are general purpose funding. In the November 2020 election there were 11 jurisdictions that had UUT measures on the ballot with 54% of them being approved by voters.

As described previously, there are many variations as to who can be taxed, such as residents and/or commercial customers, which types of utilities it applies to and at what rate for each. If the City were to pursue consideration of a UUT, a separate analysis should be conducted. Issues to be analyzed include who should be taxed, which utilities it should apply to and at what rates.

Collection of the revenue is the responsibility of the various utilities and remitted to the city on a regular schedule based upon negotiations with the utilities. Any time there is reliance on an outside agency responsible for collection and remittance there are greater chances of errors. This can be further complicated if there are many variations to the UUT rates. Many cities with UUT's utilize a third-party company to help manage and audit UUT remittance.

Pros and Cons

Pros

Depending on the percent of the tax, UUTs can generate a significant amount of revenue that can be used for general purposes. On average, the UUT provides 15 percent of general revenue in the cities that levy it and can be as high as 30%.

Traditionally, UUTs are a dependable and a consistent revenue stream. They increase gradually over time as the cost of the utility they tax increases.

<u>Cons</u>

The tax is considered somewhat regressive in that the most common utilities taxed include electricity, gas and water. The utility rates users pay are based upon consumption. Therefore, the more you use the higher your bill. Utility consumption is typically dependent on the size of the user's home or property. Therefore, property owners or tenants with lower incomes pay a disproportionate percentage of their income on utilities and the UUT.

As mentioned in the pros section, historically the revenue stream is fairly consistent. However, with current and future changes in the availability of some utilities such as water and energy, UUT revenue may become more of a volatile revenue with great fluctuations.

The tax is on the utility consumption of residents and businesses in the city. Businesses may also choose to pass on the cost of the UUT to their customers in the form of higher prices.

Potential Revenue Estimate

Estimating potential revenue can be a bit complex. It depends on the percentage of the tax and the utilities that the City chooses to impose the tax on. This varies from city to city. In addition, revenues collected by many utilities are proprietary information, so it is difficult to know exactly the amount of revenue collected by certain utilities. The most common way to estimate potential revenue is to look at one or more cities that currently impose the tax, determine their actual revenue, and extrapolate it for the City of Goleta's population. City staff and HdL chose to use the City of Santa Barbara as a comparison as shown in Table 2 below. The City of Santa Barbara's UUT is 6% applied on all utilities. The estimate is based upon their actual revenue collected and adjusted on a per capita basis. It is estimated that a UUT, using these parameters could generate approximately $4.7 million annually for Goleta.

Table 2: Santa Barbara UUT vs Estimated Goleta UUT

	2015	2016	2017	2018	2019	Avg
City of SB - UUT	$13,810,308	$14,337,731	$14,014,216	$14,149,218	$13,888,280	$14,039,951
SB Population	90,401	90,922	91,443	91,325	91,376	91,093.4
SB Per Capita	153	158	153	155	152	154
Goleta Population	30,541	30,671	30,847	30,790	30,975	30,764.8
Goleta Estimate	$4,665,663	$4,836,591	$4,727,497	$4,770,374	$4,707,904	$4,741,686

For comparison, the Isla Vista Community Services District imposes an 8% UUT on gas, water, electricity, sewer, and garbage disposal services. The total revenue collected in FY 20/21 was $1.03 million. The City of Guadalupe imposes a 5% rate on telephone, electricity, gas and water and generates $409,000 annually

PARCEL TAX

Description

A parcel tax is a tax on a parcel of property within a city. The tax must be imposed for a specific purpose. The revenue collected may only be used for that specific purpose. For example, library services, landscape maintenance or a broader category of public safety. It is paid by the property owner of the individual property. This is a flat fee tax on each parcel and not based upon the value of the parcel, unlike property taxes. The amount of the flat fee is set by the city and can vary depending upon the type of use of the property, for example, single-family residence, multi-family, commercial or vacant property. It can also be the same rate for all parcels regardless of land use. The city can also exempt certain classifications of properties. In the November 2020 election there were 30 jurisdictions that had a parcel tax measure on the ballot with 46% being approved by voters.

The City of Goleta currently imposes a Library Services parcel tax. This tax was inherited from the County when the City incorporated. The parcel tax was approved by County voters on June 5, 1990. A good reference to the various categories is in Tabe 2 below that illustrates the City of Goleta's existing library services parcel tax. The flat fee can also be the same regardless of the size of the parcel or be based upon the number rooms for residential parcels or the overall square footage of the parcel. The fee is typically a fixed fee but may include an annual adjustment based upon an indicator such as CPI. The City of Goleta currently imposes a parcel tax for funding library services which increases according to the CPI.

Implementation Process

Implementation of a parcel tax requires a ballot initiative approved by the residents of the city. To place a measure on the ballot requires City Council approval with a two-thirds vote. Voter approval also requires a two-thirds vote regardless of the use of the funds.

As described previously in the report, and much like a UUT, there are many variations as to what parcels would be taxed and at what rates and the purpose of the tax. If the City were to pursue consideration of a parcel tax, a separate analysis on defining the purpose and the taxing structure and to provide more refined revenue estimates for each option would be required.

Potential Revenue Estimate

The City can set the tax rate based upon a fixed amount for various categories of property use. To illustrate the revenue projection the report established a fixed amount for all use categories using several tax rates from $100 per parcel up to $500 per parcel using $100 increments. These projections are illustrative only to give a sense of the magnitude of the revenue potential.

As the charts indicate a parcel tax of $100 per parcel, regardless of land use, could generate approximately $960,440 annually. That amount increases proportionally with each $100 increment as described below. The range of projections based upon the $100 flat amount is between $960,440 - $4,802,000. As a comparison Table 3 provides the existing Library Parcel Tax.

Table 3: Library Parcel Tax

Land Use	FY 21/22 Proposed Rate	Number of Parcels	FY 21/22 Projected Revenue	Benefit Factor
Residential				
Single Family	$ 25.20	5,734	$ 144,497	1.0
Condominium	$ 25.20	2,567	$ 64,688	1.0
Duplex/Triplex	$ 50.32	173	$ 8,705	2.0
Apartments	$ 151.03	193	$ 29,149	6.0
Commercial				
Heavy	$ 113.22	17	$ 1,925	4.5
Light	$ 113.22	388	$ 43,929	4.5
Industrial	$ 113.22	228	$ 25,814	4.5
Churches/Misc	$ 50.32	25	$ 1,258	2.0
Farm/Vacant	$ 12.57	279	$ 3,507	0.5
Exempt	$ -	498	$ -	0.0
TOTAL PARCELS		10,102		
TOTAL PARCELS LEVIED		**9,604**	**$ 323,473**	

Table 4: Parcel Tax Projection 1

Land Use	FY 21/22 Proposed Rate	Number of Parcels	FY 21/22 Projected Revenue
Residential			
Single Family	$ 100.00	5,734	$ 573,400
Condominium	$ 100.00	2,567	$ 256,700
Duplex/Triplex	$ 100.00	173	$ 17,300
Apartments	$ 100.00	193	$ 19,300
Commercial			
Heavy	$ 100.00	17	$ 1,700
Light	$ 100.00	388	$ 38,800
Industrial	$ 100.00	228	$ 22,800
Churches/Misc	$ 100.00	25	$ 2,500
Farm/Vacant	$ 100.00	279	$ 27,900
Exempt	$ -	498	$ -
TOTAL PARCELS		10,102	
TOTAL PARCELS LEVIED		**9,604**	**$ 960,400**

Table 5: Parcel Tax Projection 2

Land Use	FY 21/22 Proposed Rate	Number of Parcels	FY 21/22 Projected Revenue
Residential			
Single Family	$ 200.00	5,734	$ 1,146,800
Condominium	$ 200.00	2,567	$ 513,400
Duplex/Triplex	$ 200.00	173	$ 34,600
Apartments	$ 200.00	193	$ 38,600
Commercial			
Heavy	$ 200.00	17	$ 3,400
Light	$ 200.00	388	$ 77,600
Industrial	$ 200.00	228	$ 45,600
Churches/Misc	$ 200.00	25	$ 5,000
Farm/Vacant	$ 200.00	279	$ 55,800
Exempt	$ -	498	$ -
TOTAL PARCELS		10,102	
TOTAL PARCELS LEVIED		**9,604**	**$ 1,920,800**

Table 6: Parcel Tax Projection 3

Land Use	FY 21/22 Proposed Rate	Number of Parcels	FY 21/22 Projected Revenue
Residential			
Single Family	$ 300.00	5,734	$ 1,720,200
Condominium	$ 300.00	2,567	$ 770,100
Duplex/Triplex	$ 300.00	173	$ 51,900
Apartments	$ 300.00	193	$ 57,900
Commercial			
Heavy	$ 300.00	17	$ 5,100
Light	$ 300.00	388	$ 116,400
Industrial	$ 300.00	228	$ 68,400
Churches/Misc	$ 300.00	25	$ 7,500
Farm/Vacant	$ 300.00	279	$ 83,700
Exempt	$ -	498	$ -
TOTAL PARCELS		10,102	
TOTAL PARCELS LEVIED		**9,604**	**$ 2,881,200**

Table 7: Parcel Tax Projection 4

Land Use	FY 21/22 Proposed Rate	Number of Parcels	FY 21/22 Projected Revenue
Residential			
Single Family	$ 400.00	5,734	$ 2,293,600
Condominium	$ 400.00	2,567	$ 1,026,800
Duplex/Triplex	$ 400.00	173	$ 69,200
Apartments	$ 400.00	193	$ 77,200
Commercial			
Heavy	$ 400.00	17	$ 6,800
Light	$ 400.00	388	$ 155,200
Industrial	$ 400.00	228	$ 91,200
Churches/Misc	$ 400.00	25	$ 10,000
Farm/Vacant	$ 400.00	279	$ 111,600
Exempt	$ -	498	$ -
TOTAL PARCELS		10,102	
TOTAL PARCELS LEVIED		**9,604**	**$ 3,841,600**

Table 8: Parcel Tax Projection 5

Land Use	FY 21/22 Proposed Rate	Number of Parcels	FY 21/22 Projected Revenue
Residential			
Single Family	$ 500.00	5,734	$ 2,867,000
Condominium	$ 500.00	2,567	$ 1,283,500
Duplex/Triplex	$ 500.00	173	$ 86,500
Apartments	$ 500.00	193	$ 96,500
Commercial			
Heavy	$ 500.00	17	$ 8,500
Light	$ 500.00	388	$ 194,000
Industrial	$ 500.00	228	$ 114,000
Churches/Misc	$ 500.00	25	$ 12,500
Farm/Vacant	$ 500.00	279	$ 139,500
Exempt	$ -	498	$ -
TOTAL PARCELS		10,102	
TOTAL PARCELS LEVIED		**9,604**	**$ 4,802,000**

Pros and Cons

Pros

Parcel taxes are a steady stream of income because they are based upon a fixed fee. They are not subject to the volatility of land values.

Parcel taxes are less regressive than sales or value-based taxes since they are a fixed amount.

Cons

Residents and landowners of the city pay parcel taxes. Non-residents or visitors of the city are not subject to this type of tax.

Though parcel taxes are less regressive than sales taxes, they still impact lower/moderate income individuals disproportionately

TRANSIENT OCCUPANCY TAX

Description

Transient Occupancy Tax (TOT) is a tax levied on persons staying 30 days or less in hotels, motels and similar lodging within a city. The amount of the tax is an add on percentage on the cost of the room rental. The tax is collected by the hotel and remitted to the City.

Currently the City of Goleta has a TOT rate of 12%. When the City incorporated it had a 10% TOT. The voters approved an increase of the amount to 12% in November 2012. The measure passed with a 72.22% affirmative vote.

Implementation Process

Implementation of an increase in the existing 12% TOT requires approval of a ballot initiative by the residents of Goleta. To place a measure on the ballot requires City Council approval with a majority vote. Voter approval also requires a majority vote. The measure would be for a specific rate. There cannot be an escalation factor built into the approval, either for specific future increases at a fixed amount or with consumer price indices.

The existing TOT for the City of Goleta is for general services. Any increase in the tax would also be for general services. In the November 2020 election, there were 18 jurisdictions that had TOT measures on the ballot with 78% approved by voters.

Potential Revenue Estimate

The City's current TOT rate is 12%. The report estimates additional revenue based upon a 1% increase in the rate up to 17%. Table 9 below estimates the additional revenue in 1% increments. The City's TOT revenue has declined over the past few years due to the COVID-19 Pandemic. The estimates are based upon the actual revenue the City received in the last full year prior to the pandemic, rounded to $11,000,000 annually. In summary each 1% increase in the TOT could generate approximately $920,000 in additional revenue.

Table 9: TOT Rate Increase - Revenue Estimates using $11,000,000 as Base Year

TOT Revenues	TOT Rate	Additional New TOT Revenue with Rate Increase
$ 11,000,000	12%	$ 0
$ 11,916,667	13%	$ 916,667
$ 12,833,333	14%	$ 1,833,333
$ 13,750,000	15%	$ 13,750,000
$ 14,666,667	16%	$ 14,666,667
$ 15,583,333	17%	$ 15,583,333

Conversion Calculation: $11,000,000 x 0.12 Gross Revenue: $91,666,667

Pros and Cons

Pros

Transient Occupancy Taxes are paid by guests who stay at hotels within the city, typically, not city residents. Therefore, residents are not paying the tax.

Most cities in California impose some form of a TOT.

Most hotel customers do not evaluate the percent of a TOT from one city to another when making their decision on where to stay, unless there is a group event.

Cons

The tax may be seen as regressive in that it is a fixed percentage of the room rate. Lower income individuals pay a higher percent of their income on hotel costs.

Though most customers may not compare the TOT percent from one city to the next, the City should consider parity with surrounding cites. The City's current rate of 12% was increased in 2012 from 10%. The statewide average rate is 12%. The highest statewide rate is 15%. The average rate within the County of Santa Barbara is 12%. There is a balance to be weighed maintaining parity with neighboring, and hotel competing communities, not to over tax where the tax rate may be a determining factor as to which hotel to choose.

TOT is a very volatile revenue source. For the City of Goleta, it has been one of the City's largest General Fund Revenue sources. However, as demonstrated with the COVID-19 Pandemic, this source of revenue is volatile and contingent on hotel stays and the health of the economy.

BUSINESS LICENSE TAX

Description

Most cities impose a business license tax on businesses that operate within the physical boundaries of the city. There are various methodologies on how the tax is calculated. The presumption of a business license tax is to tax business for the services provided by the city to support its business community i.e., public safety, infrastructure impacts, etc.

The City of Goleta does not currently impose a Business License Tax. The City imposes a Business License fee, which is a nominal amount intended to recover the cost of administering a business license only.

Implementation Process

Implementation of a business license tax requires a ballot initiative approved by the residents of the city. To place a measure on the ballot requires the City Council approval with a two-thirds vote regardless of whether the funds will be used for general purpose funding or special purpose funding. Voter approval also requires a two-thirds vote regardless of the use of the funds. In the November 2020 election, there were seven jurisdictions that had business license measures on the ballot with 87% approved by voters.

Potential Revenue Estimates

There are several different models that cities use for business licenses taxes. Some are based on flat fees, based upon the number of employees or gross revenue obtained by the business. A city can impose differing tax rates based upon the classification of business. However, the more variations of tax rates make the administration and collection of the tax more complicated and thus more costly.

Presently, HdL's business license division administers business license programs for 136 cities in California. The recommended structure for a newly implemented business license is based upon the gross receipts model. This model is the least regressive approach because it is based upon the revenue increases of the business and not other factors such as employees or a flat fee. The report projects revenues based upon a gross receipts model.

Attachment A illustrates two different gross receipts models and projects potential revenues for each. It also provides a comparison of revenue projects based upon these models to comparison cities.

The summary indicates that Model 1 – Single Gross Receipts Rate could generate between $2.2 million – $2.7 million annually depending on the rate. Model 2 – Classification-Based Rates could generate $3.3 million annually.

Pros and Cons

Pros

A business license tax can generate a significant amount of revenue.

Voter approval is by the residents and not necessarily the business owners with residents more likely to approve the tax.

Cons

It can be considered a regressive tax in that the amount that businesses pay is considered a cost of doing business and therefore passed on to customer in the cost of goods and services.

A business license tax may dissuade businesses, most likely, small business from locating or staying within the city.

DOCMENTARY TRANSFER TAX AND REAL PROPERTY TRANSFER TAX

A documentary transfer tax is a tax imposed on property owners who transfer interest in real estate, whether personal or commercial. Counties tax at a rate of $0.55 cents per $500 of the properties. The tax is collected by the County which then remits $0.275 to the city where the property transaction occurred. Currently the City of Goleta receives approximately $150,000 in documentary tax revenue.

Implementation Process

Only charter cities can impose their own Documentary Transfer Tax. General Law cities do not have this ability. Goleta is a General Law city. To consider this tax, the city would need to become a Charter City. The process to become a Charter City is lengthy, complex and costly, far more than would be required for this revenue enhancement to be cost effective.

There are three charter cities in Santa Barbara County; Santa Barbara, Santa Maria and Solvang. None of them have a separate Documentary Transfer Tax.

The State Constitution allows charter cities to enact an enhanced amount, above that imposed by the county. To enact an additional amount for a charter city would require City Council to approve a ballot initiative by a two-thirds vote. The initiative would need to be approved by a majority of voters.

Potential Revenue Estimate

There are only a few cities in the state that impose this type of tax, none in Santa Barbara County. Of the cities that do have an add on tax above the County $0.55 cents per $500, most are double the County rate, to $1.10 per $500. Cities that impose a separate tax receive the full amount of that revenue, however, they forfeit their previous share of the County revenue. The County continues to collect the $0.55 per $500 tax and retains the entire amount. The City tax is in addition to the County tax.

The City of Goleta receives approximately $150,000 in documentary transfer tax revenue. If the City were to achieve Charter City status, and voter approval of a Documentary Transfer Tax, the City would generate approximately, $300,00 in net revenue for each $0.55 increase in the tax. The net revenue takes into consideration the loss of the existing $0.275 that when revert to the County.

Pros and Cons

<u>Pros</u>

The tax is less subject to volatility because it is based on a percentage flat fee on property transactions.

<u>Cons</u>

The ability to impose the tax is predicated on the City becoming a Charter City. The process of becoming a Charter City is lengthy, costly and political. If this is the only motivating factor for achieving Charter City status, it may not be cost effective.

The financial projections indicate that the potential revenue projections would require a significant tax increase. The tax burden is on the property owners of the City.

SUMMARY

Transaction Use Tax (TUT)

From experiences of other cities, a TUT has one of the higher feasibility of voter approval than other tax options. One of the reasons is that almost half of the revenue collected will come from non-residents making purchases within the city and the fact that many surrounding communities already impose a similar tax. The potential revenue generated is on the higher side of other options between $2.3 million to $9.3 million depending on the percent of the TUT. The cost of administration is less than some of the options because the TUT is collected by the State and remitted to the city.

Utility User Tax (UUT)

A UUT like that of the City of Santa Barbara could generate approximately $4.7 million to the city. The payers of a UUT are residents and businesses within the City. The feasibility of passage of a UUT measure is less than other tax forms because of this fact. Businesses may pass on the cost they pay in a UUT in higher prices. The cost to administer a UUT may be higher in auditing collections from utilities depending on the number of utilities and variations in rates.

Parcel Tax

Based upon the revenue projections a parcel tax can generate between $960,000 to $4.8 million in revenue. However, this revenue can only be used for the specific purpose for which the tax is levied. Like a UUT, the tax is borne by the property owners within the city. The feasibility of passing of a ballot measure is less than other tax forms because of this fact and the ability to demonstrate the need for the revenue for the specific purpose of the tax. The cost of administration is less than other tax options because the collection is the responsibility of the County.

Transient Occupancy Tax (TOT)

The feasibility of voter approval of a TOT increase is greater than other tax options because the payers of the tax are for the most part non-residents. However, the revenue projections are limited. The current TOT in Goleta is 12%, which is the statewide average. It is estimated that each 1% increase can generate an additional $960,000. There is a point where an increase beyond the average of surrounding communities may have a negative impact in guests choosing to stay in the city. There is no additional cost to administer an increase in TOT since the city already administers TOT remittance.

Documentary Transfer Tax and Real Property Transfer Tax

This is the least feasible revenue option. It would require the city to become a charter city to be eligible to consider this option. The cost, time and politics to consider becoming a charter city are economically infeasible based upon the potential revenue projections.

Business License Tax

The feasibility of voter approval of a business license tax may be slightly less than a TUT. The tax is borne by the businesses in the city, who may pass on the additional cost in higher prices for goods and services. There are many variations on how the tax is structured. The models used in the report indicate potential revenue between $2.2 million and $2.7 million. This revenue option has the highest cost of administration because it would require the city to set up the structure and collect the tax either in-house or using a third party.

HdL Companies

City of Goleta

March 16, 2022 **Alternative Business License Tax Models & Revenue Comparison**

We have created a series of alternative business license tax revenue structures for the City. Additionally, we have conducted a preliminary revenue comparison of what these structures might yield in revenue.

Number of Businesses	Business Tax Total Taxable Gross (Est.)
2,414	$2.2 Billion

Business Category Type	Total Count	Total # of Employees	Total Gross Receipts (2019)
CONTRACTOR	212	1,053	$ 67,250,359.50*
GENERAL COMMERCE/RETAIL	892	17,128	$ 1,514,258,632.50*
RENTAL (COMMERCIAL & RESIDENTIAL)	102	639	$ 17,591,309.50*
SERVICE	423	2942	$ 70,442,737.00*
PROFESSIONAL	785	6495	$ 540,388,994.00*
TOTAL	**2,414**	**28,257**	**$ 2,209,932,032.50***

*We did not have current gross receipts data available. We estimated gross receipts from sales tax and reviewed prior information from the City to see if the estimate is reasonable. In a more formal review, we could work with the City to create a more precise estimate.

Model 1: Gross Receipts Tax – Single Gross Receipts Rate

Model 1 reflects the potential revenues for converting the City tax to a single-rate, gross-receipts model. This model is simple to administer—everyone is charged the same rate—but it allows the City to increase revenue. Model 1 also lowers the annual base rate to a uniform $25, to mirror annual base rates of neighboring cities more closely.

Table 1: Model 1—Potential Tax Structure

Tax Basis	Tax Rate
Base Rate	$25 Flat Rate (first $25,000 Gross Receipts)
Gross Receipts Tax	+ $1 per thousand dollars of Gross Receipts (0.001 x Gross Receipts)

Table 2: Model 1 – Rough Estimates from a simple gross receipts structure

Number of Accts	Taxable Gross Receipts	Base Rate @ $25 per Account	Tax Amount $1/ thousand -Over $25,000-	Tax Amount $1.25 / thousand -Over $25,000-
2,414	$2.2 billion	$60,350	$2,2149,582	$2,686,978
		TOTAL	$2,209,932	$2,747,328

The "single rate" method of taxing on gross receipts provides an even distribution of the effective tax rate because all businesses subject to the tax will pay the same rate. Under this method, no cap is put in place, and therefore most of the revenues are received from the highest-grossing businesses.

Model 2: Gross Receipts Tax – Classification-Based Rates

Model 2, as indicated below, would create different rates for different business classifications. The City may, for example, choose to implement a rate for the retail/wholesale/miscellaneous business activities at a base rate of 0.002, recognizing the higher costs of goods sold and lower profit margins for these types of business as well as their contribution to other City revenues such as sales tax. Conversely, the City could consider implementing a higher rate for professionals due to the nature of their business model. This model affords the most flexibility for increasing revenues while accommodating certain business categories. Model 3 utilizes the same base rate as the previous model to resemble the base rate of neighboring cities.

Table 3: Basic tax structure for classification-based gross receipts

Categories	Base Rate	Gross Receipts Tax Rate
CONTRACTOR	$25 Flat Rate per Business (first $25,000 in Gross)	0.002 X Gross
GENERAL COMMERCE/RETAIL		0.001 X Gross
RENTAL (COMMERCIAL & RESIDENTIAL)		0.003 X Gross
SERVICE		0.001 X Gross
PROFESSIONAL		0.003 X Gross

Table 4: Estimated revenue from classification-based gross receipts

Business Type	Number of Accts	Est. Taxable Gross Receipts	Base Rate $25 per business	Total Est. Annual Gross Receipts Tax
CONTRACTOR	212	$ 67,250,359.50	$ 5,300	$ 123,902
GENERAL COMMERCE/RETAIL	892	$ 1,514,258,632.50	$ 22,300	$ 1,491,959
RENTAL (COMMERCIAL & RESIDENTIAL)	102	$ 17,591,309.50	$ 2,550	$ 45,124
SERVICE	423	$ 70,442,737.00	$ 10,575	$ 59,868
PROFESSIONAL	785	$ 540,388,994.00	$ 19,625	$ 1,562,292
	2,414	$2.2 billion	$60,350	$ 3,283,144
			TOTAL	$ 3,343,494

Comparison Cities Revenue Summary Table (Using FY 18-19 data)

Table 5: Current Tax Revenue

Jurisdiction Name	Est. Revenue FY 18-19	
Oxnard	$	6,167,475
Manhattan Beach	$	4,053,020
Monterey	$	3,834,6852
Santa Barbara	$	2,698,603
San Luis Obispo	$	2,630,499
Thousand Oaks	$	2,359,687
Simi Valley	$	2,106,344
Camarillo	$	1,409,557
Hermosa Beach	$	1,156,253
Laguna Beach	$	1,002,074
Rancho Palos Verdes	$	958,293
Seaside	$	820,067
Paso Robles	$	591,829
Santa Maria	$	515,789
Lompoc	$	374,397
Morro Bay	$	347,967
Goleta	$	265,000
Agoura Hills	$	152,683
Moorpark	$	126,340
Arroyo Grande	$	102,794
Carpinteria	$	60,148

Table 6: Comparison Data Using Model 1

Jurisdiction Name	Est. Revenue FY 18-19	
Oxnard	$	6,167,475
Manhattan Beach	$	4,053,020
Monterey	$	3,834,6852
Santa Barbara	$	2,698,603
San Luis Obispo	$	2,630,499
Thousand Oaks	$	2,359,687
Goleta	$	2,209,932
Simi Valley	$	2,106,344
Camarillo	$	1,409,557
Hermosa Beach	$	1,156,253
Laguna Beach	$	1,002,074
Rancho Palos Verdes	$	958,293
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Paso Robles	$	591,829
Santa Maria	$	515,789
Lompoc	$	374,397
Morro Bay	$	347,967
Agoura Hills	$	152,683
Moorpark	$	126,340
Arroyo Grande	$	102,794
Carpinteria	$	60,148

Table 7: Comparison Data Using Model 2

Jurisdiction Name	Est. Revenue FY 18-19	
Oxnard	$	6,167,475
Manhattan Beach	$	4,053,020
Monterey	$	3,834,6852
Goleta	$	3,343,494
Santa Barbara	$	2,698,603
San Luis Obispo	$	2,630,499
Thousand Oaks	$	2,359,687
Simi Valley	$	2,106,344
Camarillo	$	1,409,557
Hermosa Beach	$	1,156,253
Laguna Beach	$	1,002,074
Rancho Palos Verdes	$	958,293
Seaside	$	820,067
Paso Robles	$	591,829
Santa Maria	$	515,789
Lompoc	$	374,397
Morro Bay	$	347,967
Agoura Hills	$	152,683
Moorpark	$	126,340
Arroyo Grande	$	102,794
Carpinteria	$	60,148

ATTACHMENT 2:

Draft Fiscal Analysis of the Commercial Cannabis Industry for the City of Goleta

Delivering Revenue, Insight
and Efficiency to Local Government

Fiscal Analysis of the Commercial Cannabis Industry

Prepared for
the

City of Goleta

October 6, 2021

Table of Contents

I. Summary and Recommendations

Based upon our analysis as provided in this report, HdL offers the following recommendations to the City.

Recommendation 1

HdL recommends that the City work within the existing limitations of Measure Z when making any desired changes to its current cannabis tax rates. Measure Z was approved with support of 81.95% of the City's voters, which is the third-highest approval percentage for any local cannabis tax measure in California since 2016[1]. We do not note any fundamental flaws in Measure Z that would require "fixing" through a subsequent ballot measure. While many jurisdictions prefer the administrative simplicity of a cultivation tax based on square footage, this is merely a preference. In Section VII we discuss means for converting square footage tax rates to comparable gross receipts rates.

Recommendation 2

HdL recommends that the City consider applying its cannabis taxes evenly to both adult-use and medicinal cannabis businesses and sales. While we understand and appreciate the compassionate reasons for wanting to lower or eliminate taxes on medicinal use cannabis, we note that this is not common either among nearby jurisdictions or statewide. Most cannabis businesses statewide are licensed to deal in both adult-use and medicinal products, meaning that they will be reporting wholesale or retail transactions in both categories. Assuring accurate reporting and remittance of these separate rates can be administratively difficult for both the business and the City.

However, while Measure Z clearly allows the City to adjust rates up to 10% of gross receipts on both adult-use and medicinal cannabis operations, the initial rate of 0.0% for medicinal cannabis was included in the text of Measure Z (though not in the ballot question itself). We recognize that this decision is clearly a matter of discretion for the City Council to decide.

Recommendation 3

HdL recommends that the City retain the existing gross receipts-based tax on cannabis cultivation and continue to set the rate at 4.0%. Though this rate is higher than the square-footage equivalent rates we commonly recommend, it is consistent with the rate set by Santa Barbara County, which has one of the largest and most established cannabis cultivation sectors in the state. Clearly, this rate has been shown to be acceptable to cannabis cultivators in the region. We believe cannabis cultivators in Goleta are likely more influenced by the local industry in the surrounding county than by other cultivators elsewhere in the state. Should the City wish to reduce this rate, HdL would recommend that the rate be set between 1.75% and 2.50%, which would be roughly equivalent to our commonly recommended rates of $7.00 to $10.00 per square foot of canopy.

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[1] The highest level of voter approval we are aware of was for the City of Blythe's Measure D in June 2018, which passed with 84.07% of the vote. The second highest was the City of Coachella's Measure II in 2016, which passed with 81.97%.

Recommendation 4

HdL recommends that any desired adjustments to the City's current tax rates for cannabis business types other than cultivation stay within the minimum and maximum ranges described in Figure 1, below. While the City's current rates for nurseries and retailers both fall within our recommended ranges, both manufacturing and distribution are below our recommended initial rates. Increasing the rates for both of these business types up to HdL's recommended initial rate could potentially generate additional revenue for the City.

HdL makes no recommendation regarding the rate for cannabis testing laboratories. HdL's recommended rates for testing laboratories are provided for those jurisdictions which wish to impose a tax on such businesses. However, we recognize that these testing laboratories perform a quasi-regulatory function, do not in any way profit off the value of the product and are prohibited from sharing ownership with any other type of cannabis business. Seen through this lens, the City's current rate of 0.0% seems appropriate.

Figure 1:

Business Type	HdL Std. Initial Rate	HdL Std. Maximum Rate	Current City Rate	Recommendation
Cultivation	$7 per SF or 1.75% GR	$10 per SF or 2.5% GR	4.0% GR	No Change
Nurseries	$1 per SF or 1.0% GR	$2 per SF or 2.0% GR	1.0% GR	No Change
Manufacturing	2.5% GR	4.0% GR	2.0% GR	2.5%
Distribution	2.0% GR	3.0% GR	1.0% GR	2.0%
Retail, Adult Use	4.0% GR	6.0% GR	5.0% GR	No Change
Retail, Medicinal	4.0% GR	6.0% GR	0.0% GR	5.0%
Testing	1.0% GR	2.5% GR	0.0% GR	No Recommendation
SF = Square Feet GR = Gross Receipts				

The City provided HdL with data showing that licensed cannabis businesses in Goleta collectively generated $2,083,160 in cannabis tax revenue in fiscal year 20/21. Applying the recommended rates shown above to the gross receipts reported to the City would have generated an additional $1,698,112 in cannabis tax revenue for the City, for a total of $3,781,272. HdL is not able to provide a more detailed breakdown of these revenues by business type as such information may allow the reader to infer the revenues derived from individual businesses[2].

[2] Disclosure of confidential business earnings and tax information is prohibited under Revenue and Taxation Code Section 7056.

Recommendation 5

HdL recommends that the City exercise caution and discretion in applying increases to the tax rates for any existing businesses. While HdL's recommended rates are common and lower than most nearby jurisdictions, we caution that our standard recommended rates assume they are being applied as *initial* rates, rather than being retroactively imposed on companies that have already developed and operated their business model based on certain assumptions about the regulatory and tax environment of their host jurisdiction. This is particularly a concern for the City's distributors, as the increase from 1.0% to a still-low 2.0% would effectively double the tax rate on those businesses.

In addition, the City's cannabis businesses vary significantly in size and earnings. Some businesses may also have operations in multiple jurisdictions, either nearby or around the state, and may have options for where to locate various aspects of their operations to provide the greatest benefit and the least liabilities. Increasing tax rates could potentially result in smaller businesses struggling or even failing, while larger businesses may just shift their operations elsewhere, resulting in a net decrease in cannabis tax revenues for the City.

As an alternative, the City may wish to consider a tiered tax rate for high-earning businesses when revenues exceed a certain amount. For example, the City could apply a tax rate of 2.0% for the first $25 million increment of gross receipts, 1.5% for the next increment ($25 million to $50 million), and 1.0% for any gross receipts above $50 million. Applying these tiered rates to a hypothetical business with earnings of $75 million would generate a total of $1,125,000 in revenue for the City, which is equal to an effective tax rate of $1.5%. This is $375,000 more than would be generated by a flat rate of 1.0%, and $375,000 less than would be generated by a flat rate of 2.0%. These revenues are shown below in Figure 2.

Figure 2:

Incremental Tax Rate Model					
Increment	**Range**	**Taxable Amount**	**Increment Rate**	**Revenues**	**Effective Rate**
1st Increment	$0 to $25 million	$25,000,000	2.00%	$500,000	
2nd Increment	$25 million to $50 million	$25,000,000	1.50%	$375,000	
3rd Increment	$50 million and above	$25,000,000	1.00%	$250,000	
		$75,000,000		$1,125,000	1.50%
Flat Rate Model					
	Flat Rate	$75,000,000	1.00%	$750,000	
	Flat Rate	$75,000,000	2.00%	$1,500,000	

Recommendation 6:

HdL recommends that the City consider extending the allowable hours of operation for cannabis retailers to 10:00 p.m., rather than the current 8:00 p.m. An analysis of sales data from retailers in other jurisdictions indicates that the hours of 8:00 p.m. to 10:00 p.m. on Fridays and Saturdays are some of the busiest hours of the week for cannabis sales. Extending these hours could allow the City's retailers to recapture sales (and related sales tax revenue) that are likely being lost to retailers in the City of Santa Barbara during these hours.

II. Introduction

The City of Goleta has 8 commercial cannabis businesses that are currently operating, including retailers, distributors, cultivation and microbusinesses. 3 more cannabis businesses are expected to open soon, and another 2 are in the application process.

The City has a cannabis business tax (Measure Z) that was approved by the voters in November of 2018. Measure Z allows the City to tax commercial cannabis businesses at a rate up to 10% of their gross receipts. While Measure Z allows the City to impose the tax on both adult-use and medicinal cannabis, the initial rates as proposed by the measure imposed the tax only on adult-use cannabis businesses. The current rates as established by the City Council are the initial rates as set forth in Measure Z and are shown below in Figure 3.

Figure 3:

Cannabis Business Type	Tax Rate; Adult Use	Tax Rate; Medicinal
Retailers:	5.0%	0.0%
Cultivators:	4.0%	0.0%
Manufacturers:	2.0%	0.0%
Distributors:	1.0%	0.0%
Nurseries:	1.0%	0.0%
Testing:	0.0%	0.0%

Cannabis microbusinesses are taxed at the highest applicable rate for the activities being conducted, unless the business is able to demonstrate how its gross receipts are apportioned among its different operations. Though Measure Z allows the City to tax both adult-use and medicinal cannabis businesses, the City has so far chosen to not apply the tax to medicinal cannabis activities.

The City is now considering revising its cannabis tax rates and structures to ensure that they are competitive with other nearby jurisdictions and with common rates seen across the state. To assist with this, the City has requested that HdL provide this fiscal analysis of the City's cannabis industry, to include specific recommended rates and projections for how the recommended changes may affect business attraction, retention and success and, ultimately, the City's revenues. The City is also interested in understanding how retail cannabis sales may be influenced by tourism and visitor traffic, along with the impact of UCSB.

The City has expressed that it is primarily interested in working within the parameters of Measure Z, but could be willing to consider another ballot measure if necessary for making changes that go beyond the allowances of Measure Z, should there be a compelling reason. This is primarily a consideration for cannabis cultivation, which is most commonly taxed on a square footage basis. Section VII of this analysis discusses conversion factors for determining gross receipts rates that are equivalent or comparable to common square footage rates.

III. The Cannabis Industry in the Santa Barbara Region

The amount of revenue that a city or county may be able to generate from a cannabis business tax depends upon the type, number and size of cannabis businesses that may choose to locate within the City. Cannabis retailers, cultivators, manufacturers, distributors and testing facilities are all interdependent upon a network of other cannabis businesses, so understanding the extent of the industry in the region provides a basis for estimating the number of businesses which may seek to locate in Goleta.

Our analysis of potential cannabis business tax revenue is based on data and assumptions about the total size of the local market. The three cannabis licensing agencies for the State of California (the Bureau of Cannabis Control, the CalCannabis Division of the California Department of Food and Agriculture, and the Manufactured Cannabis Safety Branch of the California Department of Public Health) have all been issuing temporary licenses for commercial cannabis businesses since late December of 2017. In addition, HdL has worked with a number of nearby cities and counties that are developing or implementing their own cannabis regulatory and taxation programs. This data provides a wealth of previously unavailable information about the cannabis industry around the State.

For our analyses, we typically assume that wholesale cannabis businesses such as cultivators, manufacturers and distributors would primarily interact or do business with other cannabis businesses within a one-hour radius. This would extend roughly from Santa Maria and Lompoc in the north and to Oxnard and Port Hueneme in the south. State licensing data as of March 11th, 2021 shows that there are 31 distributors, 18 manufacturers, 1 testing laboratory and 56 retailers within this immediate area, along with 75 cultivators and 4 microbusinesses. These numbers are shown below in Figure 4.

Figure 4:

Active Licenses in Nearby Communities							
City/County	**Cultivation*/Nursery**	**Distributor**	**Manufacturer**	**Retailer****	**Microbusiness**	**Testing Laboratory**	**Total**
Lompoc	12	8	6	14	0	1	41
Goleta	2	3	1	5	3	0	14
Santa Barbara	0	3	2	6	0	0	11
Santa Barbara County	61	13	0	0	0	0	74
Ojai	0	1	1	3	0	0	5
Port Hueneme	0	0	0	12	1	0	13
Oxnard***	0	3	8	16	0	0	27
Total	**75**	**31**	**18**	**56**	**4**	**1**	**185**

*Number of businesses. Some individual cultivation business hold over 100 separate licenses.
**Includes retailing microbusinesses.
***Permits in process.

The 75 cultivation businesses hold a combined total of 1,382 separate licenses. We note that all of the cannabis business permits in the City of Oxnard are still in process. In addition, both the City of Ventura and the County of Ventura are in the process of permitting cannabis businesses, and the cities of Solvang and Guadalupe have been considering the development and implementation of cannabis regulatory programs. Lastly, we note that agency data sometimes shows licenses as being located in cities when they are actually in the surrounding unincorporated area. We have attempted to correct the data here.

This data shows that there is a robust cannabis industry in the Santa Barbara/Ventura County region that extends well beyond Santa Barbara's cultivation sector. With an estimated total population of 1.3 million people, we believe the region could support perhaps 65 to 85 cannabis retailers upon maturity, which suggests there is still room for growth in this regional market.

Statewide, the number of cannabis distributors is typically around one-quarter of the overall number of cannabis businesses. With a total of 183 licensed cannabis businesses in the Santa Barbara/Ventura County region, this would suggest around 46 distributors, which is significantly more than the current 30. This suggests that there is room for substantially more cannabis distributors than currently exist in the region.

The Santa Barbara/Ventura County region already has one of the most robust cannabis industry clusters in the state, but we anticipate that the number of cannabis businesses in the region will continue to increase. The number of jurisdictions in California that allow for legal cannabis sales continues to grow, which increases the size of the market that is available to licensed cannabis producers. Around 70% of California cities and counties still prohibit legal sales of cannabis, which indicates that there is a lot of room for market expansion in coming years. In addition, we have noted numerous signs that large-scale cannabis operators are positioning themselves for anticipated nationwide legalization.

As more and more cities allow legal cannabis businesses, we would expect the decisions as to where these businesses choose to locate will be increasingly driven by the same market-based factors that influence such decisions for other types of businesses, including access to markets and consumers, available and appropriate industrial or commercial space, competitive lease rates, a ready talent pool, and a network of supporting businesses and industries. Differences in regulations and taxes (within reason) will cease to be the overarching consideration and will be weighed in combination with these other factors.

IV. Common Cannabis Tax Rates

Cannabis tax rates have been settling and stabilizing around the State since the beginning of 2018. Many cities instituted cannabis taxes prior to the implementation of statewide regulations, with a wide range of tax structures and rates as high as $30 per square foot (for cultivation) or 18% of gross receipts. Some of these "early adopter" cities have since reduced their rates to be more competitive with common rates that are now emerging around the State.

The State of California applies two separate taxes to cannabis: a cultivation tax of $9.65 per ounce of dried flower ($2.87 per ounce of dried leaf or trim) and an excise tax of 15% on the purchase of cannabis and cannabis products. These two separate State taxes can add up to 26% to consumer cannabis prices, even before any local taxes are contemplated. This leaves very little room for local jurisdictions to work within if they wish to remain under the total cumulative tax rate of 30%. This is an important benchmark to allow the local industry to compete against the illicit market and against other regulated cannabis businesses from around the State (see Attachment C; *State Tax Considerations*).

The City's maximum cannabis tax rates were set by Measure Z in 2018, which allows rates of up to 10% of gross receipts. The City Council has set the current rates ranging from a high of 5.0% for retailers, to just 1.0% for nurseries. The City currently does not impose a tax on cannabis testing laboratories.

HdL has worked with numerous local agencies around the State to develop cannabis tax measures for the ballot. The initial range of tax rates we recommend for cannabis businesses other than cultivation commonly runs from 2% of gross receipts for distributors, to 2.5% for manufacturers, and up to 4% for retailers. These rates may be adjusted up to a maximum of 3%, 4% and 6%, respectively. HdL's commonly recommended rates are shown in Figure 5, below, along with the City's current rates.

Figure 5

Cannabis Business Type	HdL Initial Rate	HdL Maximum Rate	Current City Rate
Cultivation (indoors)	$7 per square foot	$10 per square foot	4.0% of gross receipts
Nurseries	$1 per square foot	$2 per square foot	1.0% of gross receipts
Manufacturing	2.5% of gross receipts	4% of gross receipts	2.0% of gross receipts
Distribution	2% of gross receipts	3% of gross receipts	1.0% of gross receipts
Retail	4% of gross receipts	6% of gross receipts	5.0% of gross receipts
Testing	1% of gross receipts	2.5% of gross receipts	0.0% of gross receipts

The City's current rates for manufacturing, distribution and testing are all slightly below the range we commonly recommend. We note this only as a point of information and not as a recommended change. Our recommended range includes an initial rate but not a minimum rate. Setting rates below the recommended initial rate is merely the City's prerogative, choosing a lower tax burden for the business over some amount of potential revenue. Exceeding the maximum recommended rate would be a concern, as it impacts the ability of those businesses to compete in both regionally and in the statewide market.

The City's rates for cultivation are defined as a percentage of gross receipts. While this is not at all uncommon, HdL's recommended rates for cultivation are based on the square footage of canopy area. To compare a tax rate based on gross receipts with one based on square footage requires that we make certain assumptions regarding cultivation methods, yield, price, and the number of harvest cycles per year. Assuming indoor cultivation with 4 cycles per year, yielding 1 pound of flower for every 10 square feet and a wholesale price of $1,000 per pound, the City's tax rate of 4.0% of gross receipts would be roughly equivalent to a rate of $16 per square foot, which is substantially higher than the maximum rate of $10 per square foot that we commonly recommended.

However any or all of these assumptions can vary greatly. A lower wholesale price of just $600 per pound would reduce the equivalent tax rate to $9.60 per square foot, and limiting production to just 3 harvest cycles per year would reduce this even further, to just $7.20 per square foot. These conversions are discussed in more detail in Section 6; Cultivation.

Figure 6:

Current Tax/Development Fee Rates in Nearby Communities							
City/County	**Retailer**	**Distributor**	**Manufacturer**	**Microbusiness**	**Cultivation**	**Nursery**	**Testing Laboratory**
Lompoc	6.0%	$15K - $30K	$15K - $30K	up to 6%	1.0%	1.0%	0.0%
Santa Barbara	5.0%	4.0%	3.0%	N/A	2.0%	2.0%	4.0%
Santa Barbara County	6.0%	1.0%	3.0%	6.0%	4.0%	1.0%	0.0%
Ojai	3.0%	3.0%	3.0%	N/A	N/A	N/A	3.0%
Port Hueneme	5.0%	2.0%	2.0%	2.0% to 5.0%	$7/sf	N/A	N/A
Oxnard*	4.0%	2.0%	2.5%	2.0% to 4.0%	$7/sf	1.0%	1.0%
Goleta	5.0%	1.0%	2.0%	up to 5.0%	4.0%	1.0%	0.0%
Total							
*In addition to the tax rates shown above, the City of Oxnard also requires cannabis businesses to pay a 1.0% community benefits fee and a one-time payment of between $25,000 and $75,000.							

We also compared the City's rates with those found in other nearby jurisdictions, as shown in Figure 6, above. The City's 5.0% rate for cannabis retailers is consistent with the average among these jurisdictions, while the rates for other business types are at or below the low end of the range. As discussed above, the 4.0% rate for cultivation is higher than the equivalent square-footage rate seen in Port Hueneme and Oxnard[3]. However, it is the same rate as in unincorporated Santa Barbara County, which has the second-highest number of cultivation licenses in California (after only Humboldt County). Clearly, a rate of 4.0% has shown itself to be acceptable to large-scale cultivators in the region.

[3] Oxnard also requires an additional 1.0% community benefits fee and a one-time payment of between $25,000 and $75,000.

V. Cannabis Retailers

The Santa Barbara coastal plain is currently served by 11 cannabis retailers, with 5 located in Goleta and 6 located in the City of Santa Barbara as shown in Figure 7. These retailers serve an estimated population of 197,000 people including the communities of Isla Vista, Montecito and Carpinteria, which works out to one retailer for roughly every 18,000 people.

Figure 7:

Active Licenses in Nearby Communities	
City/County	**Retailers**
Goleta	5
Santa Barbara	6
Total	**11**

HdL generally assumes a standard market concentration of one retailer per every 18,000 to 20,000 people. Data from the Bureau of Cannabis Control shows 1,242 licensed retailers and retailing microbusinesses around the state, which works out to one retailer for roughly every 32,000 people based on the state's overall population. However, these retailers are not evenly distributed around the state. Some 70% of California cities do not allow legal cannabis sales, so these licensed retailers are concentrated in just 30% of cities.

24 of California's 58 counties have licensed cannabis retailers. These counties are home to 22.5 million of California's 39.5 million residents. 141 of California's 482 cities have licensed retailers, with a combined population of 15.5 million, but many of these cities are in counties with licensed retailers, so we can roughly consider those residents as already being "served". Those cities that are in otherwise "unserved" counties have a total population of 5.5 million. Combined, we estimate that 28 million of California's 39.5 million residents live in counties or cities with some access to licensed cannabis, equal to 70% of the state's population. Assuming these 28 million residents are served by the state's 1,242 licensed retailers yields an average of roughly 22,500 people per retailer.

However, this population-based model does not account for tourists and visitors. Comparing confidential sales tax information for cannabis retailers in other coastal counties shows a stark difference in the gross receipts being generated at these locations, with coastal retailers averaging $4 million per year while retailers in rural inland areas of the same county were generating less than half that amount. When we adjusted the average gross receipts of those cannabis retailers on a per-capita basis, we found that sales among retailers in these coastal areas were more than eight-times higher per-capita than those in nearby inland communities.

Along with its coastal location, the City of Goleta also benefits from its proximity to the University of California at Santa Barbara (UCSB). The University has a total undergraduate enrollment of 26,000 students, of which 39% live in housing owned, operated or affiliated with UCSB, which may be either on or off campus. Of these, some 9,000 students live in on-campus dorms. The remaining 61% of students live off campus[i], with a high concentration of students living in Isla Vista (population 27,690.[ii] This population of largely college-age persons likely increases the market for cannabis in Goleta.

24.7% of Goleta's population falls within the ages of 20 and 34 years old[iii], which is just slightly higher than Santa Barbara County as a whole, at 24.3%. Both are higher than California as a whole, for which 22.0% of the population falls into this age range[iv]. By contrast, 57.4% of Isla Vista's population falls into this age demographic. When we combine the populations of Goleta and Isla Vista, the percentage of the population that falls into the 20 to 34 year-old demographic is 38%; significantly higher than percentage for either California or Santa Barbara as a whole. This generally tracks with the age demographic most likely to use cannabis (young adults ages 18 through 29[v])[4].

We note that residents of Isla Vista and students living on-campus at UCSB would have to drive through Goleta to reach the City of Santa Barbara. This greatly increases the likelihood that this population would purchase cannabis from retailers in neighboring Goleta rather than the City of Santa Barbara. In addition, retailers in Goleta would easily reach residents in the unincorporated area between Goleta and Santa Barbara, with an additional population estimated at 25,000.[vi]

Though the entire Santa Barbara coastal plain has a population of 197,000, we estimate that around 92,000 of these residents would be primarily served by retailers in Goleta. While there is certainly some market overlap with the City of Santa Barbara, we believe that the amount of sales leakage and sales capture between retailers in the two cities is likely to be fairly even, as both cities are well-served.

The age demographics for tourists and visitors also seem to generally align with potential cannabis consumers with the single highest age demographic being adults ages 20 through 34. A study conducted for the Goleta Chamber of Commerce by Destination Analysts found that there are 1.5 million visitors to Goleta annually.[vii] Of these, 560,000 stayed overnight with an average (mean) length of stay of 1.9 days, for a total of 2.3 million visitor days. This is equivalent to an additional 6,310 year-round residents.

Visitors to Goleta collectively spent over $200 million,[viii] with average spending of $346 per day. The two largest visitor spending categories were restaurants and dining, followed by hotels and lodging. Beyond these and other necessities such as transportation, visitors on average spent over $120 per day on non-essentials such as entertainment, sightseeing and activities, gifts and souvenirs, wine tasting and spas.

Cannabis retailers could conceivably capture sales from visitors who may not otherwise be cannabis consumers or who are looking for a similar "lifestyle" experience while on vacation. There is still both a novelty to walking into a store to purchase cannabis and a stigma about being seen doing so. The anonymity of purchasing cannabis away from home may make cannabis users more likely to do so.

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[4] It is important to note here that adult-use cannabis is only available to adults ages 21 years and older. The available demographic/age group information provided for cannabis users (ages 18 through 29) and for the local population (ages 20 through 34) come from different sources that do not cleanly align with each other, nor do they cleanly align with the age prohibition for adult-use cannabis. In addition, the data for cannabis users does not distinguish between cannabis sourced from licensed retailers and cannabis sourced from the black market.

Young adults ages 18 through 20 may legally purchase medicinal cannabis with a doctor's recommendation, but all medicinal sales combined make up less than 10% of overall cannabis sales statewide, so the portion attributable to the 18-20 age group would presumably be only a small subset of this. It is more likely that the majority of cannabis consumers in this age group are sourcing product either from the black market or are purchasing product through friends, acquaintances or other 3rd parties who are of legal age. In the latter case, these sales would be subsumed within the data for otherwise legal adult-use sales and would be reflected in the City's cannabis tax revenues.

For purposes of this analysis, we anticipate that the high number of students in this age range would likely increase the overall licensed cannabis sales beyond what would otherwise be attributable to adults ages 21 years and over. However, due to the uncertainties above and to the fact that such second-hand sales are illegal, we have made no attempt to specifically quantify the portion of sales that may fall into this age group.

As discussed above, we have assumed that cannabis retailers in Goleta would primarily serve consumers in the City and the immediate surrounding area, including Isla Vista and the unincorporated area between Goleta and Santa Barbara. We have estimated the total population of this service area at 92,000 people.

Retailers in the City of Goleta are only allowed to be open for business until 8:00 p.m., while retailers in the City of Santa Barbara are permitted to stay open until 10:00 p.m., which likely allows them to capture sales during those hours that might otherwise go to retailers in Goleta. An analysis of sales data from retailers in nearby jurisdictions indicates that sales are generally slower after 8:00 pm on weekdays but are significantly higher during these hours on Fridays and Saturdays. This suggests that retailers in Goleta are likely experiencing additional sales leakage to retailers in the City of Santa Barbara during these hours.

Estimates of the percentage of the population that uses cannabis on a regular basis vary from around 10% to 13%[ix], up to as high as 22%[x]. This percentage is influenced by social acceptance of cannabis within the local community. Applying these estimates to our service area population of 92,000 would yield between roughly 9,200 and 20,240 potential cannabis consumers. However, we anticipate that sales to cannabis consumers in the unincorporated area between Goleta and the City of Santa Barbara would likely be split between retailers in both jurisdictions. For purposes of our projections, we have estimated the overall leakage factor at 20% which brings our consumer base down to between 7,360 and 16,192.

Cannabis retailers typically average around 120 customers per day[xi], with an average transaction amount of $73 and an average frequency of twice a month[xii]. This would suggest a range of annual gross receipts generated by cannabis retailers in Goleta of between roughly $13.8 million and $30 million. However, we anticipate that licensed retailers would still experience some leakage to black market sales, especially to consumers in the 18-to-20 year-old age range. Data derived from Weedmaps shows that there are a number of unlicensed cannabis delivery services serving Goleta and Santa Barbara, as shown below in Figure 8 (Licensed cannabis retailers and delivery services are shown in green, and unlicensed delivery services are shown in red)[5].

Figure 8:

[5] Unlicensed cannabis delivery services appear to be shown based on the areas they deliver to, rather than their 'home' location, so a single delivery service may be represented multiple times on this map.

To account for these unlicensed sales we have applied a leakage factor of 30% here, which reduces the anticipated gross receipts range to between roughly $9.5 million and $21 million. Lastly, we have subtracted 10% of licensed cannabis sales to account for non-taxable sales of medicinal cannabis products[6]. This brings the total range of taxable sales down to between $8.7 million and $19 million.

Applying the City's current tax rate of 5.0% to this range would generate between $434,000 and $955,000 in annual cannabis tax revenue for the City. HdL commonly recommends a range of 4% to 6% for cannabis retailers. Reducing the current tax rate to 4% would generate between $347,000 and $764,000 for the City, while increasing the rate to 6% would generate between $521,000 and $1,146,000 in annual revenue. These calculations are shown below in Figure 9.

Figure 9:

Revenue Projections for Cannabis Retailers, HdL Recommended Rates			
	Low Estimate	"Best" Estimate	High Estimate
Goleta population	31,000	31,000	31,000
Population of surrounding area	61,000	61,000	61,000
Total service area population	92,000	92,000	92,000
Percentage of population that uses cannabis	10%	13%	22%
Number of cannabis users	9,200	11,960	20,240
Existing retailers in nearby jurisdictions	6	6	6
Net leakage to other jurisdictions (20%)	1,840	2,392	4,048
Total customer base	7,360	9,568	16,192
Average transaction amount	$78	$78	$78
Transaction frequency (per month)	2	2	2
Monthly gross receipts	$1,148,160	$1,492,608	$2,525,952
Annual gross receipts	$13,777,920	$17,911,296	$30,311,424
Leakage to black market (30%)	$4,133,376	$5,373,389	$9,093,427
Adjusted annual gross receipts	$9,644,544	$12,537,907	$21,217,997
Non-taxable medicinal sales (10%)	$964,454	$1,253,791	$2,121,800
Total taxable sales	$8,680,090	$11,284,116	$19,096,197
Cannabis business tax rate:			
4.00%	$347,204	$451,365	$763,848
5.00%	$434,004	$564,206	$954,810
6.00%	$520,805	$677,047	$1,145,772

[6] The State of California exempts cannabis sales to qualified patients who present a valid Medical Marijuana Identification Card (MMIC) from all regular state and local sales taxes. This exemption does not apply to voter-approved cannabis taxes or other local transaction and use taxes. However, the City of Goleta's cannabis tax exempts all retail sales of medicinal cannabis products to qualified patients, whether the customer presents a valid MMIC at time of purchase or not.

VI. Cannabis Manufacturers

The manufacturing sector is still evolving and expanding, which presents significant opportunities for innovation, business development and job growth. The range of products being produced includes an ever-increasing variety of edibles such as candies, cookies, dressings, and infused (non-alcoholic) drinks. Manufacturers may produce their own extract on site, or they may buy extract from other Type 6 or Type 7 licensees. Much like any other industry, cannabis manufacturers often depend upon other businesses to supply them with the various materials or components that go into their final product. These suppliers do not have to be located in or even near the same jurisdiction as the final manufacturer, and may be located anywhere throughout the state.

Some manufacturers may handle all steps from extraction to packaging the end product in the form of vape pens or other such devices. Others may handle only discreet steps, such as making the raw cannabis concentrate, which is then sold either directly to retailers or to a Type N manufacturer who will package it into vapor cartridges or other end consumer products. Manufacturers also produce a wide variety of tinctures, as well as topicals such as cannabis infused lotions, salves, sprays, balms, and oils.

As of March 11th, 2021, the Manufactured Cannabis Safety Branch (MCSB) of the California Department of Public Health shows 911 cannabis manufacturing licenses statewide. Of these, 505 are for non-volatile extraction, 198 are for volatile extraction, 153 are for non-extraction manufacturing, 33 are for packaging and labeling, and 22 are for manufacturers using a shared-use facility. Those 911 licenses are owned by 864 separate businesses.

911 licenses represents a decline of 8% from the 995 active manufacturing licenses in April of 2020. While we do not have clear data to indicate the cause of this downturn, we note that neighboring Oregon showed a nearly 5% year-over-year decline in cannabis sales for May of 2021[xiii]. The California Department of Tax and Fee Administration (CDTFA) has similarly reported a decline in State cannabis tax revenue over the past 2 quarters, though some part of this may be due to a change in reporting and remittance deadlines[xiv]. It's also conceivable that part of this decline may be due to smaller, local businesses being unable to compete for shelf space against larger state-wide brands.

In its regulatory impact analysis, the MCSB estimated that there may ultimately be as many as 1,000 cannabis manufacturing businesses in California, employing around 4,140 people. This would indicate an average of 4 new jobs per manufacturer, though this figure likely varies significantly depending on the size and nature of each business. Despite recent declines, we believe these figures for both the potential number of cannabis manufacturing businesses and for the average number of employees to be on the low side. HdL is aware of individual manufacturers which have over 100 employees. While this may not be the norm, it demonstrates that cannabis manufacturers have the potential to far exceed the MCSB's early predictions.

In addition, 70% of cities and counties in California continue to ban cannabis businesses outright[xv], which greatly limits the size of the market available to legal businesses. As more jurisdictions allow and permit commercial cannabis retailers, the number of cultivators, manufacturers and distributors should increase to supply this growing market.

HdL has reviewed pro-formas for numerous cannabis manufacturers seeking permits in counties and cities throughout California. From our review we have seen a range of gross receipts from around $1 million to well over $20 million[7], with an average generally in the range of $2 million to $3 million.

The City currently has one licensed manufacturer that has been operating for one full year, which also operates as a licensed distributor. The business is licensed for both medicinal and adult-use business activities. We believe that the City of Goleta could reasonably attract additional manufacturers in the future.

We have provided three scenarios to estimate the potential revenue that could be generated from various tax rates on cannabis manufacturers. The scenarios assume 1, 2 or 3 manufacturers that have each been fully operational for more than a year, with average gross receipts of $2.5 million each. We note that these are generic projections that are not based upon the one manufacturer currently operating in the City[8]. These projections only consider that portion of gross receipts generated through manufacturing operations and do not consider any portion of profits that may be generated through companion operations such as distribution. Further, these projections assume that both adult-use and medicinal cannabis operations are taxed equally.

HdL commonly recommends a rate of between 2.5% and 4.0% of gross receipts for cannabis manufacturers. The City's current tax rate for adult-use manufacturers is 2.0%, which is slightly below our recommended initial rate. A single manufacturer with average gross receipts of $2.5 million per year could generate around $50,000 in cannabis tax revenue under the City's current rate, or between $62,500 and $100,000 at HdL's recommended rates. 2 manufacturers could generate $100,000 in revenue under the City's current rate, or between $125,000 and $200,000 under HdL's recommended rates, and 3 manufacturers could generate $150,000 under the City's current rate or between $187,500 and $300,000 under HdL's recommended rates. These projections are shown in Figure 10, below.

Figure 10:

Cannabis Manufacturers; Current and Recommended Rates						
Type 6/7/N/P Manufacturer	**# of Licenses**	**Avg Gross Receipts**	**Total Gross Receipts**	**Revenue @ 2.0% Tax Rate**	**Revenue @ 2.5% Tax Rate**	**Revenue @ 4.0% Tax Rate**
Scenario 1	1	$2,500,000	$2,500,000	$50,000	$62,500	$100,000
Scenario 2	2	$2,500,000	$5,000,000	$100,000	$125,000	$200,000
Scenario 3	3	$2,500,000	$7,500,000	$150,000	$187,500	$300,000

[7] We are aware of at least one large manufacturer with claimed earnings of over $90 million per year, but this business is also a distributor and it is unclear what portion of their gross receipts comes from each of these different business activities.

[8] HdL does not disclose or discuss confidential earnings or tax information for individual cannabis businesses.

VII. Cannabis Distributors

Perhaps more than any other part of the cannabis supply chain, distributors are greatly dependent upon the number and variety of other cannabis business types within their service area. Essentially, distributors need a certain "critical mass" of other cannabis businesses for them to serve. Because of this, distributors tend to be located in cities or regions which have a large base of cultivation or manufacturing, as well as a large surrounding customer base.

As a very general figure, the number of cannabis distributors statewide is roughly 1/4 of the number of all other cannabis licenses, combined, or 1 distributor for every 4 other cannabis businesses. In addition, virtually all (281 out of 287) licensed microbusinesses in California include distribution as one of their licensed activities. We can reasonably extrapolate from this to assume that a similar ratio of distributors to other businesses is necessary within any defined region.

The business model for distributors is based on a percentage markup on the price paid to their suppliers. This markup commonly averages 20% to 30%, though this depends upon the actual services being provided. However, it is important to note that the distributor category may include a variety of services, not all of which are provided by all licensed distributors. Just 12.5% of distributors hold Type 13 licenses that allow self-distribution or transport only. A distributor which is only buying and reselling cannabis at wholesale may make as little as 10% on a transaction, while a distributor which is purchasing raw flower and packaging it as pre-rolls for retail sale may make 50% or more on such a value-added transaction.

Distributors may have annual revenues ranging from less than $1 million to well over $70 million. The vast majority of distributors are local or regional businesses that fall at the lower end of that range, with those at the high end being statewide operators which qualify as statistical outliers. While there is not yet an abundance of data to determine the average gross receipts for distributors, HdL has reviewed a number of pro-formas for distributors seeking licenses in other jurisdictions. These indicate anticipated gross receipts commonly in the range of $2 million to $3 million per year, with an average of $2.5 million. Again, though, these are merely statistical averages.

The City currently has 3 cannabis distributors, plus 4 licensed microbusinesses that all conduct distribution as one of their business activities[xvi]. Confidential cannabis tax information provided by the City demonstrates a significant range both in the overall gross receipts of these businesses and in the portion of the receipts from microbusinesses that is reported as being derived from their distribution operations[9].

Half of the cannabis businesses in Goleta (7 out of 14) conduct distribution as at least a part of their activities. This is far greater than the statewide ratio of one distributor for every four other cannabis businesses. However, when we look at the entire Santa Barbara region as shown in Figure 4 on Page 8, we see that there are 35 distributors out of a total of 185 cannabis businesses in the region, which is in line with this statewide ratio. Given this, we believe that Goleta and the Santa Barbara region are already well-served by cannabis distributors. While it is certainly possible that the regional market can accommodate additional distributors, they would likely have to compete by taking clients and business from established distributors, rather than by filling an existing void.

[9] HdL does not disclose or discuss confidential earnings or tax information for individual cannabis businesses.

In Figure 11, below, we have applied both the City's current rate of 1.0% of gross receipts and HdL's recommended rates of 2.0% to 3.0% to a scenario that includes 3 cannabis distributors with average receipts of $2.5 million per year. While the City has provided HdL with confidential cannabis tax data for these businesses, we shall use generic projections here to protect that confidentiality. As with our discussion of cannabis manufacturers, our projections assume that both adult-use and medicinal sales are taxed at the same rate. We have not included microbusinesses within these projections as there are too many variables and assumptions necessary to make any projections meaningful.

Applying the City's current rate of 1.0% to these three generic distributors would generate $75,000 per year in revenue for the City. Applying HdL's recommended initial rate of 2.0% would generate $150,000, and our maximum recommended rate of 3.0% would generate $225,000 in annual revenue for the City. These figures are provided here only for comparison purposes when considering the setting or adjusting of cannabis tax rates.

Figure 11:

Cannabis Distributors; Current and Recommended Rates						
Distributors	**# of Licenses**	**Avg Gross Receipts**	**Total Gross Receipts**	**Revenue @ 1.0% Tax Rate**	**Revenue @ 2.0% Tax Rate**	**Revenue @ 3.0% Tax Rate**
Scenario 1	3	$2,500,000	$7,500,000	$75,000	$150,000	$225,000

VIII. Cultivation

The City of Goleta currently has 3 businesses that are licensed by the state to conduct cultivation activities. One of these is licensed as a cannabis nursery, one is a microbusiness that is licensed to cultivate up to 10,000 square feet of canopy, and one is licensed as a processor, which allows it to process harvested cannabis but does not allow it to otherwise grow or cultivate cannabis.

While the state includes processing within the category of cultivation licenses, Measure Z taxes processing as a manufacturing activity. Measure Z also specifies a tax rate of 1.0% for cannabis nurseries. The only one of these businesses that would be subject to Measure Z's cultivation tax rate of 4.0% would be the one microbusiness.

The CalCannabis Division of the California Department of Food and Agriculture has been issuing temporary cultivation licenses since January 1, 2018. As of May 5th, CalCannabis shows 6,032 active cultivation licenses statewide, held by 2,669 distinct businesses[10] comprising 1,528 acres of cultivation which are conservatively estimated to be capable of producing over 13 million pounds of cannabis per year. A Standardized Regulatory Impact Assessment (SRIA) prepared for the California Department of Food and Agriculture (CDFA) in 2017 estimated the amount of cannabis consumed by California residents at just 2.5 million pounds[xvii].

These figures suggest that the cannabis cultivation market in California has already far exceeded its saturation point. However, this has been the case since early 2018, and yet new cultivation businesses are entering the market on an almost daily basis. Statewide cannabis sales in 2020 reached $4.4 billion[xviii], which suggests that every pound of cannabis cultivated in California contributes to around $340 in end value to the consumer.

Though the cultivation sector continues to grow, entry into this highly competitive marketplace can be filled with risk, and requires ample capitalization and a clear strategy to win shelf space. Given this, we believe any additional cannabis cultivation businesses seeking to locate in Goleta would likely be small indoor facilities, similar to the one existing microbusiness.

The City of Goleta has requested that HdL examine whether it may be advantageous to replace the gross receipts cultivation tax established by Measure Z with either a tax based on square footage or one based on weight. Any of these methods can be accommodated, and each can be adjusted to generate an equivalent amount of revenue. Each method also has its advantages and disadvantages. The reasons for choosing one method over another can best be summarized as a question: What is it, exactly, that the City wishes to tax?

A tax based on square footage can be seen essentially as a tax on area of impact, under the assumption that the greater the size of the operation, the higher the impact on the surrounding neighborhood and City services. A square footage tax has the advantage that the amount of annual tax liability is generally known in advance by both the City and the tax-paying business, as it is keyed to the permitted amount of cultivation area. This allows both parties to budget accordingly. Variances in the actual amount of

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[10] The actual number of distinct businesses is somewhat lower, as minor typos or inconsistencies in how a name is written appear as separate business names in the CalCannabis database.

cultivation area being planted per cycle can be accommodated through advance notification, monitoring and regular inspections or audits. The amount of tax paid does not automatically increase with inflation, making it necessary to include a mechanism to adjust the tax rate annually in accordance with the Consumer Price Index (CPI).

Taxing cannabis cultivation by weight is essentially a tax on production. The tax is on the volume of product, rather than on the size of the operation or the profits generated. This method assumes that the volume of cannabis being produced creates a commensurate impact on the community. The State tax rate for cultivation is set by weight at $9.65 per ounce of dried flower or $2.87 per ounce of dried leaf. Because these rates are set by weight, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at $500 per pound or top-grade cannabis at $2,500 per pound. Reporting and remittance for a weight-based tax can be tied to the figures being reported to the State. As with the square-footage tax, it is necessary to annually adjust the tax rate to reflect changes in the CPI.

A tax on gross receipts taxes the gross income of the business, not the actual profits. As such, a gross receipts tax is effectively a tax on conducting business, regardless of the physical size of the operation, the volume of cannabis being produced, or the profitability of the business. A gross receipts tax has the advantage of increasing or decreasing in accordance with income and automatically adjusting for inflation. Because the cannabis industry largely operates on a cash basis, annual financial audits are highly recommended to ensure that all receipts have been properly reported and all taxes fairly remitted.

Determining an equivalent rate between a tax on square footage, gross receipts or weight can be accomplished using a few basic assumptions. In Figure 12 (next page) we have projected the amount of cannabis that can be produced from a typical 10,000 square foot indoor cultivation facility. We have assumed that the facility will achieve four harvest cycles per year, which is fairly standard (though many operators are able to achieve more).

Yield is assumed to average one pound of cannabis flower for every 10 square feet of cultivation area. This metric is drawn from a 2010 study by the Rand Corporation[xix]. Though the study is fairly old for such a young industry, its findings are consistent with more recent studies. Some cultivation facilities can yield one pound for every eight square feet, and others cite yields that are much lower (more square feet per pound), but 10 square feet remains a commonly used metric which provides for conservative estimates. Using this figure, a 10,000 square foot cultivation facility operating 4 cycles would produce around 4,000 pounds of cannabis per year.

The price per pound is conservatively assumed to be $1,000. This figure is somewhat lower than the current average for indoor-grown cannabis, but there is still great variability in the market and, over the long term we anticipate that wholesale prices for raw cannabis will continue to decline. Applying this figure, our 10,000 square foot facility would generate $4 million in gross receipts.

Having developed figures for both yield and gross receipts, we can now easily translate the equivalent tax rates between the different methods. Figure 12 shows that the current 4.0% tax rate under Measure Z is roughly equivalent to $40 per pound, or $16.00 per square foot of canopy. Reducing the gross receipts rate to 2.50% would be roughly equivalent to $25 per pound or $10 per square foot. Reducing the rate even further to 1.75% would be roughly equivalent to $17.50 per pound or $7.00 per square foot.

Figure 12:

Cultivation Tax Rate Convertor; Gross Receipts to Square Feet									
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate per SF
Indoor	4	10,000	4,000	$1,000	$4,000,000	4.00%	$160,000	$40.00	$16.00
Indoor	4	10,000	4,000	$1,000	$4,000,000	2.50%	$100,000	$25.00	$10.00
Indoor	4	10,000	4,000	$1,000	$4,000,000	1.75%	$70,000	$17.50	$7.00

HdL commonly recommends that cities set a tax rate for cultivation within the range of $7.00 per square foot to $10.00 per square foot. Should the City wish to reduce its tax rate to fit this range, it could be done without having to fundamentally change the gross receipts structure of Measure Z, which could only be accomplished through another ballot measure. The City could achieve the same effect by reducing the tax rate for cultivation to between $1.75% and $2.50% of gross receipts.

HdL recommends that the City retain the existing gross receipts-based tax on cannabis cultivation and continue to set the rate at 4.0%. Though this rate is higher than the square-footage equivalent rates we commonly recommend, it is consistent with the rate set by Santa Barbara County, which has one of the largest and most established cannabis cultivation sectors in the state. We believe cannabis cultivators in Goleta are likely more influenced by the local industry in the surrounding county than by other cultivators elsewhere in the state.

IX. Testing Laboratories

California law requires that all dried cannabis flower or leaf must be tested for tetrahydrocannabinol (THC) and cannabidiol (CBD) content, contaminants, impurities and other factors before it can be sold to a manufacturer, distributor, dispensary or end user. The cost of this mandated testing and the loss of product for a testing sample can add around 0.7% to the wholesale cost.

The Bureau of Cannabis Control has only issued licenses for 36 testing laboratories in all of California. While some laboratories are located in areas with a large cannabis industry presence, most tend to be located in areas with a large customer base such as the Los Angeles basin, San Diego, Sacramento and the San Francisco Bay Area. Perhaps surprisingly, there is only one testing laboratory in all of Santa Barbara County (located in Lompoc), and none in Humboldt County or Mendocino. Essentially, most of these businesses have chosen to locate themselves downstream in the cannabis supply chain.

With one testing laboratory already in Lompoc to the north and most of the product from Santa Barbara County moving south to the Los Angeles area, we do not see a strong argument for why an additional testing laboratory would seek to locate in Goleta. However, this is not entirely unreasonable.

Testing is an independent, semi-regulatory function mandated by the State to protect consumer health and safety, and which amounts to a State-imposed cost on the product. HdL is not aware of any similar testing of agricultural products that is subject to a separate tax on top of the cost of mandated testing. More commonly, the costs for similar services for other agricultural products may be subsidized by the USDA or other sources that are not available to cannabis farmers.

Many jurisdictions choose to not apply any tax to testing laboratories, in recognition of the semi-regulatory function they serve. For those cities that do wish to impose a tax on cannabis testing facilities, HdL recommends that the rate be limited to between 1% and 2.5%.

HdL makes no recommendation regarding the rate for cannabis testing laboratories. HdL's recommended rates for testing laboratories are provided for those jurisdictions which wish to impose a tax on such businesses. However, we recognize that these testing laboratories perform a quasi-regulatory function, do not in any way profit off the value of the product and are prohibited from sharing ownership with any other type of cannabis business. Seen through this lens, the City's current rate of 0.0% seems appropriate.

X. APPENDIX

a. Legal and Regulatory Background for California

The legal and regulatory status of cannabis in the State of California has been continually evolving ever since the passage of Proposition 215, the Compassionate Use Act of 1996 (CUA), which de-criminalized the use, possession and cultivation of cannabis for qualifying patients and their primary caregivers when such use has been recommended by a physician. The CUA did not create any regulatory program to guide implementation, nor did it provide any guidelines for local jurisdictions to establish their own regulations. The lack of legal and regulatory certainty for medical marijuana (or cannabis) continued for nearly 20 years, until the passage of the Medical Cannabis Regulation and Safety Act (MCRSA) in October of 2015. MCRSA created a State licensing program for commercial medical cannabis activities, while allowing counties and cities to maintain local regulatory authority. MCRSA required that the State would not issue a license without first receiving authorization by the applicable local jurisdiction.

On November 8, 2016, the voters of the State of California approved Proposition 64, the Adult Use of Marijuana Act (AUMA), which allows adults 21 years of age or older to legally grow, possess, and use marijuana for personal, non-medical "adult use" purposes, with certain restrictions. AUMA requires the State to regulate non-medical marijuana businesses and tax the growing and selling of medical and non-medical marijuana. Cities and counties may also regulate non-medical marijuana businesses by requiring them to obtain local permits or restricting where they may be located. Cities and counties may also completely ban marijuana related businesses if they so choose. However, cities and counties cannot ban transport of cannabis products through their jurisdictions, nor can they ban delivery of cannabis by licensed retailers to addresses within their jurisdiction (added later through regulations).

On June 27, 2017, the Legislature enacted SB 94, which repealed MCRSA and incorporated certain provisions of MCRSA into the licensing provisions of AUMA. These consolidated provisions are now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA revised references to "marijuana" or "medical marijuana" in existing law to instead refer to "cannabis" or "medicinal cannabis," respectively. MAUCRSA generally imposes the same requirements on both commercial medicinal and commercial adult-use cannabis activity, with certain exceptions. MAUCRSA also made a fundamental change to the local control provisions. Under MCRSA, an applicant could not obtain a State license until they had a local permit. Under MAUCRSA, an applicant for a State license does not have to first obtain a local permit, but they cannot be in violation of any local ordinance or regulations. The State licensing agency shall contact the local jurisdiction to see whether the applicant has a permit or is in violation of local regulations, but if the local jurisdiction does not respond within 60 days, then the applicant will be presumed to be in compliance and the State license will be issued.

MAUCRSA authorizes a person to apply for and be issued more than one license only if the licensed premises are separate and distinct. With the passage of AB 133 in 2017, a person or business may co-locate multiple license types on the same premises, allowing a cultivator to process, manufacture or distribute their own product from a single location. This includes the allowance to cultivate, manufacture, distribute or sell cannabis for both medical and adult use from a single location. Licensees of cannabis testing operations may not hold any other type of license. However, these allowances are still subject to local land use authority, so anyone seeking to operate two or more license types from a single location would be prohibited from doing so unless local regulations allow both within the same zone.

The table below provides a detailed overview of the license types available under MAUCRSA and state cannabis regulations:

State License Types Under MAUCRSA					
Type	**Activity**	**Description**	**Details**	**Licensing Agency**	**Notes**
1	Cultivation	Outdoor; Specialty, Small	Up to 5,000 sf, or 50 plants on non-contiguos plots	CDFA	A, B
1A	Cultivation	Indoor; Specialty, Small	501 sf - 5,000 sf	CDFA	A, B
1B	Cultivation	Mixed-Light; Specialty, Small	2,501 sf - 5,000 sf	CDFA	A, B
1C	Cultivation	Outdoor/indoor/mixed; Specialty Cottage, Small	Up to 25 plants outdoor; up to 2,500 sf mixed light; up to 500 sf indoor	CDFA	A, B
2	Cultivation	Outdoor; Small	5,001 sf - 10,000 sf	CDFA	A, B
2A	Cultivation	Indoor; Small	5,001 sf - 10,000 sf	CDFA	A, B
2B	Cultivation	Mixed Light, Small	5,001 sf - 10,000 sf	CDFA	A, B
3	Cultivation	Outdoor; Medium	10,001 sf - one acre	CDFA	A, B, C
3A	Cultivation	Indoor; Medium	10,001 sf - 22,000 sf	CDFA	A, B, C
3B	Cultivation	Mixed-Light; Medium	10,001 sf - 22,000 sf	CDFA	A, B, C
4	Cultivation	Nursery		CDFA	A, B
-	Cultivation	Processor	Conducts only trimming, drying, curing, grading and packaging of cannabis	CDFA	A, B, E
5	Cultivation	Outdoor; Large	Greater than 22,000 sf	CDFA	A, B, D
5A	Cultivation	Indoor; Large	Greater than 22,000 sf	CDFA	A, B, D
5B	Cultivation	Mixed-Light; Large	Greater than 22,000 sf	CDFA	A, B, D
6	Manufacturer 1	Extraction; Non-volatile	Allows infusion, packaging and labeling	OMCS	A, B
7	Manufacturer 2	Extraction; Volatile	Allows infusion, packaging and labeling, plus non-volatile extraction	OMCS	A, B
N	Manufacturer	Infusion for Edibles, Topicals	No extraction allowed	OMCS	A, B, E
P	Manufacturer	Packaging and Labeling	No extraction allowed	OMCS	A, B, E
S	Manufacturer	Shared-use manufacturer	Manufacturing in a shared-use facility	OMCS	A, B, E
8	Testing		Shall not hold any other license type	BCC	A
9	Retailer	Non-storefront retail delivery	Retail delivery without a storefront	BCC	A, F
10	Retailer	Retail sale and delivery		BCC	A, B
11	Distributor			BCC	A, B
12	Microbusiness	Cultivation, Manufacturer 1, Distributor and Retailer	< 10,000 sf of cultivation; must meet requirements for all license types	BCC	A, B

CDFA	California Department of Food and Agriculture
OMCS	California Department of Public Health, Office of Manufactured Cannabis Safety
BCC	Bureau of Cannabis Control
A	All license types valid for 12 months and must be renewed annually
B	All license types except Type 8 Testing must be designated "A" (Adult Use), "M" (Medical) or "A/M" (Both)
C	CDFA shall limit the number of licenses allowed of this type
D	No Type 5 licenses shall be issued before January 1, 2023
E	Established through rulemaking process

AUMA, and its successor MAUCRSA, required three state agencies, the Bureau of Cannabis Control, the California Department of Food and Agriculture, and the California Department of Public Health, to permit commercial cannabis licensees and to adopt regulations for the cannabis industry. On January 16, 2019, all three agencies announced that the state's Office of Administrative Law officially approved state regulations, which took immediate effect and replaced emergency regulations that had been in effect since 2017. The final regulations were largely similar to the emergency regulations, but somewhat controversially, Section 5416(d) of the Bureau of Cannabis Control regulations authorizes deliveries of cannabis products into any city or county in the state, even if a city or county has banned commercial deliveries.

b. State Tax Considerations

To determine what local tax rates might be most appropriate, they must be considered in the context of other taxes imposed by the State. Any local taxes will be in addition to those taxes applied through the Adult Use of Marijuana Act (AUMA), which imposes both a 15% excise tax on purchases of cannabis or cannabis products and a separate cultivation tax on harvested cannabis that enters the commercial market, as well as sales tax. Taxes are most commonly expressed as a percent of price or value, so some method of conversion is necessary to allow development of an appropriate cultivation tax based on square footage.

The State tax rate for cultivation is set at $9.65 per ounce of dried flower or $2.87 per ounce of dried leaf. Because these rates are set per ounce, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at $500 per pound or top-grade cannabis at $2,500 per pound. The cultivator is generally responsible for payment of the tax, though that responsibility may be passed along to either a manufacturer or distributor via invoice at the time the product is first sold or transferred. The distributor is responsible for collecting the tax from the cultivator upon entry into the commercial market, and remitting it to the California Department of Tax and Fee Administration.

Cumulative Cannabis Taxes

Category	Amount	Increase	Cumulative Price
Producer Price	$1,000	$1,000	$1,000
State Cultivation Tax	$9.65/oz	$154	$1,154
Local Tax	3.75%	$38	$1,192
Batch Testing	$75/lb, + 0.75%	$75	$1,267
Wholesale Price w/ Taxes		$1,267	
Total Tax at Wholesale		$267	
Tax as %		26.65%	
Distributor Markup	20.00%	$253	$1,520
Local Tax	10.00%	$152	$1,672
Total Distributor Price		$1,672	
Total Taxes at Distributor		$418	
Total Tax as %		25.03%	
Retailer Markup	100.00%	$1,672	$3,344
Local Tax	10.00%	$334	$3,678
State Excise Tax	15.00%	$502	$4,179
Total Retailer Price		$4,179	
Total Taxes at Retail		$1,254	
Total Tax as %		30.01%	
CA Sales Tax (non-medical)	6.25%	$261	$4,441
Local Sales Tax	2.00%	$84	$4,524
Total Taxes at Retail		**$1,599**	
Total Tax as %		**35.35%**	
Total Local Tax		**13.43%**	**$607.43**

The cultivation tax of $9.65 per ounce of dried flower is equivalent to $154 per pound. Just 2 years ago, HdL would have assumed an average wholesale market price for dried flower of around $1,500 per pound, which would make that $154 equal to roughly 10% of value. Since then, however, prices have declined. Competitive market forces enabled by legalization have brought the average price for indoor cannabis down to around $1,000 per pound, or even less (cannabis prices vary greatly based on product quality).

Conversations with cannabis industry trade groups suggest that the cumulative tax rate on the end product should remain at or around 30%. Higher rates create too much price disparity between legal and illegal cannabis, making it harder for the regulated industry to compete with the illicit market. Higher local tax rates can also make a county or city less attractive to the industry, especially for manufacturers and distributors, which have greater flexibility in choosing where to locate. We believe that setting rates that adhere to this 30% rule will help keep the local cannabis industry competitive with other cultivators across California, thus encouraging the transition to a legal industry.

The above table shows how the cumulative tax rate on adult-use cannabis builds as the product moves towards market. The value of the product increases as it moves through the supply chain towards market, with manufacturers, distributors and retailers each adding their own markup. Testing laboratories do not add a direct markup to the product, but the cost of testing and the loss of a small test sample can add around $75 per pound. Any or all of these activities may be taxed.

This model assumes a hypothetical case where cultivation, manufacturing, testing, distribution and retail sale all happen within the same jurisdiction and are thus all subject to that jurisdiction's tax rates. In actuality, this is unlikely to be the case. Manufacturers may work with product purchased from anywhere in California, and may sell their product to retailers elsewhere, as well. The cumulative tax burden for any product at retail sale will almost always include a variety of tax rates from numerous jurisdictions.

c. General Economic Impacts

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes.

As with any other industry, the cannabis industry does not exist in a vacuum. Those businesses that actually grow, process, manufacture, distribute and sell cannabis products support a wide variety of other businesses that may never touch the actual product itself. Cultivators support garden supply stores, green house manufacturers, irrigation suppliers, soil manufacturers, and a wide variety of contractors including building and construction, lighting and electrical, HVAC, permitting, and engineering. Manufacturers support many of these same businesses, plus specialized tooling and equipment manufacturers, and product suppliers for hardware, packaging, and labeling. All of these businesses support, and are supported by, a host of ancillary businesses such as bookkeepers, accountants, tax preparers, parcel services, marketing and advertising agencies, personnel services, attorneys, mechanics, facilities maintenance, security services, and others.

The economic benefits are not limited to those in the cannabis industry, itself. Cultivators bring new money into the community by selling their products into a statewide market. Their profits and the salaries they pay move into the general local economy, supporting stores, restaurants, car dealerships, contractors, home sales and other businesses. In Humboldt County, a study done in 2011 found that at least $415 million dollars in personal income was entering the local economy annually from the cannabis industry, roughly equal to one quarter of the county's entire $1.6 billion economy.

While Humboldt is likely an outlier, research done by HdL for other clients suggests that other counties and cities see similar, if smaller, economic inputs from this industry, with some in the range of $100 million dollars or more annually. As this industry adapts to a legal paradigm, the challenge for some counties will be mitigating and minimizing the economic loss as the black market slowly fades away.

Because of the emerging nature of this industry, it is currently populated primarily (but not solely) by small, independently-owned businesses. Numerous studies have demonstrated that locally-owned, independent businesses recirculate a far higher percentage of every dollar back into the local community than large, corporately-owned businesses do. The same economic development arguments that are used to support other independent, locally-owned businesses apply to this industry, too. Host cities or counties should expect to see typical economic benefits from these new (or newly daylighted) businesses on par with other new businesses, separate from any tax revenue that may be generated.

Industry experts believe that California's current statewide production is five to eight times higher than the State's population consumes, a figure derived from the SRIA done for CDFA's cannabis cultivation program. That assessment found that California's cannabis industry produces some 13.5 million pounds of cannabis per year, which would be enough to provide over half a pound of cannabis per year for every Californian 21 and over. However, the assessment also found that California's 4.5 million cannabis users only consume about 2.5 million pounds of cannabis per year.

The Bureau of Cannabis Control projects that more than half of the adult use purchases currently in the illicit market will transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller. Essentially, the easier, cheaper and more reliable it is for consumers to access quality cannabis legally, the less reason they will have to purchase it through the illicit market. That same study projects that 60% of those currently in the legal, medical cannabis market will shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis is also anticipated to produce a small 9.4% increase in consumer demand.

Given these figures, cities and counties should expect to see some increase in retail sales as these shifts occur in the market. More significantly, the existence of legally permitted cannabis retailers will allow a far greater portion of existing cannabis sales to be captured by legal (and tax-paying) retailers.

The shift from medical to adult use sales is not expected to change the overall volume of sales, only the category into which they fall. Once the legal, adult use market is properly functioning, it is anticipated to capture about 61.5% of the overall cannabis market in California. The legal medical cannabis market is projected to decline to just 9% of the overall market. The other 29.5% is expected to remain in the illicit market.

These numbers only apply to the 2.5 million pounds of cannabis that is consumed in California, representing the potential size of the legal cannabis market. If 29.5% of the cannabis consumed in California continues to come from the illicit market, then the size of the market for legal cannabis must be adjusted downward accordingly. This would reduce the size of the legal market in California to 1.76 million pounds.

The CalCannabis Division of the California Department of Food and Agriculture has been issuing temporary cultivation licenses since January 1, 2018. As of May 5th, CalCannabis shows 6,032 active cultivation licenses statewide, held by 2,669 distinct businesses comprising 1,528 acres of cultivation which are conservatively estimated to be capable of producing over 13 million pounds of cannabis per year. A Standardized Regulatory Impact Assessment (SRIA) prepared for the California Department of Food and Agriculture (CDFA) in 2017 estimated the amount of cannabis consumed by California residents at just 2.5 million pounds.

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ATTACHMENT 3:

Long Range Financial Forecast, Revenue and Funding Options Workshop

Agenda Item A.1
WORKSHOP
Meeting Date: December 10, 2020

CITY OF GOLETA

TO: Mayor and Councilmembers

FROM: Michelle Greene, City Manager
Luke Rioux, Finance Director

SUBJECT: Long Range Financial Forecast, Revenue and Funding Options Workshop

RECOMMENDATION:

A. Receive a presentation from staff on a City of Goleta Preliminary Long-Range Financial Forecast; and

B. Direct staff to pursue new revenue and debt financing options and bring them back to the City Council with a CIP Funding Plan; and

C. Authorize the transfer of funds currently set aside in reserves for CalPERS unfunded accrued liability in the amount of $170,000 and OPEB unfunded accrued liability in the amount of $333,500 to the City's Section 115 Trust; and

D. Direct staff to further analyze available Unassigned Fund Balance and return to the City Council with a recommendation for a CIP project funding reserve level.

BACKGROUND:

The purpose of this report is to provide the City Council a long-range financial forecast beyond the current five-year forecast included in the City's annual budget, along with information on revenue enhancement options and funding strategies to address unfunded priorities and projects. The report also contains updated information on the City's current unfunded liabilities as they relate to pensions and retiree health also known as other post-employment benefits (OPEB). Additionally, cost estimates not factored in the budget are provided (if available) for other unfunded priority items, such as deferred maintenance on City infrastructure or the cost of implementing master plan documents. In an effort to keep the information organized, the data has been summarized and the report is presented in three major sections listed below:

- Section 1: Long Range Financial Forecast
- Section 2: Unfunded Liabilities and Other Priorities
- Section 3: Revenue Enhancement and Financing Options to Address Ongoing

Unfunded Priorities and One-Time Infrastructure Projects

The data presented in this report is not intended to predict the future, but rather create awareness regarding financial challenges and opportunities the City could possibly face and inform the City's financial and operational decision making to account for such possibilities.

DISCUSSION:

Section 1: Long Range Financial Forecast

Introduction

The City's financial forecast presents estimated information based on past, current, and projected financial conditions and is meant to be used as a tool to evaluate current and future fiscal conditions and guide policy and programmatic decisions. The Government Finance Officers Association (GFOA) recommends that governments at all levels forecast major revenues and expenditures, and that these forecasts be regularly monitored and periodically updated. While there is no specific time frame recommended, the forecast should extend several years into the future and clearly state its underlying assumptions and methodology.

The City's current five-year forecast is presented annually during the budget process and contains assumptions and projections that are used for current and future budget decisions. This allows the City to plan accordingly for operating and capital needs. The current economic climate and future needs of the City call for longer range forecasting to further evaluate longer-term impacts, such as pension cost changes, infrastructure needs, and future service levels. The time frame needs to be extended to reflect these longer-term impacts to truly understand the fiscal implications and ensure a path to a solid financial foundation. In an effort to capture these estimated fiscal impacts, staff has prepared a forecast extending out 20 years.

Staff has reviewed its recent Five-Year Forecast model through FY 24/25 and made updates to extend out its forecast 20 years to FY 40/41. The unprecedented impact of COVID-19 has made forecasting very challenging, and financial trends are difficult to project with so much uncertainty surrounding the current economic climate, including the length of time the stay-at-home orders will cause both short-term and long-term impacts on the state and regional economy. While staff has data available on what was experienced for the months of March through June of 2020, it is unclear what the future will hold.

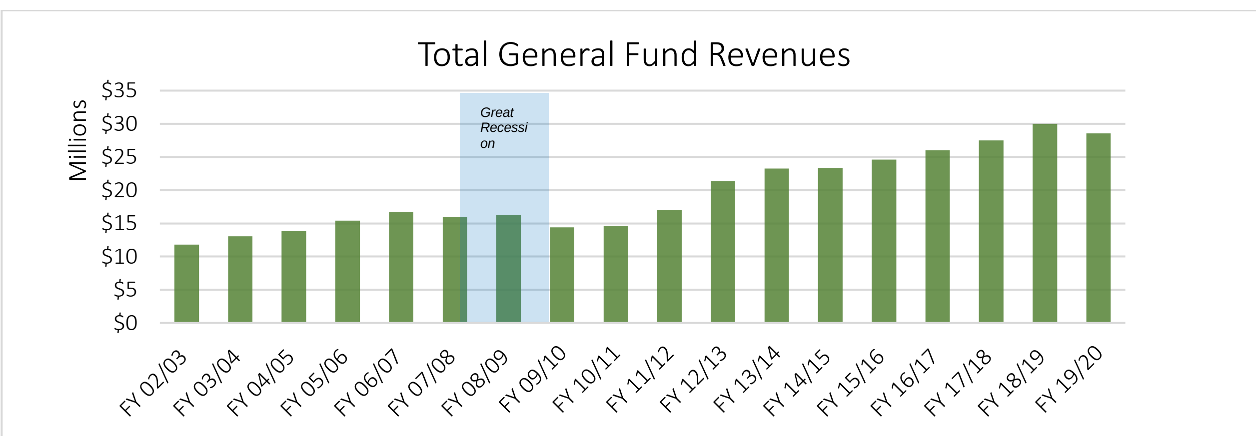
To keep the data in this report organized, this first section provides a brief recap of the City's General Fund history, recent budget adoption information, the methodology and assumptions used in modeling, and a summary of the long-range financial forecasts.

History of General Fund Revenues

The following table and chart show how the City's primary General Fund revenue sources have performed from incorporation through FY 19/20. A few notable events are listed for each fiscal year to provide additional context. The revenue categories shown are the City's three primary revenue sources: property tax; sales tax; and, Transient Occupancy Tax (TOT). All other revenues are consolidated. When comparing total revenues over the fiscal years, only during the Great Recession did the City experience overall decreases and most recently with the start of the COVID-19 pandemic. The Great Recession began in December 2007 and ended in June 2009, and thus extended over 18 months.

Table 1 – History of General Fund Revenues

Fiscal Year (FY)	Property Tax Revenue	YOY % Chg	Sales Tax Revenue	YOY % Chg	TOT Revenue	YOY % Chg	All Other Revenue	YOY % Chg	Total Revenue	YOY % Chg	Notable Events
FY 02/03	$ 1,792,081		$ 3,485,996		$ 2,141,810		$ 4,382,338		$ 11,802,225		*SARS - 11/2002 - 7/2003*
FY 03/04	$ 2,045,480	14.14%	$ 3,623,036	3.93%	$ 2,142,800	0.05%	$ 5,261,570	20.06%	$ 13,072,886	10.77%	
FY 04/05	$ 3,727,087	82.21%	$ 3,864,388	6.66%	$ 2,281,612	6.48%	$ 3,969,708	-24.55%	$ 13,842,795	5.89%	*Vehicle License Fee - Property Tax Swap*
FY 05/06	$ 4,856,895	30.31%	$ 4,039,979	4.54%	$ 2,636,260	15.54%	$ 3,885,783	-2.11%	$ 15,418,917	11.39%	*Goleta postal facility shooting: 1/2006, Start of Triple Flip*
FY 06/07	$ 4,793,775	-1.30%	$ 4,116,749	1.90%	$ 2,538,567	-3.71%	$ 5,257,402	35.30%	$ 16,706,493	8.35%	
FY 07/08	$ 4,765,991	-0.58%	$ 4,160,113	1.05%	$ 2,783,143	9.63%	$ 4,287,520	-18.45%	$ 15,996,767	-4.25%	*Great Recession 12/2007 - 6/2009, Zaca Fire 7/2007*
FY 08/09	$ 4,860,427	1.98%	$ 3,353,658	-19.39%	$ 2,461,489	-11.56%	$ 5,602,297	30.67%	$ 16,277,872	1.76%	*Gap Fire 7/2008, Tea Fire 11/2008, Jesuita Fire 5/2009, 7 hotels now operating*
FY 09/10	$ 4,942,940	1.70%	$ 3,310,542	-1.29%	$ 2,138,896	-13.11%	$ 4,004,651	-28.52%	$ 14,397,030	-11.55%	*End of Great Recession*
FY 10/11	$ 4,952,157	0.19%	$ 3,905,548	17.97%	$ 2,420,762	13.18%	$ 3,348,128	-16.39%	$ 14,626,594	1.59%	
FY 11/12	$ 5,215,822	5.32%	$ 3,845,273	-1.54%	$ 4,141,635	71.09%	$ 3,862,202	15.35%	$ 17,064,932	16.67%	
FY 12/13	$ 5,320,579	2.01%	$ 5,776,818	50.23%	$ 5,604,278	35.32%	$ 4,698,890	21.66%	$ 21,400,564	25.41%	*TOT RNA sharing adjusted from 40% to 0% TOT tax rate increase from 10% to 12% Sales Tax RNA sharing adjusted from 50% to 0%*
FY 13/14	$ 5,390,827	1.32%	$ 6,812,304	17.92%	$ 6,975,799	24.47%	$ 4,079,384	-13.18%	$ 23,258,314	8.68%	*Ebola: 2014-2016, Isla Vista Shooting 5/2014, 8 hotels now operating*
FY 14/15	$ 5,517,146	2.34%	$ 6,329,870	-7.08%	$ 7,807,860	11.93%	$ 3,721,385	-8.78%	$ 23,376,261	0.51%	*Refugio Oil Spill: 5/2015*
FY 15/16	$ 5,999,416	8.74%	$ 6,216,442	-1.79%	$ 8,175,381	4.71%	$ 4,232,841	13.74%	$ 24,624,080	5.34%	*Zika: 12/2015-9/2016, Sherpa Fire: 6/2016, End of Triple Flip.*
FY 16/17	$ 6,284,688	4.76%	$ 6,491,121	4.42%	$ 8,615,207	5.38%	$ 4,604,171	8.77%	$ 25,995,187	5.57%	*Rey Fire: 8/2016, Debris flow: 1/2017*
FY 17/18	$ 6,931,399	10.29%	$ 6,424,757	-1.02%	$ 10,117,983	17.44%	$ 4,035,570	-12.35%	$ 27,509,710	5.83%	*Whittier Fire: July 2017, Thomas Fire/Debris Flow: 12/2017 - 1/2018, 2 new hotels open: 11/2017, CDTFA established*
FY 18/19	$ 7,431,595	7.22%	$ 6,994,204	8.86%	$ 11,563,912	14.29%	$ 4,034,618	-0.02%	$ 30,024,330	9.14%	*Holiday Fire 7/2018, Kmart closed: 10/2018, Debris flow (154): 2/2019, Cannabis tax measure passed*
FY 19/20	$ 7,684,647	3.41%	$ 6,735,609	-3.70%	$ 9,197,440	-20.46%	$ 4,956,134	22.84%	$ 28,573,830	-4.83%	*Cave Fire: 11/2019, Target opened: 10/2019, Wayfair decsision online sales tax effects, COVID-19 Pandemic 3/2020 - ongoing*



<u>General Fund Five-Year Forecast Recap</u>

The COVID-19 pandemic presents new challenges since the revenues primarily impacted are two of the City's largest revenue sources. The lasting impact is still unknown and even lifting the stay-at-home orders and reopening the economy in phases brings uncertainty, as there will continue to be ongoing fear of traveling and getting infected with COVID-19 and shifts in consumer spending online and telecommuting. Even when widespread treatment, a cure and vaccines become available, it will take years for the City to be in the same financial position it once was without new revenue streams.

During the FY 20/21 Mid-Cycle Budget Adoption, the City Council received a report containing three budget scenarios, with staff's recommendation to implement Scenario 2, which fell between best case and worst case. A summary of Scenario 2 through FY 24/25 is provided below along with estimated reserve balances. This scenario assumed a mild recession through end of FY 20/21 and City revenues not returning to normal levels until after FY 24/25. Total revenues from the City's last normal year totaled a little over $30 million.

Table 2 - General Fund Five-Year Forecast (FY 20/21 Mid-Cycle Budget Adoption)

Scenario 2 - Recession through FY 20/21

Summary of Five Year Forecast	FY 20/21 Revised	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected
Beginning Fund Balance	**$ 19,609,178**	**$ 16,462,928**	**$ 16,930,826**	**$ 17,197,766**	**$ 17,119,604**
Total Revenues	$ 22,910,700	$ 27,487,920	$ 28,769,500	$ 29,224,400	$ 29,690,100
Total Expenditures	$ 26,056,950	$ 27,020,022	$ 28,502,560	$ 29,302,561	$ 30,127,765
Net Revenue over Expenditures	$ (3,146,250)	$ 467,899	$ 266,940	$ (78,161)	$ (437,665)
Fund Balance Categories					
Prepaids and Deposits	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Public Facilities	$ 830,108	$ 830,108	$ 830,108	$ 830,108	$ 830,108
Capital Equipment	$ 594,869	$ 594,869	$ 594,869	$ 594,869	$ 594,869
Compensated Leave	$ 237,123	$ 237,123	$ 237,123	$ 237,123	$ 237,123
Risk Management	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Contingency Reserves	$ 7,963,101	$ 8,279,643	$ 8,766,311	$ 9,027,687	$ 9,297,324
Litigation Defense Fund	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 300,000
Sustainability	$ 292,500	$ 292,500	$ 292,500	$ 292,500	$ 292,500
OPEB UAL	$ 333,500	$ 333,500	$ 333,500	$ 333,500	$ 333,500
CalPERS UAL	$ 170,000	$ 170,000	$ 170,000	$ 170,000	$ 170,000
CIP Project Funding	$ -	$ -	$ -	$ -	$ -
Encumbrances	$ -	$ -	$ -	$ -	$ -
Unassigned Fund Balance	$ 5,531,726	$ 5,683,083	$ 5,463,355	$ 5,123,818	$ 4,416,516
Ending Fund Balance	**$ 16,462,928**	**$ 16,930,826**	**$ 17,197,766**	**$ 17,119,604**	**$ 16,681,940**

In order to balance the budget, this scenario consisted of a combination of using unassigned fund balance to help offset revenue losses and temporary cost reduction strategies (such as a temporary hiring freeze of 11 FTEs and deferring capital projects). The 11 FTE's were then phased back in over the next two fiscal years, with 100% of the vacancies filled in FY 22/23.

What is not included in this forecast are the amounts for ongoing unfunded priority items, such as deferred maintenance costs within the City's pavement program. The next part of this report (Forecast Scenarios below) supplements this existing five-year forecast and extends it twenty years to capture the projected impacts and revenue shortfalls the City is anticipated to face without policy changes and revenue enhancements. Staff has prepared three scenarios using the FY 20/21 current budget as their baseline and has factored other cost information into the forecasts. It is important to note for the purpose of this forecast that starting in FY 21/22 staff has phased back in the 11 vacant positions that were temporarily removed in FY 20/21 a part of the hiring freeze. These costs are factored in FY 21/22 rather than phased over two years in to show the true impacts to the City. The City operates very lean and having these positions left vacant will continue to impact staff capacity and workload. It is assumed in the forecasts all positions are budgeted for and filled.

Forecast Scenarios

The following scenarios illustrate estimated trends in the City's revenues and expenditures over the next 20 years. The FY 20/21 current budget is used as the initial base for all scenarios, and FY 18/19 actuals are used to compare when the City's revenues return to normal levels. FY 18/19 was the last normal fiscal year prior to the COVID-19 pandemic. If one-time or cyclical revenues or expenditures could be identified, they were adjusted in the future forecasted periods. A summary of the assumptions used in each scenario is presented below.

Staff has modeled revenue and expenditure forecasts for three different possible economic scenarios, current (worst case), moderate (trending), and optimistic (best case). Expenditures for each scenario have been updated to reflect current conditions and cost containment strategies ending in FY 21/22. For forecasting purposes, the additional pavement budget of $3.3 million annually needed to maintain average PCI levels of 69 has been factored into the forecast after this information was recently presented to the City Council. The main characteristics of these scenarios are summarized below.

Scenario 1- Current Budget (Worst Case)

- Based on recommended case during budget adoption
- Revenues fully recover back to FY 18/19 levels in FY 25/26
- Continued gradual conservative increases in revenues, particular with property tax, sales tax and TOT; no new revenue sources implemented, and no policy changes made to increase existing revenue sources
- Cannabis tax reflected at very low levels from original adopted budget
- Moderate inflation of 2% to 3%, but greater-than-inflation increases in employee salary and retirement
- Additional $3.3 million with annual cost escalator of 3.00% for pavement budget included

Scenario 2 - Moderate (Current Trend – Most Likely Case)

- Adjusted for current trending data, including cannabis tax
- Revenues fully recover back to FY 18/19 levels by FY 22/23
- More significant revenue increases, specifically in the earlier years with cannabis, sales tax, and TOT; no new revenue sources implemented, and no policy changes made to increase existing revenue sources
- Moderate inflation of 2% to 3%, but greater-than-inflation increases in employee salary and retirement
- Additional $3.3 million with annual cost escalator of 3.00% for pavement budget included

Scenario 3 – Optimistic (Best Case)

- Shorter recovery period, back to normal operations in FY 21/22
- Revenues fully recover back to FY 18/19 levels by FY 21/22
- Cannabis tax revenues reach high estimates; no new revenue sources implemented,

and no policy changes made to increase existing revenue sources

- Moderate inflation of 2% to 3%, but greater-than-inflation increases in employee salary and retirement
- Additional $3.3 million with annual cost escalator of 3.00% for pavement budget included

Methodology and Assumptions

Under the best of circumstances, predicting future revenues and expenditures is especially challenging because of the wide number of economic, demographic, spending and policy variables involved. Forecasting is all about assumptions, and recent events are a reminder of what little control the City has over economic factors. While the City Council does influence salary and benefit costs through the labor negotiation process and staffing levels set through the budget process, revenues are largely controlled by other levels of government or require voter approval. However, cities can set fee levels to not exceed related costs and can approve new development during the planning process. All of these factors cannot be known with certainty in advance, but one can understand recent trends, and make reasonable assumptions about the future.

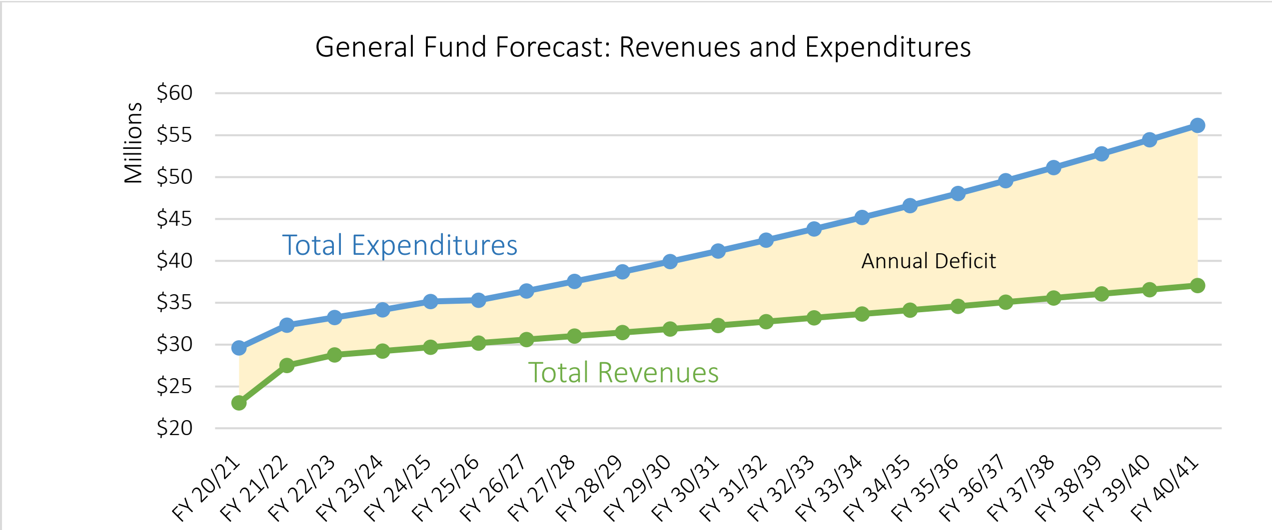
The forecast methodology analyzes historical and current trends and includes a review of growth rates and changes from the last five years. Growth rates are then adjusted based on staff's knowledge of known one-time events, fiscal conservatism and other economic adjustments. The methodology and assumptions used in the forecast modeling are provided in detail in Attachment 1 - Revenue and Expenditure Assumptions.

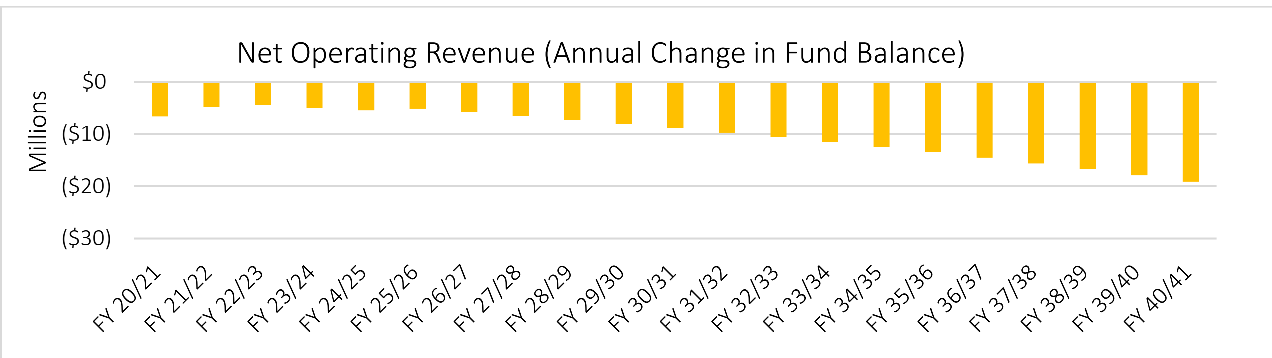
Scenario 1 - Current Budget (Worst Case)

This scenario uses current FY 20/21 adopted revenue budget data from the original five-year forecast. Full recovery of revenues is anticipated by FY 25/26. Cannabis tax revenues were projected relatively low due to uncertainty and volatility. TOT revenue estimates reflect very low occupancy levels through end of December 2020 with a gradual increase beginning in January 2021, and TOT revenues not fully recovered until FY 25/26. Sales tax revenues continue to be impacted, and do not achieve full recovery until 24/25.

For expenditures, FY 21/22 assumes ending the full hiring freeze, adding back personnel related costs that were temporarily removed, reprogramming annual Goleta Entrepreneurial Magnet (GEM) funding of $50,000 and resetting the general fund portion of the pavement maintenance budget to $730,000 in FY 21/22. An additional $3.3 million of ongoing pavement budget is also factored in. Given the additional $3.3 million General Fund contribution, a deficit is projected in all years under Scenario 1.

Figure 1 – Scenario 1





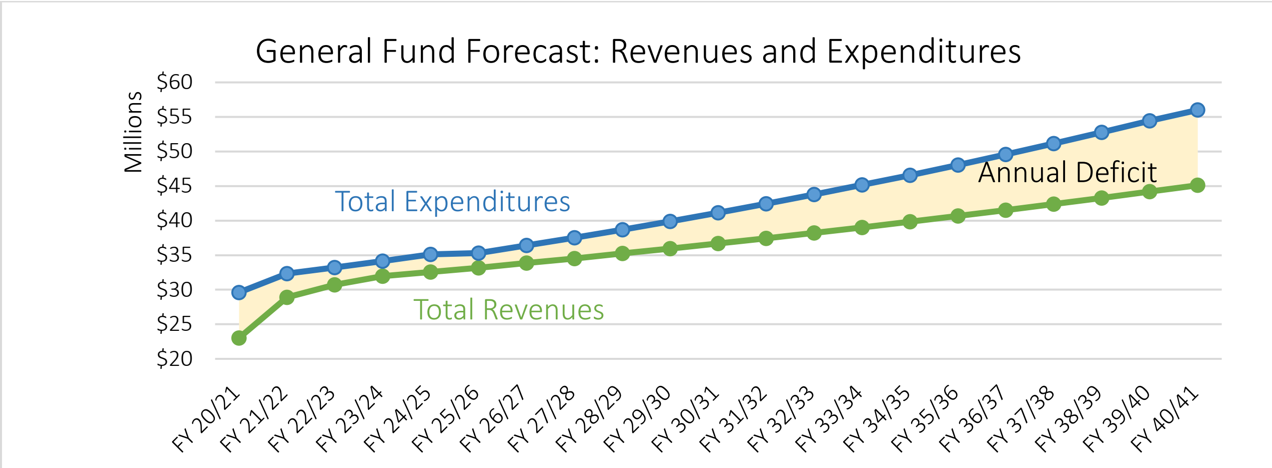
Average annual deficit over the next five years: ($5.0 million)
Average annual deficit over the next 10 years: ($6.1 million)
Average annual deficit over the next 15 years: ($7.7 million)
Average annual deficit over the next 20 years: ($9.7 million)

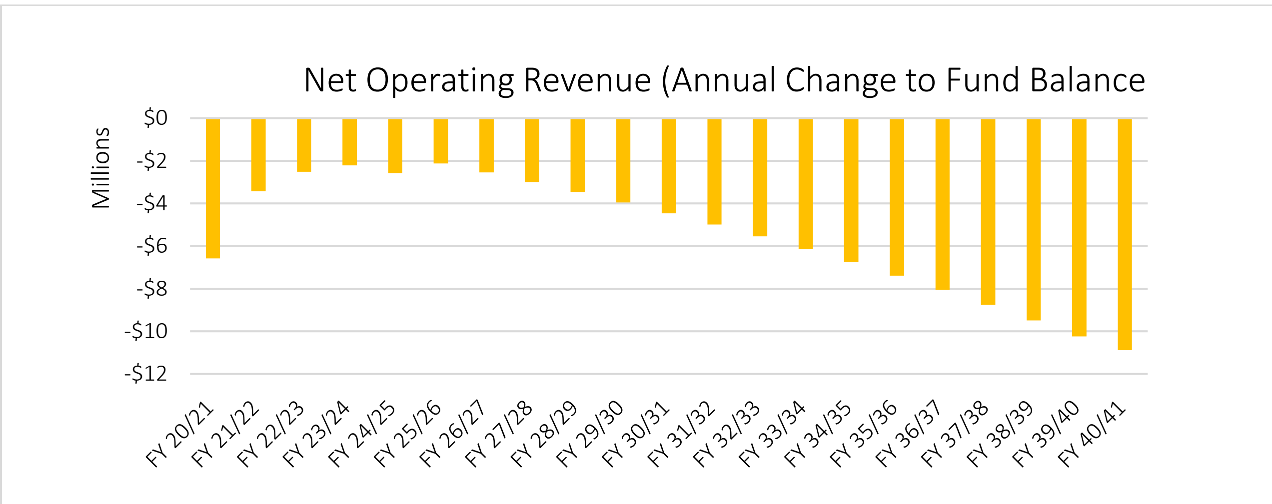
<u>Scenario 2 – Moderate (Current Trend – Most Likely Case)</u>

In this scenario, General Fund revenues return to FY 18/19 levels by FY 22/23. Revenues have been adjusted based preliminary FY 20/21 first quarter data and trending information received with sales tax, TOT and cannabis. Cannabis is now projected at $1,000,000 in FY 21/22, which is the lower end of the range of revenues currently projected. Based on the data known at this time, staff feels this is the most likely revenue scenario in the near term.

For expenditures, the forecast assumes the same as stated in Scenario 1. Given the higher revenue performance, the gap is not as large when compared to Scenario 1.

Figure 2 – Scenario 2





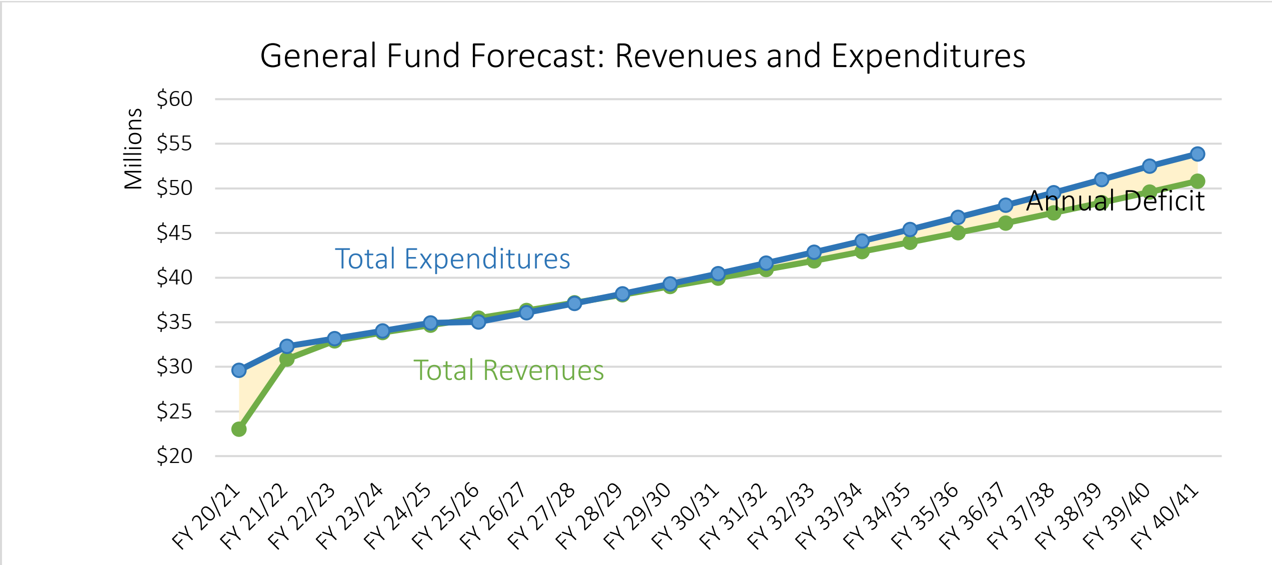
Average annual deficit over the next five years: ($2.6 million)
Average annual deficit over the next 10 years: ($3.0 million)
Average annual deficit over the next 15 years: ($3.9 million)
Average annual deficit over the next 20 years: ($5.0 million)

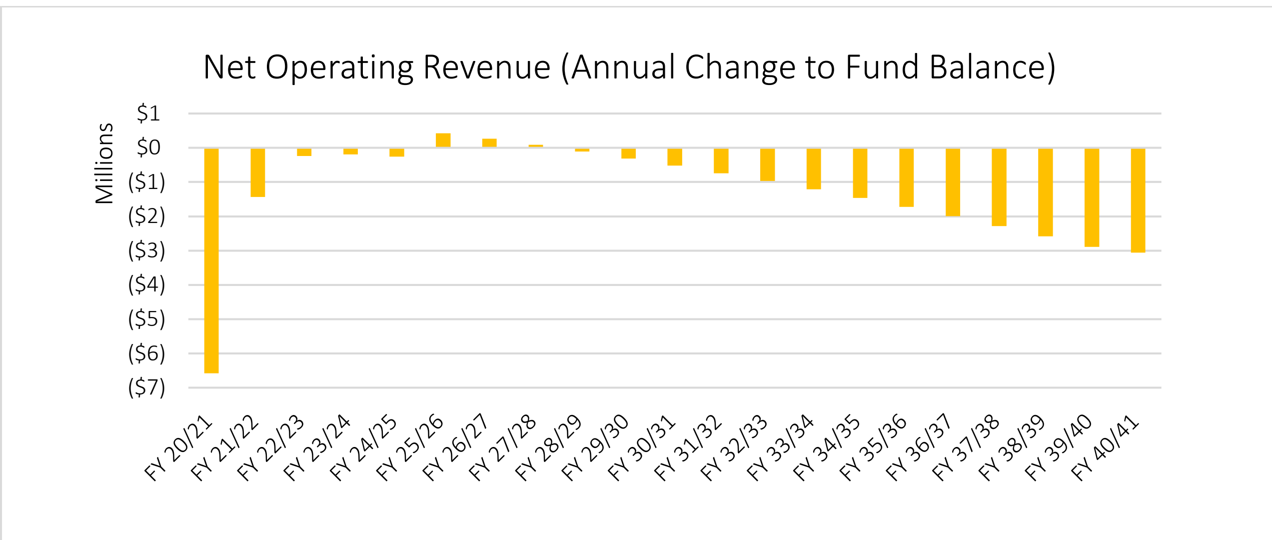
<u>Scenario 3 – Optimistic (Best Case)</u>

In this scenario the General Fund experiences the fastest recovery by FY 21/22. TOT is assumed to be back to normal levels by FY 22/23 and cannabis tax revenues reach $2 million in FY 21/22 with continued growth in the near term.

For expenditures, assumptions are the same as the previous two scenarios. Even with the best-case scenario, a projected average deficit continues to exist in the long term.

Figure 3 – Scenario 3





Average annual deficit over the next five years: ($474,000)
Average annual deficit over the next 10 years: ($494,000)
Average annual deficit over the next 15 years: ($903,000)
Average annual deficit over the next 20 years: ($1.5 million)

Risks Related to the Forecast

The City has many other needs and demands beyond the existing programs and services levels that are programmed in the forecasts. These include the following:

<u>COVID-19 Pandemic</u>

The forecast does not contain future impacts related to the COVID-19 pandemic beyond the initial years. There are still many unknown impacts that the phased reopening will have on the City's ability to return to business as usual. Unlike the Great Recession where businesses remained open, the COVID-19-realated shutdowns immediately impacted revenues associated with TOT and sales tax, our two largest contributors.

Volatile Economy and Economic Downturns

The City's revenues are impacted by economic conditions. As seen in the Great Recession, the City's three largest revenue sources, property, sales and TOT are tied to the broader economic trends. The three scenarios presented in the body of this report do not attempt to incorporate the impact of future downturns, as the timing and duration of downturns is difficult to project. Though for additional information depicting what future recessionary impacts may look like, staff prepared recessionary models similar to what was experienced during the Great Recession and provided them in Attachment 2. Also, while the growth projections incorporated in the forecast are conservative, they will be re-evaluated as needed based upon future economic indicators.

State Takeaways and Borrowing

During times of economic downturns, the State of California has previously shifted, borrowed, or taken money from cities to cover its own budget shortfalls. In an effort to protect local governments, Proposition 1A was passed in 2004 to protect local revenues from being transferred to the state. However, Proposition 1A can be suspended if the Governor declares a fiscal necessity and two-thirds of the Legislature concur. The first emergency suspension of Proposition 1A was passed by the Legislature as part of the 2009-10 budget package. Under this provision the State borrowed 8% of the amount of property tax revenue and was required to repay the obligation plus interest by 2013. After this initial repayment, the legislature may consider only one additional borrowing within a ten-year period. While it cannot be predicted if the state will once again borrow money from local governments, it is a possibility. There has been no indication leading to any state takeaways. However, the state has taken action in regard to sales tax deferral options for local businesses that may qualify. Based on FY 19/20 data, there are no projected impacts at this time. Additional updates and information will be known in January 2021.

Unfunded Liability Pension Costs and OPEB

CalPERS pension costs continue to rise, and estimated impacts are currently factored in the forecast models. The forecasts utilize projections from the most recent CalPERS Actuarial Review Report from July 2020, for the June 30, 2019 valuation date.

OPEB retiree health care cost is adjusted annually based on known retiree amounts. Staff used FY 20/21 figures as a basis and assumed one additional retiree each year. The initial annual OPEB cost is currently projected at $21,000, in which the City pays the Public Employees' Medical & Hospital Care Act (PEMHCA) minimum, which is currently $139 a month or $1,668 annually. Retiree health care costs are expected to grow as the City experiences more retirees. From the last OPEB valuation report, it was anticipated that the City can potentially expect 25 retirements in the next 10 years based on age.

Compensation Increases and Adjustments

Staff assumed no new positions in the forecast and assumed growth rates based on budgetary practices. Actual impacts or changes could result based on future labor negotiations or changes in staffing levels.

Deferred Maintenance

The forecast does not include deferred maintenance items except the amount specific for pavement. As more information becomes available it will be programmed into the forecast.

No Major New One-time Expenses

The forecast does not include any assumptions for unexpected one-time expenses, such as changes in legislation, unexpected events, acts of nature, or other such factors that could require the City to expend a significant amount of General Fund resources. These types of expenditures are generally supported by the City's fund balances and reserves.

No New Personnel or Program Expansion

The forecast only assumes ending the hiring freeze and restoring back to original FTE levels. Additionally, no new program expansions are forecasted such as with Affordable Housing, Homelessness, Creeks/Watershed or the Library, but are discussed further below in the next section of the report.

Other Special Revenue Operating Fund Deficits

While this forecast solely focuses on the General Fund, there are other major operating funds of the City. These special revenue funds support specific services such as the Library, Streetlights, Storm Water and Solid Waste. These major operating funds are being analyzed and future forecasts will be updated when this information is available. It is highly likely operating expenditure growth will exceed the capacity of these funds and they may need additional ongoing support from a dedicated source of revenue.

Addressing the General Fund Gap

Since incorporation the City's general fund revenues were limited due to the revenue neutrality agreement and will continue to face fiscal challenges beyond the pandemic and recession. The City's largest tax revenues will continue to be extremely volatile over the next few years. Additionally, deferred maintenance of major projects and infrastructure continues to grow due to insufficient funds available, which will result in further cost increases in the future if this work continues to be delayed.

In all scenarios modeled, staff projected budget shortfalls through the forecast periods. While there may be one-time fund balance and reserves to help bridge the short-term gap, revenue levels are not sufficient to keep up with ongoing expenditures when factoring in deferred maintenance items such as pavement. The deficits will be larger when the costs of the additional items are known and included in the models.

In summary, without additional revenue streams, the City's General Fund does not have the capacity to take on the additional ongoing $3.3 million pavement budget needed, any new projects or programs, funding needed for personnel and staffing levels, investment in facilities and ongoing deferred maintenance, or to fully support one-time needs of CIP. The current forecast also indicates the City is not in position to issue debt or take on new debt without going to the voters.

The City's current revenue sources are only able to support the status quo levels pre-COVID. While the City continues to operate with a very lean staff, there are staffing imbalances citywide. Overall expenditures will continue to outpace revenues over time. Even in the best-case scenario, while the deficit is reduced, the City's revenues are not enough to keep up with the growing demands of maintaining service levels and public infrastructure at the level of investment needed. It should be noted that there are many other unfunded priorities that were not included in the forecast yet due to timing of information available when this report was prepared. However, the inclusion of this information will only increase the deficit further.

Budget strategies to address the needs shown in the forecasts are further discussed below. In summary, strategies can include four major components: 1) revenue enhancements; 2) expense reductions; 3) alternate use of current funds; and, 4) alternate levels of service.

General Fund Balance and Reserves

The essence of a budget forecast is the fund balance. Budgets cannot run fund balance deficits, so the financial assumptions selected must result in a sustainable fund balance over time in order for the budget to be structurally balanced. The City's fund balance consists of multiple reserve categories, including the unassigned fund balance, and contains other tools for managing impacts to finances and balancing the budget.

The City's reserves (fund balance) provide options to respond to emergencies, economic shocks, other risks and unanticipated expenditures. The City's overall reserves consist of various categories for specific uses. The City has been successful over the years in maintaining its contingency reserve at 33% of its operating budget, but also in building its unassigned fund balance over time to address revenue fluctuations and unanticipated expenditures. It will be important to sustain adequate reserves for economic recovery, but also to hedge against other risks.

The Government Finance Officers Association (GFOA) recommends cities maintain at least a minimum of 16 percent of unrestricted fund balance, though this is intended as a baseline, and further recommends cities maintain reserves at a higher level according to local conditions and unique circumstances.

The City's primary risk factors are revenue volatility and liquidity. Revenue volatility because the City has a strong dependency on sales tax and TOT, and liquidity with the timing of large primary revenues such as property tax only being received twice a year, with the first payment in December. Additionally, given the RNA, the City does not receive its full property tax allocation resulting in higher reliance on those sources more sensitive to swings in the economy. Sales tax and TOT accounted for 60% of the City's General Fund revenue on average over the past five years. The following charts show cumulative fund balance impacts based on the unassigned fund balance.

Figure 4 – Scenario 1 Cumulative Unassigned Fund Balance

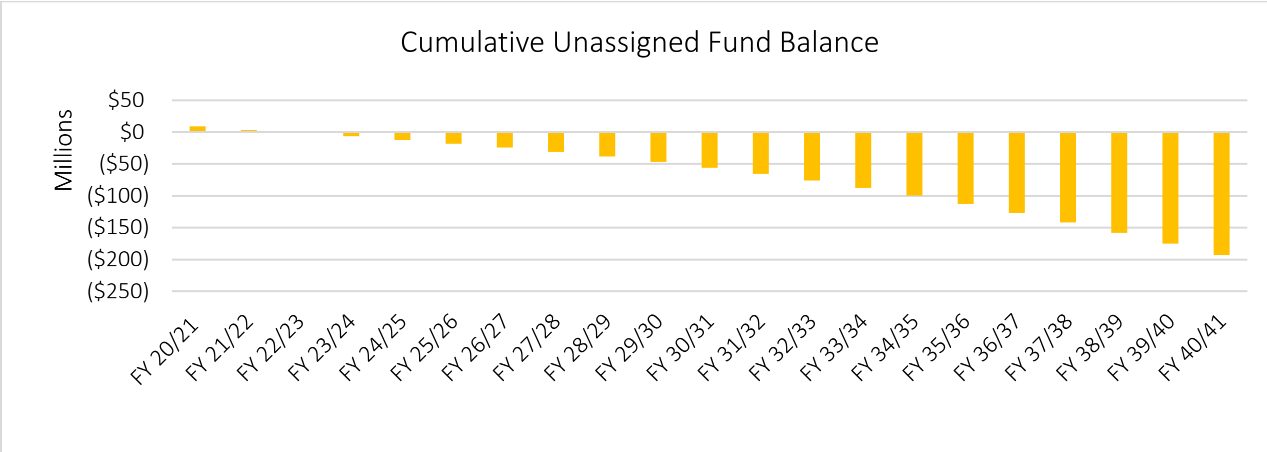


Figure 5 – Scenario 2 Cumulative Unassigned Fund Balance

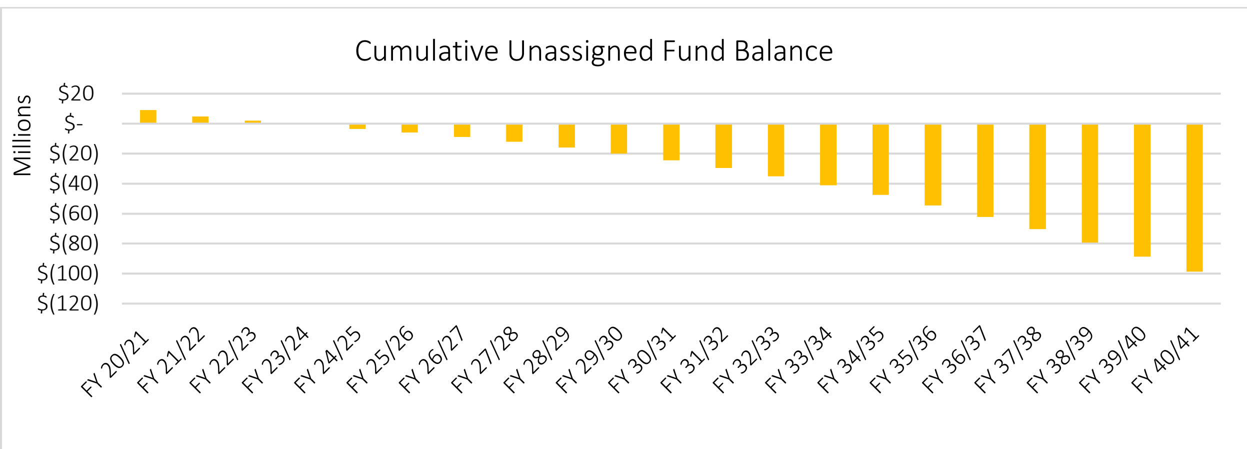
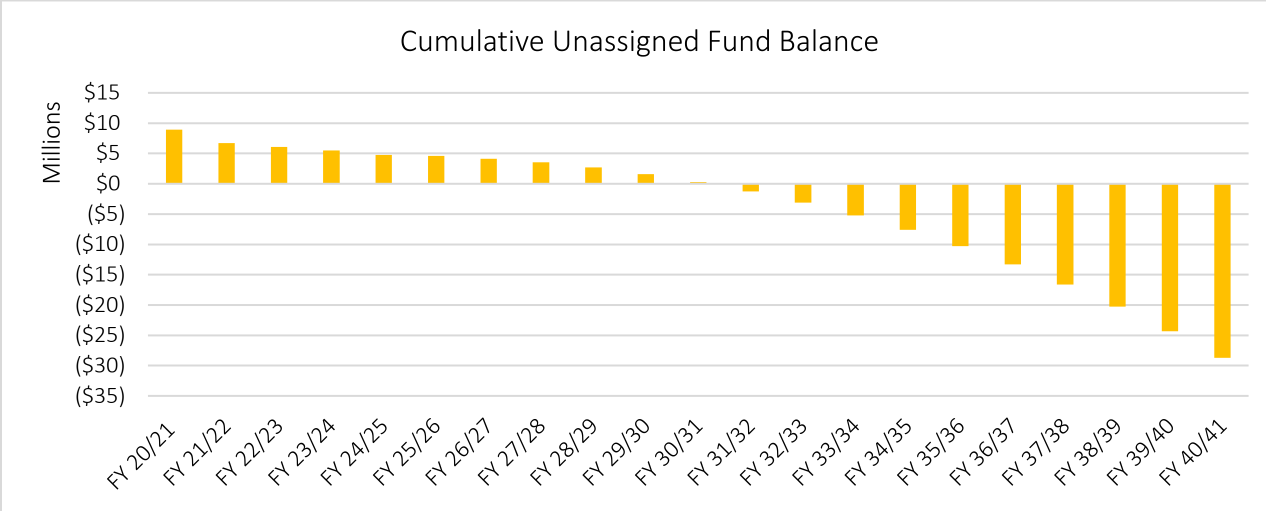


Figure 6 – Scenario 3 Cumulative Unassigned Fund Balance



Section 2: Unfunded Liabilities and Other Priorities

This next section outlines the City's unfunded liabilities, estimated deferred maintenance, operating and program costs, CIP projects, and master plan implementation costs. Given the challenges with forecasting future costs, preliminary assumptions were made on estimates and further detailed under the Expenditure and Assumptions section of this report. Cost estimates presented in the report are subject to change over time and so any estimated amounts listed now will differ from what will be experienced. Prior to Council considering or action on unfunded priorities, cost estimates should be updated.

Unfunded Liabilities:
The City has pension and retiree medical obligations, along with a one-time settlement agreement with the Department of Finance (DOF) related to the RDA dissolution (see Table 3 below). Unfunded liabilities are as of recent actuarial reports and repayment schedules and total $9.3 million. Funding is currently set aside for both pension unfunded accrued liabilities and OPEB liabilities in the General Fund. The City appropriates an annual payment amount of approximately $776,000 related to the DOF settlement agreement, and annually appropriates liability payments for CalPERS UAL and expenditures directly related to retiree OPEB healthcare costs. The settlement agreement is scheduled to be paid off by FY 24/25.

Table 3 – Summary of Unfunded Liabilities

Unfunded Liabilities	Est. Amount	Current Funding	Adj. Est. Amount	Potential Funding Sources
CalPERS UAL	$ 3,517,839	$ 333,500	$ 3,184,339	Section 115 Trust (once funded)
OPEB UAL	$ 2,438,474	$ 170,000	$ 2,268,474	Section 115 Trust (once funded)
Settlement Agreement	$ 3,880,000	$ -	$ 3,880,000	N/A
Total	**$ 9,836,313**	**$ 503,500**	**$ 9,332,813**	

Note: Funding set aside for CalPERS and OPEB UAL will soon be transferred to the recently established Section 115 Trust with PARS. Next steps with the Section 115 Trust includes meeting with the Finance Committee to recommend a strategy and policy, and then brought back to City Council for authorization. Given the timing, staff resources and capacity, staff anticipates this process to begin in January.

Unfunded Priorities in Operating Budget

The City has various unfunded priority needs, with some costs offset by other special revenues, such as with those related to street maintenance, street lighting, solid waste and the library. Table 4 provides a list of other City priority funding needs and is not complete. The list provides information on other priorities, such as additional pavement budget needed to maintain an average PCI level of 69 and operating and maintenance costs related to other facilities, ongoing programs or projects and staff level imbalances. Actual funding needs will require additional analysis.

The list is separated in two sections, identified as one-time and ongoing. “One-time” uses of funds are expenditures for projects or programs that are completed within the fiscal year. While there may be some future maintenance costs for some of these items, such costs are relatively minor when measured against the General Fund as a whole. “Ongoing” uses of funds, on the other hand, demand continuing expenditures in future years. The most obvious example is the addition of a new employee. Salary, benefits, and support costs, such as training and equipment, will affect every future budget for as long as the new position remains programmed. Because there are future cost increases to which the City may be committed, extreme care needs to be exercised so that current year commitments do not overwhelm future year resources. While most of the projects funded by the General Fund will not create new expenditure commitments, some of the projects funded from other sources will have that effect—particularly new parks (as compared to improvement of existing parks) and new public buildings. On the other hand, many projects, if addressed now (especially street maintenance and park rehabilitation projects) should help control future costs by minimizing the need for emergency repairs and higher costs.

Table 4 - Summary of Unfunded Priorities

The costs identified are either one-time if identified or annual ongoing costs in addition to the current budget. Some of the major deferred maintenance items related to transportation have other special revenue funding sources allocated such as Gas Tax or Measure A. Also, the additional unfunded costs are not related to what was identified as part of the temporary cost reduction strategies or positions related to the hiring freeze. These are areas preliminary identified and subject to further review and analysis as noted in the table.

Unfunded Categories:	Unfunded		Notes and Funding Sources
	One-time	Annual Ongoing Costs Additional to Current Budget	
Deferred Infrastructure Maintenance			
Additional Pavement Budget to maintain average PCI level of 69	TBD	$3,300,000	Additional annual amount needed. Tax revenue.

Backlog of concrete repair	TBD	$250,000	Tax revenue
Backlog of public tree maintenance	TBD	$300,000	Tax revenue
Deferred Traffic Signals – Full replacement	TBD	$500,000	Tax revenue
Deferred Traffic Control Sign Replacements	TBD	$40,000	Tax revenue
Storm drain maintenance	TBD	$250,000	Tax revenue
Vehicles and Equipment	TBD	$150,000	Tax revenue
ADA related improvements	TBD	TBD	Tax revenue
Facility maintenance	TBD	$275,000	Tax revenue, user fees
San Jose Creek Annual Cleanout	TBD	$200,000	Tax revenue
Park and open space maintenance rehabilitation	TBD	$150,000	Tax revenue, user fees
Staff level imbalances or service level by Dept/Program			
General Government	TBD	TBD	Tax revenue, user fees
Library		$200,000	Annual cost estimates for book budget needed once Library DIF is used up. Grants, Tax revenue, user fees
Finance	TBD	$260,000	Staff level imbalances. Department to undergo assessment. Was delayed due to COVID-19. Unrelated to hiring freeze and preliminary analysis. Tax revenue, user fees
Planning and Environmental Review	TBD	TBD	Affordable Housing Program. Staff level imbalances. Tax revenue, user fees
Public Works	TBD	TBD	Staff level imbalances. Tax revenue, user fees
Solid Waste	TBD	$90,000	Tax revenue, user fees

Streetlights	TBD	TBD	Tax revenue
Neighborhood Services and Public Safety	TBD	TBD	Tax revenue, user fees
Master Plan Documents Needing Implementation			
Parks Master Plan	TBD	TBD	Federal/State Grants
Creek and Watershed	TBD	$50,000	Depending on future action costs may increase one-time for CIP and annually if department or program created. Tax revenues, grants, user fees
Bike/Ped Master Plan	$ 13,980,000	TBD	Federal/State Grants, tax revenues
IT Strategic Plan	TBD	$1,188,000	Further analysis needed. Amount subject to change based on action.
Economic Development Plan	TBD	TBD	TBD
Economic Recovery Plan	TBD	TBD	Currently being developed.
Homelessness Strategic Plan	TBD	$760,000	Preliminary estimates, subject to change on action. Plan is still under draft and review
Strategic Energy Plan and Climate Action Plan	$3,830,000	$282,000	Preliminary estimates, subject to change on action.
Butterfly Habitat Management Plan	$63,500	$203,600	$3.9 million one-time state grant. Amount listed is estimated future unfunded cost.
Lake Los Carneros Master Plan	TBD	TBD	Tax revenues

Unfunded CIP Projects

The City has a major investment in its infrastructure – streets, bike paths, parks, public buildings and improvements, which is valued on the City's books at $191 million (excluding vehicles and equipment) as of June 30, 2019. Table 5 is a list of the City's CIP projects identified in the recent FY 20/21 mid-cycle budget with total estimated amounts of $78 million that have no, or only partial funding sources identified. These amounts along with the entire Five-Year CIP Budget will be updated in the upcoming budget cycle for FY 21/22 and 22/23.

Funding sources are subject to change as more information is known and other funding sources may become available. Depending on the type of project, grants, DIFs or debt financing may be available to offset some or all costs. For now, staff has included potential funding sources, though this will require further analysis by individual project. The current list below is listed by project number, in no order of priority.

Table 5 - Summary of Unfunded CIP Projects

CIP Projects (Unfunded Next Five Years)	**Est. One-Time Amount**	**Funding Sources**
9001-Hollister Avenue Complete Streets Corridor Plan	$ 1,186,000	*Grants, DIF, IBank, Other Debt Financing*
9006-San Jose Creek Bike Path - Southern Extent	$ 1,210,000	*Grants, DIF, IBank, Other Debt Financing*
9009-San Jose Creek Improvements and Fish Passage	$ 570,000	*General Fund $460,750 appropriated 9/1/2020*
9025-Fire Station No. 10	$ 14,821,994	*DIF, IBank, Other Debt Financing*
9027-Goleta US 101 Overcrossing	$ 28,500,000	*Other Debt Financing*
9053-Cathedral Oaks Crib Wall Interim Repair Project	$ 8,300,000	*IBank, Other Debt Financing*
9056-LED Street Lighting Project	$ 100,000	*Special Revenue Funds, IBank, Debt Financing*
9064-Reclaimed Water Service to Evergreen Park	$ 310,000	*DIF*
9065-Reclaimed Water Service to Bella Vista Park	$ 230,000	*DIF*
9067-Goleta Community Center Upgrade	$ 7,650,000	*Grants, IBank, Other Debt Financing*
9069-Miscellaneous Facilities Improvements	$ 1,150,000	*Other Debt Financing*
9077-Recreation Center/Gymnasium	$ 1,938,585	*Revenue Bonds, Grants, DIF, Other Debt Financing*
9078-Rancho La Patera Improvements	$ 2,985,000	*Revenue Bonds, Grants, DIF, Other Debt Financing*
9081-Covington Drainage System Improvements	$ 3,700,000	*IBank, Other Debt Financing*
9085-Goleta Storm Drain Master Plan	$ 220,000	*GF or Special Revenue Funds*
9086-Vision Zero Plan	$ 300,000	*GF or Special Revenue Funds*
9096-Orange Avenue Parking Lot	$ 300,000	*Special Revenue Funds*
9097-Fairview Corridor Study (Fowler Road to Calle Real)	$ 370,000	*GF or Special Revenue Funds*
9100-Hollister Avenue/Fairview Avenue Roundabout (Intersection Improvements)	$ 550,000	*Special Revenue Funds*
9101-City Hall Purchase & Improvements	$ 435,500	*GF Facility Reserves, IBank or Other Debt Financing*

9103-Citywide School Zones Signage & Striping Evaluation	$	65,000	*Special Revenue Funds*
9104-Citywide Evaluation of Existing Traffic Signals	$	65,000	*Special Revenue Funds*
9105-Ellwood Beach Drive Drainage Infrastructure Replacement	$	226,725	*Special Revenue Funds, Other Debt Financing*
9106-Phelps Ditch Flood Control Channel Trash Control Structure	$	670,000	*Special Revenue Funds, Other Debt Financing*
9107-Old Town South Fairview Avenue, High Flow Trash Capture Devices	$	325,000	*Special Revenue Funds, Other Debt Financing*
9109-Ward Drive Sidewalk Infill	$	390,000	*Special Revenue Funds, Other Debt Financing*
TBD-03-Ellwood Coastal Trails and Habitat Restoration	$	2,475,000	*Grants, Other Debt Financing*
Total Cost	**$**	**79,043,804**	
Total Adjusted Cost	**$**	**78,473,084**	*Accounts for GF appropriation for 9009 of $460,750 and removes the unfunded budget amount of $570,000*

Any type of debt financing or use of loans should be further evaluated. The type of financing will depend on multiple factors including useful life, project cost, type of project, and how the project is used in regard to private activity. If the type of infrastructure needing funding is considered ongoing, like maintenance and repair, a dedicated source of ongoing revenues should be utilized instead of financing.

Section 3: Revenue Enhancement and Financing Options to Address Ongoing Unfunded Priorities and One-Time Infrastructure Projects

Revenue Enhancement Options

The purpose of this section is to provide the City Council with data that may assist the Council in considering future revenue enhancement options, such as increasing existing tax rates or implementing new taxes. While conducting research last spring on the City's potential adoption of an ordinance to place a new 1% (or one cent) sales tax measure on the November 3, 2020 ballot, staff presented information regarding various revenue options to Council. This material encompassed: 1) the details of the adoption process for the two-types of add-on sales taxes measures; 2) the difference between a General Purposes and a Specific Purpose Tax; 3) specifics about Goleta's current Sales and Use Tax rates; 4) add-on sales tax limits; 5) the difference between a Transactions and Use Tax and Sales and Use Tax; 6) potential impacts of a sales tax increase; and, 7) a summary of alternative revenue options. Attachment 3 contains this detailed information for reference.

Financing Options

In general, local governments rely on two methods of financing infrastructure:

1) Pay-as-you-go (pay-go, or cash)

2) Pay-as-you-use (pay-use, or debt)

Each financing method has its unique advantages and disadvantages. Depending on the amount of financing needed, it may become a heavy financial burden for the City to continue paying “cash” for infrastructure improvements that use up a significant amount of General Fund cash flow each year for capital improvements with long useful lives. Financing infrastructure and capital assets can achieve inter-generational equity as these long-term investments are paid for by the future taxpayers who will benefit from them. The following table provides a list of traditional financing methods and funding sources that may be used for capital improvements.

Table 6 – Summary of Financing Options

Pay-As-You-Go Financing (Cash and Savings)	**Pay-As-You-Use Financing (Debt Financing)**
Taxation • General Taxes (General Fund) • Special Dedicated Taxes (Special Revenue Fund) Capital reserves and fund balance • Inter-fund loans User charges Federal/State grants and aid	Loan financing • Private bank loans Bond financing • General obligation bonds • Revenue bonds • Private activities bonds • Leasing-revenue bonds • State Bond Banks

Any financing options pursued will require a full analysis regarding debt capacity (ongoing revenue available to support debt service payment), conformance with the City’s debt management policy, and would be subject to the City’s debt limitations level, which is currently at $279 million. Staff has provided detailed information on financing options available to the City in Attachment 4.

Summary Recap, Next Steps, and Recommended Actions

As previously stated in the forecast section, in all scenarios modeled, staff projected budget shortfalls through the forecast periods. While there may be one-time fund balance and reserves to help bridge the short-term gap, revenue levels are not sufficient to keep up with ongoing expenditures when factoring in funds needed to address the deferred maintenance items (such as pavement), and will continue to grow when factoring additional deferred maintenance items. Without additional revenue streams or policy changes, the City’s General Fund does not have the capacity to take on the additional ongoing $3.3 million pavement budget needed, any new projects or programs, funding needed for new personnel and staffing levels, investment in facilities and other ongoing deferred maintenance, or provide one-time gap funding support to the CIP. The current forecast also indicates the City is not in position to issue debt or take on new debt without going to voters.

The long-range financial forecast makes clear that the City faces financial challenges in the near term and long term. New ongoing revenue streams will be needed, or service level reductions will need to be implemented. The CIP needs to be prioritized and financing options need to be pursued. Staff will present recommended CIP project prioritization strategies at a future workshop following the discussion of the City's 20-year financial forecast.

Funding Ongoing Operations and Unfunded Maintenance

Based on the scenarios modeled above, when averaging out all three scenario's deficits over a 20-year period, the additional annual revenues needed in the near term are $2.7 million and in the long term are approximately $5.4 million, as summarized in Table 7.

Table 7 – Summary of Average Annual Deficit

Average Annual Deficit				
	5 Years	**10 Years**	**15 Years**	**20 Years**
Scenario 1	$ (4,969,811)	$ (6,085,453)	$ (7,727,939)	$ (9,701,587)
Scenario 2	$ (2,580,215)	$ (2,975,407)	$ (3,856,853)	$ (4,985,740)
Scenario 3	$ (473,761)	$ (493,934)	$ (903,435)	$ (1,482,948)
Average	**$ (2,674,595)**	**$ (3,184,931)**	**$ (4,162,742)**	**$ (5,390,092)**

The average annual deficit will grow larger when factoring in the other additional budget needed to fund ongoing deferred maintenance. Using current estimates, this would result in an additional $2.1 million or increase the average to approximately $7.5 million.

There are several options available in funding ongoing operations and maintenance in both the near term and long term. Given that these types of expenditures require significant ongoing revenue streams, it is recommended that the City Council direct staff to explore both near term and long-term revenue enhancement solutions.

<u>Near Term Recommendations</u>

In the near term, staff recommends City Council direct staff to evaluate adjustments to existing cannabis business tax rates. For example, based on preliminary estimates, staff have modeled that with a 1% increase to each category except medicinal, the City will have the possibility to almost double its cannabis revenue. Based on the current license types and rates, staff's model indicated a possible 88% increase in cannabis overall revenues. If Council supports this recommendation, staff will work with the City's consultants to bring a feasibility analysis back to Council on recommend rate adjustments.

It should be noted that staff is continuing to evaluate other near-term treatments. One of the primary objectives for the City is to ensure full cost recovery of services. Staff plans to bring its final User Fee Study and Cost Allocation Plan for Council consideration in January.

<u>Long Term Recommendations</u>

In the long term, staff recommends City Council direct staff to explore a one percent transaction and use tax measure, as was discussed in the prior fiscal year, and bring it back to Council for further consideration. As was shown in the polling results earlier this year, this type of tax measure has a good chance of being supported by voters, and would generate the amount of ongoing revenue required in the long-term to help meet community needs and allow the City the capacity to finance CIP projects when needed.

A preliminary analysis of local revenue measure results shows there were over 400 measures on local ballots in California for the November 3, 2020 election, including 260 local tax and bond measures, with 146 tax measures proposed by cities. For the local add-on sales tax measures there were 68 cities and three counties, with 59 of the 71 measures passing - a passing rate of 83%. Further details of the November tax measure results have been included in Attachment 5. Should the City Council choose to pursue a transaction and use tax measure, the earliest that it can be brought to the voters would be November 2022. Should the City Council ever declare a fiscal emergency, it can be considered earlier by a unanimous vote of the City Council.

Alternatively, Council can direct staff to explore other types of tax measures, including a Transient Occupancy Tax increase, a Utility User Tax, a Business Operations Tax or a Parcel Tax.

Funding Unfunded Liabilities

There are several strategies that can be used to meet the future unfunded pension and OPEB UAL challenges. At Council's direction, staff has implemented the Section 115 Trust, and now seeks Council direction to transfer funds that have been set aside for this purpose to the Trust and begin investing the plan assets. At this time, staff recommends City Council authorize staff to transfer funds currently set aside in reserves for CalPERS UAL in the amount of $170,000 and OPEB UAL in the amount of $333,500 to the Section 115 Trust and utilize the Moderate (passive) investment strategy. Given that these funds are there to be held and used in the long-term, this type of strategy best fits the City's needs. While not recommended, if the City were considering withdrawing funds in the near term, then a conservative investment strategy should be considered. Additional information on the investment strategies available to the City is found in Attachment 5.

If directed by Council, staff will initiate the transfer to the Section 115 Trust. Additionally, staff will come back in January or February to the Finance Committee and the City Council with a recommended funding policy and strategy for the trust. As of right now, staff's preliminary analysis recommends making funding OPEB a higher priority given the plan does not have accumulated assets like CalPERS pension plan, which is currently 80% funded. OPEB is currently 0% funded, until assets are held in the trust.

Funding CIP and Major One-time Maintenance Projects

There are several options available in funding CIP and major maintenance projects in full or in part that would result in a balanced budget. Those options include the following:

<u>Using One-Time Unassigned Fund Balance or Internal Fund Borrowing if Available</u>
The City's General Fund unassigned fund balance has continued to grow over the years due to savings and higher than anticipated one-time revenues over the years. A good portion of these funds could be used to supplement high priority CIP projects or major maintenance items. Ideal use of these funds would be on high priority items or CIP projects that have difficulties securing funding or need a one-time match. Staff recommends that not all of the unassigned fund balance be utilized but a portion. The fund balance is necessary to ensure

liquidity to cover large outstanding grants reimbursements, unexpected expenditures, and fluctuations in revenues. Based on current projections reported in the FY 20/21 First Quarter Financial Report, approximately $3.4 million may be available for one-time uses, leaving a balance of $5.5 million. Staff recommends City Council direct staff to further analyze and consider this option and recommend a final number be set aside for CIP project funding.

Debt Financing

Similar to what was done for the City Hall acquisition project. The City could pursue debt financing for large capital projects such as Fire Station No. 10. The only issue would be ensuring enough revenue capacity is available to finance that amount. Based on the rate structure for the recent City Hall purchase financing, a maximum annual debt service of approximately $500,000 will allow the City to finance $10 million.

New Revenues

This is related to pursuing the same tax measure as identified above in funding ongoing operations, except allocating a portion of the new revenues by policy to high priority maintenance items or CIP projects. The additional revenue sources would also give the City the additional capacity to finance more, large projects.

The City could also identify certain projects that benefit specific users and direct staff to pursue a benefit assessment district as well. This would need to be further evaluated.

Combination of Options

Rather than relying on only one option, the City could utilize a combination of them. As stated, a new revenue source would ensure funds are available to support debt financing.

Staff recommends that Council direct staff to pursue new revenues and debt financing options and bring them back to Council with a CIP Funding Plan. The combination of the two would ensure fiscal stability and flexibility with debt capacity when needed. Funding polices could be developed around the use of the new revenue stream(s) to address maintenance, CIP and staff needed to implement a variety of programs, projects and services. Revenues could then be reprogrammed when available to other priority needs.

FINANCE COMMITTEE:

The Finance Committee received a presentation on Long Range Financial Forecast and Revenue and Funding Options and provided feedback to staff in preparation for this workshop.

FISCAL IMPACTS:

There are no fiscal impacts associated with report, as the information provided is for forecast purposes. Future action taken based on the information provided may result in positive or negative fiscal impacts and will be provided in a later report.

ALTERNATIVES:

The City Council may direct staff to continue with discussion of the Long-Range Financial Forecast and direct staff to model different types of scenarios and continue to provide further analysis on other funding mechanisms.

Reviewed By:

Kristine Schmidt
Assistant City Manager

Approved By:

Michelle Greene
City Manager

ATTACHMENTS:

1. Revenue and Expenditure Assumptions
2. Alternative Financial Forecast Scenarios
3. Tax Measures
4. Debt Financing Options
5. California Local Revenue Measure Results
6. Section 115 Trust Investment Strategies
7. PowerPoint Presentation

ATTACHMENT 1:

Revenue and Expenditure Assumptions

Revenue and Expenditure Assumptions

The forecast methodology used includes analyzing historical and current trends and reviewing the growth rates and changes from the last five years. Growth rates are then adjusted based on staff's knowledge of known one-time events and fiscal conservatism or other economic adjustments.

By applying an average growth rate, there are no up or down cycles depicted in the base model. The annual growth rate approach provides an overview of the general trend where revenues and expenditures are going in a linear fashion. In reality, year over year changes may deviate significantly positively or negatively. This type of model shows where the City's financial condition is headed if it does nothing, and where it stands with current net operating revenues.

The forecast shown in the body of the staff report starting on page six now extends twenty years and summarizes the City's net operating revenues. Having positive net operating revenue consistently over the years is a key indicator of the City's ability to support additional ongoing costs, including staffing level changes or taking on debt. Any negative net operating revenue may indicate the City has either a one-time or ongoing deficit, that may be supported by one-time reserves or fund balance if it is available. For Goleta, it is common to see the City adopt a balanced budget with revenues matching or exceeding expenditures by approximately $1 million and then later make adjustments in the new fiscal year where expenditures now exceed revenues. This is due to prior year budget carryovers or new appropriations authorized. Those increased expenditures are supported by use of fund balance or reserves, if available, or other new revenue sources made available.

For this forecast, if there is a positive net operating revenue, this is considered a surplus which in turn adds to the overall fund balance. If there is a negative net operating revenue, where expenditures exceed revenues, this is considered a deficit, shortfall, or budget gap. The longer the deficit, the more it will deplete the City's overall fund balance and reserves. To the extent that a shortfall is not resolved, or a surplus is not expended on an ongoing basis, it is important to understand that the remaining budget gap or surplus will carry over to the following year.

Given that we know what was experienced from March through June of 2020 with sales tax and TOT, along with current trending data, Scenario 1 is now considered the worst-case scenario. Should another economic shutdown happen similar to what was experienced, revenues could produce similar results as assumed in Scenario 1. Additionally, staff also provided a very low and conservative cannabis tax estimate given the volatility and uncertainty of not having experienced our first full quarter and seeing data. Staff has since received data for two full quarters and cannabis tax revenues are now projected higher than budgeted which is adjusted for in Scenario 2.

Key Revenue Assumptions

Property Tax Assumptions

Over the last five years, property tax revenues have grown on average by approximately 6.8% annually. In Scenario 1, this growth is anticipated to remain flat in FY 21/22, with an approximate 2% growth thereafter accounting for Prop 13 inflation values. Staff does not assume new building or new properties coming on the tax rolls. In Scenario 2, property tax is assumed to grow by 2% annually, and then climb to 3% by FY 25/26. In Scenario 3, property tax is assumed to grow by 3% annually and then climb to 3.5% by FY 25/26.

Update as of December 3, 2020 – There is a high risk that property tax inflation will be less than the maximum 2% as projected in the forecast and experienced since FY 16/17. The actual number will be known by end of December. The inflation factor is a calculation determined by the California Department of Industrial Relations known as the California Consumer Price Index as is based on the October annual change. Last fiscal year, this number was released on December 27, 2019.

Sales Tax Assumptions

Over the last five years, sales revenue has grown on average by approximately 1.35% annually, though it was impacted with timing of store closures and new ones reopening in the same places. In Scenario 1, this growth was anticipated to remain impacted by COVID-19 in the first year for a total of $5.9 million and then expected to grow on average by 3.33% the next five years and return back to FY 18/19 levels at $6.9 million by FY 25/26. Going forward growth is expected to be at 2%. In Scenario 2, this growth is anticipated to be 11% in the first year, based on internal revised estimates and trending data received from our sales tax consultants. Recovery and impacts are anticipated to be quicker, primarily due to increased allocation in online sales, which will offset the losses in certain industry groups. Going forward the next five years average growth is projected at 2.9%, then it is projected to drop to 2.5%. Sales tax is expected to recover by FY 22/23. In Scenario 3, this growth is anticipated to be 22% in the first year, then average 2.9% the next five years, then drop down to 2.5%. The 22% growth for a total of $7.2 million is based on the latest projection received by our sales tax consultants. Sales tax will have recovered by FY 21/22 under this scenario. The forecast considers continued economic impacts through end of calendar year 2020 with only a mild return into 2021. Anticipated growth expected in FY 21/22 has more to do with a continued return of consumers from the initial COVID-19/economic shutdown period and sustained growth in countywide use tax pool allocations as online shopping continues to take away from brick and mortar sales.

Transient Occupancy Tax Assumptions

Over the last five years, prior to COVID-19, TOT revenues have grown on average approximately 10.75%. This growth is primarily due to two new hotels coming online and changes in hotel ownership/operations. In FY 19/20, the City experienced a decrease over 20% due to the impact of the pandemic. In Scenario 1, TOT is forecasted to increase by 76% in the first year, and gradually increase over the next few years and reach FY

18/19 levels of $11 million by FY 25/26 and remain steady at 1% annual growth. In Scenario 2, TOT is forecasted to recover quicker and reach pre-COVID-19 levels by FY 23/24, and then experience steady annual growth at 1.5%. In Scenario 3, TOT is forecasted to fully recover by FY 22/23 and experience steady annual growth of 2%. Scenario 3 assumes travel behavior is back to pre-pandemic levels by end of 21/22 and fully experienced in FY 22/23, with TOT revenues at $11.2 million. UCSB is assumed fully reopened and airport passenger numbers at pre-pandemic levels. The forecast assumes returning hotel occupancy and average daily rates to the high levels experienced in 18/19. The scenario however does not assume any one-time spikes or increase TOT due to pent up demand.

Cannabis Tax Revenues

In FY 19/20 the City received its first quarterly tax receipts of cannabis business tax revenues, which totaled $391,000. Given the timing of when cannabis tax revenues are due, and the volatility and uncertainty of COVID-19 impacts, there was little data received at the time of preparing the original FY 20/21 budget estimates. Since preparing the First Quarter Financial Review for FY 20/21, the City has now received approximately $500,000 in cannabis tax revenues remitted in total from five operators. Based on current data, cannabis tax revenues on a full fiscal year basis are trending towards $1 million to $2 million. When the City Council originally adopted the cannabis tax rates that appeared on the ballot measure which enacted them, it was projected that revenues would range from $334,000 to $1.4 million annually. In Scenario 1, cannabis tax revenues were left status quo at original preliminary estimates. In Scenario 2, cannabis tax revenues are forecasted at $1,000,000 in the first year, which reflect conservative estimates based on current trends. It isn't until FY 23/24 that this scenario forecasts revenue levels at $1.8 million as more businesses become operational and full fiscal years of tax receipts are received. There is still substantial uncertainty in this revenue category as the first full fiscal years of receipts have yet to be experienced. In Scenario 3, cannabis tax is forecasted at $2 million in the first year, reflecting the higher end of current trends. It is then projected to gradually increase over the next few years and assumes new businesses become operational with sales ramping up on average of 10%. Then starting in FY 25/26, steady annual growth at 2% is assumed.

All Other Fees and Revenues

All other fees and revenues are made up of cost recovery fees, user fees, franchise fees and investment earnings. Given the makeup of this category each major fee category was reviewed based on expected activity level for the current fiscal year and assumed steady small conservative growth in all scenarios of approximately 1%, since majority of fees are offset by cost of services provided. Over the last five years, before COVID-19, this overall category experienced total growth of less than 1%. For investment earnings it is expected that interest earnings rate will remain below 1% the next few years. When looking at the last ten years of LAIF, they averaged annually 81 basis points.

Key Expenditure Assumptions

For all three scenarios, expenditures were forecasted the same and assumptions are summarized below.

Salaries and Benefits

Salary and benefits account for 32% of total operating costs in the FY 20/21 adopted budget and will represent 36% of total operating costs when normal FTE levels are reached in FY 21/22. For the purpose of this forecast all 11 FTE positions subject to the hiring freeze and other related personnel costs are factored back into the forecast in FY 21/22, along with adjustments made to CalPERS retirement costs. Retirement costs have been adjusted to match the latest information in the most recent actuarial report, plus estimated COVID-19 pandemic impacts. COVID-19 pandemic impacts to investment gain and losses experienced in FY 19/20 are expected to be felt beginning in FY 22/23 with a 5-year ramp up approach. The investment earnings rate by 6/30/2020 was 4.70% which was below CalPERS targeted discount rate of 7.00%. The following estimated impacts for Goleta are listed below and factored in the forecast.

Amortization Payments for Investment (Gain)/Loss	Est. Additional UAL Payment
FY 2022-23	$8,540
FY 2023-24	$17,066
FY 2024-25	$25,606
FY 2025-26	$34,147
FY 2026-27 to FY 2041-42	$42,687

Overall salary and benefit increases are assumed to grow 4% from FY 22/23 through FY 26/27 and then at 3.5% from FY 27/28 to FY 40/41. No new personnel are assumed or programmed in future years and assumed at FY 20/21 levels, though it should be noted that some divisions in the organization are significantly understaffed, and when feasible, additional positions should be considered.

Operating and Maintenance

Non-personnel operation and maintenance costs generally grow at 2% in the forecast. For the purpose of this forecast, 2% is assumed through FY 25/26 and then 2.5% beginning FY 27/28. For the additional annual ongoing pavement maintenance budget needed of $3.3 million, staff assumed an average of 3% increase starting in FY 22/23. The 3% is a rounded average derived from the Department of General Services (DGS) California Construction Cost Index (CCCI). Staff used the annual change for the month of June and averaged the last four years. The CCCI is developed based upon the Building Cost Index (BCI) cost indices average for San Francisco and Los Angeles only as produced by Engineering News Record (ENR).

The annual DOF settlement repayment of $776,000 is expected to be paid off by end of

FY 24/25 and was removed in future fiscal years.

Capital

For forecasting purposes no use of new General Fund is assumed in the forecast for CIP projects. The initial amount of $6,200 estimated in this category is related to operating equipment expenditures, such as for computer replacement or office furniture, and assumes a 2% increase. Unfunded CIP projects are discussed further in the Unfunded Priorities section of the staff report.

ATTACHMENT 2:

Alternative Financial Forecast Scenarios

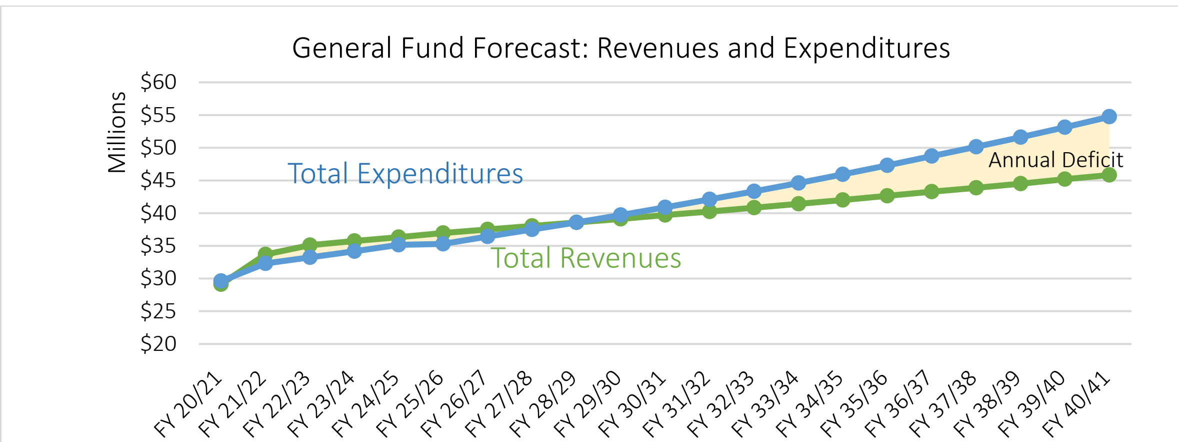
Alternative Financial Forecast Scenarios

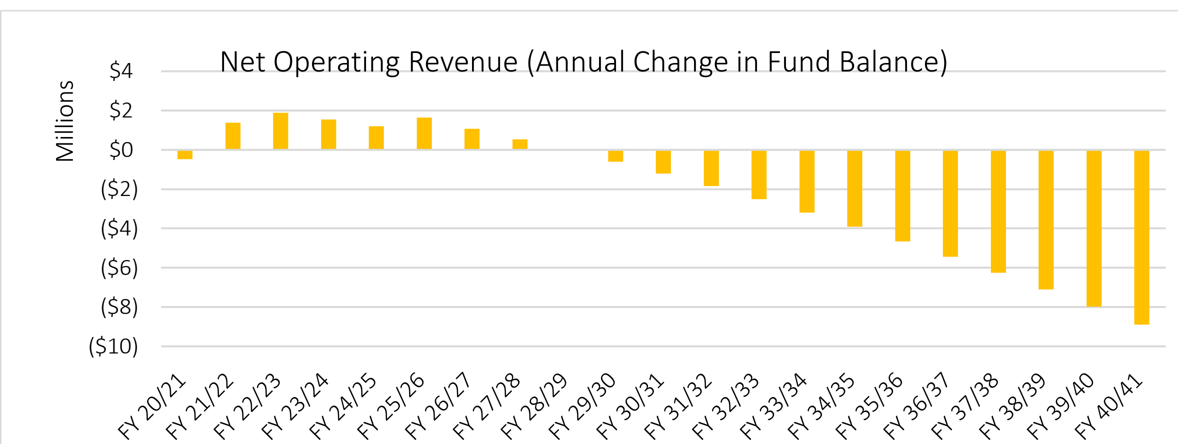
Staff has modeled various other alternative financial forecast scenarios that are further described below under each scenario. The baseline forecast assumptions utilized for each alternative scenario are identified below.

Revenue Neutrality Agreement Scenarios

The following scenario shows what Scenario 1 may have looked like without the revenue neutrality agreement in place over the next twenty years. As a reminder, the City shares with the County of Santa Barbara 50% of is property tax allocation revenues (AB 8 Basic 1% only) and 30% of the 1% Bradley-Burns uniform sales and use tax allocation of the 7.75% sales and use tax rate. The full 1% is normally allocated to cities. If the City were to receive its full allocation of property tax and sales and use tax revenues, it would result in an additional annual $6.1 million in tax revenues beginning FY 20/21. The RNA tax revenues are assumed at the same growth rate as property tax and sales tax assumed in Scenario 1. A surplus is projected for the first seven years, then a deficit for the following 13 years.

Alternative Scenario 1 with No Revenue Neutrality Agreement

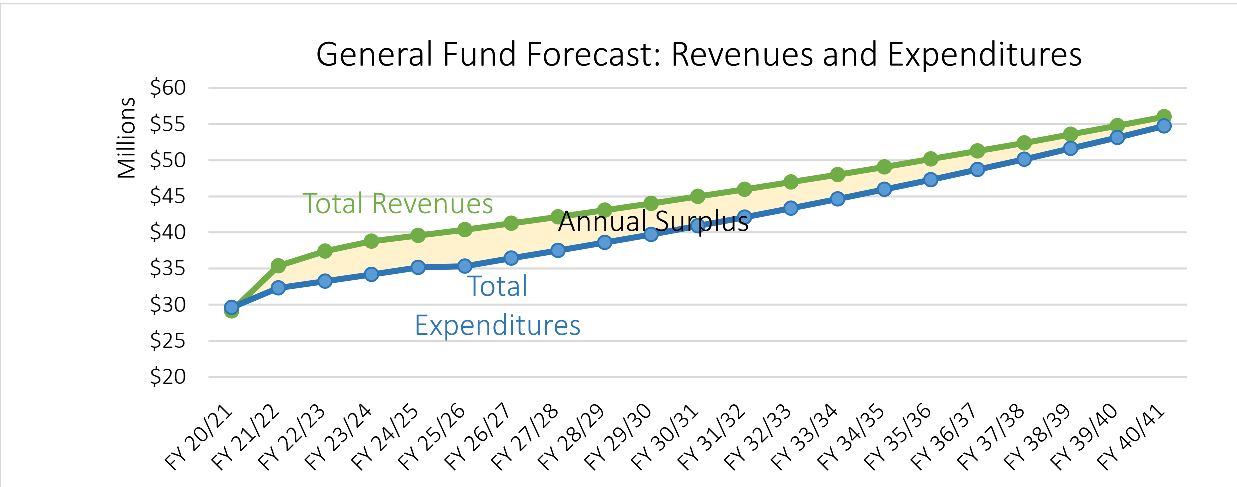


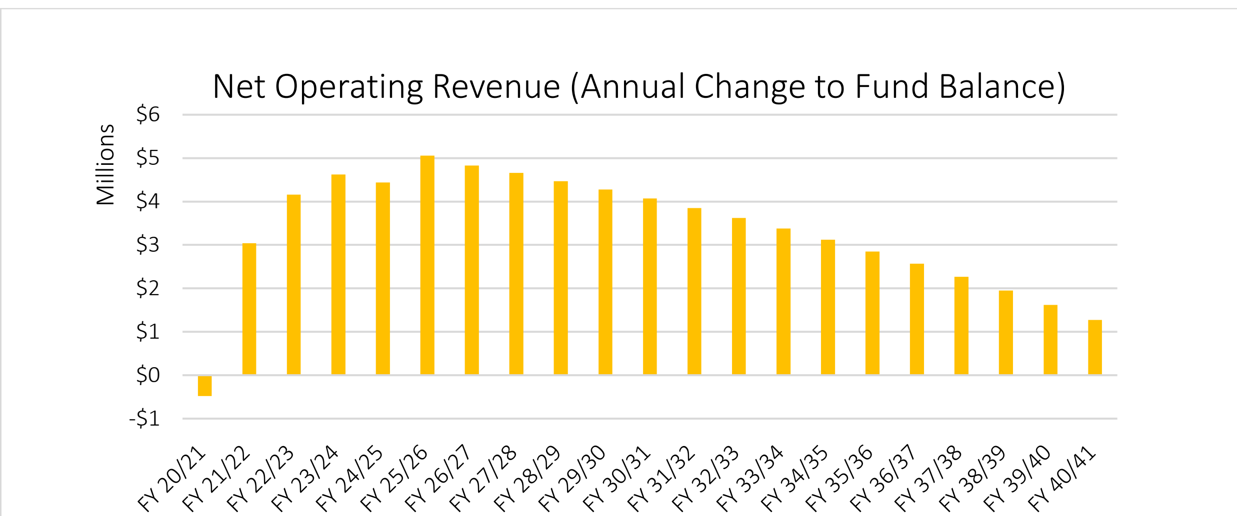


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$1,530,496	$741,778	$ (579,068)	$ (2,217,859)

The following scenario shows what Scenario 2 may have looked like without the revenue neutrality agreement in place. If the City were to receive its full allocation of property tax and sales and use tax revenues, it would result in an additional annual $6.1 million in tax revenues beginning FY 20/21. The RNA tax revenues are assumed at the same growth rate as property tax and sales tax assumed in Scenario 2. An annual surplus is projected in all twenty years.

Alternative Scenario 2 with No Revenue Neutrality Agreement

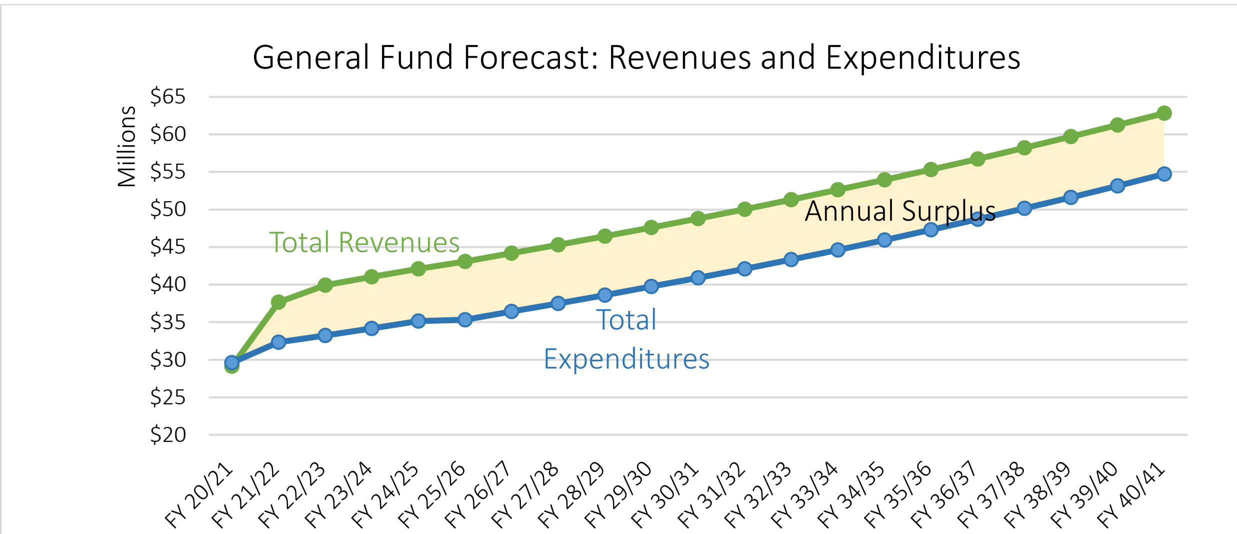


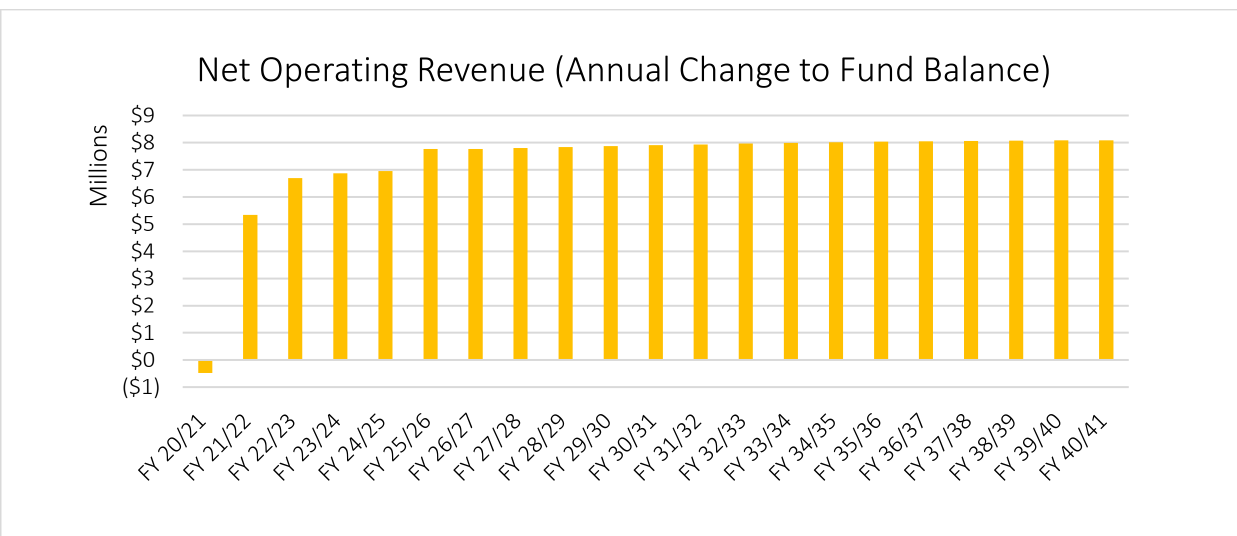


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 4,265,616	$ 4,363,318	$ 4,030,200	$ 3,506,242

The following scenario shows what Scenario 3 may have looked like without the revenue neutrality agreement in place. If the City were to receive its full allocation of property tax and sales and use tax revenues, it would result in an additional annual $6.1 million in tax revenues beginning FY 20/21. The RNA tax revenues are assumed at the same growth rate as property tax and sales tax assumed in Scenario 3. An annual surplus is projected in all twenty years. In this scenario revenue growth begins to closely align with expenditures, resulting in an average annual surplus range of $7.3 million to $7.7 million over the 10 to 20-year period.

Alternative Scenario 3 with No Revenue Neutrality Agreement



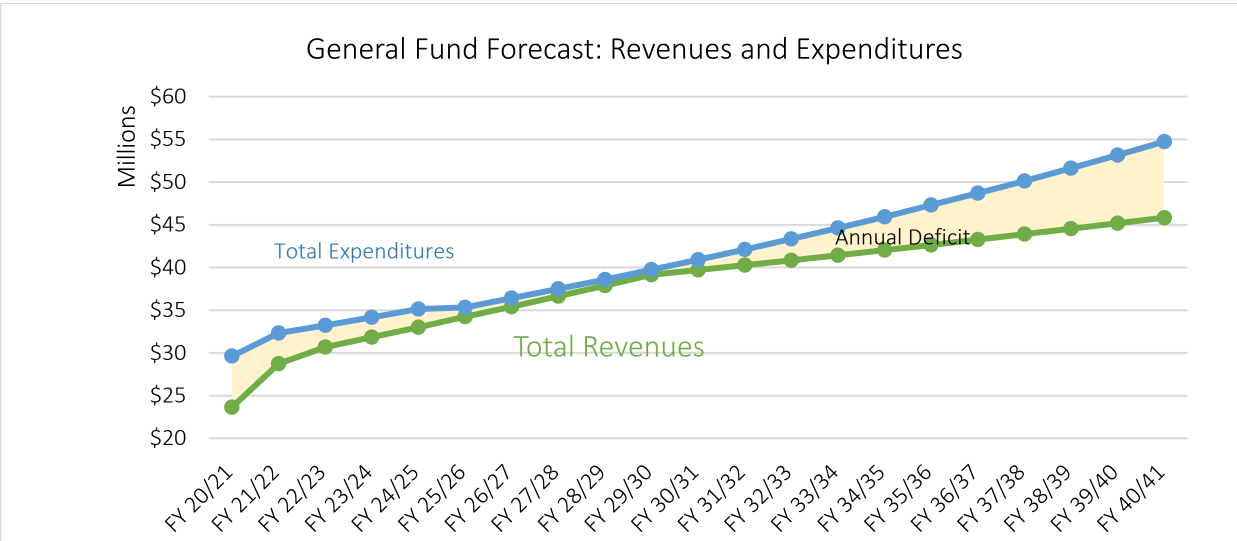


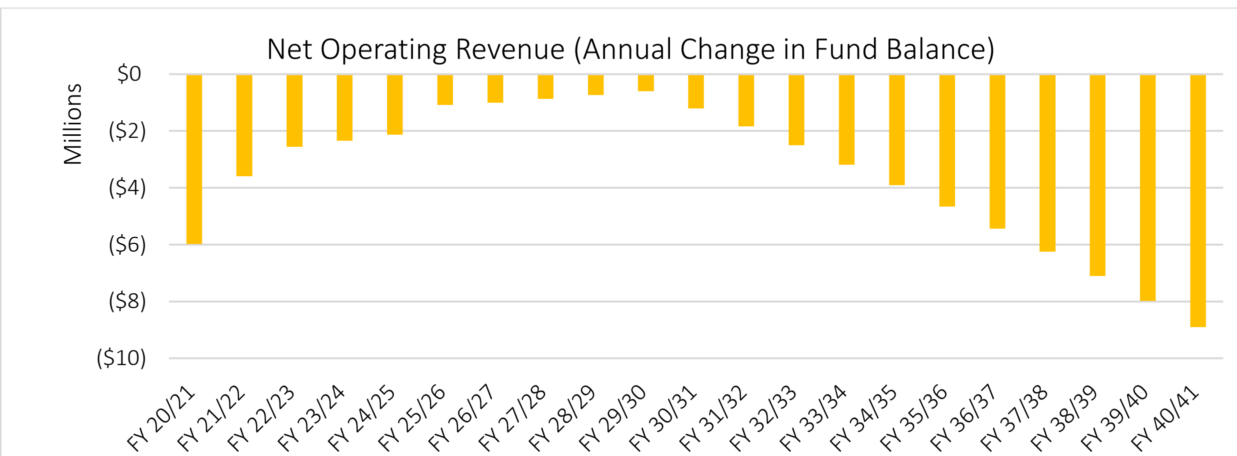
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 6,726,741	$ 7,283,421	$ 7,518,207	$ 7,656,513

Revenue Neutrality Agreement Ramping Down Over a 10 Year Period

The following scenarios have been prepared showing the RNA ramping down over a 10-year period and how that would affect the General Fund in all three of the primary scenarios.

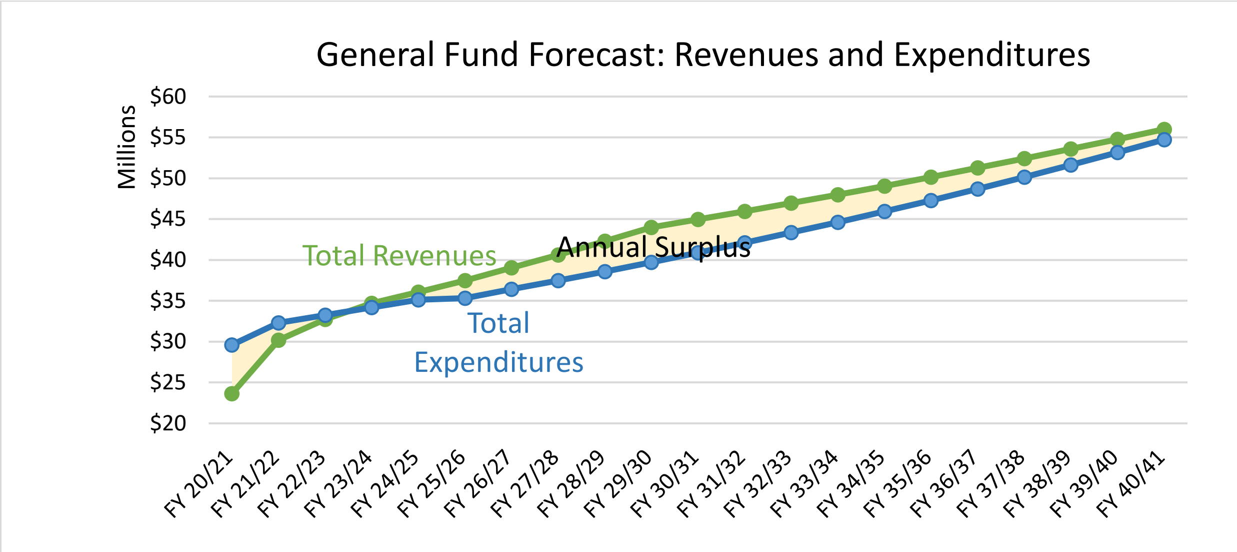
Alternative Scenario 1 with Revenue Neutrality Agreement Ramping Down over 10 Years

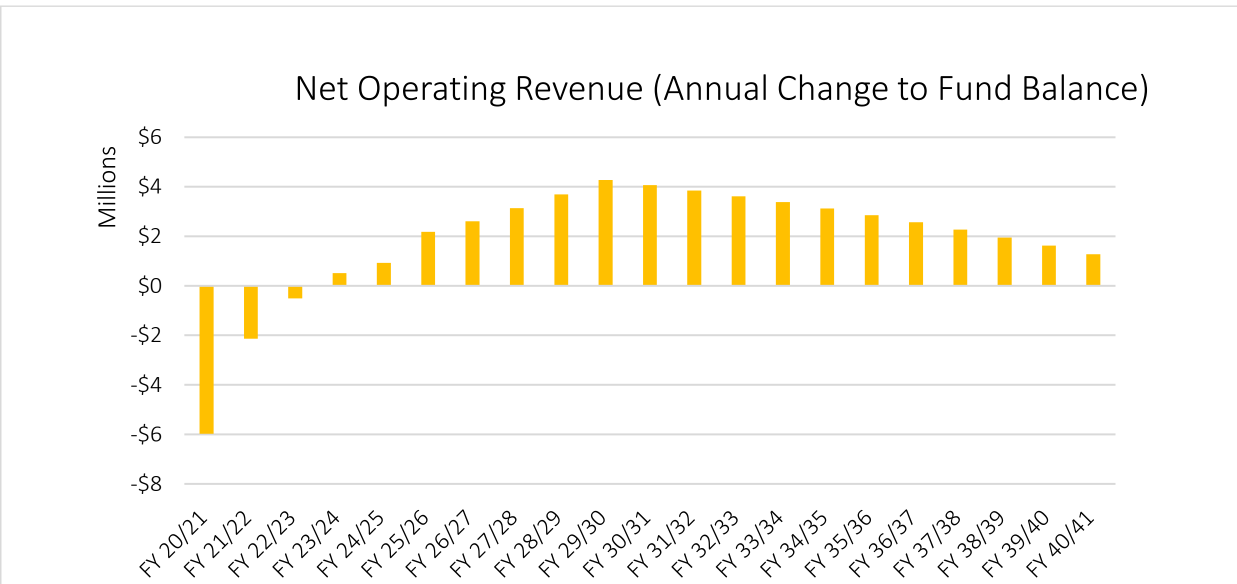




Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (2,340,584)	$ (1,613,264)	$ (2,149,096)	$ (3,395,380)

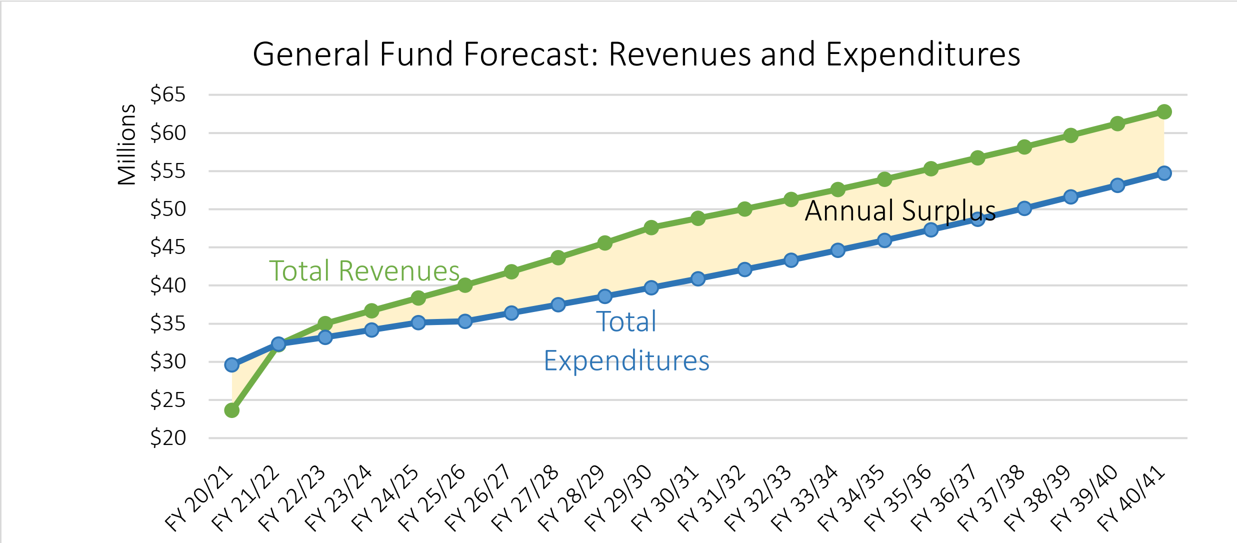
Alternative Scenario 2 with Revenue Neutrality Agreement Ramping Down over 10 Years

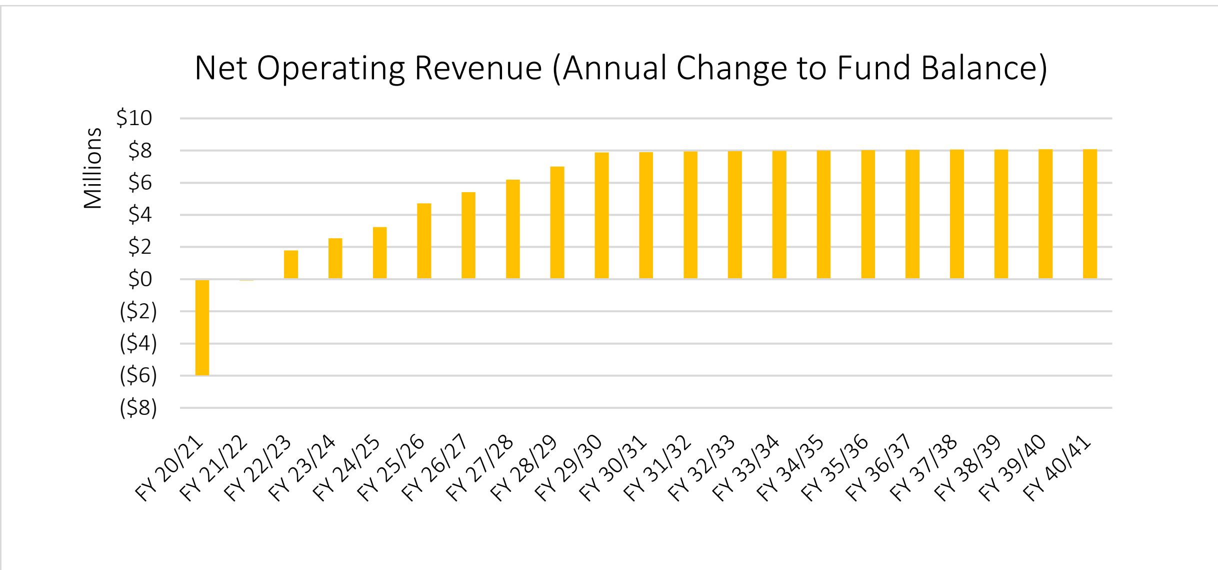




Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 194,459	$ 1,874,965	$ 2,371,297	$ 2,262,065

Alternative Scenario 3 with Revenue Neutrality Agreement Ramping Down over 10 Years



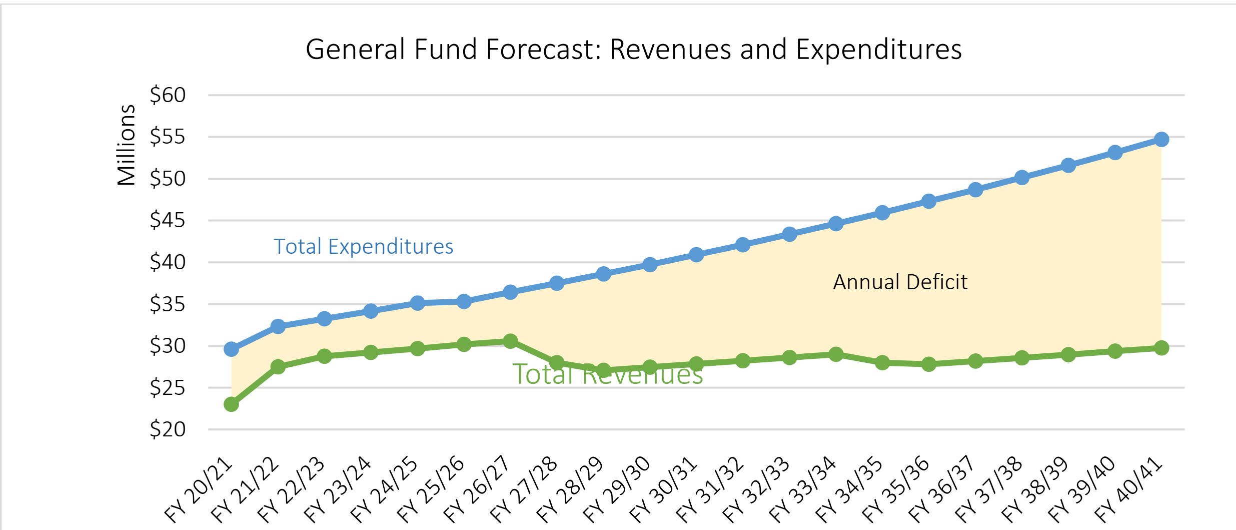


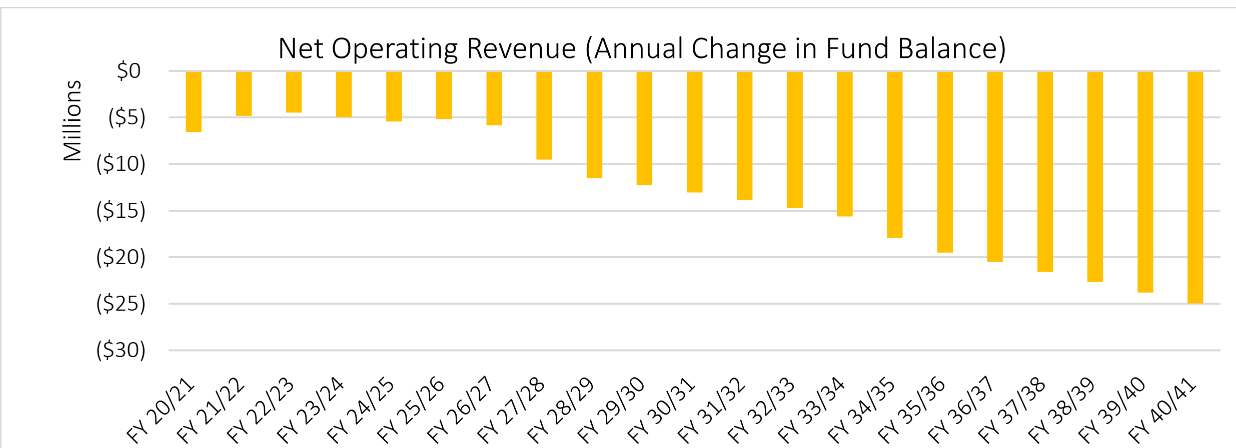
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 2,448,580	$ 4,663,068	$ 5,771,306	$ 6,346,337

Recession Scenarios

The following forecasts model recessionary impacts as felt during the Great Recession period and assume a moderate recession. The Great Recession officially began in December 2007 and ended in June 2009 with impacts felt over the two succeeding years. The City experienced a decline of 20% in sales tax and an average decrease of 12% in TOT over two fiscal years. These next alternative scenarios assume a recession every seven years, starting in FY 27/28 and FY 34/35. The first recession assumes the same impact as of the Great Recession and the second recession a more moderate recession about half the impact of the Great Recession.

Alternative Scenario 1 with Recessionary Impacts Every Seven Years

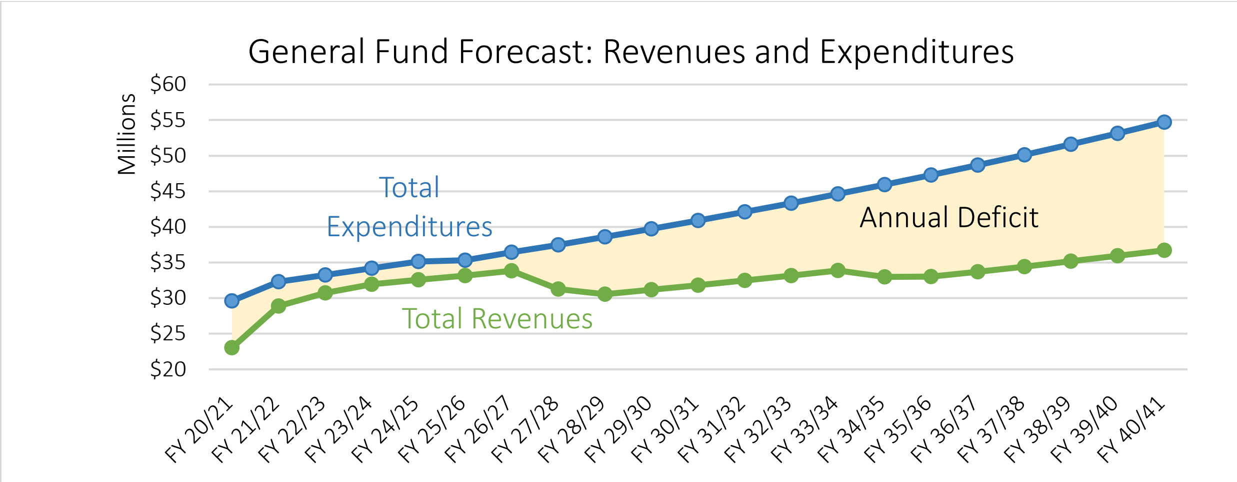


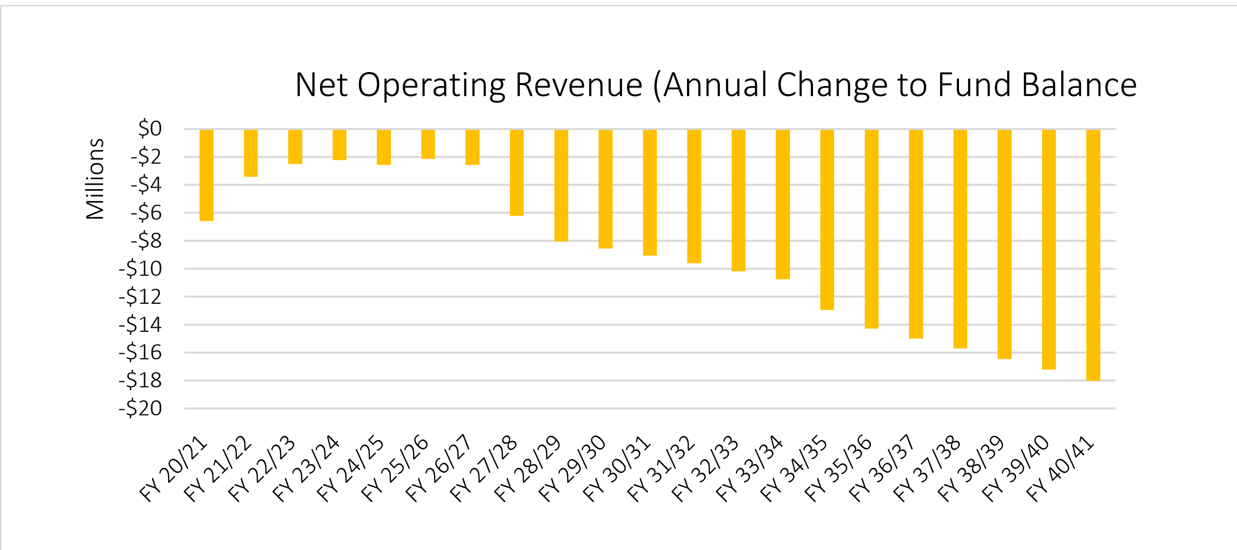


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (4,969,811)	$ (7,703,331)	$(10,580,117)	$ (13,608,842)

Total revenue loss in the recessionary periods were 11.7% and 4.21%

Alternative Scenario 2 with Recessionary Impacts Every Seven Years

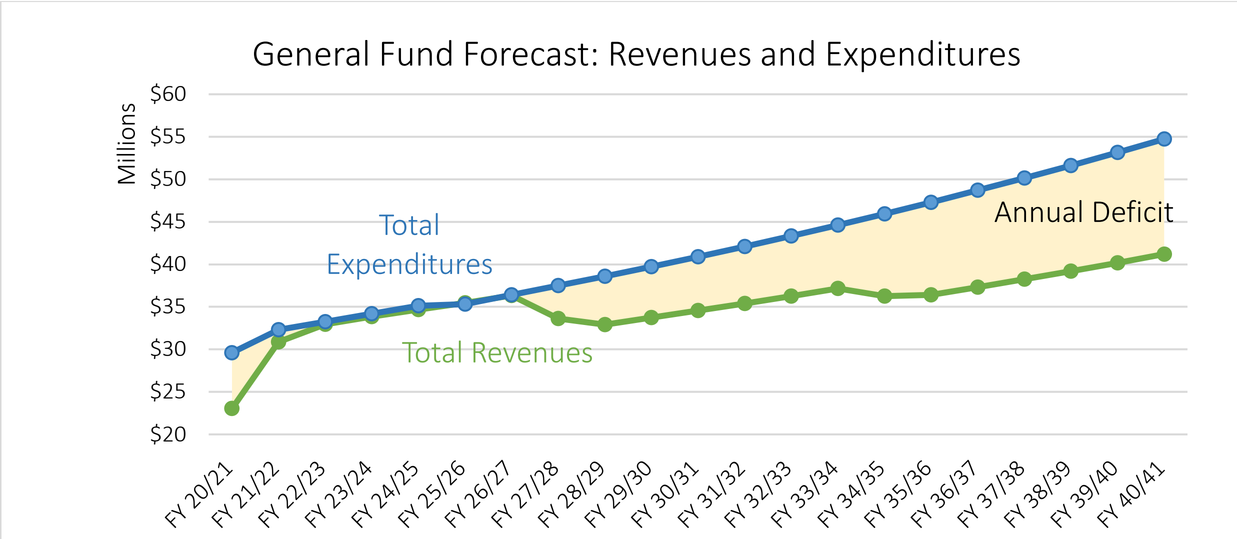


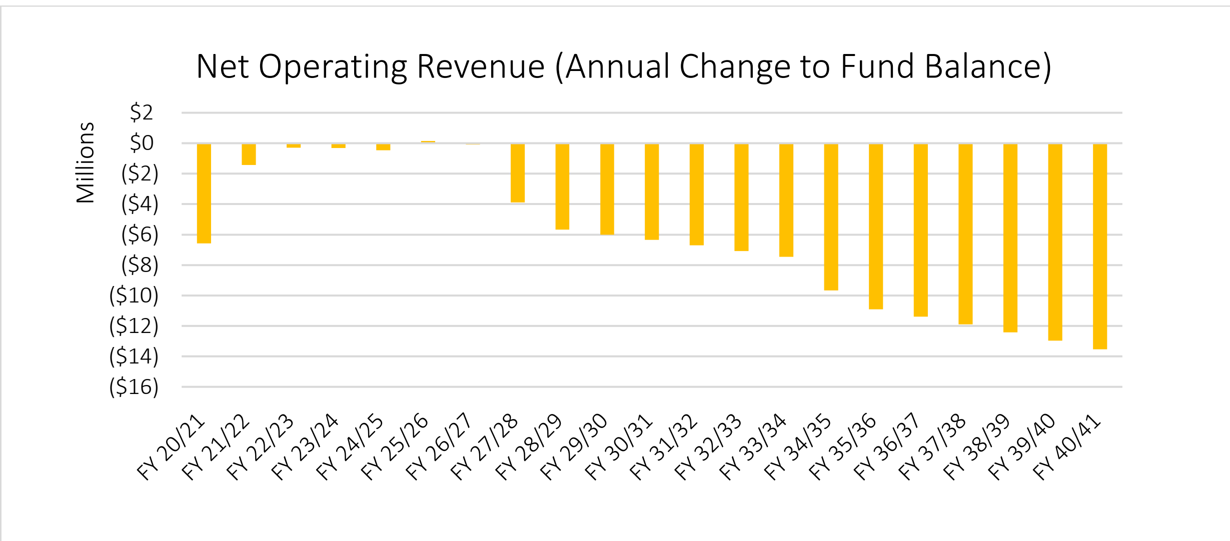


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (2,580,215)	$ (4,736,921)	$ (7,010,407)	$ (9,377,469)

Total revenue loss in the recessionary periods were 9.93% and 2.56%

Alternative Scenario 3 with Recessionary Impacts Every Seven Years





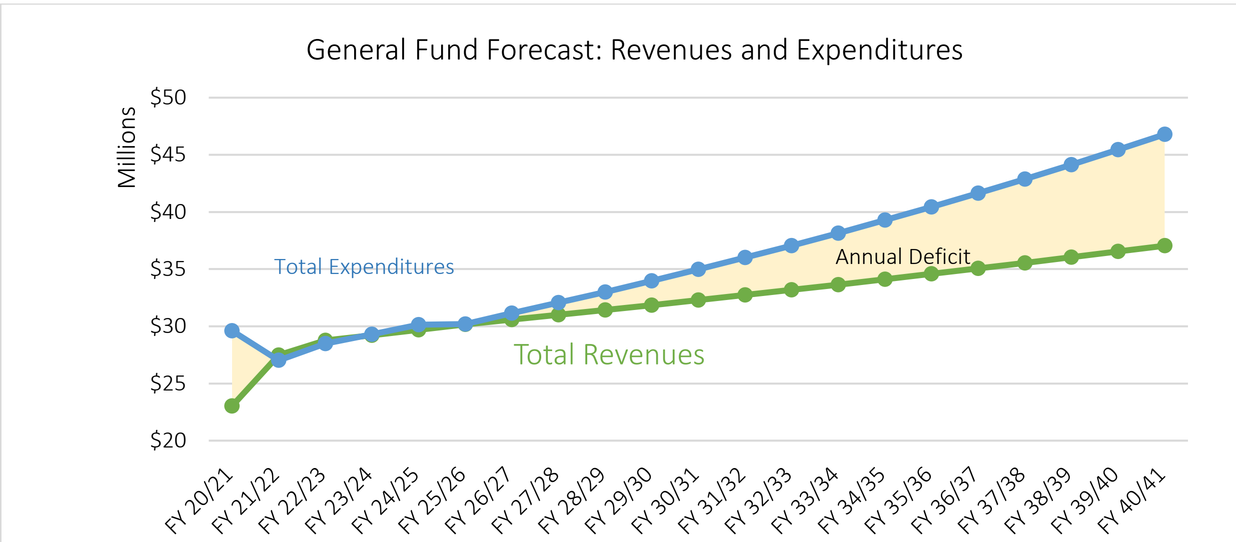
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (473,761)	$ (2,436,445)	$ (4,413,404)	$ (6,420,874)

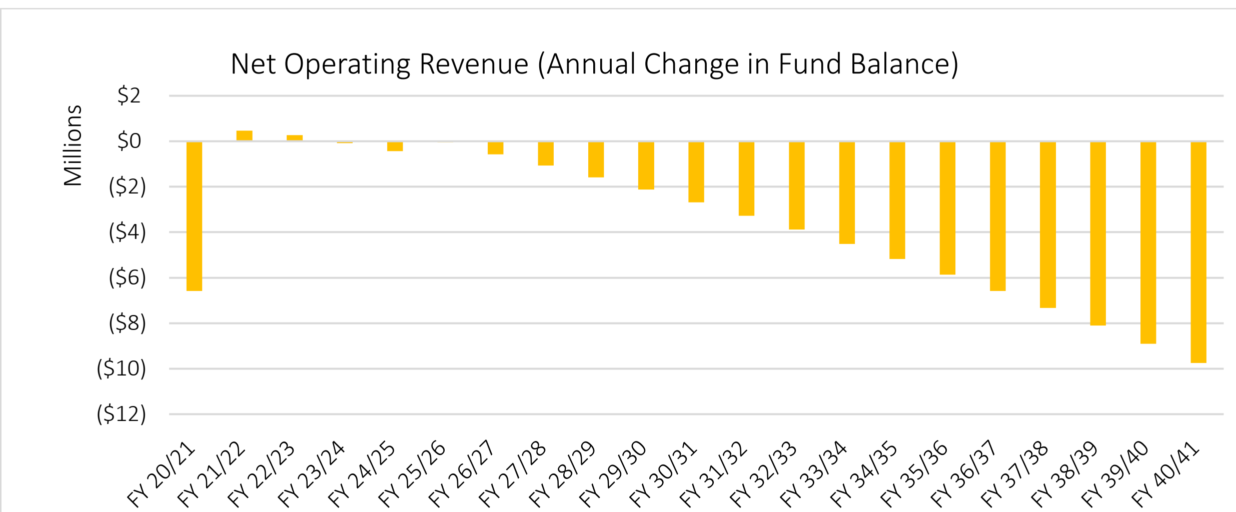
Total revenue loss in the recessionary periods were 9.53% and 2.06%.

Original FY 20/21 Budget with Temporary Cost Containment Strategies Phased Out

The following alternative scenarios assume the original five-year forecast extended out twenty years. The temporary cost containment strategies are phased out over two-year period as originally presented in the FY 20/21 budget, and the additional pavement budget of $3.3 million is not factored in.

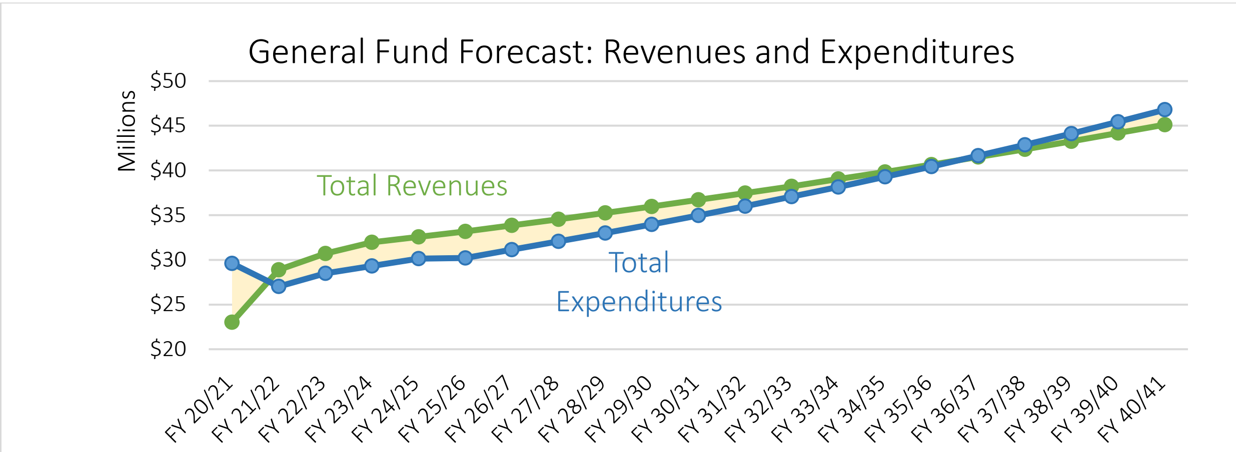
Alternative Scenario 1 – Original FY 20/21 Budget with Temporary Cost Containment Strategies Phased Out and No Additional $3.3 Million Pavement Budget

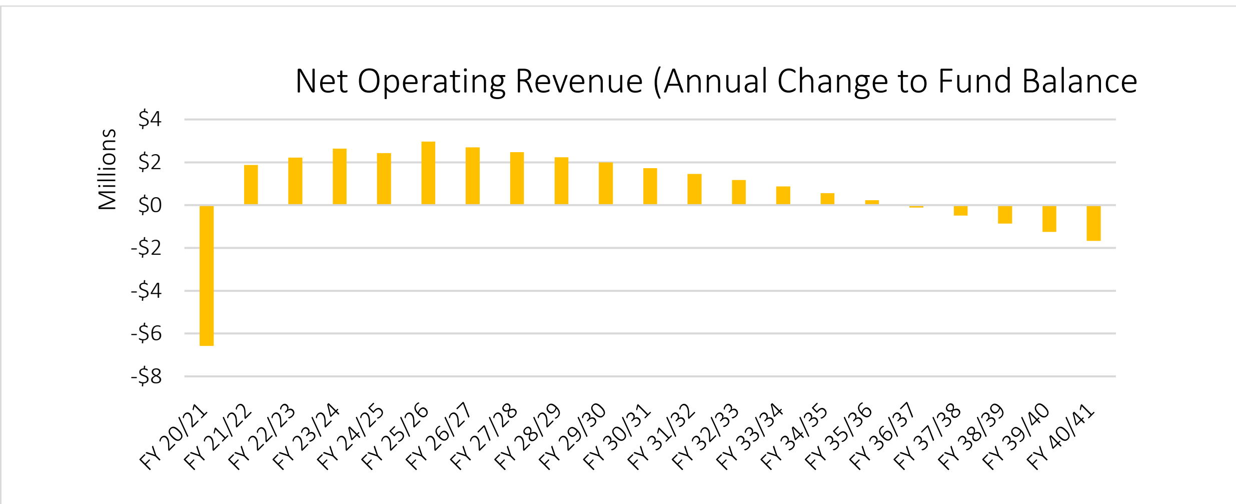




Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 35,783	$ (786,316)	$ (2,037,418)	$ (3,560,259)

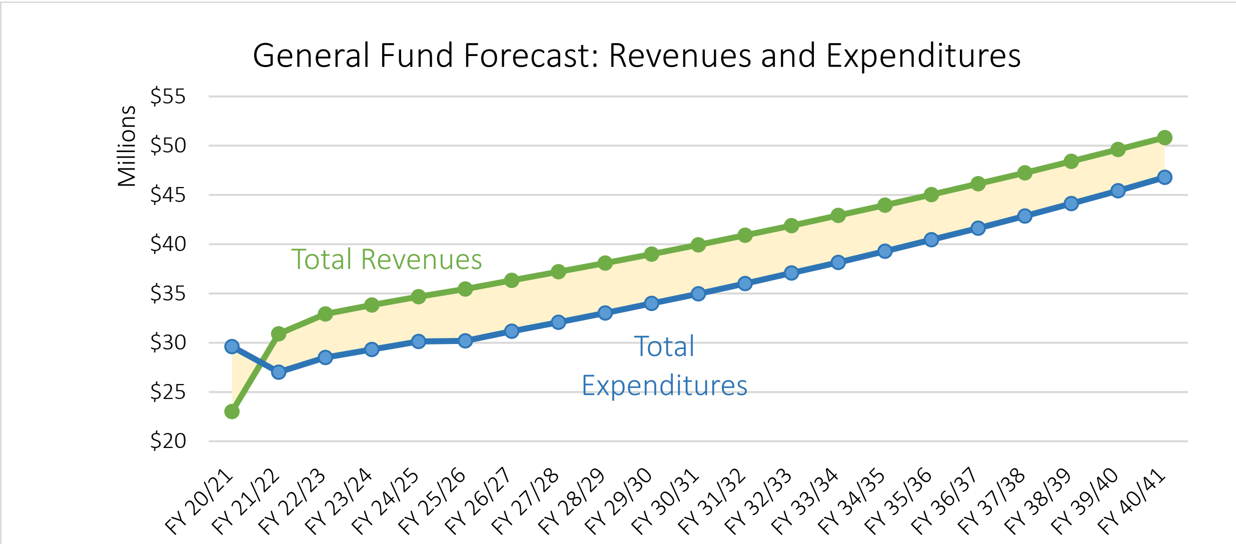
Alternative Scenario 2 – Original FY 20/21 Budget with Temporary Cost Containment Strategies Phased Out and No Additional $3.3 Million Pavement Budget

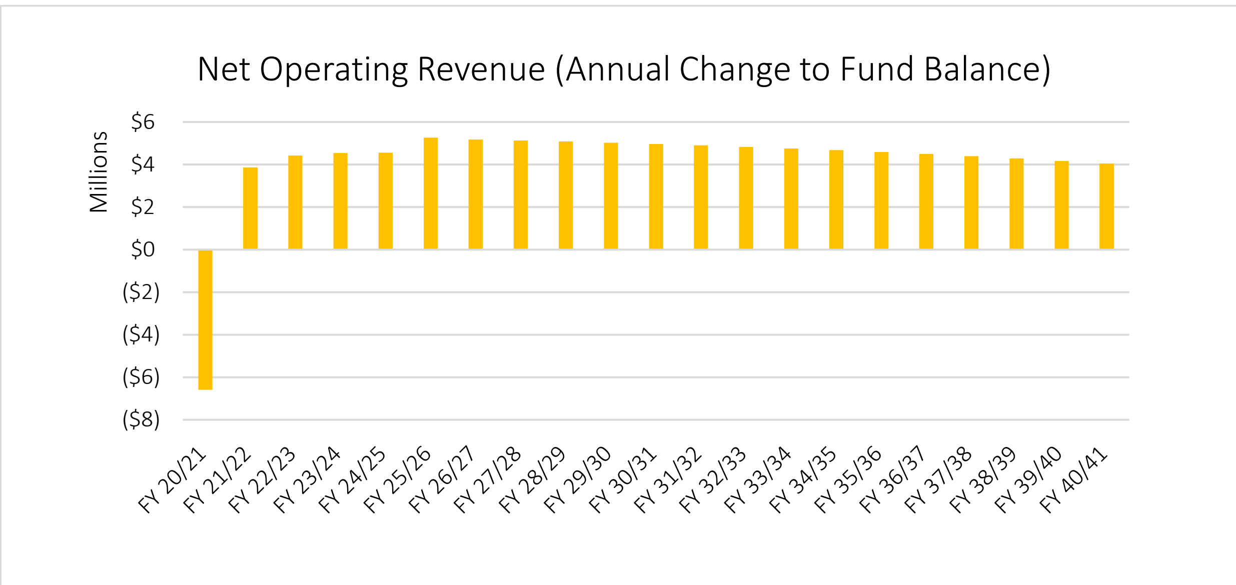




Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 2,425,379	$ 2,323,730	$ 1,833,668	$ 1,155,587

Alternative Scenario 3 – Original FY 20/21 Budget with Temporary Cost Containment Strategies Phased Out and No Additional $3.3 Million Pavement Budget





Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 4,531,833	$ 4,805,203	$ 4,787,086	$ 4,658,379

ATTACHMENT 3:

Tax Measures

Goleta Tax Measure Information

Adoption Process for Add-on Sales Tax (District Tax, Transactions and Use Tax)1[1]

In order for a governing body of any city to levy, increase or extend a transactions and use tax (TUT) for general purposes, an ordinance proposing the tax must be approved by a two-thirds vote of all members of the governing body and the tax must be approved by the a majority vote of the qualified voters of the city voting in an election on the issue (California Revenue and Taxation Code 7251.1). For a specific purpose, this requires a two-thirds vote of all members of the governing body and the tax must be approved by two-thirds vote of the qualified voters. Figure 1 summarizes clarifying information regarding the adoption rules for an add-on sales tax.

Figure 1[2]

What section of the law allows for the imposition of district taxes?

Entity	Purpose	Adoption Rules	Legislation
County	General Purpose tax	2/3 vote of Board of Supervisors ***and*** majority of voters	7285
	Specific Purpose tax (expenditure plan required)	2/3 vote of Board of Supervisors ***and*** 2/3 majority of voters	7285.5
City	General Purpose tax	2/3 vote of City Council ***and*** majority of voters	7285.9
	Specific Purpose tax (expenditure plan required)	2/3 vote of City Council ***and*** 2/3 majority of voters	7285.91
County Authority	Transportation Authority	2/3 vote of Board of Supervisors ***and*** 2/3 majority of voters	PUC Divisions 10-25

Special jurisdictions can also be created when authorized by special and specific legislation.

General Purposes vs. Specific Purpose Tax

Taxes fall into one of two categories: general or special. As noted above, a simple majority approval is required for general purpose taxes. A simple majority means 50% of voters plus one additional voter. A general tax is a tax: 1) levied by a general-purpose government (city or county); and, 2) expended at the discretion of the local government's governing body on any programs or services. All non–property taxes which cities and counties are authorized to levy may be imposed as general taxes. A general tax is imposed to raise general-purpose revenues. Counties and cities may use revenues from a general tax for any lawful public purpose. A simple majority of voters also must approve the decision to increase or extend a general tax. A general tax may only be submitted for voter approval at an election for city council or board of supervisors seats, unless a unanimous vote of the governing board declares an emergency.

[1] *Add-on sales tax is also known as transactions and use tax and district tax.*
[2] *Figure 1 Source: California Department of Tax and Fee Administration (CDTFA).*

Special taxes require approval from two–thirds of local voters. Definitions of a special tax are as follows: 1) Special–Purpose District Tax (all taxes, other than property taxes for infrastructure bonds, levied by special districts, school districts, and community college districts are special taxes); 2) Tax Dedicated to a Specific Purpose (a city or county tax dedicated to a specific purpose or specific purposes, including a tax for a specific purpose deposited to the agency's general fund. All non–property taxes that cities and counties are authorized to levy may be raised as special taxes); 3) Tax Levied on Property (all taxes levied on property other than the property tax—typically parcel taxes—are special taxes). Special taxes may be placed before the electorate at any time, either during a general election or in a special election.

A special tax is a tax imposed for a specific purpose. For example, a city may increase the sales and use tax by adding a special use tax for public safety, the acquisition of open space or transportation projects. All taxes imposed by special districts are considered special taxes. Since the tax is for a specific purpose, the revenues may only be used for that purpose. Two-thirds of voters must agree to enact, increase or extend a special tax. Special tax revenues must be accounted for in a separate fund. It should be noted that normally a special tax only requires a simple majority of the governing body approval to place on the ballot, but the TUT is one of the few exceptions. The following table summarizes the comparison between general and special purpose taxes.

Table 1[3]

	General Tax	Special Tax
Use of Revenues	Unrestricted	Specific purpose
Governing Body Approval	• Counties and general law cities: two-thirds • Charter cities: majority • Transactions and use taxes: two-thirds • Special districts may not adopt general taxes.	Majority *Transaction and Use Tax is the exception and requires two-thirds for special purpose
Voter Approval	Majority	Two-thirds
Other Rules	A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including: 1) the tax rate; 2) the amounts of revenues collected and expended; and 3) the status of any project funded by the special tax.

In the context of the City of Goleta, the main benefit of a general-purpose tax is the flexibility of its use and ability to support all operations of the City as needed. Given the various critical funding needed for the City of Goleta, such as a variety of unfunded CIP projects, deferred maintenance of roads and facilities, costs associated with maintaining services, etc., a general purpose tax would give the City the additional funding needed to meet a wide variety of needs since general revenues can be used for any legitimate public purpose.

A special purpose tax legally restricts the funds for a specific use and ensures ongoing funding for that specific function. An example of this in Goleta is the special tax assessment for the library. If Council is interested in a special purpose tax, it could choose

[3] *Table 1 Source: Institute for Local Government.*

to restrict the use of funds to specific purposes such as pavement, capital projects, and/or COVID-19 recovery. Doing so would legally restrict those funds for such purposes. The risk with this approach may be that other priority needs may arise in the future that could not be supported by special purpose taxes.

Transactions and Use Tax vs. Sales and Use Tax

TUT's are local taxes in which revenues are collected and spent locally within that taxing district. Sales and Use Tax are state mandated taxes imposed by the state and allocated to various agencies by law. The base statewide sales tax rate is 7.25%

TUTs generally apply to merchandise that is delivered in a jurisdiction which imposes such a tax. In practice, the tax application and allocation for most retail sales will not differ from the sales and use tax. But there are some key differences. The Sales and Use Tax is generally allocated to the jurisdiction where the sale is negotiated or order taken (the "origin" or the "place of sale"), whereas TUT is place of delivery or put into use. Importantly, in the case of a sale or lease of a vehicle, vessel, or aircraft, a transaction and use tax is charged and allocated based on the location in which the property will be registered.

In other words, a TUT is allocated to the district where the goods are delivered or placed into use (the "place of first possession") rather than the place of sell. This means that sellers of vehicles are required to collect TUT for the jurisdiction in which the vehicle will be registered. Thus, residents are unable to "escape" paying the tax by buying from a dealer outside the City, as dealers statewide are required to collect the TUT for the jurisdiction where the vehicle will be registered. This means that the patrons of Goleta's auto dealers who do not reside in Goleta, will not be subject to the TUT, but would rather only be subject to the TUT (if any) that is imposed by the city where they live (where the vehicle will be registered). Conversely, with an add-on sales tax increase of 1%, a Goleta resident purchasing a $30,000 vehicle would pay an additional $300 in TUT that would be directed to the City, regardless of where the vehicle is purchased.

For example, if the City of Goleta has a 1% TUT, and a buyer from Goleta purchases a vehicle from a dealer in the City of Santa Barbara, the City of Santa Barbara would receive revenue from the 1% Bradley-Burns sales tax and the City of Goleta would receive revenue from the 1% TUT. On the other hand, if a buyer from the City of Santa Barbara purchases a vehicle from a dealer in City of Goleta, the City of Goleta and County of Santa Barbara would receive revenues from the 1% Bradley-Burns sales tax, but no TUT would be collected for Goleta, though the City of Santa Barbara would receive revenue for their 1% TUT.

If the vehicle is purchased through a private party or individual and registered at the Department of Motor Vehicles (DMV) the 1% of the Bradley-Burns sales tax revenue is allocated through the countywide use tax pool system on a pro-rata basis. With TUTs there are no pool systems since it is a local tax specific to the district imposing the tax.

Under the pool concept, the tax is first coded to the county of use and then distributed to each jurisdiction in that county on a pro rate share of taxable sales each quarter. An agency generating 8% of the county's total taxable sales receives 8% of the pool. If the county of use cannot be identified, the allocation goes to the state pool for pro rata distribution on a statewide basis. The following table shows a comparison of the countywide pool allocations based on first quarter taxable sales:

Table 2

Share of County Pool (First Quarter Comparisons)				
Agency Name	**1Q2017**	**1Q2018**	**1Q2019**	**1Q2020**
Buellton	3.3%	3.7%	3.6%	2.8%
Carpinteria	2.3%	2.8%	2.7%	2.4%
Goleta	13.0%	14.3%	12.6%	13.8%
Guadalupe	0.4%	0.5%	0.4%	0.6%
Lompoc	11.6%	1.6%	7.2%	6.8%
Santa Barbara	29.5%	31.0%	30.0%	26.5%
Santa Maria	28.8%	32.8%	30.3%	33.1%
Solvang	1.7%	1.9%	1.7%	1.7%
County of SB	9.5%	11.3%	11.6%	12.4%
Totals (rounding errors)	**100.1%**	**99.9%**	**100.1%**	**100.1%**

The largest components of the base that makes up the pools are: 1) private party sales of vehicles, vessels and aircraft registered at the DMV, and mobile homes reported by the Department of Housing and Community Development; 2) private party sales of vessels (not required to register with the DMV) and aircraft purchases; 3) use tax paid by contractors who are consumers of materials purchased without tax, but used by the contractor in the improvement of real property, and whose job site is regarded as the place of businesses; 4) merchandise shipped directly to consumers by common carriers from inventory located outside the state with the title passing out of state[4]; 5) long term leases of tangible personal property except long term leases of motor vehicles; 6) catering trucks, itinerant vendors (transient businesses), vending machine operators and other permit holders who operate in more than one local jurisdiction and are unable to readily allocate taxable transactions to specific point of sale; 7) use tax on purchases consumed at non-selling facilities (research and development for example); 8) use tax on motor vehicle leases negotiated by out-of-state leasing companies; 9) internet, telephone and mail-order sales from out of state retailers.

Given the number of options that consumers now have in how they select, pay and take possession of merchandise. new challenges in properly allocating local sales and use tax

[4] *If merchandise is inventoried and delivered from out of state, the tax is allocated through the countywide pools, except for transactions over $500,000, which are allocated to the jurisdiction of first delivery.*

have arisen. The following table summarizes the various scenarios that determine where the local tax from online sales is allocated.

Table 3

Place of Sale	Location of Goods at the Time of Sale	How Customer Receives Goods	Allocation of Tax
Online – Order is placed or downloaded outside California	California Fulfillment Center	Shipped to Customer from California Location	Local tax is allocated to the jurisdiction in which the fulfillment center is located
Online – Order is placed or downloaded in California	California Fulfillment Center	Shipped to Customer from California Location	Per CDTFA Regulation 1802, local tax is allocated to the jurisdiction where the order is placed
Online	Out of State Fulfillment Center	Shipped to California Customer	Local tax is allocated to the countywide pool based on point of delivery
Online	Out of State Fulfillment Center	Picked Up In-Store (Click & Collect)	Local tax is allocated to the countywide pool based on point of delivery
Online	In-Store (Goods withdrawn from store inventory)	Shipped to California Customer	Local Tax is allocated to the jurisdiction where the store is located
Online	In-Store (Goods withdrawn from store inventory)	Picked Up In-Store (Click & Collect)	Local Tax is allocated to the jurisdiction where the store is located
In-Store	In-Store (Goods withdrawn from store inventory)	Over the Counter	Local Tax is allocated to the jurisdiction where the store is located

It should be noted that the South Dakota v. Wayfair U.S. Supreme Court decision in 2018 and CA passing of AB 147 (Burke) in 2019 addressed the under-collection of local sales and use tax revenues and made conforming changes to TUT law. As a result, the State of California amended Revenue and Taxation code section 6203 which became effective on April 1, 2019 and requires out-of-state retailers with total annual combined sales of tangible personal property of $500,000 or more delivered into California to collect and remit the state's sales and use taxes. Further, Revenue and Taxation code section 7262 now requires that all retailers with statewide sales of $500,000 or more collect and remit voter approved local TUT for every agency imposing such a tax regardless of the level of sales within the individual district.

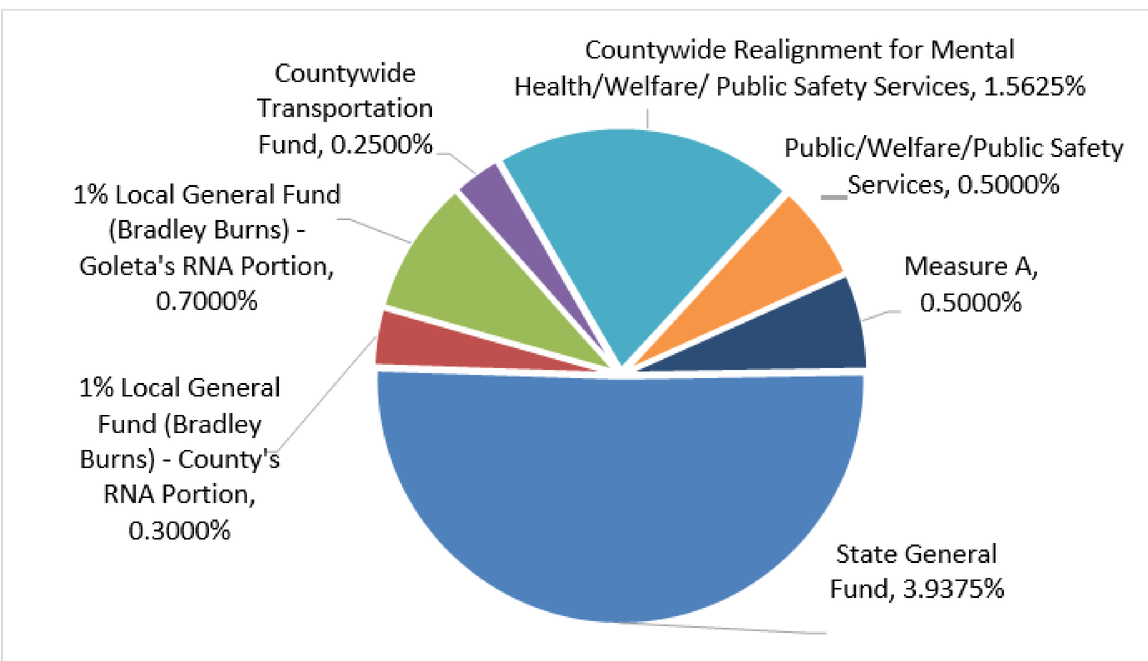
Additionally, California also adopted Revenue and Taxation code sections 6040-6049.5, which became effective on October 1, 2019 and requires Marketplace Facilitators such as Amazon, eBay, Google, Walmart.com and Etsy, to assume the obligation for collecting and remitting the sales and use taxes for third party retailer who contract with the facilitator to provide sales related services. These include payment processing, fulfillment or storage services, setting of prices, taking orders, providing customer service or assisting with returns or exchanges. The $500,000 threshold applies to the sum of all third-party transactions that the Marketplace Facilitator processes for its clients.

Current Goleta Sales and Use Tax Rate

The sales and use tax rate currently applied in the City of Goleta is 7.75%, which is the base rate for Santa Barbara County. This includes a combined statewide rate of 7.25% and the Santa Barbara County district tax of 0.50% for Santa Barbara County Association of Governments (SBCAG). Of the total 7.75% collected, Goleta receives only 0.70%, which is 0.30% less than the 1% normally allocated to cities and is referred to as the Bradley-Burns Local Sales and Use Tax. Since Goleta is subject to revenue sharing with the County of Santa Barbara per the Revenue Neutrality Agreement (RNA), the County receives that 0.30% instead of the City. However, any new add-on sales tax levied by the City is not required to be shared.

Figure 2 below shows a breakdown of the City of Goleta's current sales and use tax rate of 7.75%.

Figure 2



Add-on Sales Tax (District Tax, Transaction and Use Tax) Limits

The Transactions and Use Tax (TUT) is an additional tax levy on top of the Bradley-Burns Local Sales and Use Tax imposed by individual cities or counties when approved by the local jurisdiction's voters. Local TUT Tax rates are added on and administered in tandem with the sales and use tax. A Transactions Tax District can be established for a county, within only the unincorporated area of a county or for an incorporated city as a whole. The CDTFA refers to these taxes as "District Taxes".

As written in California Revenue and Taxation Code Part 1.6 and 1.7 (Sections 7251 through 7299), cities and counties are authorized to seek voter approval of either general purpose or specific purpose transaction and use tax districts at a rate of 0.125%, or a multiple thereof. The combined tax rate of all local sales taxes in any county is generally not allowed to exceed 2.00% (California Revenue and Taxation Code 7251.1). The 2.00% local tax rate cap is exceeded in any city with a combined sales tax rate in excess of 9.25% (7.25% statewide tax rate plus the 2.00% tax rate cap). Should the City Council choose to levy an additional 1% (or 1 cent sales tax) (and voters were to approve such a measure), this would move the City's combined sales tax rate to 8.75% and will fall below the 2.0% cap by 0.50%.

The following tables summarizes the components of Goleta's current combined sales tax rate of 7.75%, along with the maximum TUT rate that can currently be imposed by the City of Goleta without exceeding the 2.00% cap.

Table 4[5]

Goleta Sales & Use Tax Total Rate:	**7.75%**
Sales & Use Tax Allocation Category	**Tax Rate**
State General Fund	3.9375%
Countywide Realignment for Mental Health/Welfare/Public Safety Services	1.5625%
1 % Local General Fund (Bradley Burns) – Goleta's RNA Portion	0.7000%
1 % Local General Fund (Bradley Burns) – County's RNA Portion	0.3000%
Public Safety Augmentation Fund - Prop 172	0.5000%
Countywide Transportation Fund -LTF	0.2500%
Total Goleta Sales & Use Tax Category	**7.2500%**
Transaction and Use Tax (TUT) Districts (Max Rate Per County)	***2.0000%***
Measure A (Transportation) - County & City Roads	0.5000%
Total Goleta Sales & Use Tax Rate + TUT	**7.7500%**
Transaction and Use Tax Rate Available	1.5000%
Total Transaction and Use Tax Cap	2.0000%
Total Sales & Use Tax + Transaction and Use Tax Rate Cap	**9.2500%**

[5] *Public Safety Augmentation Fund – Prop. 172 revenues are allocated to Santa Barbara County.*

Table 5 below summarizes the City of Goleta's 7.75% sales tax rate by primary entity showing the amount of sales tax revenue each entity receives. Additionally, it shows what the addition of a potential 1.00% add-on sales tax rate would look like. An add-on sales tax of 1% would increase the overall combined sales tax rate from 7.75% to 8.75%

Table 5

Allocation of Sales Tax Rate (Current)	
Primary Entity	**Tax Rate**
State	3.9375%
County/SBCAG	3.1125%
Goleta	0.7000%
Total	**7.7500%**

Allocation of Sales Tax Rate (1% Add-On)	
Primary Entity	**Tax Rate**
State	3.9375%
County/SBCAG	3.1125%
Goleta	1.7000%
Total	**8.7500%**

To clarify what future TUT rates may be imposed, and how this affects the City of Goleta, the following figure and table summarize the cap issue. Figure 3 shows an example of how the 2% cap applies.

Figure 3[6,7]

What tax rates may be imposed?

The combined rate of all district taxes imposed in any county shall not exceed 2%. Generally, tax rates may be imposed at a minimum rate of 0.125% and in 0.125% increments up to the 2% cap in a county. Special legislation may vary this format.

The following is an example of how the 2% cap applies. There are three district taxes within the county of San Bernardino (San Bernardino County, City of Montclair and City of San Bernardino)

San Bernardino District Taxes	Current Rate		Available Rate to any city		
031 – San Bernardino County (SBER)(a)	0.50%	+	1.50%	=	2% cap
			Available Rate to county		
107 – City of Montclair (MTGR)(b)	0.75%	+	1.25%	=	2% cap

d. Any incorporated city within the county of San Bernardino may impose a tax up to 1.50%.
e. However, the county of San Bernardino is limited to an additional tax up to 1.25%.

Note: Any tax increase by the county would raise the tax rate in all the cities within that county.

For example, this means that in a county where there are three countywide district taxes that total 1.50%, the maximum levy remaining for a city within the county to propose is 0.50%. On the other hand, if a city within a county has already approved district taxes of 1.50%, the maximum levy available for a countywide tax would be the remaining 0.50%.

To show how the 2.0% cap rate applies in Santa Barbara County, Table 6 below summarizes the combined sales tax rates in neighboring cities, which range from 7.25% to 9.0% and displays the available add-on sales tax to each jurisdiction.

[6] *Figure 3 Source: California Department of Tax and Fee Administration (CDTFA).*
[7] *Data from San Bernardino County used as an example for illustrative purposes.*

Table 6

City/County Entity Name	Base Sales and Use Tax Rate	SBCAG TUT	City/County TUT	Total Sales and Use Tax Rate	% Available (9.25% Cap)
City of Buellton	7.25%	0.50%	0.00%	**7.75%**	1.50%
City of Carpinteria (1)	7.25%	0.50%	1.25%	**9.00%**	0.25%
City of Goleta	7.25%	0.50%	0.00%	**7.75%**	1.50%
City of Guadalupe (2)	7.25%	0.50%	0.25%	**8.00%**	1.25%
City of Lompoc (3)	7.25%	0.50%	1.00%	**8.75%**	0.50%
City of Santa Barbara (4)	7.25%	0.50%	1.00%	**8.75%**	0.50%
City of Santa Maria (5)	7.25%	0.50%	1.00%	**8.75%**	0.50%
City of Solvang	7.25%	0.50%	0.00%	**7.75%**	1.50%
County of Santa Barbara	7.25%	0.50%	0.00%	**7.75%**	0.25% - 1.50%

(1) City of Carpinteria passed a 1.25% sales tax measure at the November 6, 2018 General Election.

(2) City of Guadalupe passed a 0.25% sales tax measure at the November 4, 2014 General Election, along with two other tax measures.

(3) City of Lompoc passed a 1% sales tax measure during the primary election March 3, 2020, with a sunset date of 15 years

(4) City of Santa Barbara passed a 1.0% sales tax measure at the November 6, 2018 General Election.

(5) City of Santa Maria first passed a 0.25% sales tax measure at the June 5, 2012 Primary Election with a sunset date of 9 years (2021). City of Santa Maria then passed a sales tax renewal measure to increase the 0.25% rate to 1% with no sunset clause at the November 6, 2018 General Election.

In considering a local sales tax measure, one of staff's concerns is protecting the City's ability to retain sales tax for the direct benefit of Goleta and its residents, as opposed to those revenues being used to support programs that serve greater Santa Barbara County. The following table summarizes the estimated TUT revenues at various levels of additional sales tax rates.

Table 7[8]

Rate	0.25% TUT Estimate	0.5% TUT Estimate	0.75% TUT Estimate	1.0% TUT Estimate
TUT Estimated Revenue (Rounded)	$ 1,800,000	$ 3,600,000	$ 5,400,000	$ 7,000,000
Range (+/- 5%)	$1.7M- $1.9M	$3.4M - $3.8M	$5.1M to $5.7M	$6.7M to $7.4M
Combined City Tax Rate	8.00%	8.25%	8.50%	8.75%

In Goleta's case, since SBCAG has implemented the Measure A countywide TUT, the maximum TUT increase that can be imposed by the City of Goleta is now 1.50% (without authorization by the state legislature to exceed the cap). Given that the combined sales tax rates differ across the city jurisdictions within Santa Barbara County, the County or SBCAG can only levy up to an additional 0.25% add-on sales tax countywide but can levy up to 1.50% in the unincorporated area. In other words, any taxes generated in the City of Goleta from the remaining add-on sales tax cap could be captured by the County or

[8] *Table 5 Source: HdL.*

other local agencies such as SBCAG, instead of remaining in the City to provide funding for programs and services in Goleta.

If hypothetically, the County of Santa Barbara or SBCAG pursue a countywide 0.25% TUT that is passed by voters, then the City of Goleta would be restricted to a max add-on sales tax rate of 1.25%. Should the County of Santa Barbara or SBCAG want to levy a countywide TUT rate greater than 0.25%, they would need authorization by the state legislature to exceed the 2% cap. Numerous agencies in California have pursued state legislation so that the 2% cap may be exceeded within their jurisdictions, including the Counties of Los Angeles, Alameda and Contra Costa. Pursuit of such exemption to the cap can be costly and requires significant political support for approval. When a taxing entity obtains a legislative exemption, that entity's tax increase is not counted toward the 2% cap.

Draft Resident vs Non-Resident Spending data for the City of Goleta (Draft)

Staff reached out to its sales tax consultants HdL and requested an analysis on resident versus non-resident spending for the City of Goleta. The following information is provided from their draft report for reference. Table 8 below summarizes the results of the resident vs versus non-resident spending analysis completed by HdL for the City of Goleta. This data is based on calendar year 2019 revenue estimates and shows 42.4% of the 1% Bradley Burns Sales Tax is estimated to be paid by non-residents of the City of Goleta

Such a tax is generally assessed based on where the sale is negotiated or the place where the order is taken. Because Transactions and Use Taxes (TUT) are charged in accordance with where purchased goods are delivered or placed into use, HdL's estimate for the percentage of a 1% TUT that would be paid by non-residents is slightly lower at 38.0% due to the fact that businesses often market and sell their goods and services to buyers and businesses outside the City's jurisdictional boundaries.

Table 8[9]

Economic Segment	Bradley Burns 1% Sales & Use Tax	Transactions & Use Taxes (TUT) @ 1%
Autos & Transportation	15.4%	17.0%
Building & Construction	60.3%	39.7%
Business & Industry	42.1%	28.8%
Food & Drugs	48.0%	48.0%
Fuel & Service Stations	48.2%	48.2%
General Consumer Goods	39.2%	39.2%
Restaurants & Hotels	51.6%	51.6%
Estimated Average Non-Resident Generated Revenue	**42.4%**	**38.0%**

Estimated % of Sales Tax Revenue Generated from Non-Residents

The figures shown above were obtained utilizing a variety of methodologies customized to each economic segment. These methodologies considered the mix of businesses located in the City, per capita sales within the City verses the per capita sales across Santa Barbara County, as well as factoring average income population, trade area daytime and trade area population for the designated trade areas previously described as a percentage of those categories within the City of Goleta.[10] Based on HdL's analysis and should the City pursue any TUT, approximately **38%** would be paid by **non- residents.**

Potential Impacts of a Sales Tax Increase

A sales tax increase has several potential benefits and drawbacks that the City Council should consider. The potential benefits include:

1) With an add-on sales tax, revenues are generated not only by residents, but also by the thousands of patrons who visit the City on an annual basis to take advantage of the City's regional retailers. Unlike other forms of taxes, including property taxes, a sales tax can generate needed revenue while dispersing the tax burden between City residents and visitors who also benefit from City services. As identified by the analysis above, a significant share of the tax burden

[9] *Table 6 Source: HdL ECONSolutions.*

[10] *Note: It should be noted that retail performance has been estimated based upon market information and sales tax data gathered and analyzed prior to any market impacts as a result of COVID-19. The impact of the current global pandemic has not yet been fully realized or documented in the commercial marketplace as it relates to revenue generation and the impact to resident and non-resident contributions. While some short-term adjustments might be warranted, long-term impacts will likely be tempered through the experiences gained from the 2008 economic downturn.*

(approximately 38%) would be borne by people who reside outside the City and who visit the retail destinations that Goleta provides.

2) The imposition of a sales tax allows the City to collect revenue from non-residents in order to offset their impacts on the City's public facilities, infrastructure and services.
3) A sales tax increase would provide an immediate infusion of funds to address the City's many deferred infrastructure maintenance needs and support unfunded capital projects. It will give the City the opportunity to cultivate economic recovery within Goleta by re-investing in the community.
4) A sales tax increase would provide a permanent and long-term revenue source for funding prioritized core City services and maintenance. It would be subject to repeal by voters by initiative or a City Council proposal, so the City will be held accountable for its use of these new revenues.
5) A sales tax measure supports the growth of property values City-wide, as revenue from the sales tax will allow the City to continue to provide the community with high quality programs and services in addition to well-maintained facilities and infrastructure, all of which are key factors in driving increases in property values. Goleta residents and businesses will reap these benefits, all while a significant portion of the burden is shared by non-residents. Conversely, the failure to adequately fund core City services and maintenance is likely to have a detrimental impact on Goleta property values over a sustained period of time.

The potential drawbacks of a sales tax include:

1) An increase in sales tax rates has the potential to adversely impact the City's businesses, as potential patrons could seek to make similar purchases in cities with lower tax rates. However, while shoppers could shop or locate somewhere with a lower tax rate, it would not be nearby because even with a 1% increase in sales tax, Goleta's tax rate would be the same as or lower than our south coast neighbors and Santa Maria.
2) The potential exists that some businesses may elect not to locate in Goleta (or leave Goleta) due to a sales tax increase, though it should be noted that the City of Goleta does not have business license taxes (except on cannabis) or utility user taxes like other nearby jurisdictions. Also, as noted above, the tax rate would be equal to or less than other jurisdictions on the south coast and Santa Maria, potentially making it less likely that a change in sales tax would be a catalyst for businesses to relocate.
3) A sales tax increase would fluctuate with the economy more than property taxes, utility user fees and some other revenues.
4) A sales tax will have more of an impact on low- to moderate-income households as a percentage of household income, given the regressive nature of sales taxes. Consumption taxes such as sales taxes are regressive in that they raise prices of purchased goods. Lower-income earners save and invest less money and pay a larger proportion of their income toward these taxes. In terms of direct impact on Goleta residents, a 1.0% sales tax increase would add an additional $1.00 for every $100 spent in Goleta. As a reminder, this type of funding mechanism is not

levied on food purchased as groceries or prescription medication.

Alternative Revenue Options

The following is a discussion of certain general taxes that provide the most impact in the amount of resources generated.

Parcel Tax: A parcel tax is affixed to each property that is subject to the tax and is the most consistent revenue source amount from year-to-year. As such, it is only paid by property owners, many of whom are also residents in the jurisdiction that levies this tax. This tax, depending on how it is structured, is not subject to market trends or external detriments of the amount of tax levied, unless the parcel tax has an inflationary rate dependent upon a market indicator. However, the tax amounts also impact property owners in a more definitive manner as it becomes a fixed cost for them. There is no action that a property owner can take to reduce the amount of the tax amount they must pay. Property Tax revenue does not serve as a good projection about the amount of revenue possible, as property taxes are ad-valorem, which means they are determined by taking rates on the property's value. However, parcel taxes are either fixed amounts or based upon characteristics of each parcel. A ballot measure must be taken to the voters in order to institute a parcel tax. Parcel tax measures must pass with a two-thirds supermajority vote, regardless of a general purpose or special purpose[11]. It should be noted that a majority of parcel taxes are dedicated to education (local schools, community colleges).

If the City were to consider a parcel tax, it would not be based on the value of the property, as it would be a flat amount per parcel paid annually. If the parcel tax structure were the same as the Library special tax (inherited from the County and passed by voters on June 5, 1990), a fixed annual assessment amount would generate revenues as follows:

[11] *According to Ballotpedia, the approval rate of all parcel taxes in California is at 56.6% for the period of 2003 through November 2016. At the end of 2012, the median parcel tax was $60 for cities.*

Table 9

Land Use	FY 20/21 Proposed Rate	Number of Parcels	FY 20/21 Projected Revenue
Residential			
Single Family	$ 25.20	5,734	$ 144,497
Condominium	$ 25.20	2,567	$ 64,688
Duplex/Triplex	$ 50.32	173	$ 8,705
Apartments	$ 151.03	193	$ 29,149
Commercial			
Heavy	$ 113.22	17	$ 1,925
Light	$ 113.22	388	$ 43,929
Industrial	$ 113.22	228	$ 25,814
Churches/Misc.	$ 50.32	25	$ 1,258
Farm/Vacant	$ 12.57	279	$ 3,507
Exempt	$ -	498	$ -
TOTAL PARCELS		10,102	
TOTAL PARCELS LEVIED		**9,604**	**$ 323,473**

Transient Occupancy Tax (TOT): Prior to COVID-19, the City’s TOT had been the largest General Fund revenue source and is paid mostly by non-residents when they stay in hotels in the City and is not by residents unless they a rent a room. The TOT is levied on top of the rental cost of a hotel room and is based on a percentage. The City’s current rate is 12% (previously 10% prior to 2012). The 12% rate is in line with all other cities in the County of Santa Barbara. In some areas of California, TOT is as high as 15%. There is a fine balance between the rate and ability for hotels to compete with other regional hotels for transients to occupy. If the TOT is too high, transients may go to a neighboring city to get lower room rates. If this happens, the reduced number of transients may limit the amount of revenue that can be generated, reducing the level of benefit. It should be noted that TOT is also one of the most volatile revenue sources; recently, more volatile than sales tax.

TOT may be increased by a simple majority vote on a ballot measure if the tax is for a general purpose. If it is for a specific purpose, then the voting threshold increases to two- thirds approval to be adopted. Should the City consider increasing the TOT rate above the current 12%, each additional percent would increase General Fund revenues by approximately $900,000.

Utility User Tax (UUT): A UUT is a tax that is levied by a rate charged on the total amounts of certain utilities. These utilities generally include water, sewer, refuse, cable and satellite television, telephone (including mobile phones and long distance), as well as other utilities like electricity and internet, depending upon the design of the UUT. Currently the issue of streaming media services is under debate about whether it constitutes a utility. The City does not have a UUT, unlike other nearby cities.

Utility companies usually collect UUT from their customers as part of their regular billing procedures and remit the funds collected to the city which imposed the tax. As such, residents, not visitors, pay these types of taxes. Over 150 cities and few counties levy utility user rates varying from 1% to 11%. For those jurisdictions with a UUT, it provides an average of 15% of general revenues and as much as 22%. UUT may be imposed as general taxes or special taxes, but currently in California all UUT have been imposed as general taxes. Most of the cities and counties with the UUTs adopted the taxes prior to 1986 by vote of the City Council or County Board of Supervisors. Any increase or extension of the local UUT now requires voter approval.

To place a UUT measure on the ballot for Goleta, the City Council would need a two-thirds vote for a general UUT or a majority vote for a special purpose UUT. Voters would then need to pass the UUT ballot measure by a simple majority (50% + 1) for a general purpose and two-thirds supermajority for a special purpose tax.

According to California City Finance, new UUTs appear far more difficult to pass than other taxes such as add-on sales taxes, transient occupancy taxes or business license taxes. Voters were more accepting of UUT's already in place. It took the Isla Vista Community Services District two attempts to pass an 8% special UUT, which was approved in 2018. With special authorizing legislation, Isla Vista is the only special district with a UUT.

One of the advantages of a UUT is that it is considered a durable tax that is more consistent, and it adjusts and inflates with time and tracks growth in consumption of the elements that are subject to the tax. It is less susceptible to economic downturns than other revenue sources, though it is important to note that effective resource conservation may have some impact upon future consumption patterns. State and Federal governments are exempt, as well as gas and water used by utility companies to generate electricity. Cities may also choose to include full or partial exemptions for low income residents, which include seniors.

If the City were to pursue a 6% UUT, projected ballpark revenues could range from $3.5 million to $4.5 million per fiscal year. The exact amount of revenue generated will be determined by the types of utilities taxed and the rates for each of those taxes.

Business License Taxes and Cannabis Business Taxes: The City has a business license regulatory program that only charges user fees. The City also has a cannabis business tax, approved by voters in November 2018. This tax measure subjects cannabis businesses to a maximum tax rate of 10% on gross receipts of cannabis sales based on classifications and is a general tax. Based on industry trends, the amount of revenue that can be generated ranged from approximately $334,000 to $1.4 million. This tax has recently brought in limited revenue this fiscal year; approximately $43,000. Due to considerable variations, including the number and types of issued licenses, pricing, medicinal sales, productivity of operators, and preliminary revenues just being received, revenue estimates are still being developed and evaluated. The current cannabis business tax rate structure is as follows:

Table 10

Cannabis Business Classification	Activities Taxed	Tax Rate
Adult Use Cannabis Retailing	Gross Receipts	5%
Medicinal-Use Cannabis Retailing	Gross Receipts	0%
Manufacturing	Gross Receipts	2%
Cultivation	Gross Receipts	4%
Distribution	Gross Receipts	1%
Testing	Gross Receipts	0%
Nurseries	Gross Receipts	1%
Maximum Tax Limit	Gross Receipts	10%
Maximum Cap for Multiple Operations	Gross Receipts	10%

The City Council does have authority by ordinance or resolution to adjust the rate of tax imposed, up to a maximum of 10% per classification. Should the City Council pursue this option, additional revenues may be experienced. The cannabis business tax is still a new revenue source to the City and has not yet experienced its first full fiscal year.

Aside from cannabis business taxes, many cities have enacted business license taxes or a type of business operations tax. The tax is typically levied based on a percentage of gross receipts but may be based on the number of employees, square footage of the business, type of business operation or other factors. As mentioned, the City of Goleta does not assess a business license tax, but charges fees to recover costs of operating the business license program. More than half of the cities in the County of Santa Barbara assess a business license tax, while several others charge a small fee similar to Goleta to recover its costs to operate the program.

Business license taxes can affect business location and expansion decisions that could impact the decision to do business in Goleta. If a business operates in more than one city, a city may only tax that portion of the business's activities conducted within the city. In most cases, business license taxes are not imposed for regulatory purposes (as the term license might imply), but to raise revenues for general municipal purposes.

In terms of revenue estimates for Goleta, a study would need to be conducted and evaluated on the taxing structure. If applying the FY 15/16 median city per capita business operations tax of $12.22 provided from the State Controller's Office, and multiplied against a population of 32,223, this would result in approximately $393,000 per year. Though cities vary widely in business operations tax collections largely because cities vary as to the relative size of their commercial and residential sectors.

Documentary Transfer Taxes and Property Tax Transfers: A documentary transfer tax is a tax imposed on the transfer of interest in real estate. Counties tax at a rate of 55 cents per $500 of the property's value. Cities may impose a tax of up to one half of that amount which is credited to the payment of the county tax. The State's Constitution allows charter cities to enact a property transfer tax, with voter approval, on the value of real estate that is sold. In these cases, the entire county documentary transfer tax rate goes

to the County. All cities and counties in California have documentary transfer taxes or property transfer taxes.

The City of Goleta currently receives approximately $150,000/year in documentary transfer tax revenue. Should the city become a charter city and receive voter approval to enact a property transfer tax, the following revenues may be received at the various rates:

Table 11

Documentary Transfer Tax Actuals		***Estimated Real Property Transfer Tax at Various Rates***						
	$ 0.55	***$ 1.10***	***$ 2.20***	***$ 4.50***	***$ 8.50***	***$ 10.00***	***$ 12.00***	***$ 13.00***
Fiscal Year	**Annual**	***2.00***	***4.00***	***8.18***	***15.45***	***18.18***	***21.82***	***23.64***
5 YR AVERAGE	**$ 230,737**	***$ 461,477***	***$ 922,953***	***$ 1,887,859***	***$ 3,565,956***	***$ 4,195,242***	***$ 5,034,290***	***$ 5,453,812***
5 YR MEDIAN	**$ 197,569**	***$ 395,141***	***$ 790,281***	***$ 1,616,485***	***$ 3,053,360***	***$ 3,592,188***	***$ 4,310,625***	***$ 4,669,842***
Tax Calculator:								
Property Value Sold	$600,000							
City	$ 330	$ 660	$ 1,320	$ 2,700	$ 5,100	$ 6,000	$ 7,200	$ 7,800
County	$ 330	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660	$ 660
Total Tax Paid	**$ 660**	**$ 1,320**	**$ 1,980**	**$ 3,360**	**$ 5,760**	**$ 6,660**	**$ 7,860**	**$ 8,460**

At the high end of $13.00 per $1,000 value, the City would generate approximately $4.7 to $5.5 million per year.

Other Property Related Fees and Assessments: There are other mechanisms for imposing fees and assessments on property to fund public facilities and services, including benefit assessments, also known as special assessment districts. These typically require the City to hold noticed public hearings, notify the affected property owners and conduct property owner elections. There are differing noticing, procedural and voting requirements for the various mechanisms available. Revenues must be used for specific purposes, and, depending on the mechanism used, may require that the special benefit to the property owners to be assessed be identified, with specific benefit being a particular and distinct benefit over and above the general benefits conferred on real property located in the special assessment district or to the public at large.

ATTACHMENT 4:

Debt Financing Options

City Financing Options

Financing Options

In general, local governments rely on two methods of financing infrastructure:

1) Pay-as-you-go (pay-go, or cash)
2) Pay-as-you-use (pay-use, or debt)

Each financing method has its unique advantages and disadvantages. Depending on the amount of financing needed, it may become a heavy financial burden for the City to continue paying "cash" for infrastructure improvements that use up a significant amount of General Fund cash flow each year for capital improvements with long useful lives. Financing infrastructure and capital assets can achieve inter-generational equity as these long-term investments are paid for by the future taxpayers who will benefit from them. The following table provides a list of traditional financing methods and funding sources that may be used for capital improvements.

Pay-As-You-Go Financing (Cash and Savings)	**Pay-As-You-Use Financing (Debt Financing)**
Taxation • General Taxes (General Fund) • Special Dedicated Taxes (Special Revenue Fund) Capital reserves and fund balance • Inter-fund loans User charges Federal/State grants and aid	Loan financing • Private bank loans Bond financing • General obligation bonds • Revenue bonds • Private activities bonds • Leasing-revenue bonds • State Bond Banks

Any financing options pursued will require a full analysis regarding the City's debt capacity, conformance with our debt management policy, and would be subject to our debt limitations which is currently at $279 million.

Pay-as-you-go Financing:

Pay-as-you-go financing involves paying for capital projects with cash on hand. This includes reserve balances set aside. These monies can also be derived from specific tax levies dedicated to capital improvements, surplus revenues after operating and debt service requirements are met, grants, or unassigned fund balance. A decision to use fund balance for capital projects should be made carefully, as the City always should keep an adequate level of available reserves to be used as a cushion for unexpected revenue shortfalls, emergency expenditures, or other purposes. The City's Reserve Policy includes a cushion in its Contingency Reserves that is set at 33% of ongoing expenditures but allows up to one-third of the balance to finance capital acquisitions as long as repayment plan is approved at the same time. The repayment plan must be financially feasible based on the City's Five-Year Financial Forecast. There is also the unassigned fund balance that the City utilizes to address any potential revenue shortfalls or unanticipated minor expenditures during the year. Ideally staff feels that $1 million is sufficient. Maintaining an ongoing unassigned fund balance also provides as a strong indicator for the City to borrow money in the long-term and pursue debt financing.

Cities should always rely on some amount of pay-as-you-go financing for their capital improvement program. Debt financing is not appropriate for capital assets with short useful lives (e.g., 2 – 5 years), as these assets should be paid for with cash or leased. Assets, for which much of the benefit is realized in the short term, are also appropriate for pay-as-you-go financing. Each project should be individually evaluated.

Pay-as-you-use Financing (Debt Financing):

Debt financing means issuing long-term debt in the form of general obligation bonds or revenue bonds to fund capital projects. Long-term bonds (bonds with a maturity of greater than five years), are another method of financing used for capital infrastructure. Borrowing allows the City to acquire assets as needed rather than wait to accumulate a sufficient amount of cash. State and local governments usually can finance capital projects using tax-exempt bonds, where interest income is exempt from federal and often state taxation for investors holding these securities. Consequently, investors are willing to accept a lower interest rate than they would for a comparable taxable security, which lowers the cost of financing capital improvements for a City. The use of debt financing is justified in part by the rationale of spreading out the costs of public infrastructure investments throughout life of the asset. Tax-exempt bonds generally fall into two categories: general obligation bonds and revenue bonds. There are also other types of debts, which governments may issue and are briefly discussed in this memo.

General Obligation Bonds: Smaller governments most commonly issue general obligation bonds. Often called GO bonds or simply GOs, these bonds may be secured by an unlimited tax pledge, that is the City pledges to raise the necessary amount of taxes to repay the debt. They require voter approval (two-thirds vote of the electorate) and impose debt obligation on future taxpayers and limit budget flexibility in future years. GO's are the most secure of all municipal debt and generally used for long-term financing of major public projects such as administration buildings, public safety facilities, and water and sewer systems.

Revenue Bonds: Revenue bonds distinguish themselves from GO bonds through their method repayment, unlike GOs, which rely on taxation. Revenue bonds generate from a specific revenue source and are securities for debt service payments. The source is usually the project being financed, or from a dedicated revenue stream (i.e., sales tax). City enterprise funds, such as sewer operations, usually issue revenue bonds. They have more risk, due to the uncertainty of generated revenues, resulting in a higher cost of issuance.

Special Assessment or Special District Bonds: At times, cities are asked to fund capital infrastructure in a particular geographic area. For example, a special assessment district may be created in a residential area to finance sidewalks, curbs and gutters. Bonds issued to finance capital improvements are secured with the revenues from a special tax levied on businesses and residences located within the district. This type of financing requires property owner consent and vote.

Construction or Asset-Backed Debt: A construction or asset-backed debt is a loan product offered by financial institutions. As with any secured loan, the City provides collateral, or something of value, to guarantee repayment of the loan.

Lease-Purchase Agreements/Certificates of Participation:

Cities sometimes find it advantageous to use one form or another of lease financing. Lease-purchase agreements are commonly used mechanisms to procure capital equipment or facilities. Under this arrangement, the City enters into an agreement with a vendor or financial institution to lease an asset over a certain number of years. At the end of the lease period, the City has the option to purchase the asset. These agreements are similar to tax-exempt debt, in that payments by the City are separated into a principal and interest component, with the interest component being exempt from federal and state income taxes.

Lease-purchase agreements have evolved, such that securities can be issued and marketed to investors in a manner similar to tax-exempt debt. These securities are known as certificates of participations or COPs. Interest rates are set at the time of the COP sale. The amount financed would be dependent on the length of financing and debt service that the City could afford under its present and future operational revenues. Issuances of COPs have higher interest costs relative to issuing debt. If the City were to consider this financing option, staff recommends engaging financial consultant to assist the City, due to the complexity of this financing mechanism.

Grants:

The amount of grant funding from federal and state sources has diminished in recent years except for a few types of capital projects. Despite their limited availability, the City will seek out any type of grant for which we may be eligible, and which are consistent with the City's goals for providing services and capital infrastructure.

Grants often are advantageous in that they do not have to be paid back. Most grants require the City to provide a matching share. Typically, local matching funds of 20% or more are required. The City needs to exercise caution, however, so that the availability of grant funding does not dictate program or service spending priorities. Projects may be moved forward in the capital program if grant funding becomes available, however, starting new programs that are not priorities of the City only because grant funding is available should be avoided, particularly if additional revenues are needed from the City's own sources and staffing to support added operating, maintenance, or administrative costs. This would have the undesirable effect of diverting revenues from essential projects that support the goals and policies of the City.

Development Impact Fees (DIF) and Exactions:

Development impact fees and exactions are contributions paid by developers to fund capital improvements associated with new development. Negotiated exaction, usually determined on a project-by-projected basis, typically includes construction of public facilities, such as sewer or water systems, vehicles or equipment, land for public facilities, or payments to support the development. Impact fees are assessed on a one-time basis to pay for infrastructure costs associated with new developments. The City's DIF fees are tied to a standard measure, such as square footage, vehicle trips associated with the development, or some other measure. The impact fees collected may only be used for specific projects listed in the impact fee program.

Revolving Loan Programs/Bond Banks/Conduit Issuer:

The City may be able to take advantage of state revolving loan programs through the California Infrastructure and Economic Development Bank (I-Bank) Infrastructure State Revolving Fund (ISRF) program. I-Bank is the State of California's only general-purpose financing authority. They are a conduit bond issuer, meaning I-Bank issues bonds on behalf of a borrower and then lends those proceeds to that borrower. The borrower provides security to the bondholder and agrees to repay the bonds. The I-Bank is designed to assist smaller governments in financing capital improvements. Smaller governments are not frequent issuers of tax-exempt bonds and tend to sell small amounts of bonds when they decide to issue, hence they often pay higher issuance costs than frequent, large issuers and may pay higher interest rates as well. The I-Bank is an option that can lower the costs of financing for smaller governments. Governments planning to finance their capital assets through the I-Bank need to be sure they meet any special requirements of the I-Bank. The City may choose to pursue utilizing I-Bank in the future for other eligible infrastructure needs, which is the Finance Director's preferred choice, due to the lower cost of financing. I-Bank financing is available from $50,000 to $25 million per applicant, with terms up to 30 years. Interest rates are based on a combination of the Interest Rate Benchmark (Thompson's Municipal Market Data Index) and Interest Rate Adjustments. Generally, the Interest Rate Adjustments will cause the interest rate on the ISRF financing to be below the Interest Rate Benchmark, as it is dependent upon the repayment source and a variety of factors. Interest rates are set at the time the loan is issued. Before pursuing, cost comparisons should be performed.

Public-Private Partnerships:

Public-Private partnerships are created to permit the public and private sector to achieve certain financial benefits that would not be possible with only one side involved in the transaction. There are many forms of public-private partnerships, including franchise agreements, joint development, and service contracts. With service contracts or franchise agreements, the responsibility for acquiring the capital assets needed to provide the service may be shifted to the private sector.

Private Contributions:

In some cases, the private sector may be willing to donate capital assets or facilities to the government.

Other Financing Options:

The City also can utilize other types of common options for immediate infrastructure needs, such as inter-fund loans and bank loans. If utilizing inter-fund loans or bank loans, the Government Finance Officers Association (GFOA) recommends that governments develop policies and procedures related to these debt obligations.

Inter-fund Loans: This allows the City to borrow from its own special revenue funds that have large fund balances and save on issuance and interest costs. Typical uses include financing smaller capital projects or smaller land acquisitions, which will be paid back within five years to the borrowed fund. The interest rate normally charged for inter-fund loans is set at the LAIF rate and outlined in the resolution. Essentially, you are borrowing from cash reserves from other special revenue funds that are available and sit idle. If Council interested in exploring inter-fund loans, a cash flow analysis will be provided to display the timing of the funds along with a schedule of payments to properly track any inter-fund loan activity.

Bank Loans: Using bank loans, such as interest only loans or lines of credit, is an option for smaller governments that have limited access to the municipal bond market and cannot afford the costs of bond issuance. One potential advantage of bank loans is that the process for execution is simpler than a bond issue that is marketed to the public, with fewer issuance costs and ongoing compliance requirements. Financing terms can be adjusted, and further financing options can be explored if needed.

Exhibit A – Debt Management Policy

ATTACHMENT 5:

California Local Revenue Measure Results

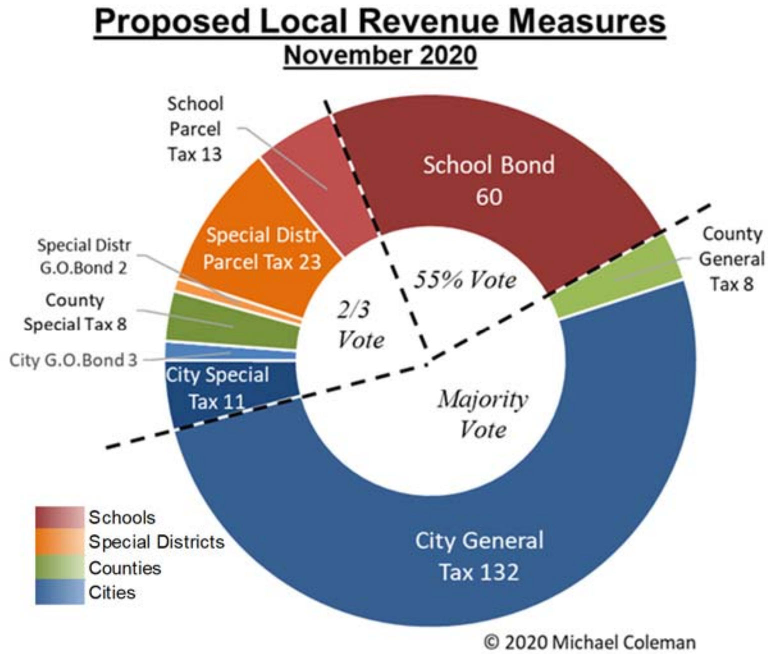
Local Revenue Measure Results
November 2020

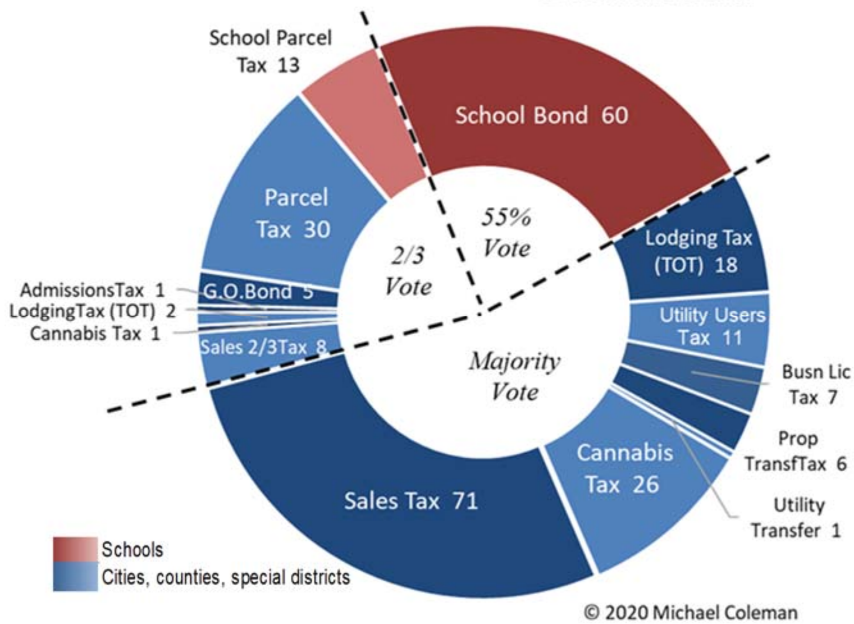
There were over 400 measures on local ballots in California for the November 3, 2020 election including 260 local tax and bond measures.

Over half of these measures (146) were proposed by or for cities. There were also 16 county, 25 special district and 73 school tax or bond measures. In prior elections, typically about one-third of measures were majority vote general taxes, one-third were special taxes, and one third 55 percent school bonds. But in this election there was a notably higher proportion of majority vote general tax measures and most are passing. These include a record 71 measures to increase local sales taxes, 20 lodging occupancy tax increases and 26 taxes on cannabis.

There were five city, county and special district general obligation bond measures seeking a total of $1.9 billion in facility improvements for affordable housing, community pool improvements, a hospital, and fire stations. There were 30 city, county and special district parcel taxes, including 20 for fire /emergency medical response.

Among the school measures were 60 bond measures seeking a total of $13.4 billion in school facility improvement funding, substantially fewer than in November 2018 (112) or November 2016 (184). There were 13 measures to increase or extend (renew) school parcel taxes compared to 14 in 2018 and 22 in 2016.





Overall Passage Rates

Updated tallies through November 11 have 195 of the 260 tax and bond measures passing with about 1.5 million mail in and provisional votes still to be processed and a record 16.2 million counted so far. Local tax measures passed in similar proportions to prior general presidential and gubernatorial elections in California. A few measures could flip from pass to fail or fail to pass once all votes are tallied.

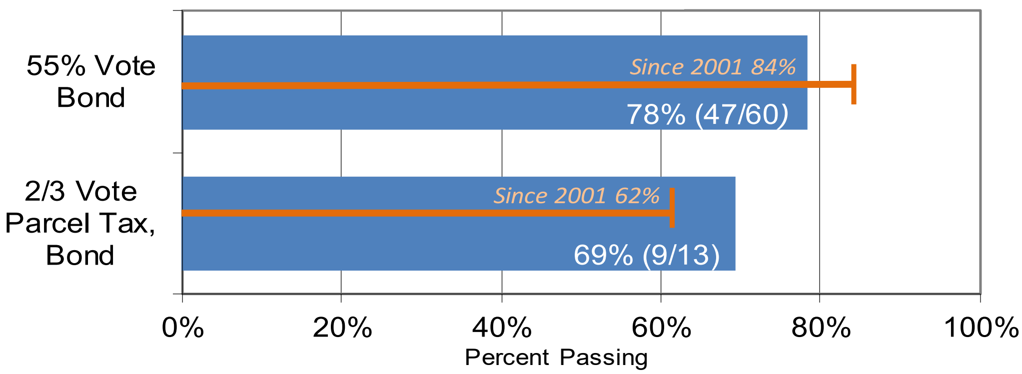
Local Revenue Measures November 2020

	Total	Pass	Passing
City General Tax (Majority Vote)	132	108	82%
County General Tax (Majority Vote)	8	7	88%
City SpecialTax or G.O.bond (2/3 Vote)	14	6	43%
County Spec.Tax, G.O.bond (2/3 Vote)	8	5	63%
Special District	25	13	52%
School ParcelTax 2/3	13	9	69%
School Bond 55%	60	47	78%
Total	260	195	75%

Preliminary results as of 11/11/20

The proportion of passing 55 percent school bond measures from this election appears to be similar to prior years.

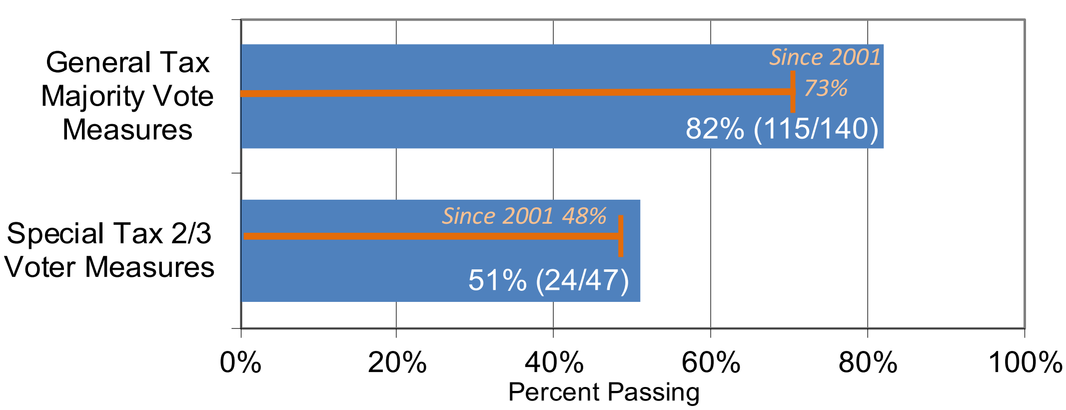
School Tax & Bond Measures November 2020



Preliminary results as of 11/11/20

More non-school majority vote general tax measures appear to be passing than in prior years. Of the 140 majority vote tax measures, 115 (82%) appear to have passed. Most general purpose cannabis, sales, business license, property transfer and hotel occupancy taxes passed. The few utility user taxes did not fare as well. Among the two-thirds vote city, county and special district special tax and bond measures, about half appear to have passed, similar to historic patterns.

City / County / Special District Tax & Bond Measures November 2020

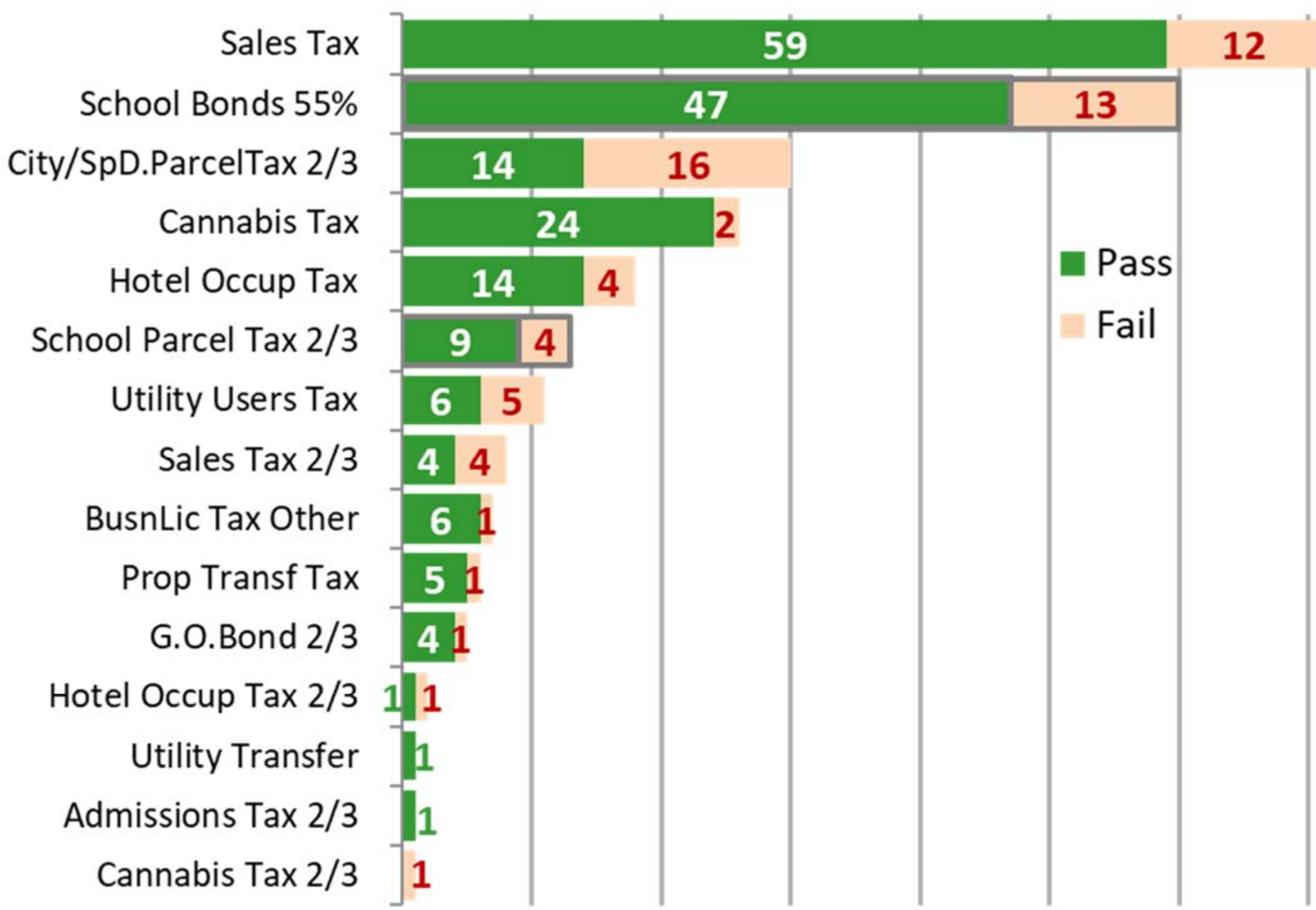


Preliminary results as of 11/11/20

Measure Outcome by Category

The common tax measure in this election was a majority vote general purpose transactions and use tax (sales tax) and there were more sales taxes approved than any other type. It appears that 59 of the 71 general sales tax measures passed and this number could rise when the county is complete.

Passing and Failing Measures by Type November 2020



Local Add-On Sales Taxes (Transaction and Use Taxes)

Voters in 68 cities and three counties considered general purpose majority vote add-on sales tax rates ranging from 1/4 percent to 1 ½ percent. It appears fifty-nine were approved including all those that extended without increase an existing sun-setting tax.

Transactions and Use Tax (Add-on Sales Tax) - General Tax - Majority Approval

City	County	Measure	Rate	incr/ext	Sunset	YES%	NO%	
San Pablo	Contra Costa	Measure S	1/2c for 5yrs, then 5yrs at 1/4c	extend	10yrs	**78.9%**	21.2%	PASS
Wheatland	Yuba	Measure O	1/2 cent	extend	10yrs	**78.3%**	21.7%	PASS
Cotati	Sonoma	Measure S	1 cent	extend	none	**75.1%**	24.9%	PASS
Beverly Hills	Los Angeles	Measure RP	3/4 cent*	increase	none	**74.1%**	25.9%	PASS
Trinidad	Humboldt	Measure E	3/4 cent	extend	4yrs	**73.8%**	26.2%	PASS
West Hollywood	Los Angeles	Measure E	3/4 cent	increase	none	**73.6%**	26.4%	PASS
Santa Rosa	Sonoma	Measure Q	1/2 cent	extend	10yrs	**72.6%**	27.5%	PASS
Daly City	San Mateo	Measure Q	1/2 cent	increase	none	**72.3%**	27.7%	PASS
Bishop	Inyo	Measure P	1 cent	increase	none	**72.3%**	27.7%	PASS
Sonoma	Sonoma	Measure V	1/2 cent	extend	none	**70.9%**	29.1%	PASS
Guadalupe	Santa Barbara	Measure N	by 3/4 to 1 cent	increase/	none	**70.9%**	29.1%	PASS
Exeter	Tulare	Measure P	1 cent	increase	none	**70.7%**	29.4%	PASS
South El Monte	Los Angeles	Measure ES	1/4 cent	increase	none	**70.6%**	29.4%	PASS
Imperial Beach	San Diego	Measure I	1 cent	increase	none	**70.1%**	29.9%	PASS
Montclair	San Bernardino	Measure L	1 cent	increase	none	**69.7%**	30.3%	PASS
Fortuna	Humboldt	Measure G	3/4 cent	extend	8yrs	**69.7%**	30.3%	PASS
Commerce	Los Angeles	Measure VS	1/4 cent	increase	none	**69.5%**	30.5%	PASS
San Jacinto	Riverside	Measure V	1 cent	increase	none	**69.2%**	30.8%	PASS
Willits	Mendocino	Measure K	3/4 cent	increase	10yrs	**68.1%**	31.9%	PASS
Eureka	Humboldt	Measure H	1 1/4 cent	extend	none	**67.3%**	32.7%	PASS
Bellflower	Los Angeles	Measure M	3/4 cent	increase	none	**66.9%**	33.1%	PASS
Isleton	Sacramento	Measure L	1/2 cent	increase	5yrs	**66.7%**	33.3%	PASS
Crescent City	Del Norte	Measure S	1 cent	increase	none	**66.2%**	33.8%	PASS
Woodland	Yolo	Measure R	1/4 cent	extend	10yrs	**65.4%**	34.6%	PASS
Lake Elsinor	Riverside	Measure Z	1 cent	increase	none	**64.9%**	35.1%	PASS
South Lake Tahoe	El Dorado	Measure S	1 cent	increase	none	**64.4%**	35.6%	PASS
Bell Gardens	Los Angeles	Measure A	3/4 cent	increase	none	**64.3%**	35.7%	PASS
Rio Vista	Solano	Measure O	3/4 cent	increase	5yrs	**62.8%**	37.2%	PASS
San Rafael	Marin	Measure R	1/4 cent	increase	9yrs	**62.2%**	37.8%	PASS
Pacific Grove	Monterey	Measure L	by 1/2c to 1 1/2c	increase	none	**62.1%**	37.9%	PASS
Healdsburg	Sonoma	Measure T	1/2 cent	extend	none	**62.0%**	38.0%	PASS
Petaluma	Sonoma	Measure U	1 cent	increase	none	**61.6%**	38.4%	PASS
Lomita	Los Angeles	Measure L	3/4 cent	increase	none	**61.3%**	38.7%	PASS
Greenfield	Monterey	Measure T	3/4 cent	extend	6yrs	**61.2%**	38.8%	PASS
Milpitas	Santa Clara	Measure F	1/4 cent	increase	8yrs	**60.9%**	39.1%	PASS
Atascadero	San Luis Obisp	Measure D	1 cent	increase	none	**60.6%**	39.4%	PASS
Soledad	Monterey	Measure S	1/2 cent	increase	none	**60.3%**	39.7%	PASS
Orinda	Contra Costa	Measure R	by 1/2 cent to 1 c	increase	20yrs	**60.1%**	39.9%	PASS
Morro Bay	San Luis Obisp	Measure E	1 cent	increase	none	**59.9%**	40.1%	PASS
San Luis Obispo	San Luis Obisp	Measure G	by 1c to 1 1/2 c	increase	none	**59.6%**	40.4%	PASS
County of Contra (	Contra Costa	Measure X	1/2 cent	increase	20yrs	**58.7%**	41.3%	PASS
Palmdale	Los Angeles	Measure AV	3/4 cent	increase	none	**58.5%**	41.5%	PASS
San Fernando	Los Angeles	Measure SF	by 1/4c to 3/4c	increase	none	**58.0%**	42.0%	PASS
Redlands	San Bernardino	Measure T	1 cent	increase	none	**58.0%**	42.0%	PASS
El Paso de Robles	San Luis Obisp	Measure J	1 cent	increase	12yrs	**57.9%**	42.1%	PASS
Turlock	Stanislaus	Measure A	3/4 cent	increase	none	**57.6%**	42.4%	PASS

Transactions and Use Tax (Add-on Sales Tax) - General Tax - Majority Approval

City	County	Measure	Rate		sunset	YES%		
San Bernardino	San Bernardino	Measure S	3/4 cent	increase	none	**57.4%**	42.6%	PASS
Rancho Cordova	Sacramento	Measure R	1/2 cent	increase	none	**54.1%**	45.9%	PASS
Gonzales	Monterey	Measure X	by 1/2c to 1 cent	increase	20yrs	**54.6%**	45.4%	PASS
Grover Beach	San Luis Obisp	Measure F	1 cent	increase	none	**54.2%**	45.9%	PASS
Carson	Los Angeles	Measure K	3/4 cent	increase	none	**54.0%**	46.0%	PASS
Oxnard	Ventura	Measure E	1 1/2 cents	increase	none	**53.5%**	46.5%	PASS
Lancaster	Los Angeles	Measure LC	3/4 cent	increase	none	**53.2%**	46.8%	PASS
Signal Hill	Los Angeles	Measure R	3/4 cent	increase	none	**53.2%**	46.9%	PASS
Los Alamitos	Orange	Measure Y	1 1/2 cent	increase	none	**50.7%**	49.3%	PASS
Corona	Riverside	Measure X	1 cent	increase	none	**50.7%**	49.3%	PASS
County of Del Nor	Del Norte	Measure R	1 cent	increase	none	**50.2%**	49.8%	PASS
Concord	Contra Costa	Measure V	by 1/2 cent to 1 c	increase	none	**50.2%**	49.8%	PASS
Victorville	San Bernardino	Measure P	1 cent	increase	none	**50.0%**	50.0%	PASS
County of Alamed	Alameda	Measure W	1/2 cent	increase	10yrs	49.9%	**50.1%**	FAIL
Weed	Siskiyou	Measure M	1/4 cent	increase	none	49.3%	**50.8%**	FAIL
Vallejo	Solano	Measure G	3/4 cent	increase	none	49.2%	**50.8%**	FAIL
Manteca	San Joaquin	Measure Z	1 cent	increase	none	48.8%	**51.2%**	FAIL
Citrus Heights	Sacramento	Measure M	1 cent	increase	none	48.4%	**51.6%**	FAIL
Williams	Colusa	Measure B	by 1/2 cent to 1 c	increase	none	47.5%	**52.5%**	FAIL
Auburn	Placer	Measure S	1 cent	increase	7yrs	47.4%	**52.6%**	FAIL
Sand City	Monterey	Measure U	by 1/2c to 1 1/2c	increase	none	45.2%	**54.8%**	FAIL
Fullerton	Orange	Measure S	1 1/4 cent	increase	none	43.8%	**56.2%**	FAIL
Dunsmuir	Siskiyou	Measure H	1 1/2 cents	increase	none	39.8%	**60.2%**	FAIL
Apple Valley	San Bernardino	Measure O	1 cent	increase	none	33.9%	**66.1%**	FAIL
Diamond Bar	Los Angeles	Measure DB	3/4 cent	increase	none	33.5%	**66.5%**	FAIL

Too close to call

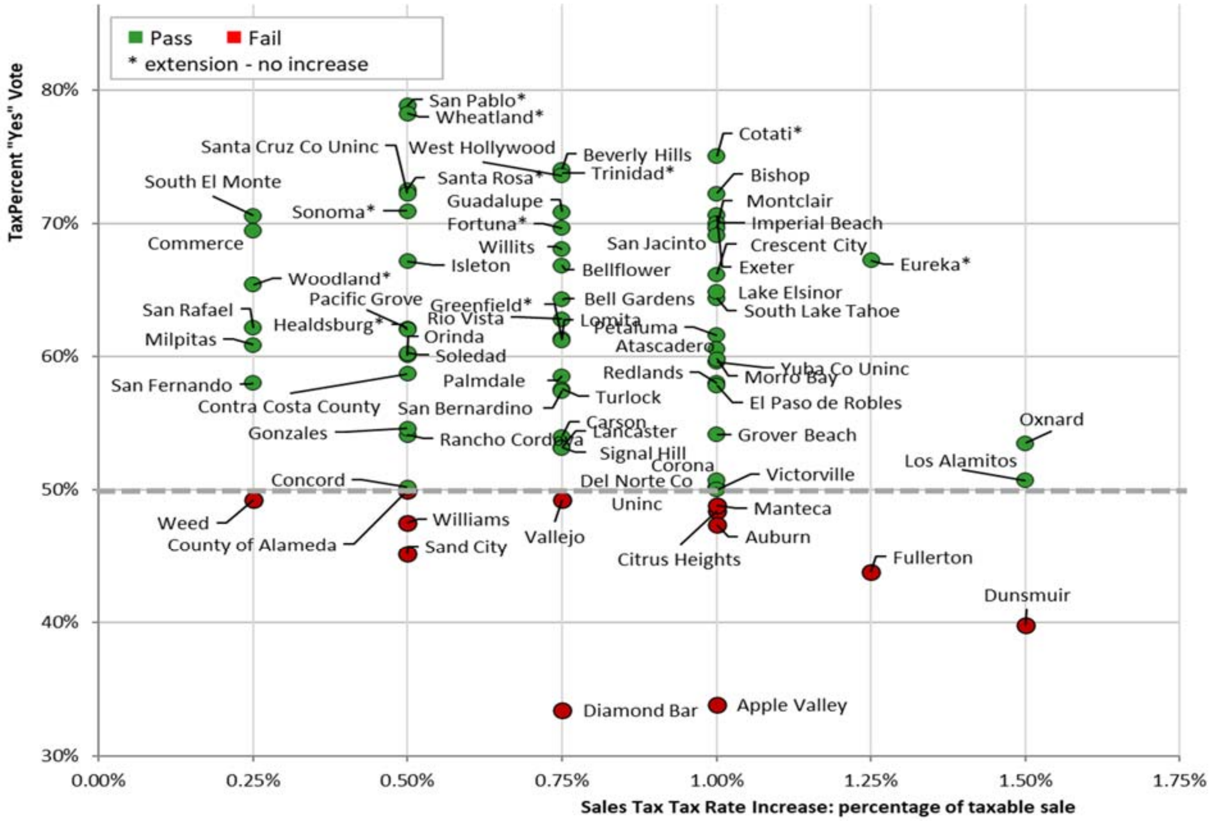
*The city of Beverly Hills ¾ rate may only take effect "if another local governmental entity seeks to increase the transaction and use tax (sales tax) in Beverly Hills."

There were eight add-on sales tax measures earmarked for specific purposes including two extensions of previously approved rates three countywide measures for transportation improvements. Voters in San Francisco, San Mateo, and Santa Clara counties approved a 1/8 percent tax for CalTrain. Four measures, all in more rural locations, could not achieve the two-thirds vote threshold required for special tax increases.

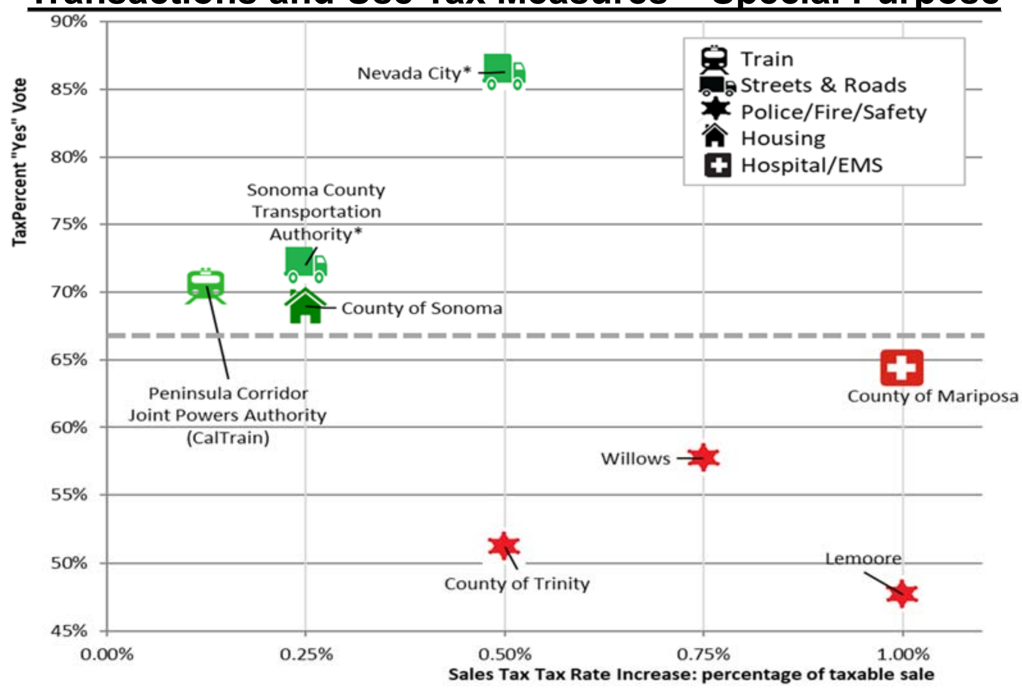
Transactions and Use Tax (Add-on Sales Tax) - Special Tax - Two-Thirds Approval

Agency Name	County		Rate		Sunset	Use	YES%	NO%	
Nevada City	Nevada	Measure M	1/2 cent	extend	none	streets	**86.3%**	13.8%	PASS
Sonoma County Transportation	Sonoma	Measure DD	1/4 cent	extend	20yrs	transportation	**72.0%**	28.0%	PASS
Peninsula Corridor Joint Powers	San Francisco / San Mateo /	Measure RR	1/8 cent	increase	30 yr	rail	**70.4%**	29.6%	PASS
County of Sonoma	Sonoma	Measure O	1/4 cent	increase	10yrs	aff housing / homeless	**69.0%**	31.0%	PASS
County of Mariposa	Mariposa	Measure	1 cent	increase	none	hospital/ems	64.4%	**35.6%**	FAIL
Willows	Glenn	Measure H	3/4 cent	increase	none	fire/ems	57.7%	**42.3%**	FAIL
County of Trinity	Trinity	Measure K	1/2 cent	increase		Sherriff/DA/Probation	51.2%	**48.8%**	FAIL
Lemoore	Kings	Measure K	1 cent	increase	7yrs	police/fire	47.7%	**52.3%**	FAIL

Transactions and Use Tax Measures – General Purpose



Transactions and Use Tax Measures – Special Purpose



Transient Occupancy (lodging) Taxes ✓

There were 22 measures to increase Transient Occupancy (lodging) Taxes, including 20 for general purposes (majority approval) and two two-thirds vote special taxes. The small towns of Farmersville and Tulelake, among the few cities in California not to have a TOT, proposed TOT rates. Farmersville's 10 percent appears just short of passage.

Transient Occupancy Tax Tax Measures - Majority Vote General Use

Agency Name	County		Rate	YES%	NO%	
Truckee	Nevada	Measure K	by 2% to 12%	**86.8%**	13.2%	PASS
Pismo Beach	San Luis Obispo	Measure B	by1%to11%	**82.7%**	17.3%	PASS
Novato	Marin	Measure Q	by 2% to 12%	**77.1%**	22.9%	PASS
San Mateo	San Mateo	Measure W	by 2% to 14%	**76.1%**	23.9%	PASS
Santa Clara	Santa Clara	Measure E	by 4% to 13.5%	**75.1%**	24.9%	PASS
Half Moon Bay	San Mateo	Measure U	by 3%to 15%	**74.0%**	26.0%	PASS
Monterey	Monterey	Measure Y	by 2% to 12%	**73.2%**	26.8%	PASS
Hayward	Alameda	Measure NN	by5.5%to14%	**73.1%**	26.9%	PASS
San Bruno	San Mateo	Measure X	by 2% to 14%	**72.6%**	27.4%	PASS
Chino Hills	San Bernardino	Measure M	by 2% to 12%	**66.6%**	33.4%	PASS
Malibu	Los Angeles	Measure T	by3%to15%	**59.2%**	40.8%	PASS
Sutter Creek	Amador	Measure B	by 2%to12%	**58.4%**	41.6%	PASS
Sonora	Tuolumne	Measure T	by 2% to 12%	**57.6%**	42.4%	PASS
County of Tuolumne		Measure U	by 2% to 12%	**54.2%**	45.8%	PASS
Farmersville	Tulare	Measure Q	10% new	49.1%	**50.9%**	FAIL
Porterville	Tulare	Measure S	by 4% to 12%	47.4%	**52.7%**	FAIL
Pico Rivera	Los Angeles	Measure TT	by5%to15%	42.8%	**57.2%**	FAIL
Tulelake	Siskiyou	Measure O	8% new	34.5%	**65.5%**	FAIL

Too close to call

Transient Occupancy Tax Tax Measures: Two-thirds Vote Special Purpose

City	County	Measure	Rate	Sunset	Use	YES%	NO%	Pass/F
County of Sierra	Sierra	Measure E	by3.5%to12.5%	none	fire/ems	**74.4%**	25.6%	PASS
East Palo Alto	San Mateo	Measure V	by 2% to 14%	none	affd housing	63.0%	**37.0%**	FAIL

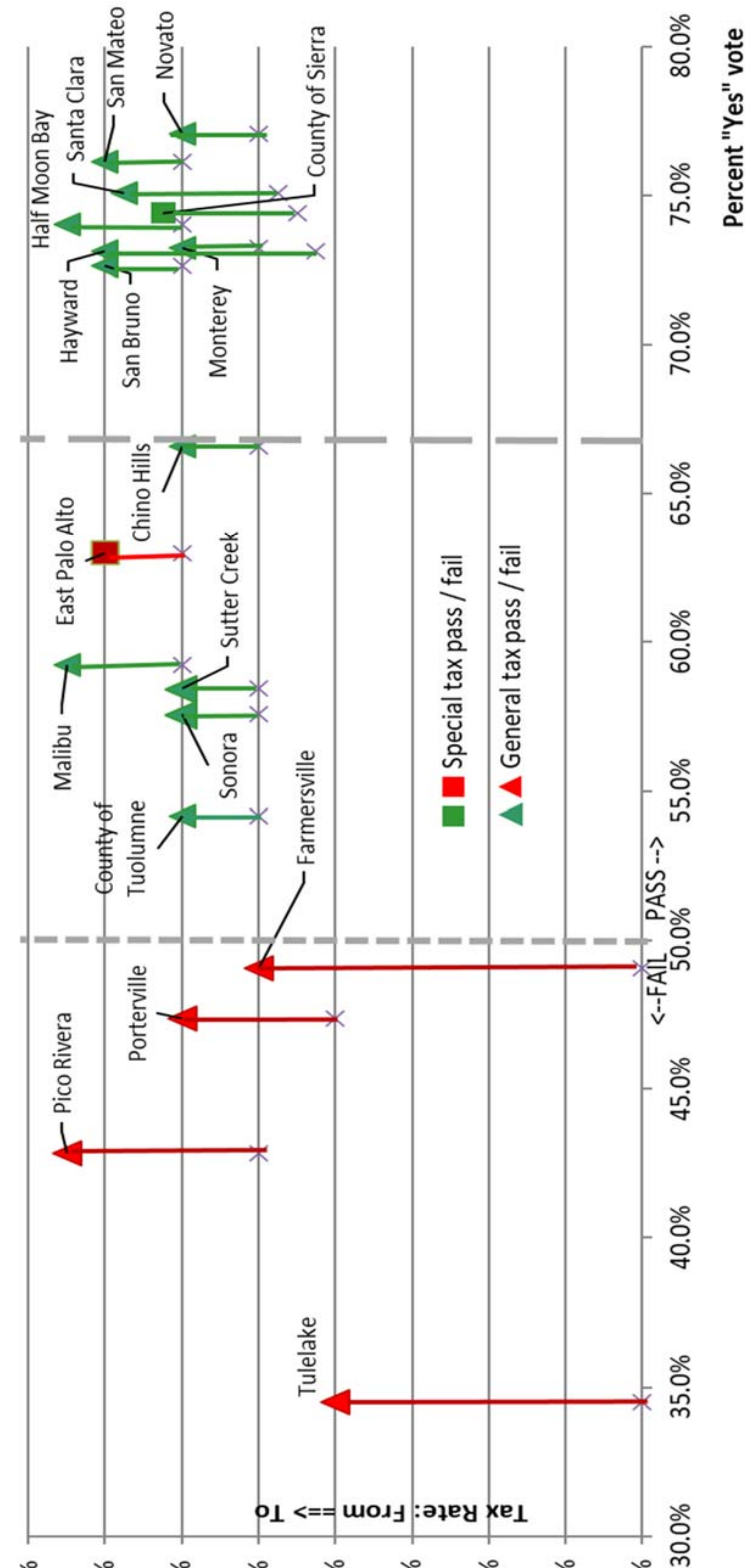
Admissions Tax ✓

Voters in the island city of Avalon approved a $2 per passenger surcharge on visitors with the proceeds to go to their hospital.

Admissions Tax - Special - Two-thirds Approval

Agency	County		Rate	Sunset	Use	YES%	NO%	
Avalon	Los Angeles	Measure H	$2/passenger	none	Hospital	**72.1%**	27.9%	PASS

Transient Occupancy (Lodging) Tax Measures



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Cannabis – Local Excise Taxes ✓

There were 27 measures taxing cannabis, all majority general purpose except in San Joaquin County where the tax increase was earmarked for "*early childhood education and youth programs, including literacy, gang reduction, after-school programs, and drug prevention, with emphasis on children facing the greatest disparities, and promoting public health, homeless mitigation, and enforcing cannabis laws*." That measure is failing narrowly.

Cannabis Taxes - Majority Vote General Purpose

Agency Name	County		Rate	YES%	NO%		
Sonoma	Sonoma	Measure X	4%grossRcpts	**79.3%**	20.7%	PASS	increase
San Buenaventura	Ventura	Measure I	8%grossRcpts	**72.6%**	27.4%	PASS	increase
Lemon Grove	San Diego	Measure J	8%grossRcpts	**72.6%**	27.4%	PASS	revise
County of Trinity INIT		Measure G	2.5%grossRcpts	**72.0%**	28.0%	PASS	increase
King City	Monterey	Measure P	5%grossRcpts	**71.4%**	28.6%	PASS	increase
La Habra	Orange	Measure W	to6%grossRcpts	**70.5%**	29.5%	PASS	increase
Ojai	Ventura	Measure G	3%grossRcpts	**69.9%**	30.2%	PASS	increase
Banning	Riverside	Measure L	10%grossRcpts	**69.0%**	31.0%	PASS	increase
Artesia	Los Angeles	Measure Q	15%grossRcpts	**67.5%**	32.5%	PASS	increase
Madera	Madera	Measure R	6%grossRcpts	**67.0%**	33.0%	PASS	increase
Fairfield	Solano	Measure C	6%grossRcpts	**66.6%**	33.4%	PASS	increase
Costa Mesa	Orange	Measure Q	4%to7%grossRcpts	**66.0%**	34.0%	PASS	increase
Tracy	San Joaquin	Measure W	6%grossRcpts	**65.9%**	34.1%	PASS	increase
Vacaville	Solano	Measure V	6%grossRcpts	**65.6%**	34.4%	PASS	increase
County of Calaveras		Measure G	4%to7%grossRcpts	**64.6%**	35.4%	PASS	increase
San Bruno	San Mateo	Measure S	10%grossRcpts	**64.1%**	35.9%	PASS	increase
Hawthorne	Los Angeles	Measure CC	5%grossRcpts	**63.7%**	36.3%	PASS	increase
Oceanside	San Diego	Measure M	6%grossRcpts	**63.4%**	36.6%	PASS	increase
Marysville	Yuba	Measure N	6%grossRcpts	**63.4%**	36.6%	PASS	increase
Grass Valley	Nevada	Measure N	8%grossRcpts	**63.2%**	36.8%	PASS	increase
Calabasas	Los Angeles	Measure C	10%grossRcpts	**63.0%**	37.0%	PASS	increase
Waterford	Stanislaus	Measure S	15%grossRcpts	**59.9%**	40.1%	PASS	increase
Porterville	Tulare	Measure R	10%grossRcpts	**58.8%**	41.2%	PASS	increase
County of Ventura	Ventura	Measure O	4%grossRcpts	**57.1%**	43.0%	PASS	increase
Jurupa Valley INIT	Riverside	Measure U	6%grossRcpts	48.4%	**51.6%**	FAIL	increase
Yountville	Napa	Measure T	3%grossRcpts	32.8%	**67.2%**	FAIL	increase

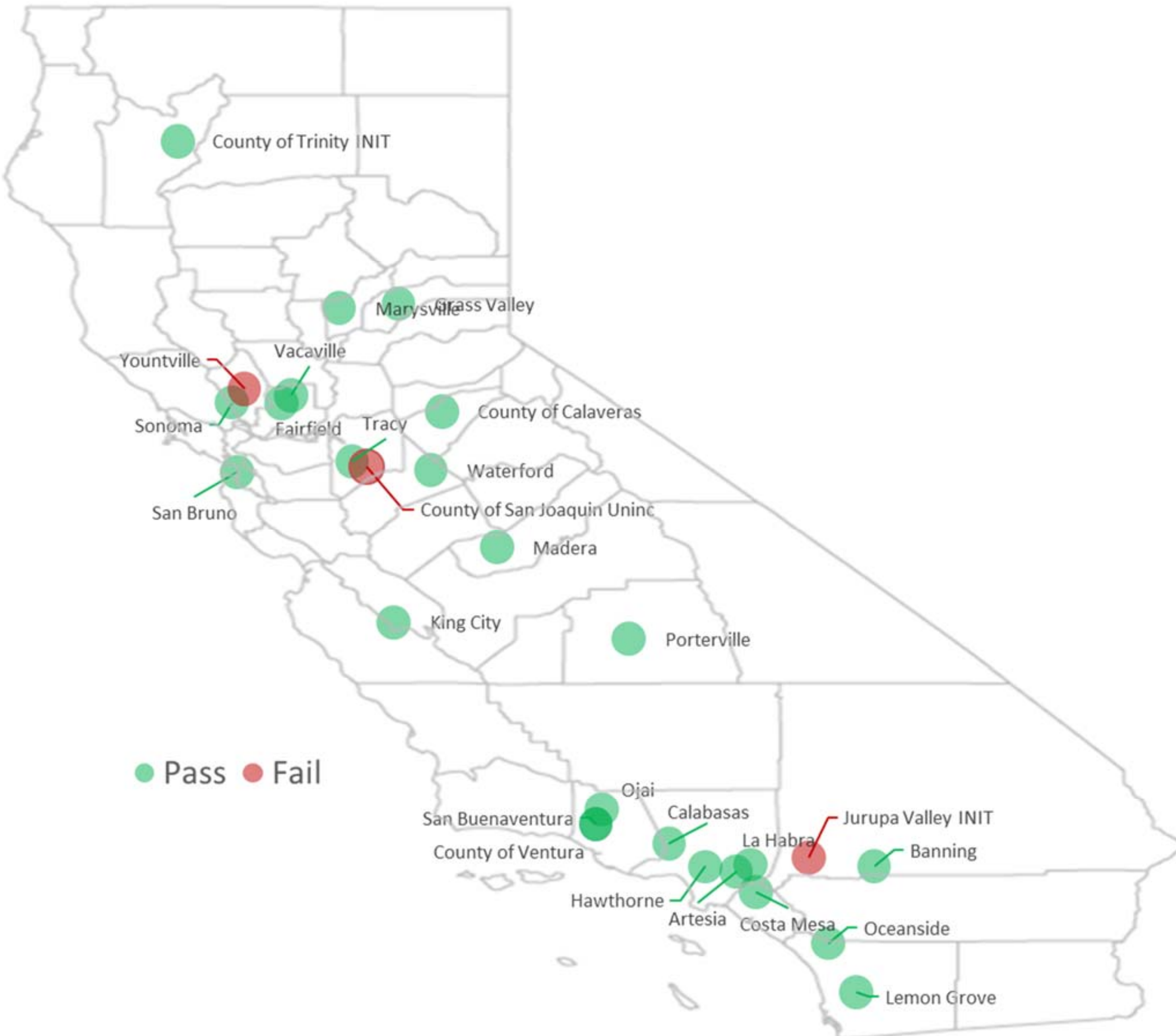
Cannabis Taxes - Two-Thirds Vote Special Purpose

Agency Name	County		Rate	YES%	NO%	
County of San Joaquin Uninc		Measure X	3.5to8%grossRcpts	65.4%	**34.6%**	FAIL

Too close to call

*An initiative measure legalizing cannabis businesses in Solana Beach would have "authorized" a 1.5 percent "sales tax." As structured in the initiative, the tax would have been illegal and could not have been implemented. It is not included here. The measure failed.

Cannabis Tax Measures



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Business Operations Taxes ✓

There were seven business operations tax measures other than the cannabis tax measures, all majority vote. All but Lynwood's unusual "for-profit hospital" tax passed.

Business Operations Tax Measures (other than on cannabis) - Majority Vote, General Use

Agency	County	Measure	YES%	NO%	Result
San Jose	Santa Clara	Measure H	**73.5%**	26.5%	PASS

To fund general San José services, including fire protection, disaster preparedness, 911 emergency response, street repair, youth programs, addressing homelessness, and supporting vulnerable residents, shall an ordinance be adopted increasing the **cardroom tax rate from 15% to 16.5%**, applying the tax to third party providers at these rates: up to $25,000,000 at 5%; $25,000,001 to $30,000,000 at 7.5%; and over $30,000,000 at 10%, increasing card tables by 30, generating approximately $15,000,000 annually, until repealed?

Agency	County	Measure	YES%	NO%	Result
Richmond	Contra Costa	Measure U	**73.0%**	27.0%	PASS

To maintain quality of life in Richmond by continuing certain City services, including 911 emergency response, pothole/street repair, homeless/youth services and other general services, shall an ordinance **amending the City's business tax to charge businesses 0.06% to 5.00% of gross receipts, and other rates as stated**, with the highest rates on cannabis, firearm and the biggest businesses, providing approximately $9.5 million annually until ended by voters, be adopted?

Agency	County	Measure	YES%	NO%	Result
San Francisco		Proposition F	**68.3%**	31.7%	PASS

Shall the City **eliminate the payroll expense tax**; permanently increase the registration fee for some businesses by $230-460, decreasing it for others; permanently **increase gross receipts tax rates to 0.105-1.040%, exempting more small businesses**; permanently **increase the administrative office tax rate to 1.61%**; if the City loses certain lawsuits, increase gross receipts tax rates on some businesses by 0.175-0.690% and the administrative office tax rate by 1.5%, and place a new 1% or 3.5% tax on gross receipts from commercial leases, for 20 years; and make other **business tax changes**; for estimated annual revenue of $97 million?

Agency	County	Measure	YES%	NO%	Result
San Francisco		Proposition L	**65.2%**	34.8%	PASS

Shall the City place an additional tax permanently on some **businesses in San Francisco when their highest-paid managerial employee earns more than 100 times the median compensation paid to their employees** in San Francisco, where the **additional tax rate would be between 0.1%-0.6% of gross receipts or between 0.4%-2.4% of payroll expense** for those businesses in San Francisco, for an estimated revenue of between $60-140 million a year?

Agency	County	Measure	YES%	NO%	Result
Berkeley	Alameda	Measure GG	**60.5%**	39.5%	PASS

Shall an ordinance enacting a **tax on users of Transportation Network Companies** for prearranged trips originating in Berkeley, at a rate of **50 cents per trip for private trips and 25 cents per trip for pooled trips**, regardless of the number of passengers on the trip, which is estimated to generate $910,000 annually for general municipal services in the City of Berkeley until January 1, 2041, be adopted?

Agency	County	Measure	YES%	NO%	Result
Long Beach	Los Angeles	Measure US	**58.5%**	41.5%	PASS

To provide funding for community healthcare services; air/water quality and climate change programs; increase childhood education/ youth programs; expand job training opportunities; and maintain other general fund programs, shall a measure be adopted increasing Long Beach's general **oil production tax from 15¢ to maximum 30¢ per barrel**, subject to annual adjustments, generating approximately $1,600,000 annually, until ended by voters, requiring audits/ local control of funds?

Agency	County	Measure	YES%	NO%	Result
Lynwood	Los Angeles	Measure LH	46.2%	**53.8%**	FAIL

To protect, maintain and enhance vital public safety services, infrastructure needs including streets, utility maintenance, park and recreation services including programs for youth and seniors, and other essential services, shall the City of Lynwood impose a **three percent (3%) privilege tax on the gross receipts of for-profit hospitals** operating within the City of Lynwood? All funds to be deposited in Lynwood general fund.

Property Transfer Taxes ✓

Voters in six charter cities considered increasing their taxes on transfers of real estate. Voters in the wealthy enclave turned down their Measure TT.

Property Transfer Taxes

City	County	Measure Na	Rate	YES%	NO%	
Santa Monica	Los Angeles	Measure SM	by $3 to $6/$1k AV if <$5m AV	**73.1%**	26.9%	PASS
San Francisco	San Francisco	Proposition I	by 2.75%to5.5% for $10m-$25mAV, by3%to6% for	**58.0%**	42.0%	PASS
Albany	Alameda	Measure CC	by$3.50 to $15/$1000AV	**57.9%**	42.1%	PASS
San Leandro	Alameda	Measure VV	by$5to $11/$1000AV	**54.2%**	45.8%	PASS
Culver City	Los Angeles	Measure RE	1.5% on $1.5m+, 3% on $3m+, 4% $10m+	**53.3%**	46.7%	PASS
Piedmont	Alameda	Measure TT	by$4.50 to $17.50/$1000AV	47.8%	**52.3%**	FAIL

Utility User Taxes ✓

Voters in ten cities and one county unincorporated area considered measures to increase or continue utility user taxes for general purposes.

Utility User Taxes

City	County		Rate		Sunset	YES%	NO%	
South Pasadena	Los Angeles	Measure U	7.5% tele,electr,gas,video,w	extend	none	**77.3%**	22.7%	PASS
Newark	Alameda	Measure PP	3.25% tele,electr,gas,video	extend	9yrs	**72.8%**	27.2%	PASS
County of Alameda UNINC		Measure V	6.5% tele, electr, gas	extend	to 6/30/2033	**70.4%**	29.6%	PASS
Albany	Alameda	Measure DD	by 2.5%to9.5% electr, gas, 7.5% on water	increase	none	**58.3%**	41.7%	PASS
Union City	Alameda	Measure WW	5% tele,electr,gas,video	increase	8yrs	**57.8%**	42.2%	PASS
Cloverdale	Sonoma	Measure R	3% tele, electr, gas, video	extend	none	**53.9%**	46.1%	PASS
Hawthorne	Los Angeles	Measure UU	by 2.5%to7.5% tele,electr,gas,video,water	increase	none	47.8%	**52.2%**	FAIL
Berkeley	Alameda	Measure HH	by 2.5%to10% electr,gas	increase	none	47.0%	**53.0%**	FAIL
Brawley	Imperial	Measure R	4% to video*	expand		28.6%	**71.4%**	FAIL
Calipatria	Imperial	Measure T	5% tele, electr, gas, water, trash, sewer, catv	increase	none	24.8%	**75.2%**	FAIL
Pomona INIT	Los Angeles	Measure PA	by 0.75%to 9.75% tele,elect,gas,video,water	increase		14.6%	**85.5%**	FAIL

Utility Transfers ✓

Voters in Pasadena authorized the continued transfer from their electric utility to support general fund services such as police, fire, paramedics and parks.

Utility Transfer Taxes

City	County		Rate		YES%	NO%	
Pasadena	Los Angeles	Measure P	12% of gross electric revenue	extend	**84.6%**	15.4%	PASS

General Obligation Bonds ✓

There were eleven non-school general obligation bond measures totaling $1.9 billion. Five passed. In all, $1.3 billion in local non-school general obligation bonds were approved. The largest, San Diego's $900 million measure for affordable and homeless housing failed.

City, County and Special District General Obligation Bond Measures (2/3 vot

Agency Name	County		Amount	Rate	YES%	NO%	
San Francisco		Proposition A	$487.5m	$14/$100k	**71.1%**	28.9%	PASS
Piedmont	Alameda	Measure UU	$19.5m	$26/$100k	**68.7%**	31.3%	PASS
Alameda County Fire Au	Alameda	Measure X	$90m	$16/$100k	**68.3%**	31.7%	PASS
Washington Township Health Care District	Alameda	Measure XX	$425m	$10/$100k	**67.1%**	32.9%	PASS
San Diego	San Diego	Measure A	$900m	$21/$100k	57.4%	**42.6%**	FAIL

Parcel Taxes – Non-School ✓

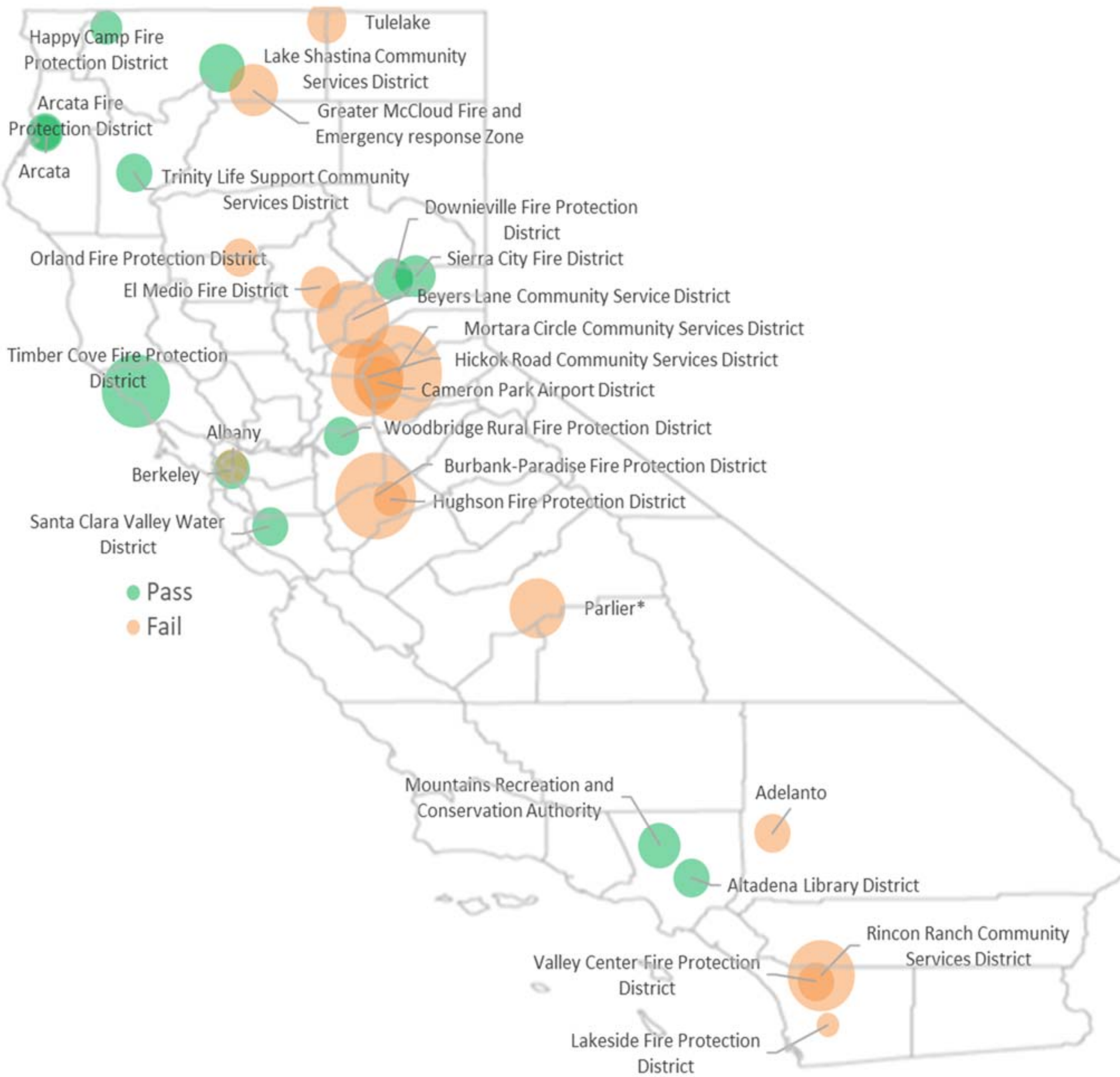
There were 30 parcel tax measures for a variety of public services. Fourteen appear to have passed and several others are too close to call. The Beyers Lane tax received one "yes" among six votes counted on election eve.

City, County and Special District Parcel Taxes (2/3 vote)

Agency Name	County		Amount	Purpose	sunset	YES%	NO%	
Mountains Recreation and Conservatio	Los Angeles	Measure HH	$68/parcel	fire	10yrs	**83.1%**	16.9%	PASS
Santa Clara Valley Open Space Authori	Santa Clara	Measure T	$24/parcel	parks/open space	none	**81.8%**	18.2%	PASS
Arcata	Humboldt	Measure A	$37/parcel	park/wildlands	none	**78.4%**	21.6%	PASS
Arcata Fire Protection District	Humboldt	Measure F	???	fire	6/30/2030	**77.1%**	22.9%	PASS
Timber Cove Fire Protection District	Sonoma	Measure AA	$185/parcel	fire/ems	15yrs	**76.5%**	23.5%	PASS
Sierra City Fire District	Sierra	Measure H	$60/parcel	fire/ems	none	**75.9%**	24.1%	PASS
Santa Clara Valley Water District	Santa Clara	Measure S	$.006/sf	water	none	**75.7%**	24.3%	PASS
Berkeley	Alameda	Measure FF	$0.1047/sf	fire/ems	none	**75.6%**	24.4%	PASS
Altadena Library District	Los Angeles	Measure Z	$0.10/sf	library	none	**73.3%**	26.7%	PASS
Woodbridge Rural Fire Protection Distr	San Joaquin	Measure U	8c/sf	fire	none	**72.9%**	27.1%	PASS
Trinity Life Support Community Service	Trinity	Measure I	$45/parcel	ems	none	**72.9%**	27.1%	PASS
Lake Shastina Community Services Dist	Siskiyou	Measure J	$80/parcel	fire/ems	none	**70.7%**	29.3%	PASS
Downieville Fire Protection District	Sierra	Measure G	$60/parcel	fire/ems	none	**70.1%**	29.9%	PASS
Happy Camp Fire Protection District	Siskiyou	Measure D	$39/parcel	fire/ems	none	**67.1%**	32.9%	PASS
Parlier	Fresno	Measure G	$120/parcel*	police	none	66.3%	**33.7%**	FAIL
Adelanto	San Bernardin	Measure R	$50+ to $600+/acre	vacant property	20yrs	65.4%	**34.6%**	FAIL
Greater McCloud Fire and Emergency re	Siskiyou	Measure G	$94/parcel	fire/ems	none	65.1%	**34.9%**	FAIL
Cameron Park Airport District	El Dorado	Measure P	by $900 to $1200/parcel	airport	none	62.7%	**37.3%**	FAIL
Albany	Alameda	Measure EE	by$44.34to$68	fire/ems	none	60.7%	**39.3%**	FAIL
Hughson Fire Protection District	Stanislaus	Measure W	$39.75/rdu	fire	12yrs	60.5%	**39.5%**	FAIL
Rincon Ranch Community Services Dist	San Diego	Measure Z	$170/parcel+$6/acre	fire		59.8%	**40.2%**	FAIL
Orland Fire Protection District	Glenn	Measure G	$45+/parcel	fire	none	57.4%	**42.6%**	FAIL
Valley Center Fire Protection District	San Diego	Measure AA	6c/sf	fire	none	57.0%	**43.0%**	FAIL
Hickok Road Community Services Distr	El Dorado	Measure N	by $200to$400/parcel	streets/roads	none	52.2%	**47.8%**	FAIL
Burbank-Paradise Fire Protection Distric	Stanislaus	Measure Z	$250/parcel	fire	none	51.7%	**48.3%**	FAIL
El Medio Fire District	Butte	Measure D	$60+/parcel	fire/ems	none	50.8%	**49.2%**	FAIL
Lakeside Fire Protection District	San Diego	Measure Y	by $15 to $25+/parcel	fire	none	40.2%	**59.8%**	FAIL
Mortara Circle Community Services Dis	El Dorado	Measure Q	by $600 to $950/parcel	streets/roads	none	26.1%	**73.9%**	FAIL
Tulelake	Siskiyou	Measure N	$60+/parcel	police	none	24.9%	**75.1%**	FAIL
Beyers Lane Community Service Distric	Nevada	Measure O	$300/parcel	streets/roads		16.7%	**83.3%**	FAIL

Too close to call

Parcel Taxes – Non-School



School Parcel Taxes ✓

As in the past, school parcel taxes fared better than non-school parcel taxes. Nine of the 13 parcel tax measures for schools passed with the Fort Ross measure just a few votes short and too close to call.

School Parcel Taxes (2/3 voter approval)

Agency Name	County		Rate	Sunset	YES%	NO%	
Shoreline Unified School District	Marin / Sonoma	Measure L	$212+/parcel	8yrs	79.4%	20.6%	PASS
Palo Alto Unified School District	Santa Clara	Measure O	$836+/parcel	6yrs	78.5%	21.5%	PASS
Sebastopol Union School District	Sonoma	Measure N	$76/parcel	8yrs	75.1%	24.9%	PASS
San Francisco Unified School District	San Francisco	Proposition J	from $320 per parcel to $288 per parcel	17.5 yrs	75.0%	25.0%	PASS
Fremont Union High School District	Santa Clara	Measure M	$98/parcel	8yrs	74.3%	25.7%	PASS
Tamalpais Union High School District	Marin	Measure M	$469+/parcel	9yrs	73.6%	26.4%	PASS
Mammoth Unified School District	Mono	Measure G	$59/parcel	5yrs	73.6%	26.4%	PASS
Ventura Unified School District	Ventura	Measure H	$59/parcel	4yrs	73.4%	26.6%	PASS
Franklin-Mckinley School District	Santa Clara	Measure K	$72/parcel	5yrs	70.9%	29.1%	PASS
Fort Ross School District	Sonoma	Measure M	$48/parcel	8yrs	66.2%	33.8%	FAIL
Loma Prieta Joint Union Elementary School District	Santa Clara / Santa Cruz	Measure N	$164/parcel	7yrs	64.6%	35.4%	FAIL
Campbell Union High School District	Santa Clara	Measure L	$85/parcel	none	63.6%	36.4%	FAIL
San Jose - Evergreen CCD	Santa Clara	Measure I	$18/parcel	9yrs	61.5%	38.5%	FAIL

Too close to call

School Parcel Taxes

School Bonds ✓

There were 60 school bond measures on the ballot for a total of over $13.4 billion in school construction bonds. So far, 47 are passing totaling $12.2 billion. Among the passing measures is the $7 billion Los Angeles Unified School District measure.

School Bond Measures

School District	County	Measure	Amount	Tax Rate	YES%	NO%	
Inglewood Unified School Dis	Los Angeles	Measure I	$240m	$60/$100k	**79.9%**	20.1%	PASS
Oakland Unified School Distri	Alameda	Measure Y	$735m	$60/$100k	**77.0%**	23.0%	PASS
Sausalito Marin City School D	Marin	Measure P	$41.6m	$30/$100k	**72.8%**	27.3%	PASS
Calexico Unified School Distri	Imperial	Measure Q	$47m	$60/$100k	**71.5%**	28.5%	PASS
Goleta Union School District	Santa Barbara	Measure M	$80m	$19/$100k	**71.5%**	28.6%	PASS
Los Angeles Unified School D	Los Angeles	Measure RR	$7billion	$22/$100k	**71.2%**	28.8%	PASS
Greenfield Union School Distr	Kern	Measure G	$21m	$30/$100k	**68.0%**	32.0%	PASS
Bassett Unified School Distric	Los Angeles	Measure BB	$50m	$60/$100k	**66.9%**	33.1%	PASS
Whittier Union High School D	Los Angeles	Measure AA	$183.5m	$30/$100k	**66.2%**	33.8%	PASS
River Delta Unified School District SFID #2	Sacramento / Solano / Yolo	Measure K	$14.6m	$60/$100k	**64.2%**	35.8%	PASS
Mt Pleasant Elementary Schoo	Santa Clara	Measure Q	$12m	$30/$100k	**64.8%**	35.2%	PASS
Vallecito Unified School Distri	Calaveras	Measure I	$2.8m	$10/$100k	**64.7%**	35.3%	PASS
Jefferson Union High School I	San Mateo	Measure Z	$163m	$30/$100k	**64.2%**	35.8%	PASS
River Delta Unified School Dis	Sacramento / Solano	Measure J	$45.7m	$60/$100k	**64.0%**	36.0%	PASS
San Mateo-Foster City School	San Mateo	Measure T	$409m	$30/$100k	**64.0%**	36.0%	PASS
Siskiyou Union High School D	Siskiyou	Measure K	$3m	$8/$100k	**63.5%**	36.5%	PASS
Washington Unified School D	Yolo	Measure Z	$150m	$60/$100k	**63.1%**	36.9%	PASS
Riverdale Unified School Distr	Fresno / Kings	Measure J	$25.9m	$60/$100k	**63.0%**	37.0%	PASS
La Mesa - Spring Valley Schoo	San Diego	Measure V	$136m	$24/$100k	**62.9%**	37.1%	PASS
Monterey Peninsula Communi	Monterey	Measure V	$230m	$18/$100k	**62.9%**	37.1%	PASS
Pasadena Unified School Distr	Los Angeles	Measure O	$516.3m	$45/$100k	**62.9%**	37.1%	PASS
Cambrian School District	Santa Clara	Measure R	$88m	$30/$100k	**62.4%**	37.6%	PASS
Woodland Joint Unified Schoo	Yolo / Sutter	Measure Y	$44.2m	$24/$100k	**62.3%**	37.7%	PASS
Sunnyside Union Elementary S	Tulare	Measure O	$2m	$30/$100k	**62.1%**	37.9%	PASS
Shandon Joint Unified School District	Monterey / San Luis Obispo	Measure H	$4m	$40/$100k	**61.9%**	38.1%	PASS
Winters Joint Unified School I	Yolo / Solano	Measure W	$19m	$49/$100k	**61.6%**	38.4%	PASS
Gonzales Unified School Distr	Monterey	Measure K	$37m	$60/$100k	**61.5%**	38.5%	PASS
Oceanside Unified School Dis	San Diego	Measure W	$160m	$30/$100k	**61.1%**	38.9%	PASS
Ojai Unified School District	Ventura	Measure K	$45m	$27/$100k	**61.0%**	39.0%	PASS
Stanislaus Union School Distr	Stanislaus	Measure Y	$21.4m	$30/$100k	**60.8%**	39.2%	PASS
Salinas Union High School Di	Monterey	Measure W	$140m	$30/$100k	**60.7%**	39.3%	PASS
Soledad Unified School Distric	Monterey	Measure N	$13.75m	$26/$100k	**60.6%**	39.4%	PASS
South Bay Union School Distr	Humboldt	Measure D	$5m	$30/$100k	**60.3%**	39.7%	PASS
Willits Unified School District	Mendocino	Measure I	$17m	$40/$100k	**60.0%**	40.0%	PASS

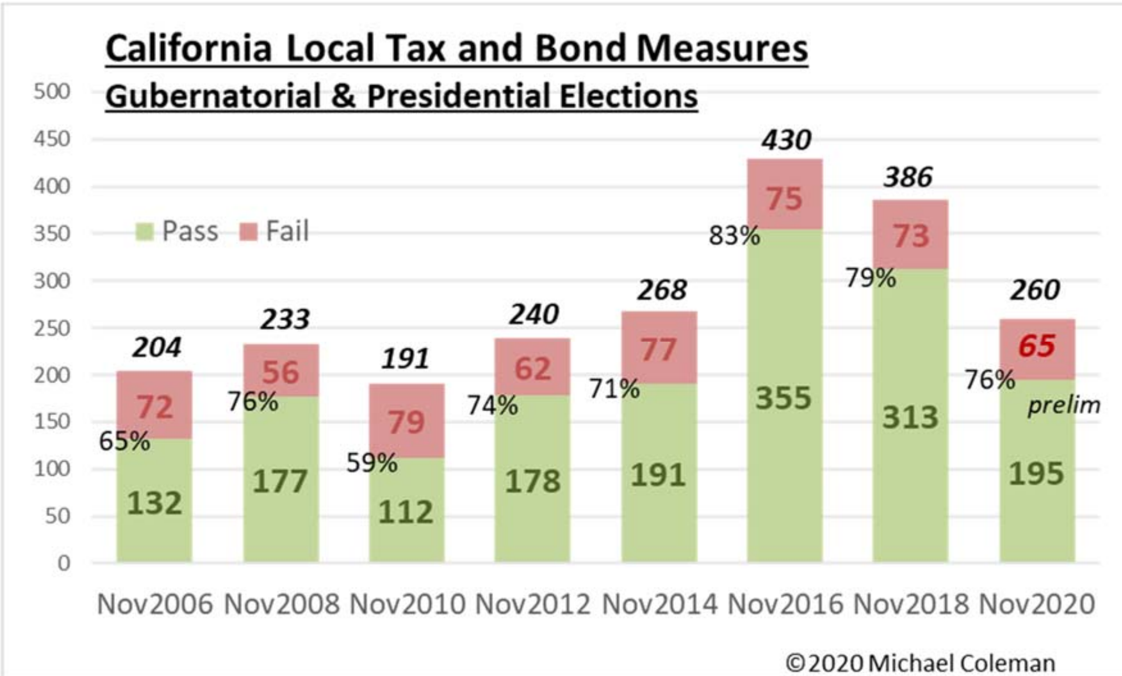
School Bond Measures *continued*

School District	County	Measure	Bond Amount	Tax Rate	YES%		
Le Grand Union High School I	Merced	Measure S	$6m	$29/$100k	**60.0%**	40.1%	PASS
Aromas San Juan Unified School District	Monterey / San Benito / Santa Cruz	Measure O	$30.5m	$51/$100k	**59.8%**	40.2%	PASS
Central Unified School District	Fresno	Measure D	$120m	$60/$100k	**59.6%**	40.4%	PASS
Clovis Unified School District	Fresno	Measure A	$335m	$60/$100k	**59.4%**	40.6%	PASS
Newman-Crows Landing Unifi	Stanislaus	Measure X	$25.8m	$48/$100k	**58.7%**	41.3%	PASS
Gonzales Unified School Distr	Monterey	Measure J	$24.5m	$60/$100k	**58.2%**	41.8%	PASS
Washington Unified School D	Fresno	Measure K	$46m	$60/$100k	**58.0%**	42.0%	PASS
Sanger Unified School District	Fresno	Measure C	$150m	$60/$100k	**57.4%**	42.6%	PASS
Manteca Unified School Distri	San Joaquin	Measure A	$260m	$45/$100k	**57.2%**	42.8%	PASS
Citrus Community College	Los Angeles	Measure Y	$298m	$25/$100k	**57.4%**	42.6%	PASS
Duarte Unified School District	Los Angeles	Measure S	$79m	$50/$100k	**57.1%**	42.9%	PASS
Evergreen Elementary School	Santa Clara	Measure P	$80m	$30/$100k	**55.9%**	44.1%	PASS
Salida Union School District	Stanislaus	Measure U	$9.24m	$20/$100k	**55.4%**	44.6%	PASS
Waterford Unified School Dist	Stanislaus	Measure T	$5.35m	$30/$100k	54.6%	**45.5%**	FAIL
San Miguel Joint Union School District	Monterey / San Luis Obispo	Measure I	$6.2m	$30/$100k	54.4%	**45.6%**	FAIL
Atascadero Unified School Di	San Luis Obispo	Measure C	$40m	$50/$100k	54.2%	**45.8%**	FAIL
Esparto Unified School Distric	Yolo	Measure X	$19.9m	$60/$100k	53.1%	**46.9%**	FAIL
Cajon Valley Union High Scho	San Diego	Measure T	$125m	$13/$100k	53.1%	**46.9%**	FAIL
Scotts Valley Unified School I	Santa Cruz	Measure A	$49m	$32/$100k	52.9%	**47.2%**	FAIL
San Jose - Evergreen CCD	Santa Clara	Measure J	$858m	$17.5/$100k	52.7%	**47.3%**	FAIL
Cold Spring Elementary Schoo	Santa Barbara	Measure L	$7.8m	$13/$100k	52.2%	**47.8%**	FAIL
Romoland School District	Riverside	Measure P	$39m	$30/$100k	51.8%	**48.2%**	FAIL
Calaveras Unified School Dist	Calaveras	Measure H	$32.8m	$10/$100k	50.3%	**49.7%**	FAIL
Wasco Union School District	Kern	Measure H	$16m	$30/$100k	48.5%	**51.5%**	FAIL
Maricopa Unified School Dist	Kern	Measure F	$14m	$50/$100k	47.2%	**52.8%**	FAIL
Dehesa School District	San Diego	Measure U	$3.1m	$30/$100k	36.7%	**63.3%**	FAIL

Too close to call

Some Historical Context

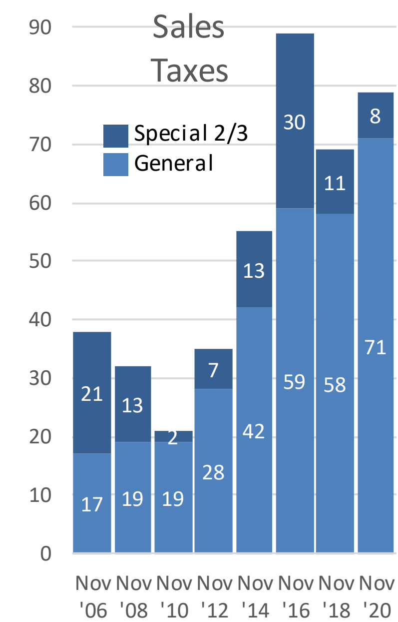
The volume and make-up of measures in this election is somewhat lower than the previous two presidential and gubernatorial general elections in 2018 and 2016, but comparable to years prior. The drop off in proposed measures is specific to certain types of measures: 1) those with higher vote thresholds, and 2) cannabis tax measures.

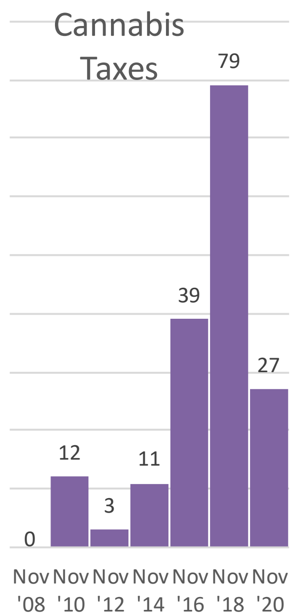


The 79 proposed sales tax measures is comparable to November 2018 (69) and November 2016 (89) and the 71 majority vote sales taxes is actually the highest of this type of tax proposal at any election, ever. Cannabis taxation has been hot for the last several years since legalization and the drop-off in those measures is essentially a function of this area of taxation and regulation running its course.

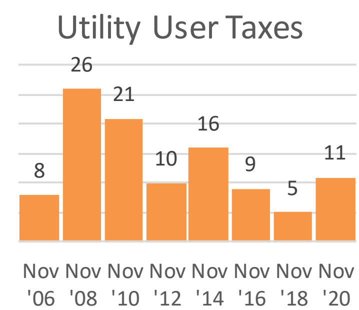
Other than cannabis tax measures, the most precipitous drop off in proposed measures from November 2016 and November 2018 is in school bonds. There are just 60 school bond measures this election, all 55 percent (i.e. no two-thirds vote school bond measures). This is about half as many as in 2018 and a third of the 184 proposed in 2016. It appears that school boards are anticipating that this election is a more difficult one for the more difficult to pass higher vote threshold measures.

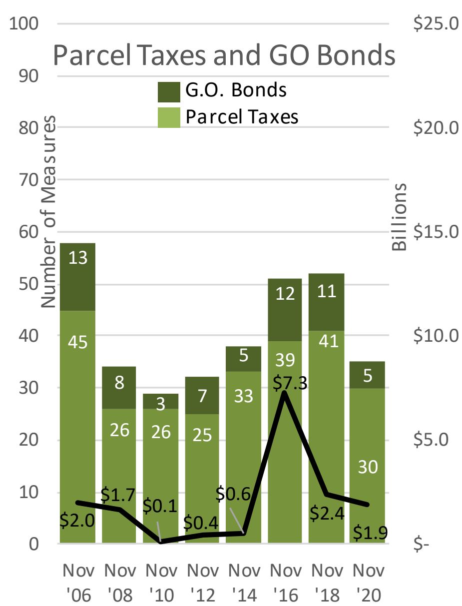
Likewise, here are just 25 non-school parcel taxes and general obligation bonds on local ballots compared to 52 in November 2018 and 51 in November 2016.

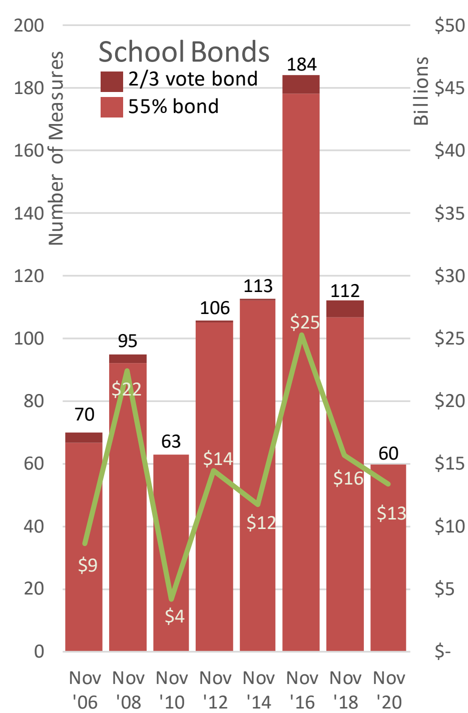

Sales Taxes
Special 2/3
General
17 19 19 28 42 59 58 71
21 13 2 7 13 30 11 8
Nov '06 Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20

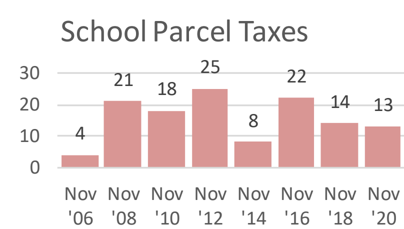

Cannabis Taxes
0 12 3 11 39 79 27
Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20


Hotel Taxes
17 12 16 18 14 22 40 20
Nov '06 Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20


Utility User Taxes
8 26 21 10 16 9 5 11
Nov '06 Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20


Parcel Taxes and GO Bonds
G.O. Bonds
Parcel Taxes
Number of Measures
Billions
45 26 26 25 33 39 41 30
13 8 3 7 5 12 11 5
$2.0 $1.7 $0.1 $0.4 $0.6 $7.3 $2.4 $1.9
Nov '06 Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20


School Bonds
2/3 vote bond
55% bond
Number of Measures
Billions
70 95 63 106 113 184 112 60
$9 $22 $4 $14 $12 $25 $16 $13
Nov '06 Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20


School Parcel Taxes
4 21 18 25 8 22 14 13
Nov '06 Nov '08 Nov '10 Nov '12 Nov '14 Nov '16 Nov '18 Nov '20

Other measures of Note

- There were twelve measures to convert elected city clerk or treasurer positions to appointed (by city council or manager) and one initiative (in Dixon) to revert to an elected city clerk. Seven appear to have passed.
- Voters in Sacramento turned down a proposal to move to a “strong mayor” form of governance from their current “council-manager” form, common in all but the largest cities in California.
- Oxnard voters rejected an initiative measure to cede major new powers to that city’s elected city treasurer, even as they re-elected him. Oxnard voters appear to have narrowly approved a measure dictating that a previously approved general purpose sales tax be used for streets and roads or repealed.
- Dixon voters approved an initiative repeal of a water rate increase.
- Menifee voters appear to have rejected an initiative to repeal a recently approved sales tax increases. Voters in the San Bernardino County Fire Protection District appear to have turned down an initiative to repeal a recently enacted (two-thirds voter approved) parcel tax.
- Albany and Eureka approved ranked choice voting.

Appointed City Clerk / City Treasurer / etc.

City	County			YES%	NO%	
Sierra Madre	Los Angeles	Measure AC	appoint city clerk	**67.5%**	32.5%	PASS
Nevada City	Nevada	Measure L	appoint city clerk and city treasurer	**65.6%**	34.4%	PASS
Placerville	El Dorado	Measure R	appoint city treasurer	**63.5%**	36.5%	PASS
Coalinga	Fresno	Measure B	appoint city clerk	**57.4%**	42.7%	PASS
Yreka	Siskiyou	Measure E	appoint city clerk	**55.6%**	44.4%	PASS
Sonora	Tuolumne	Measure R	appoint city clerk	**52.3%**	47.7%	PASS
Sonora	Tuolumne	Measure S	appoint city treasurer	**50.3%**	49.7%	PASS
Suisun City	Solano	Measure R	appoint city clerk	47.1%	**52.9%**	FAIL
Plymouth	Amador	Measure D	appoint city treasurer	45.4%	**54.6%**	FAIL
Plymouth	Amador	Measure C	appoint city clerk	45.3%	**54.7%**	FAIL
Pittsburg	Contra Costa	Measure Q	appoint city clerk	36.9%	**63.1%**	FAIL
Brawley	Imperial	Measure S	appoint city clerk	34.7%	**65.3%**	FAIL

Tax and Fee Initiative to Repeal or Revise

Agency Name	County		Rate	YES%	NO%	
Dixon INIT	Solano	Measure S	repeal water rate increase	**72.8%**	27.2%	PASS
Oxnard INIT	Ventura	Measure N	use TrUT for streets or end	**50.8%**	49.2%	PASS
San Bernardino County Fire Protection	San Bernardino	Measure U	repeal tax	49.0%	**51.0%**	FAIL
Menifee INIT	Riverside	Measure M	repeal TrUT	36.5%	**63.5%**	FAIL

****

For more information: Michael Coleman 530-758-3952. coleman@muniwest.com

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ATTACHMENT 6:

Section 115 Trust Investment Strategies

CITY OF GOLETA

PARS 115 Trust – OPEB & Pension Investment Selection

October 8, 2020

CONTACTS

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Client Services Coordinator
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atang@pars.org

INVESTMENT SELECTION CHECKLIST

- OPEB & Pension Trust Team
- Investment Selection Form
- Actuarial Valuation – OPEB
- Actuarial Valuation – Pension
- Efficient Frontier
- Active vs. Passive
- Quarterly Performance Sheets
- IGD (Investment Guidelines Document)
- Averaging-in Period

PARS 115 TRUST TEAM

Trust Administrator & Consultant

PUBLIC AGENCY RETIREMENT SERVICES PARS
TRUSTED SOLUTIONS. LASTING RESULTS.

- Recordkeeping
- Sub-trust accounting
- Monitors plan compliance
- Processes contributions/disbursements
- Hands-on, dedicated support teams
- Coordinates all agency services

36	1,500+	1,000+	500K+	$4.5B
Years of Experience (1984-2020)	Plans under Administration	Public Agency Clients	Plan Participants	Assets under Administration

Trustee

usbank

- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts
- Safeguard plan assets
- Oversight protection as plan fiduciary
- Custodian of assets

157	$5.0T
Years of Experience (1863-2020)	Assets under Administration

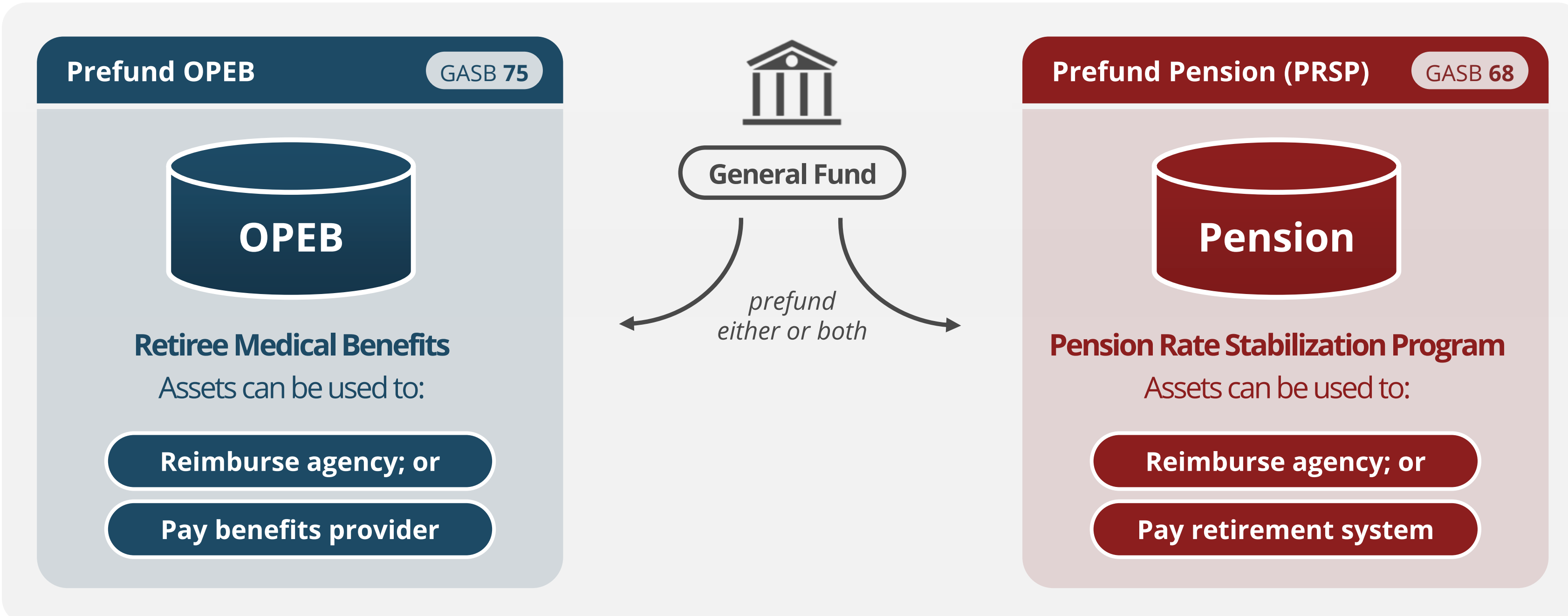
Investment Manager

HIGHMARK® CAPITAL MANAGEMENT

- Investment sub-advisor to trustee U.S. Bank
- Investment policy assistance
- Uses open architecture
- Active and passive platform options
- Customized portfolios (with minimum asset level)

101	$16.2B
Years of Experience (1919-2020)	Assets under Management

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts

OPEB and pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center.

Financial Stability

Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.

Flexible Investing

Allows separate investment strategies for OPEB and pension subaccounts.

Anytime Access

Trust funds are available anytime; OPEB for OPEB and pension for pension.

Economies-of-Scale

OPEB and pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!

No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

Investment Strategy Selection and Disclosure Form
PARS Pension / OPEB Trust Program

- This document is entered into by client and U.S. Bank National Association ("U.S. Bank"), as trustee.
- Employer: ______________________
- Plan/Trust Name: Public Agencies Post-Employment Benefits Trust
- To: HighMark Capital Management, Inc. and U.S. Bank:

U.S. Bank has been or is hereby appointed Investment Manager of the above-referenced Plan/Trust. Please invest the assets of the above-referenced Plan/Trust for which you have been appointed Investment Manager in the **(select one of the strategies listed below for each Plan funded by the Trust)**:

SAMPLE

	❑ OPEB Account	❑ Pension Account	Primary Goal	Strategic Range
	❑ **Liquidity Management** (US Treasury)	❑ Liquidity Management (US Treasury)	Provide current income with liquidity and stability of principal through investments in short-term U.S. Treasury obligations.	Money Market Fund
	❑ Liquidity Management (Prime Obligation)	❑ Liquidity Management (Prime Obligation)	Generate current income with liquidity.	Money Market Fund
DIVERSIFIED PORTFOLIOS	❑ Conservative HighMark PLUS ❑ Conservative Index PLUS	❑ Conservative HighMark PLUS ❑ Conservative Index PLUS	Provide a consistent level of inflation-protected income over the long-term.	Equity: 5-20% Fixed Income: 60-95% Cash: 0-20%
	❑ Moderately Conservative HighMark PLUS ❑ Moderately Conservative Index PLUS	❑ Moderately Conservative HighMark PLUS ❑ Moderately Conservative Index PLUS	Provide current income with capital appreciation as a secondary objective.	Equity: 20-40% Fixed Income: 50-80% Cash: 0-20%
	❑ Moderate HighMark PLUS ❑ Moderate Index PLUS	❑ Moderate HighMark PLUS ❑ Moderate Index PLUS	Provide current income and moderate capital appreciation.	Equity: 40-60% Fixed Income: 40-60% Cash: 0-20%
	❑ Balanced HighMark PLUS ❑ Balanced Index PLUS	❑ Balanced HighMark PLUS ❑ Balanced Index PLUS	Provide growth of principal and income.	Equity: 50-70% Fixed Income: 30-50% Cash: 0-20%
	❑ Capital Appreciation HighMark PLUS ❑ Capital Appreciation Index PLUS	❑ Capital Appreciation HighMark PLUS ❑ Capital Appreciation Index PLUS	Primary goal is growth of principal.	Equity: 65-85% Fixed Income: 10-30% Cash: 0-20%
	❑ Custom	❑ Custom	Specify:	

Note: HighMark PLUS portfolios are diversified portfolios of actively managed mutual funds. Index PLUS portfolios are diversified portfolios of Index-based mutual funds or exchange-traded funds.

Acknowledged and Approved

Signature of Authorized Signer	Title
Print Name of Authorized Signer	Date

OPEB ACTUARIAL RESULTS

Data from 2019 CAFR Valuation Date: 6/30/2019	**Pay-as-you-Go Discount Rate: 3.75%**	**Percent Change**	**Prefunding Discount Rate: 6.75%**
Total OPEB Liability (TOL)	$2,241,108	30-36%▼	?
Fiduciary Net Position	$0	--	$0
Net OPEB Liability (NOL)	$2,241,108	30-36%▼	?
Service Cost for FY 2018-19	$318,822	30-36%▼	?
Annual Benefit Payments (Pay-as-you-Go) for FY 2018-19	$16,745	--	$16,745

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

PENSION FUNDING STATUS

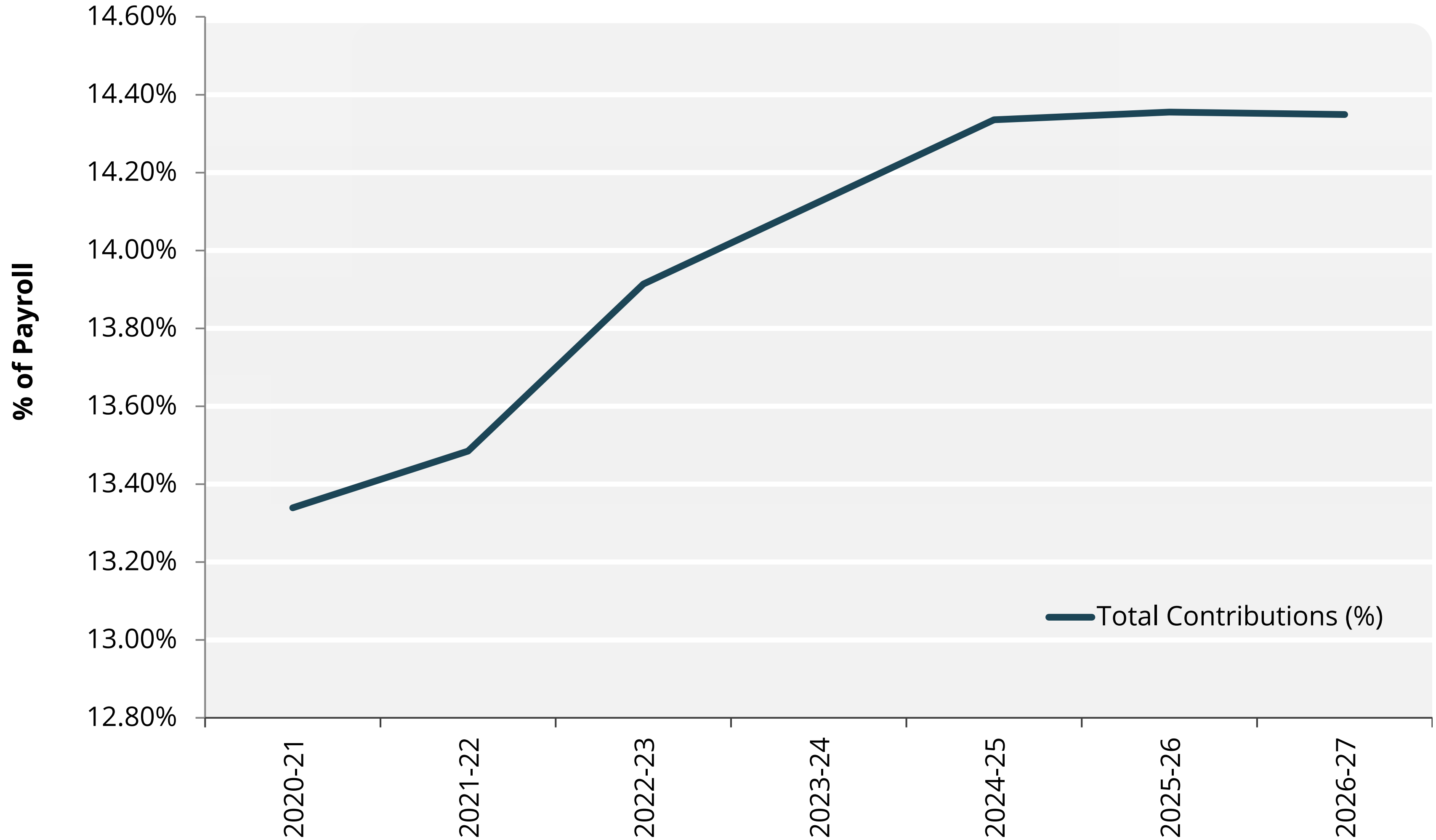
As of June 30, 2019, City of Goleta's CalPERS pension plan is funded as follows*:

Combined Miscellaneous & Safety Groups	Valuation as of June 30, 2018	Valuation as of June 30, 2019	Change
Actuarial Liability	$17.7 M	$19.8 M	11.86% ↑
Assets	$14.4 M	$16.1 M	11.81% ↑
Unfunded Liability	$3.3 M	$3.6 M	9.09% ↑
Funded Ratio	81.4%	81.6%	0.25% ↑
Employer Contribution Amount	$703.0 K (FY 19-20)	$869.1 K (FY 20-21)	23.63% ↑
Employer Contribution Amount (FY 26-27)	---	$1.2 M	34.7% ↑

** Data through 2026-27 from Agency's latest CalPERS actuarial valuation.*

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

Projected misc. contributions increase from **$869.1K to $1.2M*** (34.7% ↑)



** Data through 2026-27 from Agency's latest CalPERS actuarial valuation.*

HIGHMARK CAPITAL MANAGEMENT

About HighMark Capital Management, Inc.

LONGEVITY

Managing assets for clients since **1919***

TALENT

43 investment professionals

24 professionals hold the Chartered Financial Analyst® (CFA) designation

22 years average industry experience

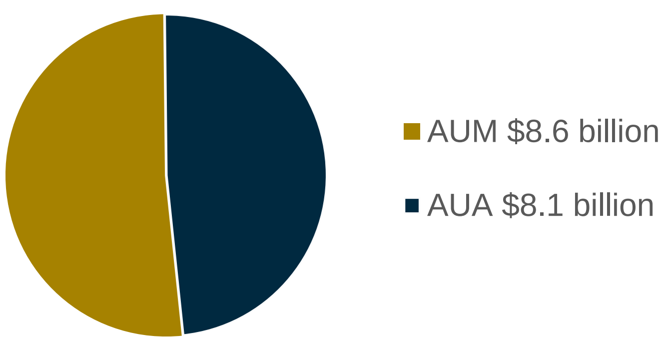
STABILITY

Investment boutique structure headquartered in San Francisco backed by global strength within MUFG Union Bank, N.A.

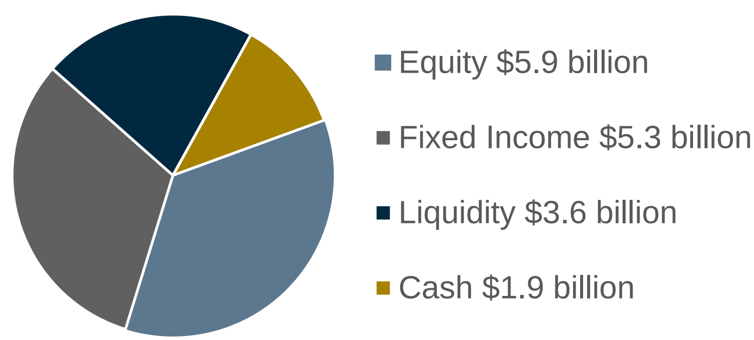
ASSETS UNDER MANAGEMENT AND ADVISEMENT**

$16.7 billion as of 6/30/2020

Client Base



Asset Class



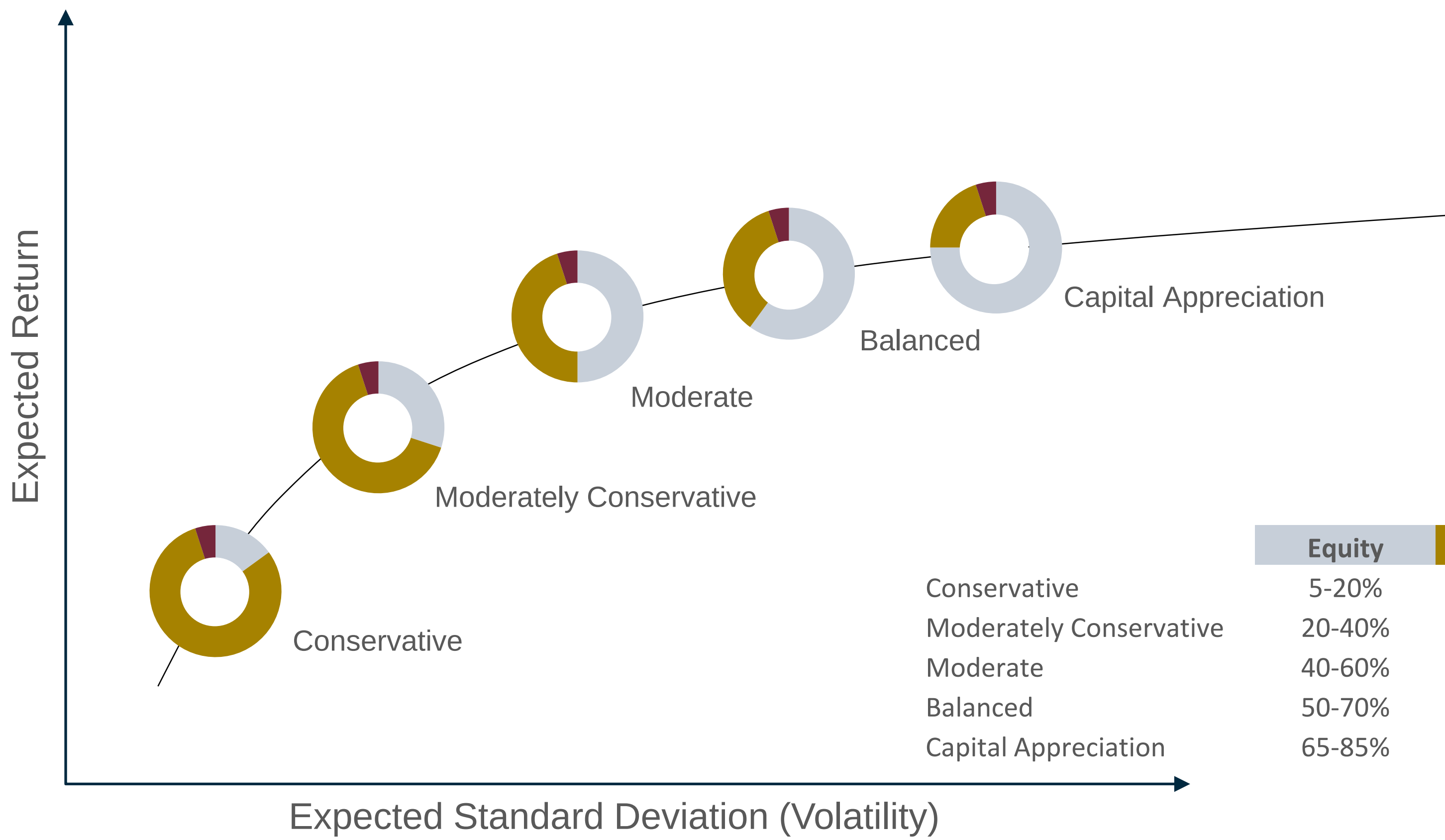
*Includes predecessor organizations. HighMark Capital Management, Inc. registered with the SEC as an investment adviser on August 7, 1998.

**Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

HIGHMARK® CAPITAL MANAGEMENT

Establish: Determine your Strategic Asset Allocation Strategy

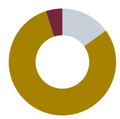
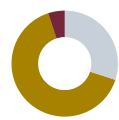
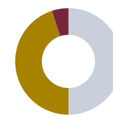
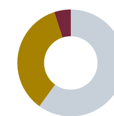
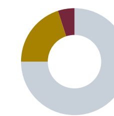
Efficient frontier of portfolios with varying ranges of equities and fixed income



	Equity	Fixed Income	Cash
Conservative	5-20%	60-95%	0-20%
Moderately Conservative	20-40%	50-80%	0-20%
Moderate	40-60%	40-60%	0-20%
Balanced	50-70%	30-50%	0-20%
Capital Appreciation	65-85%	10-30%	0-20%

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 6/30/2020. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

Construct Your Plan's Portfolio: PARS Diversified Portfolios – Tactical Allocation

	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
Equity	**5-20%**	**20-40%**	**40-60%**	**50-70%**	**65-85%**
Current Tactical	***14.50%***	***29.00%***	***48.34%***	***58.00%***	***72.50%***
Large Cap Blend	5.40%	10.65%	18.11%	21.98%	27.36%
Large Cap Value	1.68%	3.48%	5.94%	7.12%	8.71%
Large Cap Growth	1.68%	3.48%	5.94%	7.12%	8.71%
Mid Cap Blend	1.02%	2.04%	3.33%	4.07%	5.09%
Mid Cap Value	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	0.25%	0.55%	0.94%	1.02%	1.21%
Small Cap Value	0.81%	1.42%	2.32%	2.75%	2.98%
Small Cap Growth	0.81%	1.42%	2.32%	2.75%	2.98%
International	1.83%	3.91%	6.06%	7.12%	10.23%
Tactical - Europe	0.00%	0.00%	0.00%	0.00%	0.00%
Emerging Markets	1.02%	2.05%	3.38%	4.07%	5.23%
Fixed Income	**60-95%**	**50-80%**	**40-60%**	**30-50%**	**10-30%**
Current Tactical	***81.25%***	***66.85%***	***47.60%***	***38.00%***	***23.74%***
Short Term Bond	16.75%	12.15%	8.80%	6.00%	2.64%
Intermediate Term Bond	64.50%	54.70%	38.80%	32.00%	21.10%
Floating Rate Note	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	**0-20%**	**0-20%**	**0-20%**	**0-20%**	**0-20%**
Current Tactical	***4.25%***	***4.15%***	***4.06%***	***4.00%***	***3.76%***
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 6/30/2020. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

Construct Your Plan's Portfolio: PARS Diversified Portfolios – Active v. Passive

	HighMark Plus (Active)		Index Plus (Passive)	
Equity	***Ticker***	***Fund Name***	***Ticker***	***Fund Name***
Large Cap Blend	COFYX	Columbia Contrarian Core I3	IVV	iShares Core S&P 500 ETF
Large Cap Blend	VGIAX	Vanguard Growth & Income Adm		
Large Cap Value	DODGX	Dodge & Cox Stock	IVE	iShares S&P 500 Value ETF
Large Cap Value	IVE	iShares S&P 500 Value ETF		
Large Cap Growth	HNACX	Harbor Capital Appreciation Ret	IVW	iShares S&P 500 Growth ETF
Large Cap Growth	PRUFX	T. Rowe Price Growth Stock I		
Mid Cap Blend	IWR	iShares Russell Mid-Cap ETF	IWR	iShares Russell Mid-Cap ETF
Real Estate	VNQ	Vanguard Real Estate ETF	VNQ	Vanguard Real Estate ETF
Small Cap Value	UBVFX	Undiscovered Managers Behavioral Val R6	IWN	iShares Russell 2000 Value ETF
Small Cap Growth	RSEJX	Victory RS Small Cap Growth R6	IWO	iShares Russell 2000 Growth ETF
International	DFALX	DFA Large Cap International Portfolio		
International	DODFX	Dodge & Cox International Stock		
International	MGRDX	MFS International Growth R6	EFA	iShares MSCI EAFE ETF
Emerging Markets	HHHFX	Hartford Schroders Emerging Mkts Eq F	VWO	Vanguard FTSE Emerging Markets ETF
Fixed Income	***Ticker***	***Fund Name***	***Ticker***	***Fund Name***
Short Term Bond	VFSUX	Vanguard Short-Term Investment-Grade Adm	VFSUX	Vanguard Short-Term Investment-Grade Adm
Intermediate Term Bond	PTTRX	PIMCO Total Return Instl	AGG	iShares Core U.S. Aggregate Bond
Intermediate Term Bond	PTRQX	PGIM Total Return Bond Q		
Intermediate Term Bond	DBLFX	DoubleLine Core Fixed Income I		
Cash				
Characteristics				
Fund Manager Dependency		Higher dependency on portfolio manager skill		Tracks index, thus little-to-no dependency on portfolio manager skill
Opportunity to Outperform Index		Opportunity to outperform index		Typically performs below index after fees
Costs		Higher expense ratios due to portfolio manager skill		Lower expense ratio due to little dependency on portfolio manager skill or opportunity for outperformance

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 6/30/2020. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment. Specific securities identified above do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified in this presentation were or will be profitable.

HIGHMARK CAPITAL MANAGEMENT

As of August 31, 2020

ACTIVE PORTFOLIO RETURNS

Strategy	Equity (%)	1 Year	3 Years	5 Years	10 Years
Capital Appreciation	65-85%	12.24%	8.41%	9.02%	9.68%
Balanced	50-70%	11.44%	7.81%	8.16%	8.73%
Moderate	40-60%	10.52%	7.28%	7.50%	7.88%
Moderately Conservative	20-40%	8.54%	6.13%	6.08%	6.18%
Conservative	5-20%	7.10%	5.38%	5.14%	4.79%

** Past performance does not guarantee future results.*

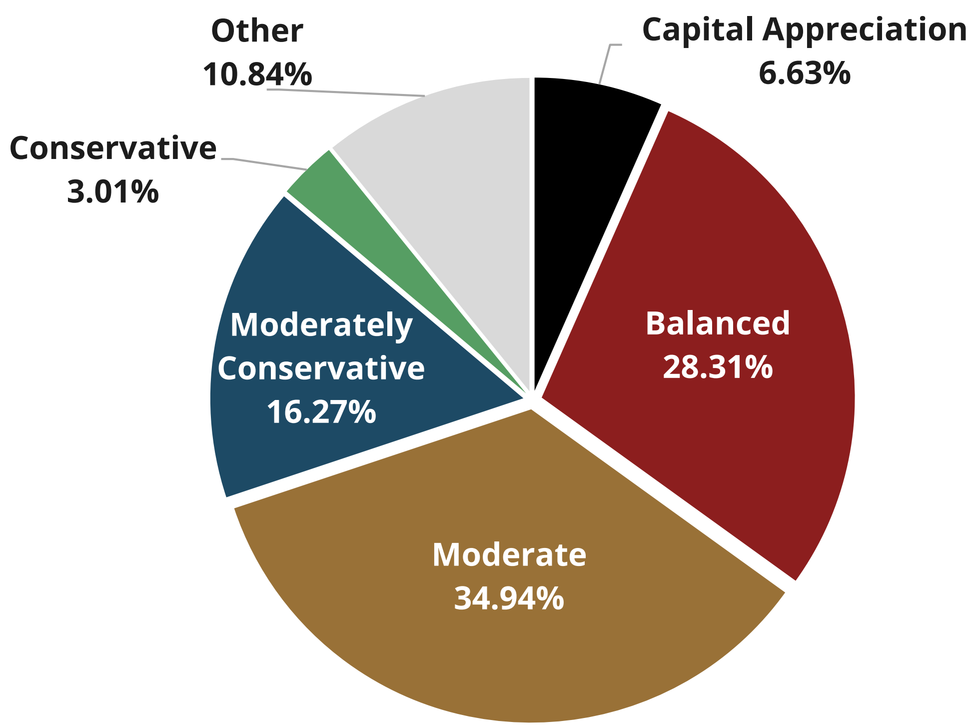
PUBLIC AGENCY RETIREMENT SERVICES PARS
TRUSTED SOLUTIONS. LASTING RESULTS.

OPEB STRATEGY ALLOCATIONS

As of July 31, 2020

HIGHMARK CAPITAL MANAGEMENT

Strategy	Allocation (%)
Capital Appreciation (65-85% Equity)	6.63%
Balanced (50-70% Equity)	28.31%
Moderate (40-60% Equity)	34.94%
Mod. Conservative (20-40% Equity)	16.27%
Conservative (5-20% Equity)	3.01%
Other (Custom)	10.84%
TOTAL	**100.00%**



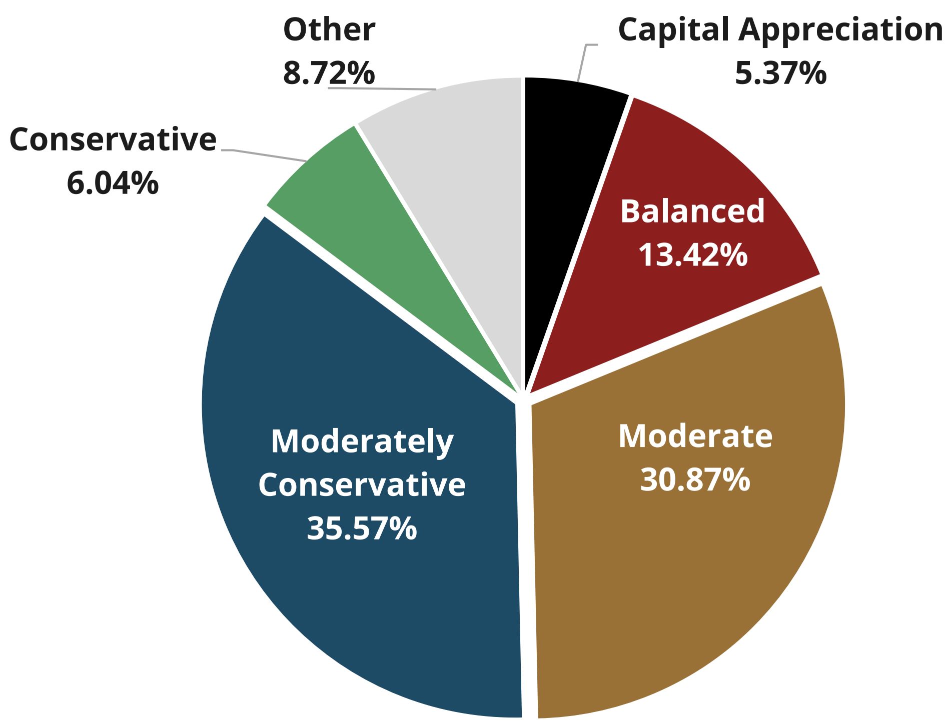
Active: 64.86%, Passive: 35.14%

PRSP STRATEGY ALLOCATIONS

As of July 31, 2020

HIGHMARK CAPITAL MANAGEMENT

Strategy	Allocation (%)
Capital Appreciation (65-85% Equity)	5.37%
Balanced (50-70% Equity)	13.42%
Moderate (40-60% Equity)	30.87%
Mod. Conservative (20-40% Equity)	35.57%
Conservative (5-20% Equity)	6.04%
Other (Custom)	8.72%
TOTAL	**100.00%**



Active: 62.50%, Passive: 37.50%

PUBLIC AGENCY RETIREMENT SERVICES PARS
TRUSTED SOLUTIONS. LASTING RESULTS.

Report: Responsive and Proactive Client Communication

HighMark's dedicated investment team continuously seeks to add value to our relationship with your organization.

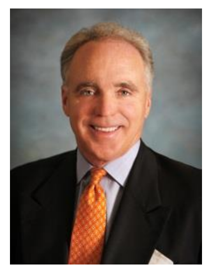
- Integrated client service program established with PARS over the last 23 years
- We have a tradition of interactive client service to maintain a strong relationship delivered by local portfolio managers
- You benefit from face-to-face meetings and scheduled conference calls with your client service team and portfolio management team
- You receive regular communications in a variety of formats
  - Account holdings and transactions
  - Quarterly performance evaluation reports
  - Investment outlook and economic updates

Andrew Brown, CFA
Director
Sr. Portfolio Manager
Northern California

Keith Stribling, CFA
Vice President
Sr. Portfolio Manager
Orange County

Hoddy Fritz
Director
Business
Development
Southern California

Christiane Tsuda
Vice President
Sr. Portfolio Manager
San Diego



Fred Hurst
Director
Business
Development
Northern California

Anne Wimmer, CFA
Director
Sr. Portfolio Manager
Los Angeles

Tory Milazzo, CFA
Vice President
Sr. Portfolio Manager
Central Coast

Randy Yurchak, CFA
Vice President
Sr. Portfolio Manager
Northern California

HIGHMARK® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS
CONSERVATIVE

Q2 2020

WHY THE PARS DIVERSIFIED CONSERVATIVE PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

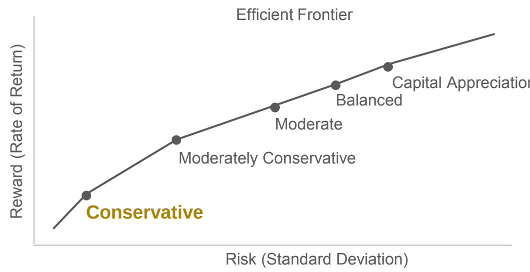
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide a consistent level of inflation-protected income over the long-term. The major portion of the assets will be fixed income related. Equity securities are utilized to provide inflation protection.



ASSET ALLOCATION — CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	5 – 20%	15%	15%
Fixed Income	60 – 95%	80%	81%
Cash	0 – 20%	5%	4%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)

Current Quarter*	7.21%
Blended Benchmark,***	*4.99%*
Year To Date*	2.61%
Blended Benchmark,***	*2.98%*
1 Year	5.78%
*Blended Benchmark***	*6.19%*
3 Year	4.93%
*Blended Benchmark***	*4.87%*
5 Year	4.41%
*Blended Benchmark***	*4.22%*
10 Year	4.75%
*Blended Benchmark***	*4.26%*

Index Plus Composite (Passive)

Current Quarter*	5.60%
Blended Benchmark,***	*4.99%*
Year To Date*	3.74%
Blended Benchmark,***	*2.98%*
1 Year	7.00%
*Blended Benchmark***	*6.19%*
3 Year	5.05%
*Blended Benchmark***	*4.87%*
5 Year	4.32%
*Blended Benchmark***	*4.22%*
10 Year	4.49%
*Blended Benchmark***	*4.26%*

* Returns less than one year are not annualized. **Breakdown for Blended Benchmark: From 10/1/2012 - Present: 7.5% S&P500, 1.5% Russell Mid Cap, 2.5% Russell 2000, 1% MSCI EM (net), 2% MSCI EAFE (net), 52.25% BBG Barclays US Agg, 25.75% ICE BofA 1-3 Yr US Corp/Gov't, 2% ICE BofA US High Yield Master II, 0.5% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 – 9/30/2012, the blended benchmark was 12% S&P 500; 1% Russell 2000, 2% MSCI EAFE (net), 40% ICE BofA 1-3 Year Corp./Govt, 40% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007: the blended benchmark was 15% S&P 500, 40% ICE BofA 1-3Yr Corp/Gov, 40% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

ANNUAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)

2008	-9.04%
2009	15.59%
2010	8.68%
2011	2.19%
2012	8.45%
2013	3.69%
2014	3.88%
2015	0.29%
2016	4.18%
2017	6.73%
2018	-1.35%
2019	11.05%

Index Plus Composite (Passive)

2008	-6.70%
2009	10.49%
2010	7.67%
2011	3.70%
2012	6.22%
2013	3.40%
2014	4.32%
2015	0.06%
2016	3.75%
2017	5.52%
2018	-1.09%
2019	10.37%

PORTFOLIO FACTS

HighMark Plus (Active)

Composite Inception Date	07/2004
No of Holdings in Portfolio	19

Index Plus (Passive)

Composite Inception Date	07/2004
No of Holdings in Portfolio	12

HOLDINGS

HighMark Plus (Active)

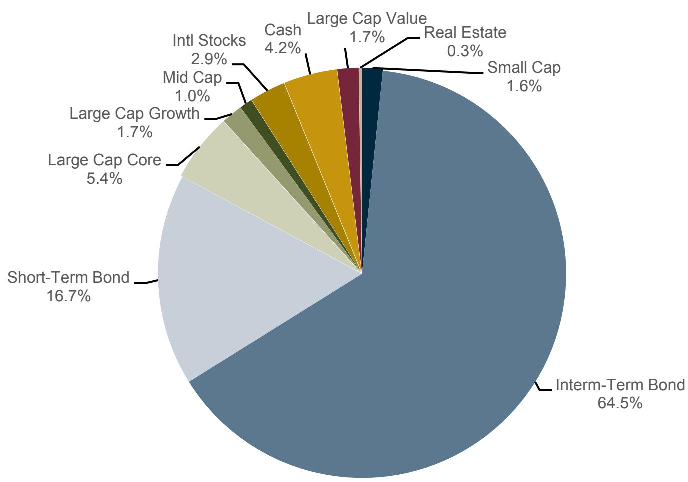
Columbia Contrarian Core I3
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
iShares S&P 500 Value ETF
Harbor Capital Appreciation - Retirement
T. Rowe Price Growth Stock - I
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
Undiscovered Managers Behavioral Value-R6
Victory RS Small Cap Growth - R6
DFA Large Cap International Portfolio
Dodge & Cox International Stock
MFS International Growth - R6
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return Fund - Inst
PGIM Total Return Bond - R6
DoubleLine Core Fixed Income - I
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500 Value ETF
iShares S&P 500 Growth ETF
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
iShares Russell 2000 Value ETF
iShares Russell 2000 Growth ETF
iShares MSCI EAFE ETF
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Accounts are managed by HighMark Capital Advisors (HCA) with full investment authority according to the PARS Conservative active and passive objectives.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a $10 million initial value would grow to $12.53 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The ICE BofA US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofA 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofA U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

350 California Street
Suite 1600
San Francisco, CA 94104
800-582-4734

ABOUT THE ADVISER
HighMark® Capital Management, Inc. (HighMark) has 100 years (including predecessor organizations) of institutional money management experience with $8.6 billion in assets under management and $8.1 billion in assets under advisement*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®
Senior Portfolio Manager
Investment Experience: since 1994
HighMark Tenure: since 1997
Education: MBA, University of Southern California; BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

Christiane Tsuda
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2007
Education: BA, University of California, Santa Barbara

Randy Yurchak, CFA®
Senior Portfolio Manager
Investment Experience: since 2002
HighMark Tenure: since 2017
Education: MBA, Arizona State University; BS, University of Washington

Asset Allocation Committee
Number of Members: 17
Average Years of Experience: 26
Average Tenure (Years): 14

Manager Review Group
Number of Members: 7
Average Years of Experience: 17
Average Tenure (Years): 8

*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

MODERATELY CONSERVATIVE

Q2 2020

WHY THE PARS DIVERSIFIED MODERATELY CONSERVATIVE PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

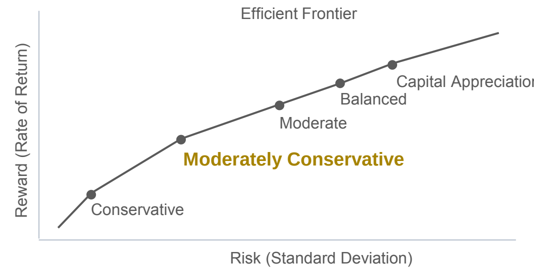
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide current income, with capital appreciation as a secondary objective. The major portion of the assets is committed to income-producing securities. Market fluctuations should be expected.



ASSET ALLOCATION — MODERATELY CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	20 - 40%	30%	29%
Fixed Income	50 - 80%	65%	67%
Cash	0 - 20%	5%	4%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)

Current Quarter*	9.68%
Blended Benchmark,***	*7.73%*
Year To Date*	0.85%
Blended Benchmark,***	*1.56%*
1 Year	4.87%
*Blended Benchmark***	*5.87%*
3 Year	5.22%
*Blended Benchmark***	*5.52%*
5 Year	4.90%
*Blended Benchmark***	*5.07%*
10 Year	5.97%
*Blended Benchmark***	*5.79%*

Index Plus Composite (Passive)

Current Quarter*	7.78%
Blended Benchmark,***	*7.73%*
Year To Date*	1.80%
Blended Benchmark,***	*1.56%*
1 Year	6.05%
*Blended Benchmark***	*5.87%*
3 Year	5.41%
*Blended Benchmark***	*5.52%*
5 Year	4.98%
*Blended Benchmark***	*5.07%*
10 Year	5.80%
*Blended Benchmark***	*5.79%*

* Returns less than one year are not annualized. **Breakdown for Blended Benchmark: From 10/1/2012 - Present: 15.5% S&P500, 3% Russell Mid Cap, 4.5% Russell 2000, 2% MSCI EM (net), 4% MSCI EAFE (net), 49.25% BBG Barclays US Agg, 14% ICE BofA 1-3 Yr US Corp/Gov't, 1.75% ICE BofA US High Yield Master II, 1% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 - 9/30/2012: the blended benchmark was 25% S&P 500; 1.5% Russell 2000, 3.5% MSCI EAFE (net), 25% ICE BofA 1-3 Year Corp./Govt, 40% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007, the blended benchmark was 30% S&P 500, 25% ICE BofA 1-3Yr Corp/Gov, 40% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

ANNUAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)

2008	-15.37%
2009	18.71%
2010	10.46%
2011	1.75%
2012	10.88%
2013	7.30%
2014	4.41%
2015	0.32%
2016	4.94%
2017	9.56%
2018	-2.60%
2019	13.73%

Index Plus Composite (Passive)

2008	-12.40%
2009	11.92%
2010	9.72%
2011	3.24%
2012	8.24%
2013	6.78%
2014	5.40%
2015	-0.18%
2016	5.42%
2017	8.08%
2018	-2.33%
2019	13.53%

PORTFOLIO FACTS

HighMark Plus (Active)

Composite Inception Date	08/2004
No of Holdings in Portfolio	19

Index Plus (Passive)

Composite Inception Date	05/2005
No of Holdings in Portfolio	12

HOLDINGS

HighMark Plus (Active)

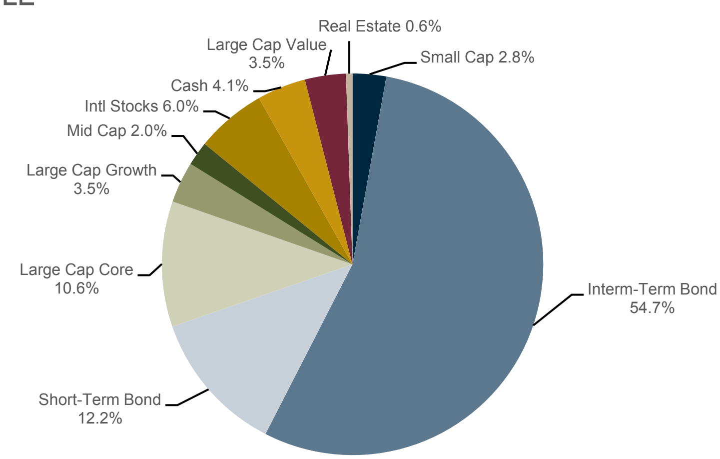
Columbia Contrarian Core I3
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
iShares S&P 500 Value ETF
Harbor Capital Appreciation - Retirement
T. Rowe Price Growth Stock - I
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
Undiscovered Managers Behavioral Value-R6
Victory RS Small Cap Growth - R6
DFA Large Cap International Portfolio
Dodge & Cox International Stock
MFS International Growth - R6
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return Fund - Inst
PGIM Total Return Bond - R6
DoubleLine Core Fixed Income - I
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500 Value ETF
iShares S&P 500 Growth ETF
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
iShares Russell 2000 Value ETF
iShares Russell 2000 Growth ETF
iShares MSCI EAFE ETF
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent a size-weighted composite of tax exempt accounts that meet the following criteria: Accounts are managed by HighMark Capital Advisors (HCA) with full investment authority according to the PARS Moderately Conservative active and passive objectives.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a $10 million initial value would grow to $12.53 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The ICE BofA US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofA 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofA U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

350 California Street
Suite 1600
San Francisco, CA 94104
800-582-4734

ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has 100 years (including predecessor organizations) of institutional money management experience with $8.6 billion in assets under management and $8.1 billion in assets under advisement*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®
Senior Portfolio Manager
Investment Experience: since 1994
HighMark Tenure: since 1997
Education: MBA, University of Southern California; BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

Christiane Tsuda
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2007
Education: BA, University of California, Santa Barbara

Randy Yurchak, CFA®
Senior Portfolio Manager
Investment Experience: since 2002
HighMark Tenure: since 2017
Education: MBA, Arizona State University; BS, University of Washington

Asset Allocation Committee
Number of Members: 17
Average Years of Experience: 26
Average Tenure (Years): 14

Manager Review Group
Number of Members: 7
Average Years of Experience: 17
Average Tenure (Years): 8

*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

MODERATE

Q2 2020

WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

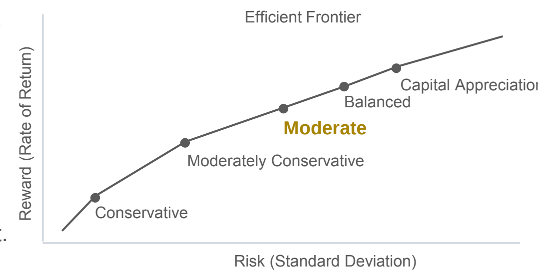
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide current income and moderate capital appreciation. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important.



ASSET ALLOCATION — MODERATE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	40 - 60%	50%	48%
Fixed Income	40 - 60%	45%	48%
Cash	0 - 20%	5%	4%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)		Index Plus Composite (Passive)	
Current Quarter*	12.73%	Current Quarter*	10.92%
Blended Benchmark,***	*11.27%*	*Blended Benchmark*,***	*11.27%*
Year To Date*	-1.32%	Year To Date*	-0.94%
Blended Benchmark,***	*-0.85%*	*Blended Benchmark*,***	*-0.85%*
1 Year	3.96%	1 Year	4.54%
*Blended Benchmark***	*4.75%*	*Blended Benchmark***	*4.75%*
3 Year	5.77%	3 Year	5.69%
*Blended Benchmark***	*6.03%*	*Blended Benchmark***	*6.03%*
5 Year	5.67%	5 Year	5.60%
*Blended Benchmark***	*5.91%*	*Blended Benchmark***	*5.91%*
10 Year	7.48%	10 Year	7.39%
*Blended Benchmark***	*7.59%*	*Blended Benchmark***	*7.59%*

* Returns less than one year are not annualized. **Breakdown for Blended Benchmark: From 10/1/2012 – Present: 26.5% S&P500, 5% Russell Mid Cap, 7.5% Russell 2000, 3.25% MSCI EM (net), 6% MSCI EAFE (net), 33.50% BBG Barclays US Agg, 10% ICE BofA 1-3 Yr US Corp/Gov't, 1.50% ICE BofA US High Yield Master II, 1.75% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 – 9/30/2012: the blended benchmark was 43% S&P 500; 2% Russell 2000, 5% MSCI EAFE (net), 15% ICE BofA 1-3 Year Corp./Govt, 30% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007: the blended benchmark was 50% S&P 500, 15% ICE BofA 1-3Yr Corp/Gov, 30% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

ANNUAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)		Index Plus Composite (Passive)	
2008	-22.88%	2008	-18.14%
2009	21.47%	2009	16.05%
2010	12.42%	2010	11.77%
2011	0.55%	2011	2.29%
2012	12.25%	2012	10.91%
2013	13.06%	2013	12.79%
2014	4.84%	2014	5.72%
2015	0.14%	2015	-0.52%
2016	6.45%	2016	7.23%
2017	13.19%	2017	11.59%
2018	-4.03%	2018	-4.03%
2019	17.71%	2019	17.52%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Composite Inception Date	10/2004	Composite Inception Date	05/2006
No of Holdings in Portfolio	19	No of Holdings in Portfolio	12

HOLDINGS

HighMark Plus (Active)

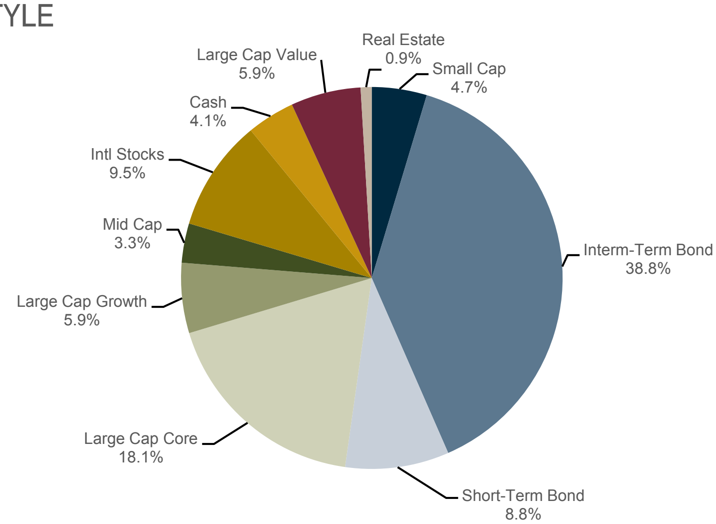
Columbia Contrarian Core I3
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
iShares S&P 500 Value ETF
Harbor Capital Appreciation - Retirement
T. Rowe Price Growth Stock - I
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
Undiscovered Managers Behavioral Value-R6
Victory RS Small Cap Growth - R6
DFA Large Cap International Portfolio
Dodge & Cox International Stock
MFS International Growth - R6
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return Fund - Inst
PGIM Total Return Bond - R6
DoubleLine Core Fixed Income - I
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500 Value ETF
iShares S&P 500 Growth ETF
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
iShares Russell 2000 Value ETF
iShares Russell 2000 Growth ETF
iShares MSCI EAFE ETF
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Accounts are managed by HighMark Capital Advisors (HCA) with full investment authority according to the PARS Moderate active and passive objectives.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a $10 million initial value would grow to $12.53 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The ICE BofA US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofA 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofA U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

350 California Street
Suite 1600
San Francisco, CA 94104
800-582-4734

ABOUT THE ADVISER
HighMark® Capital Management, Inc. (HighMark) has 100 years (including predecessor organizations) of institutional money management experience with $8.6 billion in assets under management and $8.1 billion in assets under advisement*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®
Senior Portfolio Manager
Investment Experience: since 1994
HighMark Tenure: since 1997
Education: MBA, University of Southern California; BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

Christiane Tsuda
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2007
Education: BA, University of California, Santa Barbara

Randy Yurchak, CFA®
Senior Portfolio Manager
Investment Experience: since 2002
HighMark Tenure: since 2017
Education: MBA, Arizona State University; BS, University of Washington

Asset Allocation Committee
Number of Members: 17
Average Years of Experience: 26
Average Tenure (Years): 14

Manager Review Group
Number of Members: 7
Average Years of Experience: 17
Average Tenure (Years): 8

*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

BALANCED

Q2 2020

WHY THE PARS DIVERSIFIED BALANCED PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

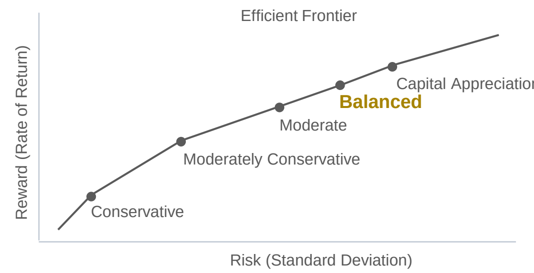
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide growth of principal and income. While dividend and interest income are an important component of the objective's total return, it is expected that capital appreciation will comprise a larger portion of the total return.



ASSET ALLOCATION — BALANCED PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	50 – 70%	60%	58%
Fixed Income	30 – 50%	35%	38%
Cash	0 – 20%	5%	4%

ANNUALIZED TOTAL RETURNS

(Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)		Index Plus Composite (Passive)	
Current Quarter*	14.40%	Current Quarter*	12.53%
Blended Benchmark,***	*13.11%*	*Blended Benchmark*,***	*13.11%*
Year To Date*	-2.36%	Year To Date*	-2.24%
Blended Benchmark,***	*-2.02%*	*Blended Benchmark*,***	*-2.02%*
1 Year	3.51%	1 Year	3.90%
*Blended Benchmark***	*4.23%*	*Blended Benchmark***	*4.23%*
3 Year	6.07%	3 Year	5.79%
*Blended Benchmark***	*6.28%*	*Blended Benchmark***	*6.28%*
5 Year	6.01%	5 Year	5.90%
*Blended Benchmark***	*6.33%*	*Blended Benchmark***	*6.33%*
10 Year	8.24%	10 Year	8.10%
*Blended Benchmark***	*8.52%*	*Blended Benchmark***	*8.52%*

* Returns less than one year are not annualized. **Breakdown for Blended Benchmark: From 10/1/2012 – Present: 32% S&P500, 6% Russell Mid Cap, 9% Russell 2000, 4% MSCI EM (net), 7% MSCI EAFE (net), 27% BBG Barclays US Agg, 6.75% ICE BofA 1-3 Yr US Corp/Gov't, 1.25% ICE BofA US High Yield Master II, 2% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 – 9/30/2012: the blended benchmark was 51% S&P 500; 3% Russell 2000, 6% MSCI EAFE (net), 5% ICE BofA 1-3 Year Corp./Govt, 30% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007: the blended benchmark was 60% S&P 500, 5% ICE BofA 1-3Yr Corp/Gov, 30% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

ANNUAL RETURNS

(Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus Composite (Active)		Index Plus Composite (Passive)	
2008	-25.72%	2008	-23.22%
2009	21.36%	2009	17.62%
2010	14.11%	2010	12.76%
2011	-0.46%	2011	1.60%
2012	13.25%	2012	11.93%
2013	16.61%	2013	15.63%
2014	4.70%	2014	6.08%
2015	0.04%	2015	-0.81%
2016	6.81%	2016	8.25%
2017	15.46%	2017	13.39%
2018	-4.88%	2018	-5.05%
2019	19.85%	2019	19.59%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Composite Inception Date	10/2006	Composite Inception Date	10/2007
No of Holdings in Portfolio	19	No of Holdings in Portfolio	12

HOLDINGS

HighMark Plus (Active)

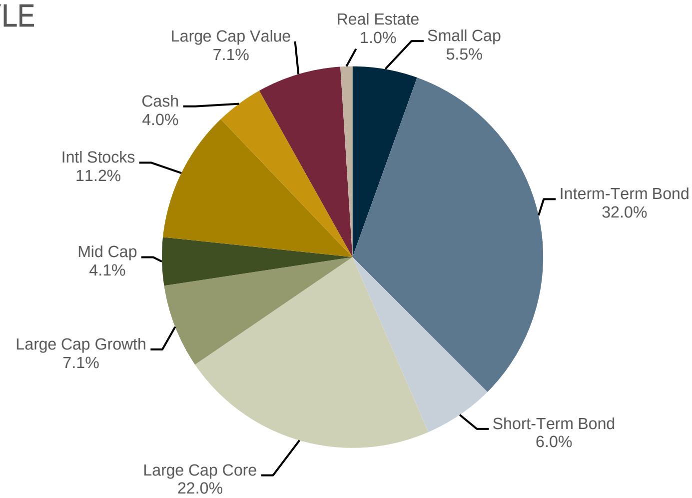
Columbia Contrarian Core I3
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
iShares S&P 500 Value ETF
Harbor Capital Appreciation - Retirement
T. Rowe Price Growth Stock - I
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
Undiscovered Managers Behavioral Value-R6
Victory RS Small Cap Growth - R6
DFA Large Cap International Portfolio
Dodge & Cox International Stock
MFS International Growth - R6
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return Fund - Inst
PGIM Total Return Bond - R6
DoubleLine Core Fixed Income - I
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500 Value ETF
iShares S&P 500 Growth ETF
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
iShares Russell 2000 Value ETF
iShares Russell 2000 Growth ETF
iShares MSCI EAFE ETF
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Accounts are managed by HighMark Capital Advisors (HCA) with full investment authority according to the PARS Balanced active and passive objectives.

The composite name has been changed from PARS Balanced/Moderately Aggressive to PARS Balanced on 5/1/2013. The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a $10 million initial value would grow to $12.53 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The ICE BofA US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofA 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofA U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

350 California Street
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San Francisco, CA 94104
800-582-4734

ABOUT THE ADVISER
HighMark® Capital Management, Inc. (HighMark) has 100 years (including predecessor organizations) of institutional money management experience with $8.6 billion in assets under management and $8.1 billion in assets under advisement*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®
Senior Portfolio Manager
Investment Experience: since 1994
HighMark Tenure: since 1997
Education: MBA, University of Southern California; BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

Christiane Tsuda
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2007
Education: BA, University of California, Santa Barbara

Randy Yurchak, CFA®
Senior Portfolio Manager
Investment Experience: since 2002
HighMark Tenure: since 2017
Education: MBA, Arizona State University; BS, University of Washington

Asset Allocation Committee
Number of Members: 17
Average Years of Experience: 26
Average Tenure (Years): 14

Manager Review Group
Number of Members: 7
Average Years of Experience: 17
Average Tenure (Years): 8

*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

HighMark® Capital Management

PARS DIVERSIFIED PORTFOLIOS

CAPITAL APPRECIATION

Q2 2020

WHY THE PARS DIVERSIFIED CAPITAL APPRECIATION PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

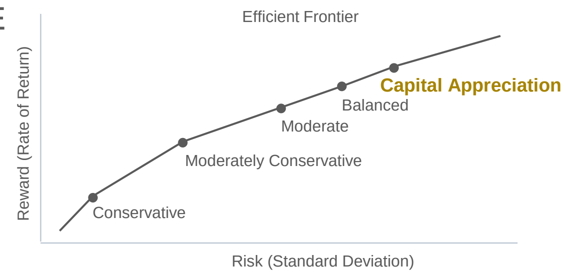
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.



ASSET ALLOCATION — CAPITAL APPRECIATION PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	65 - 85%	75%	72%
Fixed Income	10 - 30%	20%	24%
Cash	0 - 20%	5%	4%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

Consolidated Composite	
Current Quarter*	15.95%
Blended Benchmark,***	*15.76%*
Year To Date*	-4.09%
Blended Benchmark,***	*-3.94%*
1 Year	2.66%
*Blended Benchmark***	*3.18%*
3 Year	6.26%
*Blended Benchmark***	*6.46%*
5 Year	6.42%
*Blended Benchmark***	*6.77%*
10 Year	9.06%
*Blended Benchmark***	*9.48%*

* Returns less than one year are not annualized. **Breakdown for Blended Benchmark: 39.5% S&P500, 7.5% Russell Mid Cap, 10.5% Russell 2000, 5.25% MSCI EM (net), 10.25% MSCI EAFE (net), 16% BBG Barclays US Agg, 3% ICE BofA 1-3 Yr US Corp/Gov't, 1% ICE BofA US High Yield Master II, 2% Wilshire REIT, and 5% FTSE 1 Mth T-Bill.

ANNUAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

Consolidated Composite	
2008	N/A
2009	23.77%
2010	12.95%
2011	-1.35%
2012	13.87%
2013	20.33%
2014	6.05%
2015	-0.27%
2016	8.81%
2017	16.72%
2018	-5.82%
2019	22.62%

PORTFOLIO FACTS

Consolidated Composite	
Composite Inception Date	01/2009
No of Holdings in Portfolio	19

HOLDINGS

HighMark Plus (Active)

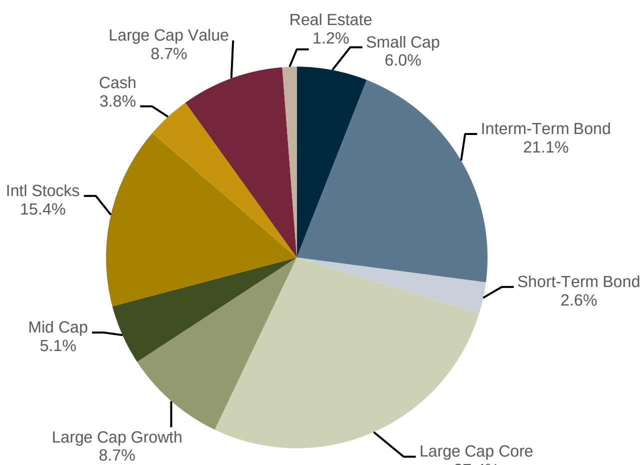
Columbia Contrarian Core I3
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
iShares S&P 500 Value ETF
Harbor Capital Appreciation – Retirement
T. Rowe Price Growth Stock - I
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
Undiscovered Managers Behavioral Value-R6
Victory RS Small Cap Growth - R6
DFA Large Cap International Portfolio
Dodge & Cox International Stock
MFS International Growth - R6
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return Fund - Inst
PGIM Total Return Bond - R6
DoubleLine Core Fixed Income - I
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500 Value ETF
iShares S&P 500 Growth ETF
iShares Russell Mid-Cap ETF
Vanguard Real Estate ETF
iShares Russell 2000 Value ETF
iShares Russell 2000 Growth ETF
iShares MSCI EAFE ETF
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent a size-weighted composite of tax exempt accounts that meet the following criteria: Accounts are managed by HighMark Capital Advisors (HCA) with full investment authority according to the PARS Capital Appreciation active and passive objectives.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a $10 million initial value would grow to $12.53 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The ICE BofA US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofA 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofA U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

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ABOUT THE ADVISER
HighMark® Capital Management, Inc. (HighMark) has 100 years (including predecessor organizations) of institutional money management experience with $8.6 billion in assets under management and $8.1 billion in assets under advisement*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®
Senior Portfolio Manager
Investment Experience: since 1994
HighMark Tenure: since 1997
Education: MBA, University of Southern California; BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

Christiane Tsuda
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2007
Education: BA, University of California, Santa Barbara

Randy Yurchak, CFA®
Senior Portfolio Manager
Investment Experience: since 2002
HighMark Tenure: since 2017
Education: MBA, Arizona State University; BS, University of Washington

Asset Allocation Committee
Number of Members: 17
Average Years of Experience: 26
Average Tenure (Years): 14

Manager Review Group
Number of Members: 7
Average Years of Experience: 17
Average Tenure (Years): 8

*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

Attachment 7

Presentation

Long Range Financial Forecast, Revenue and Funding Options Workshop

City of Goleta
City Council Workshop
December 10, 2020

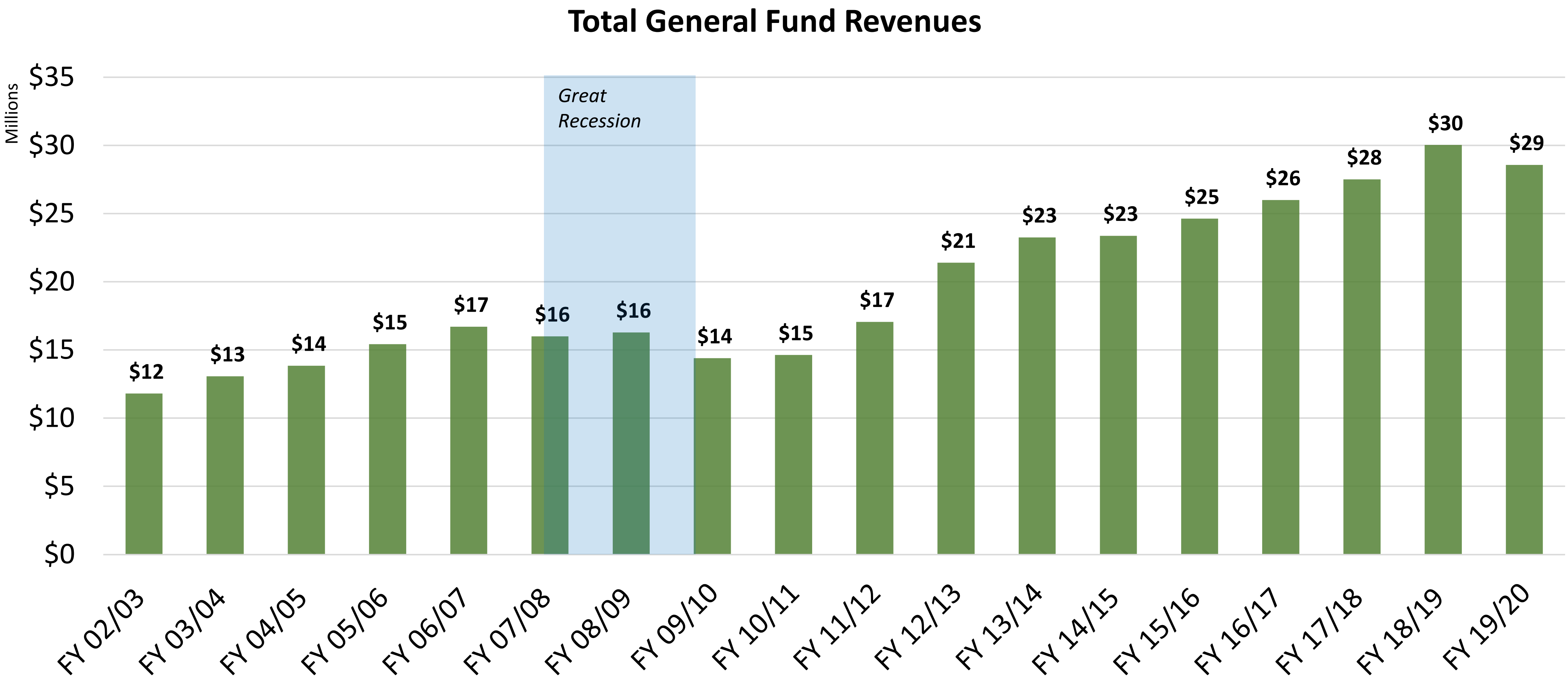
- Forecast Overview
- History of General Fund and Five-Year Forecast
- 20-Year General Fund Financial Forecast
- Unfunded Liabilities and Other Priorities
- Revenue Enhancement Options and Funding Strategies
- Staff Recommendations and Next Steps

- Extension of the General Fund Five-Year Forecast, going out 20 years to FY 40/41
- Creates a long-range view for strategic decision making and context for balancing short-term and long-term goals
- Forecast is not a Budget
  - Forecast is the financial outcome from a given set of assumptions
  - Forecast sets long-term budget parameters, whereas the Budget sets annual spending priorities
- Revenue and expenditure trends over time
  - Identifies outcomes if nothing changes
  - Provides an “Order of Magnitude” feel for the General Fund’s ability to continue services and preserve fiscal sustainability
  - Should be viewed as a “Work in Progress” as new information becomes available and updated

- Analyzed historical and current trends, including growth rates, recession impacts and changes over the last five years
- FY 20/21 is used as the initial base for all scenarios
- FY 18/19 actuals are used to compare when the City’s revenues return to normal levels
- Three primary scenarios modeled with different revenue scenarios based on current policy
- Expenditures assumptions for the three scenarios are all the same and updated to pre-pandemic status quo levels starting in FY 21/22
    - All cost reductions and 11 FTE positions subject to hiring freeze added back in
    - Additional pavement budget of $3.3 million needed annually needed factored in

- Scenario 1 – Current Budget (Worst Case)
  - Was the recommended case during FY 20/21 Budget Adoption. Severe six-month shock, followed by slow period of growth through June 2021 and beyond, with total revenues estimated to be back to normal levels by FY 25/26 (~$30 million). Now considered worst case for forecasting purposes.
- Scenario 2 – Moderate (Current Trend – Most Likely Case)
  - Revenues revised to reflect current trending data with conservative assumptions. Revenues estimated to fully recover to normal levels by FY 22/23. Includes cannabis tax revenues at $1 million starting in FY 21/22.
- Scenario 3 – Optimistic (Best Case)
  - Shorter recovery period, as revenues estimated to fully recover back to normal levels by FY 21/22. Cannabis tax revenues are assumed at $2 million starting in FY 21/22.

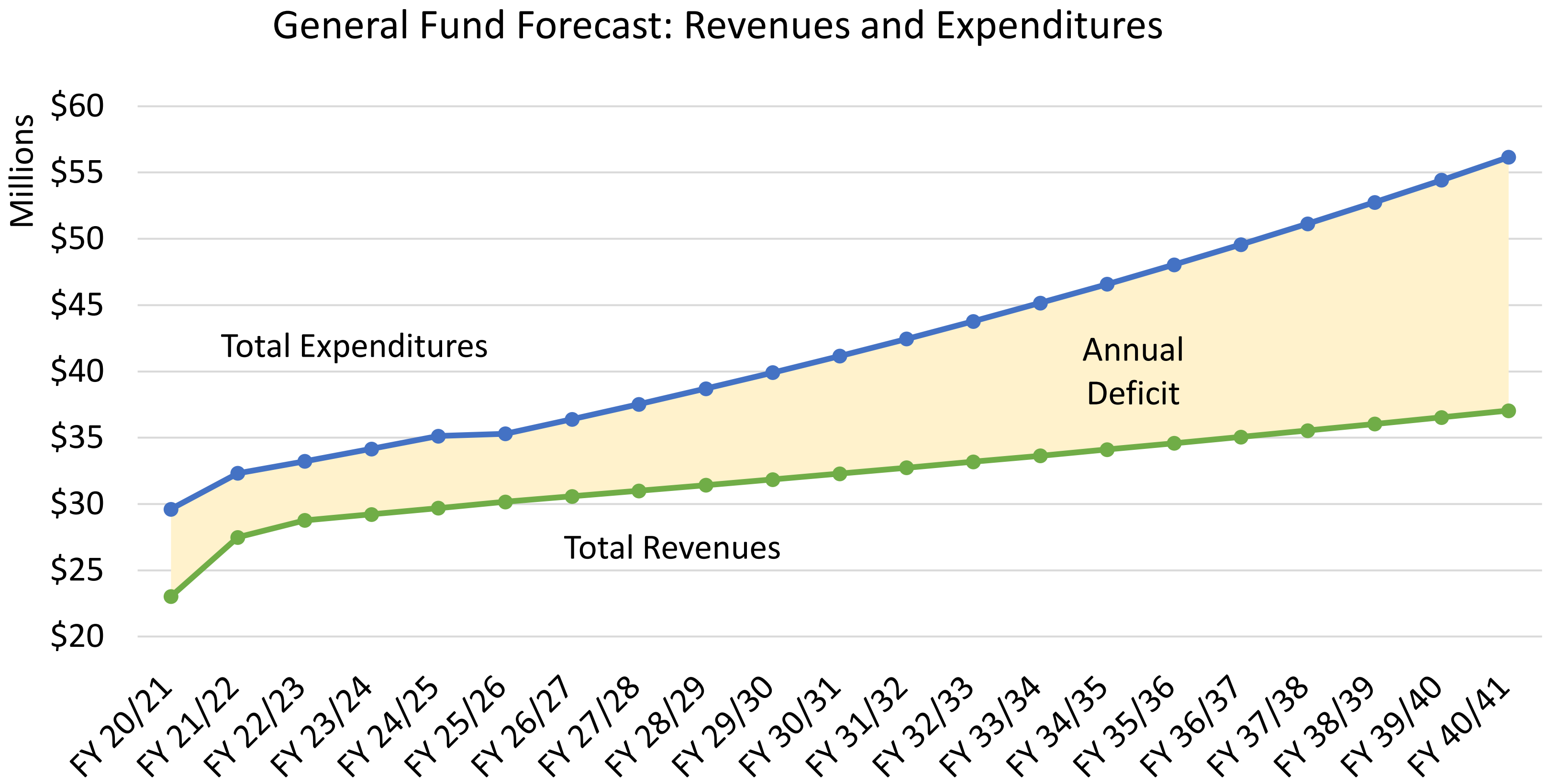
Fiscal Year (FY)	Property Tax Revenue	YOY % Chg	Sales Tax Revenue	YOY % Chg	TOT Revenue	YOY % Chg	All Other Revenue	YOY % Chg	Total Revenue	YOY % Chg	Notable Events
FY 02/03	$ 1,792,081		$ 3,485,996		$ 2,141,810		$ 4,382,338		$ 11,802,225		*SARS - 11/2002 - 7/2003*
FY 03/04	$ 2,045,480	14.14%	$ 3,623,036	3.93%	$ 2,142,800	0.05%	$ 5,261,570	20.06%	$ 13,072,886	10.77%	
FY 04/05	$ 3,727,087	82.21%	$ 3,864,388	6.66%	$ 2,281,612	6.48%	$ 3,969,708	-24.55%	$ 13,842,795	5.89%	*Vehicle License Fee - Property Tax Swap*
FY 05/06	$ 4,856,895	30.31%	$ 4,039,979	4.54%	$ 2,636,260	15.54%	$ 3,885,783	-2.11%	$ 15,418,917	11.39%	*Goleta postal facility shooting: 1/2006, Start of Triple Flip*
FY 06/07	$ 4,793,775	-1.30%	$ 4,116,749	1.90%	$ 2,538,567	-3.71%	$ 5,257,402	35.30%	$ 16,706,493	8.35%	
FY 07/08	$ 4,765,991	-0.58%	$ 4,160,113	1.05%	$ 2,783,143	9.63%	$ 4,287,520	-18.45%	$ 15,996,767	-4.25%	*Great Recession 12/2007 - 6/2009, Zaca Fire 7/2007*
FY 08/09	$ 4,860,427	1.98%	$ 3,353,658	-19.39%	$ 2,461,489	-11.56%	$ 5,602,297	30.67%	$ 16,277,872	1.76%	*Gap Fire 7/2008, Tea Fire 11/2008, Jesuita Fire 5/2009, 7 hotels now operating*
FY 09/10	$ 4,942,940	1.70%	$ 3,310,542	-1.29%	$ 2,138,896	-13.11%	$ 4,004,651	-28.52%	$ 14,397,030	-11.55%	*End of Great Recession*
FY 10/11	$ 4,952,157	0.19%	$ 3,905,548	17.97%	$ 2,420,762	13.18%	$ 3,348,128	-16.39%	$ 14,626,594	1.59%	
FY 11/12	$ 5,215,822	5.32%	$ 3,845,273	-1.54%	$ 4,141,635	71.09%	$ 3,862,202	15.35%	$ 17,064,932	16.67%	
FY 12/13	$ 5,320,579	2.01%	$ 5,776,818	50.23%	$ 5,604,278	35.32%	$ 4,698,890	21.66%	$ 21,400,564	25.41%	*TOT RNA sharing adjusted from 40% to 0% TOT tax rate increase from 10% to 12% Sales Tax RNA sharing adjusted from 50% to 0%*
FY 13/14	$ 5,390,827	1.32%	$ 6,812,304	17.92%	$ 6,975,799	24.47%	$ 4,079,384	-13.18%	$ 23,258,314	8.68%	*Ebola: 2014-2016, Isla Vista Shooting 5/2014, 8 hotels now operating*
FY 14/15	$ 5,517,146	2.34%	$ 6,329,870	-7.08%	$ 7,807,860	11.93%	$ 3,721,385	-8.78%	$ 23,376,261	0.51%	*Refugio Oil Spill: 5/2015*
FY 15/16	$ 5,999,416	8.74%	$ 6,216,442	-1.79%	$ 8,175,381	4.71%	$ 4,232,841	13.74%	$ 24,624,080	5.34%	*Zika: 12/2015-9/2016, Sherpa Fire: 6/2016, End of Triple Flip.*
FY 16/17	$ 6,284,688	4.76%	$ 6,491,121	4.42%	$ 8,615,207	5.38%	$ 4,604,171	8.77%	$ 25,995,187	5.57%	*Rey Fire: 8/2016, Debris flow: 1/2017*
FY 17/18	$ 6,931,399	10.29%	$ 6,424,757	-1.02%	$ 10,117,983	17.44%	$ 4,035,570	-12.35%	$ 27,509,710	5.83%	*Whittier Fire: July 2017, Thomas Fire/Debris Flow: 12/2017 - 1/2018, 2 new hotels open: 11/2017, CDTFA established*
FY 18/19	$ 7,431,595	7.22%	$ 6,994,204	8.86%	$ 11,563,912	14.29%	$ 4,034,618	-0.02%	$ 30,024,330	9.14%	*Holiday Fire 7/2018, Kmart closed: 10/2018, Debris flow (154): 2/2019, Cannabis tax measure passed*
FY 19/20	$ 7,684,647	3.41%	$ 6,735,609	-3.70%	$ 9,197,440	-20.46%	$ 4,956,134	22.84%	$ 28,573,830	-4.83%	*Cave Fire: 11/2019, Target opened: 10/2019, Wayfair decision online sales tax effects, COVID-19 Pandemic 3/2020 - ongoing*


Total General Fund Revenues
Millions
$35
$30
$25
$20
$15
$10
$5
$0
Great Recession
$12
$13
$14
$15
$17
$16
$16
$14
$15
$17
$21
$23
$23
$25
$26
$28
$30
$29
FY 02/03
FY 03/04
FY 04/05
FY 05/06
FY 06/07
FY 07/08
FY 08/09
FY 09/10
FY 10/11
FY 11/12
FY 12/13
FY 13/14
FY 14/15
FY 15/16
FY 16/17
FY 17/18
FY 18/19
FY 19/20

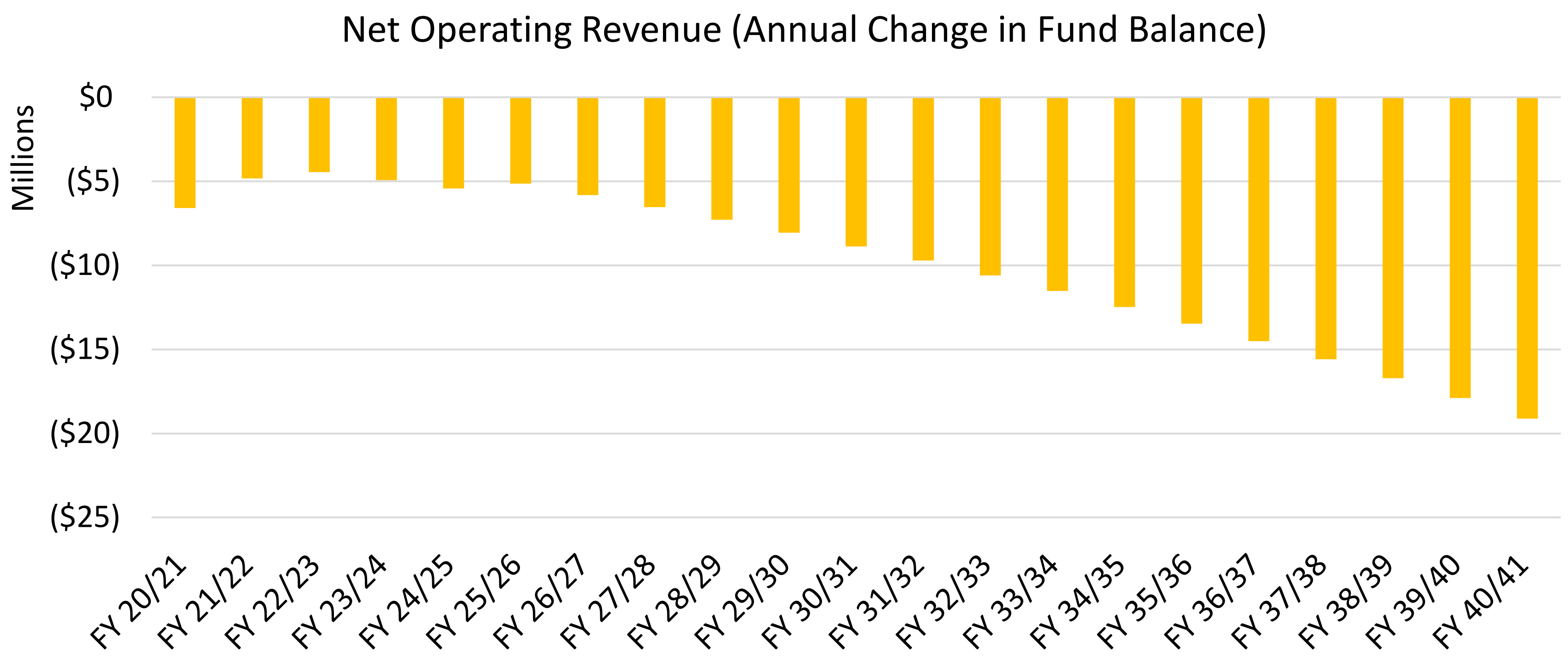
Scenario 2 - Recession through FY 20/21

Summary of Five Year Forecast	FY 20/21 Revised	FY 21/22 Projected	FY 22/23 Projected	FY 23/24 Projected	FY 24/25 Projected
Beginning Fund Balance	**$ 19,609,178**	**$ 16,462,928**	**$ 16,930,826**	**$ 17,197,766**	**$ 17,119,604**
Total Revenues	$ 22,910,700	$ 27,487,920	$ 28,769,500	$ 29,224,400	$ 29,690,100
Total Expenditures	$ 26,056,950	$ 27,020,022	$ 28,502,560	$ 29,302,561	$ 30,127,765
Net Revenue over ExpendituresA	$ (3,146,250)	$ 467,899	$ 266,940	$ (78,161)	$ (437,665)
Fund Balance Categories					
Prepaids and Deposits	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Public Facilities	$ 830,108	$ 830,108	$ 830,108	$ 830,108	$ 830,108
Capital Equipment	$ 594,869	$ 594,869	$ 594,869	$ 594,869	$ 594,869
Compensated Leave	$ 237,123	$ 237,123	$ 237,123	$ 237,123	$ 237,123
Risk Management	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Contingency Reserves	$ 7,963,101	$ 8,279,643	$ 8,766,311	$ 9,027,687	$ 9,297,324
Litigation Defense Fund	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 300,000
Sustainability	$ 292,500	$ 292,500	$ 292,500	$ 292,500	$ 292,500
OPEB UAL	$ 333,500	$ 333,500	$ 333,500	$ 333,500	$ 333,500
CalPERS UAL	$ 170,000	$ 170,000	$ 170,000	$ 170,000	$ 170,000
CIP Project Funding	$ -	$ -	$ -	$ -	$ -
Encumbrances	$ -	$ -	$ -	$ -	$ -
Unassigned Fund Balance	$ 5,531,726	$ 5,683,083	$ 5,463,355	$ 5,123,818	$ 4,416,516
Ending Fund Balance	**$ 16,462,928**	**$ 16,930,826**	**$ 17,197,766**	**$ 17,119,604**	**$ 16,681,940**

- Original forecast shown
- Cost reduction strategies implemented through FY 21/22 with hiring freeze of 11 FTE's phased back in over 2 years
- General fund share of pavement maintenance not programmed back in
- Scenarios on next slide updated to assume all expenditures added back to status quo starting in FY 21/22 plus $3.3 million of additional pavement

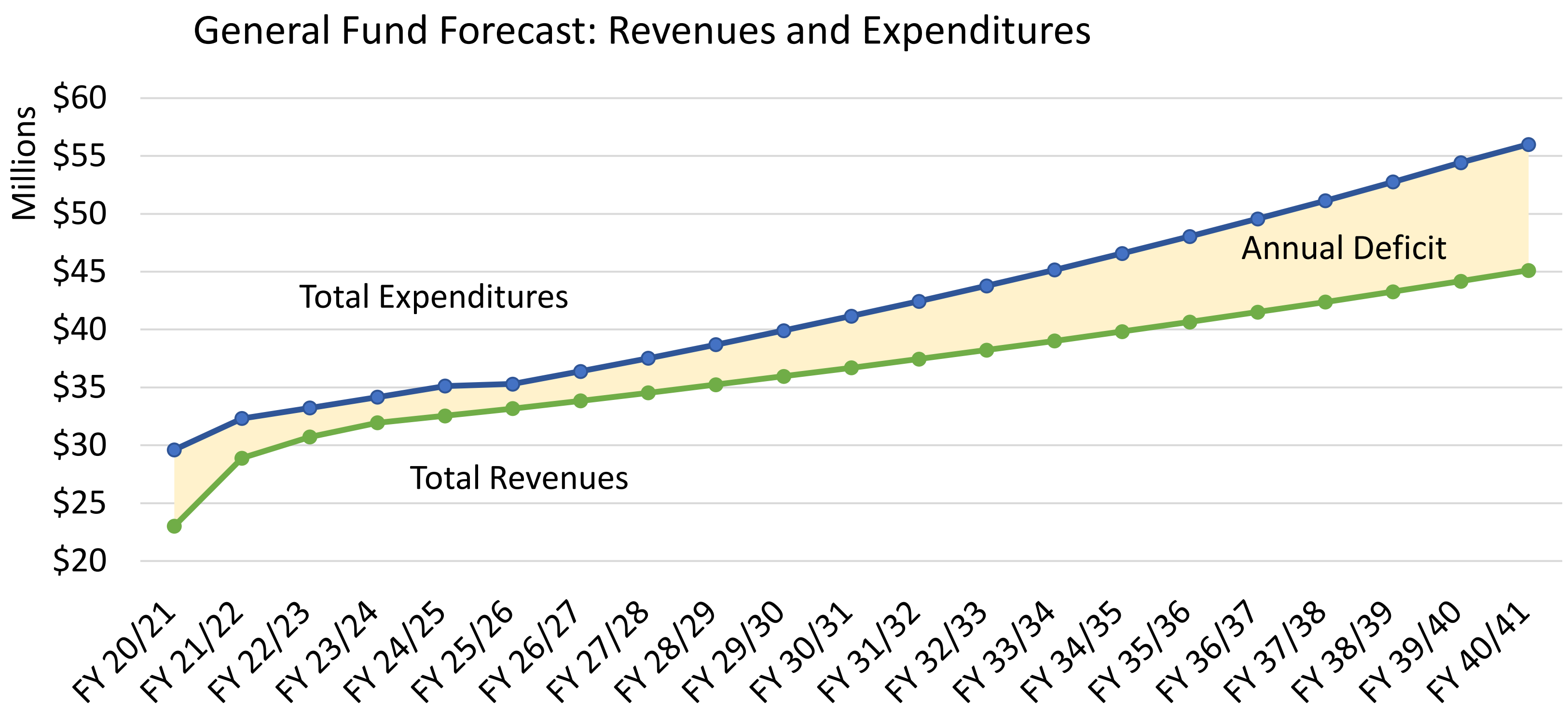


- Revenues based on FY 20/21 adopted budget and five-year forecast
- Cannabis revenues very low and not increased
- TOT back to normal levels FY 25/26
- Sales Tax back to normal levels FY 24/25

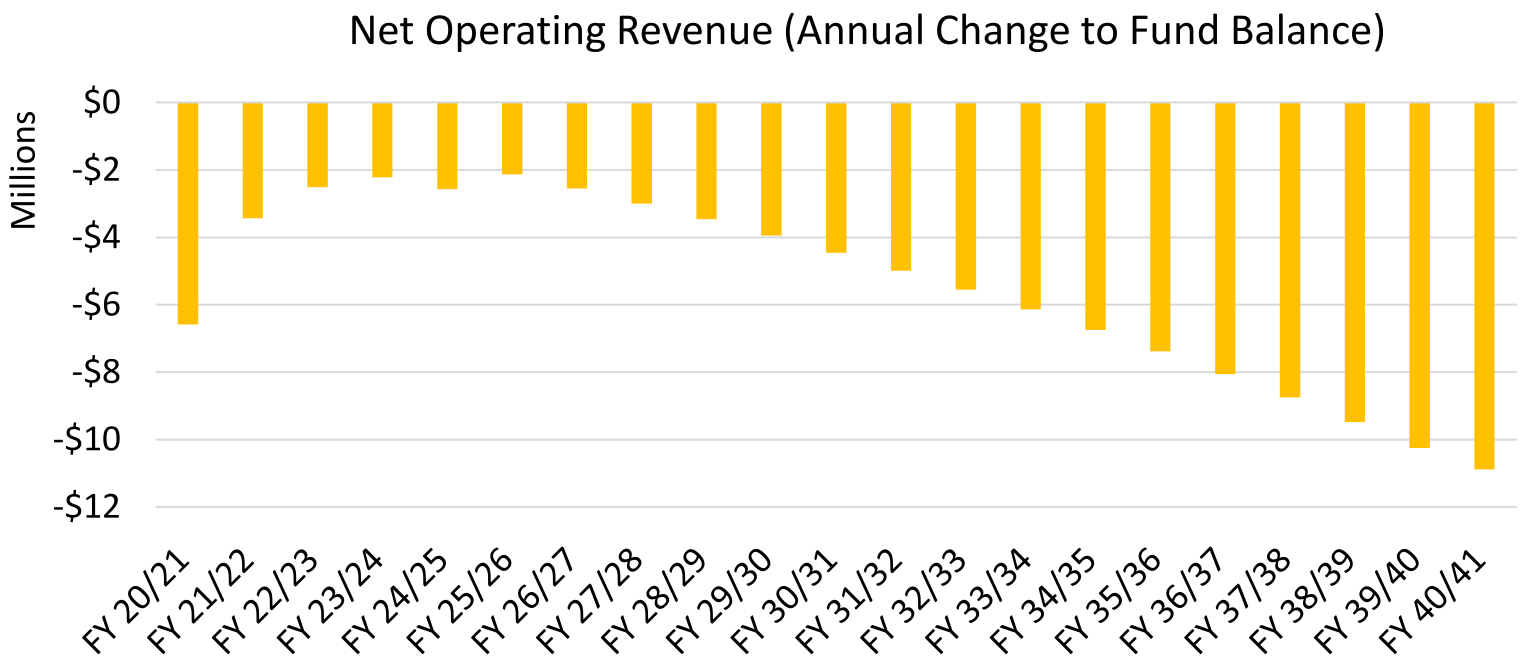


- Revenues based on FY 20/21 adopted budget and five-year forecast
- Cannabis revenues very low and not increased
- TOT back to normal levels FY 25/26
- Sales Tax back to normal levels FY 24/25

Average annual deficit over the next five years: ($5.0 million)
Average annual deficit over the next 10 years: ($6.1 million)
Average annual deficit over the next 15 years: ($7.7 million)
Average annual deficit over the next 20 years: ($9.7 million)

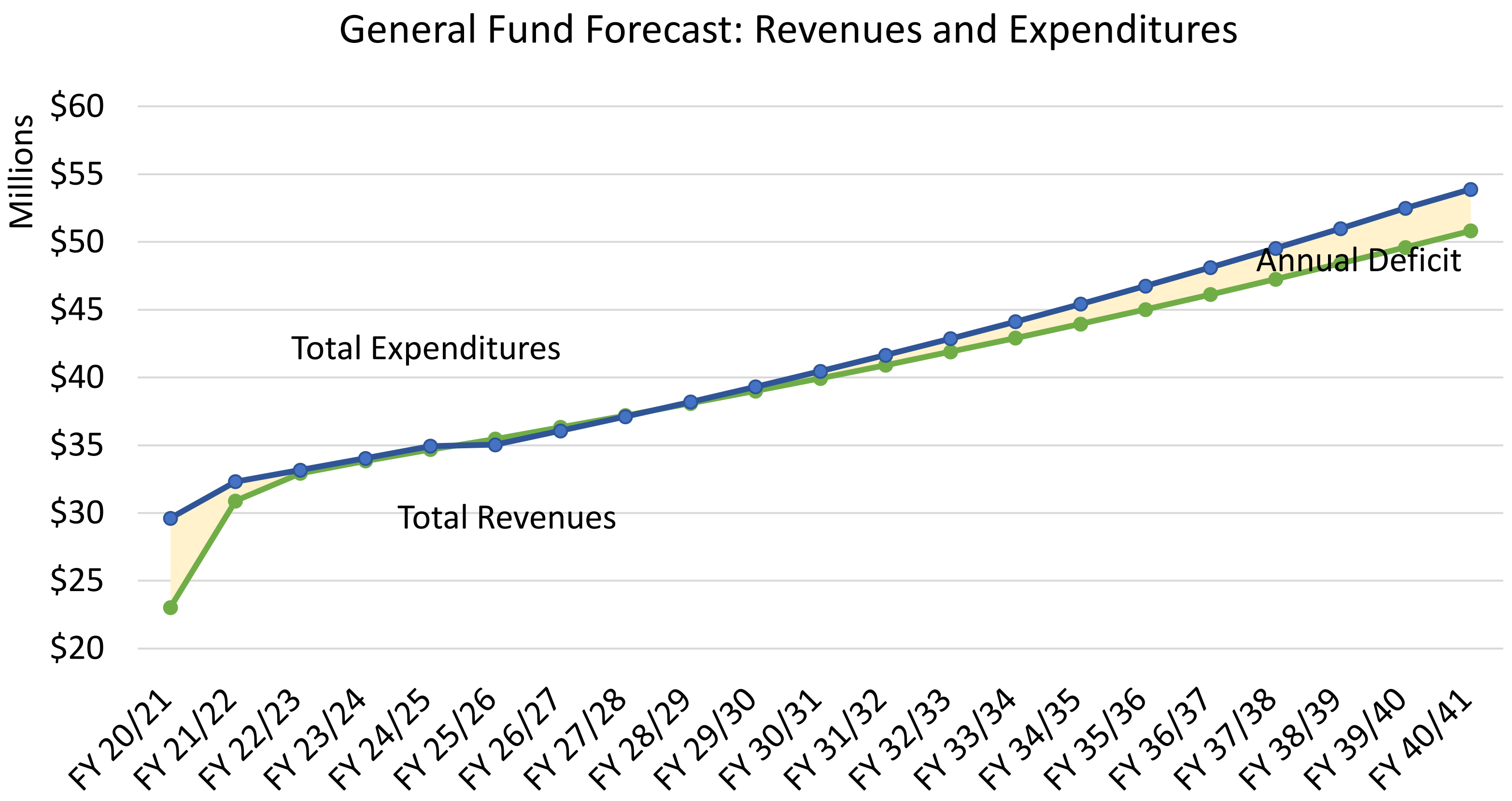


- Revenues based on current trending data
- Sales Tax, TOT and cannabis adjusted
- Cannabis revenues assumed at $1 million starting in FY 21/22
- TOT back to normal levels FY 23/24
- Sales Tax back to normal levels FY 22/23

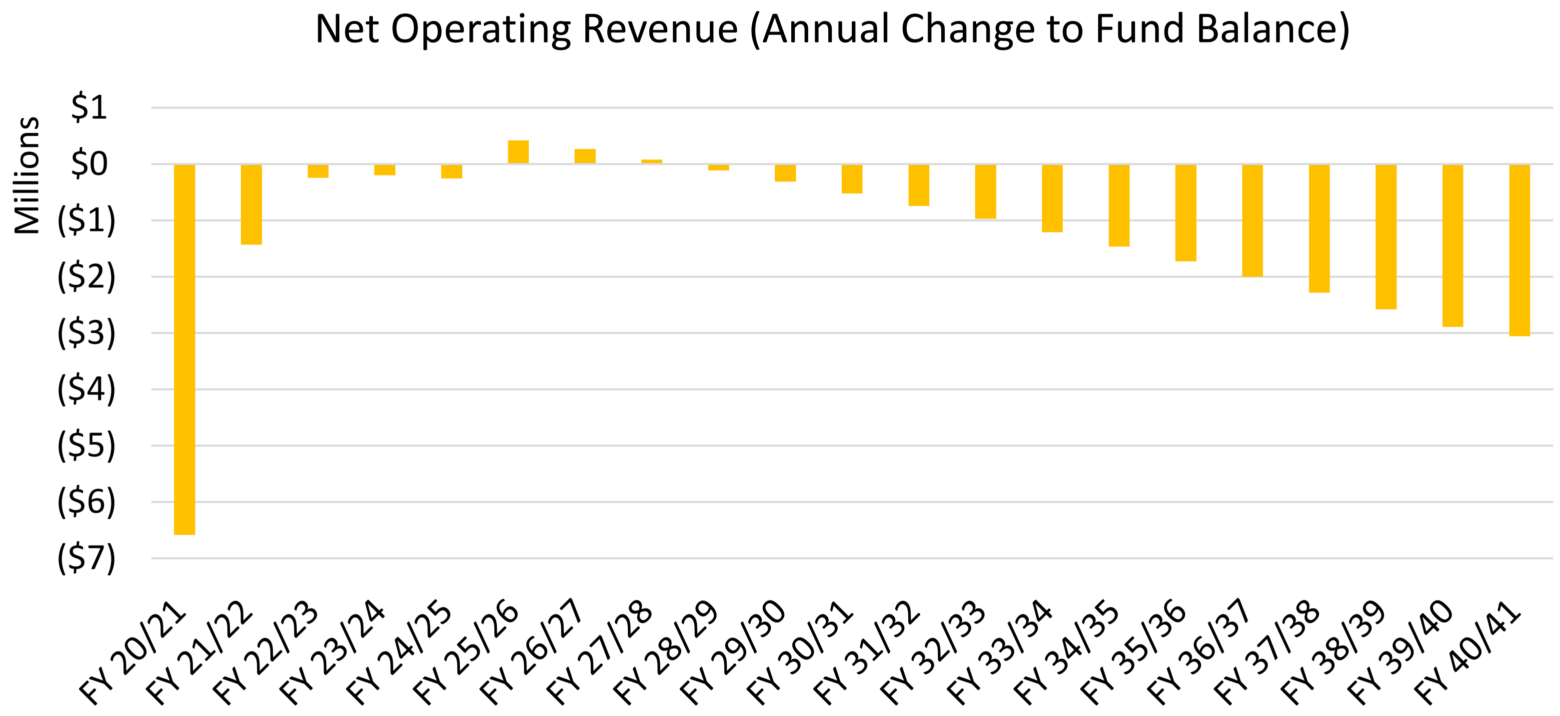


- Revenues based on current trending data
- Sales Tax, TOT and cannabis adjusted
- Cannabis revenues assumed at $1 million starting in FY 21/22
- TOT back to normal levels FY 23/24
- Sales Tax back to normal levels FY 22/23

Average annual deficit over the next five years: ($2.6 million)
Average annual deficit over the next 10 years: ($3.0 million)
Average annual deficit over the next 15 years: ($3.9 million)
Average annual deficit over the next 20 years: ($5.0 million)



- Fastest recovery
- Sales Tax, TOT and cannabis adjusted
- Cannabis revenues assumed at $2 million starting in FY 21/22
- TOT back to normal levels FY 22/23
- Sales Tax back to normal levels FY 21/22

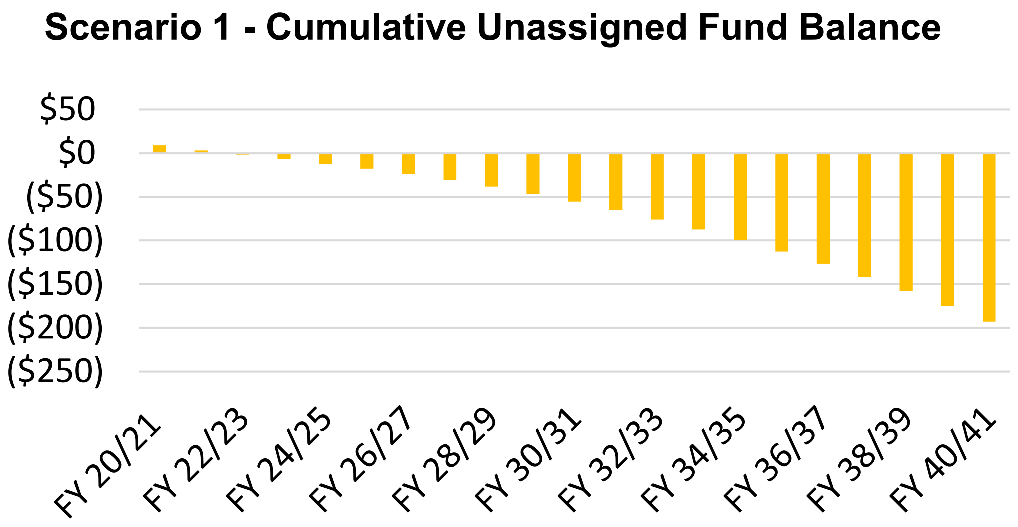


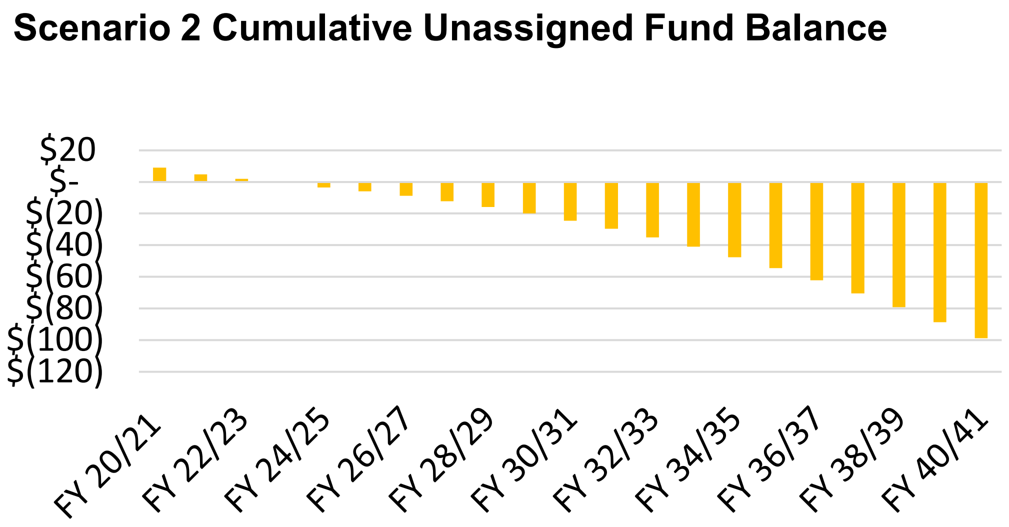
Average annual deficit over the next five years: ($474,000)
Average annual deficit over the next 10 years: ($494,000)
Average annual deficit over the next 15 years: ($903,000)
Average annual deficit over the next 20 years: ($1.5 million)

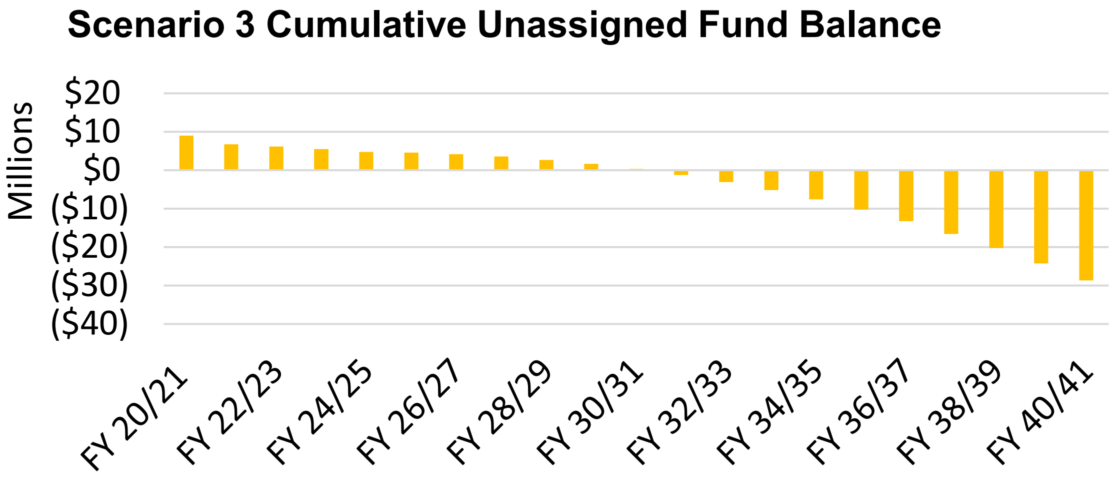
- Fastest recovery
- Sales Tax, TOT and cannabis adjusted
- Cannabis revenues assumed at $2 million starting in FY 21/22
- TOT back to normal levels FY 22/23
- Sales Tax back to normal levels FY 21/22

- COVID-19 Pandemic
- Volatile Economy and Economic Downturns
- State Takeaways and Borrowing
- Unfunded Liability Pension Costs and OPEB
- Compensation Increases and Adjustments
- Deferred Maintenance
- No Major New One-time Expenses
- No New Personnel or Program Expansion
- Other Special Revenue Operating Fund Deficits

- Projected budget shortfalls in all periods
- Short-term fixes with fund balance and reserves
- Ongoing revenues not sufficient to keep up with ongoing expenditures when factoring in additional $3.3 million deferred maintenance needed for pavement
- Deficit to grow larger when other costs of additional items are known and included in updated forecast
- No capacity for additional pavement budget, investment in facilities, or to issue debt without going to voters
- At status quo service levels, without the additional $3.3 million, can possibly maintain the next few years, but at the growing cost of deferring maintenance, resulting in more expensive repairs and replacement.



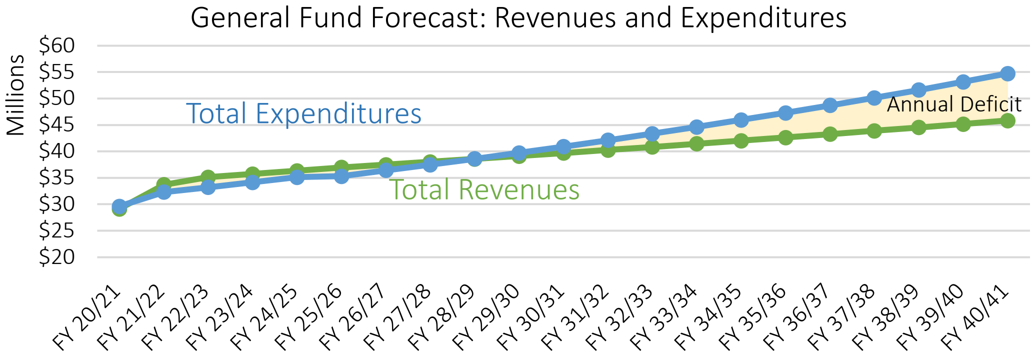




- Assumes no one-time use of unassigned fund balance for other unfunded priorities
- Scenario 1 negative by FY 22/23
- Scenario 2 negative by FY 23/24
- Scenario 3 negative by FY 31/32

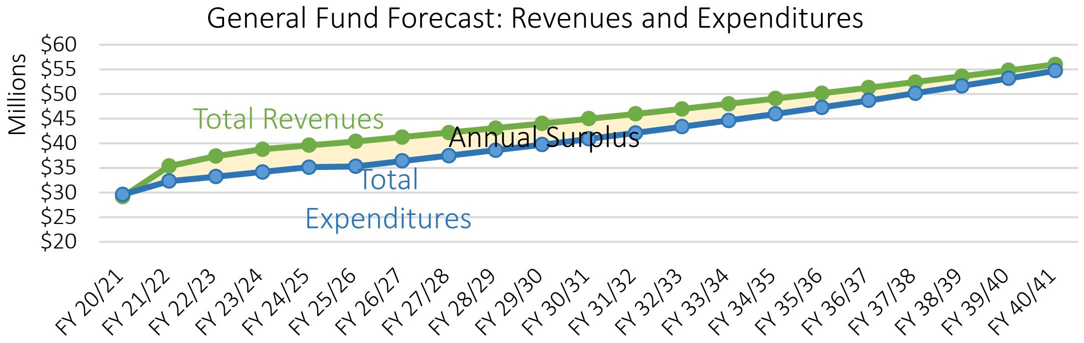
Assumes No Revenue Neutrality Agreement

Alternative Scenario 1



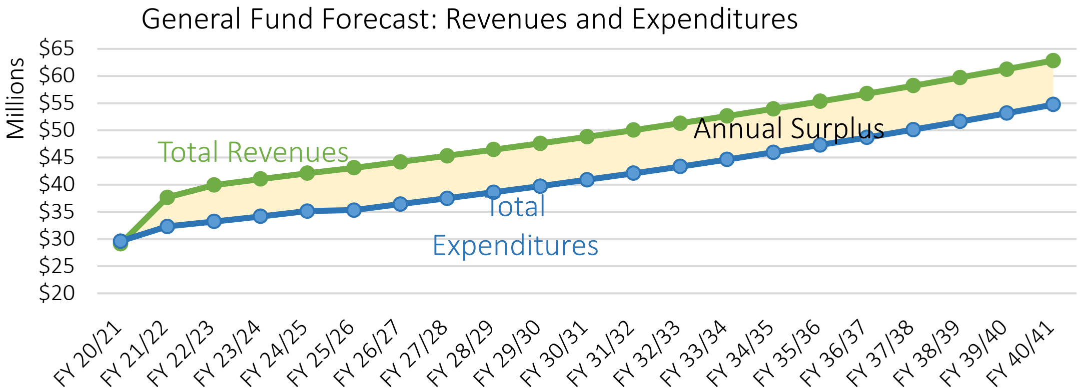
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$1,530,496	$741,778	$ (579,068)	$ (2,217,859)

Alternative Scenario 2



Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 4,265,616	$ 4,363,318	$ 4,030,200	$ 3,506,242

Alternative Scenario 3

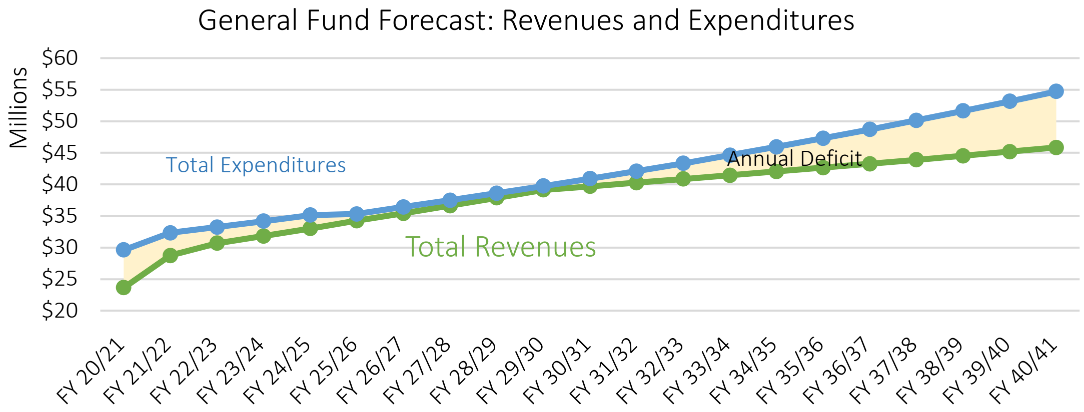


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 6,726,741	$ 7,283,421	$ 7,518,207	$ 7,656,513

- Assumes no revenue sharing with the County starting in FY 20/21
- City shares 50% of is property tax allocation
- City shares 30% of the 1% Bradley-Burns uniform sales tax allocation of the 7.75% sales and use tax rate. The full 1% is normally allocated to cities.
- Result in an additional annual $6.1 million in tax revenues beginning FY 20/21

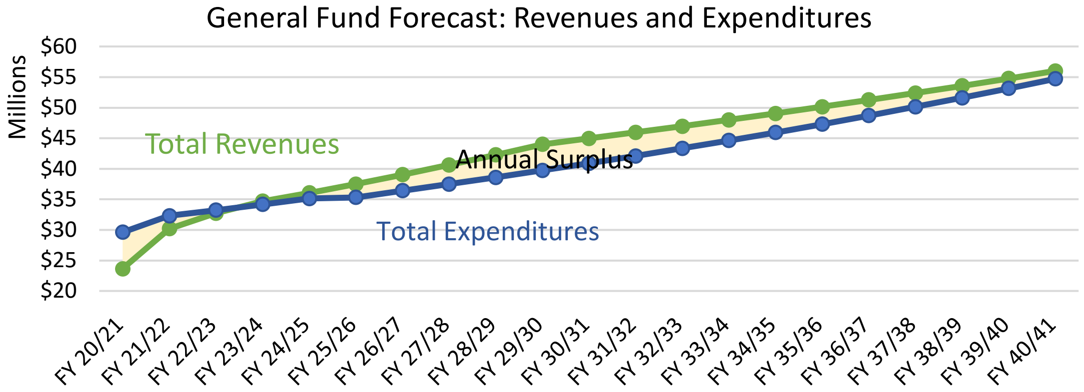
Assumes Revenue Neutrality Agreement Ramping Down over 10 Years

Alternative Scenario 1



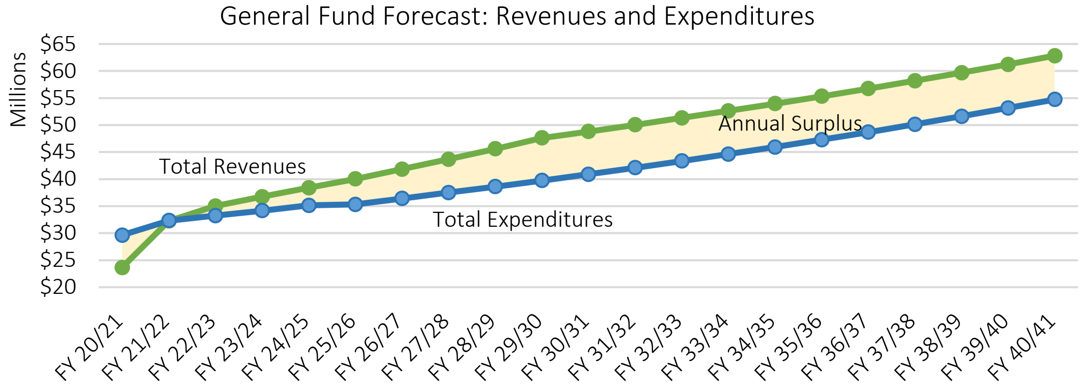
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (2,340,584)	$ (1,613,264)	$ (2,149,096)	$ (3,395,380)

Alternative Scenario 2



Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 194,459	$ 1,874,965	$ 2,371,297	$ 2,262,065

Alternative Scenario 3

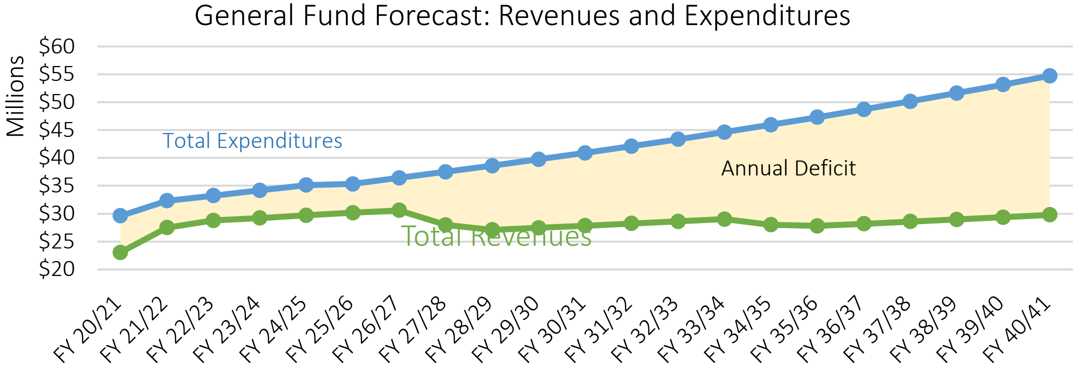


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 2,448,580	$ 4,663,068	$ 5,771,306	$ 6,346,337

- Assumes phasing out revenue sharing with the County over a 10-year period , starting in FY 20/21
- Assumes ramping down in equal installments over ten years, with 100% reduced by FY 29/30

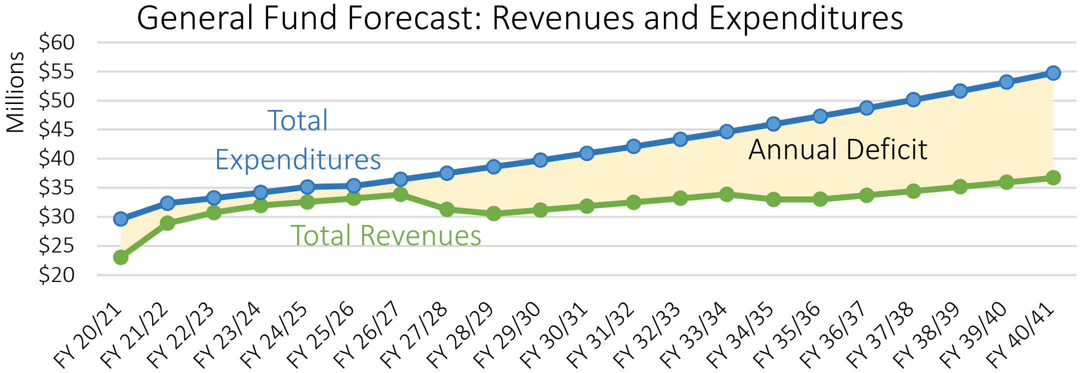
Recessionary Impacts Every Seven Years

Alternative Scenario 1



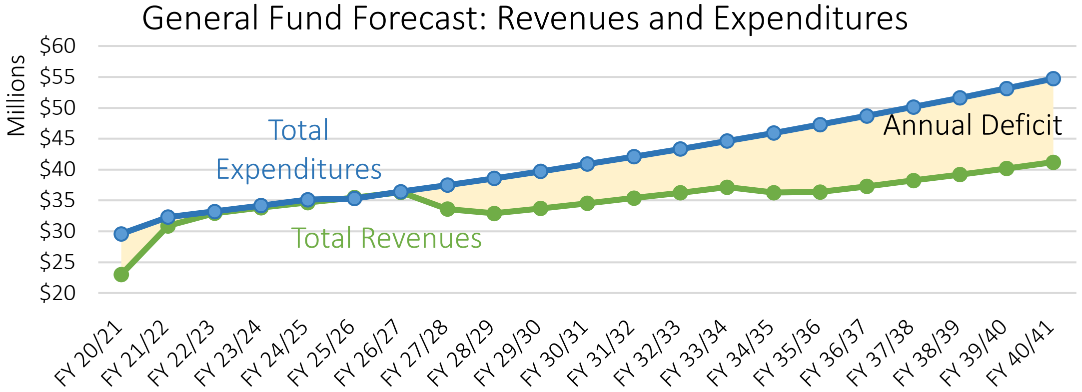
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (4,969,811)	$ (7,703,331)	$(10,580,117)	$ (13,608,842)

Alternative Scenario 2



Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (2,580,215)	$ (4,736,921)	$ (7,010,407)	$ (9,377,469)

Alternative Scenario 3

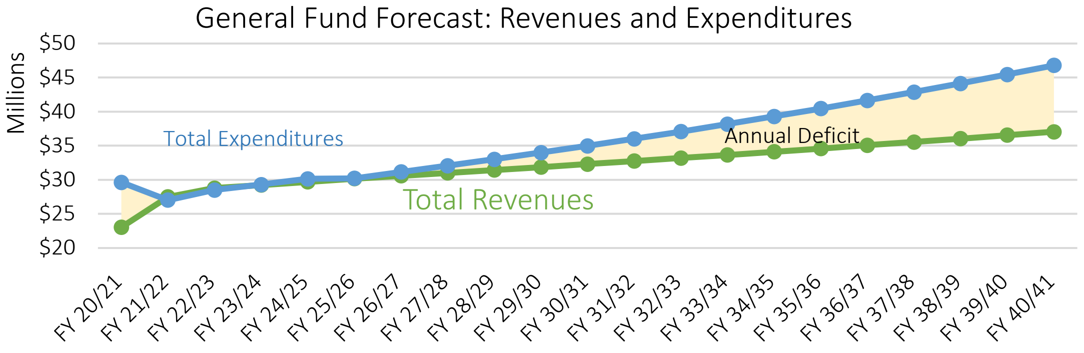


Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ (473,761)	$ (2,436,445)	$ (4,413,404)	$ (6,420,874)

- Models recessionary impacts every seven years (FY 27/28 and FY 34/35)
- First recession assumes decline in sales tax at 20% and TOT 12% over two years – similar to what was experienced during Great Recession
- Second recession assumes moderate impacts and cuts in half the impacts felt during the Great Recession, 10% reduction in sales tax and 6% reduction in TOT

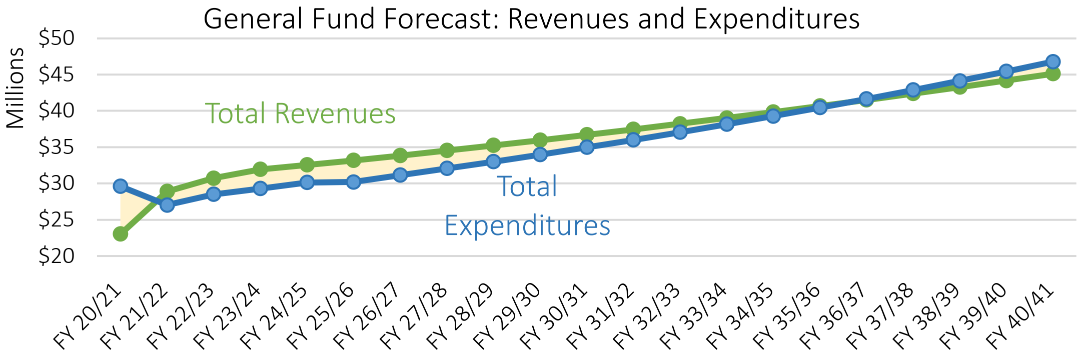
Original FY 20/21 Budget with Temporary Cost Containment Strategies Phased Out and No Additional $3.3 Million Pavement Budget

Alternative Scenario 1



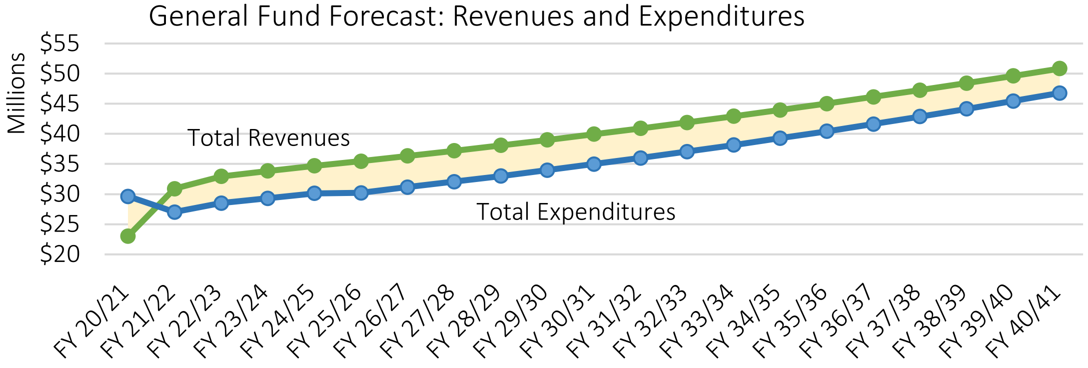
Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 35,783	$ (786,316)	$ (2,037,418)	$ (3,560,259)

Alternative Scenario 2



Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 2,425,379	$ 2,323,730	$ 1,833,668	$ 1,155,587

Alternative Scenario 3



Average Years:	5 Years	10 Years	15 Years	20 Years
Average Surplus/(Deficit)	$ 4,531,833	$ 4,805,203	$ 4,787,086	$ 4,658,379

- Scenarios assume the temporary cost reduction strategy is phased out over two-year period
- Removes additional $3.3 million of pavement budget

- Unfunded liabilities [CalPERS pension UAL, OPEB (retiree health care) UAL], and settlement agreement payment
- Unfunded deferred maintenance with pavement, concrete, public trees, ADA, traffic signals, storm drains, vehicles and equipment, facilities, and parks and open space
- Staff level imbalances and service levels in departments and programs
- Master Plan Documents needing implementation

Summary of Unfunded Liabilities

Unfunded Liabilities	Est. Amount	Current Funding	Adj. Est. Amount	Potential Funding Sources
CalPERS UAL	$ 3,517,839	$ 333,500	$ 3,184,339	Section 115 Trust once funded
OPEB UAL	$ 2,438,474	$ 170,000	$ 2,268,474	Section 115 Trust once funded
Settlement Agreement	$ 3,880,000	$ -	$ 3,880,000	N/A
Total	**$ 9,836,313**	**$ 503,500**	**$ 9,332,813**	

Summary of Other Unfunded Priorities

Unfunded Categories:	Unfunded		Notes and Funding Sources
	One-time	Ongoing Operating Costs	
Deferred Infrastructure Maintenance			
Additional Pavement Budget to maintain average PCI level of 69	TBD	$ 3,300,000	Additional annual amount needed. Tax revenue.
Backlog of concrete repair	TBD	$ 250,000	Tax revenue
Backlog of public tree maintenance	TBD	$ 300,000	Tax revenue
Deferred Traffic Signals – Full replacement	TBD	$ 500,000	Tax revenue
Deferred Traffic Control Sign Replacements	TBD	$ 40,000	Tax revenue
Storm drain maintenance	TBD	$ 250,000	Tax revenue
Vehicles and Equipment	TBD	$ 150,000	Tax revenue
ADA related improvements	TBD	TBD	Tax revenue
Facility maintenance	TBD	$ 275,000	Tax revenue, user fees
San Jose Creek Annual Cleanout	TBD	$ 200,000	Tax revenue
Park and open space maintenance rehabilitation	TBD	$ 150,000	Tax revenue, user fees
TOTAL CURRENT ESTIMATE		**$ 5,415,000**	

Unfunded Categories:	Unfunded		Notes and Funding Sources
	One-time	Ongoing Operating Costs	
Staff level imbalances or service level by Dept/Program			
General Government	TBD	TBD	Tax revenue, user fees
Library	TBD	$200,000	Annual cost estimates for book budget needed once Library DIF is used up. Grants, Tax revenue, user fees
Finance	TBD	$260,000	Staff level imbalances. Department to undergo assessment. Was delayed due to COVID-19. Tax revenue, user fees
Planning and Environmental Review	TBD	TBD	Affordable Housing Program. Staff level imbalances. Tax revenue, user fees
Public Works	TBD	TBD	Staff level imbalances. Tax revenue, user fees
Solid Waste	TBD	$90,000	Tax revenue, user fees
Streetlights	TBD	TBD	Tax revenue
Neighborhood Services and Public Safety	TBD	TBD	Tax revenue, user fees

Unfunded Categories:	Unfunded		Notes and Funding Sources
	One-time	Ongoing Operating Costs	
Master Plan Documents Needing Implementation			
Parks Master Plan	TBD	TBD	Federal/State Grants
Creek and Watershed	TBD	$50,000	Depending on future action costs may increase one-time for CIP and annually if department or program created. Tax revenues, grants, user fees
Bike/Ped Master Plan	$13,980,000	TBD	Federal/State Grants, tax revenues
IT Strategic Plan	TBD	$1,188,000	Further analysis needed. Amount subject to change based on action.
Economic Development Plan	TBD	TBD	TBD
Economic Recovery Plan	TBD	TBD	Currently being developed.
Homelessness Strategic Plan	TBD	$760,000	Preliminary estimates, subject to change on action. Plan is still under draft and review
Strategic Energy Plan and Climate Action Plan	$3,830,000	$282,000	Preliminary estimates, subject to change on action.
Butterfly Habitat Management Plan	$63,500	$203,600	$3.9 million one-time state grant. Amount listed is estimated future unfunded cost.
Lake Los Carneros Master Plan	TBD	TBD	Tax revenues

CIP Projects (Unfunded Next Five Years)	Est. One-Time Amount	Funding Sources
9001-Hollister Avenue Complete Streets Corridor Plan	$ 1,186,000	*Grants, DIF, IBank, Other Debt Financing*
9006-San Jose Creek Bike Path - Southern Extent	$ 1,210,000	*Grants, DIF, IBank, Other Debt Financing*
9009-San Jose Creek Improvements and Fish Passage	$ 570,000	*General Fund $460,750 appropriated 9/1/2020*
9025-Fire Station No. 10	$ 14,821,994	*DIF, IBank, Other Debt Financing*
9027-Goleta US 101 Overcrossing	$ 28,500,000	*Other Debt Financing*
9053-Cathedral Oaks Crib Wall Interim Repair Project	$ 8,300,000	*IBank, Other Debt Financing*
9056-LED Street Lighting Project	$ 100,000	*Special Revenue Funds, IBank, Debt Financing*
9064-Reclaimed Water Service to Evergreen Park	$ 310,000	*DIF*
9065-Reclaimed Water Service to Bella Vista Park	$ 230,000	*DIF*
9067-Goleta Community Center Upgrade	$ 7,650,000	*Grants, IBank, Other Debt Financing*
9069-Miscellaneous Facilities Improvements	$ 1,150,000	*Other Debt Financing*
9077-Recreation Center/Gymnasium	$ 1,938,585	*Revenue Bonds, Grants, DIF, Other Debt Financing*
9078-Rancho La Patera Improvements	$ 2,985,000	*Revenue Bonds, Grants, DIF, Other Debt Financing*
9081-Covington Drainage System Improvements	$ 3,700,000	*IBank, Other Debt Financing*

CIP Projects (Unfunded Next Five Years)	Est. One-Time Amount	Funding Sources
9085-Goleta Storm Drain Master Plan	$ 220,000	*GF or Special Revenue Funds*
9086-Vision Zero Plan	$ 300,000	*GF or Special Revenue Funds*
9096-Orange Avenue Parking Lot	$ 300,000	*Special Revenue Funds*
9097-Fairview Corridor Study (Fowler Road to Calle Real)	$ 370,000	*GF or Special Revenue Funds*
9100-Hollister Avenue/Fairview Avenue Roundabout (Intersection Improvements)	$ 550,000	*Special Revenue Funds*
9101-City Hall Purchase & Improvements	$ 435,500	*GF Facility Reserves, IBank or Other Debt Financing*
9103-Citywide School Zones Signage & Striping Evaluation	$ 65,000	*Special Revenue Funds*
9104-Citywide Evaluation of Existing Traffic Signals	$ 65,000	*Special Revenue Funds*
9105-Ellwood Beach Drive Drainage Infrastructure Replacement	$ 226,725	*Special Revenue Funds, Other Debt Financing*
9106-Phelps Ditch Flood Control Channel Trash Control Structure	$ 670,000	*Special Revenue Funds, Other Debt Financing*
9107-Old Town South Fairview Avenue, High Flow Trash Capture Devices	$ 325,000	*Special Revenue Funds, Other Debt Financing*
9109-Ward Drive Sidewalk Infill	$ 390,000	*Special Revenue Funds, Other Debt Financing*
TBD-03-Ellwood Coastal Trails and Habitat Restoration	$ 2,475,000	*Grants, Other Debt Financing*
Total Cost	**$ 79,043,804**	
Total Adjusted Cost	**$ 78,473,804**	*Accounts for GF appropriation for 9009*

- Funding Ongoing Operations and Ongoing Unfunded Maintenance
- When averaging out the three scenarios over a 20 years, approximately $5.4 million is needed annually to address pavement in the long-term. In the near term $2.7 million annually is needed
- Early estimates indicate an additional $2.1 million in ongoing deferred maintenance is needed annually When combined with the $5.4 million, it is now anticipated to be $7.3 million needed annually
- Ongoing annual expenditures should be matched with ongoing annual revenue streams

Average Annual Deficit				
	5 Years	**10 Years**	**15 Years**	**20 Years**
Scenario 1	$ (4,969,811)	$ (6,085,453)	$ (7,727,939)	$ (9,701,587)
Scenario 2	$ (2,580,215)	$ (2,975,407)	$ (3,856,853)	$ (4,985,740)
Scenario 3	$ (473,761)	$ (493,934)	$ (903,435)	$ (1,482,948)
Average	**$ (2,674,595)**	**$ (3,184,931)**	**$ (4,162,742)**	**$ (5,390,092)**

- Near Term Recommendations
  - In the near term, it is recommended that the City Council direct staff to evaluate adjustments to existing cannabis business tax rates. If Council supports this recommendation, staff will work with the City's consultants to bring a feasibility analysis and recommended rates back to Council
    - As an example, based on preliminary estimates, staff have modeled that with a 1% increase to each category except medicinal, the City could almost double its cannabis revenue. Staff's model indicated a possible 88% increase in cannabis overall revenues.
- Long Term Recommendations
  - City Council direct staff to explore a one percent transaction and use tax measure, as was discussed in the prior fiscal year, and bring it back to Council for further consideration. As was shown in the polling results earlier this year, this type of tax measure has a good chance of being supported by voters and would generate the amount of ongoing revenue required in the long-term to help meet community needs and allow the City the capacity to finance CIP projects when needed.
- Alternatives
  - Council can direct staff to explore other types of tax measures, including a Transient Occupancy Tax increase, a Utility User Tax, a Business Operations Tax or a Parcel Tax.

- Several strategies that can be used to meet future unfunded pension and OPEB UAL challenges
- Council adopted Section 115 Trust, and staff now seeks Council direction to transfer funds that have been set aside for this purpose to the Trust and being investing plan assets
- Staff recommends City Council authorize staff to transfer funds currently set aside in reserves for CalPERS UAL in the amount of $170,000 and OPEB UAL in the amount of $333,500 to the Section 115 Trust and utilize the Moderate (passive) investment strategy
- Ongoing future funding strategy for additional funds to the Trust to be brought back to Finance Committee in January or February

- One-time expenditures should be matched with one-time revenues or funds available
- Multiple strategies and options
  - Use of one-time unassigned fund balance or internal fund borrowing if available
  - Debt Financing Options
  - New Revenues
  - Combination of Options
- Staff recommends that Council direct staff to pursue new revenues and debt financing options and bring them back to Council with a CIP Funding Plan. The combination of the two would ensure fiscal stability and flexibility with debt capacity when needed. Funding polices could be developed around the use of the new revenue stream(s) to address maintenance, CIP and staff needed to implement a variety of programs, projects and services.

A. Receive a presentation from staff on a City of Goleta Preliminary Long-Range Financial Forecast; and

B. Direct staff to pursue new revenues and debt financing options and bring them back to Council with a CIP Funding Plan; and

C. Authorize the transfer funds currently set aside in reserves for CalPERS unfunded accrued liability in the amount of $170,000 and OPEB unfunded accrued liability in the amount of $333,500 to the City's Section 115 Trust; and

D. Direct staff to further analyze available Unassigned Fund Balance and return to the City Council with a recommendation for a CIP project funding reserve level.

ATTACHMENT 4:

Power Point Presentations

CELEBRATING 20 YEARS
CITY OF GOLETA
since 2002

REVENUE ENHANCEMENT OPPORTUNITIES

- City of Goleta
- HdL ECONSolutions

TRANSACTION USE TAX (TUT)

REVENUE SUMMARY TABLE

	TRANSACTION & USE TAX	UTILITY USER TAX	PARCEL TAX	TRANSIENT OCCUPANCY TAX	BUSINESS LICENSE TAX	DOCUMENTARY TRANSFER TAX
Potential Revenue Projections (Annual)	\$2.2m - \$2.4m / 0.25%	\$4.7M	\$960,00/ \$100	\$920,000/ 1% Increase	\$2.2M - \$3.3M	\$300,000 / \$0.55 Increase

Fiscal Analysis of the Commercial Cannabis Industry in Goleta

March 31, 2022

Presented by: Mark Lovelace
Senior Cannabis Policy Advisor

HdL Cannabis

ABOUT HdL

- Serves:
  - 333 cities
  - 49 counties
  - 175 transaction districts
- Partnered with over 150 local agencies to develop cannabis policies
- Team consists of former policymakers, law enforcement and cannabis regulators with State, County and local level experience
- HdL staff have experience conducting over 18,000 cannabis compliance reviews in California, Colorado and Nevada

HdL Companies

Overview of the Analysis

HdL Companies

Purpose of the Analysis

- Ensure the City's rates are competitive with other nearby jurisdictions and with common rates seen across the state.
- Consider impacts to business attraction, retention and success and to the City's revenues.
- Discuss how retail cannabis sales may be influenced by tourism and visitor traffic, along with the impact of UCSB.
- Work within the parameters of Measure Z

Purpose of the Analysis

- Currently 8 commercial cannabis businesses
- Measure Z allows a rate of up to 10% of gross receipts

Cannabis Business Type	Tax Rate ; Adult Use	Tax Rate; Medicinal
Retailers:	5.0%	0.0%
Cultivators:	4.0%	0.0%
Manufacturers:	2.0%	0.0%
Distributors:	1.0%	0.0%
Nurseries:	1.0%	0.0%
Testing:	0.0%	0.0%

HdL Companies

Cannabis Industry in the Santa Barbara Region

Active Licenses in Nearby Communities							
City/County	Cultivation* /Nursery	Distributor	Manufacturer	Retailer**	Microbusiness	Testing Laboratory	Total
Lompoc	12	8	6	14	0	1	41
Goleta	2	3	1	5	3	0	14
Santa Barbara	0	3	2	6	0	0	11
Santa Barbara County	61	13	0	0	0	0	74
Ojai	0	1	1	3	0	0	5
Port Hueneme	0	0	0	12	1	0	13
Oxnard***	0	3	8	16	0	0	27
Total	**75**	**31**	**18**	**56**	**4**	**1**	**185**

*Number of businesses. Some individual cultivation business hold over 100 separate licenses.

**Includes retailing microbusinesses.

***Permits in process.

HdL Companies

Common Cannabis Tax Rates

- The rates for manufacturing, distribution and testing are all somewhat below the range HdL commonly recommends.

Cannabis Business Type	HdL Initial Rate	HdL Maximum Rate	Current City Rate
Cultivation (indoors)	$7 per square foot	$10 per square foot	4.0% of gross receipts
Nurseries	$1 per square foot	$2 per square foot	1.0% of gross receipts
Manufacturing	2.5% of gross receipts	4% of gross receipts	2.0% of gross receipts
Distribution	2% of gross receipts	3% of gross receipts	1.0% of gross receipts
Retail	4% of gross receipts	6% of gross receipts	5.0% of gross receipts
Testing	1% of gross receipts	2.5% of gross receipts	0.0% of gross receipts

Common Cannabis Tax Rates

- The City's rates are generally competitive with other jurisdictions.

Current Tax/Development Fee Rates in Nearby Communities							
City/County	Retailer	Distributor	Manufacturer	Microbusiness	Cultivation	Nursery	Testing Laboratory
Lompoc	6.0%	$15K - $30K	$15K - $30K	up to 6%	1.0%	1.0%	0.0%
Santa Barbara	5.0%	4.0%	3.0%	N/A	2.0%	2.0%	4.0%
Santa Barbara County	6.0%	1.0%	3.0%	6.0%	4.0%	1.0%	0.0%
Ojai	3.0%	3.0%	3.0%	N/A	N/A	N/A	3.0%
Port Hueneme	5.0%	2.0%	2.0%	2.0% to 5.0%	$7/sf	N/A	N/A
Oxnard*	4.0%	2.0%	2.5%	2.0% to 4.0%	$7/sf	1.0%	1.0%
Goleta	5.0%	1.0%	2.0%	up to 5.0%	4.0%	1.0%	0.0%
Total							

*In addition to the tax rates shown above, the City of Oxnard also requires cannabis businesses to pay a 1.0% community benefits fee and a one-time payment of between $25,000 and $75,000.

HdL Companies

Cannabis Retailers

- 11 retailers serving the Santa Barbara coastal plain
- Estimated population of 197,000 people
- Average of 1 retailer for every 18,000 people

Active Licenses in Nearby Communities	
City/County	Retailers
Goleta	5
Santa Barbara	6
Total	**11**

HdL Companies

Cannabis Retailers

Revenue Projections for Cannabis Retailers, HdL Recommended Rates			
	Low Estimate	"Best" Estimate	High Estimate
Goleta population	31,000	31,000	31,000
Population of surrounding area	61,000	61,000	61,000
Total service area population	92,000	92,000	92,000
Percentage of population that uses cannabis	10%	13%	22%
Number of cannabis users	9,200	11,960	20,240
Existing retailers in nearby jurisdictions	6	6	6
Net leakage to other jurisdictions (20%)	1,840	2,392	4,048
Total customer base	7,360	9,568	16,192
Average transaction amount	$78	$78	$78
Transaction frequency (per month)	2	2	2
Monthly gross receipts	$1,148,160	$1,492,608	$2,525,952
Annual gross receipts	$13,777,920	$17,911,296	$30,311,424
Leakage to black market (30%)	$4,133,376	$5,373,389	$9,093,427
Adjusted annual gross receipts	$9,644,544	$12,537,907	$21,217,997
Non-taxable medicinal sales (10%)	$964,454	$1,253,791	$2,121,800
Total taxable sales	$8,680,090	$11,284,116	$19,096,197
Cannabis business tax rate:			
4.00%	$347,204	$451,365	$763,848
5.00%	$434,004	$564,206	$954,810
6.00%	$520,805	$677,047	$1,145,772

- Estimate cannabis retailers could generate between $9 million and $19 million in sales
- Estimate between $347,000 and $1,100,000 in taxes

HdL does not disclose confidential earnings or tax information for individual cannabis businesses.

HdL Companies

Cannabis Manufacturers

- Gross receipts from around $1 million to over $20 million
- Average generally from $2 million to $3 million

Cannabis Manufacturers; Current and Recommended Rates						
Type 6/7/N/P Manufacturer	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 2.0% Tax Rate	Revenue @ 2.5% Tax Rate	Revenue @ 4.0% Tax Rate
Scenario 1	1	$2,500,000	$2,500,000	$50,000	$62,500	$100,000
Scenario 2	2	$2,500,000	$5,000,000	$100,000	$125,000	$200,000
Scenario 3	3	$2,500,000	$7,500,000	$150,000	$187,500	$300,000

HdL does not disclose or discuss confidential earnings or tax information for individual cannabis businesses.

HdL Companies

Cannabis Distributors

- Business models and gross receipts vary greatly
- Gross receipts from $1 million to well over $100 million
- Most commonly in the range of $2.5 million

Cannabis Distributors; Current and Recommended Rates						
Distributors	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 1.0% Tax Rate	Revenue @ 2.0% Tax Rate	Revenue @ 3.0% Tax Rate
Scenario 1	3	$2,500,000	$7,500,000	$75,000	$150,000	$225,000

HdL does not disclose or discuss confidential earnings or tax information for individual cannabis businesses.

HdL Companies

Cannabis Cultivation

- May be taxed by square foot, gross receipts, or per pound
- 4.0% of gross receipts roughly equals $16 per square foot
- City's current rate is consistent with Santa Barbara County

Cultivation Tax Rate Convertor; Gross Receipts to Square Feet									
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate per SF
Indoor	4	10,000	4,000	$1,000	$4,000,000	4.00%	$160,000	$40.00	$16.00
Indoor	4	10,000	4,000	$1,000	$4,000,000	2.50%	$100,000	$25.00	$10.00
Indoor	4	10,000	4,000	$1,000	$4,000,000	1.75%	$70,000	$17.50	$7.00

HdL does not disclose or discuss confidential earnings or tax information for individual cannabis businesses.

HdL Companies

Summary and Recommendations

HdL Companies

Summary and Recommendations

- **Recommendation 1**
  - HdL recommends that the City work within the existing limitations of Measure Z when making any desired changes to its current cannabis tax rates.

- **Recommendation 2**
  - HdL recommends that the City consider applying its cannabis taxes evenly to both adult-use and medicinal cannabis businesses and sales.

HdL Companies

Summary and Recommendations

- **Recommendation 3**
  - HdL recommends that the City retain the existing gross receipts-based tax on cannabis cultivation and continue to set the rate at 4.0%.

- **Recommendation 4**
  - HdL recommends that any desired adjustments to the City's current tax rates for cannabis business types other than cultivation stay within the minimum and maximum ranges described in Figure 1.

HdL Companies

Summary and Recommendations

Business Type	HdL Std. Initial Rate	HdL Std. Maximum Rate	Current City Rate	Recommendation
Cultivation	$7 per SF or 1.75% GR	$10 per SF or 2.5% GR	4.0% GR	No Change
Nurseries	$1 per SF or 1.0% GR	$2 per SF or 2.0% GR	1.0% GR	No Change
Manufacturing	2.5% GR	4.0% GR	2.0% GR	2.5%
Distribution	2.0% GR	3.0% GR	1.0% GR	2.0%
Retail, Adult Use	4.0% GR	6.0% GR	5.0% GR	No Change
Retail, Medicinal	4.0% GR	6.0% GR	0.0% GR	5.0%
Testing	1.0% GR	2.5% GR	0.0% GR	No Recommendation

SF = Square Feet
GR = Gross Receipts

HdL Companies

Summary and Recommendations

- **Recommendation 5**
  - HdL recommends that the City exercise caution and discretion in applying increases to the tax rates for any existing businesses.
  - As an alternative, the City may wish to consider a tiered tax rate for high-earning businesses when revenues exceed a certain amount.

Summary and Recommendations

Incremental Tax Rate Model					
Increment	**Range**	**Taxable Amount**	**Increment Rate**	**Revenues**	**Effective Rate**
1st Increment	$0 to $25 million	$25,000,000	2.00%	$500,000	
2nd Increment	$25 million to $50 million	$25,000,000	1.50%	$375,000	
3rd Increment	$50 million and above	$25,000,000	1.00%	$250,000	
		$75,000,000		$1,125,000	1.50%
Flat Rate Model					
	Flat Rate	$75,000,000	1.00%	$750,000	
	Flat Rate	$75,000,000	2.00%	$1,500,000	

HdL Companies

Summary and Recommendations

- **Recommendation 6**
  - HdL recommends that the City consider extending the allowable hours of operation for cannabis retailers to 10:00 p.m., rather than the current 8:00 p.m.
  - Extending these hours could allow the City’s retailers to recapture sales (and related sales tax revenue) that are likely being lost to retailers in the City of Santa Barbara during these hours.

Thank You!

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HdL Companies

Questions?

HdL Companies