



Council Agenda Report

From: Ty Lewis, City Manager

Subject: Consideration of the Continuation and/or Increase of Measure E-12 to Fund Local Road Repair and Maintenance

CEQA Determination: The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Date: May 21, 2024

Facts

1. The City owns approximately 150 lane miles of streets and is responsible for the general maintenance, repair, and reconstruction of all public streets.
2. The voters of Paso Robles approved Measure E-12, a half-cent supplemental sales tax in November 2012. Measure E-12 is a general tax and can be used for general government purposes; and helps support general fund expenditures including the City's street repair, maintenance, and rehabilitation projects.
3. Measure E-12 generates between \$6 and \$7 million annually and 100% of the revenues generated are remitted to the City of Paso Robles and not shared with any other government entity.
4. General fund revenues are allocated to fund street repair and maintenance projects pursuant to the [City Council Adopted Six Year Street Plans](#).
5. Since 2012, 44 road repairs, maintenance and/or reconstruction projects have been funded by the general fund as supported by Measure E-12 revenues.
6. Revenues and expenditures of Measure E-12 are reviewed by the City's Supplemental Sales Tax Oversight Committee. This committee provides a forum for citizens to review expenditure reports and provides additional assurances that the funds are being expended appropriately. The Supplemental Sales Tax Oversight Committee has met 40 times since 2013.
7. Measure E-12 revenues and expenditures are also subject to the City's annual external and independent audits.
8. Measure E-12 automatically expires on March 31, 2025, unless voters approve its extension beforehand.
9. The last regular City Council meeting prior to the County Elections deadline for placing a question before the voters to extend the Measure is June 4, 2024.

Community Outreach

City staff has conducted significant community outreach on the future of road repairs within Paso Robles, including discussion regarding the expiration of Measure E-12. Over the past six months, City staff have provided presentations to the following community groups and organizations:

- Rotary (Lunch)
- Travel Paso Board of Directors

- Chamber of Commerce Board of Directors
- Nouth County Realtors Association
- Main Street Board of Directors
- Paso Robles Wine Alliance Board of Directors
- Mid-State Fair Board of Directors
- Planning Commission
- Parks and Recreation Advisory Committee
- Library Board of Trustees
- Senior Citizens Advisory Committee (scheduled)
- Coffee with the City Manager (x2)
- 2024 City Community Budget Workshop

In addition to providing community presentations, in February 2024, the City conducted a statically valid survey of 600 likely Paso Robles voters. The survey gauged respondent's feedback on a variety of topics pertaining to City services, issues, and needs. Road repairs and the condition of local streets resonated strongly with the respondents. When asked their opinion regarding the continuation of Measure E-12 at the one-half cent rate, respondents indicated they would support such a measure by 60 percent or more. Staff from the City's polling consultant, FM3, will provide additional information on the polling results as part of the presentation for this item.

The City produced and released a video to emphasize the importance of Measure E-12: [City of Paso Robles "Paving the Way - The E12 Roads Tax Journey" \(youtube.com\)](#). The City has also launched an interactive Street Repair Map to allow the public to review the Pavement Condition Index for any roadway segment within the City. The map also includes recent repair data for each road segment (if available). The road repair map can be found here: [Paso Robles Street Maintenance Tracking \(prcity.com\)](#). To compliment the map, the City produced a how to use the map video, available here: <https://www.youtube.com/watch?v=qaKzF18zi1Q>.

Options

1. Take no action;
2. Direct staff to return on June 4, 2024 with documents/actions to place one-half cent transactions and use tax (sales tax) extension on November 2024 ballot;
3. Direct staff to return on June 4, 2024 with documents/actions to place one-cent transactions and use tax (sales tax) extension/increase on November 2024 ballot; or
4. Provide alternative direction to staff.

Analysis and Conclusions

Measure E-12 is a half cent transaction and use tax (sales tax) that was approved in November 2012 by the voters of Paso Robles. The tax became effective on April 1, 2013, and automatically sunsets on March 31, 2025. The tax applies to all retail sales of goods and merchandise except those sales specifically exempted by law. The use tax generally applies to the storage, use, or other consumption in California of goods purchased from retailers in transactions not subject to the sales tax. Use tax may also apply to purchases shipped to a consumer in Paso Robles from another state, including purchases made by mail order, telephone, or internet. There are several exemptions to sales tax, including groceries, prescription medicine, and medical devices.

Two Six-Year Street Maintenance and Repair Plans to encompass the full 12-year duration of the supplemental sales tax measure were approved by City Council, the first immediately following passage of E-12, with an updated six-year plan approved in February 2020. Since its inception, with the support of E-12, the City has provided funding for over 35 different road maintenance projects totaling over \$46.4 million, with an additional \$32.2 million committed towards uncompleted projects.

The following 27 projects have been completed using E-12 funds:

Professional Studies	Various Slurry/Chip Seal	13th Street Pedestrian Improvements
21st Street Green Update		East Side Street Light Rehabilitation
13th Street Bridge Improvement		Union Road (along BSP)
Spring Street (16th to 24th)		Ramada Drive/Vendels Circle
Country Club/Rolling Hills/So. River/Airport Rd		Spring Street (24th to 36th)
Walnut/Jackson/Shannon Hill		Park/6th/9th/10th Streets
12th Street (Spring to Fresno)		Jardine Road
Union Rd/Kleck/Montebello		Olive/16th/17th/18th/19th/20th Streets
Scott St (Creston to Airport)		Dry Creek Road
Creston/Golden Hill/Oak Meadows		Rambouillet/Nicklaus-area
Union Road (Golden Hill/Hwy 46E)		Melody Dr/Patricia Ln
Spring Street (1st to 15th)		Country Club-area
Sherwood/Creston/Linne		
Vine Street (1st to 36th)		

The following 15 projects are currently underway using general funds supported by E-12:

Creston Road	Oak Street, 2nd, 3rd, 26th Streets
24th Street Bridge Rehabilitation	Arciero Ct/Mesa Rd
Appaloosa Dr	Dallons/Tractor Rd
Rolling Hills Estates	Elm Ct/Capitol Hill/Palm Ct
17th Street (Spring to Chestnut)	Golden Hill (Rolling Hills to Creston)
Riverside (17th to 24th)	Merry Hill/15th St/Terrace Hill
Sherwood/Sierra Bonita/Turtle Creek	Serenade/Holstein/Brahma
Sunset/Panorama Neighborhood	Andrews Circle

Only two projects remain to be initiated and funds committed:

13th Street Bridge/Niblick Bridge Deck Resurface
Melody Drive

Oversight

To ensure public trust, the City Council created the Supplemental Sales Tax Oversight Committee to monitor the use of the Measure E-12 funds. The Oversight Committee was formed to aid, and by, the City Council. As such, it is a public body subject to California's public meeting laws. That means all meetings of the Committee are public, complete with published agendas, staff reports, public participation, etc. The Committee is comprised of 11 members (7 at-large; 4 from community organizations). Since 2013, the Committee has met 40 times.

The Supplemental Sales Tax Committee provides a forum for citizens to review and report to both the City Council and the community on matters relating to Supplemental Sales Tax revenues and expenditures resulting from both Measure E-12, approved by the voters in 2012, and Measure J-20, approved by the voters in 2020. The Committee provides oversight of the expenditures of the supplemental sales tax revenues to ensure that they are being spent on community priorities established by the City Council, based on information gained from business and resident surveys and other means. The Committee shall determine if the funds were spent appropriately, and report that to the Council and public. The Committee may also provide advice to staff and the Council.

Should Measure E-12 be placed on the ballot and approved by voters, the Supplemental Sales Tax Oversight Committee will continue to review the revenue and expenditures of the Measure.

Pavement Condition Index

The Pavement Condition Index (PCI) is the numerical index between 0 and 100, with 100 being best, that is used to indicate the general condition of a pavement section. Paso Robles, prior to investing in road repair and maintenance, averaged a PCI of under 50 City-wide. In the 11 years of E-12 funded projects, the City-wide PCI average has increased to 55 with westside streets averaging 47 and eastside streets averaging 61. Alleyways average a PCI of 45. For context, California cities as a whole average a PCI of 62; San Luis Obispo County cities average 60; and the City of Atascadero average PCI is 48.

When the City completes road repair and maintenance projects, the PCI increases:

- Repair of Spring Street between Niblick and 30th Street in projects completed in 2016 and 2020 increased the average PCI from 19 to 78.
- Repair of Scott Street between Creston Road and Airport Road in 2016 increased the average PCI from 43 to 100.

However, roads are like vehicles. They require regular maintenance to maximize lifespan. Once a road is initially repaired, it should be maintained by crack sealing, slurry seal or other appropriate light maintenance every five to 10 years in order to prevent deterioration and to maintain an acceptable PCI. Streets receiving major repair with the general fund, as supported by E-12, between 2013 and 2019 have not been maintained and it is likely that the PCI average has decreased. This is due to the fact that even with Measure E-12 the general fund does not sufficient revenues to both perform the significant road repair that is needed and the appropriate level of maintenance.

Additionally, the City's PCI index is impacted by a variety of factors. In particular, many streets throughout the City require full reconstruction due to deferred maintenance and poor conditions. This is the most expensive type of street repair work. Conversely, using the pay as you go method of funding street repair projects as is now the case does not provide the necessary funding to make PCI improvements to many street segments in a shorter period of time or allow staff to move into more maintenance activities.

Continued Need for Road Repairs

Since 2012, the City has completed, or is in progress of, completing 44 separate road repair, maintenance, or reconstruction projects using Measure E-12 funding. Absent Measure E-12, the City's general fund would likely not have been able to complete most of the projects and the City's Pavement Condition Index would have continued to decline. Nevertheless, city staff and consultants have estimated that the City has \$350 million in deferred road repair needs. This figure includes the underlying City-owned utilities that will need to be replaced in tandem with the road repairs. Much of the need for additional road work is located on the west side of Paso Robles. These road segments are some of the oldest within the City.

Many of the “number” and “tree” streets will require complete reconstruction (the most expensive type of road repair) due to the very poor conditions of the asphalt. This work will also require curbs, gutters, and Americans with Disabilities Act improvements where necessary. If Measure E-12 is not placed on the ballot and/or not renewed by voters, the general fund may have insufficient revenues to fund these segments of roadway given other general governmental services that need to be funded, and such segments will likely continue to deteriorate.

Additionally, there is a need to implement a comprehensive, best practice approach to street maintenance. Currently, the City does not have a standardized maintenance schedule for streets that have been repaired. The lack of a maintenance schedule significantly shortens the lifespan of the street and costs the taxpayer additional funds over the long term. There is a significant future need to ensure there are available funds to undertake this maintenance work. Models 1 and 3 below demonstrate how the City can achieve this work in more detail.

Visitor Impact on Sales Tax

Measure E-12 supplemental sales tax is applied to applicable sales within the City of Paso Robles and for certain sales where the item is delivered to a location within the City of Paso Robles. For example, a visitor that eats a meal at a restaurant in Paso Robles will pay sales tax (including Measure E-12). With the City’s robust and growing tourism economy, the share of visitor contribution to the City’s road repair program via Measure E-12 has increased over time. As of 2023, the City ranks 73rd out of 539 agencies statewide in per capita sales tax generation. This means that for each resident of the City, the amount of sales tax generated is greater than 466 other cities and counties within the state. Said another way, visitors are contributing a significant amount of sales tax to the City, offsetting the local tax burden to achieve the current level of Measure E-12 funding. The City ranks higher in per capita sales tax than the cities of Santa Monica, Sonoma, Santa Barbara, Monterey, South Lake Tahoe, Ventura, and Oxnard.

Alternative Funding Sources for Road Repairs

With the expiration of Measure E-12 on March 31, 2025, the City’s general fund may not be able to support the street maintenance and repair. As part of developing the City’s fiscal outlook for the coming two fiscal years and due to the measure’s expiration in March 2025, staff did not assume Measure E-12 revenues will be available in Fiscal Year 2025-26. Therefore, if a measure is not placed on the ballot and/or not renewed by voters, the City will need to identify other sources of existing revenue should the City Council wish to fund road repairs at current levels.

The City utilizes several revenue sources to complete road related repairs, maintenance, and reconstruction. Most of this funding comes from Measure E-12. No other current funding sources equal the amount of funding that Measure E-12 contributes to the general fund, which facilitates local road repair activities. In addition to Measure E-12, the City uses several other revenue sources for road-related work.

- Senate Bill 1 (SB1): The Road Repair and Accountability Act of 2017 increases certain fuel and vehicle registration taxes to allocate \$5.4 billion annually statewide to fix roads, freeways, and bridges in communities across California. These funds are split between state and local investments. The City receives approximately \$775,000 in SB 1 revenues annually (FY 2024).
- Gas Tax: Revenues derived from the historical statewide gas and diesel tax, of which a portion is allocated to cities by various formulas. The City receives approximately \$985,000 in state gas tax revenues annually (FY 2024).

- Measure J-20: A one-cent local transaction and use tax approved by Paso Robles voters in 2020. The Measure generates approximately \$12 million annually. Revenues from the Measure are allocated to three primary functions of the City: police, fire and road repairs. To date, the City has invested approximately \$10 million from Measure J-20 toward road repairs. This is primarily a result of one-time salary savings for police officer positions funded by Measure J-20, but not fully filled over the past several years. The intent is to fill these positions and therefore, it is not anticipated there will be as significant of one-time savings to reallocate to road repairs in the future. If the City Council prefers to reallocate \$6 to \$7 million of Measure J-20 funding to road repairs, it will require the reduction of public safety positions and related operations to achieve these savings. Furthermore, there is no ability to bond against Measure J-20 revenues, as there is a sunset date associated with this Measure.
- General Fund: This is the City's discretionary fund that is primarily funded by property taxes, sales tax (Bradley Burns) and hotel tax. This funding supports general government operations of the City, including, but not limited to police, fire, parks, libraries, general administration, equipment replacement, pension trust funding, and when available, a transfer of funds to the capital improvement fund for various capital projects, including road repair work. Any reallocation of general fund dollars to achieve \$6 to \$7 million in annual funding for road repairs will require the reduction of existing staffing, programs, and resources. The police and fire departments make up the largest share of general fund expenditures.
- Grant Funds: The City aggressively applies for grants and other funding through regional, state, and federal sources. These grants are cyclical, competitive, and typically do not fund purely road maintenance or repair projects. Although these funds assist the City in advancing key projects, the City cannot rely on grant funds to partially or solely fund road repair and maintenance projects on an ongoing basis.
- Transportation Impact Fees: These fees are paid by new development projects to pay its "fair share" of the cost of the new transportation infrastructure as in the Transportation Impact Fee study approved by the City Council in 2019: [Transportation-Impact-Fee-Justification-Study \(prcity.com\)](https://prcity.com). Revenues derived from this program provide funding to build out the City's transportation network to accommodate new residential, commercial, and industrial development. These funds cannot be used for maintenance or repair purposes.

Regardless of what alternative selected in absence of Measure E-12 funding being extended, it should be noted that the cost to repair, maintain and reconstruct roads will increase over time. Reallocation of General Fund or Measure J-20 funds to road repairs will need to increase over time to account for inflation and other cost increases.

Sales Tax Extension Funding Models and Options

During the March 2, 2024 Community Budget Workshop, staff presented four potential funding models for City Council review and consideration. Staff have outlined the pros and cons for each model. Models 1 and 3 do not contain a sunset clause. Model 2 is similar to the way the tax is structured today. Models 1 and 2 will keep the sales tax rate at the current 8.75 percent. Model 3 will increase the sales tax to 9.25 percent, which is the maximum allowed under state law.

Model 1 – Measure E-12 ½ cent supplemental sales tax renewed by voters with no sunset date

Pros	Cons
Based on estimated revenue, allows for bonding and the ability to fast track repairs with \$59 million in additional funds for general fund services available in the first five years which can be used for repair projects and between \$2 million and \$3.5 million available annually for maintenance in perpetuity. With careful planning, average City-wide PCI is expected to increase to 60 by 2055.	Requires City to incur debt.

Model 2 – Measure E-12 ½ cent supplemental sales tax renewed by voters with a sunset date

Pros	Cons
Allows sufficient general fund revenue to continue with the pay-as-you-collect models, thus allowing for between \$6 million and \$7 million in annual road repair.	No appreciable dollars available for maintenance of repaired roads resulting in no change in average PCI as those roads deteriorate. No ability to leverage funding for fast-track repair work.

Model 3 – Measure E-12 renewed and increased to 1 cent with no sunset date

Pros	Cons
Based on estimated revenue, allows for the City to issue debt and the ability to fast track repairs with \$118 million in additional funds for general government services available in the first five years which can be used for repair projects and to fund between \$2 million and \$3.5 million available annually for maintenance in perpetuity. With careful planning average City-wide PCI expected to increase to 65 by 2045.	With an estimated \$24 million spent on road repair projects in the first five years, the proportionate costs of engineering consultants will exponentially increase; requires City to incur debt.

Model 4 – Measure E-12 is not placed on the ballot or is not renewed by voters

Pros	Cons
None.	Not placing the measure on the ballot or voters not approving the renewal of the measure means that the City will experience a \$6 to \$7 million annual loss in revenues that have historically funded the majority of street repair projects in the City. If it is the City Council's direction to fund street repairs at the same or greater levels than today, there will

need to be consideration of reducing General Fund programs. Alternatively, backfilling street maintenance repairs with Measure J-20 funds will significantly impact the fire and police services in staffing, equipment and facilities moving forward.

November 2024 General Election

If the City Council chooses to seek voter approval to extend the Measure, several items will need to return to the City Council on June 4, 2024 to meet County election deadlines to place the measure on the November 5, 2024 ballot. The County's recommended deadline for the full text of the measure and exact form of the question to be submitted to the County Clerk's office is June 18, 2024. These items include:

- A resolution calling and giving notice of a measure to be placed on the November 5, 2024 ballot to extend (or extend and increase) transactions and use tax (sales tax) for general unrestricted purposes
- Introduction by title only Ordinance XXXX, an Ordinance of the People of the City of El Paso De Robles, California, Amending Chapter 3.10 of the Paso Robles Municipal Code to Extend the Existing Transaction and Use Tax (Or extend and increase...) Administered by The California Department of Tax and Fee Administration, subject to voter approval
- A resolution setting deadlines for the filing of primary and rebuttal arguments and setting rules for the filing of written arguments regard to ballot measures
- Direction to the City Attorney to draft the impartial analysis for the transaction and use tax measure allowing for arguments and rebuttals
- A resolution outlining spending priorities for the transaction and use tax measure (optional)

If placed on the ballot a question like one of the options below is recommended to appear on ballots of voters within Paso Robles on November 5, 2024:

PASO ROBLES ESSENTIAL SERVICES FUNDING CONTINUATION MEASURE.

Shall the measure to extend the voter approved half cent sales tax (2012), for general government use including to protect Paso Robles' long-term fiscal stability, maintain essential services such as fixing damaged streets/roads/infrastructure, repairing potholes, synchronizing traffic signals, maintaining traffic/pedestrian safety, and improving emergency evacuation routes, providing approximately \$5,500,000 annually until ended by voters, requiring independent audits, citizen oversight, public disclosure of all spending, all funds for Paso Robles be adopted?

PASO ROBLES ESSENTIAL SERVICES FUNDING MEASURE.

Shall the measure to extend/increase the voter approved sales tax (2012) to a 1 cent rate, for general government use including to protect Paso Robles' long-term fiscal stability, maintain essential services such as fixing damaged streets/roads/infrastructure, repairing potholes, synchronizing traffic signals, maintaining traffic/pedestrian safety, and improving emergency evacuation routes, providing approximately \$11,000,000 annually until ended by voters, requiring audits, public spending disclosure, oversight, all funds for Paso Robles be adopted?

Note: Only one of these questions would appear on the ballot, depending on the City Council's direction on whether to pursue a one-half cent extension of Measure E-12 or an increase to one cent and/or to include a sunset clause.

Fiscal Impact

The fiscal impact of this item is significant. If the City Council places this measure on the November ballot and it is approved by voters, the Measure will continue to generate \$6 to \$12 million (1/2 cent to 1 cent) annually to the City to support the general fund as it continues to fund road repairs and other vital government services. If the measure is not placed on the ballot or voters do not approve of the measure, the City will lose \$6 to \$12 million annually or between \$150 and \$300 million over 25 years (no escalator applied). The loss of this revenue will greatly impact the City's ability to fund general government services, and given City priorities, this means that funding for road repairs will decrease. The estimated cost to place the measure on the ballot is approximately \$40,000.

CEQA

The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Recommendation

Staff requests City Council direction.

Attachments

None.