



## City Council Agenda Item

**City Council Meeting Date:** November 18, 2025

**TO:** Dean Albro, City Manager

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**SUBJECT:** Discussion and Direction Regarding a Potential Ballot Measure for a Special Transactions and Use Tax to Increase Funding for Roads and Right-of-Way Maintenance, and Alternative Tax Measure Options

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### **Recommendation:**

Staff recommends the City Council take the following actions:

- 1) Review and discuss the benefits and drawbacks of a potential ballot measure for a special transaction and use tax to increase funding for roads and right-of-way (ROW) maintenance; and
- 2) If a majority of the City Council wishes to continue considering such a ballot measure, then:
  - a. Direct staff to engage a consultant to implement public opinion research (survey) among registered voters to gauge community support of such a ballot measure;
  - b. Direct whether the survey should include questions to determine voter preferences regarding a special tax for funding of roads and ROW maintenance exclusively versus a general tax for general city purposes including roads and ROW maintenance; and
  - c. Select whether to pursue a June 2026 ballot measure or a November 2026 ballot measure, or to survey the voters to determine the best option; or
- 3) Provide alternate direction, such as directing staff to proceed with a general tax measure to fund general city services including but not limited to roads and ROW maintenance.

## **Background:**

### Needs/Uses of Road Funds

The City's revenue for roadway maintenance and operations serves many uses, which are summarized below in two general categories of:

1. Citywide Operations, primarily performed by City staff in the Street Maintenance, Urban Forestry, and Engineering Divisions, continually working to keep roadways safe and usable, including but not limited to the following activities:
  - a. Roadway pavement – patching, sealing, thin maintenance overlays;
  - b. Sidewalks and Portland Cement concrete – repairing, replacing, grinding, patching, addressing trip hazards;
  - c. Street trees and vegetation – trimming, planting, watering, removal, emergency response;
  - d. Traffic striping, markings, signs, and signals – replacing, recoating, repairing, installing, adjusting, emergency response;
  - e. Roadway drainage – cleaning/clearing, mowing, repairing, replacing; and
  - f. Assessing and managing all roadway infrastructure and maintenance areas.
  
2. Capital Projects, primarily performed by contractors, to significantly extend useful life, rehabilitate, upgrade, expand capacity, and construct new infrastructure, including but not limited to the following activities:
  - a. Roadway pavement – rehabilitation, overlays, cape seals;
  - b. Sidewalks and Portland Cement concrete – expansion/new construction, replacement;
  - c. Traffic signals – reconfiguration, installation;
  - d. Roadway drainage and structures – rehabilitation, major repairs, replacement, expansion/new construction; and
  - e. Roadway capacity improvements – widening, extension, new facilities.

As outlined above, Citywide Operations keep infrastructure and systems working, but do not always extend the useful life of the facilities. Operations are continuously performed over a broad range of needs. Because the City employs a versatile roadway operations staff, Citywide Operations needs can be addressed urgently when necessary and can also be flexibly balanced among many priorities. In that way the City can cost-effectively keep its roadway infrastructure and systems working on a daily basis. Because of funding shortages, the City has significantly reduced the Street Maintenance Division and Urban Forestry Division costs by reducing the number of staff positions as compared to staffing levels from the 1990s through approximately 2012. Those important divisions have very limited capacity for further reductions without significantly reducing the services they provide. Further reducing that ongoing routine maintenance, traffic safety work, and other critical operations will diminish public safety and convenience for users of City roadways and ROW facilities.

Capital Projects generally either significantly extend the useful life of existing infrastructure, reconfigure or expand infrastructure, or construct new infrastructure. Capital Projects have specific scopes of work and are performed during limited project durations at distinct locations. The City typically hires private contractors who specialize in the types of capital project work needed and those contractors are typically able to perform that work more cost-effectively than the City's more broadly trained operations staff. Because of funding shortages, the City has limited its Capital Project expenditures, focusing on essential safety measures, cost-effective pavement rehabilitation, cost-effective sidewalk rehabilitation, and critical repairs of roadway drainage infrastructure.

The City has far greater roadway expenditure needs than it has available revenue. To meet its roadway maintenance and drainage needs within its limitations, the City is best served by an appropriate balance of Citywide Operations and priority Capital Projects. The City's single most costly need for its limited roadway maintenance funding is to maintain its roadway pavement.

#### Citywide Roadway Pavement Condition

The condition of the City's roadway pavement is measured using the industry standard Pavement Condition Index (PCI) system. New pavement starts with a PCI rating of 100. An overall system-wide PCI average of 70 is considered 'Good' and is the accepted industry standard goal. The City's February 2025 system-wide PCI average of 54 is considered 'At Risk.' To maintain the overall PCI average at its current value using industry standard methods, the City would need to identify funding and expend over \$9 Million for pavement rehabilitation projects each year. Alternatively, staff projects the City may narrowly maintain the overall PCI average at its current value by using more cost-effective rehabilitation methods to expend \$2 Million annually; however, those methods do not always provide repairs to the smooth ride quality, aesthetics, or within the time desired by many roadway users. Without those expenditures, the PCI will continue to drop toward a 'Poor' system-wide average (PCI below 50). To promptly raise the City's overall system-wide PCI average to 'Good' using industry standard methods, the City would need to identify funding and expend approximately \$72 Million for pavement rehabilitation projects during the next year. That one-time expenditure of approximately \$72 Million to raise the City's overall system-wide PCI average to 70 is in addition to an annual expenditure of over \$9 Million each year thereafter, to maintain the PCI of 70, using industry standard methods. Alternatively, staff projects the City may promptly narrowly achieve an overall PCI average of 70 by expending approximately \$15 Million using cost-effective rehabilitation methods during the next year. Staff projects the City may also gradually raise its overall PCI average to 70 by expending approximately \$3.5 Million per year on cost-effective rehabilitation methods over a period of 10 years.

#### Reduction in Right-of-Way Maintenance Revenue

A recent June 2025 court decision titled *Rogers v. City of Redlands* determined that California Vehicle Code § 9400.8 precludes the City general fund from charging the enterprise funds for the enterprises' *surface-level vehicle use* of City streets and ROW.

Staff were made aware of this recent decision after the Biennial Budget Fiscal Years (FY) 2025-27 was adopted. Due to the *Redlands* court decision, reimbursement payments were suspended on September 18, 2025 until the charges could be thoroughly analyzed to identify what portion of the payments are attributable to surface-level vehicle use. Staff’s analysis has been completed and the Original ROW Enterprise Reimbursement Schedule is compared with the Revised ROW Enterprise Reimbursement Schedule in Table 1 below.

**Table 1 – Original and Revised Enterprise Reimbursement Schedule & Comparison**

Budget Cycle 2025-27 Enterprise Reimbursement Schedule - REVISED						
Fund	Adopted Budget ROW Reimbursement		Recalculated ROW Reimbursement		Decreased charge to Enterprise Decreased Revenue to ROW	
	FY 2025-26	FY 2026-27	FY 2025-26	FY 2026-27	FY 2025-26	FY 2026-27
Airport	\$ 6,867	\$ 16,325	\$ 6,867	\$ 16,325	\$ -	\$ -
Comm	8,944	9,603	8,944	9,603	-	-
Electric	415,601	502,420	415,601	502,170	-	(249)
Solid Waste	807,982	921,141	-	-	(807,982)	(921,141)
Transit	607,360	754,089	-	-	(607,360)	(754,089)
Wastewater	501,189	603,223	501,189	603,223	-	-
Water	485,724	634,386	485,724	634,386	-	-
<b>Total</b>	<b>\$ 2,833,667</b>	<b>\$ 3,441,187</b>	<b>\$ 1,418,325</b>	<b>\$ 1,765,707</b>	<b>\$ (1,415,342)</b>	<b>\$ (1,675,480)</b>

As summarized in Table 1, the two Enterprises impacted by this revision are Solid Waste and Transit. Because Solid Waste cost of service studies included the costs associated with ROW Reimbursements and because those costs are now being eliminated from the utility’s expenses, staff will be bringing a revised cost of service study to the City Council for review within the next few months. The Solid Waste fund cost of service study was already underway due to the fund performing below expectations in FY 2023-24 and FY 2024-25 and for the purposes of the Landfill Stormwater Remediation project debt financing.

Total revenue to the ROW fund, as a result of the *Redlands* court decision, will be decreased by \$1,415,342 in FY 2025-26 and by \$1,675,480 in FY 2026-27 and subsequent years.

Roadway Maintenance Revenues and Expenditures

Table 2 below shows existing street maintenance revenue from all current funding sources. Table 3 shows the estimated budget needed to maintain the current PCI average using cost-effective methods (not industry standard methods), while meeting the ongoing Street Maintenance, Urban Forestry, and Engineering Division staffing, equipment, materials, and operations contract needs for road-related work. As shown in Tables 2 and 3, the City anticipates having insufficient ongoing road revenues to maintain the current PCI average by spending at least \$2 Million per year on cost-effective street

and alley rehabilitation projects, in addition to funding the City’s Street Maintenance, Urban Forestry, and Engineering Division operations and other necessary street-related projects. Expenditures shown in the rows labeled “Unfunded by Ongoing Revenue” in Table 3 represent those projects in excess of existing ongoing revenue (unfunded needs) which would be necessary to maintain and sustainably operate roadway infrastructure and rights of way including using cost-effective methods for pavement rehabilitation.

**Table 2 – Roadway Maintenance Revenue – Revised**

<b>Funding Source</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
Local Surface Transportation Program	\$ 171,000	\$ 171,000	\$ 171,000
State Gas Tax	1,223,230	1,254,039	1,257,174
Measure A	3,183,474	3,102,303	2,866,347
Maintenance of Effort Contribution Required by State	832,019	832,019	832,019
City ROW Maintenance Funds <sup>3</sup>	1,900,000	1,418,325	1,765,707
Road Maintenance and Rehabilitation Account from SB1	1,215,593	1,206,430	1,218,494
<b>Total</b>	<b>\$8,525,316</b>	<b>\$7,984,116</b>	<b>\$8,110,741</b>

**Table 3 – Roadway Maintenance Expenditure Needs – Status Quo**

	<b>Roadway Maintenance Needs</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
<b>Funded by Existing Ongoing Revenue</b>	Operations: City Street Maint., Urban Forestry & Engineering	\$5,400,000	\$5,800,000	\$5,600,000
	Curb Ramp Upgrades & Concrete Projects	1,200,000	1,464,857 <sup>2</sup>	0 <sup>2</sup>
	Street Rehabilitation Projects	4,600,000 <sup>2</sup>	0 <sup>2</sup>	3,000,000 <sup>2</sup>
	Other Roadway Related Projects	200,000	180,000	50,000
	<b>Subtotal - Funded</b>	<b>11,400,000</b>	<b>\$7,444,857</b>	<b>\$8,650,000</b>
<b>Unfunded<sup>1</sup> by Ongoing Revenue</b>	Curb Ramp Upgrades & Concrete Projects	500,000	100,000 <sup>2</sup>	250,000
	Street Rehabilitation Projects	0	0	1,000,000 <sup>2</sup>
	Other Roadway Related Projects	700,000	720,000	850,000
	<b>Subtotal - Unfunded</b>	<b>1,200,000</b>	<b>820,000</b>	<b>2,100,000</b>
	<b>Grand Total</b>	<b>\$12,600,000</b>	<b>\$8,264,857</b>	<b>\$10,750,000</b>

1. Values shown in rows labeled “Unfunded” include estimated costs of needed concrete work for damaged or substandard sidewalks, curb ramps, etc. and missing infrastructure unable to be funded by grants; the balance of an estimated \$2 Million per year for cost effective street pavement rehabilitation; and various other roadway related needs including roadway capacity improvements, roadway drainage and structure improvements such as pipelines, inlets, bridges, and culverts, as well as traffic control devices, and other needs.
2. To obtain lower unit prices through economy of scale, staff recommends generally performing larger pavement rehabilitation and concrete upgrade projects every two years rather than smaller projects each year.
3. City ROW Maintenance Funds are discretionary, are included in the City’s current Biennial Budget FYs 2025-27, and have been reduced as discussed above due to recent court rulings.

As shown in Tables 2 and 3 above, the City will need an average of an additional \$1.46 Million per year of ongoing roadway maintenance revenue to complete the recurring unfunded needs shown above, including maintaining the City’s roadway pavement at the current citywide average condition using cost-effective rehabilitation methods. If the City were to desire to invest additional funding to maintain the City’s roadway pavement at PCI average of greater than its current average, incremental increases to funding for the purpose of larger-scope projects using cost-effective methods for pavement rehabilitation could be considered. Such increases would have to be evaluated and kept within the parameters of staff and contractor capacity. Staff estimate that staff and contractor capacity could potentially support biennial projects up to an additional \$2-3 Million annual investment.

The City’s adopted biennial budget and capital improvement program for FYs 2025-27 included the expenditures shown in Table 4 below. Those expenditures would have been more substantially offset by the City’s anticipated ROW Maintenance Fund revenue during FYs 2026-27; however, due to the reduction in that revenue source as discussed above, those budgeted projects will instead have to access currently-available road fund restricted cash balances. Unless the City Council directs otherwise, staff could proceed in obtaining bids for these scheduled projects and present each project exceeding \$100,000 to the City Council for consideration of award. The largest project included below is scheduled for bidding during the summer of 2026.

**Table 4 – Projects Currently Included in Budget – Will require One-time Use of Current Restricted Cash Balances**

	<b>Roadway Maintenance Needs</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
<b>Funded by Balances</b>	Curb Ramp Upgrades & Concrete Projects	0	835,143	0
	Street Rehabilitation Projects	0	0 <sup>2</sup>	3,600,000 <sup>2</sup>
	Other Roadway Related Projects	0	150,000	125,000
	<b>Total</b>	<b>\$0</b>	<b>\$985,143</b>	<b>\$3,725,000</b>

### Potential Ballot Measure for a Transaction and Use Tax

The City may consider placing a transaction and use tax (TUT) measure on the 2026 ballot, also known as a district or local add-on sales tax, on top of the regular sales tax, to fill the projected average annual \$1.46 Million funding gap for maintaining roadway infrastructure at status quo, and also to increase expenditures to achieve a higher PCI average and provide additional roadway infrastructure improvements. A TUT applies to merchandise that is delivered within a jurisdiction and does not apply to grocery items, prescription medicines, or other “Necessities of Life.” Additionally, it is a tax that is paid across businesses, residents, and visitors to the jurisdiction (and not solely paid by residents within the jurisdiction like parcel taxes or utility user taxes). TUT revenue measures for general purposes have a majority (i.e., 50% + 1 vote) voter threshold, while TUT revenue measures restricted to fund only specific purposes (i.e. a special tax) have a 2/3rds voter threshold.

Santa Barbara County voters approved Measure A in November 2008, imposing a half-cent per dollar (0.5%) TUT for transportation projects and programs within the County and with a 30-year sunset. Lompoc voters approved Measure I2020 in March 2020, imposing a one-cent per dollar (1.0%) TUT for general fund purposes and with a 15-year sunset.

With the passage of Measure A and Measure I2020, the current sales tax rate in the City of Lompoc is 8.75%. The State of California imposes a limit of 2% above the statewide and Bradley-Burns base sales tax rate of 7.25%; therefore, the City has a half-cent per dollar (0.50%) of remaining capacity before reaching the limit of 9.25%. If another entity (i.e., a County agency) places a TUT measure on the ballot before the City uses its cap, the City may no longer have the option to add a half-cent sales tax to preserve local control of funding (i.e., special legislation would be required to increase the limit). In other words, there is risk that a County agency will endeavor to take the 0.50% remaining capacity to countywide voters for projects and programs spread across the County. Lompoc residents would still be paying the new sales tax rate of 9.25%, but the additional revenues collected within Lompoc would not be under local control.

Historically speaking, sales tax measures have a high likelihood of passing. Of the 208 TUT ballot measures from California cities and counties in the 2020-2024 elections, that were structured as general taxes and were new or increased sales tax rates, 158 passed and 50 failed (a pass rate of 76%). In Santa Barbara, San Luis Obispo, and Ventura Counties, of the 20 TUT ballot measures in the 2018-2024 elections, that were structured as general taxes (no TUT special tax measures were placed on ballots during this period), 18 passed and 2 failed (a pass rate of 90%). If Lompoc voters were to pass a revenue measure for an additional half-cent TUT, the new sales tax rate in Lompoc would be 9.25%, and the fiscal impact would be equivalent to half of Measure I2020 revenues. In line with historical revenues collected from Measure I2020, staff estimates that the additional TUT would generate approximately \$3.75 million annually, beginning in 2027.

The estimated additional annual revenue of \$3.75 million would more than offset the projected \$1.46 million average annual budget deficit resulting from the reduction of ROW maintenance revenues. In addition to funding ongoing roadway maintenance needs on a pay-as-you-go (PAYGO) basis, the City could consider allocating a portion of the additional TUT annual revenues toward paying debt service on Lease Revenue Bonds that could be issued to generate upfront proceeds to implement larger capital projects (i.e., as stated above, the City could narrowly achieve an overall PCI average of 70 by expending approximately \$15 million). To generate \$15 million in upfront proceeds, the City would pay an annual debt service of approximately \$950,000 over 30 years (this assumes a true interest cost of approximately 4.5%).

Financing larger capital projects with bonds rather than on a PAYGO basis may make sense in certain situations, similar to why purchasing a home with a loan rather than cash may make sense for certain homeowners. If a potential homeowner waits until saving enough money to purchase a home in cash, the price of the home may double in that time. Similarly, financing road improvement projects allows the City to accelerate priority projects and avoid rising construction costs. Other reasons why public agencies finance larger capital projects include avoiding more costly repair of deteriorated infrastructure and facilities, spreading the cost of the projects across taxpayers that will benefit from the projects over their useful lives, maintaining strong reserve levels or paying off more expensive debt (i.e., pension liabilities), and locking in how available revenues are spent in the long-term. However, financing may not make sense if the public agency does not have the capacity to implement multiple large capital projects simultaneously, or if the community does not have the tolerance for the traffic impact of multiple large capital projects.

At this time, the City does not need to decide whether to finance any projects with a new potential TUT revenue stream. If the City decides to move forward with a TUT ballot measure, it can decide in the future whether to fund roadway maintenance projects with bonds, or on a PAYGO basis, or both. Before placing a TUT measure on the ballot, however, there are several steps that need to occur and deadlines that need to be met.

Often, prior to submitting a ballot measure, public agencies engage a consultant to implement public opinion research to assess voter support for such a measure (i.e., whether the measure is likely to pass or fail) as well as to assess how voters would like to see the new revenues spent. If the results of the public opinion research clearly indicate that the measure would not pass, then the public agency would likely choose not to continue spending resources to proceed. If the public opinion research indicates a reasonable likelihood of passing at the required voter threshold, staff would develop revenue measure options for the City Council to evaluate based on the results of the public opinion research, stakeholder input, and City Council input. The City Council would then decide on the appropriate parameters of the revenue measure and direct staff to prepare the ballot measure ordinance and required resolutions. The City Council would introduce and adopt the revenue measure ordinance and resolutions over two regularly scheduled City Council meetings, after which staff would submit the ballot measure to the Registrar of Voters by the deadline for the applicable election.

In 2026, the City could take a ballot measure to the June 2, 2026, primary election or to the November 2, 2026, general election. The advantage of submitting a ballot measure for the June primary election is to get ahead of competing ballot measures anticipated to potentially be placed in the November general election. However, the City would need to move quickly to meet the required deadlines for the June primary election.

Additionally, to place a general tax on the June 2026 primary election, the City Council would need to unanimously declare a fiscal emergency (i.e., caused by the reduction in ROW maintenance revenues), or the measure could be brought by citizen initiative. To place a general tax measure on November 2026 requires a 4/5 Council vote. To place a special sales tax measure on either date requires a 4/5 majority Council vote.

### **Fiscal Impact:**

Based on the current number of registered voters in the City of Lompoc, the estimated cost for a June 2, 2026, ballot measure is \$60,000 and the estimated cost for a November 3, 2026, ballot measure is \$39,000. In addition, if the City Council were to direct staff to engage a consultant to implement public opinion research (survey), that cost is estimated to be \$25,000 – \$40,000. The General Fund would be responsible to cover these ballot-initiative related expenses and would require additional appropriations to the budget. If a 0.5% TUT were to pass, the increased revenue is anticipated to be approximately \$3.75 million annually, with slight adjustments for inflation year over year.

### **Conclusion:**

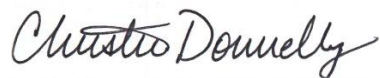
The total of all the City's existing road funding sources during FY 2024-25 was estimated to narrowly facilitate maintaining the street pavement at its current citywide average condition by using cost-effective rehabilitation methods, which are less desirable to roadway users than the more expensive industry standard methods. Significantly more road maintenance funding would be needed to address other significant roadway needs or to substantially improve the citywide average street pavement condition as well as to facilitate industry standard methods, which are more smooth-riding, aesthetically appealing, and accomplish complete repairs sooner than the cost-effective approach.

Recent California court decisions clarified the City may not include in its fees for City services cost components which fund charges for vehicles using its roadways. The elimination of those charges to City enterprise funds reduces the City's annual road maintenance revenue by approximately \$1.7 Million or 17%, based upon the City's FY 2026-27 budget. Such a reduction leaves even further insufficient City road maintenance revenue to cover needed operations and also prevent the citywide pavement condition from significantly declining.

One option that may be considered is that of a ballot measure for an additional 0.5% Transaction and Use Tax, either special purpose or general use, and either with or without intention to consider tax exempt bond financing. The benefits and drawbacks of these

options have been discussed in the preceding sections. After considering options as presented, if the City Council desires to pursue the possibility of a ballot measure, they may direct staff to commission an independent scientific survey of registered voters to gauge voter willingness to pass such a measure, or to proceed directly to preparation of a ballot measure without a survey. The City Council may also direct staff regarding its preference between a June 2026 or a November 2026 election date, understanding the timelines and requirements of each option. The City Council may also provide alternative direction to staff.

Respectfully submitted,



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Christie Donnelly, Management Services Director

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Craig Dierling, Public Works Director



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Jeff Malawy, City Attorney

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

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Dean Albro, City Manager