

STAFF REPORT

Discussion Item

DATE: February 26, 2024

TO: Honorable Mayor and Council Members

FROM: Merritt Perry, City Manager
Aaron Felmlee, Finance Director

SUBJECT: Consider Potential Revenue Sources to Fund City Council Priorities

STAFF RECOMMENDATION:

It is recommended that the Council consider providing staff direction on potential revenue sources to fund City Council Priorities, and possibly consider a ballot measure for the November 5, 2024, General Election.

EXECUTIVE SUMMARY:

Council has expressed interest in maintaining competitive pay for public safety and other City workers whose pay are paid for from the City's General Fund. In order to achieve this goal, the City needs to increase revenue. Although there are other options for increasing revenue for the City, taxes provide a stable source with the potential to generate sufficient dollars to fund the needs staff and the City Council have identified.

One of the needs identified by staff are related to the challenging environment to attract and retain employees, in particular public safety employees. This has been compounded by other Cities in Humboldt County offering hiring bonuses and higher salaries for the same job positions. If general fund dependent salaries which are primarily police positions were increased by 10% to remain competitive in the local area, the cost would be approximately \$500,000 per year. With increasing employee benefit and insurance costs, that amount could increase by \$50,000 or more annually. Additionally, non-payroll costs are also increasing and there are increasing demands for training, equipment, materials and fuel. Staff would recommend targeting a minimum revenue generation amount of \$1M per year to meet the short-term needs of the City.

In recent communications with the Fortuna Volunteer Fire Protection District (FVFPD), they have also had a challenging time recruiting and retaining staff and its volunteer workforce is less responsive than in years past. District representatives have indicated that they are also in need of additional revenue for additional staffing. Preliminary estimates provided by the FVFPD indicate they would need a minimum of \$750K to \$1M in additional revenue annually to add an additional six paid positions and cover purchases of new equipment and increased costs for payroll and non-payroll costs.

The upcoming general election on November 5, 2024, provides the City Council with the opportunity to place either a general tax or a special tax measure on the ballot. General tax measures may only be placed on the ballot during a regularly scheduled general election of the

City Council. This means a general tax would need to be scheduled for November 5, 2024, or it would need to wait until November 3, 2026.

A “general tax” is not legally restricted to any specific purpose and only requires a simple majority or 50% plus one for voter approval. A “special tax”, as opposed to a “general tax”, is legally restricted for a specific use and requires a super majority or two-thirds voter approval to pass. The difference in votes required between the simple majority and super majority is often the reason municipalities place general tax measures instead of special tax measures on the ballot.

Key differences between general and special taxes to consider in developing potential tax ballot measures are outlined below.

	General Tax	Special Tax
Use of Revenues	Unrestricted	Restricted
City Council Approval	Two-thirds (66.67%)	Majority (50% + 1)
Voter Approval	Majority (50% + 1)	Two-thirds (66.67%)
Other Rules	A general tax election must be consolidated with a regularly scheduled general election of the City Council unless an emergency is unanimously declared by City Council.	Special taxes must be deposited in a separate account and the City must publish an annual report including tax rate, amount of revenue collected and expended, and status of projects funded by the tax.

To meet the filing deadline to submit the request for a consolidated election to Humboldt County, the City should have the full text of a proposed measure or measures to the City Clerk on or before May 13, 2024. This leaves less than three months to determine and craft what, if any, revenue measures should be developed into written ballot measures to present to the voters on November 5, 2024.

Revenue Generation Options:

Local Transaction and Use Tax

The City’s local Transaction and Use Tax (TUT) rate is currently .75% or three-quarters of a cent for every dollar spent. Currently the City’s TUT, “Measure E”, generates approximately \$2 million a year. The Transaction and Use Tax Oversight Committee (Measure E Committee) was created with the stated purpose to annually review the “Measure E” expenditures. Although the Measure E Committee monitors spending on parks, transit, streets, and public safety and the tax was and continues to be committed to this purpose, it was presented and passed by the voters as a “general tax”, only requiring a simple majority (50% plus one) to pass. “Measure E” will sunset in 2033, unless it is renewed by City voters in a future ballot measure.

Local municipalities (Cities and County combined) are limited to 2.0% additional tax above the state’s base rate of 7.25%. Fortuna’s 0.75% Measure E plus the County’s 0.50% Measure Z tax,

equals 8.50% and thus leaves up to 0.75% capacity for a new or increased Fortuna TUT. Local TUT's may be established or increased in 0.125% increments.

Every additional 0.125% increment in TUT for Fortuna would generate approximately \$330,000 annually.

Transient Occupancy Tax

The City's current Transient Occupancy Tax ("TOT" – also sometimes referred to as Bed or Hotel tax) rate is 10% with an additional 2% collected which is remitted to the Humboldt County Lodging Alliance. Unlike TUT, TOT rates are set at the discretion of the City voters and are not subject to a legal cap on amount. The most common rate for California cities is 10%, but a few cities, including Anaheim and Palo Alto have rates at or above 15%. In June 2022, Humboldt County (in unincorporated portions of the county) and Trinidad successfully increased their TOT rate to 12%.

Based on current revenue projections, every 1% increase in Fortuna's TOT would generate \$70,000.

Parcel Tax

The City does not currently have a per parcel special revenue tax but it is an option the City could consider. Because of the limitations placed on property taxes based on value by Proposition 13, parcel taxes are either a flat per-parcel tax or based on use, size or number of units on each parcel. Constitutional limits placed on Parcel taxes require that they must be special taxes.

Based on rough current projections, every \$25 per parcel tax would generate approximately \$80,000 annually.

FISCAL IMPACT:

Exploring potential tax measures does not have a direct impact on the City's budget or fiscal state, although a successful tax measure's impact will increase revenue depending on the tax rate, tax type and intended use of funds.

RECOMMENDED COUNCIL ACTION:

Provide staff direction on potential revenue sources to fund City Council Priorities as a ballot measure for the November 5, 2024, general election.