

STAFF REPORT

City Council Business Item

DATE: April 15, 2024

TO: Honorable Mayor and City Council Members

FROM: Merritt Perry, City Manager

SUBJECT: **Public Hearing to Consider Approving a Ballot Measure to Increase the Existing 0.75-cent Transaction and Use Tax up to and Including 0.75-cent, Resolution 2024-10**

STAFF RECOMMENDATION:

Consider a ballot measure for the November 5, 2024 election to increase the current 0.75-cent Transaction and Use Tax by up to and including three-quarters of one percent (0.75-cent), which would change the current tax from three-quarter (0.75-cent) to one and one-half percent (1.5-cents).

EXECUTIVE SUMMARY:

In November 2016, a majority approval by voters enacted a local 0.75-cent transaction and use tax (Measure E) with the intention of funding previous cuts to public safety and to help maintain and enhance public safety services, support local businesses, provide essential services and stabilize the City budget.

Measure E revenues are now essential for the City to maintain and continue to improve certain essential City services and to maintain a balanced budget. The City Council has expressed its desire to amend Chapter 3.13 of the Fortuna Municipal Code to increase the current rate of the sales tax by up to and including three-quarters of one percent (0.75-cent), to ensure a reliable, sufficient, locally-controlled source of funds to address, plan, and prepare for community priorities including increasing police protection services; maintaining 9-1-1 response; nuisance abatement; repairing and maintaining streets, sidewalks, and drainage; maintaining parks; maintaining programs for youth and seniors; and maintaining other essential services.

If the increase is approved by voters, a 1.5-cent local sales tax would provide approximately \$1,800,000 for essential City services to maintain previously cut positions and help maintain public safety services, support local businesses, improve our parks and essential services, and maintain a balanced City budget. These revenues for Fortuna's local services cannot be borrowed or taken by the State.

At the Special Meeting on April 1, 2024, the Council directed staff to bring back proposed ordinances implementing the above-referenced option. Accordingly, included with this Staff Report are one attachment: Attachment A is a Resolution with attached proposed Ordinance increasing the City's Transaction and Use Tax by three quarters of one percent.

BACKGROUND:

The measure authorizing the increase of the transaction and use tax requires the approval of a simple majority (50% + 1) of the City of Fortuna voters voting on the measure at the November 5, 2024 General Election. It is important to note, that while the sales tax would be administered by the State Board of Equalization (“BOE”), the revenues are earmarked exclusively for use by and within the City – **the State would not be able to take or borrow these funds.**

A 1^{1/2}-cent sales tax is estimated to provide approximately \$1,800,000 annually.

The increase of the transaction and use tax will assist the City in achieving the objective of maintaining and enhancing current services, including increasing police protection services; maintaining 9-1-1 response; nuisance abatement; repairing and maintaining streets, sidewalks, and drainage; maintaining parks; maintaining programs for youth and seniors; and maintaining other essential services. Money from this measure is legally required to be spent only on the City of Fortuna needs and cannot be taken or borrowed by the State.

Attachment “A” includes the Resolution and Ordinance with the language necessary to increase the transaction and use tax. The Ordinance included with attachment reflect the necessary adjustments to the Municipal Code for the increase. With this option, the City Council or the voters through the initiative/referendum process may rescind the ordinance and repeal the tax at any point in the future. All of the other elements included in the municipal code that govern the transaction and use tax would remain the same, including, the requirement of a residents’ oversight committee as a way to review the expenditures of the sales tax and ensure funds are spent consistent with community service priorities.

The proposed Resolution would also authorize the Mayor to prepare and file an argument in favor of the measure on behalf of the City Council. The argument could also be signed by representatives of bona fide associations of citizens, individual voters who are eligible to vote, and members of the City Council. The Mayor would also be authorized to file a rebuttal argument, in the event that an argument is filed against the measure. Staff highly recommends that the City Council exercise this option.

Should Council choose not to authorize the Mayor or another member of the Council to file an argument on its behalf, under California Elections Code section 9287, a bona fide citizens group or a registered voter may file arguments in favor of, or against, the measure. Only one argument filed in support of, or against, a measure may be selected to appear with the measure in the voters’ information guide. If multiple arguments in favor of, or against, the measure are timely filed with the City Clerk’s Office, then the City Clerk must grant preference first to any argument filed on behalf of the legislative body, then to an authorized Council member or members, then to a bona fide citizens group, and finally to an individual voter registered and eligible to vote on the measure.

FISCAL IMPACT:

Without an increase of 0.75-cents to the existing 0.75-cent transaction and use tax, over time, the City would return continue to lose the ability to fund all but the necessary projects and would struggle to retain staff by paying competitive salaries. If the tax is not increased in 2024 then the City would look to work toward balancing future budgets by reducing services and staffing. In addition, the following essential services would be at risk for elimination or reduction:

- Capital Improvement Projects (CIP) that are scheduled for the repair and/or replacement of deteriorated City infrastructure will continue to be postponed and/or cancelled

- Funding and Staff time in support of local events such as the Fortuna Rodeo and AutoXpo will be reduced or eliminated
- Fewer maintenance projects for city streets
- Fewer repair projects for city drainage facilities
- Fewer expansion or improvement of city parks

RECOMMENDED COUNCIL ACTION:

1. Receive staff presentation and review Council questions with staff
2. Open the public hearing and conduct discussion regarding the length of time the Council desires to extend the tax beyond the current expiration date.
3. Close the public hearing
4. Adopt *Resolution 2024-10*, and read by title only. Roll call vote.
(Requires 2/3 Council vote)

Attachment

- A. *Resolution 2024-10; A Resolution of the City Council of the City of Fortuna Ordering the Submission to the Qualified Electors of the City of Fortuna a Certain Measure Relating to a Proposed Ordinance Amending Chapter 3.13 to Title 3 of the Fortuna Municipal Code Increasing the City's Transactions and Use Tax by Three Quarters of One Percent for General Purposes at the General Municipal Election to be Held on Tuesday, November 5, 2024 as Called and Proposed to the Qualified Electors by Resolution No. 2024-10; Directing the City Attorney to Prepare an Impartial Analysis of the Measure; Setting the Dates for Arguments on the Measure and Requesting the Board of Supervisors of the County of Humboldt to Consolidate Said Election Pursuant to Section 10403 of the Elections Code*

ATTACHMENTS:

- A. **Resolution 2024-XX**; *A Resolution of the City Council of the City of Fortuna Ordering the Submission to the Qualified Electors of the City of Fortuna a Certain Measure Relating to a Proposed Ordinance Amending Chapter 3.13 to Title 3 of the Fortuna Municipal Code Increasing the City's Transactions and Use Tax by Three Quarters of One Percent for General Purposes at the General Municipal Election to be Held on Tuesday, November 5, 2024 as Called and Proposed to the Qualified Electors by **Resolution No. 2024-XX**; Directing the City Attorney to Prepare an Impartial Analysis of the Measure; Setting the Dates for Arguments on the Measure and Requesting the Board of Supervisors of the County of Humboldt to Consolidate Said Election Pursuant to Section 10403 of the Elections Code*