



STAFF REPORT – CITY COUNCIL MEETING

December 06, 2023

TO: Honorable Mayor and City Council Members

FROM: Tabatha Miller, Finance Director

PREPARER: Tabatha Miller, Finance Director

DATE: November 28, 2023

TITLE: **Potential Tax Measure for November 2024.**

RECOMMENDATION:

It is recommended that the Council consider providing staff direction on potential revenue sources to fund City Council Priorities as a ballot measure for the November 5, 2024, general election.

INTRODUCTION:

The City Council has identified priority projects for Fiscal Year 2023-24, many of which are ongoing goals requiring either a shift in current resources to fund or an additional revenue source. These include efforts to combat homelessness and its impacts, mitigation of and adaptation to climate change, continued and possibly expanded public safety alternative response programs such as Community Ambassador Program and Mobile Intervention Services Team (MIST), and infrastructure improvements including safe streets, transit, alternative transportation, parks and trails, and Valley West Improvements. This staff report addresses some opportunities for potential ballot measures on November 5, 2024, to support one or all of those priorities.

BACKGROUND:

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 more expensive City Council priority projects and programs.

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.

Recent Considerations

The City Council had originally requested that the Transaction and Use Tax Oversight Committee (TUTOC) review potential revenue sources and provide a recommendation to the City Council on potential ballot measures. The TUTOC declined, although there are several TUTOC members who were willing and interested in serving in this capacity. The challenge has been in assigning the task to a Revenue Review Committee with at least five (5) members and that does not make up a quorum of the TUTOC.

The recent delay in possible adoption and proposed revisions to the current public review draft of the Humboldt Regional Climate Action Plan, raised awareness that the City of Arcata may want to lead the Climate Action response by implementing some of the strategies and initiatives through its own efforts. Further, that the City’s voters may support a funding source for those efforts.

At its last meeting on October 24, 2023, the Energy Committee formed a subcommittee (members not yet selected) to explore the possibility of recommending an increase in the Utility Users Tax to fund such efforts and potentially, in the case of an additional tax on natural gas - of changing consumer behavior.

DISCUSSION:

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 six 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, 2023.

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. “Measure G”¹ generates approximately \$2.65 million a year. The Transaction and Use Tax Oversight Committee was created with the stated purpose to review the “Measure G”

¹ Measure G was the name of the original ballot question when TUT was first voted on in 2008.

public works (streets) and public safety activity annually and in November each year to make recommendations to the City Council on expenditures for the following year.

Although the TUTOC monitors spending on 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 G” will sunset in 2028, 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%.² Arcata’s .75% Measure G plus the County’s .50% “Measure Z” tax, equals 8.50% and thus leaves up to .75% capacity for a new or increased Arcata TUT. Local TUT taxes may be established or increased in 1/8th or .125% increments.

Every additional .125% increment in TUT for Arcata would generate approximately \$425,000 annually.

Transient Occupancy Tax

The City’s current Transient Occupancy Tax (“TOT” - sometimes referred to as Bed or Hotel tax) rate is 10% with an additional 2% collected as a Business Improvement District (BID) assessment which is remitted to the Humboldt County Tourism Business Improvement District. 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%.³ In June 2022, Humboldt County (in unincorporated portions of the county) and Trinidad successfully increased their TOT rate to 12%. At its peak in FY 2022, TOT generated just over \$2 million for Arcata. The revenue has and may continue to decline as a result of converting two hotels to Project Homekey housing and the use of hotel rooms by Cal Poly Humboldt to subsidize student housing needs.

Based on current revenue projections, every 1% increase in Arcata’s TOT would generate \$165,000.

Utility Users Tax

Arcata’s current Utility User Tax (UUT) rate is 3%, excluding the 45% tax on excessive electric usage and in November of 2022, was renewed by Arcata voters until November 30, 2036. The UUT applies to water, wastewater, electric, gas and communication services in Arcata. Like the TOT, there is no legal cap on UUT, so the amount is at the discretion of the City and its voters. Rates in California range from 1% to 11% with the most common rate at 5%.⁴

Based on current revenue projections, every 1% increase in UUT would generate approximately \$400,000 for the City of Arcata annually.

Another consideration is to tax certain utilities at different rates. For example, it has been suggested that the City could tax natural gas at a higher rate, to encourage transition to more climate friendly alternative sources of energy and as revenue to fund programs that encourage and assist the community to make those transitions.

² Some municipalities have sought authority to exceed the 2.0% additional tax limit by receiving permission from the State Legislature. Humboldt County received state authorization ([AB 1256](#)) to exceed the limit and propose a TUT (up to 1%) that would be collected in both the incorporated city limits and the unincorporated county (like Measure Z). This is likely motivated by the fact that the tax rate in Eureka is already at the cap of 9.25% and without the additional sales tax capacity, the County could not collect the new tax (if passed) in Eureka, where more than 50% of the sales tax for the whole county originates.

³ The California Municipal Revenue Sources Handbook, Fifth Edition, Michael Colman League of California Cities 2019

⁴ *Id.*

Parcel Tax

The City approved a flat \$37 per parcel special revenue tax in November of 2020 that must be used to protect, preserve, maintain and expand Arcata's parks, trails and open spaces. 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 current revenue projections, every \$25 per parcel tax would generate approximately \$110,000 annually.

Other Tax Sources

There are a number of other tax sources potentially available to the City, provided the voters support them. Those include Business Operations Taxes, which is a tax on the privilege of conducting business in the City. This tax can be a percent on gross receipts, a flat amount, or a payroll tax. Documentary transfer taxes are imposed on documents exchanged in the transfer of interest in real estate. Admissions tax is a tax on the privilege of attending a show, performance, display or exhibition based on a flat rate or a percent of the price of the ticket. Parking taxes are imposed on the owner or operator of paid parking facilities. Construction/Development taxes are a tax on the privilege or activity of development and/or the availability or use of municipal services. Construction/development taxes are different than development fees. Development fees are used to mitigate or offset the impact of development and unlike development taxes cannot exceed the costs of providing services or facilities.

While these other tax sources, may be additional options to explore, at first review they do not appear to provide sufficient revenues to support the City Council's priorities without a significant impact on smaller groups of potential taxpayers.

COMMITTEE/COMMISSION REVIEW:

The Energy Committee has formed a subcommittee to explore the possibility of an increase in the Utility Users Tax to fund such efforts and potentially, in the case of an additional tax on natural gas of changing consumer behavior. The Energy Committee is scheduled to meet again on December 4, 2023, and additional information may be available during the oral staff report.

BUDGET/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. A number of municipalities use consultants to evaluate the potential success of a proposed measure and to gauge voters' response to certain issues and ballot language. If the City hired a consultant to evaluate the potential success of a proposed measure the cost is estimated between \$50,000 to \$60,000.

ATTACHMENTS:

- A. Potential Tax Source Summary (PDF)