

# STAFF REPORT

## *City Council Business Item*

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**DATE:** May 20, 2024

**TO:** Honorable Mayor and City Council Members

**FROM:** Merritt Perry, City Manager

**SUBJECT:** **Transactions and Use Tax Measure, *Resolution 2024-11***

### **STAFF RECOMMENDATION:**

Staff recommends that the Council:

1. Receive a report from staff regarding a proposed ballot measure to increase the existing transactions and use tax within the City from 0.75% to 1.5% to continue funding essential services
2. Take public comment
3. Council discussion
4. Introduce, on first reading by title only, and submit to the voters Ordinance No. 769, an Ordinance of the City of Fortuna to increase the existing City of Fortuna transactions and use tax to be administered by the California Department of Tax and Fee Administration, subject to approval of a majority of the electors voting on the tax measure at the general municipal election to be held on Tuesday, November 5, 2024 (*Two-thirds vote required*)
5. Adopt Resolution No.2024-11, which:
  - a. Submits Ordinance No. 769 to the qualified voters at the November 5, 2024 general municipal election;
  - b. Requests the election on the ordinance be consolidated with the Statewide General Election;
  - c. Sets dates for submission of arguments for and against the proposed tax measure;
  - d. Sets dates for submission of rebuttal arguments;
  - e. Authorizes the Mayor to submit a written argument in favor of the measure on behalf of the Council;
  - f. Requests the City Attorney prepare an impartial analysis of the measure; and
  - g. Agrees to reimburse the County for the costs of conducting the election on the measure.

### **EXECUTIVE SUMMARY:**

In November 2016, a majority of voters approved a local 0.75 percent transactions 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. The tax was originally set to expire on March 31, 2025; however, in November 2020, a majority of voters approved an extension of the tax through March 31, 2033.

Measure E revenues are essential for the City to maintain and continue to improve certain essential City services and to maintain a balanced budget. However, as discussed in more detail below, the City has experienced a significant increase in the cost of providing essential services since 2016 and additional funds are necessary to meet current and projected costs.

Over the long term, costs to provide services that depend on the general fund including police, general services, and parks and recreation will continue to increase and ultimately require nearly all of the funding generated by Measure E. In Fiscal Year 2022/2023, the amount of funding in excess of that needed by the departments normal operation that could be used for special projects was at a high of \$785,000. With the escalation of costs for items such as health care, fuel, wages, equipment and materials increasing over 9% in one year, the amount available for special projects has diminished to \$375,000, a decrease of over \$400,000 in just two years. Additionally, the City’s compensation of employees generally runs lower than other Humboldt County Cities and the County and this makes it difficult for the City to recruit and retain quality employees. For example, Eureka and Arcata offer a \$50,000 hiring bonus for lateral transfers for police and offer higher paying salaries (in excess of 10%). Those cities continue to increase its salaries above what the City of Fortuna can offer. Eureka has a 1.5% transaction and use tax compared to the City of Fortuna’s 0.75% and a higher proportion of retail sales that puts Fortuna at a disadvantage.

At a study session held on April 1, 2024, the City Council expressed its desire to amend Chapter 3.13 of the Fortuna Municipal Code to increase the current rate of the tax from 0.75% to 1.5%.

At the regular meeting held on April 15, 2024, the Council reviewed the proposed ordinance and resolution.

At a special meeting held on May 2, 2024, the Council reviewed and provided direction to staff as to the ballot title and question. The draft resolution incorporates the Council’s revisions, as follows:

<b>Essential Services Supplemental Funding Measure</b>	
To improve and maintain essential services, including police services; nuisance abatement; streets, sidewalks, and drainage; park improvement; and programs for youth and seniors; shall the measure to increase the existing transactions and use tax from 0.75% to 1.5% through March 31, 2033 (unless sooner repealed), providing an additional \$1.8 million in annual revenue, requiring an independent audit, and community oversight by the Measure E Committee, with all funds remaining in Fortuna, be adopted?	Yes
	No

Included with this Staff Report are two attachments:

- Attachment A is the final proposed ordinance that, among other things:
  - Authorizes an increase of the existing transaction and use tax from 0.75% up to and including 1.5%;
  - Maintains all other provisions of the existing transaction and use tax, including maintaining the March 31, 2033, expiration date; maintaining the independent audit requirement; maintaining the oversight committee; and maintaining the rights of the voters or future City Councils to repeal the measure.
- Attachment B is the final proposed resolution that, among other things:
  - Submits the ordinance (Attachment A) to the qualified voters at the November 5, 2024, general municipal election;

- Requests the election on the ordinance be consolidated with the Statewide General Election;
- Designates the ballot title and question;
- Sets dates for submission of arguments for and against the proposed tax measure;
- Sets dates for submission of rebuttal arguments;
- Authorizes the Mayor to submit a written argument in favor of the measure on behalf of the Council;
- Requests the City Attorney prepare an impartial analysis of the measure; and
- Agrees to reimburse the County for the costs of conducting the election on the measure.

Increasing the City’s transaction and use tax will allow the City to continue to have more competitive salaries and fund special programs beyond normal operation. Should the city choose, they could also identify other public safety priorities for funding such as fire protection services. Not pursuing additional tax revenue will make it harder for the City to recruit and retain employees and limit the ability to do special projects. It is important to note, that while the sales tax would be administered by the California Department of Tax And Fee Administration (“CDTFA”), the revenues are earmarked exclusively for use by and within the City – **the State would not be able to take or borrow these funds.**

If the increase is approved by voters, a 1.5% local sales tax would provide approximately \$3,690,000 for essential City services.

**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 a report from staff regarding a proposed ballot measure
2. Take public comment
3. Council discussion
4. Move to introduce, on first reading by title only, and submit to the voters Ordinance No. 769 (*Two-thirds vote required*)
5. By way of a separate motion, move to adopt Resolution No.2024-11

## **Attachments**

- A. *Ordinance 2024-769, An Ordinance of the City of Fortuna to Increase the Existing City of Fortuna Transactions and Use Tax to be Administered by The California Department of Tax and Fee Administration, Subject to Approval of a Majority of the Electors Voting on the Tax Measure at the General Municipal Election to be Held on Tuesday, November 5, 2024*
  
- B. *Resolution 2024-11; 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; 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*