COUNTY OF HUMBOLDT

For the meeting of: 7/23/2024

File #: 24-1090

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: 4/5th

SUBJECT:
10:00 AM - Consider Placement of a Supplemental Transactions and Use Tax on the November Ballot (4/5 vote required)

RECOMMENDATION(S):
That the Board of Supervisors:

1. Receive the report on public opinion research regarding public interest on a local revenue measure;
2. Approve the attached resolution, which:
    a. Places a one cent (1%) Transactions and Use Tax measure on the ballot for the General Election to be held on the Nov. 5, 2024 ballot (4/5 vote required);
    b. Submits the attached ordinance (Attachment 2) to qualified voters at the Nov. 5, 2024 election.
3. Authorize the County Administrative Officer to submit any documents necessary to place the measure on the Nov. 5, 2024 ballot.

STRATEGIC PLAN:
This action supports the following areas of your Board's Strategic Plan.

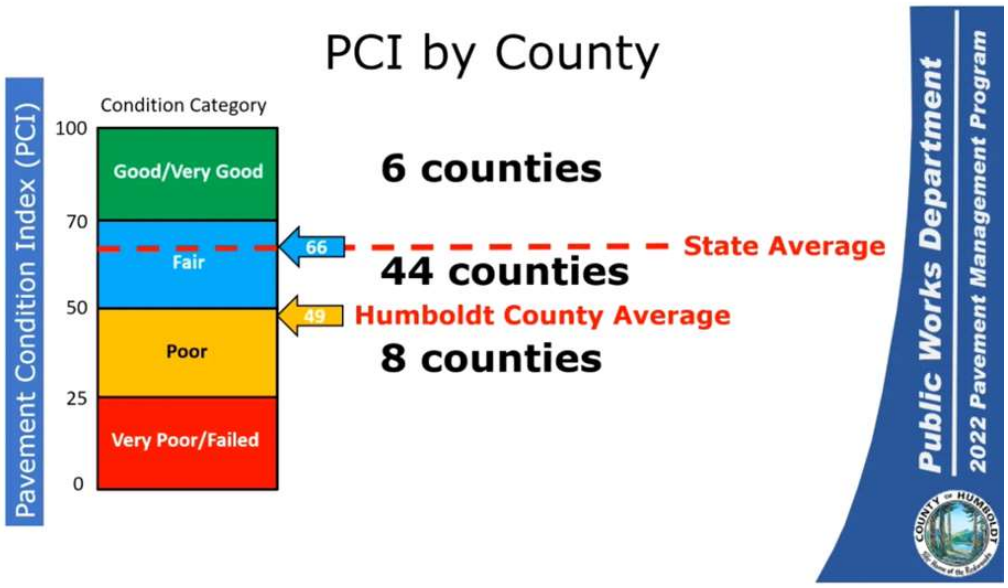
Area of Focus: Safe & Healthy Communities
Strategic Plan Category: 1009 - Expand county infrastructure resilience

DISCUSSION:
Executive Summary
In November, 2023, your Board directed staff to conduct outreach and polling around a transactions and use tax (TUT) measure to fund road repairs and other essential services, and return with documents necessary to place such a measure on the November, 2024 ballot. Staff are recommending your Board approve placing a one-cent general purposes TUT measure on the Nov. 5, 2024 ballot.

Background
Over the last 30 years, the State of California has taken more than $500 million from the county's General Fund to pay for its own obligations. This amount grows each and every year, and in Fiscal Year 2023-24 more than $25 million of local property tax revenue went to cover state responsibilities. At the same time, natural disasters in Humboldt County have become more frequent and intense, often forcing the county to pay millions up front for repairs and response while waiting typically 6-10 years for partial reimbursement from the state or federal governments, if any funding is received at all. The state's historic $46.5 billion deficit is preventing the county from seeing relief as its recently adopted budget removed hundreds of millions in funding for emergency preparedness, transportation and climate action.

These dynamics have significantly contributed to the county's struggles to adequately maintain county roads. As a result, county roads continue to deteriorate, and as previously reported to your Board, the county's Pavement Condition Index (PCI) is now rated as "poor," or 49 on a scale of 1 to 100, well below the state average (Figure 1). More than $500 million is needed over the next 10 years to bring roads up to 70, or "fair" condition, allowing the road network to be maintained with on-going preventative maintenance in the most cost-effective way. If funding for road maintenance remains status quo, the overall PCI is projected to fall to 25, or "failed," in 10 years, making future repairs more extensive and costly, and making county roads less safe.

Figure 1 - Pavement Condition Index by county



In light of these dynamics, it is apparent that there is significant need for additional sources of local revenue that cannot be taken or cut by the state, to address local needs. To that end, your Board directed staff to conduct public outreach and public opinion research to determine community priorities and whether voters would be willing to support a local sales tax measure for county purposes.

Community Priorities

Staff have conducted significant public outreach on this measure, holding dozens of meetings with stakeholders and providing information to residents and likely voters. Last fall, the county conducting polling as your Board was considering placing a similar measure on the March ballot. This summer, the county conducted a survey and additional scientific polling to determine voter interest and priorities.

The staff survey conducted in June, which asked residents to visit the county's website and rank their priorities on a scale of 1-5, returned the following priorities:

1. Maintaining 911 emergency response times (Average score of 4.03)
2. Repairing deteriorating county roads (3.88)
3. Maintaining local streets and roads to reduce the need for future repairs (3.85)
4. Becoming eligible for additional state and federal matching funds for road repair (3.80)

5. Providing communications services for first responders after natural disasters (3.75)
6. Maintaining and expanding bus services for seniors, low-income and people with disabilities (3.15)
7. Providing services to address homelessness (3.14)
8. Climate action including transit (2.90)
9. Reducing local services (2.10)

In total, the county received 820 responses. While this was not a scientific survey, it did allow staff to gain a sense of residents' priorities in the context of the issues described above.

Also this summer, the firm FM3 conducted polling of more than 600 likely voters. The research indicates that a one-cent sales tax measure is potentially viable and supported by a majority of the community. Your Board will hear a presentation to go over the results in detail, but high priorities related to the measure include public disclosure of all funds, local job creation, repairing deteriorating county roads and bridges, fixing potholes, maintaining 9-1-1 response times, bus services, and maintaining evacuation routes.

Impact

Local sales taxes are paid when goods subject to the tax are purchased within Humboldt County, or in some cases, discussed below, when those goods are delivered within the county. This means that the tax burden is spread among residents, visitors, businesses, employees and governmental agencies, including the County of Humboldt. Local sales and use taxes do not apply to groceries, prescribed drugs, medical and dental services, real estate, rent, education, utilities, personal services, labor, diapers or feminine hygiene products. Local sales tax revenues must be spent locally and cannot be taken by the state or federal governments.

The state minimum sales tax rate is 7.25%. Of that amount, cities and counties receive 1%, often referred to as the Bradley-Burns Sales Tax, which is distributed based on place of sale. Larger jurisdictions, particularly those with expansive retail options or fulfillment centers for online retailers like as Amazon, do well under the Bradley-Burns system because the consumer who purchases an item does not have to come from that jurisdiction. This means that Humboldt County residents make taxable purchases outside county jurisdiction, contributing to other agencies' revenues.

Unlike the Bradley-Burns portion of sales tax, locally approved TUT is collected on place of use, not place of sale. This means that goods delivered to or registered within Humboldt County will pay county TUT, regardless of where the item is purchased. For example, a purchase made on Amazon provides Bradley-Burns tax to the jurisdiction housing the fulfillment center (considered the "place of sale"), but also provides TUT revenue to Humboldt County in the amount approved by Humboldt County voters. Locally approved measures ensure the county receives a higher proportion of revenue from those sales.

California Local Sales Tax Rates

Local California sales and use tax rates range from 7.25% to 10.75%. A complete list of city and county sales and use tax rates is provided in Attachment 4. While California Government Code caps local sales taxes at 9.25% (7.25% state share plus 2.0% for local, voter-approved taxes) the state legislature may increase the cap. The county's current sales and use tax rate is 7.75% and would increase to 8.75% if voters approve the proposed increase. The City of Eureka's TUT rate is currently at 9.25%, and both the cities of Arcata and Fortuna are proposing TUT increases of .75%, which, if approved, would bring their respective rates to 9.25%. The proposed county measure would apply to cities and unincorporated parts of the county. Due to the passage of Assembly Bill 1256 last year, the county may impose a voter-approved sales tax increase of up to 1% that would, when combined with other existing taxes (including city taxes), exceed the state limit. A list of current is included below:

Figure 2 - Humboldt County Jurisdictions Sales and Use Tax Rates

Jurisdiction	Current Sales Tax Rate
Arcata*	8.50%
Blue Lake	8.75%
Eureka	9.25%
Ferndale	8.50%
Fortuna*	8.50%
Humboldt County (Unincorporated)	7.75%
Rio Dell	8.75%
Trinidad	8.50%

*Arcata and Fortuna, respectively, are proposing .75% measures in November

Ordinance

Your Board in November directed staff to recommend whether to pursue a general tax (requiring a simple majority for approval, revenues of which would go to the General Fund and would be available for any government purpose) or a special tax (requires 2/3 of voters to approve and could only go to specific purposes), particularly in light of the pending Assembly Constitutional Amendment (ACA) 1, which as originally proposed would lower the voting threshold to 55% from 66.7% for certain affordable housing and public infrastructure projects. ACA1 was amended replaced by ACA10 and will appear on the ballot as Proposition 5. The key difference is that ACA10 removed "special taxes," such as sales taxes, from the lowered approval provisions, and is only applicable to bonds for public infrastructure, as defined. Due to this, and the polling that suggests less than 2/3 of Humboldt County voters approve of the proposed measure, staff recommend your Board place a general sales tax on the ballot, rather than a special tax.

The proposed ordinance also would require an oversight committee be established to review revenues and expenditures related to the measure. Staff recommend your Board assign this responsibility to the Audit Advisory Committee as it already has significant oversight functions related

to county finances and operates as a Brown Act committee, ensuring transparency of this measure.

Other Considerations

In addition, if the measure is passed, staff would recommend creating a workgroup of subject matter experts including Public Works, representatives for local transit, Board members and staff to recommend allocations to your Board. This group should gather whenever a change to the allocations are considered to make future recommendations. Once the allocations are determined, staff would recommend that specific, project-based spending plans would be presented to technical committees, including members representing the disabled community, in open, publicly noticed meetings at the Humboldt County Association of Governments, to ensure transparency and that subject matter experts are advising the process. These are actions for your Board to take after the election results are known.

The attached resolution would authorize placing the following question onto the ballot:

Humboldt County Roads, 911 Emergency Response Measure. To maintain 9-1-1 response times/ prepare for natural disasters by • repairing deteriorating county roads/bridges; • fixing potholes; • maintaining evacuation routes; • bus services; • becoming eligible for Humboldt's fair share of state/federal roads funding, shall a measure enacting a one-cent sales tax, generating approximately $24,000,000 annually for general government purposes, until ended by voters, with citizens' oversight, annual audits, public disclosure, all funds used only for local services be adopted?	YES NO

SOURCE OF FUNDING:
General Fund (1100)

FINANCIAL IMPACT:

Expenditures (1100)	**FY24-25**	**FY25-26 Projected***	**FY26-27 Projected***

Budgeted Expenses			
Additional Appropriation Projected	$6,000,000	$24,000,000	$24,000,000
Total Expenditures	**$6,000,000**	**$24,000,000**	**$24,000,000**

**Projected amounts are estimates and are subject to change.*

Funding Sources (1100)	**FY24-25**	**FY25-26 Projected***	**FY26-27 Projected***
General Fund	$6,000,000	$24,000,000	$24,000,000
Total Funding Sources	**$6,000,000**	**$24,000,000**	**$24,000,000**

**Projected amounts are estimates and are subject to change.*

Narrative Explanation of Financial Impact:
A one-cent measure is projected to provide $24 million in revenue, which by state law would go to the county's General Fund. However, similar to Measure Z, this funding would be accounted for separately to ensure the highest levels of transparency. If approved, the measure would go into effect Jan. 1, 2025, however, the county would not receive any funding until April, 2025, providing 3 months of revenue for the current fiscal year.

STAFFING IMPACT:

Narrative Explanation of Staffing Impact:
The staffing impact would be dependent on appropriations determined by the Board.

OTHER AGENCY INVOLVEMENT:

Local law enforcement, fire and ambulance, cities

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion

ATTACHMENTS:

1. Resolution
2. Ordinance
3. California sales tax rates

PREVIOUS ACTION/REFERRAL:

Meeting of: Nov. 28, 2023
File No.: 23-1573