STAFF REPORT
Study Session Agenda Item

DATE: August 17, 2026

TO: Honorable Mayor and City Council Members

FROM: Amy Nilsen, City Manager

SUBJECT: **Measure D – Fortuna Essential Services Funding Measure**

STAFF RECOMMENDATION:

Receive a presentation regarding Measure D – Fortuna Essential Services Funding Measure, which proposes an additional ¾-cent transaction and use tax measure, receive public comment, and receive and file report. No formal Council action is requested.

DISCUSSION:

In November 2016, a majority of voters approved a local ¾-cent 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 certain essential City services and to maintain a balanced budget. 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.

The City attempted an additional ¾-cent transaction and use tax, Measure P, in November 2024. This tax measure did not pass with 58 percent of voters voting no.

On April 21, 2025, the City Council heard a presentation on the City's budget outlook and this included: limited investment in vital services, particularly City wages, a review of wages across local jurisdictions; climbing city-wide turnover percentage; potential revenue generation options; and creation of a Revenue Generation Ad Hoc Committee. The Revenue Generation Ad Hoc reported to the City Council on several occasions in May and September 2025.

On May 19, 2025, the City Council approved funding for public opinion research polling for a potential November 2026 sales tax measure as a result of the Revenue Generation Ad Hoc Committee's recommendation.

On April 6, 2026, the City Council received public opinion research from EMC Research regarding a potential November 2026 sales tax measure. The presentation indicated that 61 percent of Fortuna voters felt the City was generally going in the right direction, 66 percent rated the City's overall job performance positively, and 64 percent said the City has a need for more money for City services. The research also identified voter priorities including retaining and attracting small businesses, street repair, youth programs, public transit for seniors and people with disabilities, and public safety services. The City Council directed staff to return with sales tax measure ballot language based on polling results.

On May 4, 2026, the City Council voted unanimously to place the tax measure on the November 3, 2026 ballot. Sales tax measure ballot language is below.

Fortuna Essential Services Funding Measure	
Shall the measure to maintain essential City services, such as protecting public safety; increasing and restoring police officers; repairing aging/ deteriorating streets and potholes; providing programs for seniors and youth; and keeping parks clean and safe, by authorizing a ¾-cent sales tax in the City of Fortuna, generating $1,800,000 annually for general government use until ended by voters, requiring independent audits, community oversight, and all funds staying in Fortuna, be adopted?	Yes
	No

The proposed 2026 measure would not eliminate the current voter-approved ¾-cent transactions and use tax, which would remain in effect through March 31, 2033. Instead, the proposed measure would authorize an additional ¾-cent transactions and use tax commencing April 1, 2027. If approved, the combined City transactions and use tax rate would be 1.5-cents from April 1, 2027, through March 31, 2033, after which the existing voter-approved tax would sunset and the additional voter-approved ¾-cent tax would remain in effect unless ended later in accordance with the ordinance and applicable law.

Community Engagement and Economic Priorities

The proposed Measure D is one component of a broader strategy to strengthen Fortuna's long-term economic vitality and maintain essential community services. Through community listening sessions, business outreach, public workshops, and strategic planning efforts conducted over the past year, residents and business owners consistently identified economic development, downtown vitality, quality-of-life amenities, youth opportunities, and the need for a clear City vision as community priorities. The Strategic Plan process represented the most extensive community engagement effort undertaken by the City and included interviews, focus groups, business surveys, community workshops, and online participation opportunities. These efforts informed the development of the City of Fortuna 2026-2036 Strategic Plan, which was adopted by the City Council on July 20, 2026.

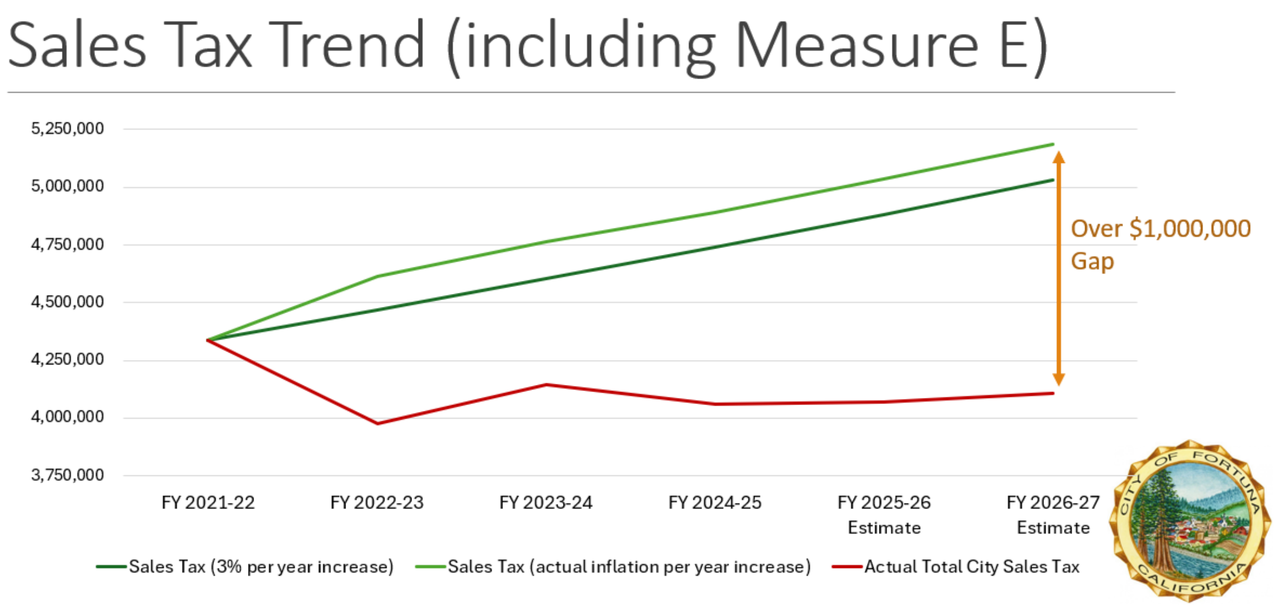
The Strategic Plan identifies economic development as a top community priority and includes actions focused on developing a clear economic identity for Fortuna, supporting downtown revitalization, improving permitting and customer service processes, expanding community partnerships, and strengthening communication and accountability. In response to community feedback, the City has also supported the formation of a community-led economic development working group and continues to work with community partners to advance initiatives that strengthen Fortuna's economy and quality of life. Measure D would help maintain essential City services while these longer-term economic development strategies are implemented.

What led the City Council to ask voters to consider a ¾-cent sales tax measure in November 2026 was the City of Fortuna's experience with several consecutive years of structural financial challenges driven primarily by stagnant or declining revenues and rapidly increasing operational costs—particularly for public safety, insurance, and core community services.

1. **<u>How Fortuna Reached this Fiscal Crossroads</u>**

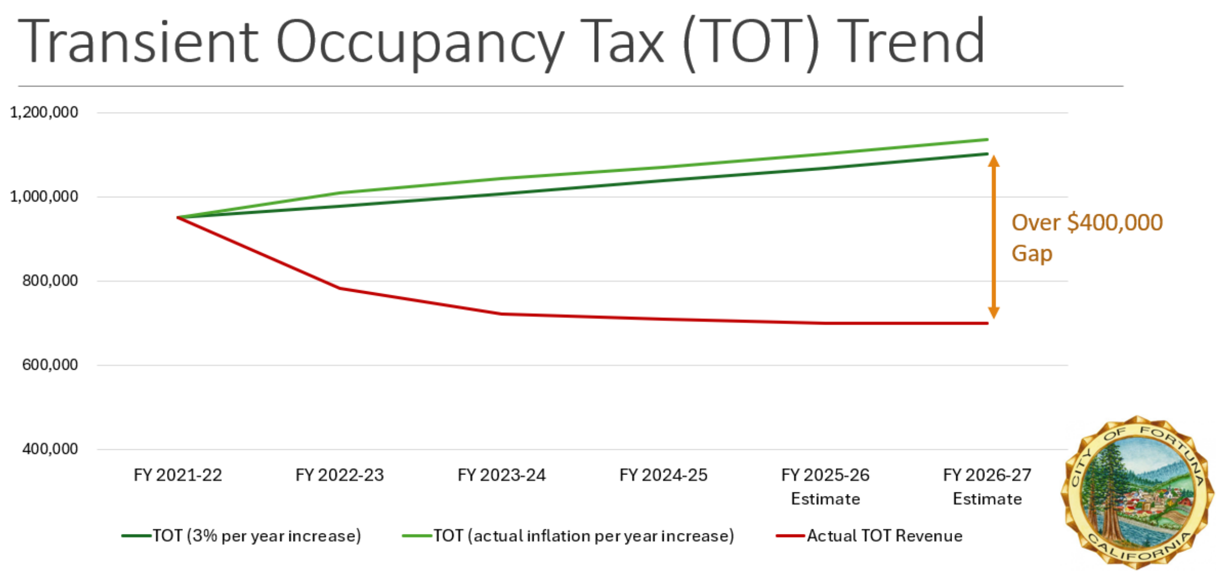
   A. **<u>Sales Tax Revenues Are Not Keeping Pace With Inflation</u>**

   The City's largest unrestricted revenue source is sales tax, and sales tax has not kept up with inflation. Under normal inflation, revenues would have increased to $5.2M by Fiscal Year (FY) 2026–27. Actual projected revenues are only $4.1M. This results in a gap of over $1,000,000. This means the City effectively lost the purchasing power of nearly one million dollars over a five-year period. See below chart.



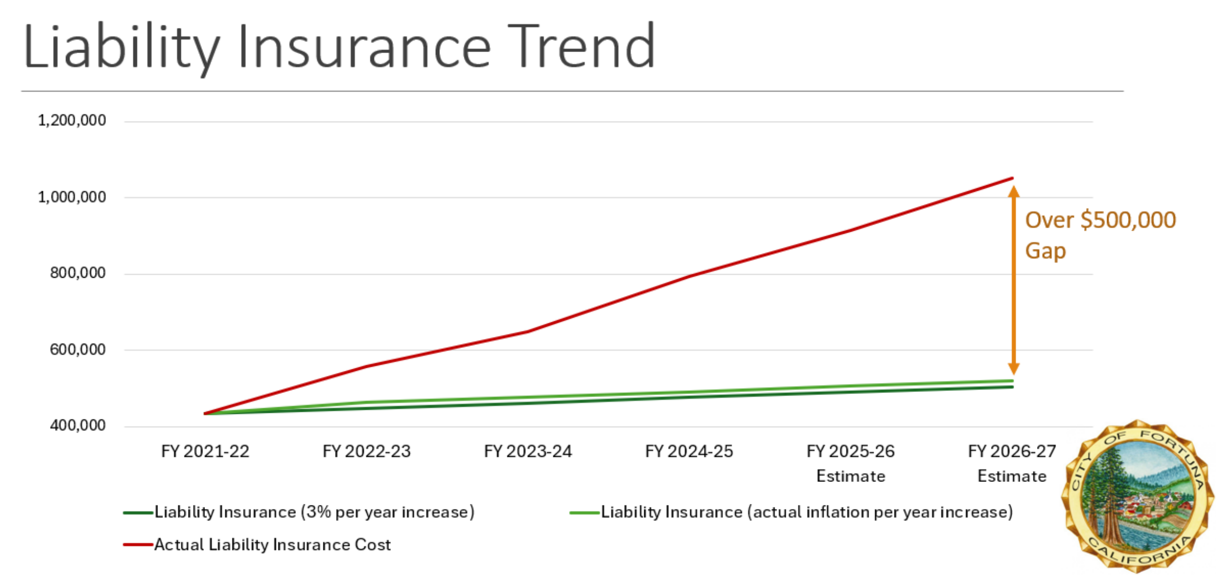
   B. **<u>Transient Occupancy Tax (TOT) Revenues Have Declined Significantly</u>**

   Traditionally, TOT helps fund City services and tourism-related impacts. The City's TOT revenue has dropped sharply since FY 2021–22. Expected inflation-adjusted TOT for FY 2026–27 is approximately $1.1M. Actual projected TOT is $700,000, a gap of over $400,000. This decline appears linked to regional lodging patterns and reduced tourism activity. See below chart.



C. Liability Insurance Costs Have Skyrocketed

Liability insurance—an unavoidable cost—has increased more dramatically than any other major expense category. Actual costs for liability insurance in FY 2021–22 were $435,894. Projected costs for FY 2026-27 are $1,051,372, an increase of over $615,000, or over 140%. These increases are consistent with statewide trends affecting municipal risk pools. See below chart.



The result of these three trends is a General Fund structural budget deficit. These combined trends demonstrate rising costs and flat to declining revenues. In order to address these trends, the use of reserves and a hiring freeze has been put into place. In addition, there is a potential for reductions in services to maintain critical operations.

D. Steps Included in Fiscal Year 2026-27 Budget to Reduce Deficit

The FY 2026–27 budget included a series of expenditure reductions and measures designed to address the projected General Fund deficit. These actions reflected a combination of operational adjustments, staffing controls, and service level reductions intended to minimize financial impacts while maintaining core City services.

- Hiring Freeze in place for FY 2026-27. Total savings to the General Fund will depend on which positions end up having vacancies and for how long.
    - Froze (1) Street Maintenance Worker I Position - $57,300
    - Froze a part-time Community Services Officer Position - $33,000
    - Froze a full-time Police Officer Position (will leave 2nd Detective specialty position vacant) - $190,000
- Departments reduced services and supplies budgets by up to 10%.
    - Total savings to the General Fund - $75,000
- Pursuing a lease of the River Lodge to another local public agency with time/costs allotted for a smooth transition period. This included eliminating the full-time River Lodge Manager and River Lodge Coordinator positions.
    - Total savings to the General Fund - $180,000
- Eliminated entire budget for Business Improvement.
    - Total savings to the General Fund - $20,000
- Transitioned the Museum Curator Position to be funded by donations.
    - Total savings to the General Fund - $27,000
- Did not implement full-time Transit Supervisor position.
    - Total savings to the General Fund - $70,000

In total approximately $600,000 in reductions have been included in the FY 2026-27 budget. These reductions along with the increased contributions from Measure E reserve funds of $300,000 put the General Fund at a balanced operating budget, one-time costs of $740,000 for the General Plan and employee stipends, however, are coming from reserves. In total, between the General Fund and Measure E Fund, over $1,000,000 is being taken from reserves. This is an unsustainable amount to be taking from reserves.

E. What is at Stake Should Measure D Not Pass?

To maintain a balanced budget in future years, the City may need to implement approximately $1,000,000 in ongoing reductions. The following scenario illustrates the potential service and staffing impacts that could result from reductions of that magnitude.

Police Department:
2 Police Officer positions, approximately $160,000 each ($320,000)
1 Dispatcher position, approximately $125,000
1 part-time Code Compliance Officer position, approximately $35,000
Total: $480,000

Parks and Recreation:
2 Park Maintenance Workers, approximately $87,500 each ($175,000)
1 Recreation Program Supervisor, approximately $92,500
Total: $267,500

Public Works:
3 Street Maintenance Workers, approximately $62,500 each ($187,500)
25% reduction in contracted street paving services or $65,000
Total: 252,500

Potential positions to be frozen and/or eliminated include 9.5 positions, or approximately 10% of the City's workforce.

FISCAL IMPACT:

Without the proposed additional ¾-cent increase to the City's existing transactions and use tax, the City will continue to lose the ability to fund necessary projects and would struggle to maintain existing service levels for police, code compliance, parks, and street maintenance services. If the tax is not increased in 2026 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
- Fewer staff and maintenance projects for city streets
- Fewer repair projects for city drainage facilities
- Fewer staff and maintenance, expansion or improvement of city parks

RECOMMENDED COUNCIL ACTION:

1. Receive report from staff regarding a proposed ballot measure
2. Take public comment
3. Council discussion and receive and file staff report.

ATTACHMENTS:

Measure D – Fortuna Essential Services Funding Measure