



AGENCY: City Council
MEETING DATE: April 8, 2024
DEPARTMENT: Finance & Administration
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AGENDA ITEM SUMMARY

TITLE:

Receive Report and Provide Staff Direction on Potential Tax Ballot Measure for November 2024.

BACKGROUND:

Investing in critical city services and programs remains a top priority for the City of Fort Bragg, encompassing public safety, emergency response, infrastructure maintenance, parks and recreation programs, affordable housing initiatives, and workforce development. Despite the perception of adequate funding, the City often encounters financial challenges in consistently delivering these essential services to meet our residents' expectations. The quality of life in our city hinges upon our ability to provide these fundamental services and infrastructure, driving our ongoing efforts to allocate resources efficiently and effectively.

The City Council adopted the City's FY 23/24 Budget and Five-Year Capital Improvement Plan in June 2023, aiming to restore services and staffing to pre-pandemic levels, reinvest in infrastructure, and prepare for future challenges. While the current budget outlook appears stable, we face a structural deficit due to inflation, and rising costs exceeding projected revenues in the City's long-term forecast. While reserves currently cover the shortfall, long-term forecasts indicate a need for new revenue sources to avoid depletion to keep above the 30% reserve levels.

During the Mid-Year Budget review in March 2024, staff presented several revenue enhancement options for consideration by the City Council. These options aimed to address the long-term deficit, maintain reserves, and sustain essential services. Notably, the current City Council's objectives encompass various critical areas:

1. Public Safety
2. Housing
3. Infrastructure improvements
4. Beautification of downtown buildings and streets
5. Water storage and diversification of water sources

Achieving these goals necessitates a reallocation of resources, pursuit of grants, or identification of additional sustainable revenue sources in the near future. Taxes stand out as a stable revenue stream capable of funding priority projects and programs. Of particular importance to the City Council is the prioritization of increasing workforce housing opportunities in Fort Bragg. This endeavor is crucial for attracting and retaining qualified workers and fostering homeownership to build wealth within the community.

In light of these objectives, this staff report delves into potential ballot measures for November 5, 2024. These measures aim to support the identified priorities and ensure the continued well-being and prosperity of our community.

ANALYSIS:

Transient Occupancy Tax (TOT)

The current Transient Occupancy Tax (TOT), also known as the Bed or Hotel tax, in the City is 12%, with an additional 1% collected as a Business Improvement District (BID) assessment remitted to the County of Mendocino. Unlike the Tourism Business Improvement District (TBID), TOT rates are determined by City voters and are not legally capped. While the most common TOT rate for California cities is 10%, some cities like Malibu, Anaheim, and Palo Alto have rates at or above 15%.

In 2016, voters approved Measure AA, increasing the TOT rate from 10% to 12%. An advisory, Measure AB, allocated half of the 2% of revenues to enhance promotions, events, and marketing for Fort Bragg. A quarter of the revenues were designated for Coastal Trail maintenance and security, while an eighth was allocated to support the establishment of the Noyo Center for Marine Science, and another eighth for special projects.

Recent fiscal years have seen declines in TOT revenues due to factors like wet winter weather and broader economic conditions. However, at its peak in FY 2021/22, TOT generated over \$3.2 million for the City to fund general government services. Based on current revenue projections, every 1% increase in Fort Bragg's TOT would generate approximately \$400,000.

Local Transaction and Use Tax (TUT)

Sales Tax is a tax paid on the sale of certain goods and services. The current local sales tax rate in Fort Bragg, CA is 8.875%. Currently, the City receives 1% (known as the Bradley-Burns local sales tax) of the 9.5% total sales tax as approved by the State of California.

<u>District</u>	<u>Rate</u>
State of California	7.250%
Mendocino County	0.625%
Fort Bragg	1.000%
Total	8.875%

Local municipalities (Cities and County combined) are limited to 2.0% additional tax above the state's base rate of 7.25%. Currently, the State imposes a 7.25% tax on goods and services sold in California. The City of Fort Bragg rate is 1% and Mendocino County rate is 0.625%. This additional 3/8 cent would bring the total sales tax within the City limits from the current 8.875% to the cap of 9.25% generating approximately \$800,000 annually.

Sales tax revenue generated within the City limits is generated not only from City residents but also tourists and visitors, as well as regional residents living outside City limits who

regularly shop in Fort Bragg. In fact, City residents generate about 27% of the City's annual sales tax collected, whereas sales tax dollars from tourists or visitors to Fort Bragg generate approximately 40% of sales tax revenue, and regional residents generate approximately 33% of the sales tax.

To secure tax revenue directly benefiting Fort Bragg residents and prevent its dilution across the county, it's prudent for the City to propose a voter ballot initiative utilizing the remaining 0.38% capacity under the 9.25% cap. Failing to pursue this measure may prompt the County to do so in future elections, closing the gap for potential revenue enhancements.

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 supermajority 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.

If the City Council directs staff to pursue either measure, Staff will return with appropriate resolutions and/or ordinances containing the specific wording per the election calendar to ensure timely submittal to the County.

RECOMMENDED ACTION(S):

1. Authorize staff to proceed with a public engagement process to present and discuss the merits of a potential sales tax ballot measure for 0.375% for the November 2024 general election, to the city residents, the business community, and other organizations; and
2. Authorize the City Manager to enter into an agreement with Lee Edwards Group for public outreach services and ballot measure preparation; and
3. Authorize the City Manager to contract with FM3 Research to complete and present the results of a public poll; and
4. Instruct the City Attorney, the City Clerk and the City Manager to draft language for the ballot for future Council consideration, in a timely for the November 2024 election timeline;

ALTERNATIVE ACTION(S):

1. Request for more information.
2. No action.

FISCAL IMPACT:

The estimated costs for preparing the Transaction and Use Tax Measure for the consolidated general statewide election, including staff and attorney's fees, are projected to be under \$10,000. Additionally, polling expenses are anticipated to amount to approximately \$30,000, with consultant fees estimated at around \$37,400. The costs could potentially be covered by salary savings from the vacant Finance Director position.

In terms of potential revenue, the proposed 3/8 of a cent sales tax is expected to yield an additional \$800,000 annually. Similarly, a projected 2% increase in Transient Occupancy Tax (TOT) is estimated to generate an additional \$400,000 in revenues per year.

GREENHOUSE GAS EMISSIONS IMPACT:

N/A

CONSISTENCY:

Creating a new funding source to maintain Public Safety, Streets, and address the lack of safe, decent, and affordable housing opportunities aligns with the Council Goals and Priorities.

IMPLEMENTATION/TIMEFRAMES:

The deadline for transmitting a ballot measure to the County Elections Office is August 12, 2024. The deadline for arguments for or against the ballot measure is August 18, 2024. The last day for submission of rebuttal arguments for or against the ballot measure is August 29, 2024. Election Day is November 5, 2024. The City Elections Official will certify the results of the election to the City Council no later than the next regularly scheduled Council meeting following the presentation of the 28-day canvass of the returns by the County Elections Official, currently scheduled for December 12, 2024.

ATTACHMENTS:

1. Lee Edwards Group proposal
2. FM3 Proposal
3. Election Calendar for the November 5, 2024 election
4. Professional Service Contract
5. Long-Term Financial Plan