



AGENCY: City Council  
MEETING DATE: June 25, 2018  
DEPARTMENT: Administration  
PRESENTED BY: Tabatha Miller  
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## AGENDA ITEM SUMMARY

### **TITLE:**

**Receive Report and Consider Adoption of City Council Resolution Calling a General Election for the Purpose of Submitting a Special Purpose Three-Eighths of a Percent Transactions and Use Tax to the City Voters; Directing the City Attorney to Prepare an Analysis of the Measure; Authorizing City Council to Submit a Ballot Argument in Favor of the Measure; and Setting Dates for Submitting Arguments on the Measure**

### **ISSUE:**

Pursuant to California state law, the City Council may submit to the City voters a ballot measure with the option to implement a special purpose 3/8<sup>th</sup> of a cent sales tax with a 15-year sunset. The tax proceeds would be used to pay down the Unfunded Accrued Liability (UAL) on the City's five California Public Employees' Retirement System (CalPERS) plans over 15 years instead of 30 and saving the City an estimated \$4.1 million.

### **ANALYSIS:**

At the Mid-Year Budget Review, the Mayor established an Ad Hoc Revenue Committee, consisting of Councilmembers Dave Turner and Mike Cimolino, to evaluate and propose new revenue sources that could close the budget deficit and fix the long-term structural budget deficit facing the City. Rapidly increasing pension costs and the growing unfunded pension liability are a core cause of that structural deficit. The Committee recommended placing a three-eighths (3/8<sup>th</sup>) of a cent sales tax measure on the November 2018 ballot. Staff estimates that the additional sales tax will generate approximately \$623k per year. At the May 29, 2018 City Council meeting, City Council provided staff with the direction to prepare the necessary resolutions and ordinance to place the matter on the November 6, 2018 general election as a general tax. At the June 11, 2018 City Council meeting, City Council provided staff additional direction to bring the tax measure back as a special purpose tax.

The Ad Hoc Revenue Committee is recommending that the proceeds of the special purpose tax be used for the sole purpose of reducing the City's CalPERS UAL. This simplifies the ballot measure and the use of proceeds. The estimated annual tax proceeds of \$623k is well below the minimum required contribution for the UAL under the 15-year amortization schedule, so it is highly unlikely that the City tax collections will exceed the actual cost of the UAL payment.

The state sales tax rate is 7.25%. Cities, counties and countywide agencies may impose sales tax rates that are added to the 7.25% base. Under current state law, the maximum added sales tax in any location cannot exceed two percent. Between the Cities and County, remaining capacity in the sales tax is .375% or 3/8<sup>th</sup> of a cent. The City's opportunity to utilize the additional sales tax capacity could be limited or usurped by the passage of a countywide or transportation agency sales tax.

The three-eighths figure provides the City funding to pay down the \$9.4 million unfunded accrued liability on the City's five CalPERS plans. By amortizing the unfunded liability over 15 years instead

of the planned 30 years, the City is projected to save \$4.1 million. Under the 30-year amortization, pension costs will increase an average of 14% per year and more than double in seven years. If the CalPERS Board of Administration (Board) reduces the discount rate further, the required contributions will be higher in future years.

Over the last approximately 15 years, both the City and the State have made changes to pension payments and benefits in efforts to reduce the costs and long-term liabilities. Employee contributions have been increased and the City has chosen less generous plans to contain costs. Whether the sales tax measure is successful or not does not change the fact that the unfunded \$9.4 million pension liability remains the City's responsibility. It represents benefits that have already accrued to employees. Changes in current or future City staffing and/or changes in benefit structure will not eliminate or even reduce those outstanding amounts. Pension reforms enacted by the legislature and effective for employees hired after January 1, 2013 are only for new employees and thus will not have a substantial impact on City outstanding liabilities for decades.

Sales tax revenue generated within the City of Fort Bragg originates from tourists and visitors, City residents and regional residents (those who reside outside of City limits but regularly shop in Fort Bragg). Sales tax dollars from tourists or visitors to Fort Bragg are estimated to generate approximately 40% of the revenue and regional residents, those living outside city boundaries, that regularly shop in Fort Bragg, are estimated to generate an additional 33% of the sales tax. Only 27% of the tax impact would be carried by City of Fort Bragg residents.

**RECOMMENDED ACTION:**

1. Adopt the Resolution (which includes the proposed Ordinance as Exhibit A) placing the 3/8<sup>th</sup> of a cent or .375% special purpose transactions and use tax measure on the November 6, 2018 ballot.

**ALTERNATIVE ACTION(S):**

1. Direct staff to make revisions to the transactions and use tax measure and bring back for adoption at the July 9, 2018 meeting, or
2. No action.

**FISCAL IMPACT:**

There will be nominal staff and attorney's fees to prepare the special purpose sales tax measure and with the consolidated general statewide election. These costs are estimated at approximately \$10,000. The 3/8<sup>th</sup> of a cent sales tax is estimated to generate an additional \$623k per year in revenue.

**CONSISTENCY:**

N/A

**IMPLEMENTATION/TIMEFRAMES:**

The last day to call the election for measures is no less than 88 days prior to the November 6, 2018 general election. The deadline for transmitting a ballot measure to the County Elections Office is August 10, 2018.

**ATTACHMENTS:**

1. Resolution
2. Special Tax Expenditure Ordinance
3. Expenditure Plan for Special Tax (Exhibit A to Ordinance)

**NOTIFICATION:**

Economic Development Notify Me List