



AGENCY:	City Council
MEETING DATE:	Feb 8, 2016
DEPARTMENT:	Admin
PREPARED BY:	L. Ruffing
PRESENTED BY:	S. Schneider

AGENDA ITEM SUMMARY REPORT

TITLE:

RECEIVE RECOMMENDATION FROM FINANCE & ADMINISTRATION COMMITTEE AND CONSIDER ESTABLISHING AD HOC COUNCIL COMMITTEE TO EXPLORE POSSIBILITY OF INCREASING FORT BRAGG'S TRANSIENT OCCUPANCY TAX (I.E., HOTEL TAX)

ISSUE:

On January 29, 2016, the City Council's Finance & Administration Committee discussed the revenue needs associated with maintenance and operation of Fort Bragg's new Noyo Headlands Park and coastal trail. The Committee also discussed the tremendous marketing opportunity for Fort Bragg tourism that the new waterfront park offers.

The Committee forwarded a recommendation to the entire Council that an "ad hoc" committee of two Councilmembers be formed to work with staff and reach out to the public and Fort Bragg's lodging establishments to explore the possibility of raising the Transient Occupancy Tax (TOT) rate. TOT, also known as "hotel tax," is a surcharge imposed on visitors staying for 30 days or less in a hotel, inn or other lodging facility. The increased revenues would be used for maintenance of the coastal trail, marketing and promotion of Fort Bragg, and other business-development related purposes.

RECOMMENDED ACTION:

The Finance & Administration Committee recommended that an ad hoc committee be appointed to conduct further exploration and investigations into the possibility of a November 2016 ballot measure to increase the TOT rate for Fort Bragg lodging.

ALTERNATIVE ACTION(S):

No action. Under this alternative, no further action would be taken.

ANALYSIS:

Fort Bragg's TOT rate is currently 10% and an additional 1% surcharge is collected for the Mendocino County Lodging Association Business Improvement District (BID). TOT is a tax that is based on lodging room rates and it is paid by visitors to a locale. Fort Bragg lodging establishments collect TOT and remit it to the City each month. In FY 2014-15, the City collected approximately \$1.9 million in TOT and, for the first time, TOT surpassed sales tax revenues, making it one of the largest revenue sources for the City's general fund. The general fund provides revenue for general municipal services including police and fire services, park and facility maintenance, planning, and administration.

City costs for increased services by Public Works and Police Department staff as a result of the new Noyo Headlands Park are estimated at approximately \$90k per year (.5 FTE maintenance worker; .25 FTE police officer plus materials, equipment, etc.). The demand for services is year-round, but peaks in the summer months when visitor usage is highest. In the FY 2015-16 Budget, these increased demands for service are addressed by employing seasonal workers in Public Works and authorizing overtime in the Police Department. At some point in the future, additional staff positions may be warranted.

Each year for the past 15 years, the City has dedicated 4.0% of its TOT revenue to marketing and promotions and 0.5% to the Chamber of Commerce for operation of the Mendocino Coast Visitor Center. The FY 2015-16 Budget allocates \$72,570 to the Fort Bragg Promotion Committee for marketing and promotions and \$8,321 to the Chamber for the Visitor Center.

If the TOT rate were increased, each percentage point increase would generate roughly \$170,000 in additional revenue per year. The Finance & Administration Committee discussed a TOT increase as a means of providing additional funding for maintenance and operations of the coastal trail, for investing in additional marketing and promotion for Fort Bragg, and for business-development related purposes.

Fort Bragg's TOT rate is currently 10%, which is the same rate paid by overnight guests at lodging establishments in unincorporated Mendocino County, Ukiah, Willits and Point Arena. Statewide, many of the cities with TOT rates in the 12-15% range are tourism destinations (such as Anaheim, San Francisco, Palm Springs, Mammoth Lakes, Avalon, Healdsburg, Napa, Saint Helena, Yountville, Calistoga, Half Moon Bay, Pacifica) where revenues are used, in part, to enhance destination-marketing services.

The Finance & Administration Committee's recommendation to the City Council is that an "ad hoc" Council committee be appointed to explore the concept of placing a measure to increase Fort Bragg's TOT rate on the ballot for the November 2016 general statewide election. The ad hoc committee would reach out to the public and to lodging owners to discuss a possible TOT measure and to gather feedback that could help inform the Council's decision as to whether or not to proceed.

In order to put a TOT measure on the November ballot, the Council would need to take action by June 20, 2016. TOT is a general tax, but some cities (including Fort Bragg) make a point of budgeting a portion of the funds for tourism or business-development related programs. The California Constitution requires voter approval of any increase in a general tax and the tax increase can only be submitted to the electorate at a regularly scheduled general election for members of the governing body of the local government. In other words, in Fort Bragg, a TOT increase can only be put before the voters in conjunction with a regular City Council election. A TOT increase must be approved by a simple majority vote (i.e., 50%+1).

FISCAL IMPACT:

The initial work to evaluate the possibility of putting a TOT measure on the November 2016 ballot has no fiscal impact. If the Council moves forward with the ballot measure, there would be costs associated with the election. Because the election would be consolidated with the general statewide election and the City Council election, the costs are estimated to be in the \$5,000-\$8,000 range.

IMPLEMENTATION/TIMEFRAMES:

If the Council agrees to move forward with an ad hoc committee to explore the possibility of a ballot measure to increase the TOT rate, that work would need to be performed over the next couple of months. The committee would report back to the full Council in March or April. If the Council chooses to proceed with a ballot measure, it would need to be drafted and Council action taken to place it on the ballot by mid-June.

ATTACHMENTS:

1. None.

NOTIFICATION:

1. None.

City Clerk's Office Use Only

Agency Action ☐ Approved ☐ Denied ☐ Approved as Amended

Resolution No.: _____ Ordinance No.: _____

Moved by: _____ Seconded by: _____

Vote: _____

☐ Deferred/Continued to meeting of: _____

☐ Referred to: _____