



AGENCY: City Council  
MEETING DATE: May 29, 2018  
DEPARTMENT: Administration/Finance  
PRESENTED BY: Miller/Damiani  
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## AGENDA ITEM SUMMARY

### **TITLE:**

**Receive Ad Hoc Committee Recommendation and Provide Direction to Staff Regarding Potential New Revenue Sources for the City of Fort Bragg**

### **ISSUE:**

At the March 7, 2018 Special Meeting for the 2017-18 Mid-Year Budget Review, the Mayor appointed an Ad Hoc Committee consisting of Councilmembers Dave Turner and Mike Cimolino to review and explore possible new revenue sources for the City to solve the ongoing budget deficit of approximately \$420k and the longer term structural deficit.

The Committee working with staff is recommending a ballot measure to implement a general purpose 3/8<sup>th</sup> of a cent sales tax that would fund additional contributions to the City's \$12.8 million unfunded pension and other post-employment benefits (OPEB) liability, reinstate the unbudgeted police officer position, and provide funds for ongoing capital maintenance and repair projects.

### **ANALYSIS:**

At the Mid-Year Budget Review, the Mayor established an Ad Hoc Revenue Committee to evaluate and propose new revenue sources that could close the budget deficit and fix the long-term structural budget deficit facing the City. The Committee is recommending 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 approximate \$625k per year. The state sales tax rate is 7.25%. Cities, counties and countywide transportation agencies may impose sales tax rates that are added to that 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.<sup>1</sup>

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. A city sales tax ballot question can only be placed on the ballot during City Councilmember elections, so the next opportunity for Fort Bragg to pose the question is November of 2020.

The three-eighths figure provides the City funding to pay down the \$9.4 million unfunded liability on the City's California Public Employee Retirement System (CalPERS). By amortizing the unfunded liability over 15 years instead of the planned 30 years, the City is projected to save \$4.1 million. However, this would require an additional \$300k payment in 2018-19 and an average additional amount of \$200k per year for 15 years. This is in addition to the substantial increases already planned. Under the 30-year amortization, pension costs will increase an average of 14% per year and more than double in 7 years. Without an additional revenue source or without significant cuts

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<sup>1</sup> .50% CV Starr Center  
.50% City Street and Alley Repair  
.125% Libraries  
.50% County Mental Health  
1.625% Total Current Add-on Sales Tax

to existing City staff and services, there are no funds available to make additional contributions towards the unfunded liability.

The prepayment of the outstanding OPEB trust (which is proposed to be suspended in the FY2018/19 budget) would be revived and funded from the proceeds of the additional 3/8<sup>th</sup> of a cent sales tax. Additional funds would reinstate the frozen police officer position and build up a capital improvement project funding source for nonutility projects in the City. Like many municipalities nationwide, regular maintenance was deferred during the Great Recession and tepid years of the recovery. Fort Bragg, like many other cities, continues to financially struggle with balancing current day-to-day services against what should be regularly scheduled maintenance, which will save money over the long-term.

Sales tax revenue generated within the City of Fort Bragg, originates from tourist and visitors, City residents and regional residents (those who reside outside of City limits but regularly shop in Fort Bragg). The following table estimates the source of an additional sales tax for the first full year.

Estimated Sales Tax Source	Sales Tax**	Estimated Population	%
Portion of 3/8ths attributed to Tourism*	\$ 250,000	1,967	40%
Portion of 3/8ths attributed to City Population	\$ 168,000	7,200	27%
Portion of 3/8ths attributed to Regional Population	\$ 205,000	8,785	33%
	<u>\$ 623,000</u>	<u>17,952</u>	<u>100%</u>
<i>*Tourism is derived from dividing the annual 717,802 visitor per year by 365 days to get an average.</i>			
<i>**Sales tax is estimated on average visitor spending.</i>			

The FY 2018-19 Proposed Budget presented on May 22, 2018 does not make the assumption that the proposed 3/8<sup>th</sup> of a cent sales tax will be successful. Over the last approximately 15 years, both the City and the State have made changes to the 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 and \$3.4 million unfunded OPEB liabilities remain City liabilities. The combined \$12.8 million 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 liabilities. 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.

**RECOMMENDED ACTION:**

Provide direction to the ad hoc committee and staff regarding drafting a ballot measure for the City Council to consider placing on the November 6, 2018 ballot with the following key components:

1. 3/8<sup>th</sup> of a cent or .375%,
2. A fifteen-year sunset, and
3. General purpose sales tax, subject to approval by a majority of City voters.

**ALTERNATIVE ACTION(S):**

1. No action

2. Provide direction to the ad hoc committee and staff to draft as a special tax rather than a general tax measure, which would require approval of 2/3rds or 66.7% of the City voters. This would limit the use of the tax proceeds to a defined purpose.
3. Provide direction to staff to reduce the proposed tax amount from 3/8<sup>th</sup> of a cent to ¼ or .25 percent.
4. Provide direction to the staff to seek alternative reductions to the City's budget, including staffing and program reductions.

**FISCAL IMPACT:**

There will be nominal staff and attorney's fees to prepare the general 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 \$625k 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. Staff recommends bringing the measure back to Council in June or early July.

**ATTACHMENTS:**

N/A

**NOTIFICATION:**

Economic Development Notify Me List