



AGENCY: City Council
MEETING DATE: June 11, 2018
DEPARTMENT: Administration/Finance
PRESENTED BY: Tabatha Miller
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AGENDA ITEM SUMMARY

7DTITLE:

Receive Report and Consider Adoption of City Council Resolution Calling a General Election for the Purpose of Submitting a Three-Eighths of a Percent Local Transactions and Use Tax to the City Voters; Directing the City Attorney to Prepare an Analysis 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 general purpose 3/8th of a cent sales tax with a 15-year sunset. The tax measure 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, 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. The Committee recommended placing a three-eighths (3/8th) of a cent sales tax measure on the November 2018 ballot. Staff estimates that the additional sales tax will generate approximately \$625k 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.

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 3/8th of a cent.¹ The City's opportunity to utilize the additional sales tax capacity could be limited or usurped by the passage of a countywide sales tax. A general purpose 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 to voters 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

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

planned.² Under the 30-year amortization, pension costs will increase an average of 14% per year and more than double in 7 years. If the CalPERS Board of Administration (Board) reduces the discount rate further, the required contributions will be higher in future years. Without an additional revenue source or without significant cuts to existing City staff and services, there are no funds available to make additional contributions towards the unfunded liability.

The proceeds from the 3/8th of a cent sales tax would also be used to reinstate the police officer position frozen in the FY 2018-19 budget, reinstate the Other Post Employment Benefit³ (OPEB) Trust payments, and to fund repair and maintenance of city infrastructure and facilities, which has been limited in recent years as a result of running deficit budgets.

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). 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.

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>

Estimated Sales Tax Uses (2018-19)	Expenditure
15-year vs. 30-year Amortization CalPERS	\$ 296,000
Restore Police Officer Position	\$ 102,000
OPEB Trust Payment	\$ 82,000
General Government Repair/Maint.	\$ 143,000
	<u>\$ 623,000</u>

**Tourism is derived from dividing the annual 717,802 visitors per year by 365 days to get an average.*
***Sales tax is estimated on average visitor spending.*

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 and \$3.4 million unfunded OBEB liabilities remain City liabilities, which it is responsible to cover. 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.

² In December, 2016, the CalPERS Board approved a reduction in the CalPERS discount rate assumption from 7.5% to 7.0%. The adjustment is being phased in over 3 years beginning in FY 2018-19. There has been discussion locally and nationally that a 7.0% discount rate is still too high to be achieved over the longer term. Any future additional reduction of the discount rate will increase the City’s portion of unfunded pension liability.

³ Retiree Healthcare Benefit which was closed as of July 1, 2011(January 1, 2012 for public safety employees).

The FY 2018-19 Budget presented for adoption tonight, June 11, 2018 does not assume that the proposed 3/8th of a cent sales tax will be successful.

Based on the direction from City Council at the May 29, 2018 meeting, staff has prepared the resolutions to call the election, consolidate the election with the statewide election and to place the transactions and use tax ("sales tax") measure on the ballot. The resolution to place the 3/8th of a cent tax on the ballot includes a submission of arguments for and against the measure. The City Council may authorize the Council as a whole or specific Councilmembers to write an argument in favor of the ballot measure.

RECOMMENDED ACTION:

1. Adopt the Resolution (which includes the proposed Ordinance as Exhibit A) placing the 3/8th of a cent or .375% transactions and use tax measure on the ballot, and
2. Authorize the Council or select Councilmembers to author a ballot argument in favor of the ballot measure.

ALTERNATIVE ACTION(S):

1. No action.
2. Direct staff to make revisions to the transactions and use tax measure and bring back for adoption at the June 25, 2018 meeting.

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 3/8th 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.

ATTACHMENTS:

1. Resolution
2. Exhibit A - Ballot Measure Proposed Ordinance

NOTIFICATION:

Economic Development Notify Me List