



AGENCY: City Council  
MEETING DATE: October 22, 2018  
DEPARTMENT: City Manager  
PRESENTED BY: Tabatha Miller  
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## AGENDA ITEM SUMMARY

### **TITLE:**

**Receive Report and Consider Adoption of City Council Resolution Endorsing Measure H to increase Fort Bragg's Add-on Transaction and Use Tax**

### **ISSUE:**

On July 11, 2018, the City Council unanimously adopted Resolution No. 4112-2018 submitting a general purpose transaction and use tax measure to the City Voters for the November 6, 2018 General Election. Measure H, if approved, will add three-eighths ( $3/8^{\text{th}}$ ) of a cent to the City's add-on sales tax.

The attached Resolution, if adopted, endorses Measure H and encourages Fort Bragg City voters to participate in the general election.

### **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 ( $3/8^{\text{th}}$ ) 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.

On June 25, 2018, the City Council unanimously adopted Resolution No. 4107-2018 submitting a special purpose tax measure to the City Voters at the November 6, 2018, General Election. Just before the June 28, 2018 deadline to pull measures from the state ballot, the Tax Fairness, Transparency and Accountability Act of 2018, labeled by the League of California Cities and other opponents as "The Corporate Tax Trick" was rescinded. That statewide ballot measure would have required two-thirds voter approval on all local tax matters and would have retroactively applied to January 1, 2018 thereby retroactively repealing the 25 measures approved in June by local voters statewide and any general tax measures passed by a simple majority but less than two-thirds in November 2018. It was largely because of this state-wide measure that the City Council decided to pursue a special purpose tax measure instead of a general tax measure.

In response to rescinding of that state-wide ballot measure, the Revenue Ad Hoc Committee raised the question whether or not the City Council should withdraw the Fort Bragg Special Purpose  $3/8^{\text{th}}$  of a cent special tax measure, which requires two-thirds voter approval and instead submit a General Purpose  $3/8^{\text{th}}$  cent tax measure which only requires the 50% plus one or simple majority to pass in its place.

At the City Council Meeting on July 9, 2018, City Council provided staff direction to rescind the special purpose sales tax and in its place submit a general purpose sales tax measure. On July 11, 2018, the City Council unanimously adopted Resolution No. 4112-2018 submitting a general purpose transaction and use tax measure to the City Voters for the November 6, 2018 General Election.

A general tax measure requires only a simple majority (50% + 1) of the voters' approval and the proceeds can be used for any governmental purpose. A general purpose tax is more flexible and requires a lower threshold to pass. Unlike a special purpose tax, a general tax can only be placed on the ballot at the same time City Councilmembers are elected. Therefore, a general tax cannot be brought forward again until November 2020, but a special revenue tax can be placed on any local ballot.

In the June 5, 2018 statewide local elections, 24 of 28 (86%) city/county/district general tax measures passed by a simple majority and 15 of 29 (52%) city/county/district special tax measures passed by two-thirds. The general tax measures included 7 add-on sales tax measures – 5 which passed, including 3 that passed by more than 70%. Of the special add-on sales tax measures requiring two-thirds approval, one passed by 70.3% and one narrowly failed with 66.2%.<sup>1</sup> The local Mendocino Coast Health Care District special purpose parcel tax narrowly passed by just a handful of votes.

The three-eighths of a cent figure, whether special purpose or general purpose, provides the City funding to pay down the \$9.4 million unfunded accrued liability on the City's five California Public Employees' Retirement System (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.<sup>2</sup> Under the 30-year amortization, pension costs will increase an average of 14% per year and more than double in seven years.

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>3</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.

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.

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<sup>1</sup> Report by CaliforniaCityFinance.Com *Local Revenue Measure Results June 2018*, June 30, 2018 Final

<sup>2</sup> CalPERS Actuarial Valuation Reports for City of Fort Bragg Dated August 2017, Reported as of June 30, 2016.

<sup>3</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

**RECOMMENDED ACTION:**

Approve the Resolution endorsing Measure H which provides an add-on sales tax of 3/8<sup>th</sup> of a cent.

**ALTERNATIVE ACTION(S):**

1. No action.
2. Revise the Resolution prior to adoption.

**FISCAL IMPACT:**

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 election is Tuesday, November 6, 2018. The tax revenue, if approved would be effective April 1, 2019.

**ATTACHMENTS:**

1. Resolution
2. Ballot Measure and Argument in Support of Measure H

**NOTIFICATION:**

None.