



AGENCY: City Council
MEETING DATE: July 8, 2024
DEPARTMENT: Administration
PRESENTED BY: Isaac Whippy
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AGENDA ITEM SUMMARY

TITLE:

Receive Report and Consider Adoption of City Council Resolution and Ordinances Submitting a Local 3/8-Cent Transaction and Use (Sales) Tax and/or a 2% Transient Occupancy Tax to the Voters; and Taking Certain Related Actions

ISSUE:

The City of Fort Bragg offers a variety of essential government services to our residents encompassing a variety of department functions that support the community's infrastructure, safety, and quality of life. These services include maintaining critical infrastructure, police, and fire protection, 911 emergency medical response and disaster preparation/management, supporting small business owners and community nonprofits and providers (Noyo Center, Fort Bragg Unified School District, Humane Society), maintenance of streets, parks, public facilities, and other needs. However, like many other cities in California balancing the annual operating and capital budget has become increasingly difficult due to the State's continuing to impose expensive regulations and unfunded mandates on local cities like ours, and its continued "take-backs" of local funding to balance its own budget deficit. Ensuring Fort Bragg's long-term self-reliance and fiscal sustainability is crucial so that we can be ready to address any emergency or external challenge. The City has already taken decisive steps to reduce expenses and create reliable sources of locally controlled revenue.

At the mid-year budget workshop in March 2024, staff presented the City Council with options for future revenue increases or potential service cuts in future fiscal years based on the five-year projections. The City Council directed staff to review the Transient Occupancy Tax (TOT) and Sales and Use Tax (TUT) for potential inclusion on the November 2024 ballot. Both of these measures are paid predominantly by tourists and visitors to our City. Consequently, a 0.375% (referred to as a three-eighths cent) sales tax measure and a two percent transient occupancy tax measure are proposed for the November 2024 election to fund local essential services and community priorities for the Fort Bragg community.

Community Views in Recent Public Opinion Survey

To help the Council consider community viewpoints on these local funding approaches, a professional survey was conducted in May 2024, to gather community input on specific funding options for continuing to provide essential City services and community priorities to the Fort Bragg community. Fairbanks, Maslin, Maulin, Metz & Associates (FM3), an

organization that had previously overseen similar studies in the City, conducted community surveys online and by telephone with registered voters, including bilingual surveys. The poll gauged interest in a general-purpose transaction and use (sales) tax increase and a Transient Occupancy Tax that would require voter approval of a simple majority threshold. An overview of the survey results available on the [City's website](#).

Community Priorities:

1. Workforce housing

Increasing workforce housing opportunities in Fort Bragg is a top priority. The lack of housing affects employers' ability to recruit and retain qualified workers such as doctors, nurses, teachers, tradespeople, and first responders. Additionally, the shortage of affordable housing impacts residents' ability to invest in homeownership, which is crucial for developing individual, household, and generational wealth.

To provide safe, decent, and affordable housing, the City Council may consider a City-wide ballot measure for the November 5, 2024 general election. This measure aims to support housing production, address deferred maintenance issues, and improve the City's existing housing stock. Given the current housing crisis, the City could utilize some of the funds to help meet the community's housing needs.

2. Police, Fire Protection & 911 Emergency Response

Public safety is paramount. Maintaining our 911 emergency response for fires and medical emergencies is crucial. To recruit and retain police officers in Fort Bragg, offering competitive compensation is essential. Amid a tight labor market and increased public scrutiny of law enforcement, many departments across the state are short-staffed.

In recent years, the department has lost officers to neighboring jurisdictions with better compensation packages, resulting in a shortage of experienced personnel here in Fort Bragg. This national shortage has driven up compensation annually. Police officers face challenging and dangerous situations daily, and adequate pay recognizes their dedication and service while ensuring our community has experienced officers.

The Fort Bragg municipal code Chapter 2.68 mandates an annual survey of Mendocino County law enforcement positions, ensuring that Fort Bragg's salaries are at least the average of other local entities. This requirement, approved by voters in the 1980s, aims to retain officers by offering competitive compensation but has significant budget implications on the City's General Fund.

By investing in improved public safety equipment, technology, and competitive salaries and benefits, the City can attract and retain skilled officers, ensuring Fort Bragg remains a safe and secure community for all residents.

3. Natural Disaster Preparation

The disaster in Maui in 2023 highlighted the critical need for preparedness and the ability to recover economically from various challenges. Given our city's unique size and isolated location, we must be ready for threats ranging from global warming to severe storms. Ensuring the safety and well-being of our community is a top priority for the City, making Emergency Management, Planning, and Recovery essential focus areas. By investing in these areas, we can build a resilient infrastructure, and develop comprehensive recovery plans that ensure our community can withstand and bounce back from disasters.

4. Keeping Public Spaces Clean

Tourism significantly contributes to our local economy and places considerable strain on our public spaces. With the influx of tourists, these spaces including our coastal trail, and bathrooms often require more frequent cleaning and maintenance to ensure they remain safe and enjoyable for both residents and visitors. With additional funding, the city can enhance the overall experience for tourists, preserve the natural beauty of our city, and maintain a high quality of life for our community. Investing in cleanliness and maintenance will help sustain tourism while protecting our public spaces for future generations.

ANALYSIS:

Sales Tax

Sales Tax encompasses general sales and use taxes, including Proposition 172 sales taxes (Local Public Safety Protection and Improvement Act of 1993). Sales tax is an excise tax applied to the sale of certain goods and services, with retailers responsible for reporting and paying this tax. Use tax, also an excise tax is imposed on consumers for merchandise used, consumed, or stored in California that is purchased from out-of-state vendors not collecting California sales tax. The statewide sales and use tax rate is 7.25%, with the State receiving 6.25% and the City receiving 1% (known as the Bradley Burns Local Sales and Use Tax). The current total local sales tax rate in Fort Bragg, CA is 8.875%.

Sales Tax Breakdown

| <u>District</u> | <u>Rate</u> |
|------------------------|---------------|
| State of California | 7.25% |
| Mendocino County | 0.625% |
| Fort Bragg Special Tax | 1.0% |
| Total | 8.875% |

The City of Fort Bragg rate has a local special tax of 1% and Mendocino County has a local tax of 0.625%. Per state law, the combined rate of all local sales tax generally cannot exceed two (2%) percent. The County of Mendocino has not currently scheduled a 3/8 cent sales

tax increase but very easily could in the next general election. If voters approve a County increase, the 2% sales tax capacity threshold will have been met, and the City will have little to no say in how such revenue is used. However, if the City voters approve a City sales tax measure on the November 2024 ballot, the additional sales tax rate would be allocated and under the control of the City and not the County. This additional 3/8 cent would bring the total sales tax within the City limits from the current 8.875% to the cap of 9.25%. A new 3/8-cent sales tax increase within the City limits would generate approximately \$800,000 annually.

Sales tax revenue generated within the City limits is generated predominantly not from City residents, but from tourists and visitors, and regional residents living outside City limits that regularly shop in Fort Bragg. City residents generate an estimated 27% of the City's annual sales tax collected, whereas tourists and visitors to Fort Bragg generate approximately 40% of sales tax revenue, and regional residents generate approximately 33% of the sales tax.

Transient Occupancy Tax

Per the Revenue and Taxation Code, cities and counties may impose a "transient occupancy tax" on persons staying 30 days or less in hotels, motels, and similar lodgings. The tax is applied to a customer's rent paid for a room and not on the business that is doing the lodging. Taxes are remitted to all approved lodging operators in the City. The City's TOT rate is currently 12% which is retained and used as a General Fund revenue to provide for general government services. The TOT revenues generate about \$3.1 million annually and approximately 25% of the City's General Fund revenue.

Attached is an excerpt from a report compiled by the State Controller's Office which shows the adopted TOT. rate for all California Cities, including the Mendocino County Cities that currently impose this tax. While this most recent report is from FY 2021-22 staff believes it is largely representative of the current tax rate by City. Rates range from a low of 8% to a high of 15.5% with common rates including 10%, 12%, and 14%.

Fiscal Year (FY) 2025 General Fund Budget Overview

The City is facing significant financial challenges, similar to many other cities in California. The rising costs of maintaining general government services are surpassing projected revenues, leading to a structural deficit projected to grow to 5-7% of the General Fund within the next three fiscal years. This translates to an annual deficit of between \$548k and \$963k.

For FY 2025, the approved General Fund budget is balanced with a small surplus of \$47k. However, this balance is precarious and will require drawing on the \$4.7 million in reserves in future fiscal years to maintain. The primary issue is the inadequate growth of General Fund revenues to cover the increasing expenditures, particularly those related to pension costs. The FY 2025 forecast indicates that the City will continue to rely on reserves and implement ongoing budget-balancing strategies, including expenditure reductions. This

leaves very little capacity to replenish General Fund reserves or introduce any new programs or initiatives.

In FY 2021-2024, the City Council took action to address the budget impacts related to pension costs by implementing the [pension policy](#), investing in section: 115 trust, and issuing lease revenue bonds to restructure the CalPers Unfunded liability.

In order to place the proposed measure on the November 5, 2024 ballot as a general tax, the attached resolution and ordinances require approval by the Fort Bragg City Council:

- Resolution Calling for Municipal Election to Increase Sales Tax
- Ordinance Imposing a 3/8-Cent Transactions and Use Tax
- Ordinance Imposing a 2% Transient Occupancy Tax Increase
- Notice of Election

RECOMMENDED ACTION(S):

1. Adopt Resolution #xxxx-2024 - a Resolution of the Fort Bragg City Council Submitting a Transactions and Use Tax Measure and a Transient Occupancy Tax Measure to the Voters at the November 5, 2024, General Municipal Election, Reiterating the City's Request that the Election be Consolidated with other Elections Held on that Date and Taking Certain Related Actions; and
2. Introduce by Title Only and Waiving Further Reading of Ordinance #xxx-2024 – an Ordinance of the City of Fort Bragg Adding Chapter 3.08 to the City's Municipal Code to Impose a Transactions and Use Tax to be Administered by the California Department of Tax and Fee Administration; and
3. Introduce by Title Only and Waive Further Reading of Ordinance #xxx-2024 – An Ordinance of the City of Fort Bragg Amending Section 3.12.030 of the Fort Bragg Municipal Code to Add an Additional 2% Tax on Transient Occupancies

ALTERNATIVE ACTION(S):

1. Reschedule approval of the Resolution pending further input or staff information or to another election.
2. No action.

FISCAL IMPACT:

Staff and attorney's fees to prepare the Transaction and Use Tax Measure for the consolidated general statewide election is estimated to be less than \$16,000. The 3/8 of a cent sales tax is estimated to generate an additional \$800,000 per year and transient occupancy tax estimated to generate \$400,000.

GREENHOUSE GAS EMISSIONS IMPACT:

N/A

CONSISTENCY:

Creating a new funding source to address the lack of safe, decent and affordable housing opportunities aligns with the following Council Goals and Priorities:

Priority: Housing

Goal 1: 200 Units in the Next Five Years

Goal 2: Pursue Community Land Trust/JPA/Housing Authority

Goal 3: Streamline the Permitting Process and Pursue a Creative Approach

IMPLEMENTATION/TIMEFRAMES:

The deadline for transmitting a ballot measure to the County Elections Office is August 9, 2024. The deadline for arguments for or against the ballot measure is July 23, 2024. The last day for submission of rebuttal arguments for or against the ballot measure is August 2, 2024. Election Day is November 5, 2024. The City Elections Official will certify the results of the election to the City Council no later than the next regularly scheduled Council meeting following the presentation of the 28-day canvass of the returns by the County Elections Official, currently scheduled for December 5, 2024.

ATTACHMENTS:

1. Resolution
2. TUT Ordinance
3. TOT Ordinance
4. Notice of Election
5. TOT Rates

NOTIFICATION:

1. "Notify Me" Subscriber Lists: Affordable Housing; Finance & Budgeting