



CITY COUNCIL AGENDA REPORT

MEETING DATE: July 05, 2022

TO: City Council Members

FROM: Chris Gorsky, Administrative Services Director
Melissa Eads, City Administrator
Andrew Doan, City Attorney

SUBJECT: The “Essential Services Transaction and Use Tax”

RECOMMENDATION

1. Introduce, on first reading by title only, Draft ordinance No. 890 adding Chapter 3.17 of the Sonora Municipal Code to add the “Essential Services Transaction and Use Tax” to be administered by the California Department of Tax and Fee Administration (CDTFA).
2. Adopt Resolution 07-18-22-B declaring a fiscal emergency, calling and giving notice for the holding of a special municipal election to be held on Tuesday, November 8th, 2022 for the submission of a ballot measure to the City of Sonora qualified voters to approve a local one percent (1%) general sales and use tax for general city revenue purposes, “the Essential Services Transaction and Use Tax;” and requesting the Board of Supervisors of Tuolumne County to render election services; and requesting the consolidation of said election with the statewide general election and permit the County Registrar of Voters to render election services.

DISCUSSION

The City of Sonora has been fiscally challenged and needs additional revenue to protect the City’s long-term financial stability and maintain services for its citizens. Over the past decade, the City of Sonora’s revenues have not kept pace with the growing costs associated with providing municipal services and facilities. The City seeks to maintain essential services, including police, fire, public works and road maintenance and is coming to a crossroads where it cannot sustain the services it provides with the projected available resources. For the past several budget years the City has responded to this imbalance by cutting employees, deferring basic road and infrastructure maintenance, putting off fleet management and increasingly limiting services. The total number full time equivalent employees are below the 2007 pre-recession levels and employee count is down 29% over that timeframe. Even though City Council has consistently budgeted conservatively, and the City’s department heads have been very professional managing their budgets the increasing costs have become difficult to manage.

First, the City wishes to maintain a high level of police services including neighborhood patrols and crime, gang, drug prevention programs, increase funding for fire services including fire staffing, equipment, inspections and clearing as the entire City is a high fire severity zone. Second, the City maintains more than 30 miles of roads, but the only dedicated funding sources are Highway Users Tax and Road Maintenance and Rehabilitation (SB1) funding which provides less than \$230,000 annually. This is unsustainable. The City is faced with local streets and roads that are in disrepair and this funding would allow for appropriate maintenance and pothole repair that keep streets safe and improve quality of life. Third, there have been few capital improvement projects over the last ten years with almost no

sidewalk, storm drain or facility improvement and replacement strategies in place. The sales tax measure would provide resources for the City to tackle those larger projects that currently have no foreseeable funding source. Fourth, the City is faced with ever increasing deferred maintenance expenditures, a need to create a fleet management plan, and address aging equipment throughout all departments. Fifth, other challenges the City faces have been ever rising costs, including worker's compensation, health, and liability insurances; in addition, a continual struggle to pay market rate for employee compensation. It is in the best interest of the City to pay a fair wage to employees in order to have the ability to compete and retain existing and future employees.

This increase in sales tax will be used and remain 100% in the City of Sonora and cannot be taken by the State or County. Currently the County of Tuolumne receives 13% of the City's sales tax and will receive none of these revenues. This is locally controlled funding that will maintain community and neighborhood safety, rapid 911 emergency response times, disaster preparedness, street maintenance and pothole repair, and attract and retain local businesses, jobs and employees.

The City of Sonora currently has one of the lowest sales tax rates in California. Of the 283 California cities with sales tax rates, 94% have rates higher than Sonora and only .4% lower than ours. After increasing the City's tax rate by 1%, it will still be in the bottom 25% of sales tax rates for cities in California. The City has all of the same responsibilities of those other agencies without revenues to match.

	FY22-23 Proposed Budget	FY23-24 Forecast Budget	FY24-25 Forecast Budget
Revenues			
Taxes Related Revenues	\$ 5,296,300	\$ 5,443,900	\$ 5,610,500
Licenses, Permits and Franchises	\$ 916,850	\$ 938,800	\$ 955,550
Fines, Forfeitures and Penalties	\$ 15,000	\$ 16,000	\$ 16,200
Charges for Services	\$ 74,200	\$ 74,700	\$ 76,100
Intergovernmental Revenues	\$ 592,786	\$ 11,000	\$ 11,000
Use of Money or Property	\$ 67,900	\$ 72,700	\$ 74,500
All Other Revenues	\$ 24,050	\$ 23,750	\$ 24,900
Total Revenues	\$ 6,987,086	\$ 6,580,850	\$ 6,768,750
Total Other Financing Sources	\$ 2,506,450	\$ 2,551,000	\$ 2,623,000
Total Revenues & Other Financing Sources	\$ 9,493,536	\$ 9,131,850	\$ 9,391,750
Expenditures			
Salaries and Benefits	\$ 6,974,000	\$ 7,227,580	\$ 7,481,550
Operating Expenditures	\$ 2,114,300	\$ 2,074,020	\$ 2,146,800
Capital Projects	\$ -	\$ -	\$ -
Total Expenditures	\$ 9,088,300	\$ 9,301,600	\$ 9,628,350
Total Other Financing Uses	\$ 37,000	\$ 112,000	\$ 112,000
Total Expenditures & Other Financing Uses	\$ 9,125,300	\$ 9,413,600	\$ 9,740,350
Net Gain (Cost) to Fund	\$ 368,236	\$ (281,750)	\$ (348,600)
SLFRF FUNDS	\$ 581,786		
Deficit without Federal Funding	\$ (213,550)		

The chart above shows the forecasted deficits with "status-quo" budgets and no capital expenditures over the next 3 years. The City will receive American Rescue Plan Support in FY22/23 and without that funding would have had to cut to balance that budget.

Hypothetical:	
If You Spent \$100	
With a 7.75% Tax	\$ 7.75
With a 8.75% Tax	\$ 8.75
You Would Be Spending \$1 More	
If You Bought a Car for \$47,148	
With a 7.75% Tax	\$3,653.97
With a 8.75% Tax	\$4,125.45
You Would Be Spending \$471.48 More	

The Chart above shows that for every \$100 spent on taxable goods it would cost \$1 in additional tax.

All State Sales Tax Exemptions Will Apply (For a full list of exemptions: <https://www.cdtfa.ca.gov/formspubs/pub61.pdf>)

- 1. NECESSITIES OF LIFE—Provisions that exempt property necessary to the sustenance of life**
 - a. Food Products
 - b. Candy, Confectionary, Snack Foods and Bottled Water
 - c. Food Products Sold Through Vending Machines
 - d. Medicated Feed and Drinking Water (livestock)
 - b. Purchases Made with CalFresh Benefits
 - c. For complete list see: <https://www.cdtfa.ca.gov/formspubs/pub61.pdf>
- 2. HEALTH RELATED**
 - a. Professional Health Services
 - b. Prescription Medicines
 - c. Wheelchairs, Crutches, Canes and Walkers
 - d. Medicinal Cannabis
 - e. For complete list see: <https://www.cdtfa.ca.gov/formspubs/pub61.pdf>
- 3. HOUSING**
 - a. Gas, Electricity, Water
 - b. Rentals of Household Furnishings
 - c. For complete list see: <https://www.cdtfa.ca.gov/formspubs/pub61.pdf>
- 4. For Complete List See <https://www.cdtfa.ca.gov/formspubs/pub61.pdf>**

Resolution 07-18-22-B (the “Resolution”) will place a measure on the ballot for the November 8, 2022 special municipal election to provide and preserve services valued by City residents. The Resolution will submit a measure to City residents for a one percent (1%) Transaction and Use Tax (sales tax) to provide locally controlled funding for essential, necessary, and appropriate general City services (the “Measure”). The Measure is being proposed to provide funding that cannot be taken by the State of California, with funding to be used only for local City services. The Measure proposes a general tax and requires a majority (50% plus 1) of votes cast by City’s qualified voters to approve the Measure. The Measure is not a tax on homes or property and a large portion of locally controlled revenue generated by the measure will be paid by visitors to the City who will pay their fair share to use City streets, 911 and other services.

Generally, the City must submit general taxes to City voters at the City’s general municipal election. The City’s next general municipal election is March 5, 2024. The City, however, cannot wait until the March 5, 2024 general municipal election to place the Measure on the ballot because, without additional revenue, the City must begin reducing critical local services. A reduction in critical local services poses a fiscal emergency. The City Council can place a general tax measure on the ballot at a special municipal election by declaring a fiscal emergency. To find a fiscal emergency, the City Council must adopt the Resolution by a unanimous vote.

The Resolution contains the information regarding the actions necessary to place the Measure on the ballot at the Election, including setting out the ballot question, and requesting that the County of Tuolumne (the “County”) consolidate the City’s election with the statewide general election.

The question that voters will be asked at the Election is:

<p><i>“The City of Sonora Essential Services Measure: Shall the measure to maintain the City of Sonora essential services such as Police, Fire, Street and Pothole Repair, and other core services by establishing a one percent (1%) sales and use tax (“Sales Tax”), providing the City of Sonora approximately \$3.9 million dollars annually until ended by City voters, be adopted?”</i></p>	Yes
	No

The form of the question complies with the requirements of the Elections Code. To the extent that the City Council wishes to modify the ballot question it must be phrased as: "Shall the measure (stating the nature thereof) be adopted?" It must also contain no more than seventy-five (75) words and a statement regarding the amount of money to be raised annually and the rate and duration of the tax to be levied.

Although individual council members may not personally support the tax, staff asks that you place this item on the ballot to allow voters to decide this important issue.

FISCAL IMPACT

The City will be required to pay the Registrar for services in consolidating the election. If the qualified voters of the City approve the Measure, it would provide an estimated \$3.9 million dollars annually in revenue to fund services valued by City residents.

ENVIRONMENTAL

The Resolution is not a "project" under the California Environmental Quality Control Act.

OPTIONS

1. Adopt:
 - a. Resolution 07-18-22-B to declare a fiscal emergency and place the sales tax measure on the November 8, 2022 ballot (Must be Unanimous);
 - b. Ordinance No. 890 imposing a 1% sales and use tax (Must be approved by 2/3 of council)
2. Reject the Resolution; or
3. The City Council may continue the item and request additional information and analysis from staff. Since the City must adopt and submit the Resolution to the County by August 12, 2022, this option may delay the City from submitting the Resolution to the County and prevent the placement of the Measure on the ballot for the Election.

ATTACHMENTS

- Resolution
- Ordinance