

REPORT TO CITY COUNCIL

City of Nevada City
317 Broad Street
Nevada City, CA 95959
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December 9, 2015

TITLE: Transaction and Use Tax Options and Election Timing

RECOMMENDATION: Provide direction to the City Manager.

CONTACT: Mark Prestwich, City Manager

BACKGROUND: On January 22, 2015, the City Council unanimously adopted a long-term funding strategy to place a transactions and use tax (sales tax) measure on the June 7, 2016 ballot. This decision was made after the City received notice from the Nevada County Consolidated Fire District that they were ending an 11-year co-staffing relationship. Consolidated Fire District's subsequent removal of three firefighters from Nevada City's Fire Station 54 on Providence Mine Road on April 19, 2015 added a new annual operational cost of \$275,000 to the City's General Fund.

DISCUSSION: On October 28, 2015, the City Council provided direction to Staff to prepare an Ordinance, subject to voter approval, extending the existing 3/8 cent Transactions and Use Tax for general purposes. The annual projected revenue of \$432,000 would provide the City the availability to continue addressing its citywide operational, capital and maintenance needs, and prevent a deterioration in service levels. The proposed ordinance requires a 4/5 vote in order to be placed on the ballot and majority voter support. A copy of the draft Ordinance is attached to this report.

Since this direction, City staff has received some citizen feedback that the City should alternatively consider a Special Tax and that such a tax should also include resources for the Police Department. A 3/8 cent Transaction and Use Special Tax for fire and police would provide the needed sustainable funding for three replacement firefighters as well as a new dedicated 40-hour per week walking "foot-beat" Police Officer in the downtown. It is recommended any special tax measure also include strict rules prohibiting supplanting of revenues so voters could be assured new funds would not be used to replace existing revenue sources or existing staffing.

While the City's sales tax rate would increase temporarily by 3/8 cent for less than two years (from 8.5% to 8.875%), the rate would be reduced by a corresponding 3/8 cent when the City's temporary Measure L tax expired March 31, 2018. Special tax measures require 2/3 voter approval and a 4/5 City Council vote to be placed on an election ballot.

Election Timing

There are several issues to consider regarding a June vs. November 2016 election date:

- Both the June and November elections will likely include large voter turnout. For example, the June 2016 election is the City's Municipal Election involving three

City Council seats, a Presidential Primary involving no incumbent President, and will include a Business License Tax Simplification Measure and a possible short-term rental initiative. The November election is a Presidential Election which historically draws large voter turnout.

- Passage of a Special Tax measure in June (vs. November) provides the resources to restore an administrative position in City Hall earlier that has been vacant since the Consolidated Fire District removed their three firefighters (the vacant position is paying for one of the three limited-term firefighter positions currently). The vacancy has resulted in significant workload impacts on the Administrative/Finance Department which provides human resources, risk management, finance and customer service functions with only three staff currently.
- The City was fortunate to hire three limited-term firefighters through June 2016 that tested at the top of their class. Council action will be necessary to extend the limited-term positions to November 2016 at a cost of approximately \$65,000 if that is the preferred election date.

Should the City Council opt for a special tax measure, staff recommends bringing forward the first reading of the ordinance, regardless of preferred election date, on January 13, 2016.

ENVIRONMENTAL CONSIDERATIONS: Not applicable.

FINANCIAL CONSIDERATIONS: California state law authorizes cities to seek voter approval of transaction and use taxes in multiples of 0.125 percent so long as the combined transaction and use taxes do not exceed two percent. Special tax revenues must be used for purposes specified in an ordinance. General Purpose sales tax revenues may be used for any General Fund purpose including Fire, Police, Parks and general maintenance requirements. An extension of the City's existing 3/8 cent General Purpose sales tax would provide approximately \$432,000 annually. It is estimated that non-City residents generate more than 60% of Nevada City sales tax revenues.

ATTACHMENT:

- ✓ Draft Ordinance Modifying Chapter 3.52 of the Nevada City Municipal Code

ORDINANCE NO. 2015-XX

AN ORDINANCE OF THE CITY OF NEVADA CITY EXTENDING THE 3/8 OF 1% TRANSACTIONS AND USE TAX FOR GENERAL PURPOSES TO CONTINUE TO BE ADMINISTERED BY THE STATE BOARD OF EQUALIZATION

WHEREAS, pursuant to California Revenue and Taxation Code Sections 7285.9, the City of Nevada City (the "City") has the authority to levy a Transactions and Use Tax for general purposes;

WHEREAS, a majority of the voters of the City approved a three-eighths cent per one dollar (0.375%) Transactions and Use Tax at an election held on November 6, 2012;

WHEREAS, the City's Transactions and Use Tax Ordinance is found in Chapter 3.52 of Title 3 of the City's Municipal Code;

WHEREAS, Section 3.52.160 of Chapter 3.52 sets forth a "Termination Date" of five (5) years after its operative date, at which time Chapter 3.52 will be repealed unless an amendment is approved by the voters of the City at an election called for that purpose; and

WHEREAS, an amendment of the City's Transactions and Use Tax will be submitted to the voters to delete the sunset provision of Section 3.52.160 and thus extend the "Termination Date" of Chapter 3.52 indefinitely.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF NEVADA CITY DOES HEREBY ORDAIN AS FOLLOWS:

Section 1. Amendment. Section 3.52.160 of Chapter 3.52 of Title 3 of the City's Municipal Code providing that the tax shall expire five (5) years after its operative date is hereby repealed.

Section 2. Approval by the Voters. This Ordinance shall be submitted to the voters at the general municipal election to be held on June 7, 2016. Upon approval by a majority of the voters of the City voting on this Ordinance, the Transactions and Use Tax set forth in Chapter 3.26 of the City's Municipal Code shall be re-authorized and extended indefinitely.

PASSED AND ADOPTED at a regularly scheduled meeting by the City Council of the City of Nevada City this _____ day of _____, 2015, by a two-thirds vote of the City Council, by the following vote:

AYES:

NOES:

ABSTAIN/ABSENT:

Jennifer Ray, Mayor

Attest: _____
Niel Locke, City Clerk