

MEMORANDUM

Date: November 7, 2012
To: Honorable Mayor and City Council Members
From: Transactions and Use Tax Oversight Committee
Re: Annual Report to the Council

Committee Members

Members of the Transactions and Use Tax Oversight Committee (TUTO) each serve a 4-year term that expires on December 31, 2012. Currently, this Committee is composed of the following members:

Kash Boodjeh, Chair (resigned 9/20/12)	Robin Hashem, Vice-chair (2/10/11 – 9/20/12)
Stan Elcock, Chair (9/21/12 – current)	Michael Machi, Vice-Chair (9/21/12 – current)
Bill Burton	Ginger Campbell
Jeff Knapp	Staff Liaison: Janet Luzzi, Finance Director

These community members were appointed to represent long institutional memory regarding the City's budget and community needs for street infrastructure improvements and public safety issues.

Since the Committee's report to Council in November 2011, the members of the TUTO have met four times: January 26, 2012, March 6, 2012, May 17, 2012, and September 20, 2012. In addition, the Committee met with the City Council in a joint study session on April 19, 2012.

Introduction

The TUTO was created in conjunction with the approval of Measure "G" in November 2008, the ballot measure imposing a three-quarter cent general transactions and use tax in the City of Arcata for 20 years. Although this is a general tax, the City is committed to using the increased general fund revenue generated from this tax to improving public works (streets) and public safety services.

The duties of the TUTO are as follows:

1. Review prior year general fund support of public works (streets) and public safety activity budgets relative to historical expenditures in those activities using historical data, community needs, and other information as required to assess the propriety of the City's expenditure of funds.
2. Report to the City Council the result of the Committee's review and make recommendations for general fund expenditures for the following fiscal year in the public works (streets) and public safety activity budgets.
3. Review and make recommendations on other general fund matters as the City Council may direct through resolution.

Transactions & Use Tax Revenue

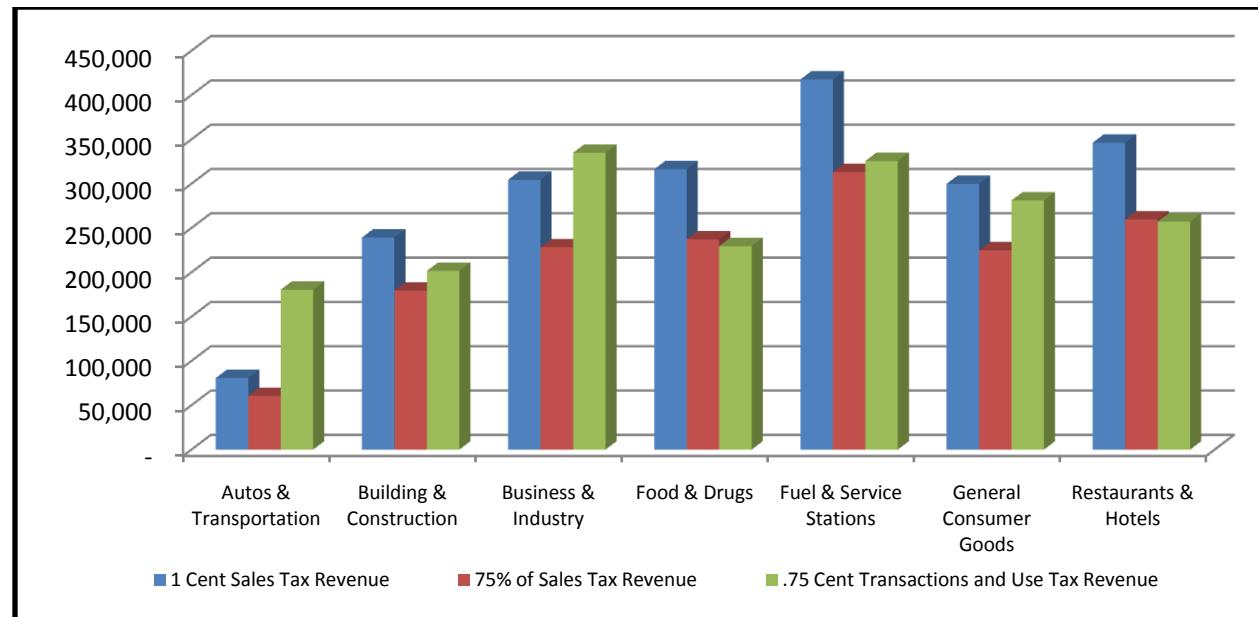
During fiscal year 2011/12, the City of Arcata received approximately \$1,798,000 from the City's transactions and use tax and represents approximately 14.5 percent of the City's total general fund revenue. The following graphic data summarizes and compares the revenue generated by the City's TUT to sales tax by business type for fiscal year 2011/12.

Table 1: Tax Revenue by Business Type

	<u>1 Cent Sales Tax Revenue</u>	<u>.75 Cent Transactions and Use Tax Revenue</u>	<u>75% of Sales Tax Revenue</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Percent Transactions Tax of Sales Tax</u>
Autos & Transportation	\$ 80,756	\$ 180,400	\$ 60,567	\$ 119,833	223.39%
Building & Construction	239,227	201,615	179,420	22,195	94.28%
Business & Industry	304,392	334,848	228,294	106,554	110.01%
Food & Drugs	316,303	229,598	237,227	(7,629) *	72.59%
Fuel & Service Stations	417,569	325,665	313,177	12,488	77.99%
General Consumer Goods	299,835	281,141	224,876	56,265	93.77%
Restaurants & Hotels	346,298	257,246	259,724	(2,478) *	74.28%
Gross Revenue	<u>\$ 2,004,380</u>	<u>\$ 1,810,513</u>	<u>\$ 1,503,285</u>	<u>\$ 307,228</u>	<u>90.33%</u>
Accrual adjustments	-	1,260			
Triple Flip Adjustments	(75,948)	-			
County/State Pool	228,797	-			
SBOE Admin Fees	(21,517)	(13,430)			
Net Revenue	<u>\$ 2,135,712</u>	<u>\$ 1,798,343</u>			

* See page 3 for further explanation of unfavorable variance

Chart 1: Comparison of Transactions and Use Tax as Percentage of Sales Tax



During the fiscal year 2011/12, the regular sales tax in the City of Arcata was 8.25 percent. Of this amount the state received 7.25 percent and the City of Arcata received 1 percent. The City's TUT tax rate adds another .75 percent. Because the TUT rate is 75 percent of the City's portion of the sales tax rate, one would expect the percentage of TUT revenue to sales tax revenue to be 75 percent. However for fiscal year 2011/12, the City's TUT generated approximately 90.33 percent of the revenue received from sales tax before other adjustments. This is because the City's TUT is assessed and allocated to the district where goods are delivered or placed into use rather than where the sale was negotiated. This means that the City is capturing TUT tax on the sale of automobiles and other registered modes of transportation, like boats, motorcycles and airplanes that occur outside of the City's taxing district and also on business and industry items that are brought into the district from outside suppliers. There are two categories (denoted by *) for which the ratio falls below 75 percent (Food & Drug, and Restaurants & Hotels). This most likely results from sales delivered outside of the TUT taxing district or late filing by vendors.

The table below compares the revenue received for the past three fiscal years. Transaction and use tax revenue has steadily increased over this time period to \$1.8 million. It is anticipated that the City will realize approximately \$1.875 million in fiscal year 2012/13.

Table 2: Tax Revenue Comparison

	Fiscal 2009/10	Fiscal 2010/11	Fiscal 2011/12				
	<u>Total</u>	<u>Total</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>1st Qtr</u>	<u>Total</u>
Autos & Transportation	\$ 167,165	\$ 178,467	\$ 40,332	\$ 41,114	\$ 53,079	\$ 45,875	\$ 180,400
Building & Construction	182,476	190,113	47,768	59,627	53,484	40,736	201,615
Business & Industry	308,838	354,671	88,363	95,844	79,320	71,321	334,848
Food & Drugs	230,777	220,079	52,908	57,210	65,052	54,428	229,598
Fuel & Service Stations	191,606	260,727	79,099	101,346	73,141	72,079	325,665
General Consumer Goods	240,013	260,003	60,189	74,663	78,335	67,954	281,141
Restaurants & Hotels	<u>222,434</u>	<u>250,042</u>	<u>60,393</u>	<u>64,293</u>	<u>68,199</u>	<u>64,361</u>	<u>257,246</u>
Gross Revenue	<u>\$1,543,309</u>	<u>\$1,714,102</u>	<u>\$429,052</u>	<u>\$494,097</u>	<u>\$470,610</u>	<u>\$416,754</u>	<u>\$1,810,513</u>

Public Works Street Expenditures

The inability of the City to adequately maintain much of the City's street infrastructure was the primary reason Measure G was brought to the voters and approved. Prior to the adoption of the City's TUT, the general fund was not able to support the maintenance of City streets to the extent required.

The following table summarizes the general fund budget supporting street maintenance for the last several years.

	Actual General Fund Support							Budget 2012-13
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
Ongoing GF Support of Streets	\$ 136,052	\$ 96,906	\$ 174,479	\$ 321,133	\$ 235,575	\$ 200,837	\$ 188,272	\$ 12,505
TUT Funds Allocated					775,000	1,150,000	1,000,000	1,145,000
Total GF Support	<u>\$136,052</u>	<u>\$96,906</u>	<u>\$174,479</u>	<u>\$321,133</u>	<u>\$1,010,575</u>	<u>\$1,350,837</u>	<u>\$1,188,272</u>	<u>\$1,157,505</u>
Pavement Mgmt Program - Contracted				\$ 662,500	\$ 987,500	\$ 810,000	\$ 940,000	
Pavement Mgmt Program - Force Accounts				-	50,000	75,000	75,000	
Traffic Calming				25,000	25,000	25,000	30,000	
Handicapped Ramps				25,000	25,000	25,000	30,000	
Sidewalk Improvements				25,000	25,000	25,000	30,000	
Engineering Services				<u>37,500</u>	<u>37,500</u>	<u>40,000</u>	<u>40,000</u>	
				<u>\$ 775,000</u>	<u>\$ 1,150,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,145,000</u>	

Over the years presented, the ongoing general fund support has decreased from a high of \$321,133 in fiscal year 2008/09 to an anticipated low of \$12,505 in budget year 2012-13. This is due to several factors, including the recent recession and higher employee costs. However, the most significant contributing factor to the decrease in general fund support is the demise of the City's redevelopment agency (Agency). Because the Agency has been eliminated, the City was forced to absorb costs that were previously allocated to the Agency, resulting in less funds available for streets.

During fiscal year 2011/12, the City completed the following projects which were appropriated in fiscal year 2010/11 and identified in the 2011 Paving Project:

- 2011 Pavement Management Project, including Bayside Cutoff, 15th and 16th Streets, I & J Streets
- G & H Street Pedestrian Improvements
- Samoa Blvd, Union to Buttermilk Overlay Project

During fiscal year 2011/12, the City appropriated an additional \$1,000,000 of general funds generated by the City's TUT on additional street improvements. Part of this appropriation went to enhance on-going programs for traffic calming, installation of handicapped ramps, and sidewalk improvement. The bulk of the appropriations (along with the allocation from fiscal year 2011/12) are budgeted for selected street improvement projects. A memo from the Deputy Public Works Director is attached to this report and provides more detail of projects planned for fiscal year 2011/12.

Public Safety Expenditures

TUT funds have also been appropriated for the purpose of maintaining adequate staffing in the Police Department in order to provide police services commensurate with community needs. For many years, the Arcata Police Department had been understaffed due to under-allocation of personnel, injuries, or the inability of keeping officers, and difficulty in filling vacancies in a timely manner. This resulted in difficulty providing adequate levels of service throughout the entire City, and excessive overtime for employees.

As a result of the approval of the City's TUT, the City was able to maintain the increased full-staffing levels in the Police Department. A memo from the Police Chief is attached to this report that provides more detail of the other benefits achieved by increased staffing levels.

The following table compares actual expenditures since 2007/08 and budgeted expenditures for 2012/13. During fiscal year 2008/09, the City increased funding of additional personnel using reserves.

	Base Year 2007-08	Actual 2008-09	Actual 2009-10	Actual 2010-11	Actual 2011-12	Budget 2012-13
Regular Salaries	\$ 1,713,975	\$ 1,844,244	\$ 2,064,565	\$ 2,217,426	\$ 2,351,750	\$ 2,372,223
Overtime Wages	332,562	353,304	274,008	276,774	288,750	330,200
Part-time Wages	80,220	90,883	70,127	85,465	79,553	56,263
Employee Benefits	1,085,394	1,214,473	1,381,571	1,515,481	1,641,778	1,749,041
Total Personnel Costs	3,212,150	3,502,904	3,790,271	4,095,146	4,361,831	4,507,727
Materials & Supplies	422,834	521,816	607,971	567,730	534,858	466,016
Total Operating Costs	<u>\$3,634,984</u>	<u>\$4,024,721</u>	<u>\$4,398,242</u>	<u>\$4,662,876</u>	<u>\$4,896,689</u>	<u>\$4,973,743</u>
 # of Sworn Officers	24	27	27	27	27	27
# of Dispatchers / Records Analyst	6	7	7	7	7	7
 TUT Funds Allocated			<u>\$ 500,000</u>	<u>\$ 525,000</u>	<u>\$ 800,000</u>	<u>\$ 730,000</u>
 Additional TUT Funds used to cover revenue losses & increased costs			<u>\$ 305,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 105,000</u>

In addition to providing funding for additional personnel, TUT funds were used to maintain the level of service in the Police Department. Due to the economic crisis, many of the City's other general fund revenues (such as sales tax, transient occupancy tax and building permits) had been declining and have been slow to recover. In addition to the loss of revenue, the City continues to incur significant increases to the cost of employee health insurance and retirement benefits. In order to maintain the level of service in the Police Department, the ratio of TUT funds allocated to Public Safety increased from 33 percent to 44 percent for fiscal year 2011/12, and 39 percent for fiscal year 2012/13.

Committee Recommendation of Future General Fund Expenditures

There are two points the committee wants to be sure the Council pays attention to:

1. From the 2011-12 budget to the 2012-13 budget, the ongoing General Fund Support of Streets dropped from \$188,272 to \$12,505, while the TUT additional support for streets rose from \$1,000,000 to \$1,145,000. This is perhaps an indication that, rather than cutting services or personnel in other non-Public Works or Police budget areas to match what's available from other non-TUT general funds, TUT money was substituted. There was concern by the Committee that this was possibly a beginning creep of treating TUT monies just like "regular" General Fund monies, instead of the additional support the TUT monies were supposed to be.
2. In 2011/12, the ratio of TUT funds allocated to the Police Department went from 33 percent to 44 percent, then to 39 percent for 2012/13. This is important to note because, as outlined in Measure G, the TUT funds were originally intended to be split 1/3 to public safety and 2/3 to street infrastructure. However, with a few years of experience under its belt, the committee has observed that perhaps this ratio cannot be held hard and fast. The small fluctuation in the ratio may be necessary due to the fact that the Police Department's portion of the TUT monies are directly tied to funding personnel as opposed to projects and maintaining the level of service in the Police Department is heavily dependent on adequate staffing, which in turn is tied to the rising cost of employee health insurance and retirement benefits.

The committee highlights this information because it is important for the Council to remain aware during the budget process that while technically the TUT is a general use tax, the original promise of Measure G is to support public safety and public works infrastructure and to be sure TUT monies are used for those purposes because that's what the citizens of Arcata voted for.

Committee members recommend that the City continue to maintain the staffing levels in the Police Department and maintain the levels of appropriation for the Public Works Department for street improvements. In light of the ongoing statewide economic flux, which in turn contributes to the City's financial hardship, we encourage the Council to continue making decisions regarding other General Fund expenditures as if TUT did not exist and focus TUT monies on improving the City's road infrastructure and public safety services.

Conclusion

In light of the current economic conditions and instability at the state level, the Transaction and Use Tax funds have had a significant and positive effect on the financial stability of the City. These TUT funds have helped to provide a level of self-sufficiency, particularly for public safety and street improvement activities, that would have suffered if Arcata voters had not seen the need to support public safety and streets infrastructure and passed Measure G.