

MEMORANDUM

Date: November 17, 2010
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 (TUTOC) each serve a 4-year term that expires on December 3, 2012. Currently, this Committee is composed of the following members:

Kash Boodjeh, Chair	Rick Greene
Stan Elcock, Vice-chair	Robin Hashem
Bill Burton	Michael Machi
Ginger Campbell	Staff Liaison: Janet Luzzi, Finance Director

These members are long-time community members who 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 2009, the members of the TUTOC have met 3 times: April 4, September 2 and October 28, 2010.

Introduction

The TUTOC 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 may commit the increased general fund revenue generated from this tax to improving public works (streets) and public safety services.

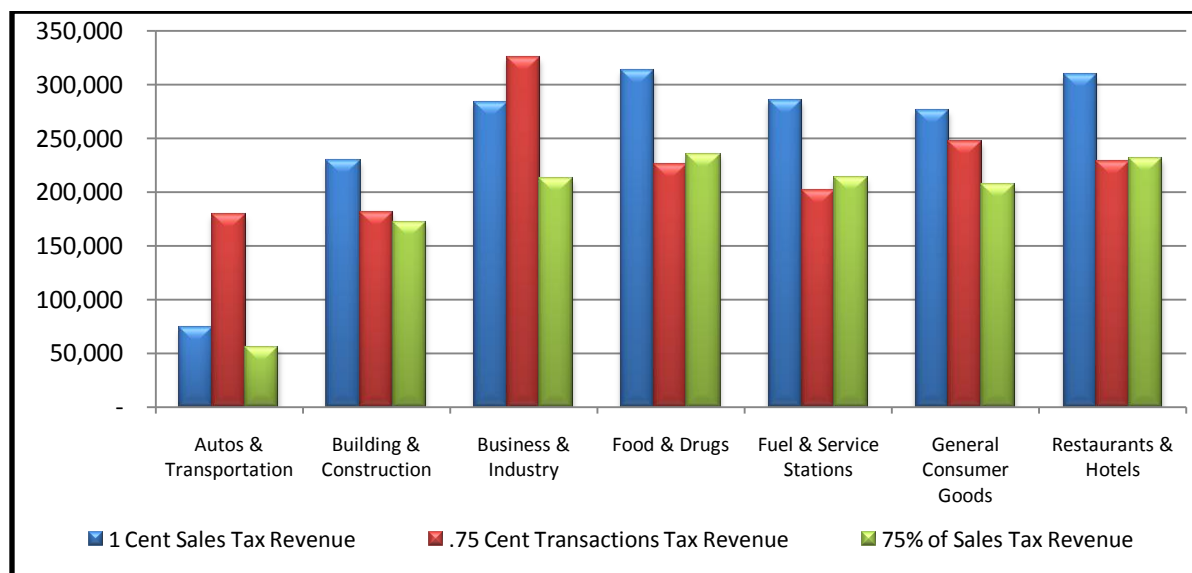
The duties of the TUTOC are as follows:

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 2009/10, the City of Arcata received approximately \$1,580,000 from the City's transactions and use tax and represents approximately 15.3 percent of the City's total general fund revenue. This is higher than budgeted estimates by approximately \$105,000. The following graphic data summarizes and compares the revenue generated by the City's TUT to sales tax by business type for fiscal year 2009/10.

	1 Percent Sales Tax <u>Revenue</u>	.75 Percent Transactions <u>Tax Revenue</u>	75% of Sales <u>Tax Revenue</u>	Percent Transactions Tax of <u>Sales Tax</u>	
Autos & Transportation	\$ 73,726	\$ 179,799	\$ 55,295	243.87%	
Building & Construction	229,240	181,764	171,930	79.29%	
Business & Industry	283,200	324,967	212,400	114.75%	
Food & Drugs	313,951	225,707	235,463	71.89%	*
Fuel & Service Stations	285,043	201,716	213,782	70.77%	*
General Consumer Goods	276,385	247,453	207,289	89.53%	
Restaurants & Hotels	308,872	228,706	231,654	74.05%	*
Gross Revenue	<u>\$ 1,770,417</u>	<u>\$ 1,590,112</u>	<u>\$ 1,327,813</u>	89.82%	
County/State Pool	124,882				
SBOE Admin Fees	(20,339)	(10,850)			
Net Revenue	<u>\$ 1,874,960</u>	<u>\$ 1,579,262</u>			



The regular sales tax in the City of Arcata is currently 8.25 percent. Of this amount the state receives 7.25 percent and the City of Arcata receives 1 percent. The City's TUT tax rate adds another .75 percent. Because the TUT rate is 75 percent 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 2009/10, the City's TUT generated approximately 89.8 percent of the revenue received from sales tax. 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 boats 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 three categories (denoted by *) for which the ratio falls below 75 percent (Food & Drug, Fuel & Service Stations, and Restaurants & Hotels). This most likely results from late filing by vendors.

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 approved. Prior to fiscal year 2009/10, the general fund was not able to support the maintenance of City streets to the extent required. The following table summarizes the amount of general fund support for street maintenance for the last five years.

	General Fund Support				
	2005-06	2006-07	2007-08	2008-09	2009-10
Ongoing GF Support of Streets	\$ 136,052	\$ 96,906	\$ 174,479	\$ 321,133	\$ 235,575
Additional TUT Funds Allocated	-	-	-	-	775,000
Total	\$ 136,052	\$ 96,906	\$ 174,479	\$ 321,133	\$ 1,010,575
Pavement Mgmt Program					\$ 662,500
Traffic Calming					25,000
Handicapped Ramps					25,000
Sidewalk Improvements					25,000
Engineering Services					37,500
					<u>\$ 775,000</u>

During fiscal year 2009/10, the City appropriated an additional \$775,000 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 were budgeted for projects included in the City's 2010 Pavement Management Program.

Projects included in the work plan for the 2010 Pavement Management Program include –

- 14th Street, from Highway 101 overpass to “J” Street
- Janes Road/Spear Avenue, from Upper Bay Road to Ribeiro Lane
- Ericson Way, from Aldergrove to Frank Martin Court
- 14th Street, from Union Street to parking lot at Redwood Park

The 2010 Pavement Management Program has been awarded to RAO Construction and is in the process of completion.

Public Safety Expenditures

TUT funds have also been appropriated for the purpose of increasing 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 increase staffing levels in the Police Department by 3 sworn officers and 1 dispatcher. The following table compares 2009/10 expenditures to those incurred in 2007/08. Fiscal year 2007/08 is the base year for comparison because this is the year that the Department was most severely understaffed.

	<u>Actual 2007/08</u>	<u>Actual 2009/10</u>	<u>Budget 2010/11</u>
Regular Salaries	\$ 1,713,975	\$ 2,064,565	\$ 2,096,496
Overtime Wages	332,562	274,008	330,200
Part-time Wages	80,220	70,127	101,500
Employee Benefits	1,085,394	1,381,571	1,457,171
Total Personnel Costs	3,212,150	3,790,271	3,985,367
Materials & Supplies	422,834	607,971	559,990
Total Operating Costs	<u>\$ 3,634,984</u>	<u>\$ 4,398,242</u>	<u>\$ 4,545,357</u>
 # of Sworn Officers	 24	 27	 27
# of Dispatchers	6	7	7
 Increase Personnel Costs over 2007/08		\$ 578,121	\$ 773,217
Increased M & S Costs over 2007/08		185,137	137,156
		<u>\$ 763,258</u>	<u>\$ 910,373</u>
 TUT Funds Allocated		<u>\$ 500,000</u>	<u>\$ 525,000</u>
 Additional TUT Funds used to cover other revenue losses due to State taking & reduction of other revenues.		<u>\$ 305,000</u>	<u>-</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) were declining. Also, because of the State's fiscal crisis, the State borrowed over \$200,000 of property tax revenue to help balance its budget. At mid-year, the City decreased its general fund

revenue estimates by \$341,500. Rather than offsetting these revenue reductions with budgetary cuts to the Police Department, TUT funds were used to offset these revenue losses.

Other TUTOC Activity

Because this was the committee's first full year in which TUT revenue and expenditures have been realized, TUTOC members spent time actively discussing, clarifying and defining the Committee's purview and responsibilities. In addition, committee members were mindful in establishing various committee protocols and procedures so that future members will have a solid foundation on which to perform their duties. The TUTOC members established scheduling guidelines for future meetings to occur in February, April, September and late October.

Staff also provided several presentations to TUTOC members during the year, including –

- Review of the City's budget as it relates to TUT revenue and expenditures;
- Review and discussion of the allocation percentages of TUT funds between streets (2/3) and public safety (1/3)
- Reviewed ways to ensure that TUT funds are used for purposes outlined in Measure G (streets and public safety)
- Review of historical data regarding general fund support of streets, the level of sworn personnel and associated costs in the Police Department;
- Review of the City's pavement management plan to learn about the general concept and how it is used to develop annual paving projects;
- Review of options for debt financing to provide funds for street improvements;
- Review of the City's reserve policy to determine the extent to which TUT revenue is included in the reserve policy.

Committee Recommendation of Future General Fund Expenditures

Committee members encourage the City to continue to maintain the staffing levels in the Police Department; and maintain the levels of appropriation for the Public Works Department for street improvements.

Conclusion

The Transactions and Use Tax funds have significantly positively affected the financial stability of the City in the face of the current economic conditions and instability at the state level, helping to provide some level of self sufficiency, particularly for public safety and street improvement activities.