



STAFF REPORT

TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL
MEETING DATE: JANUARY 21, 2025
FROM: TOM DUBOIS, CITY MANAGER
SUBJECT: LOCAL TRANSACTION AND USE TAX PLANNING

RECOMMENDATION: Discuss implementation details of the local Transaction and Use Tax (TUT) and parameters for managing it.

BACKGROUND:

Thanks to the support of the voters of Sutter Creek, a new 1% TUT tax goes into effect on April 1, 2025. All paperwork has been completed with the State of California. The State will be notifying businesses and begin collecting the tax for us (the City will also begin communicating the upcoming change).

Several implementation policies should be determined:

1. **Allocation of Funds:** During discussions about the tax throughout 2024 and as a result of scientific polling the city commissioned, multiple uses of the TUT were identified and prioritized. Council should give direction on TUT allocation for the last quarter of FY24-25 and for the upcoming FY25-26 Budget
2. **Council Oversight and Review Frequency:** The TUT is a general tax going into the general fund. The Council could specify how frequently the TUT policies will be reexamined by future councils. It could be done annually, every other year, some longer period of time, or only when requested.
3. **Oversight Committee:** While not part of the ballot measure, the Council voluntarily decided to create an oversight committee to provide additional transparency about how the TUT will be managed and allocated. However, no details of how that will function have been specified. The council should determine how many members this committee will have, whether they be Brown acted or not (if selected by Council they would be a Brown Act committee), what role they will play, and other expectations.

Each of these areas is discussed in more detail below.

DISCUSSION:

1. Allocation of Funds

While each council member has personal opinions of the right balance of use of funds, we need to determine a method for setting an allocation of funds to needs. The City commissioned a statistically representative survey of all voters back in March, 2024. Results are shown in Attachment A. The last slide summarizes that street repairs, storm drains emergency response time, crime prevention and wildfire prevention were most highly valued. Matching funds for grants and accountability were highly valued.

During election season, several council members were actively engaging the community. Tonight, we are asking for a majority decision on allocation between multiple possible buckets.

Council should consider the multiple needs of the City as well as differing opinions amongst all voters. Funding for streets has clearly been a top priority. Less visible until we have flooding is the need to improve storm drain infrastructure. Wildfire risk remains high and the city wants to improve vegetation management to reduce risk. Public safety is a top concern of residents, and we do not have a solid practice to management the police car fleet. Finally funds for matching grants will give the city some flexibility to pursue opportunities based on available State and Federal funds.

Council policy could be highly specific, with a % for each category. For example, the policy could be “Allocate the TUT annually as follows, 70% to streets, 10% to storm drains, 10% to vehicle reserve, and 10% to Matching Grant Fund reserve”.

Or the policy could be more directional to guide the creation of the budget, which could vary somewhat year to year based on other sources of funding available. For example, “Allocate the TUT annually prioritizing Streets first and then other TUT categories (Storm drain, fire reduction, Vehicles, Grants). Review with oversight committee and Council annually as part of the budget process”

The allocation decision is related to the frequency with which Council reviews the allocation policy – in ten years, the allocation priorities could well change, so a fixed assignment for a long period of time will likely not work very effectively.

2. Council oversight and review frequency

Most city policies are crafted to last for a long time, to avoid spending excessive time reviewing and changing policies. Having a policy can help guide and remind future councils what the intent was when the policy was put in place. Any policy can be overridden by a future council. Given the size of the city, a policy check-in every two years seems reasonable, perhaps longer if the policy has some built-in flexibility. The budget process should always provide a check-in point as the plan to use the revenue will be reviewed and approved by council at that time. Council should discuss and recommend a frequency for the TUT policies to be reviewed by Council.

3. TUT Oversight Committee

Council should discuss the scope and responsibilities of an oversight committee. As the City’s elected representatives, decision making power is likely best remaining with the Council.

Council should determine how many members are on the committee, how they are selected, whether they will meet independently of the Council, what their responsibilities are, and how they will be organized.

Staff’s expectation is that the use of the TUT will be determined as all other city revenue is decided. It will be dedicated to certain uses during the budget process. Once the budget process is complete, there will not be any changes without a budget amendment approved by City Council. So once the budget is set, the TUT Oversight Committee will not have anything to do until the following budget cycle.

Parameters:

- Number of members – Staff suggests an odd number such as 3 or 5.
- Selection - If Council selects the members of the committee, the committee itself will be Brown-acted, requiring public noticing and public meetings. If Council was to make recommendations to the City Manager, and the City Manager appoints the committee, then it does not have to be Brown Acted.
- Frequency of Meetings – Staff proposes the Oversight Committee be sent budget planning documents ahead of time and then be invited to Council meetings where the TUT is being discussed for the budget. Council can then check with them that they are satisfied funds are being allocating according to community expectations. They would not meet separately from Council as proposed.
- Responsibilities – They would be purely advisory to Council, without independent decision-making power. Council could poll them and also question them during a Council meeting.
- Organization – As proposed, the TUT Oversight Committee would not have any structure. If Council desires them to meet as an independent body, Staff suggests they self-elect a chair and operate their meetings similar to Council and the planning commission using Roberts Rules of Order.

If Council does not agree with the staff proposal, Council should ensure that the questions are answered, particularly in regards to scope and responsibilities.

BUDGET IMPACT: It is anticipated that the TUT will provide an ongoing revenue source for key priorities of the city. Specific uses will be identified and discussed during the annual budgeting process. The more process required to manage the TUT Oversight Committee, the more staff time it will take.

ATTACHMENT: Sutter Creek Survey Analysis