

Date: July 20, 2022

Honorable Mayor and Council Members:

Title: **Ready Nevada County: Preparing for the Future Tax Measure**

Approved By: _____ Jen Callaway, Town Manager

Recommended Action: Discuss and Provide Feedback and/or Direction to Staff

Background:

In Spring 2022 Nevada County staff invited Town staff to join a CEO Roundtable discussion about a general sales tax measure referred to as “Ready Nevada County: Preparing for the Future” which would be considered by the Board of Supervisors this summer for placement on the November ballot. Should this measure be placed on the November ballot for voter consideration as a general tax, it would require approval from a simple majority of those voting (i.e. 50% + 1). The measure is a ½ percent sales tax that would continue until ended by voters. The County projects that the measure would generate approximately \$12 million annually.

Town staff, the Town Manager, Public Works Director and Emergency Management Coordinator joined staff from Nevada County, Grass Valley, Nevada City, Truckee Fire Protection District, Nevada County Consolidated Fire District, Nevada County Sheriff’s Office, and CalFire personnel to discuss the proposed measure, equitable distribution of funds and supported use of the funds. In some respects, the proposed measure is similar to the Town’s Measure K fund, in that it is a general tax and therefore could be used for any general purpose. However, the County is proposing to make a non-binding designation of the funds to the following purpose and guiding principles:

Purpose: *“Create a countywide Community Emergency Services Disaster Preparedness Fund” to save lives, reduce the threat of wildfires, and improve all-hazards disaster readiness and evacuation safety.”*

Guiding Principles:

1. *“Prioritize projects and programs with maximum impact and likelihood to reduce risk and save lives*
2. *Focus on projects that improve evacuation safety*
3. *Embed shared services as a force multiplier in every term*
4. *Support neighborhood stewardship and readiness, especially of seniors and people with disabilities*
5. *Ensure accountability, transparency, and regional equity”*

With this in mind, the expenditure plan is proposed to make allocations that fall within four areas: (1) Planning/Preparedness/Prevention; (2) Mitigation; (3) Response; and (4) Recovery. The County has proposed the creation of a Technical Advisory Committee (TAC) to review and make recommendations to the Board of Supervisors on annual use of the funds in all four categories above, based on future planning documents that would be generated by the County. In addition, a Citizens Oversight

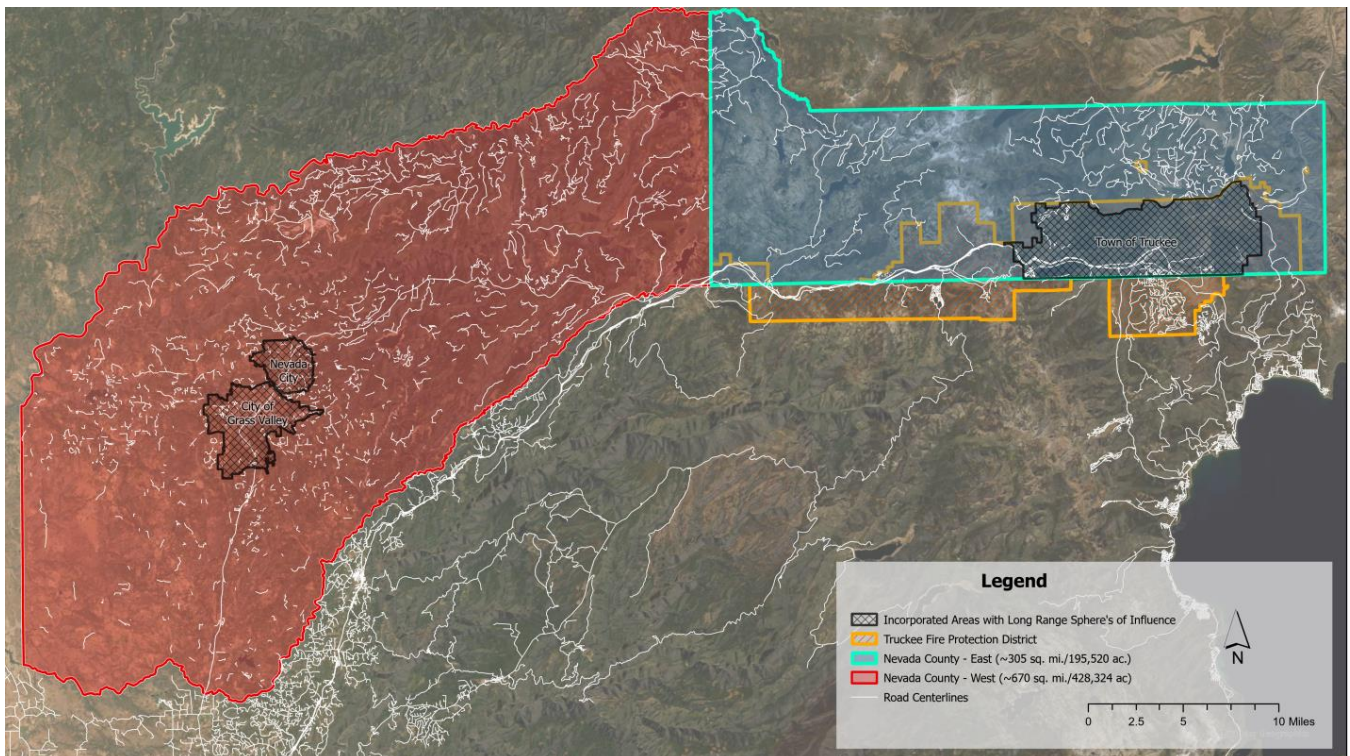
Committee (CAC) would be established to report on the receipt of the sales tax and allocation of funds per expenditures plans. The CAC would not weigh in on spending priorities nor direct staff or officials.

Discussion:

The CEO’s roundtable convened four times since April as a group with several individual conversations to discuss the potential tax measure, expenditure plans and return to source/equitable distribution methodologies and commitments. As of the writing of this staff report, no agreements or commitments have been made as to return to source and local control of funds. However, staff felt it was important to elevate this to Town Council for discussion and feedback, and possible direction to staff to share with County personnel as this is expected to go before the Board of Supervisors for approval to place on the ballot in early August 2022.

Nevada City, Grass Valley and Town of Truckee proposed to County staff that direct allocations be made to each local jurisdiction to spend in accordance with the four funding buckets but at the discretion of the local jurisdiction. The proposal was to have direct allocations based on population percentages in each area. The Town of Truckee population is 17% of the County population. Thus, the Town asked for a direct allocation of 17% of total receipts collected which would be approximately \$2 million annually. In addition, the Town asked that 30% of total receipts (inclusive of the 17% direct allocation to the Town, i.e. an additional 13% of receipts) be committed and spent in “eastern” Nevada County, as defined by the Town and illustrated in Exhibit A below. As illustrated, eastern Nevada County, as defined by Town staff, is approximately one-third of the entire county area. The 30% recommendation was based on the fact that approximately 30% of the revenue from this measure would be generated and collected in the eastern Nevada County area.

Exhibit A: Town of Truckee Proposed Eastern/Western County Split for equitable distribution of tax funds



In discussions with County staff, there was some suggestion that a direct allocation could occur, but the spending of those funds would be directed by the County or TAC, rather than at the discretion of the

local jurisdiction. Most recently, the county proposed the concept of establishing a separate eastern county TAC to approve expenditures in eastern Nevada County with a direct allocation to the Town of Truckee of \$720,000 (approximately 6% of expected yearly receipts) and a commitment that 20 to 25% of funds would be spent in the eastern portion of the county with the boundaries established in Exhibit A above. No further information has been provided at this time as to how the \$720,000 was determined, if it is an annual flat allotment of \$720,000 or 6% of receipts, as County staff is still working through details of this. In addition, there has been discussion of a memorandum of understanding (MOU) which would memorialize the terms, conditions and commitments of a direct allocation and discretion of spending but nothing has been agreed to or developed at this point. It should be noted that since this would be a general tax, unless there is a binding MOU or other agreement as to how the funds will be spent, the Board of Supervisors could decide at any point in the future to spend some or all of the funds for entirely different purposes, unrelated to emergency services or disaster preparedness.

While it is difficult to provide recommendations of either support or opposition to this measure based on the unknown information related to direct allocation, MOU terms, etc., it is important for the Council and the community to be aware of this potential tax measure and provide feedback to Town staff. This is particularly true considering recent conversations about funding priorities with the general plan update, and how approval of the County's tax could limit the Town's options for submitting future sales taxes for the consideration of Truckee voters.

During the discussion on July 19, 2022, the Council and Planning Commission expressed interest in funding prioritizing for climate initiatives and incentives as well as mobility and active/alternative transportation enhancements such as microtransit. One potential mechanism to achieve funding for climate incentives and mobility expansion would be a sales tax measure. The combined tax rate of all local sales taxes in any county is generally not allowed to exceed 2.00 % locally for a total combined sales tax cap of 9.25% (7.25% statewide tax rate plus 2.00% local tax rate). This is a statutory restriction, but the California Legislature routinely allows some local governments, through the adoption of separate legislation, to exceed the 2.00 % local tax rate cap. There is a process to go through to gain this approval, which can be time-consuming and uncertain. As of April 1, 2022, 140 of the approximately 450 California local jurisdictions have a combined sales tax rate in excess of the 2.00 % local tax rate cap. Those jurisdictions are located in the following counties: Los Angeles, Alameda, Contra Costa, San Mateo, Santa Clara, Sonoma, Monterey, and Santa Cruz. For the full list of jurisdictions with caps above 2.00 % please see Attachment 1.

The Town of Truckee's current tax rate is 8.25%. In June, the Town voters renewed the Town's trails tax and increased the tax by 0.25%. This will go into effect in 2024 and increase the Town's sales tax to 8.50%. The County's proposed tax is a 0.50% sales tax and if placed on the ballot and approved, the Town's tax rate would be 9.00% after 2024, leaving only 0.25% left within the tax cap for local funding without asking for a cap increase from the Legislature. It is important to note that other taxing mechanisms or revenue options could be available for Council and community priorities such as transient occupancy tax, parcel tax, user fees, etc., but future sales tax increases could be challenging if not impossible given the tax cap and 0.25% increment that would remain should the County tax be approved. For reference, the Town surveyed similar mountain towns (Mammoth Lakes and Big Bear Lake) as well as our comparator agencies used for the Town's employee compensation study to determine existing sales tax rates in those communities. A summary of these findings can be found in Exhibit B below. It is important to note that recently approved sales tax measures may not be incorporated into the summary.

Exhibit B: Summary of Similar Agencies Current Sales Tax Rates

Jurisdiction	Rate
City of Davis	8.25%
City of Elk Grove	7.75%
City of Folsom	9.20%
City of Grass Valley	8.50%
City of Livermore	10.25%
City of Pacific Grove	8.75%
City of Petaluma	9.50%
City of South Lake Tahoe	8.75%
Unincorporated County of El Dorado	7.25%
Nevada City	8.38%
Sacramento	7.75%
City of Mammoth Lakes	7.75%
City of Big Bear	7.75%
Average	8.45%
Median	8.38%
Max	10.25%
Truckee	8.25%

To reiterate, while the Town’s current sales tax is listed at 8.25%, the following should be noted and considered:

Truckee current sales tax:	8.25%
Measure R (Effective 2024) (Trails renewal and 0.25% increase)	0.25%
<u>Proposed County Tax</u>	<u>0.50%</u>
Total Potential Town of Truckee Sales Tax after 2024	9.00%

It should also be noted for Council and community consideration that in light of the recent passage of Measure T, the Fire District’s local parcel tax for fire preparedness and mitigation which generates \$3 to \$3.5 million per year , the Town staff has worked closely with Truckee Tahoe Fire Protection District staff, Chief Seline and Chief McKechnie, on possible uses of the future county sales tax funds and direct allocation requests. Thus far, the Town and Fire District have been in alignment with requests to the County.

It should also be noted that the County conducted community surveys and polling in fall of 2021. The polling consisted of 200 surveys that showed over 60% support for a tax measure.

With this information, staff recommends that the Council consider and discuss the following:

- A. Is the Council supportive of this use of “sales tax capacity” in Truckee?
- B. If the Council is not supportive of the tax measure (which has no sunset date), would the Council be supportive if it did contain a sunset date?

- C. If the Council is not supportive of a county tax measure, is it because of potential tax cap limitations?
- D. If the Council is not supportive of the tax measure, would the Council be supportive if there were a mechanism to pass a portion of the revenue back to the Town which would then be controlled by the Town Council?
- E. If Council is not supportive, are there conditions or circumstances that would allow you to be supportive that you can provide feedback and direction to Town staff to share with County staff?
- F. If Council is supportive, are there conditions in terms of return to source and MOU terms that you would like to provide feedback on?
 - a. Is 17%, or allocation based on population, a fair direct allocation request?
 - b. Is \$720,000 a fair direct allocation request?
 - c. Is there agreement that spending of any direct allocation amount should be at the discretion of the local jurisdiction as long as spending is in alignment with the four areas of planning/preparedness/prevention, mitigation, response and recovery?
 - d. Is there agreement that an MOU is needed to outline agreed upon terms?
 - e. Are there any specific requirements you would like to see in an MOU?
- G. Does the Council want Town staff to provide comments to the Board of Supervisors indicating either Town support, qualified support, or opposition to, the proposed tax, or does the Council prefer to stay neutral on the proposed County tax at this point given the limited information that is available?

Recommendation: Staff is aware that there is very little detailed information to share for the proposed tax, however, to help guide staff's discussions with County staff it is helpful to have Council feedback and give Council an opportunity to discuss as a board. Staff's current expectation is that the County Board of Supervisors will be presented this item in August for consideration of placing it on the November ballot.

Priority:

- | | | |
|--|--|---------------------------------------|
| <input type="checkbox"/> Enhanced Communication | <input checked="" type="checkbox"/> Climate and Greenhouse Gas Reduction | <input type="checkbox"/> Housing |
| <input type="checkbox"/> Infrastructure Investment | <input type="checkbox"/> Emergency and Wildfire Preparedness | <input type="checkbox"/> Core Service |

Fiscal Impact: None at this time. Potential sales tax capacity for future council and community priorities.

Public Communication: This staff report and agenda publication.

Attachments:

1. List of California Cities with sales tax above 9.25%