

## TOWN OF FAIRFAX STAFF REPORT

**To:** Mayor, Members of the Town Council  
**From:** Michael Rock, Town Manager   
**Date:** June 22, 2011  
**Subject:** Discussion/Consideration of a local sales tax in the Town of Fairfax

### RECOMMENDATION

1. The Town Council approves one of the following options for the amount of the local sales tax: (a) one-half percent (1/2%) sales tax (b) a three quarters of one percent (3/4%) sales tax (c) a one percent (1%) sales tax
2. The Town Council directs staff to prepare the ballot language for a five year general local sales tax, obtain Board of Equalization (BOE) approval for same, and return to Council with a proposed Resolution to submit the measure to the voters.

### DISCUSSION

The Town Council has been discussing the possibility of a local sales tax for the past four months at Town Council meetings. The Town has also met several times with the Chamber of Commerce and made a presentation on a community discussion of a local sales tax. In spite of budget reductions by each of all of our Town's departments over the last two years, the Town budget is not sustainable for the long term without further cuts in expenditures and new revenues. Both property and sales tax revenues have decreased over the last four years and expenditures have increased significantly, particularly in the area of health care and retirement costs for employees. We are currently negotiating with all of our bargaining units in order to decrease those expenses. Given the magnitude of the current economic recession, however, we cannot balance our budget by employee concessions alone.

The Town has few revenue generating options. We have just raised our permitting fees to actually match what it costs the Town to perform the services. The Town receives a small portion of property taxes (18%), which have been reduced through reassessments, while expenses go up. And we receive only 1% of the existing sales tax (about \$330,000 per year) which has been declining for the last three years. The Town is trying to find ways to spread the burden around and not put it all on our residents and home owners. A sales tax is a small way to have people from outside Fairfax help foot the bill for the town they enjoy visiting and patronizing. We assume that merchants will not take this as a hit for themselves, but pass it on to their customers. One half of one penny on each dollar (about \$150,000 per year and all going directly to the Town) seems easier to swallow than some of the other options that have come our way.

Under state law, a general tax (i.e., where the revenue is not reserved for a specific purpose and may be used by the Town for general governmental purposes as identified through the annual budget process) may only be submitted to the voters by a municipality at the same election which elects members of the legislative body. Since the Town Council election is this November that will be the last opportunity to propose a general tax for two years. As we have discussed, the advantage of seeking a general tax is that it requires only a majority

**AGENDA ITEM #**

voter approval as opposed to two-thirds for a special tax (i.e., one where the revenues are dedicated for a particular purpose. Under the election calendar set by state law (attached as Exhibit B), the last day to file the request for consolidation of the election for the tax with the November, 2011 election is August 12, 2011. Therefore, we recommend that if the Council wishes to proceed, that it considers the resolution submitting the tax to the voters at its July 13 meeting.

Under state law, the ballot language must be approved by the BOE, which administers collection. The Town Attorney has experience obtaining such approval, which should take a few days or a week to obtain. State law allows the Town some flexibility in drafting the precise ballot question, provided that it does not exceed 75 words. Here is are two samples based on a recent proposal in other municipalities – one is simpler and includes only required terms, the other includes a title and more descriptive information that is designed to provide more information for voters about the context of the tax:

- (a) Shall an ordinance be adopted to enact a \_\_\_\_ cent transaction and use tax in the Town of Fairfax for a period of five years, subject to annual independent audits, public expenditure reports and local use of all funds?*
- (b) The Fairfax Vital Town Services Emergency Protection Measure. To offset declining property tax revenues and severe state budget cuts and to prevent drastic cuts to general Town services, shall an ordinance be adopted to enact a \_\_\_\_ cent transaction and use tax in the Town of Fairfax, subject to annual independent audits, public expenditure reports and local use of all funds?*

For your information, here are the estimated revenue streams based on the amount of the local sales tax:

- (a) One half percent (1/2%) local sales tax will generate approximately \$150,000 per year
- (b) Three quarters (3/4%) local sales tax will generate approximately \$225,000 per year
- (c) One percent (1%) local sales tax will generate approximately \$300,000 per year.

### **ATTACHMENTS**

Attachment A: Local Sales Fact Sheet  
Attachment B: Election Calendar

## FAIRFAX SALES TAX FACT SHEET

### What is a local sales tax?

A local sales tax is a (half-cent) sales tax to purchases made within the Town of Fairfax limits on retail taxable goods. This sales tax hike will put the total sales tax charged on services and goods sold within the city to 9.50%. A typical time frame for a local sales tax will is anywhere from five to ten years. All revenues collected from this local sales tax stays in Fairfax!

### Why does Fairfax need a local sales tax?

The Town is facing a \$350,000 budget shortfall. The budget shortfall is a structural deficit that will have to be addressed later this year when the Town Council adopts the fiscal year 2011/12 budget. The causes are steep annual increases in health care and retirement costs for Town employees. Adding to the structural deficit is the fact that property tax and sales tax revenues have declined for the last three years.

Without making any changes to the expenditures and revenues the Town budget is not sustainable.

Pensions: The recession hit a number of investment accounts very hard, the State of California and most local government pensions were hard hit in the stock market crash of 2008. To make up the 34% loss to the stock market in 2008 CalPers has raised the retirement contributions for all public pensions.

Health Care: The cost of health care has been rising steadily for many years and is averaging about an 8 percent increase every year. This is not sustainable even in normal economic times because in normal years the Town adds about 3-5% per year in increased revenue.

### What has the Town done to cut expenditures?

Many sacrifices by Town employees have already been made and more are needed

Cost of living and other wage cuts: The Town runs a very tight ship (no frills), providing top notch police, fire, road work, park maintenance, planning, building inspection, code enforcement and other public services with smaller staff and wages that are below other salaries and benefits in Marin towns.

### **Sacrifices:**

Wage Freezes and Vacant positions: Town staff has been on a wage freeze for three years, and currently have three key positions unfilled,

More wage cuts in FY 2011/12: The Town is beginning to negotiate with our bargaining units to give up even more compensation. New labor agreements will be in place this summer.

**Town of Fairfax  
Tentative Schedule for Election to Establish  
Local Transaction and Use Tax  
(November 8, 2011 Election)**

<b>Step</b>	<b>Action</b>	<b>Statutory Deadline</b>	<b>Proposed Date</b>
<b>1</b>	<p>Town Council Considers resolution (1) submitting a ballot measure* (ordinance) for proposed tax to voters for enactment and (2) requesting election to be consolidated with statewide election and authorizing County Board of Supervisors to canvass returns of election.</p> <p>Note: County Board of Supervisors may deny request for consolidation</p>	<p>At conclusion of hearing.</p> <p>Election day must be (i) at least 88 days after order of election and (ii) for a general tax, on a regularly scheduled general election for members of Town Council, except in cases of emergency declared by unanimous vote of Town Council.</p>	July 13 or July 27, 2011
<b>2</b>	File with County Board of Supervisors and Registrar of Voters resolution requesting consolidation.	At least 88 days before election.	On or before August 12, 2011
<b>3</b>	Town Attorney prepares impartial analysis of ballot measures.	No more than 14 days after call of election.	On or before August 10, 2011
<b>4</b>	Authorized members of Town Council or any voter who is eligible to vote on the measure may file a written argument for or against measure	No more than 14 days after call of election.	On or before August 10, 2011
<b>5</b>	Author of written arguments may submit a rebuttal to arguments in opposition to author's argument.	No more than 10 days after deadline for arguments for or against measure.	On or before August 20, 2011
<b>6</b>	<p>Publish or post notice of synopsis of measure.</p> <p>Publish in newspaper of general circulation or if none, conspicuously post notice in at least three public places in Town no later than one week before election.</p>	No later than one week before election.	On or before November 1, 2011

Step	Action	Statutory Deadline	Proposed Date
7	Hold Election.	<p>Election day must be at least 88 days after order of election.</p> <p>Election for a general tax must be on regularly scheduled general election for members of Town Council, except in cases of emergency declared by unanimous vote of Town Council.</p>	November 8, 2011
8	Certificate of election issued by County in conjunction with statewide election.	Certified statement of results of election must be submitted to Town Council within 28 days of election.	On or before December 6, 2011
9	Town Council adopts resolution declaring results of election.	At next regularly scheduled Town Council meeting following presentation by County of certificate of election.	

\*Note: Ballot language must be approved in advance by State Board of Equalization (BOE).