



MEMORANDUM

Date: August 26, 2025
To: Transactions and Use Tax Oversight Committee
From: Tabatha Miller, Assistant City Manager/Finance Director
Re: Annual Transactions and Use Tax (Measure G) Update

Committee Members

Currently, the Transactions and Use Tax Oversight Committee (TUTOC) is composed of the following members, each serving a 4-year term:

<u>Member</u>	<u>Term Expires</u>
Guy Alain Aronoff	2026
Jeff Knapp, Chair	2026
Steve Cole, Vice Chair	2028
Open Position	2026
Robin Hashem	2026
Josh Wolf	2028
Colin Fiske	2028

Staff Liaison: Tabatha Miller, Assistant City Manager/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.

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 transaction and use tax (TUT) 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 Streets and Public Safety services.

The duties of the TUTOC are as follows:

1. Review prior year General Fund support of 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 next fiscal year in the Streets and Public Safety activity budgets.

3. Review and make recommendations on other General Fund matters as the City Council may direct through resolution.

On March 5, 2025, the City Council adopted Resolution No. 245-37, which directed the TUTOC to provide fiscal accountability for the additional three-fourth of a cent Transactions and Use Tax (TUT) approved by the voters on November 5, 2024.

Transactions & Use Tax Revenue

For fiscal year (FY) 2024-25, the City of Arcata received \$2,979,490 after fees of \$13,377, from the City's transactions and use tax, which represents approximately 13 percent of the City's total General Fund revenue. The revised budget for fiscal year 2024-25 is \$2,800,000 and revenues exceeded the budgeted amount by \$179,490. The following graphic data summarizes and compares the estimated revenue generated by the City's TUT to sales tax by business type for FY 2024-25.

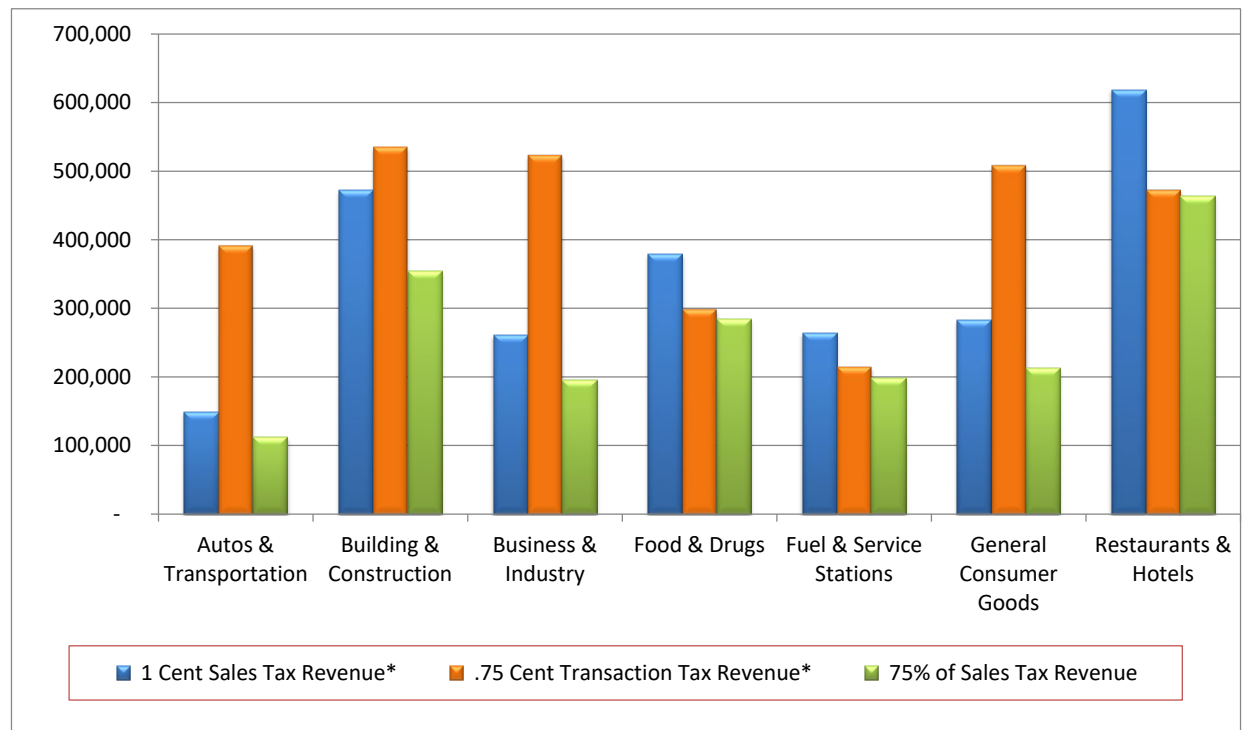
Table 1: Tax Revenue by Business Type

Industry Group*	1 Cent Sales Tax Revenue	Transaction Tax Revenue**	75% of Sales Tax Revenue	Favorable (Unfavorable) Variance	Transactions Tax of Sales Tax
Autos & Transportation	149,313	392,066	111,985	280,081	263%
Building & Construction	472,824	535,723	354,618	181,105	113%
Business & Industry	261,298	523,752	195,974	327,779	200%
Food & Drugs	379,504	299,287	284,628	14,659	79%
Fuel & Service Stations	264,408	215,486	198,306	17,180	81%
General Consumer Goods	283,072	508,787	212,304	296,483	180%
Restaurants & Hotels	619,027	472,873	464,270	8,603	76%
Transfers & Unidentified	6,221	44,893	4,666	40,227	722%
Gross Revenue	2,435,667	2,992,867	1,826,750	1,166,117	123%
County/State Pool	675,019				
Total Revenue	3,110,686	2,992,867	96%		

* Final Revenue by Industry Groups is estimated based on projections from Qtr 1 2025.

**Excludes \$13,377 in administrative fees withheld by the CA Dept of Tax and Fee Admin

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



Effective April 1, 2025, the total sales tax rate in the City of Arcata is 10.25 percent.

Table 2: Current City of Arcata Sales Tax Breakdown

State General Fund	3.9375%
County Realignment	1.5625%
County Public Safety	0.5000%
Humboldt Co Transportation	0.2500%
Humboldt Co Measure Z	0.5000%
Humboldt Co Measure O*	1.0000%
Arcata Sales Tax	1.0000%
Arcata Measure G	0.7500%
Arcata Measure H*	0.7500%
Sales Tax Rate in City of Arcata	10.2500%

**Approved by the Voters on November 5, 2024 and effective April 1, 2025.*

Because the City's two TUT rates are 75 percent each of the City's portion of the sales tax rate, one would expect the percentage of each TUT measure to sales tax revenue to be 75 percent. For estimated results from fiscal year 2024-25, the City's TUT generated approximately 96 percent of the revenue received from sales tax before other adjustments. This is up from 92 percent in FY 2023-24 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. As a result, 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. Notably, Cal Poly Humboldt has two significant construction projects that have contributed to the City's TUT because materials are delivered to Arcata. The City does not typically receive the same sales tax amount on these materials, if the supplier is not located in City limits. Categories for which the ratio falls below 75 percent (none are present for FY 2024-25) result in taxable sales that were delivered outside of the City's taxing district.

The table below compares the revenue received for the past seven years. For the fiscal years from 2018-19 to 2019-20, revenue increased at a low but steady rate. In FY 2020-21, the City experienced a significant increase in TUT and Sales Tax revenue, as spending and local outdoor-based travel responded to the changing pandemic regulations, supply chain and market conditions. In FY 2022-23, we saw a post-pandemic decrease, but TUT and Sales Tax revenue remained above the pre-pandemic levels. FY 2023-24 resulted in an increase of 4.1 percent over FY 2022-23, and FY 2024-25 exceeded original projections at 5.4% above FY 2023-24, moving TUT and Sales tax revenue above pandemic levels. Current FY 2025-26 projection is conservatively budgeted at \$2,725,000, while FY 2026-27 through FY 2029-30 is projected to experience minimal to moderate growth (.3% to 3.1%).

Table 3: Tax Revenue Comparison

Industry Group*	2018-19**	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Autos & Transportation	\$ 303,764	\$ 269,570	\$ 363,363	\$ 322,974	\$ 323,096	\$ 367,579	392,066
Building &	286,349	290,902	342,681	294,226	382,122	466,165	535,723
Business & Industry	433,620	423,190	528,329	523,792	447,667	509,581	523,752
Food & Drugs	290,285	291,537	313,585	246,837	316,255	294,696	299,287
Fuel & Service Stations	300,282	227,288	252,486	224,372	271,233	208,332	215,486
General Consumer	375,191	411,494	535,104	810,119	520,561	497,953	508,787
Restaurants & Hotels	412,675	327,688	346,037	346,405	429,042	461,388	472,873
Unidentified	10,228	16,990	28,668	74,722	42,982	33,083	44,893
Gross Revenue	\$2,242,494	\$2,258,659	\$2,710,253	\$2,843,447	\$2,732,958	\$2,838,777	\$2,992,867
Administration Cost	(15,860)	(13,470)	(13,250)	(17,310)	(16,940)	(11,190)	(13,377)
Net Revenue	2,226,634	2,245,190	2,697,004	2,826,137	2,716,018	2,827,587	2,979,490

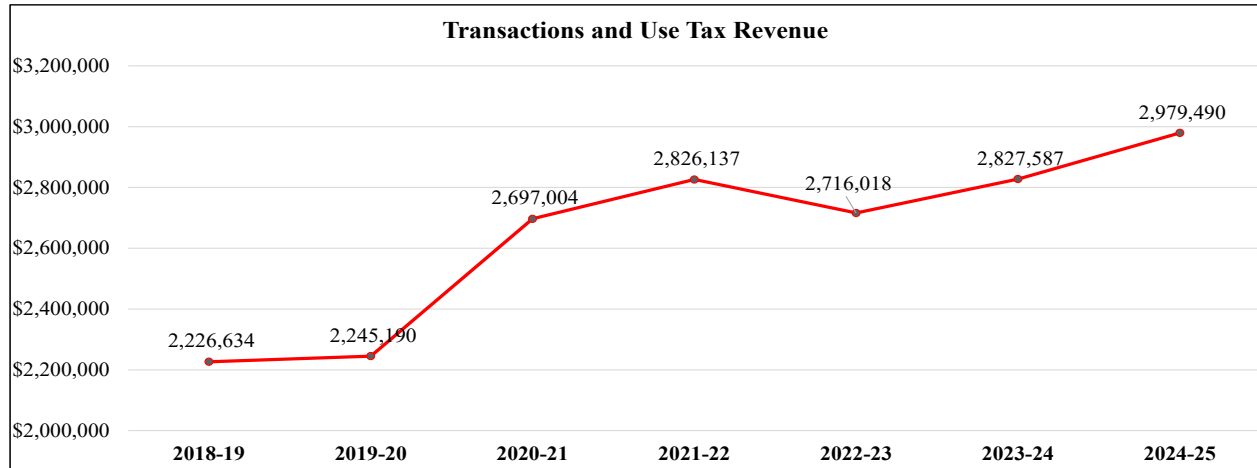
* Final Revenue by Industry Groups is estimated based on projections from

** Includes \$169,900 advance in, and removal of advance in subsequent period. Gross

The chart on the next page compares the annual Transactions and Use Tax revenue received by the City over the past seven years.

Chart 2: Tax Revenue Comparison

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Revenue (Actual)	2,226,634	2,245,190	2,697,004	2,826,137	2,716,018	2,827,587	2,979,490
Revenue (Budget)	2,341,000	2,180,000	1,913,000	2,549,451	2,630,000	2,726,000	2,925,000
		0.8%	20.1%	4.8%	-3.9%	4.1%	5.4%



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 necessary or at a level which met the community's expectations.

For 2024-25, the City appropriated \$2,645,651 of General Fund revenue for Street Improvement Projects and spent \$2,105,576. The City Engineer will provide an update on FY 2024-25 and FY 2025-26 projects in his report to the committee, on September 11, 2025.

Public Safety Expenditures

TUT funds are also budgeted 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 has been understaffed due to under-allocation of personnel, injuries, or the inability to retain officers, and difficulty in filling vacancies. This resulted in difficulty providing adequate levels of service throughout the entire City, and excessive overtime for employees.

On April 19, 2023, the City Council approved an extraordinary \$50,000 bonus program for lateral police officer hiring and a 3-year \$22,500 retention bonus program for current officers. The Department's existing hiring bonus of \$15,000 for lateral Officer candidates had not resulted in the number of hires needed to keep pace with departures and to restore vacant positions. In 2025, the City Council renewed the \$50,000 bonus program for lateral police officer hiring.

Since implementation of the new bonus program, the Department has reached full staffing levels (27 sworn officers including the Chief) and has even filled one over hire positions but has been unable to consistently maintain those staffing levels over the long-term. The extension of the

\$50,000 lateral bonus program and budgeting for temporary over hires in the department are efforts to keep the Department at full staffing levels.

Revenue Allocation Between Public Safety and Streets Infrastructure

During the promotion of Measure G, the TUT funds were originally to be split 1/3 to Public Safety and 2/3 to Street infrastructure. However, this ratio has been applied more flexibly over time and for the prior 10-year period reflects actual spending of 47% on Streets and 53% on Public Safety. This has shifted in the last two years from a 40/60 split (Streets/Public Safety). While street improvements can be done on a project-by-project basis, the Police Department's portion of the TUT monies are directly tied to funding personnel with its ever-rising costs of employee health insurance and retirement benefits. A significant fluctuation in the ratio may be necessary in order to maintain adequate public safety staffing.

Two years ago, the TUTOC recommended that the City Council focus on shifting the expenditure of TUT monies closer to the 1/3 Public Safety and 2/3 Street infrastructure with a particular focus on implementation of the City's Complete Streets Policy. Actual FY 2024-25 expenditure of Measure G was \$2,105,576 for Streets Infrastructure and \$873,914 for Public Safety. This was a split of Measure G revenue of 71% for Streets and 29% for Police. For FY 2025-26, the City has budgeted Measure G revenue of \$1,752,915 (64%) for Streets and \$972,085 (36%) for Police. This is consistent with TUTOC's recommendation.