

STAFF REPORT

Business Agenda Item

DATE: April 6, 2026

TO: Honorable Mayor and Council Members

FROM: Aaron Felmlee, Finance Director

SUBJECT: EMC Research Regarding a Potential Local Sales Tax Measure and Next Steps

STAFF RECOMMENDATION:

Receive the report on public opinion research conducted by EMC Research regarding a potential local sales tax measure and provide direction to staff.

BACKGROUND:

The City of Fortuna has experienced several consecutive years of structural financial challenges driven primarily by stagnant or declining revenues and rapidly increasing operational costs—particularly for public safety, insurance, and core community services.

Since Fiscal Year (FY) 2021–22, revenue sources that historically grew modestly each year have instead flattened or declined. Simultaneously, cost drivers outside the City's control—especially liability insurance—have increased substantially, resulting in a widening budget gap.

To better understand voter attitudes toward these challenges and gauge the feasibility of a future sales tax measure, the City commissioned EMC Research to conduct a statistically valid public opinion survey from February 23 to March 5, 2026, collecting 200 interviews with a margin of error of $\pm 6.9\%$.

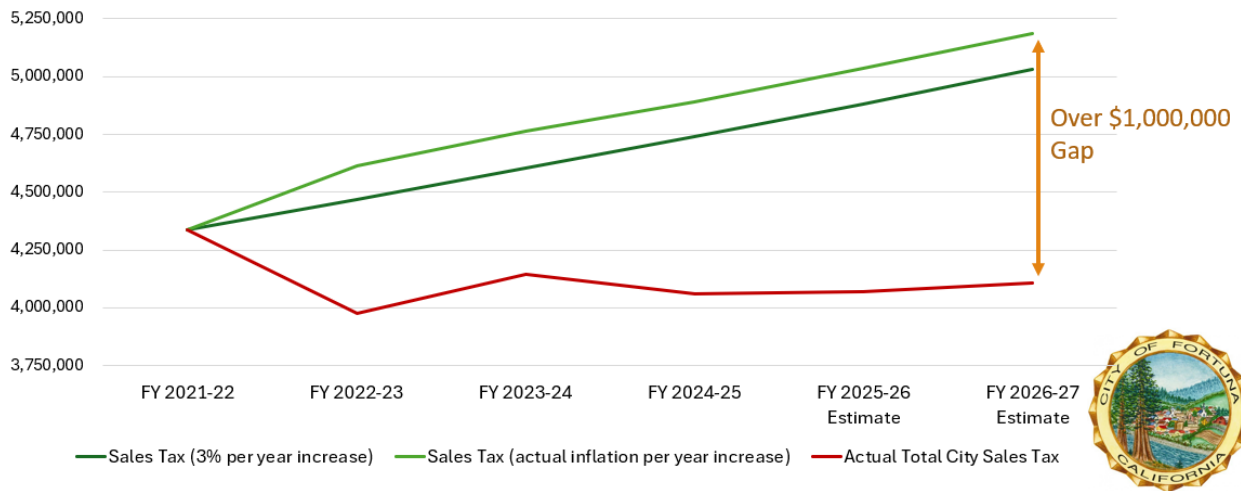
DISCUSSION:

1. How Fortuna Reached this Fiscal Crossroads

a. Sales Tax Revenues Are Not Keeping Pace With Inflation

The City's largest unrestricted revenue source is sales tax, and sales tax has not kept up with inflation. Under normal inflation, revenues would have increased to \$5.2M by FY 2026–27. Actual projected revenues are only \$4.1M. This results in a gap of over \$1,000,000. This means the City effectively lost the purchasing power of nearly one million dollars over a five-year period. See below chart.

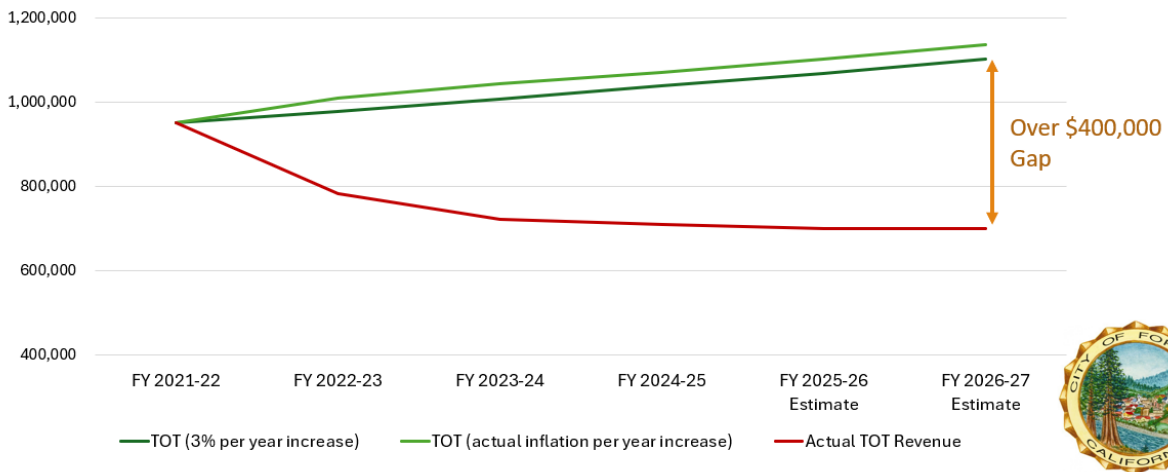
Sales Tax Trend (including Measure E)



b. Transient Occupancy Tax (TOT) Revenues Have Declined Significantly

Traditionally, TOT helps fund City services and tourism-related impacts. The City’s TOT revenue has dropped sharply since FY 2021–22. Expected inflation-adjusted TOT for FY 2026–27 is approximately \$1.1M. Actual projected TOT is \$700,000, a gap of over \$400,000. This decline appears linked to regional lodging patterns and reduced tourism activity. See below chart.

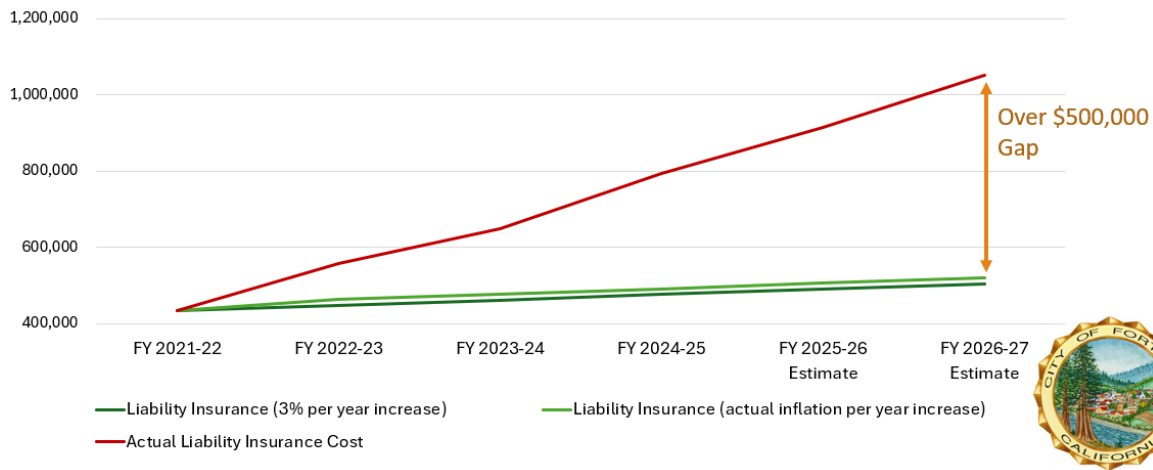
Transient Occupancy Tax (TOT) Trend



c. Liability Insurance Costs Have Skyrocketed

Liability insurance—an unavoidable cost—has increased more dramatically than any other major expense category. Actual costs for liability insurance in fiscal year 2021–22 were \$435,894. Projected costs for fiscal year 2026–27 is \$1,051,372, an increase of over \$615,000, or over 140%. The resulting gap compared to inflation-adjusted expectation is over \$500,000. These increases are consistent with statewide trends affecting municipal risk pools. See below chart.

Liability Insurance Trend



The result of these three trends is a General Fund structural budget deficit. These combined trends demonstrate rising costs and flat to declining revenues. In order to address these trends the use of reserves and a hiring freeze has been put into place. In addition, there is a potential for reductions in services to maintain critical operations.

2. EMC Research Survey Results

EMC Research staff will review the survey results with staff and the City Council. Overall, the survey shows Fortuna residents generally feel positive about the community and the City’s performance, with strong majorities saying the City is headed in the right direction and rating its overall job performance favorably. At the same time, many voters recognize that the City is facing financial challenges, with nearly two-thirds believing there is a need for additional funding for city services, and a notable share naming economic or budget concerns as Fortuna’s most important problem unprompted. Although voters value maintaining high-quality services, they also express sensitivity to new taxes and concerns about affordability, resulting in mixed attitudes toward tax increases and divided levels of trust in how the City manages public funds. Initial support for a potential 0.75% sales tax measure is close to but below the majority threshold in this poll; support improves after voters hear about accountability requirements, exemptions for essential goods, and benefits to local services, but it declines when opposition messages are introduced, indicating both promise and vulnerability for any future measure. Voters’ highest priorities for new revenue include supporting local small businesses, repairing

aging streets and potholes, maintaining youth and senior programs, protecting public safety, and keeping public areas clean and safe, areas that closely align with current service and budget pressures in Fortuna.

3. Next Steps

As the City considers placing a sales tax measure on the November 3, 2026, General Election ballot, the next steps focus heavily on preparing and finalizing ballot measure language, including the full text of the ordinance and the 75-word ballot question early enough to meet statutory and County-administered deadlines. In particular, the Council will need to approve the submission of a proposed ordinance increasing the existing tax rate and adopt a resolution that, among other things, requests that the County Board of Supervisors consolidate the City's tax measure with the County-facilitated state-wide election on November 3, 2026. The County Election's Office normally requires Cities to submit the proposed ordinance and resolution of consolidation in June to allow time for action by the Board of Supervisors.

Once the Resolution is filed with the Elections Department, this will trigger a mandatory 10-day public inspection period, followed by deadlines for impartial analyses and ballot arguments that will also be specified by the County. This means, staff will need to begin preparing draft ballot text immediately, coordinate closely with the City Attorney, schedule Council action to adopt the ordinance and resolution well ahead of the June deadline, and maintain ongoing coordination with the Elections Office to ensure compliance with all statutory requirements once the official November 2026 measure calendar is issued.

FISCAL IMPACT:

A three-quarter cent sales tax measure is estimated to generate \$1.8 million per year and is essential for the City to maintain and continue to improve City services.

RECOMMENDED COUNCIL ACTION:

1. Receive staff presentation and review Council questions
2. Open Public Comment
3. Close Public Comment
4. Motion to approve placing a local sales tax measure on the November 3, 2026 ballot and for staff to return with the 75-word ballot question and subsequent ordinance and resolution. Roll Call vote.

ATTACHMENTS:

- EMC Research Summary Report