



# City of La Quinta

**CITY / SA/ HA/ FA MEETING DATE:** May 6, 2014

**ITEM TITLE:** DISCUSS AND PROVIDE DIRECTION REGARDING REVENUE ENHANCEMENT OPTIONS

**AGENDA CATEGORY:**

**BUSINESS SESSION:**

**CONSENT CALENDAR:**

**STUDY SESSION:** 5

**PUBLIC HEARING:**

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## **RECOMMENDED ACTION:**

Discuss and provide direction regarding revenue enhancement options.

## **EXECUTIVE SUMMARY:**

- In 2012, the City began reviewing available revenue options (including fees, assessment districts and taxes) in order to close a projected \$2.1 million operating budget deficit.
- Costs in services are rising and, with the dissolution of redevelopment, the City lacks available resources to proactively repair, maintain and construct public infrastructure.
- The purpose of this study session is to further evaluate revenue options to fund City services with a closer look on tax measures.

## **FISCAL IMPACT:**

None.

## **BACKGROUND/ANALYSIS:**

The City's \$35.0 million General Fund budget is comprised of expenditures for police, fire, recreation programs, community facilities, development services, streets, and general administration. Revenue is required for the City to provide those services, which is primarily received through fees, property assessments, and taxes as outlined below:

### **Fees**

Fees are intended to recover all or a portion of the cost to provide a service or rental of a public facility. In 2013, the City updated its fees, which had not been adjusted since 1996; the 2013 fee update provided for a 88% cost recovery

wherein 88% of the associated service costs are recovered through fee income. Prior to the update, the City had a cost recovery rate of 39%.

**Property Assessments**

Property assessments are often referred to as “special assessments” because they are levied to fund specific public improvements or services that benefit the properties subject to the assessment. To institute a special assessment:

- ✓ Benefit study must be performed.
- ✓ Percentage of benefit property owner receives must be calculated to assess the dollar amount specific to each property owner (property that is located closer to properties/facilities that are constructed or maintained by special assessments must pay more because per the special assessment process contained in the State Constitution they benefit more).
- ✓ Majority of property owners must approve assessment through a mail ballot process.

**Taxes**

A tax is a revenue-generating item requiring voter approval. It does not need to be levied in proportion to specific benefit to a person or property. A “Special Tax” is collected and earmarked for a specific purpose and held in a separate account, and a “General Tax” is imposed for general governmental purposes, the proceeds of which are deposited into the general fund and remain unrestricted. However, if a City Council directs the revenue to a specific purpose before the vote on the measure then a General Tax becomes a Special Tax.

	<b>General Tax</b>	<b>Special Tax</b>
Use of Revenue	Unrestricted	Specific Purpose
Governing Body Approval	Majority	Majority
Voter Approval	Majority	Two-thirds
Other Rules	Must be consolidated with a regularly scheduled election of city council members, except in cases of emergency declared by unanimous vote (among those present) of the city council.	Does not need to consolidate with regular scheduled election. Requires annual publication of a report: the tax rate, amounts of revenue collected and expended, and status of any project funded by the special tax.

**Types of Tax Measures** – In California, there are a defined amount of tax measures available to Cities. Cities pursue tax measures because the revenue is locally controlled and can be dedicated to the needs of the local community. The most common local tax measures are identified below:

- Parcel Tax – A charge to real property and based on either a flat per-parcel rate or a rate that varies depending upon use, size, and/or number of units on each parcel. It can be used to finance public facilities and if for services requires two-thirds vote of registered voters. Particulars regarding a parcel tax are:

- A Special Tax,
  - Requires two-thirds vote of the electorate,
  - The City has no existing parcel taxes,
  - A \$10 Citywide parcel tax would generate \$232,430 annually in revenue.
- Mello Roos Community Facilities District (CFDs) – Based on the taxable value, a charge to real property and based on either a flat per-parcel rate or a rate that varies depending upon use, size, and/or number of units on each parcel. It can be used to finance public facilities and services.
    - A Special Tax,
    - Requires two-thirds vote of registered voters in the district,
    - The City has no existing CFDs,
    - A \$10 Citywide CFD would generate \$270,080 annually in revenue.
- Add-on Sales and Use Tax – The add-on sales and use tax would increase the current 8% sales and use tax (the current State rate is 8% of which the City receives 1%). This tax can be increased by  $\frac{1}{4}$ ,  $\frac{1}{2}$ ,  $\frac{3}{4}$ , or 1%.
    - General Tax (Special Tax if dedicated to a specific purpose),
    - Majority vote of the electorate,
    - The City does not have an add-on Sales and Use Tax,
    - Revenue generated from add-on sales tax increase are as follows:
      - A  $\frac{1}{4}$  % increase would generate \$1,750,000
      - A  $\frac{1}{2}$  % increase would generate \$3,500,000
      - A  $\frac{3}{4}$  % increase would generate \$5,250,000
      - A 1% increase would generate \$7,000,000
- Transient Occupancy Tax (TOT) – A tax levied on hotels, motels and other short term lodging facilities on persons staying 30 days or less in a lodging unit.
    - General Tax (Special Tax if dedicated to a specific purpose),
    - Majority vote of the electorate,
    - The City's current TOT rates are 10% for lodging units with 50 rooms or less and 11% for those with greater than 50 rooms,
    - A 1% TOT increase would generate \$590,000 annually in new revenue.
- Utility Users' Tax (UUT) – A tax on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone, sanitation and cable television. UUT is collected by the utility as a part of the regular billing process and remitted to the taxing agency.
    - General Tax (Special Tax if dedicated to a specific purpose),
    - Majority vote of the electorate,
    - The City does not have a UUT,
    - A 1% UUT would generate \$500,000 annually in new revenue.

Other tax measures are available (i.e., business license, parking, real property transfer and admissions taxes); however, these measures take a variety of forms and involve circumstances unique to particular communities. For example, the City

of Indian Wells has an admissions tax on the Indian Wells Tennis Garden to pay for public services and offset costs associated with supporting the tennis tournament.

### **Elements of a Tax Measure**

In creating a tax measure for voter consideration, there are several items to consider in structuring the measure (in no particular order):

- Decide if it is a General or Special Tax
- Determine the type of tax
- Target election date
- Evaluate the need to survey the community on funding priorities and which taxes are more palatable
- Create an advisory committee or City Council Subcommittee
- Consider sunset provisions (where the tax or assessment expires after a certain number of years)

### **Timeline**

A General Tax measure must be consolidated with a regularly scheduled election of City Council members, except in cases of emergency declared by unanimous vote (among those present) of the City Council. A Special Tax measure can take place at any time, but requires a two-thirds vote of the electorate. The next regularly scheduled election is on November 4, 2014 and a regular election takes place every two years. Should the City Council consider moving forward this year, a resolution placing a tax measure on the November ballot must be sent the Riverside County Registrar of Voters by August 8, 2014, which means the Council would need to consider the item by the July 15, 2014 Council meeting. A community survey will be needed immediately to ask residents about their funding priorities and what they would support as well as creation of an advisory committee or Council subcommittee to oversee the process.

### **ALTERNATIVES**

As this is an informational item, staff does not have any alternatives.

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