

REVENUE STUDY SESSION DISCUSSION ITEMS

A. TAXES

All tax increases require placement on a regularly scheduled general election of City Councilmembers unless an emergency is declared by unanimous vote of the Council. A general tax is a tax imposed for general governmental purposes, the proceeds of which are deposited into the General Fund. A majority vote of the electorate is required to impose, extend or increase any general tax. A special tax is a tax that is collected and earmarked for a specific purpose and deposited either into a separate account or the General Fund. A two-thirds vote of the electorate is required to impose, extend or increase any special tax.

1. Property Tax

a. Split Roll for Property Tax

State Proposition 15, also referred to as the Split Roll Tax, was a proposition on the November 3, 2020 ballot in California that sought to remove Proposition 13 tax protections from commercial properties. For properties valued at \$5 million or more, an additional 1.2 percent “surcharge” each year would be added onto the regular property tax.

Status: The vote was 51.97 percent no, 48.03 percent yes. This item was on the study session list as an educational item if the measure passed. Another split roll proposal, different from the previous one, was submitted to the Attorney General in October 2021 and will be tracked for qualifying.

b. Parcel Tax

A special tax on parcels of property generally based on either a flat per-parcel rate or a variable rate depending on the size, use and/or number of units on the parcel. Voter approval of 2/3 is required.

Status: This is an informational item only. Parcel taxes are not as common as other locally imposed taxes for cities. The tax is the primary method of collecting additional operating revenue for schools and special districts who do have not the ability to seek general taxes.

2. Sales Tax

a. Pursue Sales Tax at the Former Land Rover Site

Staff, with assistance from the City Attorney’s Office, developed a sales tax sharing agreement between Hermosa Beach and Redondo Beach to share sales tax generated by the Mitsubishi dealership according to the percent of land for the dealership in each city, which is 47 percent for Hermosa Beach and 53 percent for Redondo Beach. A three-party agreement including the dealership was also developed for the dealership’s reporting of the tax to the State. Concurrence from the state was sought since an agreement of this type had not been implemented since the 70’s.

Status: Complete. The City Council approved the agreements on January 26, 2021.

b. District Tax (Transaction and Use Taxes)

District taxes are not the same as the local sales tax imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law. District taxes are separate voter-approved transaction and use taxes imposed by certain cities, counties and other local jurisdictions on the purchase and use of tangible personal property (merchandise). For example, the tax applies to purchases of automobiles registered in the district and to merchandise shipped into the district rather than sales made within the district.

The maximum combined rate within any county may not exceed 2 percent unless specifically authorized by statute. Local taxes are imposed in every city and county in California at a uniform rate of 1.25 percent. Metropolitan Transportation Authority obtained authorization to raise the limit to 3 percent therefore a district tax rate of .75 percent could be imposed for Hermosa Beach. This tax is in addition to the 1 percent sales tax already received by the City.

In Los Angeles County, 56 out of 88 cities have a district tax.

A 2/3 vote (four out of five) by City Council is required to place the measure on the ballot; a majority of voters is required for passage of a district tax. A general tax election must be consolidated with a regularly scheduled general purpose election of City Councilmembers unless an emergency is declared by unanimous vote of the Council.

Status: City Council may consider this item for placement on the November 2022 election. If 2/3 of the City Council concurs, the item will be brought back at a future City Council meeting.

3. **Utility User Tax (UUT)**

a. Explore Options to Address Erosion of UUT

The City's contract with Avenu, the consultant who monitors utility tax revenue, allows for city specific audits. The City Manager gave approval in September 2021 to move forward with audits of streaming providers Disney+, Hulu, ESPN, Netflix and Amazon Prime Video in order to apply the UUT to these services.

Status: In Progress. Meetings between Avenu and the streaming providers continue. Fran Mancina, Vice President of Government Relations with Avenu provided the following update:

- *Netflix changed representatives and we have a meeting next week (March 2nd). No legal qualms this far. Just delays. We expect resolution this calendar year.*
- *Amazon is not disputing local Utility User Taxes owed. However, they are carefully reviewing each local jurisdictions ordinances and looking for technicalities to ensure all of city contracts with outside consulting and auditing firm are valid and that they still meet requirements for validity. No legal arguments in dispute.*

- *Disney received the information request and seems to be cooperative but is asking for more time to gather documents.*

4. **Transient Occupancy Tax (TOT)**

a. Increase the TOT Tax

Status: Complete. Voters approved the TOT increase from 12 percent to 14 percent 1/5/2019 to be effective January 1, 2020.

b. TOT Audits

Status: Complete. The last audit was in 2018. The audit will be budgeted for 2022-23 as 5 years is the typical timeframe for these audits.

c. Short Term Vacation Rentals for Commercial Zone

Status: Complete. Five commercial properties are approved at this time and paying TOT.

5. **Consider a Cannabis Tax**

Status: In Progress. In view of the signature gathering that is underway to place a measure on the November 2022 ballot an advisory group was created to provide a recommendation to City Council in April.

6. **Business License Tax**

Consider an Increase or Changes to the Business License Tax

The business license tax was last increased on the ballot measure of November 8, 2011. A Business License Tax Review Committee developed the proposal after a lengthy process with meetings from December 2011 through July 2011.

Status: If a change or increase in the business license tax is desired, staff recommends the city consider hiring a consultant to assess the composition of city businesses and provide options.

B. USE OF PROPERTY AND USER FEES

1. **Parking Revenue**

Status: In progress. A Parking Study Session was conducted 1/31/22. A public hearing will be scheduled in July/August to consider the following items.

- Parking Meter Rates
- Mobile App
Status: Mobile app proposals are in review and a provider will be selected prior to the public hearing
- Parking Citations Fines
- Parking Permit Rates, Residential and Lots, Employee Permits
- Other Parking Permits, Contractor, Driveway
- Electric Vehicle Charging Fee/ Free Parking at Meters

2. Encroachments

a. Resume Permanent Outdoor Encroachment Fees

Status: In Progress. Existing fees reinstated effective March 1, 2022

b. Increase Permanent Outdoor Encroachment Fees

If City Council wants to consider rate increases, Staff would recommend acquiring a new market study.

c. Set Fee for Temporary Outdoor Encroachments

Status: In Progress. Fee of \$1.50/square foot implemented March 1, 2022 for added permanent outdoor dining and previously temporary outdoor dining encroachments.

3. Other Property-Related

a. Increase Storage Property Lease

Status: Compete. A new lease rate of \$20,000/month was negotiated to be effective July 2021. A CPI clause was implemented, resulting in a current rate of \$20,600/month, an increase of \$67,200 from the prior rate of \$15,000/month.

b. Increase Residential Encroachment Permit Fee

Residential encroachment permit fees are charged when a property owner wants to have non-permanent improvements on a portion of City property adjacent to their property. The fees cover the staff time to process the permit. The current fee for this item is \$1,437.01.

The Residential Encroachment Fee is a one-time fee that stays with the property until change of ownership or the permit is revoked. The cost of the permit is the same whether it is a permit to install irrigation in the parkway or to use excess Right-of-Way (ROW) for private use in the rear or front of a property.

Status: Public Works is proposing to engage consulting services to assess the residential encroachment permit process. The assessment would include the feasibility study to separate the permits in different categories (i.e. Parkway irrigation, use of excess ROW citywide excluding the coastal zone, coastal zone (The Strand)), and study the possibility of changing the fee from a one-time fee to an annual fee, depending on the permit category.

Currently, Coastal Commission is not permitting the City to issue residential encroachment permits at The Stand because they state that the fee charged should be related to the cost of the land, and the fees collected in the coastal zone (in particular The Strand) need to be used exclusively to maintain, improve and provide coastal access. The analysis of land valuation will also be in the scope of the feasibility study. This process would also require possible modifications to the Municipal Code.

c. Apply CPI for Annual Sewer Charge

The sewer fee which was initiated in 2015 included Consumer Price Index (CPI) increases not to exceed 2 percent per year. As per the originating sewer charge resolution, annual increases can only be authorized for a five-year period. Due to

the pandemic, staff did not move forward with reinstating the five-year term for applying the CPI to the fee in FY 2021–22

Status: In Progress. Public Works is engaging an assessment engineer to prepare a preliminary evaluation which would go to Council in April. The process would then require notifying each property owner in writing a minimum 45 days in advance of a protest hearing which would occur in June. The City would be required to adopt an ordinance at that time in order to place the sewer service charge on the annual County of Los Angeles Tax Roll by July.

d. Enhance Clark Building as a Revenue Generator

Status: Final plans for Clark Building Improvements were approved by City Council on January 25, 2022.

Staff will develop activities and fees based on the planned newly remodeled facility.

e. Re-evaluate the Lighting Landscaping Fund

The Fund has had a deficit of \$229,790 for 2021–22, \$291,002 for 2020–21, \$175,932 for 2019–2020, \$210,000 for 2018–2019 \$87,000 for 2017–18 and \$178,000 2016–17.

There was a protest vote against an additional assessment of \$165,000 on July 25, 2006. The measure failed 52 percent to 48 percent.

Status: In progress. Public Works engaged the assessment engineer to provide a feasibility study for creating a second district to cure the deficit and provide other options to consider. The laws have changed since creation of the original district so a second district will be recommended for any increase. The report will be available in April. Creating a new district would require a mailed ballot to each property owner in the district.

f. Implementation of a Storm Water Fee

Storm water costs are currently funded by a transfer of \$700,000 in utility user tax revenue from the General Fund and revenue of approximately \$157,000 in Measure W funds.

Status: Public Works and the Environmental Programs Manager will undertake a review of the costs and viability of a fee in the future.

g. Possibility of More Undersea Cables

City Council inquired about this previously. In checking with our contact the following was provided:

- *Cable 3 (SX-NEXT) has landed but is still in the installation phase to Australia. The current expected System Operation Date is May 2022.*
- *Cable 4 (HKA). This has been significantly delayed due to US/China disputes. Best estimate at this point would be a System Operational Date in 2024.*
- *Other cables? 6th Street or 10th Street: We have recently received additional inquires for capacity into Hermosa Beach. While nothing is certain or even probable, cable owners are expressing interest in additional facilities into Hermosa Beach. Competing for a landing there would be the facilities*

installed at Dockweiler State Beach (El Segundo). There are two landing pipes available there. Also, Grover Beach is a point of interest for these same cables.

h. Park Recreation In-Lieu Fee

This fee is an impact fee intended to provide funds to cover the cost for acquiring open space property as subdivision condition of approval per Chapter 16.12 of the Municipal Code. The developer has the choice of paying the fee or dedicating land in an amount equal to the average estimated fair market value of land. Dedication of land in Hermosa Beach is impractical since the city is virtually built out. The fee was last updated in 2007 based on an independent appraisal. The code requires an independent appraisal of open space zoned property in the city in order to set the fee.

Status: Staff will look into getting an appraisal in order to make a recommendation.

i. User Fee Study (Service Charges)

The City conducts a User Fee Study every five years to recalculate fees to recover the cost of services, as required by Proposition 218. At that time, departments will also recommend inclusion of any new fees. The last study was conducted in 2016.

Status: The study is included in the 2021–2022 budget.

j. Fee Waivers

Status: Complete. A Special Event Fee Waiver Policy was implemented on October 10, 2019.

k. Create a Municipal Lease Policy

The Community Resources Department and the Parks, Recreation and Community Resources Advisory Commission's Municipal Lease Policy Subcommittee have been working on the creation of a Municipal Lease Policy, which focuses on 10 City facilities that are currently leased to seven (7) non-profit or Hermosa Beach-based organizations. Staff and the Subcommittee received input from both the Commission and City Council in 2019 to form the current draft of the policy. In January 2020, a Market Rate Study was completed to assist with establishing lease rates for all 10 facilities and several additional facilities that may be subject to a lease agreement in the future.

Status: Staff will re-engage the subcommittee to develop next steps and a timeline and to begin additional outreach with the lessees to present a final draft of the Municipal Lease Policy for City Council review and approval.

C. OTHER FUNDING SOURCES

1. Settlement Bond Refunding

Status: Complete. The 2015 Lease Revenue Bonds were refunded in October 2020 which saved almost \$1,000,000 over the life of the bonds. The principal and interest payments are made from the General Fund.

Year Ending November 1	Principal	Interest	Total Debt Service
2021	395,000	330,528	725,528
2022	415,000	310,200	725,200
2023	435,000	293,600	728,600
2024	450,000	276,200	726,200
2025	470,000	258,200	728,200
2026	490,000	239,400	729,400
2027	510,000	219,800	729,800
2028	535,000	199,400	734,400
2029	560,000	178,000	738,000
2030	580,000	155,600	735,600
2031	610,000	132,400	742,400
2032	635,000	108,000	743,000
2033	665,000	82,600	747,600
2034	685,000	56,000	741,000
2035	715,000	28,600	743,600
Total:	\$ 8,150,000	\$ 2,868,528	\$ 11,018,528

2. Formation of the Economic Development Committee

The Economic Development Committee's first meeting was held on June, 2020 is comprised of two Councilmembers and two Planning Commissioners. It has been established to provide leadership and to advise the City Council and Planning Commission to ensure the preservation and vitality of Hermosa Beach businesses for recovery and resilience after COVID-19 business disruption and to develop longer term Economic Development goals and programs

Status: The Economic Development Committee is near completion of an Economic Development Strategy to be considered for adoption by the City Council.

3. Business Improvement District (BID)

Business improvement districts (BIDs) are quasi-public entities formed by businesses in a defined area where businesses agree through a formal vote to assess themselves to fund services and projects within the district's boundaries that support and augment municipal services. BIDs typically fund services such as cleaning streets, providing security, making capital improvements, construction of pedestrian and streetscape enhancements, and marketing the area. The services provided by BIDs are supplemental to those already provided by the municipality. BIDs are established to provide services and are known to be key to promoting economic development within a designated district.

Status: To be determined by the business community. The City is only able to serve in a supportive role in initiating BID formation process. The City has been willing to support this effort by allocating funds for a consultant firm to provide educational/informational sessions for the business community and to jump start the process toward BID formation should the businesses wish to proceed.