File #: REPORT 19-0401, **Version:** 1

Honorable Mayor and Members of the Hermosa Beach City Council
Regular Meeting of July 9, 2019

RESOLUTION TO PLACE A MEASURE TO AUTHORIZE THE CITY COUNCIL TO INCREASE THE CITY'S TRANSIENT OCCUPANCY TAX (TOT) - A TAX LEVIED ONLY ON HOTEL/ LODGING GUESTS - BY UP TO 2%, FROM 12% UP TO 14% ON THE BALLOT FOR THE NOVEMBER 5, 2019 GENERAL MUNICIPAL ELECTION

(Finance Director Viki Copeland)

Recommended Action:

Staff recommends that the City Council adopt one of the following:

1. The attached resolution asking voters to increase the Transient Occupancy Tax (TOT) - a tax levied only on hotel/lodging guests - by up to 2%, from 12% up to 14%, on the November 5, 2019 General Municipal Election.

   or

2. An amended version of the resolution.

Executive Summary:

Staff recommends that the City Council adopt the attached resolution to place a ballot measure on the November 5, 2019 ballot asking voters to increase the TOT rate up to 2%, from 12% up to 14% or to adopt an amended version of the resolution. Council will not be taking an action to increase the tax with this recommendation. A vote of 2/3 of the City Council (4 Councilmembers) is requires to place a general tax increase on the ballot. A majority vote of the electorate is required for the measure to pass.

Background:

Staff originally planned to discuss the idea of placing a measure on the ballot asking voters to increase the transient occupancy tax at a future Revenue Study Session with the understanding that the measure could be placed on the November 2020 election. The City Attorney has advised, however, that a general tax measure must go on a general municipal ballot. This would mean that the next time that the tax could be increased would be either November 2019 or 2022.

Consideration of the matter was discussed at the 2019-20 Budget Hearing, with a majority of the Council directing staff to return with a resolution to place the measure on the November 2019 ballot.

The Council would not be taking an action to increase the tax with this recommendation; just deciding whether to place this measure on the ballot in order to let the voters decide. Under Proposition 218, a tax measure may be increased only by voter action.

A 2/3 vote of the City Council (4 Councilmembers) is required to place a general tax increase on the ballot. A majority vote of the electorate is required for the measure to pass.

Analysis:

A Transient Occupancy Tax (also known as a "TOT" or "hotel bed tax") applies only to guests who stay in local hotels and lodging, ensuring out-of-town visitors to Hermosa Beach pay their fair share for the use of City roads, public safety and other City services. These types of measures are otherwise not a tax on Hermosa Beach residents or their property.

The TOT is imposed on persons staying in hotels and other short term lodgings in the City, for periods of 30 days or less. The local rate of 10% had been in effect since 1990, until it was changed through voter approval by 2% to a 12% rate in November 2015. 2015's Measure H had a passage rate of 84.93%.

As reported in the 2019-20 Preliminary Budget, TOT receipts are at the highest level at approximately $3.3 million from the existing eight (8) hotels, including the youth hostel. Occupancy is 80% for the first seven months compared to 80.4% for the same period last year. Los Angeles County hotel occupancy is 81.8% and South Bay is 82.2% for the same period. The TOT is an increasingly important source of revenue for the City, generating almost 8% of General Fund revenue in locally-controlled funding that must be spent on city operations and the services we provide to the public.

A 2% increase in the TOT would generate an estimated additional $550,000 in revenue annually from existing hotel rooms. For the hotel occupant with a room rate of $100, an additional tax of 2% would be $2; with a room rate of $250, the additional tax would be $5. Again, all money raised would be used locally for services the public relies on - none of this money can be taken away by the County or the State.

In order to continue providing the level and quality of services that residents and businesses have come to expect, staff recommends looking at revenue enhancements to provide the funding necessary for City operations. Public safety has consistently been a top priority for the City and residents. Updating the hotel tax helps maintain local public safety services such as 911 response, police, fire and paramedic services.

Adjusting the TOT tax rate for visitors to the City assists with continuing to offer a high level of services for residents.

At the Budget Hearing, City Council asked questions and discussed various ways to increase

the tax ranging from 13% to 14% or a fraction thereof. The voters could be asked to approve a rate up to 14%, with the City Council actually determining if and when the tax is increased. The voters could also be asked to approve a specific increase. Staff recommends that the City Council consider these options and determine the best way to move forward. If changes result to the wording in the resolution, those changes may be made at the City Council meeting.

General Plan Consistency:

PLAN Hermosa, the City's General Plan, was adopted by the City Council in August 2017 and envisions a future where "Hermosa Beach is the small town others aspire to be; a place where the beach culture, strong sense of community, and commitment to sustainability intersect." One of the guiding principles to achieve this vision is to make decisions and take actions that help contribute to the City's economic and fiscal stability. By keeping the city safe, clean and well-maintained, updating the hotel tax protects the quality of life and property values for local residents while keeping Hermosa Beach a special place to live, work and play.

Governance

- 1.2 Strategic Planning. Regularly discuss and set priorities at the City Council and management level to prioritize work programs and staffing needs.
- 1.6 Long-Term considerations. Prioritize decisions that provide long-term community benefit and discourage decisions that provide short-term community benefit but reduce long-term opportunities.
- 2.7 Major planning efforts. Require major planning efforts, policies, or projects to include a public engagement effort.
- 5.7 Visitor and resident balance. Recognize the desire and need to balance visitor-serving and local-serving uses as a key to preserving character and the economic vitality of the community.
- 6.1 Long-term economic development. Support the development and implementation of long-term economic development strategies that seek to establish and keep new businesses and a strong middle class in Hermosa Beach over the decades to come.

Attachments:

1. Resolution # 19-xxxx, Ordering Submission to Voters of TOT Ballot Measure, with Ordinance
2. Resolution # 19-xxxx, Filing Written Arguments & Analysis Arguments for TOT Ballot Measure
3. Resolution # 19-xxxx, Filing Rebuttal Arguments for TOT Ballot Measure
4. 2019 TOT Rate Survey

Respectfully Submitted by: Viki Copeland, Finance Director
Legal Review: Mike Jenkins, City Attorney
Approved: Suja Lowenthal, City Manager