



## Staff Report

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### Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of July 26, 2022

#### **CONSIDERATION OF PLACING A LOCAL CONTROL CITY SERVICES MEASURE ON THE NOVEMBER 8, 2022 GENERAL MUNICIPAL ELECTION BALLOT ASKING THE VOTERS TO APPROVE A GENERAL TRANSACTIONS AND USE TAX (SALES TAX or TUT) AT THE RATE OF THREE QUARTER CENT (3/4¢)**

(City Manager Suja Lowenthal)

#### **Recommended Action:**

Staff recommends City Council:

1. Consider adding a measure to approve a general Transactions and Use Tax (Sales Tax or TUT) at the rate of three-quarter cent (3/4¢) to the November 8, 2022 General Municipal Election ballot and select one or more argument writer(s) in favor of this measure should a determination be made to submit this measure to the voters;
2. Adopt Resolution for the placement of a locally controlled general tax measure on the ballot for the November 8, 2022 General Municipal Election for the submission to the qualified voters of an ordinance to enact a General Transactions and Use Tax (Sales Tax or TUT) at the rate of three quarter cent (3/4¢) and requesting the Board of Supervisors render the election consolidation services adopted in Resolution No. 22-7317 for this measure (**Attachment 1**); and
3. Adopt Resolution setting priorities for filing a written Argument and Rebuttal Argument regarding an ordinance to enact a general Transactions and Use Tax (Sales Tax or TUT) at the rate of three-quarter cent (3/4¢) to be submitted to voters at the General Municipal Election to be held on Tuesday, November 8, 2022, and directing the City Attorney to prepare the impartial analysis (**Attachment 2**).

The Resolution to place the general Transactions and Use Tax (Sales Tax or TUT) measure on the ballot must be approved by a two-thirds (2/3) vote of the membership of the City Council (4 affirmative votes) to pass.

#### **Executive Summary:**

At its March 3, 2022 meeting, City Council held a Revenue Study Session to review revenue sources with the intention to update or make changes. City Council directed staff to return with information

and an item to consider placement of a general Transactions and Use Tax (Sales Tax or TUT) at the rate of three quarters of one cent ( $3/4\text{¢}$ ) on the November 8, 2022 General Municipal Election ballot. During the Revenue Study Session, the City's sales tax consultant presented information regarding the tax including an estimate of \$3,000,000 in additional annual General Fund revenue.

**Background:**

At its March 3, 2022 meeting, City Council held a Revenue Study Session. The purpose of the study session was to review revenue sources with the intention to update or make recommendations for changes where necessary. Revenue sources including taxes; property-related revenue; parking fees and fines; and other service charges were reviewed. Staff provided oral reports regarding its progress updating some sources and recommendations for possible future updates on others. These updates are designed and intended to maintain strong, up-to-date, revenue streams to support the quality programs that residents want and deserve.

At the end of the study session, an adjourned meeting was held wherein the City Council directed staff to bring back an item regarding placement of a general Transactions and Use Tax (Sales Tax or TUT) at the rate of three quarters of one cent ( $3/4\text{¢}$ ) on the November 8, 2022 General Municipal Election ballot.

**Attachment 5** provides a link to the Revenue Study Session staff report and time markers to the presentation made at the study session by the City's sales tax consultant and to other comments or discussion about the transactions use tax (TUT). The time markers and items are also provided in the table below.

***Past Council Actions***

Meeting Date	Description
March 3, 2022	<p>Revenue Study Session. The following bullet points note the times during the meeting that pertain to the TUT.</p> <ul style="list-style-type: none"><li>• 1:06:36 to 1:45:14—Presentation by Bobby Young, Client Services Director – Sales Tax, HdL Companies.</li><li>• 2:15:15—Councilmember Armato’s comments begin</li><li>• 2:18:63—Mayor Pro Temp Jackson’s comments begin</li><li>• 2:26:00—Councilmember Armato makes the motion to place the TUT on the November 2022 ballot. Mayor Detoy seconds the motion.</li><li>• Motion carries—4-0</li></ul>

**Discussion:**

Residents have recently prioritized City services they would like additional local funding for including: preventing thefts and property crimes; supporting public safety and 911 emergency response; recruiting and retaining well-trained police officers; protecting coastal waters and beaches from pollution; supporting safe schools; and keeping parks and public areas safe and clean.

A sizeable portion of sales tax dollars collected in Hermosa Beach comes from tourists and visitors from surrounding areas. This measure would help make sure they are paying their fair share for police; for keeping our beach, Pier Plaza, and other public areas clean and safe; and for maintaining our roads and other community resources and infrastructure, such as our iconic Pier, in good condition and not left to be paid exclusively by City residents.

Hermosa Beach currently has a 9.50 percent sales tax on all purchases made in the City. Of that, 8.50 percent goes to the state and Los Angeles County agencies with 1 percent returning to Hermosa Beach to be spent locally.

Every year Los Angeles County collects five million dollars from Hermosa Beach from the last three county sales taxes alone, but only 13 cents on the dollar is returned to Hermosa Beach. By law, all funds raised by this measure are legally required to be used in Hermosa Beach, ensuring local control of Hermosa Beach tax dollars and a guaranteed source of funding for essential City services.

Residents also continue to prioritize public safety services and in 2021 alone, there were almost 600

thefts and burglaries reported, including 100 thefts from motor vehicles in the 1.2 square miles of the City. Funding from this measure could provide the Hermosa Beach Police Department additional resources to make neighborhoods and streets safer, increase police patrols, reduce response times, and increase crime prevention programs.

California has a sales tax rate of 7.25 percent. Los Angeles County, cities, and special districts within the County may increase the sales tax by a cap of 3 percent or to a combined rate of 10.25 percent. The County has already utilized 2.25 percent of the allowable 3 percent threshold, so 0.75 percent remains that may be added. A 0.75 percent TUT in Hermosa Beach is estimated to add \$3 million in revenue to be spent locally.

Breakdown of 9.5% Sales Tax Rate Effective October 1, 2017		
State General Fund	3.9375%	Current Sales Tax Received
City/County General Fund (Bradley-Burns)	1.0000%	
County Public Safety (Prop 172)	0.5000%	
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%	
Countywide Transportation Fund	0.2500%	TUT increasing cap = 1%
Los Angeles County Transportation Commission (LACT)	0.5000%	
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Los Angeles County Metro Transportation Authority (LAMT)	0.5000%	
Los Angeles County Traffic Improvement Plan (LAMA)	0.5000%	TUT applied against cap = 1.25%
Los Angeles County Homeless Services Tax (LACH)	0.2500%	
<b>Total Rate</b>	<b>9.5000%</b>	
		Leaves 0.75% available for local TUT

Hdl Companies

Presenting a balanced budget has been particularly challenging with the last two budgets and the budget for 2022-23 due to the pandemic and now with the additional effect of world events. The City maintained its Contingency Funds according to financial policies at 16 percent of operating expenses but has found it necessary to use one-time funds to bridge the gaps in revenue, even with freezing of positions and reducing expenditures. In order to maintain the level of service expected by residents, ensure long-term fiscal sustainability, and to make progress toward funding of deferred capital needs, additional funds are necessary.

Advantages of adopting a TUT measure include:

- the tax is paid regionally, not entirely by residents;
- revenue generated in Hermosa Beach stays in Hermosa Beach;
- the tax has a statutory cap;
- revenue from autos purchased by residents comes to the City rather than going to the City where the auto was purchased; and
- revenue from deliveries to the City for building supplies, equipment and bulk fuel also comes

to the City.

The City's sales tax consultant indicates that they have not seen any measurable impact of the TUT on consumer buying habits because consumers are typically focused on the base cost of the item being purchased.

According to the California Department of Tax and Fee Administration, 52 cities out of 88 in Los Angeles County have a TUT. Two cities, Torrance and Susanville, added the tax through ballot measures in June 2022 that brings the total to 54 cities.

Hermosa Beach should take advantage of the additional 0.75 percent tax that is available to ensure long-term fiscal sustainability.

#### Arguments in Favor and Against

The City Clerk will accept arguments in favor and against the proposed measure by **Tuesday, August 9, 2022, at 6 p.m.** Each argument is limited to 300 words and will be titled "Argument In Favor of Measure \_\_\_" and "Argument Against Measure \_\_\_" in the Official Sample Ballot Booklet submitted to voters. Please email [cityclerk@hermosabeach.gov](mailto:cityclerk@hermosabeach.gov) or submit a hard copy (**Attachment 3**) by the deadline.

Per California Elections Code Section 9282 and 9287, the City Council has priority to and may authorize one or two members of the City Council to author the Argument in Favor. Should the City Council choose not to authorize one or two members of the City Council to author the Argument in Favor and more than one argument is submitted (in favor or against) to the Elections Official, the Elections Official will select an argument in accordance with California Elections Code Section 9287.

#### Rebuttals to Argument in Favor and Against

When the arguments are submitted, the Elections Official shall send a copy of the Argument in Favor to the authors of the Argument Against and the Argument Against to the authors of the Argument in Favor, along with a copy of the impartial analysis. An argument author may authorize another person to sign the rebuttal to the opposing argument using the form provided by the Elections Official (**Attachment 4**) and in accordance with California Elections Code Section 9285. Rebuttals to the Arguments in Favor and Against are due by **Tuesday, August 23, 2022, at 6 p.m.** and are limited to 250 words.

#### Consolidation with Los Angeles County

At its July 14, 2022 meeting, the City Council approved Resolution No. 22-7317 to consolidate the City of Hermosa Beach General Municipal Election with the Statewide General Election to be held on November 8, 2022. Approving the staff recommendation will allow Los Angeles County to carry out all consolidation services outlined in Resolution No. 22-7317 for this measure.

#### General Plan Consistency:

This report and associated recommendation have been evaluated for their consistency with the City's General Plan. Relevant Policies are listed below:

## *Governance Element*

### **Goal 1. A high degree of transparency and integrity in the decision-making process.**

#### *Policies:*

- **1.1 Open Meetings.** Maintain the community's trust by holding meeting in which decisions are being made, that are open and available for all community members to attend, participate, or view remotely.
- **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.

### **Goal 2. The Community is active and engaged in decision-making processes.**

#### *Policy:*

- **2.3 Public participation guidelines.** Establish parameters and guidelines to ensure public participation in promoted through diverse methods.

### **Goal 5. Small beach town character is reflected throughout Hermosa Beach.**

#### *Policies:*

- **5.5 Community benefits.** Consider incentives for new development that provides a substantial economic benefit to the community such as retail sales taxes, transient occupancy taxes or higher-paying jobs. Prohibit the provision of incentives that outweigh the direct benefits from the use.
- **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.

### **Goal 6. A broad-based and long-term economic development strategy for Hermosa Beach that supports existing businesses while attracting new business and tourism.**

#### *Policy:*

- **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.

### **Fiscal Impact:**

Fiscal impacts associated with adding pages in the Official Sample Ballot pertaining to all measures being considered by the Council have been included in the budgeted total cost of the upcoming November 8, 2022 General Municipal Election of \$110,000 in FY 2022-23. No additional cost to the budgeted total is expected from including this measure on the ballot.

If approved, the General Transactions and Use Tax (Sales Tax or TUT) is estimated to generate approximately \$3,000,000 in additional annual General Fund revenue.

**Attachments:**

1. Resolution (Sales Tax)-Add to Ballot & Consolidate
2. Resolution (Sales Tax)-Arguments, Rebuttals & Impartial Analysis
3. Argument & Rebuttal Form
4. Authorization for Another Person to Sign Rebuttal Argument Form
5. Link to March 3, 2022 Revenue Study Session Staff Report discussion of placing the transaction use tax measure on the ballot

**Respectfully Submitted by:** Viki Copeland, Finance Director

**Noted for Fiscal Impact:** Viki Copeland, Finance Director

**Legal Review:** Mike Jenkins, City Attorney

**Approved:** Suja Lowenthal, City Manager