



CITY of CALABASAS
CITY COUNCIL AGENDA REPORT

DATE: MARCH 20, 2024

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: KINDON MEIK, CITY MANAGER

SUBJECT: COUNCIL, COMMUNITY, AND STAFF PRIORITIES AND FUTURE BUDGET EXPENDITURES

MEETING DATE: MARCH 27, 2024

SUMMARY:

The intent of this report is to summarize Council, community, and staff priorities as they relate to future budgetary expenditures. Staff requests direction from the City Council on additional community outreach and engagement regarding possible funding initiatives to maintain the stability of the General Fund.

STRATEGIC PRIORITIES/FUTURE AGENDA ITEMS

Discussion of a potential transaction and use tax (sales tax add on) is identified as a Group B priority on the Future Agenda Prioritization listing. Additionally, the City Council has asked for information on the amount of annual revenue that would be generated by increasing the transient occupancy tax (TOT) collected by hotels within Calabasas. The timing of a possible transaction and use tax initiative or a transient occupancy tax initiative requires that these topics be discussed before other Group A priorities.

BACKGROUND:

At the February 28, 2023, Council meeting, the Budget Task Force solicited direction from the City Council on items to include in the upcoming FY 2024-2025

budget. In an effort to advance that discussion, staff compiled a list of potential General Fund projects, programs, and initiatives along with estimated initial and ongoing costs (see Attachment A). Items on the list summarize Council and community priorities as identified during strategic planning and future agenda workshops, previous budget planning study sessions, community surveys and forums, and past Council meeting discussions. The list also includes capital projects and operational expenses anticipated by staff over the next five years. It is important to note that the list is not comprehensive and therefore can be updated by the City Council and staff as needed.

The underlying question during each budgetary cycle is how to maintain the City's essential City services and the existing quality of life programs while addressing unfunded infrastructure and community-wide improvement projects. At the February Council meeting referenced above, Mayor pro Tem Kraut asked the Council to consider General Fund expenditures that could be reduced and/or eliminated going forward in order to offset new expenses and increasing costs. This is consistent with the direction provided by the Task Force last year during the budget process. In response, City staff spent considerable time reviewing department budgets and decreased General Fund expenses by approximately 3.5% in order to balance the FY 2023-2024 budget. Staff remains committed to that directive and continues to look at ways to lower operational costs while still maintaining the level of service expected by the community.

We are fortunate that the City of Calabasas has been fiscally prudent since its inception, with a history of balanced budgets. However, we acknowledge the financial challenges the City faces in the future, such as the increased costs of Sheriff services and preparing for an aging infrastructure.

Like many organizations, the City is experiencing the impact of inflation on our expenses. As each year passes, Calabasas expects growth in its revenue, however, that growth will be absorbed by the increased costs to provide services to the community. Increasing operational costs will "crowd out" capital investments, which will result in further reductions in General Fund Expenditures to balance the budget over the next 5-10 years.

Notwithstanding efforts to reduce General Fund expenditures, a simple analysis of the proposed projects and initiatives in Attachment A highlights the need to explore ways in which the City can increase its revenues and maintain the stability of the General Fund. A balanced mix of revenues contributes to the long-term financial sustainability of the City and allows the City to plan for the future, invest in infrastructure improvements, and address emerging challenges without relying solely on one-time revenues. Based on previous direction by the Council,

information regarding the current transient occupancy tax (TOT) as well as a possible transaction and use tax (TUT) or sales tax add-on is provided below.

A transient occupancy tax is levied on hotel stays and is collected by the hotels and then remitted to the City. The City’s current TOT rate is 12% and is expected to generate approximately \$2,650,000 this fiscal year. Any increase in the TOT requires majority approval by Calabasas voters. A one percent (1.0%) increase in the tax rate would result in an additional \$220,000 in revenues annually. The table below summarizes potential revenues based on increased TOT:

TOT Tax Rate	Annual Tax Collected	<i>Annual Increase</i>
12 %	2,650,000	-
13 %	2,870,000	220,000
14 %	3,091,000	440,000
15 %	3,312,000	660,000

The sales tax rate in Calabasas is currently 9.5% and is distributed as shown in the table below:

State General Fund	3.9375%
City General Fund	1.0000%
County Public Safety (Prop 72)	0.5000%
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%
Countywide Transportation	0.2500%
Los Angeles County Measure R (LAMT) - Transit	0.5000%
Los Angeles County Proposition A (LACT) - Transit	0.5000%
Los Angeles County Proposition C (LATC) - Transit	0.5000%
Los Angeles County Measure M (LAMA) - Transit	0.5000%
Los Angeles County Measure H (LACH) - Homelessness	0.2500%
Total Sales Tax Rate	9.5000%

The City’s local sales tax is at 9.5%, however, the City only receives 1% of that total revenue generated. For the 2023-2024 fiscal year, the City is expected to receive approximately \$7,500,000 in sales tax revenues.

A transaction and use tax (TUT) can be added to the base sales tax if approved by local voters. Per Proposition 13, a General Tax TUT may be used towards any General Fund expenditure and requires approval by a simple majority or 50% + 1 of the City's voters. Per Proposition 13, a Special Tax TUT must be allocated to a designated use and requires approval by two thirds or 66.7% of the City's voters. According to the City's sales tax consultant, HdL Companies, a three-quarter cent or 0.75% TUT would add approximately \$4,000,000 in General Fund revenues each year to support Calabasas and its services. A one-half cent or 0.50% TUT would result in an estimated increase of \$2,700,000 annually to the General Fund.

The transaction and use tax exclude groceries, medical and dental services, real estate, rent, utilities, education, personal services, and labor. Furthermore, these new revenues are locally controlled to benefit the residents of Calabasas. They cannot be taken by the State or the County.

It should be noted that the maximum sales tax rate for Los Angeles County is 10.5%. At any given time, the County or other special district may place a measure on the ballot for the last 1% available in the City of Calabasas, ultimately taking away the local control and local use of those future revenue dollars. If the County or special district were to be successful, the City would no longer have the opportunity to place a sales tax revenue measure on the ballot.

In order to examine funding priorities as well as to gauge community sentiment towards a possible TUT, the City contracted with FM3 to survey residents. Results from the survey conducted by FM3 are available in Attachment B.

REQUESTED ACTION:

Based on the initial survey results by FM3, staff recommends additional outreach and engagement to better ascertain community priorities in regards to proposed projects, programs, and initiatives to be considered in future budgets. Staff also recommends ongoing community discussions as it relates to a potential Transaction and Use Tax presented to Calabasas voters on the November 2024 ballot.

FISCAL IMPACT/SOURCE OF FUNDING

To conduct the necessary education, outreach, and engagement the City would enlist the talent and expertise of outside consultants. Estimated costs for these services are expected to be \$55,000 to \$65,000 and would be charged to the General Fund.

ATTACHMENTS:

Attachment A: Budget Priorities - Projects, Programs and Initiatives

Attachment B: FM3 survey results