



CITY of CALABASAS
CITY COUNCIL AGENDA REPORT

DATE: JUNE 13, 2024

TO: HONORABLE MAYOR AND COUNCILMEMBERS

**FROM: KINDON MEIK, CITY MANAGER
SCOTT TRUJILLO, ASSISTANT CITY MANAGER
MICHAEL MCCONVILLE, DEPUTY CITY MANAGER
RON AHLERS, CHIEF FINANCIAL OFFICER**

SUBJECT: CONSIDER RESOLUTION NO. 2024-1912, GIVING NOTICE OF A MUNICIPAL ELECTION FOR THE PURPOSE OF SUBMITTING TO THE VOTERS THE "CITY OF CALABASAS PUBLIC SAFETY/CITY SERVICES MEASURE" WHICH ENACTS THE "CITY OF CALABASAS TRANSACTION AND USE TAX ORDINANCE" THAT ESTABLISHES A THREE-QUARTER PERCENT TRANSACTIONS AND USE TAX SUBJECT TO MAJORITY VOTER APPROVAL

MEETING DATE: JUNE 26, 2024

SUMMARY RECOMMENDATION:

Discuss and determine whether to place a measure on the November 5, 2024 ballot to provide voters the option of enacting a secure, locally controlled general fund revenue source. The measure for consideration would increase the City's sales tax by 0.75% and provide an estimated \$4,000,000 annually to maintain essential City services for residents and businesses, including police protection, 911 response, safe and clean parks, wildfire preparation, open space protection, and senior and youth programs.

1. Consider Resolution 2024-1912, to approve the following:
 - a. Call and give notice of a Municipal Election for the purpose of submitting to the City's qualified voters the "City of Calabasas Public Safety/City Services Measure," which enacts the "City of Calabasas Transactions and Use Tax Ordinance" that establishes a general-purpose three-quarter percent retail transactions and use tax measure subject to majority voter approval;
 - b. Provide and set the rules for the filing of arguments for and against the measure and rebuttal arguments;
 - c. Direct the City Attorney to prepare the impartial analysis of the ballot measure; and
 - d. Provide for other election matters as required by law.
2. Conduct first reading of Ordinance to be submitted to City's voters entitled, "AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CALABASAS, CALIFORNIA, IMPOSING A THREE-QUARTER TRANSACTIONS AND USE TAX FOR GENERAL GOVERNMENTAL USE TO BE ADMINISTERED BY THE CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION," reading by title only and waiving further reading.
3. Authorize the Mayor, on behalf of the City Council, to prepare and file a written argument in favor of the proposed measure.
4. Authorize the City Manager to execute all the necessary documents on behalf of the City.

BACKGROUND

The City Council annually outlines its fiscal policy in the adoption of the City's budget. Beyond the budget, in 2022 the City Council identified "Fiscal Resiliency" as one of its six strategic priorities. Fiscal resiliency requires forward thinking and long-term planning to ensure that City services and public infrastructure are funded sufficiently to meet the needs and expectations of the community.

The City of Calabasas has historically benefitted from balanced budgets with noted exceptions during the Great Recession and the COVID-19 pandemic. The City Council has been financially conservative over the years when faced with budget challenges. In each case, the City was able to approve operationally balanced budgets by reducing the City's workforce, suspending programs and services, and deferring needed repairs and maintenance.

By taking these actions, the City has historically maintained a healthy General Fund reserve with the goal of maintaining adequate reserve levels to mitigate future risks (e.g., revenue shortfalls and unanticipated expenditures).

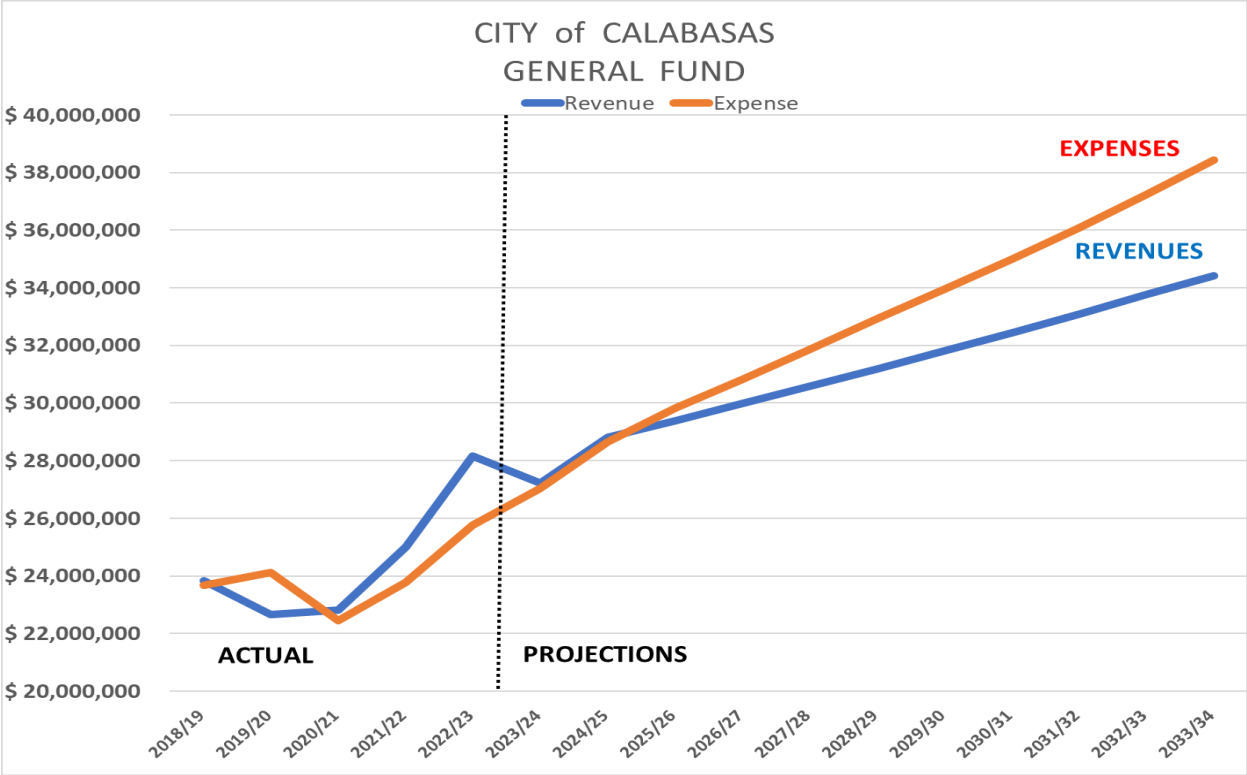
General Fund Overview: The City's General Fund is the operating fund for the majority of the City's services and activities as summarized below:

- Public safety (police/sheriff services)
- Emergency management and wildfire preparedness
- Senior and youth programs
- Community events
- Parks and recreational facilities
- Streets, sidewalks, and public facilities
- Environmental programs
- Planning and building safety
- Code enforcement
- Media and communications
- General government administration

General Fund revenues are derived from several sources including sales tax, property tax, utility user tax, building permits, transient occupancy tax (hotel tax), and property taxes in lieu of vehicle license fees. The two highest revenues are sales tax representing approximately 27% and property taxes accounting for roughly 17% of General Fund revenues.

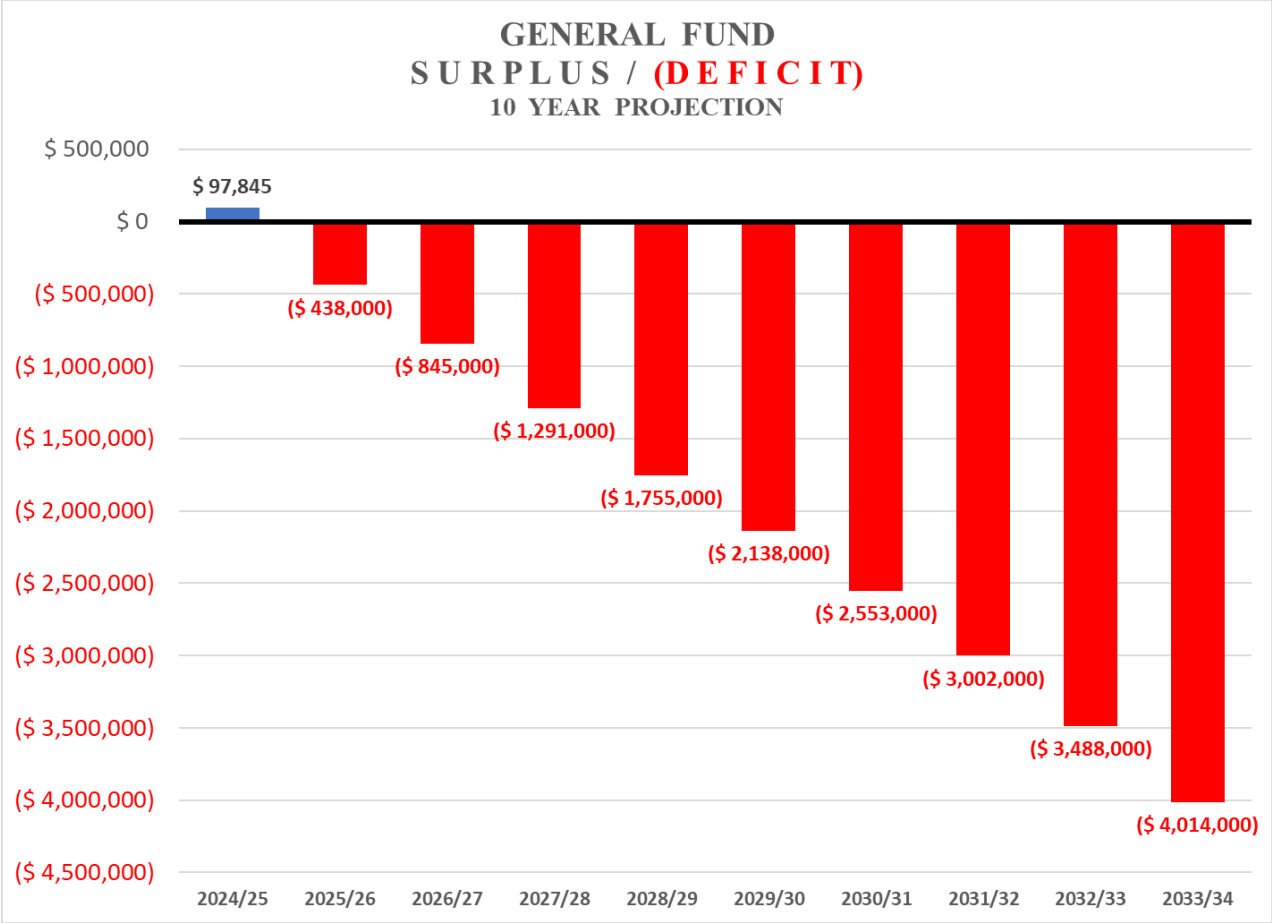
Over the course of FY 2021-2022 and FY 2022-2023, the City benefitted from an unprecedented spike in sales tax revenues. In fact, the City of Calabasas was among only eight cities in Los Angeles County to see sales tax revenues increase during those years. With the additional funds, the City Council adhered to its goal of fiscal resiliency and increased funding for public safety, fronted over \$1,000,000 to improve City recreational facilities, set aside \$2,000,000 for deferred maintenance, invested over \$2,000,000 into a Section 115 trust account to address pension liabilities, and established a 50% General Fund Reserve Policy.

General Fund Forecast: Despite having a balanced budget for FY 2024-2025, financial modeling shows General Fund expenses outpacing revenues. The graph below provides a 10-year forecast of the City's General Fund:



Although city revenues have increased over time and are projected to continue growing, these gains are being offset by rising operational costs for services, materials, and labor, as well as increased inflation. This trend affects the City’s ability to provide essential services to the community. Consequently, operational costs will "crowd out" capital investments and other strategic opportunities. To ensure future financial stability, City expenditures should align with ongoing revenues as much as possible.

As noted in the bar graph below, the General Fund will experience an operating deficit by FY 2025-2026 and an anticipated shortfall of over \$1,250,000 by FY 2027-2028. Over the nine years of projected shortfalls, the cumulative deficit is likely to total over \$19,000,000.







During deficit years, the City Council can authorize the use of General Fund reserves to cover operating expenses, however, the effect of ongoing budget shortfalls will be problematic. In simple terms, the future structural budget imbalance is projected to deplete the \$20.9 million currently in the City’s reserves, making the City increasingly vulnerable to emergencies and other unanticipated factors, and threatening its ability to provide critical city services and community programs.

It is important to note that the projected shortfall presented above does not take into account public safety initiatives, repairs at city parks and recreational facilities, capital improvements, and other City needs identified by the Council, staff, and residents. A list of these projects and initiatives is included in Attachment A and a summary of the unfunded projects and services is provided in the infographic below:

UNFUNDED PROJECTS & SERVICES

Summary of projects, initiatives, and infrastructure needs:

 <p>Public Safety & Emergency Preparedness Initiatives</p> <p>\$4.7 MILLION in Public Safety. Additional Sheriff Deputies for police patrols, security patrols for open spaces, protecting neighborhoods from intruders, increased security measures at city facilities, fire safety and emergency preparedness, traffic safety enforcement, earthquake insurance, and emergency facility generators.</p>	 <p>Parks & Recreational Facility Repairs</p> <p>\$7.6 MILLION for maintaining safe, clean neighborhoods and public areas, maintaining existing parks and facilities, replacing lighting, repairing leaking roofs, building and restoring restrooms, repairing community center, replacing recreation facility HVAC, and providing city park signage.</p>
 <p>Infrastructure & Capital Improvements</p> <p>\$3.1 MILLION in pothole and road resurfacing projects. Sidewalk repair and replacements, traffic engineering and facility parking lot improvements, and drought tolerant landscaping in city medians.</p>	 <p>City Projects & Operational Needs</p> <p>\$2.9 MILLION for a Climate Action Plan, General Plan update, Economic Development Strategic Plan, website upgrade, and Headwaters Corner improvements.</p>

These projects and services amount to \$18.3 million and will become more expensive over time. Furthermore, it is anticipated that other initiatives, capital improvements, and services will be identified in upcoming years thus adding to total unfunded projects.

Should the City remain in status quo, it will become more difficult to protect the City’s valued quality-of-life programs and maintain vital services. To address higher costs, the City Council will be required to prioritize the mandatory services needed to operate the City and may have to drastically reduce, eliminate, or choose among essential functions and services.

DISCUSSION/ANALYSIS

Considering the gravity of the anticipated fiscal crisis and to protect the future of Calabasas, the City has explored different approaches to generate revenue, with the goal of securing a stable, reliable source of general-purpose funding.

During the Mid-Year FY 2023-2024 Budget presentation at the February 28, 2024 council meeting, the City’s Chief Financial Officer noted a decline in sales tax revenues for three consecutive quarters. Accordingly, Mr. Ahlers indicated that the budget projections for the year would be adjusted to reflect the change in revenues. At the same meeting, during a subsequent agenda item relating to the City’s budget, the City Council directed staff to return with additional information on potentially increasing the Transient Occupancy Tax (hotel tax) or potentially implementing a Transaction and Use Tax (sales tax add-on) in order to maintain

essential services and the existing quality of life programs offered by the City. Both the Transient Occupancy Tax and the Transaction and Use Tax were preliminarily discussed at the March 27, 2024 City Council meeting.

Transient Occupancy Tax: A Transient Occupancy Tax is levied on hotel stays within Calabasas and is collected by the hotels and then remitted to the City. The City's current Transient Occupancy Tax rate is 12% and is expected to generate approximately \$2,650,000 this fiscal year. Any increase in the Transient Occupancy Tax 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. Voters tend to support Transient Occupancy Tax increases for the fact that in most cases the tax is paid by non-residents. Notwithstanding that benefit, increasing the Transient Occupancy Tax would not yield sufficient revenues to address the public safety, park improvements, and infrastructure needs of the City.

Sales Tax and Transaction and Use Tax Overview: The California Department of Tax and Fee Administration (CDTFA) collects the sales and use tax from local retailers selling tangible personal property or from the users of tangible personal property purchased from retailers outside of the State of California. The base statewide sales tax is 7.25%. California cities currently receive 1% of the total sales tax rate within its jurisdiction, which is known as the Bradley Burns Uniform Local Sales and Use Tax. State law authorizes city and county residents to adopt local Transaction and Use Taxes in addition to the Bradley Burns tax. In Los Angeles County the total sales tax rate is currently capped at 10.25%.

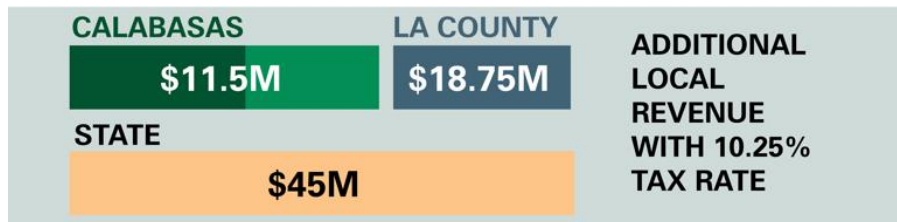
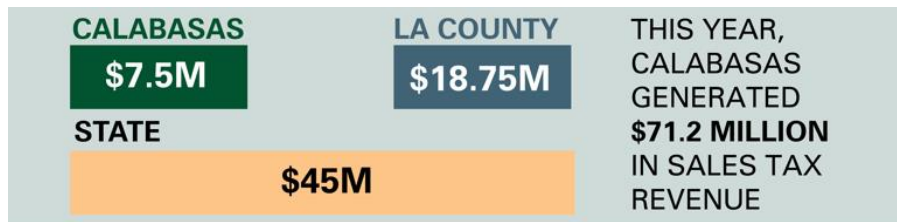
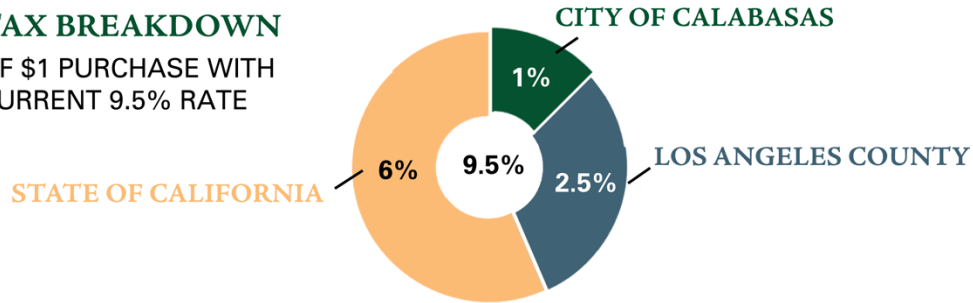
The current sales tax rate in Calabasas is 9.50%. With the current cap of 10.25%, the City of Calabasas may adopt a Transaction and Use Tax at a rate of 0.125% (or a multiple thereof) up to 0.75%. If the City of Calabasas chooses not to pursue the 0.75% through a Transaction and Use Tax, another taxing entity (Los Angeles County, South Coast Air Quality District, and/or the State of California) may submit a sales tax initiative to the voters for a portion or all of the 0.75% available sales tax under the cap.

Sales Tax Breakdown: As noted above, the sales tax rate in Calabasas is 9.50% of which the City receives 1%. The remaining 8.5% is split between Los Angeles County and the State of California.

BREAKDOWN OF YOUR CURRENT SALES TAX

TAX BREAKDOWN

OF \$1 PURCHASE WITH
CURRENT 9.5% RATE



Comparison of Local Sales Tax Rates: Of the 88 cities in Los Angeles County, 57 have adopted a Transaction and Use Tax, with others currently considering a TUT similar to that of Calabasas. The table below shows a breakdown of the cities and their associated tax rate:

Cities	Tax Rate
Agoura Hills, Artesia, Bell, Beverly Hills, Bradbury, Calabasas, Cerritos, City of Industry, Claremont, Diamond Bar, El Segundo, Hermosa Beach, Hidden Hills, La Habra Heights, La Mirada, Los Angeles, Manhattan Beach, Maywood, Palos Verdes Estates, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Rosemead, San Dimas, San Marino, Santa Clarita, Temple City, Walnut, West Covina, West Lake Village	9.50%
Avalon, Downey, El Monte, Inglewood, La Puente, Malibu, Torrance	10.00%

Alhambra, Arcadia, Azusa, Baldwin Park, Bell Gardens, Bellflower, Burbank, Carson, City of Commerce, Compton, Covina, Cudahy, Culver City, Duarte, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Huntington Park, Irwindale, La Canada Flintridge, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Lynwood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Paramount, Pasadena, Pico Rivera, Pomona, San Fernando, San Gabriel, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Gate, South Pasadena, Vernon, West Hollywood, Whittier	10.25%
Santa Fe Springs (<i>exceeds 10.25% through a legislative exemption</i>)	10.50%

Unlike many cities in California, the majority of the sales tax revenue generated in Calabasas comes from non-residents. Out of town visitors shop at local retail establishments, dine at restaurants, and purchase taxable goods in the community. During FY 2023-2024 an estimated 57.2% of the sales tax revenue secured by the City came from non-residents. In actual dollars, that is approximately \$4,290,000 in sales tax that the City received.

Calabasas is a both a destination and a gateway to other destinations. Visitors proportionately contribute to the local economy and help sustain the amenities (parks, recreational facilities, public spaces), services (public safety), and infrastructure (clean streets, landscaped medians) that characterize the community. This balanced revenue structure offsets General Fund costs that would otherwise be borne by Calabasas residents.

Transaction and Use Tax: 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% Transaction and Use Tax 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% Transaction and Use Tax would result in an estimated increase of \$2,700,000 annually to the General Fund.

THE SALES TAX DOES NOT APPLY TO THE FOLLOWING:



The transaction and use tax excludes 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.

The resulting benefit of a Transaction and Use Tax to the residents and businesses of Calabasas would be maintaining essential City services, while investing in important infrastructure projects that would otherwise be deferred due to the lack of funding.

REVENUE FROM THE MEASURE WILL STAY IN CALABASAS

The locally controlled revenue generated from this Measure will maintain and protect the City’s existing quality of life services and will allow for the City to begin addressing critical needs that, over time, will become more expensive.

	Public Safety: 911 emergency response, increased patrols and security measures to deter criminals from accessing homes via open space.		Streets & Sidewalks: Repairing and maintaining local streets, potholes, and sidewalks.
	Parks & Community Protection: Maintaining clean and safe parks and protecting open space/natural areas.		Fire Protection: Preparing for/responding to wildfires and natural disasters.
	Addressing Homelessness: Homeless intervention and mental health services.		Programs & Services: Maintaining senior and youth programs and services.

ACCOUNTABILITY

The City of Calabasas Public Safety / City Services Measure includes numerous accountability provisions, such as public disclosure of all spending and annual independent financial audits, ensuring that funds from this measure will be used efficiently, effectively, and as intended. The City is required to publicly report on the expenditure of revenues, including the revenues generated by the proposed sales tax measure.

Importantly, the revenues generated by the measure will be under local control to provide general local services and will be spent on quality-of-life services and

programs benefitting Calabasas residents and businesses. By law, the State and County cannot take this funding away.

NEXT STEPS

To provide Calabasas voters the option of approving a 0.75% sales tax increase to fund critical City services, the Calabasas City Council would need to adopt Resolution No. 2024-1912 that calls for an election on November 5, 2024 and requesting consolidation with the Statewide General Election. The resolution also approves the ordinance enacting the 0.75% sales tax increase, subject to voter approval at the election. Furthermore, the resolution directs the City Attorney to prepare an impartial analysis of the measure and authorizes the Mayor on behalf of the City Council to prepare an argument in favor of the measure and a rebuttal to an argument filed against the measure if required.

A two-thirds vote of all members of the City Council (four of the five council members) will be required to pass Resolution No. 2024-1912 to submit the proposed sales tax ordinance to the voters.

The Calabasas City Council requests the following question be submitted to the voters of the City of Calabasas at the General Municipal Election to be held on November 5, 2024:

<p>City of Calabasas Public Safety/City Services Measure Shall the measure funding City of Calabasas services such as maintaining 911 response/police protection; helping prevent property crimes/thefts/home break-ins; preparing for/responding to wildfires; protecting open space/natural areas; keeping public areas/parks safe/clean; addressing homelessness; repairing streets/potholes; for general government use by establishing a ¾¢ sales tax providing approximately \$4,000,000 annually until ended by voters; requiring audits, public spending disclosure, funds locally controlled, be adopted?</p>	<p>YES</p> <p>NO</p>
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FISCAL IMPACT/SOURCE OF FUNDING:

Subject to approval by Calabasas voters on the November 5, 2024 General Election, a local transaction and use tax (sales tax) would take effect on or around April 1, 2025. Based on estimates provided by HdL Companies, the City’s sales

tax consultant, a 0.75% local sales tax would generate approximately \$4,000,000 annually in additional General Fund revenues (based on FY 2023-2024 sales tax projections).

Under Revenue and Taxation Code 7272, the California Department of Tax and Fee Administration (CDTFA) will assess the City charges to administer the new local sales tax, with a statutory maximum not to exceed \$175,000.

REQUESTED ACTION:

1. Approve Resolution 2024-1912, and the following actions:
 - a. Call and give notice of a Municipal Election for the purpose of submitting to the City's qualified voters the "City of Calabasas Public Safety/City Services Measure," which enacts the "City of Calabasas Transactions and Use Tax Ordinance" that establishes a general-purpose three-quarter percent retail transactions and use tax measure subject to majority voter approval;
 - b. Provide and set the rules for the filing of arguments for and against the measure and rebuttal arguments;
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3. Authorize the Mayor, on behalf of the City Council, to prepare and file a written argument in favor of the proposed measure.
4. Authorize the City Manager to execute all the necessary documents on behalf of the City.

ATTACHMENTS:

- Attachment A – Unfunded Projects and Services
- Attachment B – Resolution 2024-1912
- Attachment C – Ordinance 2024-406