



Legislation Text

File #: 18-0521, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director
Liza Tamura, City Clerk
George Gabriel, Senior Management Analyst

SUBJECT:

Resolution No. 18-0521, Placing a Ballot Measure on the March 5, 2019 General Municipal Election to Adjust the City's Hotel/Motel Transient Occupancy Tax (TOT) by up to 4% and Resolution No. 18-0164, Providing for the Filing of Rebuttal Arguments for City Measure (Finance Director Charelian and City Clerk Tamura)

ADOPT RESOLUTION NOS. 18-0521 AND 18-0164

RECOMMENDATION:

Staff recommends that the City Council adopt Resolution No. 18-0521 to submit a ballot measure to the voters to adjust the City's TOT by up to 4% and adopt Resolution No. 18-0164 providing for the filing of rebuttal arguments for city measure.

FISCAL IMPLICATIONS:

The City Council previously directed staff to utilize the services of the Los Angeles County Registrar-Recorder/County Clerk to conduct the March 5, 2019, General Municipal Election. Funds totaling \$314,182 were previously allocated towards conducting the March 5, 2019 General Municipal Election. In the event City Council submits a ballot measure at the March 5, 2019, election, \$3,000 has been appropriated and budgeted.

The City currently collects approximately \$5.2 million in TOT revenue each year from 12 hotels and motels through what is commonly known as a "hotel bed tax." The tax is not a tax on residents or their property, but a tax paid by guests choosing to stay in a lodging facility within the City. 100% of the additional TOT revenue will go to the General Fund. Of the current \$5.2 million received on an annual basis, the City Council has, in past years, allocated 15% (approximately \$750,000) to the Capital Improvement Project (CIP) Fund (the allocation is at the discretion of the City Council). Each 1% increase in the TOT is estimated to generate approximately \$500,000 per year; a rate adjustment of between 2%-4% has the potential to generate an additional \$1.0 - \$2.0 million annually which will be reinvested in the community. As discussed during the August 21, 2018, City Council meeting, the additional revenue generated by this increase will support the desires of our residents to improve the City's quality of life services.

BACKGROUND:

On March 9, 2018, City Council developed a Work Plan for Fiscal Year 2018-2019. As a Work Plan item, the Finance Department was tasked with analyzing various revenue enhancements to address areas which are in need of funding. While the City has managed its costs and the economy has been performing well, there are inadequate funds to address long-term facility and infrastructure needs, as well as other City services. The five-year forecast in the Fiscal Year 2018-2019 and 2019-2020 biennial budget indicates that there is inadequate funding for long-term capital improvement projects. The last time the City adjusted its TOT rate was 20 years ago, in 1998.

At the July 17, 2018 Finance Subcommittee meeting, staff presented options for revenue enhancements. The Subcommittee reviewed the different options and expressed interest in adjusting the TOT to a rate comparable to surrounding cities in order to secure a reliable, locally-controlled source of revenue that cannot be taken by the State. Because the TOT is assessed on visitors staying in local hotels, the potential increase will have no effect on residents and property owners. The hotels collect the TOT from those visitors and remits the amount to the City.

At the August 21, 2018 meeting, the City Council directed staff to conduct polling on an increase of the City's existing 10% TOT rate by 2%, 3% or 4% and return to Council with polling results and necessary resolutions. Staff brought back a contract with Lew Edwards and True North on September 4 for polling/survey services. The statistically valid field survey and interviews were conducted this Fall. Reported results showed 74.8 - 76.4% of the 667 respondents sampled were in support of raising the TOT rate up to 14%. Manhattan Beach currently has the lowest TOT among 15 cities surveyed. Our coastal neighbors of Hermosa Beach, Redondo Beach and El Segundo are all currently at 12%. Hawthorne (12%), Inglewood (14%) and Torrance (12%) also have higher rates than Manhattan Beach. Beverly Hills' TOT is 14%, West Hollywood's TOT is 12.5%, and Santa Monica's TOT is 14%. This measure will allow Manhattan Beach to improve our fiscal position, maintain and improve City services, and align the City's TOT rate more appropriately with other nearby jurisdictions' rates.

Thirty-one California Cities submitted TOT ballot measures to the voters at the recent state elections held November 6, 2018. Of those, 29 of the 31 cities passed measures with an average of 68.4% of voters in each jurisdiction voting for the increase. Rate increases averaged approximately 2.5% for those cities with existing hotel bed taxes in place. Notably, two of the cities enacted TOT rates for the first time. Two cities also utilized a tiered approach to achieve a rate increase from 10% to 14% over a period of three years.

DISCUSSION:

Submitting a Ballot Measure to the Voters at the Scheduled General Municipal Election on March 5, 2019

A community survey conducted October 2018, showed residents highly value the quality of life in Manhattan Beach as a safe, clean, well-maintained City. The following City services were identified as priorities:

- providing quick responses to 9-1-1 emergencies;
- providing police services including neighborhood police patrols, crime prevention and investigations;
- maintaining streets and repairing potholes;

- keeping public areas clean and free of graffiti; and
- providing fire protection and emergency medical services.

As a voter-approved measure, all money raised will be used to fund essential City services in Manhattan Beach. None of these funds would be subject to seizure by the State. As stated above, the City currently collects approximately \$5.2 million in TOT revenue each year. The tax is not a tax on residents or their property, but a tax paid by guests choosing to stay in a lodging facility within the City, such as hotels and motels. Short-term rentals also are considered lodging facilities, and are required to pay the same TOT as motels and hotels.

The City is strongly committed to prudent, responsible oversight of taxpayer dollars and strong fiscal stewardship. All funds generated by the measure will be subject to independent citizens oversight, the process for which will be determined by the Council if the measure is enacted by voters.

California Elections Code Section 9222 authorizes city councils to place measures on an election ballot for consideration by the voters. The proposed adjustment is a general tax. Accordingly, the California Constitution requires that the voters approve such general tax by majority vote. By prior resolutions, the City Council called for holding a general municipal election on Tuesday, March 5, 2019. If the Council adopts the draft Resolution attached to the staff report by a 4/5th vote, this ballot measure can be placed on the same March 5, 2019, election ballot.

The resolutions also direct the City Attorney to prepare an impartial analysis pursuant to California Elections Code Section 9280, and authorizes arguments for and against the measure in accordance with California Elections Code Section 9282(b).

PUBLIC OUTREACH/INTEREST:

In addition to the polling survey conducted by Lew Edwards Consulting and True North Research, City staff welcomed input from hospitality stakeholders. On November 8 and 13, the City Manager and Finance Director engaged with stakeholders regarding the ballot measure. Six operators/owners of the twelve hotel/motels in the City chose to participate and provide feedback. They opposed an adjustment of 4%. They indicated they were receptive to a 2% adjustment provided the City Council would allocate a portion of the revenue to marketing and advertising for hotels and motels for a limited term (3-4 years). Finally, they asked that Council consider an effective date for the new tax that will allow any corporate contracts or obligations to be honored by the hotels without negatively impacting their revenues.

If the City Council votes to place the TOT measure on the March 5, 2019 ballot, City staff will continue its legally permissible efforts to provide an accurate, fair and impartial presentation of relevant facts to aid the voters in reaching an informed judgment regarding the ballot measure.

LEGAL REVIEW

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

Attachment:

1. Resolution No. 18-0521 (Including the Ordinance as an Exhibit)

2. Resolution No. 18-0164