City of Culver City, California

Agenda Item Report

Meeting Date: 07/12/2010	Item Number: A-2
CITY COUNCIL AGENDA ITEM: Discussion and Direction Regarding Recommendation to Place a Ballot Measure on the November 2, 2010 Ballot to Increase the City's Transient Occupancy Tax Rate from 12% to 14% and Authorization of a Consultant to Assist City Staff with Educational Program Related Thereto.	
Contact Person/Dept.: Jeff Muir/Finance	Phone Number: (310) 253-5865
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: []	Attachments: []
Commission Action Required: Yes [] No []	Date: ________________
Public Notification: (E-Mail) Meetings and Agendas – City Council (06/xx/10)	
Department Approval: Jeff Muir (06/30/10)	City Attorney Approval: Carol Schwab (by H. Baker) (07/08/10)
Chief Financial Officer Approval: Jeff Muir (06/30/10)	City Manager Approval: P. Lamont Ewell (07/08/10)

RECOMMENDATION:

Staff recommends the City Council provide direction to staff to bring back the necessary items for City Council action in order to place a measure on the November 2, 2010 ballot to increase the City's Transient Occupancy Tax (TOT) rate from 12% to 14% and authorize a public education process about the measure.

BACKGROUND:

California Revenue and Taxation Code (Section 7280) authorizes the legislative body of any city or county in the State of California to levy a tax on the privilege of occupying a room, hotel room or other lodging establishment for a period of 30 days or less. This tax is commonly referred to as a "transient occupancy tax" or "hotel tax."

The City of Culver City's TOT was originally adopted at 4% as a general tax in 1964 by Ordinance No. CS-498. Over the years it was gradually increased, the last being in 1989 when it went from 10% to the current 12%. The previous increases to the tax rate were approved by the City Council prior to the current legal requirement that all new taxes or tax increases must be approved by the voters. The City's TOT is established in Sections 11.02.100 through 11.02.160 of the Culver City Municipal Code (CCMC).

DISCUSSION:

Staff recommends the City Council consider a ballot measure to increase the City's transient occupancy tax from 12% to 14%. The TOT is charged only to persons who occupy hotel/motel rooms in the City and transmitted to the City by those who collect room charges. Therefore, this increase would impact only those that stay in the hotel/motel rooms - mainly visitors and travelers. There will be no impact on residents unless they utilize hotel accommodations in the City. The TOT is only applied to hotel and motel rooms; it is not applied to any other facilities and services offered by the hotels such as catering, banquet, food, spa, etc. If approved by voters, the estimated increase in TOT revenue would be $237,000 during the upcoming 2010-2011 Fiscal Year, as the increase would only be in effect for half of the fiscal year. The annual increase for future years is estimated at $475,000. Additional TOT revenue may be used for any purpose, such as to support government operations and services, including public safety, street and infrastructure improvements and to support other city services.

Benefits of considering an increase in the TOT rate include placement of a larger portion of the tax burden to provide city services and maintenance on transient travelers and visitors to the community who utilize City assets such as parks, streets, and emergency services. Residents would benefit from this method of spreading the costs of services over a larger tax base, and those visiting our community would pay a proportionate share of the cost to provide the high level of services enjoyed in Culver City. From 2002 through 2008, there have been 53 California city and county TOT measures to establish, increase or expand the TOT that have been successful. Staff is not aware of any concrete evidence that an increase in the TOT has a negative impact on hotel bookings. The proposed increase puts Culver City at the same rate as its surrounding cities.

City	Rate
Beverly Hills	14.0%
Los Angeles	14.0%
Santa Monica	14.0%
West Hollywood	12.5%*

(*Note: West Hollywood also has a 1.5% TOT rate that goes directly to their Visitors Bureau, making the total rate paid a customer 14%)

The adopted Fiscal Year 2010-2011 budget was the first of a two-year plan to close the structural deficit in Culver City's General Fund. There is a remaining deficit amount estimated at $2 million that must still be addressed. The City Manager's recommendation was that negotiations immediately begin with the City's employee bargaining groups to eliminate the deficit through compensation or benefit concessions. It was also recommended that the City Council consider an increase to the TOT rate as part of the strategy, as it would greatly assist the City in securing its financial future going forward. The final alternative was to consider further position and service reductions.

The TOT cannot be increased without a vote of the people due to State law (Prop. 218). The current TOT is considered a general tax because the City has discretion on how the proceeds are spent. It is recommended that the City retain this discretion with the proposed increase. As a general tax, a majority vote of Culver City voters is required to increase the TOT. If the additional tax proceeds were dedicated to a specific purpose (only public safety, only street improvement, etc.), it would be considered a special tax and a two-thirds majority vote would then be required.

In order to meet the County's deadline and also provide adequate time for proper execution and delivery of the documents, the City Council must take formal action to place this measure on the ballot and consolidate the election with the County by July 26, 2010. Staff is seeking City Council approval of the recommendation to move forward with this item so that the necessary items can be brought back for approval by this date.

If the City Council approves this item moving forward, staff is also recommending the use of a consultant to assist with a public education program for the ballot measure. It is very important that the public understand what they are being asked to vote on, especially when it comes to tax measures. State law permits cities to provide impartial educational campaigns for ballot measures that they place on the ballot for voter consideration. Staff is proposing a budget not-to-exceed $25,000 to include the usage of a consultant with expertise in the development and implementation of an impartial educational campaign. Funding for such services was included in the Fiscal Year 2009/2010 budget and would be re-appropriated in the Fiscal Year 2010/2011 budget. Should the City Council determine not to use the services of a consultant, City staff will have to be responsible for creating the educational materials, and it is estimated there will be up to $15,000 in printing and mailing costs.

FISCAL ANALYSIS:

The estimated cost to consolidate the election with Los Angeles County has been requested from the County and is expected to be received by the time of the July 12, 2010 meeting. This was not included in the Fiscal Year 2010/2011 budget and will need to be added. The total not-to-exceed budget request for professional assistance with an impartial educational campaign is $25,000. An additional $15,000 is recommended for printing and mailing costs. The amount of $40,000 was included in the Fiscal Year 2009-2010 budget for this purpose, and will be re-appropriated in Fiscal Year 2010-2011.

ATTACHMENTS:

None.

MOTION:

That the City Council:

1) Direct staff to bring back the necessary items for City Council action in order to place a measure on the November 2, 2010 ballot to increase the City's Transient Occupancy Tax rate from 12% to 14%,

AND

2) Authorize the use of a consultant to develop and implement an impartial public education program.

OR

3) Direct staff to not pursue an increase to the City's Transient Occupancy Tax rate.