



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: 24-442, Version: 1

- a. Receive a report with further details regarding the two potential revenue enhancement options, including increases to the County's district sales tax and transient occupancy tax; and
- b. Provide additional direction to staff on next steps. (ADDED VIA ADDENDA)

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive a report with further details regarding the two potential revenue enhancement options, including increases to the County's district sales tax and transient occupancy tax; and
- b. Provide additional direction to staff on next steps.

SUMMARY:

On March 12, 2024, the County Administrative Office (CAO) presented the countywide financial forecast to the Board of Supervisors (Board). The forecast indicated continued growth in discretionary revenues. However, the growth is not sufficient to keep up with the increased costs of doing business. An update about the County's financial condition was provided to the Board during its April 2, 2024, budget workshop. During this workshop, the Board directed staff to bring a report back to the Board to focus on the most feasible revenue options for the earliest implementation possible.

Based on this direction, staff presented the options outlined below for Board consideration during the May 7, 2024, meeting:

- Transient Occupancy Tax Increase
- District Sales Tax Increase
- Establish a new Utility User Tax
- Amend the Contribution to the Development Aside
- Decrease Expenditures
 - Suspend the supplemental unfunded accrued liability (UAL) pension program
- One-time options
 - Redirect funds -from the compensated absences assignment

After the presentation, the Board directed staff to: (1) engage a polling company to determine the electorate's willingness to support a district sales tax or transient occupancy tax increase measure and, (2) elaborate on the next steps needed to implement one of those two measures in the November 2024 general election.

During the May 29th Board meeting, the Board received information obtained from polling the electorate. Polling results indicated the County's electorate favors both measures: 61% for a sales tax and 63% for a transient occupancy tax.

After this presentation, the Board voted to direct staff to do necessary work to place ballot measures on the November 2024 election to increase district sales tax by one cent, increase Transient Occupancy Taxes (TOT) from 10.5% to 11% for all lodging facilities excluding short term rentals, and to increase TOT for short-term rentals by 5%. Annual revenue from a successful district sales tax at 1% is estimated at \$29 million, while a

0.5% successful TOT measure is estimated at \$1.7 million and a 5% TOT increase on short term rentals is estimated at \$1.8 million. Staff will discuss additional costs to pursue these measures and who would vote on the measures at the June 4th Board meeting.

DISCUSSION:

District Sales Tax

What is a District Sales Tax?

District taxes are transactions (sales) and use taxes imposed by certain cities, counties, and other local jurisdictions on the sale or use of tangible personal property (merchandise). District taxes are approved by voters in those jurisdictions and are taxes imposed under the Transactions and Use Tax Law (Revenue & Taxation Code (R&T) section 7251). Not all areas in California impose district sales taxes. The maximum combined district sales tax rate within any county may not exceed 2% unless specifically authorized by statute. The statewide base sales and use tax rate is currently 7.25%, while the total tax rate is higher in areas where district sales taxes are imposed.

Who can Impose a District Sales Tax

A county, city, or other authorized government entity can impose a district tax for general or specific purposes (R&T section 7252). The approval of a general tax requires a simple majority of the electorate to be successful, while the approval of a special tax requires a two thirds majority. District tax can be imposed directly by the local government or through a special purpose entity. A county can also create a transportation authority to impose district sales taxes.

District Sales Tax Rate Cap

The combined rate of all district taxes imposed in any county must not exceed 2% unless specifically authorized by statute (R&T section 725.1). Generally, tax rates may be imposed at a minimum rate of 0.125% and increase in 0.125% increments up to the 2% cap in a county. Special legislation may vary this format, and, in some instances, a higher district tax rate may be imposed by a district. Any tax increase by the county would generally raise the tax rate in all the cities within that county.

Operative Dates

A new or an increase to district sales tax becomes operative no earlier than the first day of the first calendar quarter beginning more than 110 days after the adoption of the ordinance (R&T section 7265). A district tax must become operative on the first day of a calendar quarter. For example, the operative date for a tax approved by the voters on November 2, 2024, would have an operative date of April 1, 2025, which is when retailers engaged in business in the district would be required to report and/or collect the tax for transactions because April 1 is the first day of the calendar quarter more than 110 days after the election.

Cost of Implementing a New District Sales Tax

The State will bill a new taxing district for preparatory charges to administer the new district sales tax (R&T section 7272). The cost will be based on actual costs to implement the new district sales tax after the it has been approved by the voters. Actual charges to be billed will include the cost of updating returns, programming for data processing, developing, and adopting regulations, updating publications, developing procedures, notifying taxpayers, and other necessary costs which include the State's direct and indirect costs. The statutory maximum amount of preparatory costs may not exceed \$175,000.

Next Steps After Voters Approve a New District Sales Tax

If the voters approve a new district sales tax, staff will need to prepare an ordinance to add a chapter to the Monterey County Code for Board consideration, and that ordinance will need to be certified by the State. The

State will also review the election results to ensure statutory requirements are met and email staff the required contracts which must be completed and returned. The County authorized representatives must sign and return two contracts to the State prior to the operative date of the new tax. The contracts include the following terms:

- Agreement for preparation to administer and operate the tax; and
- Agreement for ongoing state administration of the tax.

An authorized official for the jurisdiction must return the following:

- Five original "preparation to administer" contracts signed by an authorized official;
- Five original "ongoing administration" contracts signed by an authorized official;
- Five certified ordinances;
- Five certified resolutions authorizing the official to sign the contracts;
- One certified copy of the election results; and
- One mailing address form for legal, finance, and warrant correspondence.

Potential Revenue Impacts.

It is estimated that a 1% increase in a district sales tax could yield an estimated \$29 million in annual revenue for the County to provide important County services.

Transient Occupancy Tax

The Transient Occupancy Tax (TOT) in the County of Monterey is 10.5% on the rent charged to transient guests in hotels/motels and homes rented by owners located in the unincorporated areas of the County. The TOT is commonly known as a "bed tax" or "hotel tax". The County derives this authority from state law (R&T section 7280).

The TOT is a general tax that is used by the County to provide important general county services to the community. These services vary annually but have included road improvements and revenue benefit programs to stimulate tourism, promote the economy, create jobs, and/or a better quality of life in the County. A simple majority of the electorate would have to approve an increase in the County's TOT.

If the voters approve an increase to the County's TOT, staff will need to prepare an ordinance to amend Chapter 5.40 of the Monterey County Code for Board consideration. The ordinance could include information to set a different rate for lodging facilities, and for short-term rentals.

Potential Revenue Impacts.

Annual revenue from a successful district sales tax at 1% is estimated at \$29 million, while a 0.5% increase in TOT for traditional hospitality facilities is estimated at \$1.7 million and a 5% increase on short term rentals is estimated at \$1.8 million.

OTHER AGENCY INVOLVEMENT:

County Counsel has reviewed the report.

FINANCING:

The County incurred \$47,900 in expenses for the polling services directed by the Board. In addition, if a district sales tax measure is pursued and approved by the voters, the County must pay the State up to \$175,000 to implement the sales tax measure. Also, consultant and staff costs to prepare the required ordinance and ballot

measures is estimated at \$200,000. If the County elects to provide educational materials about these measures to the electorate, that cost is estimated at \$100,000. Annual revenue from a successful district sales tax at 1% is estimated at \$29 million while a 0.5% successful TOT measure is estimated at \$1.7 million and a 5% TOT increase on short term rentals is estimated at \$1.8 million.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

This report is consistent with the Board of Supervisors' Strategic Initiative for Administration. Providing direction to staff for implementation of one the revenue options described helps the County of Monterey plan for future balanced budget that sustains core services and efficiently allocates resources.

☐ Economic Development
☒ Administration
☐ Health & Human Services
☐ Infrastructure
☐ Public Safety

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