



County of Monterey

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

Board Report

File #: RES 24-125, **Version:** 1

- a. Consider adopting a Resolution calling for an election for the purpose of submitting to the qualified electors (entire County) of the County of Monterey a countywide measure to raise the retail transactions and use tax (sales tax) in the unincorporated area by 1% (4/5 vote required); or
- b. Consider adopting a resolution calling for an election for the purpose of submitting to the qualified electors (unincorporated County only) of the County of Monterey a countywide measure to raise the retail transactions and use tax (sales tax) in the unincorporated area by 1% (4/5 vote required); and/or
- c. Consider adopting a resolution calling for an election for the purpose of submitting to the qualified electors of the County of Monterey a countywide measure to raise the Transient Occupancy Tax by 0.5% for hotels and by 5% for short-term vacation rentals (4/5 vote required); and
- d. Provide additional direction to staff.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Consider adopting a Resolution calling for an election for the purpose of submitting to the qualified electors (entire County) of the County of Monterey a countywide measure to raise the retail transactions and use tax (sales tax) in the unincorporated area by 1% (4/5 vote required); or
- b. Consider adopting a resolution calling for an election for the purpose of submitting to the qualified electors (unincorporated County only) of the County of Monterey a countywide measure to raise the retail transactions and use tax (sales tax) in the unincorporated area by 1% (4/5 vote required); and/or
- c. Consider adopting a resolution calling for an election for the purpose of submitting to the qualified electors of the County of Monterey a countywide measure to raise the Transient Occupancy Tax by 0.5% for hotels and by 5% for short-term vacation rentals (4/5 vote required); and
- d. Provide additional direction to staff.

SUMMARY:

Despite efficient management and stewardship of County of Monterey fiscal resources, the County faces significant challenges which include impacts from the inflated housing market and growing response to emergencies. These challenges were presented during prior Board of Supervisor (Board) meetings. On March 12, 2024, the County Administrative Office (CAO) presented the countywide financial forecast to the 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 options 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 Set-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 29, 2024, 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 the presentation, the Board directed staff to do necessary work to place both ballot measures on the November 2024 election to increase district sales tax by 1%, 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 from 10.5% to 15.5%. Annual revenue from a successful district sales tax at 1% per dollar 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 provided an additional report during the Board's June 4, 2024, meeting, during which the Board directed staff to bring alternatives to place both (a sales tax and a TOT measure) on the November 2024 election or place one of them on the same election. This report provides those options to the Board for consideration.

DISCUSSION:

The County faces multiple challenges. One of the most significant challenges is the high cost of living in the County which impacts all County residents. The critical shortage of affordable housing for working families compounds this challenge resulting in a situation that forces essential workforce to find less than ideal, unsustainable living arrangements within our community. Additionally, as identified during the forecast presentation in March 2024, the County is projecting a deficit of more than \$20 million in the Fiscal Year (FY) 2025-26 budget. Also, although the FY 2024-25 Recommended Budget is currently balanced, potential results from current labor negotiations could create an imbalance. Additionally, impacts from the State's budget can also have significant impact on the County's ability to continue providing some essential services to the community.

Moreover, climate change continues to impact the County's way of living as evidenced by multiple disasters in the area; the 2016 Soberanes Fire, the 2017 and 2019 Winter Storms, the 2020 fire; and the most recent 2023 and 2024 storms and flooding which have impacted the community greatly. Placing one or both measures in the November 2024 election provides an opportunity for the electorate to determine if additional resources should be provided to the County to address some of these significant challenges.

County's Revenue Authority

County Board of Supervisors can raise local revenues through taxes, assessments, or fees. Each of these local revenue sources has its own constitutional and statutory authority and unique laws governing its use. A county can only impose those taxes, assessments, and fees, which the Legislature or the Constitution allows the county to impose, and which are approved by either a simple majority or two-thirds majority of local voters, per Propositions 13 (1978) and 62 (1986).

This report presents three options for the Board’s consideration: options “a” and “b” are mutually exclusive, while option “c” can be approved independently or in conjunction with option “a” or “b”. Alternatively, Option “d” seeks Board direction on an option not identified in the report. The only difference between options “a” and “b” is whether the measure is presented to the electorate in the entire county (option a) **or** the electorate in the unincorporated area of the County (option b). Any of the resolutions to put a measure on the ballot require a 4/5 vote by the Board.

The transactions and use tax, known as a ‘sales tax’, is collected on consumer goods and services as a percentage of the amount purchased. The current sales tax rate for the County is shown in Table 1.

Table 1- County Sales Tax Rate

<u>Category</u>	<u>Program / Measure</u>	<u>Rate</u>
Bradley Burns	State	6.00%
	Local Jurisdictions	1.00%
	State Transportation Dev Act	0.25%
	<i>Subtotal</i>	<i>7.25%</i>
District Taxes	Monterey-Salinas (MST) Special Transit	0.125%
	Monterey Transportation Safety	0.375%
	Transactions and Use Tax	
<u>Current Total</u>		<u>7.75%</u>

The Board is presented with two options to place a sales tax measure on the ballot. Option “1” in the staff report provides for the measure that would be voted on by the electorate countywide, but if approved, the tax would be applied exclusively to the unincorporated areas of the County of Monterey.

Option “b” provides for the measure that would be voted on by the electorate within the unincorporated area of the County. If the measure is approved by the voters, the tax would also be applied exclusively to the unincorporated area of the County of Monterey.

Under options “a” or “b”, the sales tax increase would be a general tax and revenues from the tax would be used for general County services. Also, purchases for essential items such as groceries, prescription medicine, diapers and feminine hygiene products would be exempt from sales tax. This targeted approach ensures that unincorporated residents and visitors shoulder the responsibility of contributing to the tax, aligning with the principle of localized funding for the outlined community initiatives. If the voters were to approve this measure, the revised sales tax for the County would still be among the lowest within all jurisdictions in the County. Table 2 shows the comparison between the County of Monterey and other municipalities in the County.

Table 2 - Sales Tax Rates Comparison in the County of Monterey

<u>Jurisdiction</u>	<u>Current Rate</u>
Carmel-by-the-Sea	9.25%
Del Rey Oaks	9.25%
Gonzales	8.75%
Greenfield	9.50%
King City	8.75%
Marina	9.25%
Monterey	9.25%

Monterey County	7.75%
Pacific Grove	9.25%
Salinas	9.25%
Sand City	9.25%
Seaside	9.25%
Soledad	9.25%

The procedure for increasing the current general sales tax for transactions in the unincorporated area is to submit the proposed measure to the electorate by either resolution or ordinance under provisions of the Government Code and the Elections Code. Attached is a resolution calling for an election to be held November 5, 2024, on the question of whether the County should add a 1% increase in the unincorporated area transactions and use tax until ended by voters.

If the Board adopts the resolution, the ballot question would read as follows:

To fund critical County of Monterey services, including programs to reduce homelessness, enhanced public safety and emergency services; traffic and road safety programs; street maintenance and pothole repair; libraries, parks and recreation facilities; water and sewer infrastructure maintenance; healthcare; job skill development programs; shall the County of Monterey's transaction and use tax be increased in unincorporated areas by 1%, providing approximately \$29,000,000 annually, to be spent locally only, until ended by voters?

If the voters approve the increase, the County of Monterey Code will be amended consistent with the voters' approval. In addition, staff will return with an amendment to the contract with the California Department of Tax and Fee Administration (CDFTA) for the administration of the increase to the transactions and use tax for the unincorporated area.

Option "c" presents the Board with the opportunity to place a Transient Occupancy Tax (TOT) in the November 2024 general election. The TOT increase would continue to be a general tax and revenues from the tax would be continued to be used for general County services. Table 3 shows the current TOT rates for jurisdictions within the County. If this measure is approved, the rate would be increased by 0.5% from 10.5% to 11% for stays in hotels and by 5% from 10.5% to 15.5% for stays in short-term rentals.

Table 3 - TOT Rate Comparison in the County of Monterey

<u>Jurisdiction</u>	<u>Rate</u>
Carmel-by-the-Sea	10.00%
County of Monterey	10.50%
Del Rey Oaks	10.00%
Gonzales	8.00%
Greenfield	10.00%
King City	10.00%
Marina	14.00%
Monterey, City	12.00%
Pacific Grove	12.00%
Salinas	10.00%
Sand City	12.00%
Seaside	12.00%

Soledad 12.00%

Table 4 shows the TOT rate comparison between the County of Monterey and peer entities.

Table 4 - TOT Rate Comparison with Peer Entities

<u>County or City</u>	<u>Base TOT Rate</u>
County of Monterey	10.5%
Santa Cruz County	12.0%
City of Monterey	12.0%
City of Marina	14.0%
City of Watsonville	12.0%
Sonoma County	12.0%
Santa Barbara County	12.0%
San Luis Obispo	9.0%

If the Board approves the TOT resolution, the ballot measure would read as follows:

To fund critical County of Monterey services, including programs to reduce homelessness, enhance street maintenance and pothole repair; update libraries, parks and recreation facilities; water and sewer infrastructure maintenance; healthcare; job development programs; shall the County of Monterey increase its existing Transient Occupancy Tax paid only by hotel/lodging guests in unincorporated areas from 10.5% to 11.0% for hotels and from 10.5% to 15.5% for short-term vacation rentals, providing approximately \$3,500,000 annually to be spent locally, until ended by voters?

If any of the resolutions presented to the Board are approved, draft ordinances will be brought back to the Board at a future date, likely in August 2024, and will be presented to the Board for consideration pending the outcome of the election to modify the existing County of Monterey Code to codify the new sales tax rate or modify the existing TOT rate. The TOT ordinance would include information to set a different rate for traditional lodging facilities (hotels), and for short-term rentals.

Information About Sales Tax and Transient Occupancy Taxes

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 County of Monterey 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.

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:

The Office of the County Counsel has reviewed the resolutions and draft ordinance language as to form.

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. Staff has prepared a resolution and draft ordinances for the Board’s consideration. Annual revenue from a successful district sales tax of 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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Attachments:

- a) Sales Tax Resolution - entire County
- b) Sales Tax Resolution - Unincorporated County only
- c) TOT Resolution
- d) PowerPoint Presentation