

REPORT TO THE CITY COUNCIL



DATE: August 5, 2014

TITLE: Proposed General Tax Measure Regarding One Percent Increase of Sales, Use and Transaction Tax

Prepared by: Martín Magaña, City Manager
Amy Aguer, Administrative Services Director
Steven B. Quintanilla, City Attorney

RECOMMENDATION

Adopt a resolution of the City Council placing on the November 4, 2014 ballot a general tax measure proposing a one percent increase in the sales, transaction and use tax.

BACKGROUND

Currently, the combined sales, transactions and use tax rate in Desert Hot Springs is 8.00%, of which the State receives 6.50%, the Riverside County Transportation Commission receives .50%, and the remaining 1.00% is distributed to the City for general purposes.

The sales, transactions and use tax is imposed on retailers for the selling of tangible personal property at retail and on the storage, use or other consumption in the City of tangible personal property purchased from any retailer, subject to certain exclusions and exemptions.

The proceeds of the City's 1.00% share of the combined sales, transaction and use tax is deposited in the City's general fund and used for general governmental purposes, such as City operations, police and fire services, street sweeping and repair, paramedics, parks and recreation, emergency response services, capital projects and other essential services.

Pursuant to the direction provided to staff in the Fiscal Emergency Resolution (if adopted by the City Council), staff recommends that the City Council consider increasing the City's sales, transaction and use tax by 1.00% which staff estimates will generate \$1.4 million dollars annually for essential City services.

The proposed increase in the City's sales, transaction and use tax would constitute a general tax measure under Section 1(a) of Article XIIC of the California, which both Article XIIC of the California Constitution and Section 53723 of the Government Code require approval by a majority of voters. Pursuant to Section 2(b) of Article IIIC of the California Constitution, the election to approve a general tax must be consolidated with a regularly scheduled general election for members of the governing body of the local government, which may be placed on the regularly scheduled general election ballot by a simple majority vote of the city council of a charter city, such as the City of Desert Hot Springs, pursuant to the holding in the case Traders Sports, Inc. v City of (2001) 93 CA4th 37. However, the next regularly scheduled general election for the City of Desert Hot Springs is not until November 2015.

In light of the foregoing, the November 4, 2014, election would be considered a special election should the City Council want to add this or any other general tax measure to the November 4, 2014 election ballot. As such, upon the declaration of a fiscal emergency by unanimous vote of the City Council (when the vote is taken), a general tax measure may be placed on a special election ballot pursuant to Section 2(b) of Article XIIC of the California Constitution and 75 Op's Cal Atty Gen 47 (1992), citing *Tidewater Southern Ry., Co. v Jordan* (1912) 163 C 105.

If the City Council unanimously adopts the Resolution determining and declaring the existence of a fiscal emergency within the City of Desert Hot Springs for all legal purposes, including

Article XIII C, section 2(b) of the California Constitution, this will allow the City Council to place this general tax measure on the November 4, 2014 special election ballot.

FISCAL IMPACT

A one percentage point (1%) increase in the sales tax is estimated to generate approximately \$1.4 million, per year, in additional revenue for the City of Desert Hot Springs. This will help offset the projected \$1.7 million deficit in FY 2015-16. This sales tax measure, if passed, would become effective April 1, 2015. Revenues would begin accruing to the City as of April 1, 2015. However, due to the way the State Board of Equalization distributes sales tax money, the City would begin receiving cash from this Measure July 1, 2015.

It will cost the City \$10,000 (estimated) to put this sales tax measure on the November 4th, 2014 ballot. The most recent informational campaign for a ballot measure cost the City \$14,500.

EXHIBITS:

- 1) One Percent Sales, Transaction and Use Tax Measure Resolution
- 2) One Percent Sales, Transaction and Use Tax Ordinance