



## Staff Report

**TO:** City Council  
**FROM:** Jennifer Ustation, Finance Director  
**DATE:** May 7, 2024  
**SUBJECT:** Revenue Strategy

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**Description** Review and provide feedback on the City's Revenue Strategy which is a Priority Level #2 Goal Target #4 Finances/Resources Goal #3 Develop a strategy for revenue development.

### **Background and Analysis:**

The City of Beaumont adopted a Strategic Plan which includes Level #2 Target #4 Goal #3 item to develop a strategy for revenue development. Within this item is to define the City's revenue goals as well as evaluate existing revenue sources and identify ways to diversify revenue streams.

### Revenue Goals

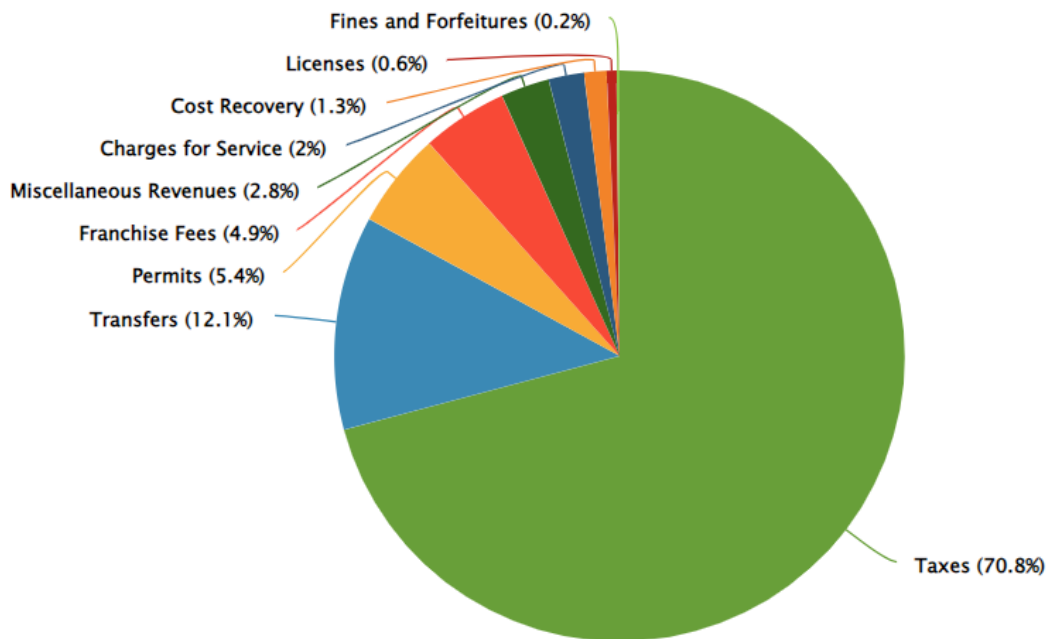
The Government Finance Officers Association (GFOA), the leading professional organization for public agency finance professionals, recommends that the budget process be tied to goals. Such goals can define what a community wants to preserve or what it wants to move toward. The City of Beaumont Financial Policies currently have revenue goals set as follows:

1. The City will maximize and diversify its revenue base to raise sufficient revenue to support essential City services and to maintain services during periods of declining economic activity. The City's overall revenue structure will be designed to recapture some of the financial benefits resulting from City economic and community development investments. Revenue collection efforts that produce positive net income for City service delivery will be the highest budget priority.
2. Departments that primarily or exclusively operate with non-General Fund revenue will minimize reliance on General Fund support for discrete programs that are not supported with fees.

### Current City Revenue Streams

- Taxes
- Licenses
- Permits
- Franchise Fees
- Charges for Service
- Fines and Forfeitures
- Cost Recovery
- Miscellaneous – Interest, Rebates, Lease Revenues
- Other Financing Sources – Transfers from other funds to support programs include donations, gas tax, CFD Administration, Services and Public Safety assessments, and grants.
- Administrative Overhead Charges – Recorded as a reduction of expense.

For the FY2023-2024 budget, the pie chart below represents the percentage of each revenue stream in the General Fund.



### Breakdown of Taxes

Sales and Use Tax – The sales tax that an individual pays on a purchase is collected by the State Board of Equalization and includes a state sales tax, the locally levied

Bradley-Burns sales tax and several other components. The sales tax is imposed on the total retail price of any tangible personal property. State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity, and water delivered through pipes, prescription medicines, agricultural feed, seeds, fertilizer and sales to the federal government. A use tax is imposed on the purchaser for transactions in which the sales tax is not collected.

Cities and counties may impose additional transaction and use taxes in increments of 0.125 percent with two-thirds city council approval and majority voter approval for a general tax, a special tax requires two-thirds voter approval. The combined rate of the city and county transaction and use taxes is capped at 2 percent in most counties.

Property Tax – The property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. State law provides a variety of exemptions to the property tax, including most government-owned property, nonprofit, educational, religious, hospital, charitable and cemetery properties; household furnishings and personal effects; timber; motor vehicles, freight and passenger vessels; and crops and orchards for the first four years. California Constitution Article XIII A (Proposition 13) limits the property tax to a maximum of 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is the base year plus the value of any improvements, plus annual inflation capped at 2 percent per year. The base year value is the value at the most recent sale or the 1975-76 market value. Property that declines in market value may be temporarily reassessed at the lower value. Property is reassessed to its current full value upon change in ownership (with certain exemptions). Property tax revenue is collected by counties and allocated according to state law among cities, counties, school districts and special districts.

Property Tax in Lieu of Vehicle License Fee (VLF) – The VLF is a tax imposed by the state on the ownership of a registered vehicle in place of taxing vehicles. Cities receive additional property tax to replace VLF revenue that was cut when the state permanently reduced the VLF in 2004. This property tax in lieu of VLF grows with change from the prior year in gross assessed valuation of taxable property in the jurisdiction. Property tax in lieu of VLF allocations is in addition to other property tax apportionments.

Transient Occupancy Tax (TOT) – More than 400 cities in California impose TOT on people staying for 30 days or less in a hotel, inn or other lodging facility.

Utility User Tax (UUT) – More than 150 cities (collectively representing a majority of the state's population) impose a utility user tax. UUT rates are levied on users of various utilities, which may include telephone, electricity, gas, water, and cable television.

Business License Tax – Most cities in California levy a business license tax. Business license taxes are most commonly based on gross receipts and sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of factors.

The taxes category for the FY 2023-24 budget has been outlined below:

<u>Taxes</u>	<u>Budget</u>	<u>Percentage</u>
Secured Property Tax	7,569,785.00	16%
Unsecured Property Tax	236,531.00	0%
Property Transfer Tax	342,371.00	1%
Street Light Assessment	957,344.00	2%
Sales & Use Taxes	28,374,719.00	59%
1/2% Sales Tax Public Safety	257,705.00	1%
Motor Vehicle In-Leiu	7,649,448.00	16%
Vehicle License Collection	63,324.00	0%
Utility User Tax	2,152,970.00	4%
Transient Occupancy Tax	416,381.00	1%
Business License	375,000.00	1%
	<u>48,395,578.00</u>	<u>100%</u>

### **Interventions to Increase Revenues**

Tax compliance for current taxes – this involves enhancing the internal effectiveness of city teams to generate more revenues without visible impact to the public. By implementing measures linked to effectiveness such as enhancing collections and audit processes, governments can capture significant value. Currently, the City only has compliance monitoring and auditing on Sales and Property taxes. It is recommended to implement a tax compliance monitoring and audit program for UUT, Franchise Fee, TOT, and Business License Taxes (presented as an enhancement at the budget workshop on April 30<sup>th</sup>).

Short Term Rentals - According to the California Senate Bill No. 60, Chapter 307, a “short-term rental” (sometimes shortened to “STR”) in the state refers to any residential property or portion of a residential property that is rented to an individual or group for 30 consecutive days or less. Evaluate the desire to include short-term rentals as an allowable business within the City. This could potentially increase the amount of transient occupancy tax the City currently collects.

Fee Increase - Determine internal service costs and update fees to cover costs – periodic review of internal service costs and updating fees to cover costs of benefits

received from users who individually receive a benefit, charging grants for indirect costs, and charging enterprise funds their identified share of administrative costs ensure there isn't a subsidy provided for services. The last cost allocation plan was adopted on May 24, 2022, and the last fee study and fee update was adopted on March 21, 2023. This is currently up to date and not recommended at this time.

Put current assets to work – Governments can increase revenue by use of owned real estate for leases or rental of vacant properties. A review of any unused vacant property is recommended to ensure the city is putting all available assets to use for revenue generation.

Investment Returns - The City of Beaumont invests cash based on its policy of safety, liquidity, and rate of return. Investment returns can increase revenues to be used for projects and one-time purchases. Reviewing quarterly reports and comparing them to benchmarks will provide City staff with the tools needed to adjust to make sure policy goals are met. This is a continuing effort.

Grant Funding – Cities can maximize grants that align with goals and priorities of the city. The Grants Analyst position was filled in FY 23-24. This role will play a pivotal part in bolstering the City's grant revenues by executing comprehensive grants management and administration strategies. This full-time position is charged with assisting departments in identifying, researching, and pursuing grant funding opportunities. The Grants Analyst ensures the City's eligibility and maximizes its chances of securing grants from various sources, including federal and state agencies. Through proactive communication, technical assistance, and training provided to departments, this position empowers City staff to adeptly navigate the grant application process, thereby enhancing the city's competitiveness for funding. Moreover, by developing and implementing streamlined administrative procedures and controls, they ensure efficient and compliant grant administration, thereby maximizing all awarded funds. This role acts as the central contact for grant submissions and reporting, further ensuring seamless interactions with grantors. Overall, this position serves as a cornerstone in the City's quest to augment its grant revenues, driving sustainable growth and development across various initiatives and projects.

Economic Development - Recruit new business, while retaining and expanding local business, that promotes growth of primary jobs and/or sales tax revenue. Below are goals identified in the Economic Development Strategic Plan which would assist in long-term revenue strategies:

- Develop an economically balanced community – Pursue a broad range of economic development opportunities, plus complimentary improvements in infrastructure and redevelopment areas.
- Recruit new businesses, while retaining and expanding local business, that promote growth of primary jobs and/or sales tax revenue.
- Connect with and assist local small business start-ups and entrepreneurs. The City is currently working on this through the Pass Area Resource Center.

A comprehensive matrix of steps associated with the Economic Development Strategic Plan has been included as Attachment A. These steps could be helpful in achieving long-term strategies.

Community Development – Community Facilities District (CFDs) allow for targeted funding of specific public services and infrastructure within a defined area. This means that residents within the district contribute directly to the services they receive. The special taxes collected within the CFD create a stable revenue source for ongoing maintenance and services. This stability allows for better planning and management. Any new annexed projects should be analyzed for impacts to public services and the use of a CFD should be considered.

Development Impact Fees – The City seeks to recover some of the cost of growth through development impact fees on new developments in the City of Beaumont. As Beaumont’s population grows, the demand for expansion of public infrastructure and the purchase of capital equipment needed to serve new development in the City increases. State law requires these fees to be updated every eight years. Currently the City is in the process of updating these fees.

Cannabis Sales - Evaluate the desire to allow cannabis retailers to do business within the City. This option will potentially increase sales tax and can include a component to the business license tax. There are some challenges with managing cannabis compliance so a study would be recommended to ensure potential revenue sources achieve the desired result without excessive cost. It should be noted that staff does NOT recommend this as an option to increase revenues.

## **GAP Analysis**

Gap Analysis of current taxes – this exercise involves analyzing the City’s revenue baseline to determine current revenue generation across all streams and then comparing revenue streams against benchmarks for peer cities to identify any gaps. With initial adjustments for relevance and size of potential revenue impact, cities can select the most promising streams as revenue generators.

A basic GAP analysis has been included as attachment B to this report.

Recommendations

- Implement Tax Compliance Monitoring and Audit services on current tax revenue streams not in a program.
- Through the budget process, attempt to program the maximum amount allowable from other funds for administrative costs to the General Fund as identified in the City's adopted Cost Allocation Plan.
- Review GAP analysis to determine if there is a gap in tax rates in comparison to neighboring cities. Receive direction from the City Council if there is interest in raising any rates.

**Fiscal Impact:**

The estimated cost to prepare this report is \$750.

**Recommended Action:**

Review revenue strategy and provide direction.

**Attachments:**

- A. Comprehensive Matrix of Steps Associated with EDSP
- B. GAP Analysis