



Staff Report

TO: City Council
FROM: Jennifer Ustation, Finance Director
DATE June 17, 2025
SUBJECT: Revenue Outlook and Review of Options

Description Receive and file the *Revenue Outlook and Review of Options* report prepared by GrassrootsLab, LLC, which outlines the City's long-term revenue risks and identifies potential strategies to maintain fiscal sustainability.

Background and Analysis:

On March 18, 2025, the City Council received an update on the Sales Tax Working Group regarding proposed changes to the state's e-commerce sales tax allocation formula. These changes, if enacted through legislation or a state ballot measure in 2026, could significantly reduce local sales tax revenues for jurisdictions with distribution centers. A preliminary analysis of the City's FY 2024 sales tax revenues indicates Beaumont could face an annual loss of up to \$9.4 million, beginning as early as FY 2026–27.

Given that sales tax is the City's largest General Fund revenue source, accounting for more than 40% of total revenues, this potential reduction poses a serious long-term fiscal challenge. At the same time, Public Safety costs have nearly doubled since 2021, due to the addition of a fire station and general cost increases, placing additional pressure on General Fund resources. A recent financial forecast projects that City expenditures could exceed revenues by FY 2031 if no corrective actions are taken and if the City proceeds with debt issuance for a new police station.

To proactively address these challenges, the City retained GrassrootsLab, LLC to prepare a revenue outlook and strategy report which is phase one of a potential three phased approach. The attached report provides:

- An overview of current revenue sources and the composition of the General Fund;
- Analysis of projected revenue risks and expenditure growth;

- A review of recent efforts to promote fiscal sustainability, including cost recovery measures, development impact fees, grant acquisition, and economic development;
- A summary of new and underutilized revenue opportunities, such as short-term rental permitting, leases or sales of City-owned land, and increased returns from billboards or other commercial uses;
- An evaluation of potential revenue measures, including:
 - Sales and Use Tax.
 - Transient Occupancy Tax (TOT).
 - Utility User Tax (UUT).
 - Parcel Tax.
 - Business License Tax (BLT).
 - Cannabis-related revenues (Note: Not recommended by staff).

The report also includes a gap analysis comparing Beaumont's tax rates with those of peer cities across Riverside County. Beaumont currently maintains among the lowest rates for sales tax, TOT, and UUT, suggesting viable room for adjustment if needed. GrassrootsLab further developed a scoring matrix to evaluate each option based on criteria such as revenue potential, legal requirements, implementation and administrative complexity, voter approval thresholds, and volatility.

Finally, the report outlines a potential timeline for pursuing revenue measures. Should the Council wish to consider a general or special tax measure for the November 2026 ballot, action would be required no later than the July 7, 2026, Council meeting to meet placement deadlines.

The next phase of the GrassrootsLab process includes the following:

- Develop a public information campaign to educate residents on fiscal issues in compliance with legal requirements.
- Create digital and print materials, including:
 - Presentations, FAQs, fact sheets, and talking points.
 - Social media content, newsletters, and informational videos.
 - Press releases and community mailers.
- Optional: Conduct community meetings and town halls, engaging civic and neighborhood groups.
- Design and distribute a community survey to gather public input.
- Attend City Council meetings to provide updates and reports.
- Optional: Assist the City in soliciting bids for public opinion polling.

This process is estimated to take six to nine months to complete.

Fiscal Impact:

There is no immediate fiscal impact associated with receiving and filing the attached report. However, the report highlights the potential for an annual sales tax revenue loss of up to \$9.4 million, as well as rising public safety costs that could contribute to structural budget deficits by FY 2031. Future actions related to implementing new revenue strategies may have fiscal implications and will be brought to the Council for consideration as appropriate. The cost for Phase Two is \$5,500 per month for six to nine months (\$7,500 per month if town halls are included). These funds have not been budgeted in the FY25- 26 budget; therefore, a budget amendment would be necessary should the Council choose to move forward with this approach.

The estimated cost to prepare this report is \$465.

Recommended Action:

Receive and file the *Revenue Outlook and Review of Options* report prepared by GrassrootsLab, LLC, and direct staff to proceed with phase 2 outlined above.

Attachments:

- A. *Beaumont Revenue Study* – GrassrootsLab, LLC
- B. Presentation