

# City of Claremont Future Financial Opportunities Committee (FFOC) AGENDA

*"We are a vibrant, livable, and inclusive community dedicated to quality services, safety, financial strength, sustainability, preservation, and progress with equal representation for our community."*

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## Alexander Hughes Community Center "Grove Room"

1700 Danbury Road, Claremont, CA 91711

Monday, March 25, 2019 @ 6:00 p.m.

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### COMMITTEE MEMBERS

**RUSSELL BINDER**  
CHAIR

**TAMMY PHAN**  
VICE CHAIR

**PETER ALVARADO**

**BOB BOWCOCK**

**MAURY FEINGOLD**

**GREGORY LANTZ**

**KEVIN PRAY**

**ISAAC RAHMIM**

**AMANDA SABICER**

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**\*\*PUBLIC COMMENT WILL BE TAKEN ON EACH ITEM\*\***

1. Approval of Minutes from 3/18/2019 – Attachment
2. Evaluation Matrix – Attachment
3. Finalize Committee Report – Attachment
4. Review PowerPoint Presentation
5. Adjournment

**FUTURE FINANCIAL OPPORTUNITIES COMMITTEE (FFOC)  
MINUTES**

Monday, March 18, 2019 – 6:00 p.m.  
Alexander Hughes Community Center – Padua Room  
1700 Danbury Road, Claremont, California

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**CALL TO ORDER**

Committee Chair Binder called the meeting to order at 6:13 p.m.

**ROLL CALL**

**PRESENT** COMMITTEE MEMBERS: BINDER, BOWCOCK, FEINGOLD,  
PHAN, RAHMIM, SABICER

**ABSENT** COMMITTEE MEMBERS: ALVARADO, PRAY, LANTZ

**ALSO PRESENT** Tara Schultz, City Manager; Chris Paulson, Interim Assistant City  
Manager; Jamie Earl, Assistant to the City Manager; Adam Pirrie,  
Finance Director; Bibi Ameer, Accounting Supervisor

1. Approval of Minutes from March 4, 2019

City Manager Schultz presented the minutes for the March 4, 2019 Committee meeting for the review and approval by the Committee.

Committee Member Rahmim requested adding a sentence indicating the Colleges commissioned the study. The Committee reviewed and approved the minutes.

*Committee Member Feingold moved to approve the amended March 4, 2019 minutes and was seconded by Committee Member Rahmim; and unanimously carried on a vote as follows:*

*AYES: Committee Members –Binder, Bowcock, Feingold, Phan, Rahmim  
ABSENT: Committee Members - Alvarado, Pray, Lantz, Sabicer*

2. Budget Update

Finance Director Pirrie informed the Committee that given the economic uncertainty, City Manager Schultz recommended to the City Council to adopt a year budget for 2018-19. He provided a chronology of the reductions made in order to balance the 2018-19 budget and explained the decision to gather input from the departments regarding additional funding for 2019-20. Staff was aware that the

departments would need to add back some of the funding that was taken out of the prior year's budget in order to reach their service and operational goals for 2019-20.

Finance Director Pirrie reported the 2019-20 draft budget deficit at the beginning of the process was \$915,000. After further review of revenue and expenditures, staff was able to reduce the deficit to \$220,000 prior to the submission of supplemental budget requests. After the submission of these requests, the deficit rose to \$1.3 million. During meetings between the City Manager and each department, additional cuts were made including capital improvements and deferred maintenance projects, which brought the budget deficit down to \$535,000.

The departments are at the point where they can no longer sustain additional cuts without impacts to programs and services. Therefore, staff is reviewing revenue estimates and grant opportunities to determine whether funding can be increased, as well as renegotiating contracts to lower costs, shifting applicable General Fund expenditures to take advantage of restricted funding sources such as Prop A & C, reviewing overhead calculations, and determining whether additional vacancies and service adjustments are necessary as a last resort.

Committee Members made inquiries regarding how confident staff was in the estimates used for reductions, the possibility of community sponsorship of the City's capital projects, how much sales tax revenue was expected to be generated by the Whole Foods commercial center, what impact would the sales tax measure have on the budget if it passes, and whether the budgeted expenditures include depreciation expense of capital assets.

A discussion developed regarding the impact of vacancies on service and productivity. City Manager Schultz indicated after a certain point, reduction in funding and vacancies start to impact the department's ability to provide services. Committee Chair Binder asked whether the City would have to fill those vacancies at some point in the future, and what method was used to determine the impact on services. City Manager Schultz's response was the vacancies would have to be filled when additional revenue becomes available, and the City does not have a specific method of determining the impact. Staff provided an example of the Community Development department which had a position eliminated and has several positions left unfilled, and are using contractors instead, however, counter hours had to be reduced so the remaining planners can focus on completing their work. City Manager Schultz commented that staff has been exceptional in adapting to the changes and carrying on without any significant change in services.

Finance Director Pirrie explained that should the sales tax measure pass, the \$2.5 million in projected revenue it is expected to generate would eliminate the deficit, allow the City to complete some capital and deferred maintenance projects, and be able to put some funds into the reserves. City Manager Schultz also informed

the Committee that she just received notice that the Hyundai auto dealership will be leaving the City.

Committee Member Feingold inquired about the Community Services Department's recent staff changes. City Manager Schultz explained that the former Community Services Director Chris Paulson had experience that made him suitable for the Assistant City Manager position making the move reasonable. Personnel Manager Jeremy Swan desired to expand his experience beyond Human Resources and the vacancy created in the Community Services Director position provided him with that opportunity. Deputy Director Dave Roger indicated he would like to return to retirement in the near future. He intends to provide advanced notice in order to give the City enough time to find a replacement. Community Services Manager Kristin Mikula and Management Analysis Cari Dillman make up the remaining of the management team.

A public comment was made inquiring whether payroll costs include benefits.

### 3. Evaluation Matrix

Assistant to the City Manager Earl presented the updated matrix to the Committee. The matrix reflected the top four recommendations to be the basis of the staff report to the City Council and could serve as an attachment to the report.

A discussion evolved around the benefit of attaching the matrix to the staff report. Suggestions were made to not include the matrix because it is considered a working document and to remove any possibility of confusion. Committee Member Rahmim proposed the matrix be included as part of the meeting minutes rather than as backup included in the report package and the Committee agreed. Committee Member Bowcock suggested, and the Committee agreed to conduct a final vote on the top priorities to determine whether they have come closer in alignment on those priorities. He will also review the matrix and return it to Assistant to the City Manager Earl in time for the posting of the agenda for the March 25 meeting.

During public comment a statement was made indicating the sales tax measure will fail because the Committee did not consider service reductions and the Committee has lost credibility by not discussing reductions. Committee Members responded by stating a sales tax increase was eminent, it was a matter of whether the money goes to the County or the City, the Committee is not in a position to decide what services or positions the City should eliminate, service reductions was not part of the charter of the Committee and recommending service reductions would be an involved process and a different conversation. City Manager Schultz also stated additional information on budget reductions were provided to the Committee for context not for making recommendations for service reductions.

#### 4. Draft Committee Report

City Manager Schultz presented the draft Committee Report to the Committee for review. Some of the feedback received was that the report was clear, understandable, and well-worded. The Committee suggested that the urgency of the need for the sales tax increase should be emphasized, that the report should indicate the state might increase the sales tax limit to 11 percent, include the cities that have already voted to increase their sales tax, include the City as a benefit to the Colleges as reasoning for requesting a per student fee for those attending the Colleges, provide an estimate of the potential additional sales tax revenue of establishing purchasing corporation, and whether the report should mention that the Committee did not review service reductions.

Finance Director Pirrie proposed adding a case study as an example of how the purchasing corporation would work rather than provide revenue estimates because it would be difficult to determine without knowing the details of the large development's purchasing needs and vendors. Staff also mentioned that if the City still has a deficit in 2020-21, then service reductions will have to be considered.

Committee Member Sabicer and Committee Member Pham will review the remaining sections of the report and return it to Assistant to the City Manager Earl with revisions. City Manager Schultz stated that it was important to have the revisions back to staff by Wednesday, March 20 so they can finalize the report and prepare the PowerPoint presentation by Thursday, March 21. She also informed the Committee of the City Council's intention to recognize them for dedicating their time and expertise to assist the City in identifying short and long-term revenue opportunities.

#### 5. Meeting Schedule and Topics

City Staff and the Committee reviewed the remaining meeting and determined they will vote on the final Committee Report to the City Council and prepare for the presentation to be held at the April 9 City Council meeting. The March 25 meeting will be held at the Hughes Center in the Grove Room

### **ADJOURNMENT**

Committee Chair Binder adjourned the meeting at 8:22 p.m.

Topic	Recommendation	Poll	Amount of Potential Revenue	Timeline of Implementation	Flexibility in Spending	Probability of Success	Enforcement Costs / Challenges
Sales & Use Tax	Highest and best use at this time; important to keep locally generated taxes local.	(1) - 8 (2) - 0 (3) - 0  Poll taken on 12/17/18	0.25 % increase to generate \$727,500 each year 0.50% increase to generate \$1,455,000 0.75% increase to generate \$2,182,500	Voter approval (50% +1) required at a regularly scheduled general election (Nov. 2020). Exception: emergency declaration by the City Council would allow a special election.	General Fund Revenue - May be used for any lawful purpose.	Unknown; sense of tax exhaustion for the community. Residents may be agreeable if the County threatens to take it first. Charges residents and visitors.	Potential LA County sales tax measure may limit the City's ability to increase sales tax rate.
Regulating Short-Term Rentals (Airbnb/VRBO)	Explore now and go through appropriate public process.	(1) - 5 (2) - 1 (3) - 2  Poll taken on 12/17/18	Amount would vary depending on the number of properties rented and how much revenue the property owner brings in.	Revision of permitting regulations to allow STRs and implementation of a permitting process.	General Fund Revenue - May be used for any lawful purpose.	Unknown; will require large public process.	Difficult tracking rentals; enforcement of business permits.
Student Fees	Unable to enforce, but the Committee is interested in some sort of negotiations with the Colleges to get buy-in with the community.	(1) - 3 (2) - 4 (3) - 1  Poll taken on 12/17/18	Unknown	Dependent on negotiations	Subject to terms of any agreement that may be reached.	Unknown; will require City/Colleges cooperative negotiations.	May not be enforceable.
Purchasing Corporations	Although future revenue is unknown, this is an item that staff can implement immediately.	No poll taken	Amount would vary	As development projects/development agreements are being negotiated.	General Fund Revenue - May be used for any lawful purpose.	Unknown; based on negotiations.	Enforceable based on terms of agreement.
Transient Occupancy Tax (TOT)	Next best voter approved measure, but recommends sales tax before TOT.	(1) - 6 (2) - 1 (3) - 1  Poll taken on 12/17/18	1% increase to generate \$140,000 each year 2% to generate \$280,000 3% to generate \$420,000	Voter approval (50% +1) required at a regularly scheduled general election (Nov. 2020). Exception: emergency declaration by the City Council would allow a special election.	General Fund Revenue - May be used for any lawful purpose.	Unknown; sense of tax exhaustion for the community. Primarily charges visitors.	Limited to stays of 30 days or less.
Utility User Tax (UUT)	Third best voter approved measure, but recommends sales tax first.	(1) - 6 (2) - 1 (3) - 1  Poll taken on 12/17/18	1% increase to generate \$805,500 each year 2% increase to generate \$1,611,000 3% increase to generate \$2,416,500	Voter approval (50% +1) required at a regularly scheduled general election (Nov. 2020). Exception: emergency declaration by the City Council would allow a special election.	General Fund Revenue - May be used for any lawful purpose.	Low- Sense of tax exhaustion for the community. Directly affects residents.	Previously supported by voters; effects of future conservation on long term revenue.
Parking Management Plan	Committee understands staff's decision to withdraw the proposal, but highly recognizes a paid parking system as a viable business opportunity that needs to be revisited.	Withdrawn by City staff	\$2.9 - \$3.3 million annually.		General Fund Revenue - May be used for any lawful purpose. Proposal includes 15% enhanced maintenance, 10% capital projects in the village.	Extremely low; significant negative community feedback.	Enforcement costs; Startup costs.
Development	Committee realizes that all potential development at this time is privately owned and any revenue to be realized is 2-3 years out. Continue watching for development projects that will produce revenue.	No poll taken	Unknown, but will not be realized until fees are collected or projects are completed.	Dependent on developer timelines and approval process.	Some development fees and restricted, but most revenue can be used for any lawful purpose.	Unknown; based on private developers.	
College and Non-Profit Property Tax Exemptions and Business License Tax	Further legal analysis to be done.	No poll taken	Unknown	Likely voter approval (50%) required at an election, subject to legal challenges.	General Fund Revenue - May be used for any lawful purpose.	Low	Unknown

Topic	Recommendation	Poll	Amount of Potential Revenue	Timeline of Implementation	Flexibility in Spending	Probability of Success	Enforcement Costs / Challenges
Foundation Formation	No	(1) - 1 (2) - 2 (3) - 5  Poll taken on 12/17/18	Amount would vary depending on the amount of donations made to foundation.	Process for the formation of foundation.	General Fund Revenue - May be used for any lawful purpose, unless donations are received for specific purposes.		N/A
Payment in Lieu of Taxes (PILOT)	No	(1) - 1 (2) - 1 (3) - 6	Unknown	Negotiation process to arrive at agreement for payment of PILOT.	Subject to terms of any agreement that may be reached.	Unknown	Not enforceable
User Fees	No	(1) - 0 (2) - 2 (3) - 6  Poll taken on 12/17/18	Up to \$400,000	Already increased effective 10/1/18; CPI increases implemented annually, effective every July 1.	General Fund Revenue - May be used for any lawful purpose.	Low; not a significant amount of revenue opportunities.	In some cases, does not fully cover the cost of service.
Public Safety Districts	No	(1) - 0 (2) - 2 (3) - 6  Poll taken on 12/17/18	Dependent on amount of annual levy.	Voter approval (2/3) required at an election.	Limited to public safety services and/or public safety infrastructure improvements, as determined in ballot language.	Unknown	2/3 voter approval required.
Special Tax (parcel tax)	No	(1) - 0 (2) - 2 (3) - 6  Poll taken on 12/17/18	Dependent on amount of annual levy.	Voter approval (2/3) required at an election.	Limited to stated use of funding in ballot language.	Unknown	2/3 voter approval required.
Fines	No	(1) - 0 (2) - 1 (3) - 7  Poll taken on 12/17/18	Revenues related to latest increase yet to be determined.	Already increased effective 10/1/18.	General Fund Revenue - May be used for any lawful purpose.	Low; not a significant amount of revenue opportunities.	Enforceable
General Obligation Bond	No	(1) - 0 (2) - 1 (3) - 7  Poll taken on 12/17/18	Dependent on amount of annual levy.	Voter approval (2/3) required at an election.	Limited to stated use of funding in ballot language. Cannot be used for operating costs, only capital expenditures.	Unknown	2/3 voter approval required.
Assessment District	No	(1) - 0 (2) - 1 (3) - 7  Poll taken on 12/17/18	Dependent on amount of annual levy.	Voter approval (2/3) required at an election.	Limited to stated use of funding in ballot language.	Unknown	2/3 voter approval required.
City Assets	No	(1) - 0 (2) - 0 (3) - 8  Poll taken on 12/17/18	Already using to full capacity. No additional revenue except for CPI increase in Facility Rental and other User Fees.	Subject to City Council action.	General Fund Revenue - May be used for any lawful purpose.	Low; very few opportunities to generate revenue.	Use of certain facilities limited to non-profit groups only.
Community Facilities District	No	(1) - 0 (2) - 0 (3) - 8  Poll taken on 12/17/18	Dependent on amount of annual levy.	Voter approval (2/3) required at an election.	Limited to stated use of funding in ballot language.	Unknown	2/3 voter approval required.

Topic	Who Pays?	Staff Costs	% of money collected versus what goes into the budget	Potential to Impact the Police Station	Impact to Character of Claremont	Other
Sales & Use Tax	Residents and visitors to Claremont.	Staff time required to place measure on the ballot.	All funds would be reflected in the General Fund Revenue budget.	May be on the same ballot.	Unlikely, but could deter consumers shopping in Claremont.	Need to be clear to voters what the revenue will be used for; should be visible in the community and community driven.
Regulating Short-Term Rentals (Airbnb/VRBO)	Visitors staying at Short-Term Rentals.	Staff time required to revise ordinance and take to City Council.	All funds would be reflected in the General Fund Revenue budget; offset by additional enforcement costs.		Additional impact on City resources. Potential negative impact on neighborhoods.	City Council should at least go through the public input process. If not approved to be in the City, enforcement should be increased.
Student Fees	Students from the Colleges.	Time to negotiate and attempt to enforce: Potentially substantial staff time required.	All funds would be reflected in the General Fund Revenue budget.			
Purchasing Corporations	Developers/Colleges/Construction Projects.	Staff time required to negotiate and enforce agreements.	All funds would be reflected in the General Fund Revenue budget.	None	None	
Transient Occupancy Tax (TOT)	Visitors to Claremont for stays of 30 days or less.	Staff time required to place measure on the ballot.	All funds would be reflected in the General Fund Revenue budget.	May be on the same ballot.		
Utility User Tax (UUT)	Residents, businesses, non-profit, and Colleges.	Staff time required to place measure on the ballot.	All funds would be reflected in the General Fund Revenue budget.	May be on the same ballot.		Revenue will be offset by installation of solar panels; Potential reduction in revenue due to utilization. Hesitation due to the direct effect on residents.
Parking Management Plan	Residents and visitors to Claremont, could be a different rate depending on program design.	Enforcement and management costs estimated at \$150,000 annually.	15% identified for enhanced maintenance, 10% for capital projects, remaining 75% to the general fund.		Visible change to the community.	Future proposals need to include more outreach; balance level of information given to the public up front. Due to significant revenue potential, paid parking should be considered in the future. Consider phase-in/slow ramp-up.
Development	Developers	Typical staff costs in regards to approval processes.	All established fees will go into the budget and the City's portion of sales tax and property tax will be realized depending on the type of development.	None	Visible change to the community; could be positive or negative.	None
College and Non-Profit Property Tax Exemptions and Business License Tax	Non-profits	Staff time required to place measure on the ballot.	All funds would be reflected in the General Fund Revenue budget.			

Topic	Who Pays?	Staff Costs	% of money collected versus what goes into the budget	Potential to Impact the Police Station	Impact to Character of Claremont	Other
Foundation Formation	Donors to Foundation	Staff time for setup and to solicit donations.	Dependent on donor requirements.			
Payment in Lieu of Taxes (PILOT)	Colleges	Time to negotiate and attempt to enforce: Potentially substantial staff time required.	All funds would be reflected in the General Fund Revenue budget.	Positive public opinion on college contribution.		
User Fees	Residents, businesses, non-profit, and Colleges.	Fully burden staff costs already calculated into fee.	All funds would be reflected in the budget based on the type of fee.		May deter people from doing business here or taking part in activities.	Some services are not designed to break even on.
Public Safety Districts	Residents, businesses, and Colleges.	Staff time required to place measure on the ballot.	Dependent on type and purpose of tax.			
Special Tax (parcel tax)	Residents, businesses, and Colleges.	Staff time required to place measure on the ballot.	Dependent on type and purpose of tax.			
Fines	Residents and visitors to Claremont.	Enforcement cost	All funds would be reflected in the General Fund Revenue budget.			
General Obligation Bond	Colleges, non-profits exempt.	Staff time required to place measure on the ballot.	Dependent on type and purpose of tax.			
Assessment District	Residents, businesses, and Colleges.	Staff time required to place measure on the ballot.	Dependent on type and purpose of tax.			
City Assets	Capital assets are funded from a variety of sources, general fund, gas tax, public art fees, etc.	Maintenance costs	All funds would be reflected in the General Fund Revenue budget.			Re-evaluate if Police Facility relocates and land is made available to sell.
Community Facilities District	Residents, businesses, and Colleges.	Staff time required to place measure on the ballot.	Dependent on type and purpose of tax.			

City of Claremont  
Memorandum

TO: FUTURE FINANCIAL OPPORTUNITIES COMMITTEE  
FROM: TARA SCHULTZ, CITY MANAGER  
DATE: MARCH 25, 2019  
**SUBJECT: FINALIZE COMMITTEE REPORT**

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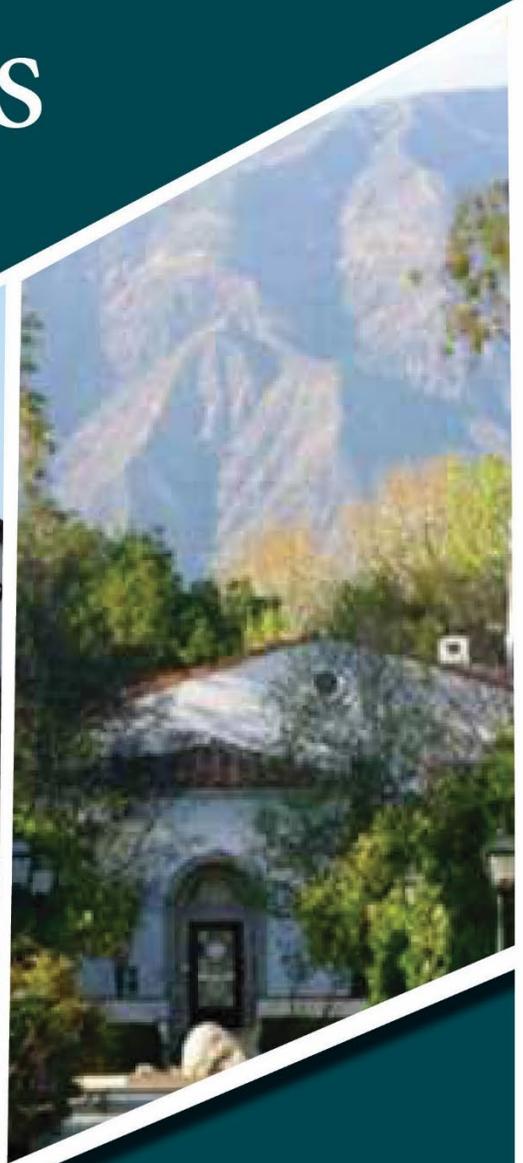
Attached is the draft Committee Report to be presented to the City Council on April 9, 2019. The Committee Report incorporates the changes discussed at the March 18, 2019 meeting.

Recommendation:

Review the report and direct staff to make any changes to be incorporated into the final version that is presented to the City Council.

# Future Financial Opportunities Committee

ATTACHMENT



## DRAFT REPORT

March 25, 2019

# Contents

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## **Background**

On July 24, 2018, the City Council authorized the establishment of the Future Financial Opportunities Committee (FFOC) to evaluate revenue options and strategies to address projected General Fund structural deficits and to avoid reductions in City services. Many of the expenses driving the projected deficits are from outside sources and include but are not limited to, cost increases in PERS retirement contributions, insurance premiums, and landscaping maintenance. The Committee's task was to consider strategies for increasing General Fund revenues to address the impending structural deficits. Through an application and interview process, the following individuals were appointed to the FFOC:

Peter Alvarado  
Russell Binder  
Bob Bowcock  
Maury Feingold  
Gregory Lantz  
Tammy Phan  
Kevin Pray  
Isaac Rahmim  
Amanda Sabicer

The Committee met ten times between September 2018 and March 2019, and received information on the City's current and future financial status, considered revenue options including: various taxes, user fees, fines, and economic development opportunities. A meeting schedule with topics for discussion was presented at the first meeting and was subject to change throughout the process based on Committee feedback and adequate time to prepare requested analyses. Committee Members also requested items to review throughout the process, which were researched and discussed over the past six months. To view these supporting documents such as agendas, reports, and minutes, please visit the document archive system on the City's website.

## **Discovery**

To orient the Committee, staff presented an overview of municipal finance, including special revenue funds and enterprise funds, with specific focus on the City's General Fund. Staff detailed the range of services funded by the General Fund, discussed factors contributing to the City's projected General Fund structural deficits, reviewed the budget process for 2018-19, and provided a long-term outlook of the City's finances. Staff projections included General Fund budget deficits growing from approximately \$1.0 million in 2019-20 to \$1.8 million in 2021-22. These deficits formed the basis for discussions of new and additional revenues to balance future General Fund budgets to improve financial stability and avoid service reductions to the City of Claremont. It is important to note that as the Committee process progressed, there were items that the Committee did not feel were in their purview and that were removed from the schedule.

Most notable is the consideration of changes and/or reductions in service. While the Committee recognized that exploring service reductions is an important conversation when addressing structural deficits, the Committee Members agreed that recommendations on reducing the City's expenses were outside the charter of the FFOC and merited more time and discussion than possible in the Committee's meeting schedule. Ultimately, since service reductions impact the quality of life of residents, it should be facilitated as a broader conversation with the Claremont community.

As the FFOC proceeded with reviewing and recommending revenue strategies, staff presented information on general revenues such as the Utility User Tax, Transient Occupancy Tax, and Sales and Use Tax at the October 8, 2018 meeting. For reference, staff included comparison data on tax rates from other local jurisdictions. Additionally, the Committee received projections to show potential revenue if the Committee were to move forward with recommending any of the above tax measures.

In addition to taxes, the Committee discussed items such as forming a City-based non-profit organization as a way to accept donations, a parking management plan for the Village, special voter approved revenues, student fees, user fees and fines, City assets, potential development locations, college and non-profit property tax exemptions and business license tax, and purchasing corporations.

## **Crafting a Recommendation**

In order to organize the topics to begin crafting a recommendation, staff created an evaluation matrix for the Committee to assess all revenue options relative to one another. The matrix was originally drafted to include the topic and evaluation categories such as the amount of potential revenue, timeline for implementation, flexibility in spending, enforcement costs and challenges, the percent of revenue collected versus what actually gets put back into the budget, impacts to the character of Claremont, among others. Approximately half way through the Committee process, Committee Members voted on topics already discussed to start prioritizing the most viable potential revenue sources. The evaluation matrix was a working document only periodically updated, and the various versions are included in the meeting materials referenced in this report, which are available on the City's website.

As votes were cast, the Committee placed recommendations into three general categories:

1. Immediate Recommendations – Items recommended to be implemented by the City Council now;
2. Future Recommendations – Items that the City Council should explore further at a later date and consider implementing; and
3. Not Recommended – Items that the City Council is recommended to not implement.

## Summary of FFOC Recommendations

The Future Financial Opportunities Committee recommends that the City Council:

- A. Consider the following items for immediate implementation:
  - 1. Sales & Use Tax
  - 2. Regulate Short-Term Rentals
  - 3. Student Fees
  - 4. Purchasing Corporations;
- B. Consider the following items for future implementation:
  - 1. Transient Occupancy Tax
  - 2. Utility User Tax
  - 3. Parking Management Plan
  - 4. Development; and
- C. Do not consider the following items for implementation:
  - 1. Foundation Formation
  - 2. Special Voter Approved Revenues
  - 3. User Fees and Fines
  - 4. City Assets
  - 5. College and Non-Profit Property Tax Exemptions and Business License Tax

## Immediate Recommendations

### 1. Sales and Use Tax

The City of Claremont's Sales and Use Tax rate is currently at 9.5 percent, and the City relies heavily on Sales and Use Taxes to support the General Fund, receiving approximately \$4.5 million per year. Under current State law, the maximum sales tax rate that can be imposed is 10.25 percent. If the City were to place a 3/4 cent sales tax measure on an upcoming ballot, staff estimates that it would result in approximately \$2,500,000 in additional annual General Fund revenue. This figure is higher than that of \$2,182,500 provided to the Committee during its discussions on sales tax at its October 8, 2018 meeting, which reflects updated projections provided by the City's sales tax consultant.

Although many Committee Members did not anticipate a tax measure being the Committee's primary recommendation, a sense of urgency in the desire to place a sales tax measure on the ballot became apparent through the process because of emerging regional sales tax initiatives. The Committee was made aware by staff that Los Angeles County, Southern California Air Quality Management District, and other regional and local public agencies are exploring placing their own sales tax measures on the November 2020 ballot, effectively addressing their own budget concerns. If the County or other agency passes a regional sales tax measure before the City, it would capture the remaining potential sales tax revenues up to the State maximum of 10.25 percent

and steer locally spent dollars to another agency's budget while also limiting the City's ability to collect its own sales tax in the future.

In order to impose an additional 3/4 cent sales tax, the City Council must place a measure on the ballot for Claremont voters to approve the tax. A successful measure would require a simple majority (fifty percent plus one) of affirmative votes. Claremont would not be alone in raising its local sales tax rate. Additional Sales and Use Taxes have been implemented by several Los Angeles County cities over the past few years as a means to provide funding for core city services. Since 2016, nineteen cities in Los Angeles County have received voter approval for additional Sales and Use Taxes. On the November 2018 ballot alone, eleven L.A. County cities were successful in having Sales and Use Tax measures approved by their voters. In March 2019, the neighboring City of Glendora was successful in obtaining voter approval of a sales tax measure. This will enable Glendora to capture additional revenue for their City ahead of other agencies.

The FFOC recommends to the City Council that they consider placing a Sales and Use Tax measure on the November 2019 ballot.

## 2. Regulate Short-Term Rentals

The City's Municipal Code currently prohibits the rental of residential properties for periods of fewer than thirty days. In spite of this prohibition, it is estimated that between 50 and 100 short-term rental properties are currently available for rent through online booking sites. The Committee recognizes that short-term rentals exist in Claremont. Regulating short-term rentals will aid in providing more lodging options to assist with the current limited supply of hotel space, as well as generate revenue to the City. The amount of potential revenue is difficult to estimate since it is dependent on knowledge of the number of properties rented and the revenue each property owner generates. Regulation will provide transparency to the City's current short-term rental market and bring revenue through the collection of Business License taxes and permit fees charged to the property owner, and a Transient Occupancy Tax that would be charged to the renter.

Other cities, such as Santa Monica, have been successful with working with companies such as Airbnb to regulate short-term rentals. Additionally, if the Council moves forward with this option, there are several companies that offer short-term rental services that could aid the City with compliance and revenue management, as well as software tracking solutions.

The FFOC recommends to the City Council that they consider regulating short-term rentals in the City of Claremont.

### 3. Student Fees

Another concept proposed by the Committee is the implementation of a per student fee for those attending the Claremont Colleges. This fee would be collected by the Colleges from students and remitted to the City. The Committee recognizes that the Colleges are a benefit to the Claremont community and at the same time, the City works hard to create a safe, clean, livable, and desirable environment for students attending the Colleges. The Committee also believes that there is a sense from residents that the presence of the students has an impact on City resources and that they may not be sharing the full burden of those impacts. For that reason, the FFOC recommends to the City Council that they consider entering into negotiations with the Claremont Colleges to discuss this potential fee.

It is important to note that fees such as these are not enforceable and parameters for spending revenues are subject to terms of any agreement that may be reached with the Colleges. The implementation of a student fee could only be achieved through a successful negotiation process with the Colleges, but the City has no means to compel the Colleges to implement and collect such a fee. However, the Committee believes that a measurable, annual contribution and consistent revenue stream generated by the Colleges will yield a sense of buy-in and collaboration with the broader community.

### 4. Purchasing Corporations

The Committee recommends approaching developers of large projects to establish purchasing corporations for their projects. Under such a concept, large development projects (such as those completed by the Colleges or Village South) would be encouraged to register the development as a “point of sale” for the purpose of allocating to the City sales tax revenues generated by the purchase of taxable supplies and equipment used in the construction, renovation, and/or equipment for the development. The impact to the developers would be minimal since they must pay sales tax on the purchases anyway. The largest source of potential taxable sales would likely be the equipping of new or renovated facilities with furniture, fixtures, and equipment (FFE), as costs can be significant.

The potential increase in sales tax revenue associated with the establishment of purchasing corporations is not known at this time. Any revenue would vary annually based on the number and size of participating development projects. To provide an example, a large development project that required the purchase of \$1 million in taxable furniture, fixtures, and equipment could generate approximately \$10,000 in sales tax revenue to the City if the location of the development was registered as the point of sale for the purchase of the taxable equipment.

The FFOC recommends that the City Council direct staff to begin implementing this item immediately.

## Future Recommendations

### 1. Transient Occupancy Tax

Transient Occupancy Tax (TOT) is charged on stays in the City of Claremont of thirty consecutive calendar days or fewer. The current TOT rate in Claremont is 10 percent. As of April 2017, California cities that charge TOT ranged from 3.5 percent (City of Bell) to 15 percent (City of Anaheim). Staff presented the Committee with projections of a one percent to three percent increase, which would yield \$140,000 to \$420,000 in additional General Fund revenue annually. Although this is not a substantial amount of revenue, the Committee feels that it may have a better chance being passed by voters because it would apply to hotel stays, which would primarily affect visitors to the City versus residents and property owners. After sales tax, TOT was considered by the Committee to be the next most viable voter-approved measure.

The FFOC recommends to the City Council they consider TOT in the future to generate revenue.

### 2. Utility User Tax

Utility User Tax (UUT) applies to the net consumption of utilities such as electricity, water, gas, cable television, and land-based and wireless telephone. The current UUT rate in Claremont is 5.5 percent. As of January 2017, California cities that charge UUT ranged from 1 percent (Vernon) to 11 percent (Culver City). Staff presented the Committee with a one percent to three percent increase, which would yield \$805,500 to \$2,416,500 in additional General Fund revenue annually. Although the potential additional revenue is substantial, Utility User Tax directly affects residents, unlike TOT. Further, the Committee felt that changes in behavior such as installing solar panels and water efficient irrigation may reduce utilization and thus potential revenue.

The FFOC recommends to the City Council they consider UUT in the future to generate revenue.

### 3. Paid Parking System

Merchants, residents, and visitors to the Village have noted for many years that parking is a challenge. Parking in commercial downtown areas in every community is coveted, and businesses would benefit from a parking structure, or some other parking management plan. In addition to the benefit to customers and business owners, a parking management plan could generate needed revenue for a community.

A Parking Management Plan was presented to the Committee and highlighted a mobile and kiosk-based paid parking system in the Village to ease congestion. Based on conservative turnover assumptions, with different resident and non-resident pricing, staff estimated a minimum level of gross revenue generation would be between \$2.9 million and \$3.3 million annually.

For reference, revenues of this magnitude would place paid parking as the fourth highest General Fund revenue, behind property tax, sales tax, and utility user tax. Staff also suggested that 15 percent of annual parking revenue could be dedicated to enhanced Village maintenance and 10 percent set aside for capital improvements in the Village. The proposed Parking Management Plan also included a Lyft subsidy program and an update on dockless bike and electric scooter systems. The Committee had several questions about a paid parking system, particularly on how the software and start-up was structured, but they were generally interested in the City moving forward with taking the plan to the Chamber of Commerce, businesses, and the public.

The proposal was publicized on social media, in City publications, and in presentations to business organizations. The City invited the community to take a survey to gather suggestions and opinions. More than 1,500 responses were received from residents, businesses, and visitors through the survey, social media, and a community petition. The City announced at the December 17, 2018 FFOC meeting that it was removing the Village paid parking proposal from consideration based on the overwhelming, mostly negative response from the public.

The FFOC understood staff's decision to withdraw the proposal, but also recognized a paid parking system could alleviate the Village's significant parking challenges and serve as a viable revenue generator that should be revisited in the future.

#### 4. Potential Development

Commercial Development projects have the ability to revitalize commercial districts and neighborhoods, create economic growth and investment in the community, and also generate revenue through building permits and eventual property and sales tax revenue.

Staff presented a current map of potential development locations, scales, and timelines throughout the City. The developments discussed were the Marie Callender's property on Foothill, Village South, the Auto Center, Greyhound Station, Knights Inn, Peppertree Square, the Commons, and the Holiday Rock Pit. Although most potential development plans are several years away from completion and any revenue to be realized is at least two to three years out, the Committee recommends that the City Council direct staff continue to pursue development projects that will produce revenue.

## **Not Recommended**

#### 1. Foundation Formation

Nonprofit foundations are tax-exempt entities under Internal Revenue Code 501(c)3 that are established to raise funds for an organization or a cause and are associated with charitable giving. Foundations are often established with the purpose of providing

additional funding, as contributed by private donations, towards local, educational, and public safety governmental organizations. An example is the Claremont Educational Foundation, which raises funds to offset and supplement certain programs, classes, events, and special projects for the Claremont Unified School District that falls outside of the District's ability to fund or support a program.

Forming a City foundation was a concept that was proposed by the Committee as a way for the City to accept private donations, and yet provide the tax-exempt status benefit to the donor. Staff's research revealed that forming a nonprofit corporation is a fairly straightforward process. However, due to the potential staff time involved in establishing the foundation, and then proactively soliciting the community for donations, the Committee does not recommend City Council move forward with this item. Furthermore, the City currently receives the occasional contribution or donation for various programs, of which they are also tax deductible by the donor.

## 2. Special Voter Approved Revenues

The Committee looked at a variety of creative revenue streams, taxes, and assessment districts that could be pursued to offset the General Fund's structural deficit, however, these options presented their own sets of challenges. Namely, the requirement that these special voter-approved taxes require 2/3 voter approval at an election. Furthermore, most of the revenue generated from one of these measures is dependent on the amount of the annual levy and as a special tax, must be used for the specific purpose for which the tax was approved.

The following special voter approved revenues and their limitations were reviewed by the Committee:

- Payment in Lieu of Taxes (PILOT) -- Revenue spending subject to terms of any agreement that may be reached.
- Public Safety Districts – Limited to public safety services and/or public safety infrastructure improvements, as determined by ballot language.
- Parcel Tax -- Limited to stated use of funding in ballot language.
- General Obligation Bond -- Limited to stated use of funding in ballot language, but cannot be used for operating costs, only capital expenditures.
- Assessment District -- Limited to stated use of funding in ballot language.
- Community Facilities District -- Limited to stated use of funding in ballot language.

Given the fact that the two previous tax measures the City placed on the ballot to fund the construction of a new Police Facility had failed to achieve the required 2/3 voter

approval, the outlook for an additional ballot measure requiring the same approval level is bleak. Therefore, the Committee does not recommend any special voter approved revenues for City Council consideration.

### 3. User Fees and Fines

The City Council recently adopted a Comprehensive User Fee Schedule. The purpose of the fee study, and the resulting schedule of fees, was to ensure maximum cost recovery in the collection of fees for City-provided services. Prior to the recently completed fee study, City fees had not been reviewed on a comprehensive basis in over fifteen years. As a result, many of the City's fees fell significantly short of covering the City's costs of providing service. In order to limit the burden on users, the increases to fees in many cases was limited to fifty percent. Despite this large increase in fees, many of the fees charged by the City still do not recover the entirety of the cost of providing service and are subsidized by the City. The adoption of the User Fee Schedule includes the provision that fees will be recommended for increases by a cost of living factor each year, with new fees effective each July 1. In addition to adopting a new User Fee Schedule, the City Council also approved an increase in parking fines from \$35, \$70, and \$105 for first, second, and third violations, respectively, to \$50, \$100, and \$150.

Because the City has already started the process of increasing fees and fines and included a mechanism to increase fees each year, the FFOC does not recommend the City Council consider increasing fees and fines outside of the already determined process.

### 4. City Assets

City staff presented a list of major City buildings and land, and other than one vacant parcel adjacent to the former Hibbard Chevrolet site, there are no assets the City currently holds that could easily be sold or liquidated for usable cash. There are several facilities which are not being used for City business that have been leased to local non-profits for their offices or to provide services to the community or privately-run businesses. City assets are already being used to full capacity and there are no additional revenue opportunities except for cost of living increases in facility rental costs and other user fees. For these reasons, the FFOC does not recommend the City Council consider city assets as a revenue strategy.

### 5. College and Non-Profit Property Tax Exemptions and Business License Tax

#### College and Non-profit Property Tax Exemptions

The Committee inquired whether certain code sections would allow the City to challenge the tax-exempt status of College properties, on the basis that there was a benefit to the occupants of the properties in spite of the incidental use of the properties for institutional and/or educational purposes.

According to the City Attorney, the California Constitution exempts from property taxation “[b]uildings, land, equipment, and securities used exclusively for educational purposes by a non-profit institution of higher learning.” The term “educational purposes” in that section has been interpreted broadly and test cases have permitted each educational institution to determine what facilities are reasonably necessary for the fulfillment of its unique mission and primary purpose. Additionally, and according to the California Board of Equalization, property used exclusively for the purposes of education as contemplated by section 3(e) of Article XIII of the California Constitution and Revenue and Taxation Code section 203 includes housing for administrators, and guests.

The Code section provided (Revenue & Tax Code 214) exempts “[p]roperty used exclusively for religious, hospital, scientific, or charitable purposes” from property taxes. Because the limiting language in that section appears to be narrower than the above referenced exemption in the California Constitution (which is the supreme law of the land), it would not apply to nonprofit institutions of higher learning.

#### Claremont Colleges Business License Tax

The Committee posed the question of whether the imposition of a business tax based on a measure other than income or gross receipts would allow the City to tax the Colleges and other non-profits. Possible methods of assessment, including the number of employees, number of students, assessed valuation, building or improved square footage, land area, and number of vehicles were proposed.

According to the City Attorney, California Revenue and Taxation Code § 7284.1 provides: “No charter or general law county, city and county, or city, nor any district or any other local agency, may impose any business license tax or business license fee on any non-profit organization that is exempted from taxes by Section 23701d and is an organization described in Section 501(c)(3) of the Internal Revenue Code or the successor to that section.” Revenue and Taxation Code section 23701d includes non-profit educational entities as non-profit organizations. Nothing in that section limits its application to gross receipts/income.

Based on the City Attorney’s response to both of these matters, staff recommended that this item not be presented as a viable recommendation to the City Council for consideration. The Committee requested further legal analysis be completed, but is not making a formal recommendation to the City Council at this time.