



AGENDA REPORT

CITY OF SAN CLEMENTE

City Council Meeting

910 Calle Negocio
2nd Floor
San Clemente, California
www.san-clemente.org

Meeting Date: 11/1/2022

Agenda Item: 10A

Department: Finance and Administrative Services
Prepared By: Jacob Rahn, Financial Services Officer

Subject:
TRANSIENT OCCUPANCY TAX ALLOCATION

Fiscal Impact:

The City's FY 2023 budget includes \$3.0 million in Transient Occupancy Tax (TOT) revenues. Although not specifically designated for any particular use, these General Fund revenues support a variety of City services and staffing needs.

Summary:

Council asked for staff to bring back information on TOT revenues and potentially earmarking TOT revenues to promote events and tourism. Supporting events and enhancing revenue is consistent with the City Council Priorities and the General Plan Goals and Policies. Fiscal Policy approved as part of the Long Term Financial Plan (LTFP) and the Budget process precludes a direct allocation of general fund revenues into a specific use (see Attachment 1).

Background:

On September 20, 2022, City Council requested staff provide information related to utilization of TOT to support or promote events, activities, and tourism. TOT is a general tax imposed on overnight accommodations for visitors to the City. The San Clemente rate for TOT is 10%. Attachment 2 provides a description and authorization of the TOT revenue accounts. These revenues are received in the General Fund and are directed through the annual budget process with other General Fund revenues to support General Fund expenditures. The City's Fiscal Policy states: "General Fund revenue categories (sales tax revenue by example) may not be committed directly to fund a specific expenditure line item or program."

Discussion:

The FY 2023 budget has \$3.0 million of TOT revenues budgeted in the General Fund. These funds are not earmarked for specific purposes. Rather, TOT revenues fund expenditures through the City's annual budget process. These TOT revenues indirectly fund costs associated with higher activity levels based on population impacts from tourism and temporary lodging. Examples of increased service levels include seasonal lifeguard staffing, police services and overtime, trolley operations, facilities maintenance, and various other departmental costs. City Council also direct amounts to local business and event support, such as the annual DBA subsidy of \$34,000 (001-151-44739) and the rental of parking lots to support expanded public parking (\$37,800 under 001-151-43710) along with other recreation partnerships.

As stated above, specific earmarking of General Fund is inconsistent with Fiscal Policy. In order to earmark TOT revenues for a specific use, Council would need to modify Fiscal Policy and provide

direction on the specific purpose.

Plan and Policy Consistency:

Allocation of resources for events and tourism through the LTFP and Budget process is consistent with the following General Plan Goals and Policies:

- Governance Element, Municipal Finance Goal: Establish and maintain an easily understood, transparent, and accountable municipal finance system that implements the Mission Statement, Vision and Centennial General Plan, safeguards the City's assets and maintains the public's trust.
- Policy G-2.09. General Fund Purpose. We pursue a strategy to allocate general fund resources toward the City's provision of basic municipal services.
- Policy G-1.06. Role of Long Term Financial Plan. In the preparation of an annual budget, we follow the Long Term Financial Plan (LTFP), a document that connects Council, staff and citizen priorities to available resources.
- Public Services, Utilities, and Facilities Element, Arts and Culture Goal: Continue to be a City which celebrates and enjoys outstanding artistic and cultural experiences that enrich the lives of San Clemente's residents and visitors.
- Policy PSFU-3.05. Private-Public Sector Events. We partner with private and nonprofit sectors to promote participation in cultural activities including fairs, festivals and other events geared to neighborhoods, the City and a whole and the region.
- Policy PSFU-3.06. Surfing and Beach Cultures. We recognize and help support the work of artists and organizations that promote, preserve and celebrate San Clemente's rich surfing history, culture and art.
- Economic Development Element, Tourism Goal: Create a branded and marketed tourism identity that attracts overnight visitors.
- Policy ED-3.01. Allocation of Resources for Tourism. We allocate public resources among various tourism efforts based on the Economic Development Strategy.
 - Note: The Economic Development Element includes numerous policies supporting tourism, especially tourism that emphasizes year-round visitation and promotion of surfing, heritage, bicycle access, and sporting events.

Council Strategy:

Tourism and marketing could generate additional tax revenue for the City, which is consistent with Council Strategy 1 - Ensure financial stability as demonstrated by low debt, high ratings, and new revenue generation.

Recommended Actions:

Staff Recommendation

- 1) Provide direction to staff for earmarking of TOT revenues to make policy modification, as necessary.

Attachment:

Attachment 1 - Fiscal Policy Excerpt 2022-2023 City Adopted Budget

Attachment 2 - TOT and STLU Revenue Accounts

Notification:

None.

Fiscal Policy

Fiscal Policy Statement	Status	Comments
Revenue Policies		
The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	✓	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	✓	
All City Council-established General Fund User fees will be reviewed and adjusted annually as part of the budget process by each City department and the analysis with recommended changes will be provided to the City Council. The basis for adjustment will be the cost of providing services, inflationary impacts, or other budgetary factors as appropriate. User fees will be established to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	✓	
One-time operating, capital, and reserve revenues will be used for one-time expenditures. Exceptions must be formally adopted by Council action and may only offset operating expenditures for a limited time period of less than five fiscal years.	✓	
The City will annually identify developer fees and permit charges received from “non-recurring” services performed in the processing of new development and use those funds to meet peak workload requirements.	✓	
General Fund revenue categories (sales tax revenue by example) may not be committed directly to fund a specific expenditure line item or program.	✓	
Expenditure Policies		
The purchase of new or replacement capital equipment with a value of \$5,000 or more and with a minimum useful life of two years will require budget approval.	✓	
The City will annually project its equipment replacement and maintenance needs for the next five years and will update this projection each year. A maintenance and replacement schedule will be developed and followed.	✓	

Transient Occupancy Tax

Account:	001-000-31210
Description:	A general tax imposed on occupants for the privilege of occupying room(s) in San Clemente hotels, motels, inns, etc. Also known as a "bed tax".
Legal Authorization:	Revenue and Taxation Code, Sections 7280 and 7281. San Clemente Municipal Code, Sections 3.24.010 - 3.24.140. San Clemente Ordinance No. 1060.
Received From:	Operator of hotel or other facility.
Received By:	Finance and Administrative Services Department, Finance Division.
Receipt Timing:	Payment is due on the last day of each month for the tax collected during the previous month. For example, on November 30, payment is due for tax collected during the month of October.
Fee Schedule:	10% per occupancy.
Use of Revenue:	Unrestricted.
Last Fee Update:	July, 1991
Last Fee Review	February, 2016

Overview

The City levies a tax of 10% per occupancy on persons staying 29 days or less in a room(s) in a hotel, motel, inn, or tourist home. Revenues are collected by hotel operators and remitted to the City on a monthly basis. Receipts are highest during summer months.

Transient Occupancy Tax-Short Term Lodging Units (STLU)

Account:	001-000-31230
Description:	A general tax imposed on occupants for the privilege of occupying room(s) in San Clemente hotels, motels, inns, vacation rental properties etc. Also known as a "bed tax".
Legal Authorization:	Revenue and Taxation Code, Sections 7280 and 7281. San Clemente Municipal Code, Sections 3.24.010 - 3.24.290. San Clemente Ordinance No. 1060.
Received From:	Operator of vacation rental property.
Received By:	Finance and Administrative Services Department, Finance Division.
Receipt Timing:	Payment is due on the last day of each calendar quarter for the tax collected during the previous three months. For example, on October 31, payment is due for tax collected during the months of July, August, and September.
Fee Schedule:	10% per occupancy.
Use of Revenue:	Unrestricted.
Last Fee Update:	July, 1991
Last Fee Review	February, 2016

Overview

The City levies a tax of 10% per occupancy on persons staying 29 days or less in a room(s) in vacation rental property. Revenues are collected by property operators and remitted to the City on a quarterly basis. Receipts are highest during summer months.