



CITY OF SAN MATEO

City Hall
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Agenda Report

Agenda Number: {{item.number}}

Section Name: {{section.name}}

File ID: {{item.tracking_number}}

TO: City Council

FROM: Drew Corbett, City Manager

PREPARED BY: City Manager's Office

MEETING DATE: July 20, 2020

SUBJECT:

Increase Hotel Transient Occupancy Tax – Placing Measure on Ballot

RECOMMENDATION:

Introduce an Ordinance to amend provisions of Chapter 3.56 “Transient Occupancy Tax” of the San Mateo Municipal Code to increase the City’s existing hotel transient occupancy tax by 2%; adopt a Resolution to call a general municipal election on Tuesday, November 3, 2020 for the purpose of submitting a proposed ordinance to increase the City’s transient occupancy tax by 2%; and approve an argument in support of the measure to be included in voter information pamphlet.

BACKGROUND:

The City Council has called a regular election for Nov. 3, 2020 for two Council seats and placed one measure on the ballot. Council also provided direction to place an additional measure on the ballot to increase to the City’s transient occupancy tax, or TOT. Also known as a hotel tax, TOT is a common source of revenue for California cities. The City of San Mateo has imposed and collected a TOT for decades. The City’s current rate is 12%, which is broken down by 10% going into the General Fund for general municipal purposes and 2% going into a special fund to finance capital improvements.

The City of San Mateo is facing a structural deficit that has been exacerbated by the COVID-19 pandemic. On June 15th, the City Council approved the fiscal year 2020-21 budget, which outlines an anticipated \$7.8 million structural shortfall. The City is taking extensive steps to address the immediate and ongoing deficit by implementing a fiscal sustainability plan. The multi-pronged approach includes nearly \$4 million in cost reductions through asking employees for \$3 million in compensation concessions and \$1 million in savings by strategically eliminating non-sworn vacant positions. While these measures and the use of reserves will assist the City in balancing its budget this year, the City is facing a longer-term deficit that will require action to address.

The Council has indicated a strong preference for maintaining service levels the community relies upon and has directed staff on several occasions to explore potential revenue enhancement measures. Part of the fiscal sustainability plan includes a possible increase to the TOT.

The City hired the independent firm True North Research to conduct a voter opinion survey on the feasibility of increasing the TOT from 12% to 14%. The survey was issued between May 19th and 29th in English and Spanish to about 850 registered voters who are likely to participate in the Nov. 3, 2020 election. Support for a TOT increase was 64% based solely on draft ballot language and increased to 72% when participants learned more about the proposed measure.

Based on the survey results, Council directed staff to proceed with placing a 2% increase to the TOT on the Nov. 3, 2020 ballot. Included as Attachment 1 is a Resolution to Calling a General Municipal Election on Tuesday, November 3, 2020 For the Purpose of Submitting a Proposed Ordinance to Increase the City’s Transient Occupancy Tax by 2%. Included as Attachment 2 is an ordinance that would amend provisions of Chapter 3.56 of the Municipal Code. The proposed

ordinance would amend the City's TOT code to increase the general tax portion of the TOT from 10% to 12%. If this measure is approved by City voters, the TOT would increase to a total of 14%. The ordinance will be introduced at this time, but will only be adopted if the ballot measure is approved by the voters.

As a general tax, the measure would need a simple majority to pass. If approved by voters, the TOT increase is expected to generate an additional \$1 million in locally-controlled, general fund revenue. All money generated through this increase would stay in San Mateo. If approved the hotel tax would go into effect January 2021.

Ballot Argument and Impartial Analysis

The California Elections Code governs the submission of ballot measure arguments to be included in voter pamphlets published by the elections official. On June 29th, the City Council authorized its members to submit arguments in favor of the proposed TOT increase. A Council subcommittee comprised of Mayor Joe Goethals and Deputy Mayor Eric Rodriguez have drafted an argument in favor of the measure, which is included as Attachment 3. The Council will be asked to approve the ballot argument at the meeting on this item.

BUDGET IMPACT:

If adopted by voters, the proposed measure is expected to generate \$1 million in additional general fund revenue. The San Mateo County elections division has provided a quote for the cost associated of placing an additional measure on the Nov. 3, 2020 ballot to be in the range of \$12,000 to \$16,000. The City Clerk's budget can absorb the cost of this measure with existing appropriations.

ENVIRONMENTAL DETERMINATION:

This resolution is not a project subject to CEQA, because it can be seen with certainty that it will not cause a physical change in the environment. (Public Resources Code Section 21065.)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed Resolution
Att 2 – Proposed Ordinance
Att 3 – Draft Ballot Argument

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