

BALANCING THE COSTS AND REVENUES FROM VISITORS TO LAGUNA BEACH

by John Thomas
with Dennis Aigner
James Danziger
Roger McErlane
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OUTLINE

- The Bottom Line
- City Budget Projections: A Looming Deficit
- Revenue from Visitors: An Attribution Analysis
- Cost of Visitors: A Comparative Analysis
- The Gap and Who Pays
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- Approaches to Address the Gap

THE BOTTOM LINE

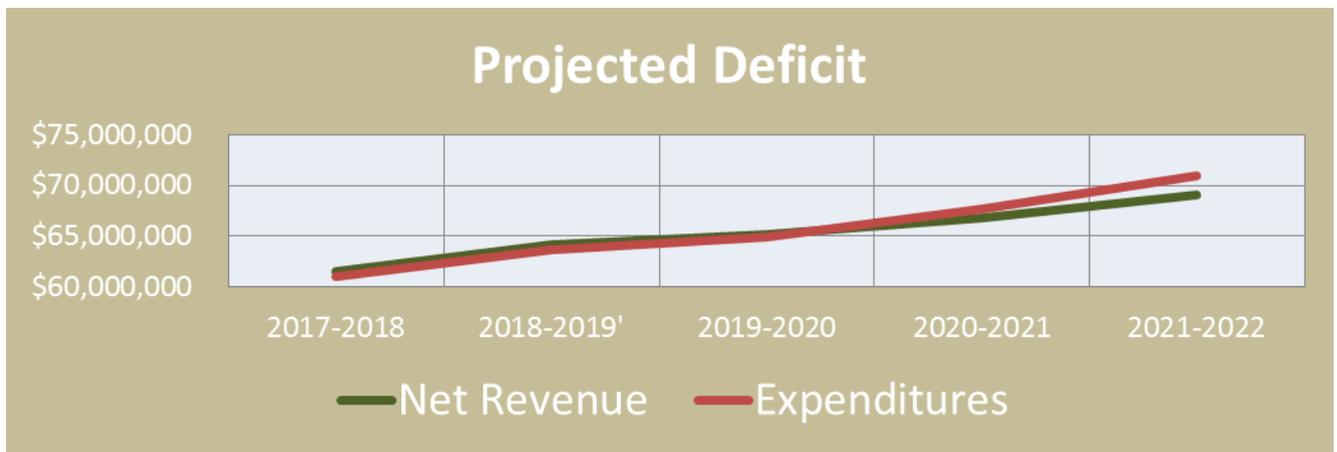
- Although the 6.3 M annual visitors to Laguna provide a variety of benefits and revenues, they also generate high costs.
- Just focusing on the costs that can be monetized, residents subsidize visitors by at least \$20 M per year.
- It is desirable to identify and implement politically-feasible policies that capture more revenue from visitors.

Summary:

There are two issues to discuss:

- The cost of operating the City of Laguna Beach is increasing faster than revenue to the City, and
- The cost of providing City services to visitors is not covered by revenue from the visitors.

• **By Fiscal Year 2019-2020 Laguna Will Begin To Experience Operating Deficits**



The physical impact on Laguna of tourism is apparent, but the economic impact is not as apparent.

We often see only half the picture. Revenue from visitors sounds like icing on the cake, but the difference between the cost of providing services to visitors and the revenue the city collects from visitors is made up by the residents.

This needs to be corrected.

The first step is to recognize the problem. The recent Long Term Financial Plan presentation by the City made clear that, in spite of its presumed wealth, the City of Laguna is not immune from the financial pressures facing cities. A recent Visit Laguna study provides insight into the economic impact of visitors. Reviewing the sources of revenue to the city government and the cost of providing city services shows just how costly the impacts of tourism are. And other coastal cities probably have the same problem.

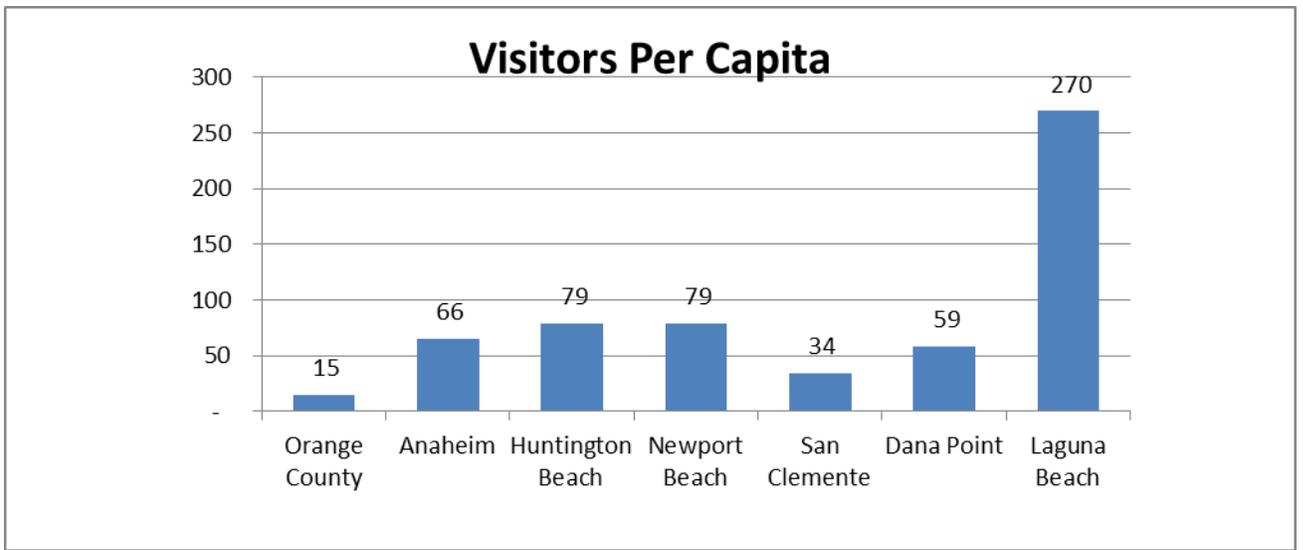
Focusing on the key contributors to the high costs provides insight into solutions. And there are solutions. Some solutions could be voluntary, some are within the current authority of the City to correct, and some could require a Ballot Measure for a general tax or special tax.

Regardless of the solution, there needs to be a “nexus” between cost and revenue.

The conclusion is that with costs increasing faster than revenues for the City, and with city revenues from visitors and visitor dependent businesses being far less than the cost of providing necessary services, the next steps for the City are to adopt a combination of visitor oriented fees and charges that are within its authority to do so, and to begin to work toward crafting a ballot measure that will generate the balance of funds to bring revenue from visitors and visitor dependent businesses in line with costs attributable to visitors and those businesses.

- **COMPARISON OF ANNUAL VISITORS PER CAPITA TO OTHER OC CITIES**

As he following chart and table show, on a per capita (per resident) basis, Laguna is far more impacted by visitors than other nearby communities.



City	Population	Visitors	Visitors Per Capita
Orange County	3,172,532	47,300,000	15
Anaheim	351,043	23,000,000	66
Huntington Beach	201,899	16,000,000	79
Newport Beach	87,127	6,900,000	79
San Clemente	65,309	2,232,600	34
Dana Point	34,181	2,000,000	59
Laguna Beach	23,365	6,300,000	270

In more detail:

Costs are increasing faster than revenues: The recent Long Term Financial Plan presentation by the City highlighted the fact that over the next five years the cost of operating the City of Laguna Beach is expected to increase faster than revenue to the City.

And the costs of services to visitors are not covered by revenue from the visitors. A major contributor to the problem is that the number of visitors to Laguna keeps growing and the costs to provide local government services to visitors are not being covered by revenue from the visitors.

The physical impact is apparent, but the economic impact is not as apparent: The people who live here are well aware of the physical impact of the high number of visitors to Laguna – such as parking, traffic, and congestion. However, the financial cost to the City is not as readily apparent.

But it is expensive to provide city services to visitors.

We are fortunate to be able to live in a spectacular natural setting with world class beaches. We also happen to live surrounded by well over 20,000,000 Southern Californians, a third of whom seem to manage to spend a day in Laguna every year.

And the State of California does everything it can to mandate that we accommodate anyone who wants to visit our beaches.

People love Laguna, but as one Councilmember puts it, “Laguna is being loved to death.”

While revenue from residents and visitors has grown and is expected to continue to grow, the costs of providing the levels of service that the City has provided in the past is expected to grow even faster. This means that unless additional sources of revenue are generated, in coming years the levels of local government services like police, fire and lifeguards, may not be adequate.

We often see only half the picture: As to the contribution to our local economy by visitors, we too often see only half the picture. We are told about the extra revenue the City receives from visitors, but we aren't told about the extra costs. We don't see how the costs to operate the City are increased by having to provide government services to those visitors.

Adding 6,300,000 visitors annually virtually doubles the population of the City on an average day. Hosting millions of visitors requires extra police, extra paramedics, and extra lifeguards. In addition to the obvious demands on services, the visitors impact the size of the entire city government by generating additional trash, producing more wastewater, and impacting the City in ways that result in the City needing to provide more maintenance and administration of everything from streets to parks to beaches. The entire city government ends up being much larger and employing many more people than if the city government simply needed to provide services to the 23,000 people who live here.

Revenue from visitors sounds like icing on the cake: The additional revenue from visitors sounds like extra icing on the cake until we realize just how expensive it is to provide the additional services needed to support those visitors. For a city with an annual budget of over \$80,000,000, the extra cost above and beyond any revenue to the City from visitors is probably over \$20,000,000 per year. The total cost of providing additional services due to visitors probably accounts for at least half the total city budget, but the revenue generated from visitors is closer to one quarter of all city government revenue. So, the cost is probably twice as much as the revenue.

But the difference is made up by the residents: Today that difference is made up by the residents.

By lucky coincidence for those who have to balance the city budget, property values in Laguna are extraordinarily high. That means that property taxes paid by people living here are extraordinarily high. Home values in Laguna are three times the values of the average Orange County home, and consequently property taxes on homes in Laguna are three times the taxes paid on the average Orange County home. So the City's share of property taxes paid by Laguna homeowners is about \$20,000,000 more annually than its share of property taxes would be if homes in Laguna had the same values and paid the same property taxes as the average Orange County home.

The bottom line is that the extra revenue paid in by the residents just happens to cover the extra costs due to the visitors. So the residents are subsidizing the visitors in the amount of about \$20,000,000 per year.

This needs to be corrected: This is not equitable and needs to be corrected.

First step -- Recognize the problem: The first step in resolving this inequity is to recognize the problem. Simply stated, the problem is that the extra cost of running this city due to the high number of visitors is greater than the extra revenue from those visitors.

What happens is that capital improvements and services that would benefit the residents are crowded out by the need to allocate public funds to provide appropriate public safety and public services for the visitors. If you wonder why the missing sidewalks get talked about but never built, that may be one reason. If there are other improvements that don't seem to get made, the fact that the funds paid to the City by residents that ought to be adequate to cover the costs of those improvements, may be being diverted to provide the funds to pay for all those additional services made necessary by the visitors and the businesses dependent on the visitors.

While the Coastal Act requires us to accommodate anyone who wants to visit our beaches, the State of California does nothing to offset the additional costs incurred by the City to accommodate all those people that the state wants Laguna to accommodate. So, we are left to our own devices to solve this problem.

The challenge is for the City to find appropriate ways to remedy this imbalance by finding ways to generate revenue from the visitors that will cover the costs they create.

Long term financial plan

We are not immune: While relative to many cities in California, Laguna Beach is in good financial shape, it is important to note that we are not immune from the kinds of financial pressures that cities are facing.

In this context, on March 6th, the City Council held a special meeting to present a Long Term Financial Plan. The forecast shows expenditures outpacing revenue by year four leading to an operating deficit growing from \$1,000,000 in year four to \$2,500,000 in year five. Simply stated, costs are expected to grow faster than revenues. While the presentation highlighted pension costs as the largest contributor to the budget gap, it was pointed out during the discussion that, much like the "elephant in the room that no one talks about", the costs to accommodate visitors exceeds revenue from visitors, and correcting this imbalance could make a big difference in the city's finances. The result of the discussion was that the City Council directed staff to take a number of steps to address the issues, including a directive that staff return to the (May 23rd) Budget Workshop with an analysis of additional possible revenue sources to be received from visitors.

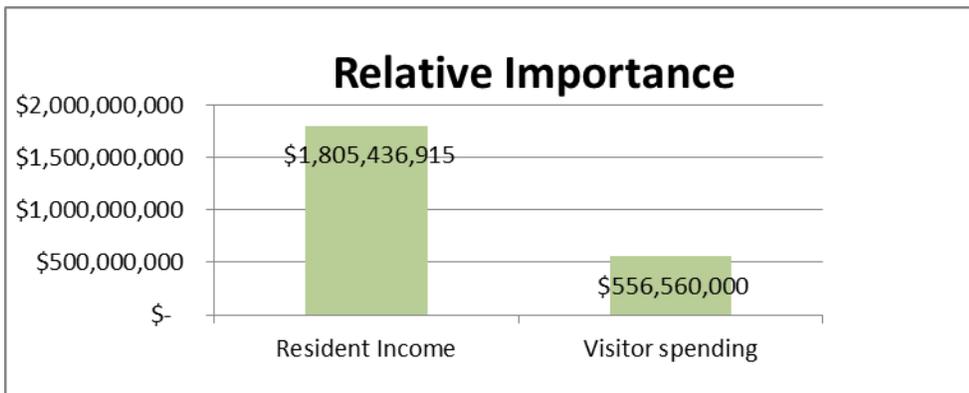
Visit Laguna study:

Over the past few months, Visit Laguna, (the Laguna Beach visitors bureau) has been conducting a study which was recently completed and titled the “2016 Visitor Profile and Economic Impact Study” prepared by Destination Analysts, Inc., a tourism research and marketing company. The study was based largely on data from surveys of visitors. The results included a number of observations relevant to the impact of tourism on Laguna.

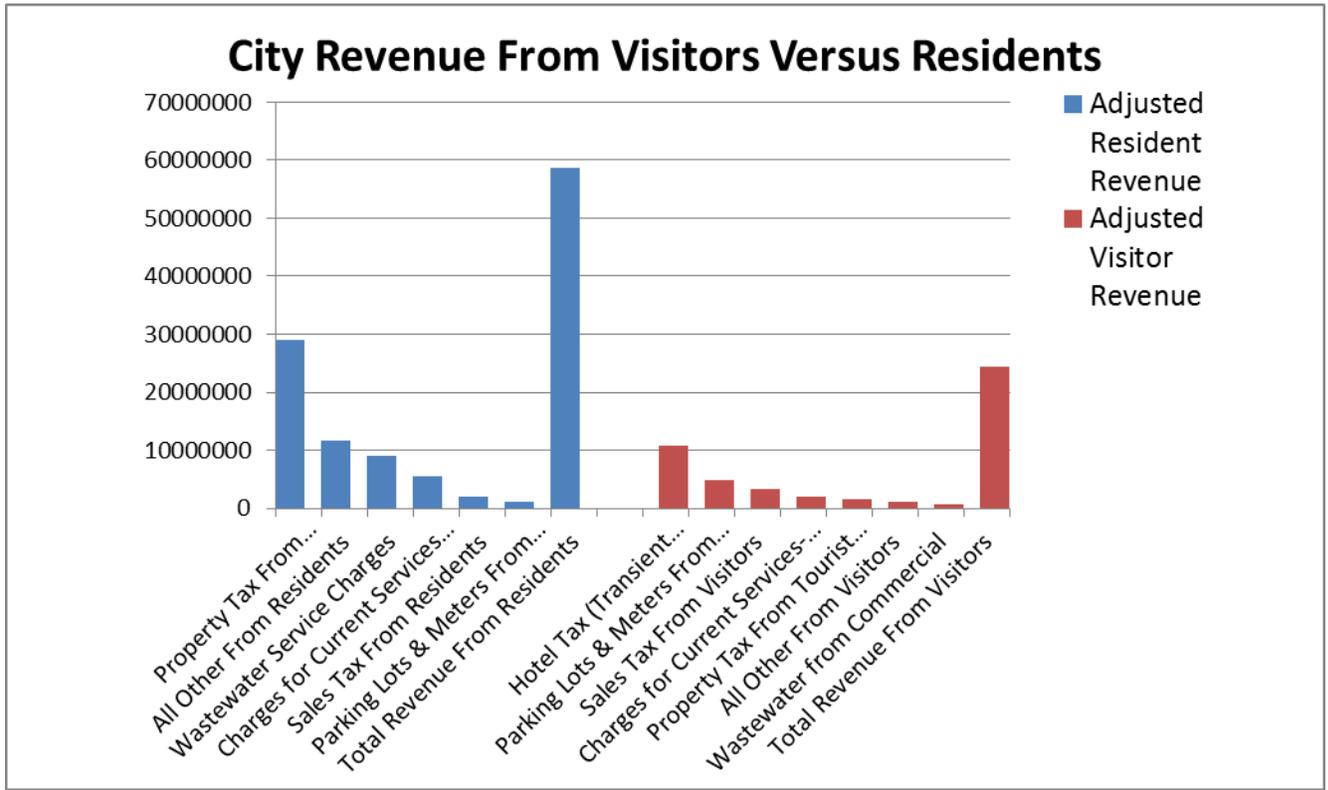
- Number of annual visitors to Laguna: 6,331,444
- Number of “visitor days” – adjusting for number of days a visitor stays in Laguna: 6,993,005
- Number of visitors staying in Laguna Beach hotels: 271,528
- Number of day trippers: 6,015,678
- Estimated annual amount spent by visitors: \$556,560,000
- Amount spent by day trippers: \$340,668,000
- Amount spent by visitors in restaurants: \$208,634,000
- Amount spent by visitors in restaurants and for entertainment and sightseeing: \$246,887,000
- Percent of visitors who dined in a restaurant and/or visited a bar/nightlife: 68.9%
- Taxes generated for the city government: \$17,834,000
- Sales tax from visitors (included in total taxes): \$3,804,000
- Amount spent by day trippers (and other visitors) on restaurants and dining: \$152,738,064
- “Which activity did you participate in?” Answer: Visit a beach: 76%
- Important factor: Scenic Beauty: 60.5%
- What would enhance your experience? Less traffic and/or fewer people: 12.9%

Notes regarding study results:

- Spending by visitors based on sales tax: Based on the study’s estimate of sales tax from visitors, spending (excluding hotel room charges) would be \$380,400,000
- Per capita income of residents based on the US census information for 2011-2015: \$77,217
- Aggregate Income of all Laguna Beach residents (per capita income X population): \$1,805,436,915
- Estimated annual amount spent by visitors: \$556,560,000
- Relative economic importance of visitors/residents: Income of residents is 3.24 times as great as all the revenue to all the businesses from visitors
- It is ironic to note that 816,756 of our visitors feel there is too much traffic and/or there are too many people in Laguna.



• **ESTIMATED REVENUE FROM VISITORS VS. RESIDENTS**



• **ESTIMATED REVENUE FROM VISITORS AND RESIDENTS**

Source	Adjusted Resident Revenue	Adjusted Visitor Revenue	Adjusted Totals
Property Tax From Residences and Resident Serving Commercial	\$ 29,039,905		\$ 29,039,905
All Other From Residents	\$ 11,765,020		\$ 11,765,020
Wastewater Service Charges	\$ 8,966,772		\$ 8,966,772
Charges for Current Services (Incl Refuse Service Charges)	\$ 5,626,000		\$ 5,626,000
Sales Tax From Residents	\$ 2,105,280		\$ 2,105,280
Parking Lots & Meters From Residents	\$ 1,188,800		\$ 1,188,800
Total Revenue From Residents	\$ 58,691,777		
Hotel Tax (Transient Occupancy Tax)		\$ 10,692,000	\$ 10,692,000
Parking Lots & Meters From Visitors		\$ 4,755,200	\$ 4,755,200
Sales Tax From Visitors		\$ 3,398,720	\$ 3,398,720
Charges for Current Services-- BID Only		\$ 2,110,000	\$ 2,110,000
Property Tax From Tourist Dependent Commercial & Industrial		\$ 1,679,095	\$ 1,679,095
All Other From Visitors		\$ 1,113,680	\$ 1,113,680
Wastewater from Commercial		\$ 654,228	\$ 654,228
Total Revenue From Visitors		\$ 24,402,923	
Total All Sources			\$ 83,094,700
Percent of Total All Sources	71%	29%	100%

Source of revenue to the city government:

As shown above, a comparison of revenue to the city government from visitors versus revenue from residents shows that approximately 71% of city government revenue is attributable to residents while only 29% comes from visitors.

Based on the Fiscal Year 2016-2017 Adopted budget, the sources of revenue to the City of Laguna Beach are summarized on the attached file: Revenue Summary 2016 2017 FY Budget.pdf

That revenue allocated between visitors and residents is displayed in the chart and table above.

• **ESTIMATED COST OF VISITORS**

- A Comparative Budget Analysis of Laguna Beach vs. Four Cities with Similar Populations but Limited Impact From Visitors

Cost of providing city services:

The Fiscal Year 2016 – 2017 budget projects the city expenditures of \$78,543,500. The table below summarizes major categories of expenditures. Public safety expenditures alone are projected to be \$30,025,900 for the period.

Total Budget FY 2016-2017

	Total Budget FY 2016-2017
<u>Sources of Funds</u>	
Revenue	\$ 83,094,700
Total Sources of Funds	\$ 83,094,700
<u>Use of Funds</u>	
City Council	\$ 77,700
City Manager	\$ 872,300
City Clerk	\$ 381,600
City Treasurer	\$ 159,700
City Attorney	\$ 635,000
Administrative Services	\$ 3,757,100
Police	\$ 16,399,500
Fire	\$ 10,946,900
Marine Safety	\$ 2,679,500
Public Works	\$ 23,712,200
Water Quality	\$ 9,197,800
Community Development	\$ 4,920,900
Community Services	\$ 2,543,500
Cultural Arts	\$ 2,259,800
Total Uses of Funds	\$ 78,543,500

Cities do not commonly break down expenditures attributable to visitors versus residents.

Costly impacts of tourism:

The cost to run the city government of Laguna Beach with its 6,300,000 annual visitors is much higher than the cost to operate other California cities with a similar number of residents but with little or no impact from tourists. Since cities do not commonly break down expenditures attributable to visitors versus residents, the attached files provide a comparison of the budget of Laguna Beach compared to other California cities of comparable resident population but will little or no tourist impact.

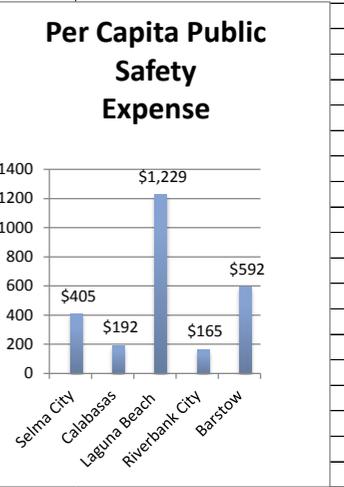
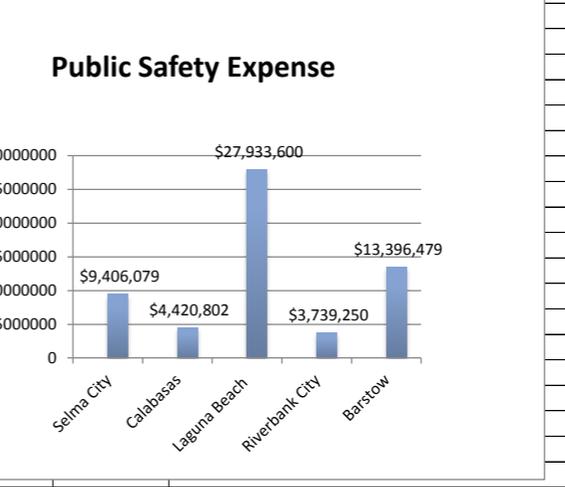
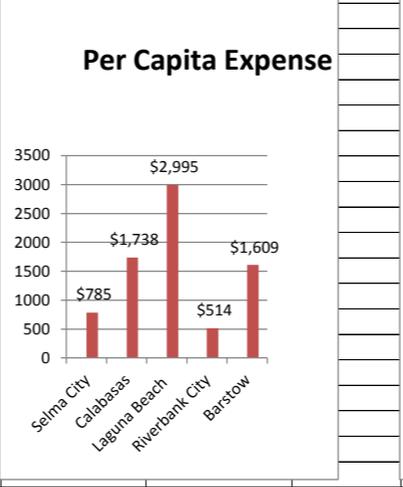
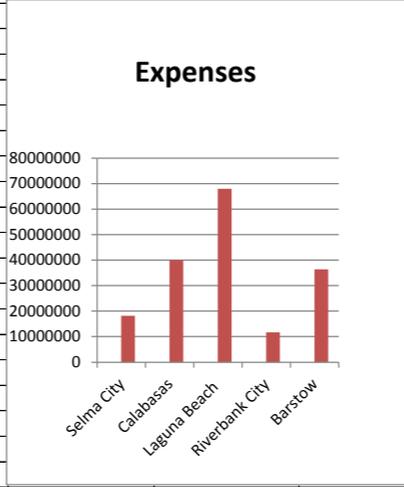
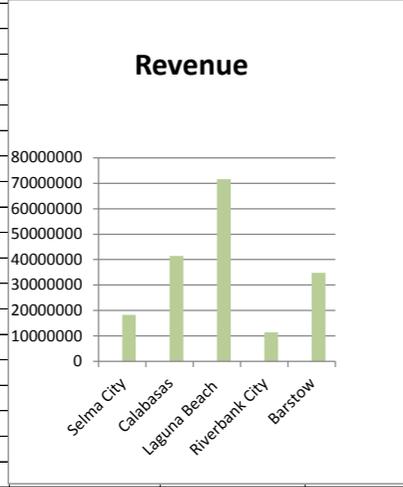
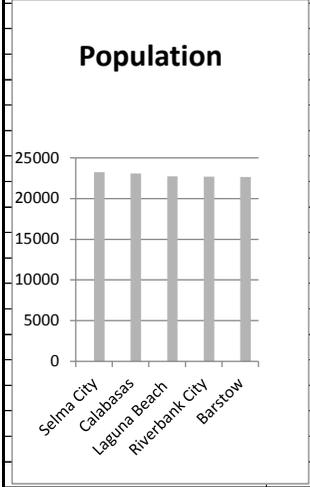
• **COMPARATIVE BUDGET ANALYSIS**

Filename Comparison to Four California Cities 5 11 2015.pdf was done in May 2015 using the latest information available at the time and compares the budget of Laguna Beach to the four cities in California with resident populations closest to Laguna. It compares population, Total Revenue, Budget Expenses, Per Capita Expense, Transient Occupancy Tax (hotel tax), Property Tax Revenue, Sales Tax Revenue, Public Safety Expense, Median Household Income, and physical size of the city. It also refers to the data used for comparison, includes notes, and links to websites used for data collection. It clearly shows that in all expense comparisons, Laguna's expenses are dramatically higher. Total budget expenses are about 250% of the average of the other four cities, and public safety expenses alone are over 350% of the average of the other four. While Household Income of Laguna is above average, it is not the highest. Calabasas has little tourist impact, much higher median income and much lower public safety expense.

Filename Comparison to Ten California Cities 3 30 2016.pdf, done 10 months later in March 2016 expanded the comparison to the ten cities in California with resident populations closest to Laguna. It compares population and public safety costs – police, fire, and marine safety. It also refers to the data used for comparison, includes comments, and links to websites used for data collection. Once again, it clearly shows that in all public safety expense comparisons, Laguna's expenses are dramatically higher with Laguna's expense ranging from over 250% for police to over 350% for all public safety expenses when compared to the average of the other ten.

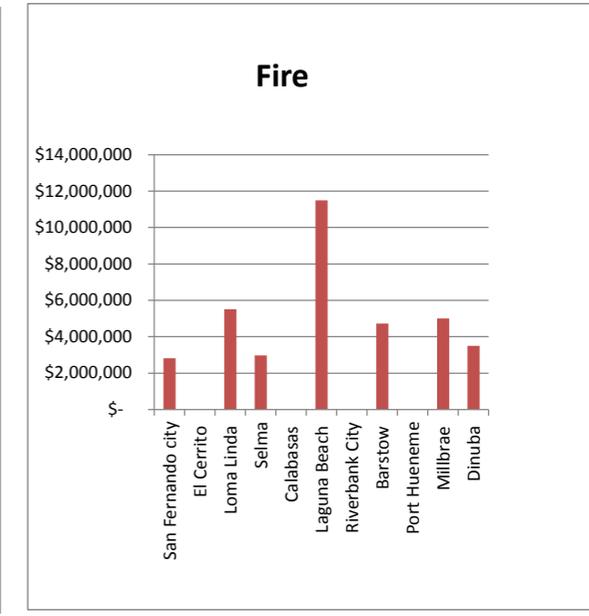
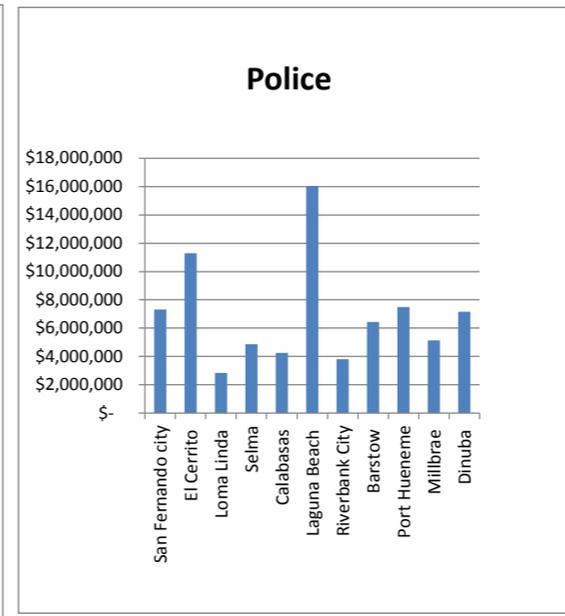
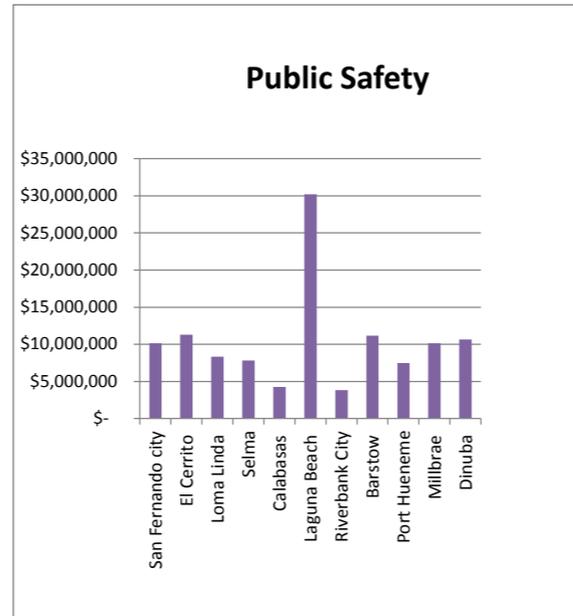
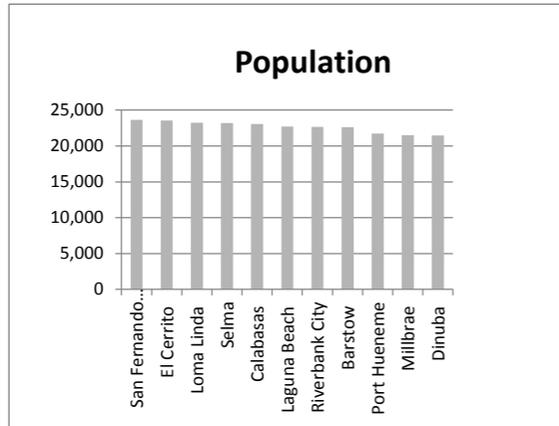
Budget Comparison to Four California Cities with Population Closest to Laguna Beach (Comparison 5/11/2015)

City	Population	Budget Revenue	Budget Expenses	Per Capita Expense	Transient Occupancy Tax Revenue	Property Tax Revenue	Sales Tax Revenue	Public Safety Expense	Per Capita Public Safety Expense	Median Household Income	Fiscal Year	Size	Notes	Link
Selma City	23,219	\$ 18,331,976	\$ 18,228,681	\$ 785	\$ 350,000	\$ 2,795,000	\$ 4,055,000	\$ 9,406,079	\$ 405	\$ 43,324	2014-2015	5.1 sq miles	Fresno County, 16 miles southeast of Fresno; 92 employees; 42 police employees; 21 Fire Employees	http://www.cityofselma.com/
Calabasas	23,058	\$ 41,375,827	\$ 40,073,301	\$ 1,738	\$ 1,492,057	\$ 4,450,304	\$ 5,905,147	\$ 4,420,802	\$ 192	\$ 124,583	2013-2014	13.3 sq miles	2013-2014 was used because 2014-2105 was abnormally high due to \$25 million Lost Hills overpass construction (Measure R);County Sheriff and Fire	http://www.cityofcalabasas.com/
Laguna Beach	22,723	\$ 71,546,700	\$ 68,062,800	\$ 2,995	\$ 10,344,000	\$ 29,731,000	\$ 5,397,000	\$ 27,933,600	\$ 1,229	\$ 94,325	Proposed 2015-2016	8.85 sq miles	These numbers exclude Wastewater; 259 Full Time equivalent employees; 86 police employees (including 49 sworn); 41 fire employees; 8 marine safety employees; though police employ an additional 65 reserve, volunteer, explorer and seasonal positions -- totaling 151;	
Riverbank City	22,678	\$ 11,401,599	\$ 11,662,970	\$ 514	\$ -	\$ 2,644,000	\$ 2,700,000	\$ 3,739,250	\$ 165	\$ 57,951	2014-2015	4.11 sq miles	Stanislaus County, Modesto Metropolitan Statistical Area; 10 miles northeast of Modesto; 46 employees; County Sheriff and Fire; 18 sworn police officers;	http://www.riverbank.org/default.aspx
Barstow	22,639	\$ 34,819,774	\$ 36,432,378	\$ 1,609	\$ 2,700,100	\$ 3,582,795	\$ 7,477,000	\$ 13,396,479	\$ 592	\$ 42,354	2015	41.4 sq miles	170 employees; 55 police employees (including 37 sworn); 29 Fire employees -- Fire District; Wastewater excluded	http://www.barstowca.org/home/howdocument?id=2796
Average of Other Four Cities	22,899	\$ 26,482,294	\$ 26,599,333	\$ 1,162	\$ 1,135,539	\$ 3,368,025	\$ 5,034,287	\$ 7,740,653	\$ 338	\$ 67,053				
LB Compared to Other 4 Cities	99%	270%	256%	258%	911%	883%	107%	361%	363%	141%				
Dollars More/Less for LB Compared to Average		\$ 45,064,406	\$ 41,463,468	\$ 1,834	\$ 9,208,461	\$ 26,362,975	\$ 362,713	\$ 20,192,948	\$ 891	\$ 27,272				
Compared to Calabasas		173%	170%			668%		632%		76%				



City	Population	Public Safety Cost	Police Cost	Fire	Marine Safety	Budget	Comments	Source of information -- Website:
1 San Fernando city	23,645	\$ 10,121,156	\$ 7,309,272	\$ 2,811,884		FY 2015-2016	Fire by contract with Los Angeles City Fire Departmentcontract fire	http://www.ci-san-fernando.ca.us/city_government/departments/finance/forms_docs/budget_2015/FY%202015-2016%20Adopted%20Budget.pdf
2 El Cerrito	23,549	\$ 11,292,173	\$ 11,292,173			FY 2015-2016	SF Bay area	http://www.el-cerrito.org/ArchiveCenter/ViewFile/Item/1818
3 Loma Linda	23,261	\$ 8,345,800	\$ 2,828,600	\$ 5,517,200		2014 Budget	Police by contract with San Bernardino Sheriff's Department/Fire by Contract	http://www.lomalinda-ca.gov/asp/Site/Departments/Finance/FinancialRecords/index.asp
4 Selma	23,219	\$ 7,831,373	\$ 4,856,668	\$ 2,974,705		FY 2015-2016		http://www.cityofselma.com/PDFs/Web%20Site%20Applications/Finance/Final%20Approved%20Budget%20for%2015-16.pdf
5 Calabasas	23,058	\$ 4,253,000	\$ 4,253,000			FY 2015-2016	Police by contract with LA County sheriff; Fire by LA County Fire	https://calabasasca.opengov.com/transparency#/176/breakdown=939b412c-df7f-432a-9eae-9e3be389325d&currentYearPeriod=years&currentYearAmount=cumulative&accountType=expenses&graph=stacked&selection=EAAAF27F2EB92D8A09F2A38484E8E605&legendSort=desc&saved_view=null&fiscal_start=earliest&fiscal_end=latest
6 Laguna Beach	22,723	\$ 30,228,700	\$ 16,050,600	\$ 11,486,200	\$ 2,691,900	FY 2015-2016		http://www.lagunabeachcity.net/civicax/filebank/blobdload.aspx?BlobID=14894
7 Riverbank City	22,678	\$ 3,808,800	\$ 3,808,800			FY 2015-2016	Police by contract with Stanislaus Sheriff operating as city department. Fire services by the Stanislaus Consolidated Fire Protection District.	http://www.riverbank.org/DocumentCenter/View/554
8 Barstow	22,639	\$ 11,165,515	\$ 6,440,784	\$ 4,724,731		FY 2015-2016	Fire District	http://www.barstowca.org/home/showdocument?id=3170
9 Port Hueneme	21,723	\$ 7,493,747	\$ 7,493,747			FY 2015-2016	Ventura County Fire Protection District	http://cityofporthueneme.org/DocumentCenter/View/962
10 Millbrae	21,532	\$ 10,125,169	\$ 5,125,169	\$ 5,000,000		CAFR 2014	Police by contract with San Mateo County Sheriff. Fire by Central County Fire District and City of San Bruno	http://www.cityofmillbrae.org/Modules/ShowDocument.aspx?documentid=6489
11 Dinuba	21,453	\$ 10,666,353	\$ 7,164,288	\$ 3,502,065		FY 2015-2016	Public Safety Sales Tax Measure F	http://www.dinuba.org/images/pdf/Dinuba_Current_Budget.pdf

Total	\$ 115,331,786	\$ 76,623,101	\$ 36,016,785
Minus Laguna Beach	\$ (30,228,700)	\$ (16,050,600)	\$ (11,486,200)
Total of Other Cities	\$ 85,103,086	\$ 60,572,501	\$ 24,530,585
Number of Other Cities	10	10	7
Average of Others	\$ 8,510,309	\$ 6,057,250	\$ 3,504,369
Laguna Beach	\$ 30,228,700	\$ 16,050,600	\$ 11,486,200
Average of Other Cities	\$ 8,510,309	\$ 6,057,250	\$ 3,504,369
LB Compared to Others	355%	265%	328%



- **THE GAP**

- Laguna’s Expenses Are 256% Times Those of Comparable Cities with Little or No Visitor Impact
- Based on a Hypothetical Budget “But For Visitors”, the “Gap” Is Estimated to Be Over \$20 million
- Who Pays? The Residents!
- One Significant Area of Cost: Alcohol-Related Public Safety

Filename Hypothetical Budgetv2.pdf constructs a hypothetical budget for Laguna Beach based on relationships reflected in the Four City comparison above. That is, the hypothetical budget allocates expenses to operate Laguna Beach without visitors predicated on the relationship of the operating costs of the average of the four cities compared to Laguna. Revenue is allocated per a City staff estimate reflected in the May 23, 2017 staff report prepared for the Budget Workshop. The result is a hypothetical budget that says a city of 23,000 residents and no tourists could operate on a budget of \$36,100,000 as compared to the actual budget for Laguna with its 6,000,000 visitors of \$92,416,000. That \$92,416,000 cost to operate is 256% of the hypothetical budget of \$36,100,000. And the resulting shortage between visitor revenue and costs allocated to visitors exceeds \$23,000,000 per year. Other estimates of allocation of revenue apportion less to visitors, so the shortage would be even larger if those estimates were used.

- **Hypothetical Laguna Beach 2017-2018 Budget Based on Comparison to Average of Four California Cities closest to Laguna Without Tourists**

Hypothetical Laguna Beach 2017-2018 Budget Based on comparison to Average of Four California Cities closest to Laguna Without Tourists				
Sources of Funds	Total Budget FY 2017-2018	Hypothetical Laguna Budget		
		Residents	Visitors	Total
Revenue *	\$ 93,747,400	\$ 60,547,400	\$ 33,200,000	\$ 93,747,400
Total Sources of Funds	\$ 93,747,400	\$ 60,547,400	\$ 33,200,000	\$ 93,747,400
Use of Funds				
City Council	\$ 82,600	\$ 32,266	\$ 50,334	\$ 82,600
City Manager	\$ 894,600	\$ 349,453	\$ 545,147	\$ 894,600
City Clerk	\$ 389,900	\$ 152,305	\$ 237,595	\$ 389,900
City Treasurer	\$ 181,900	\$ 71,055	\$ 110,845	\$ 181,900
City Attorney	\$ 750,000	\$ 292,969	\$ 457,031	\$ 750,000
Administrative Services	\$ 3,628,200	\$ 1,417,266	\$ 2,210,934	\$ 3,628,200
Police	\$ 18,436,200	\$ 7,201,641	\$ 11,234,559	\$ 18,436,200
Fire	\$ 12,453,000	\$ 4,864,453	\$ 7,588,547	\$ 12,453,000
Marine Safety	\$ 3,282,900	\$ 1,282,383	\$ 2,000,517	\$ 3,282,900
Public Works	\$ 30,512,000	\$ 11,918,750	\$ 18,593,250	\$ 30,512,000
Water Quality	\$ 10,982,000	\$ 4,289,844	\$ 6,692,156	\$ 10,982,000
Community Development	\$ 5,643,100	\$ 2,204,336	\$ 3,438,764	\$ 5,643,100
Community Services	\$ 2,683,700	\$ 1,048,320	\$ 1,635,380	\$ 2,683,700
Cultural Arts	\$ 2,495,900	\$ 974,961	\$ 1,520,939	\$ 2,495,900
Total Uses of Funds	\$ 92,416,000	\$ 36,100,000	\$ 56,316,000	\$ 92,416,000
Percentages		39%	61%	100%
Factor: Laguna's Expenses as Percentage of Average of Other Four				256%
Difference Between Incremental Cost and Revenue From Visitors -- "The Gap"				\$ (23,116,000)
* Revenue From Visitors (Per May 23, 2017 Staff Report Estimate) -- Other Estimates are lower)				

Without a cost accounting breakdown of how each dollar of Laguna's budget is spent – whether for residents or for tourists – these comparisons of the costs to provide services in Laguna compared to other California cities of similar population but with little no tourist impact are the best indicators of the additional incremental costs imposed on the City of Laguna due to the high tourist volume experienced annually.

While cities operate differently, and the comparisons are not precise apples-to-apples comparisons, it is clear from the magnitude of the differences in these comparisons that the difference is not just a few percentage points, but a multiple of what other cities experience – twice as much or three times as much.

Clearly, tourism is the distinguishing factor.

A little tweaking will not solve the problem. We need a big bold solution.

Other coastal cities probably have the same problem - but perhaps not to the same extent:

It is reasonable to conclude that other coastal cities may have the same problem and they may not realize it.

While Laguna may be an extreme example, Laguna has the opportunity to be a leader in municipal management by recognizing this imbalance and taking the steps necessary to correct it.

What is spent in Laguna does not stay in Laguna.

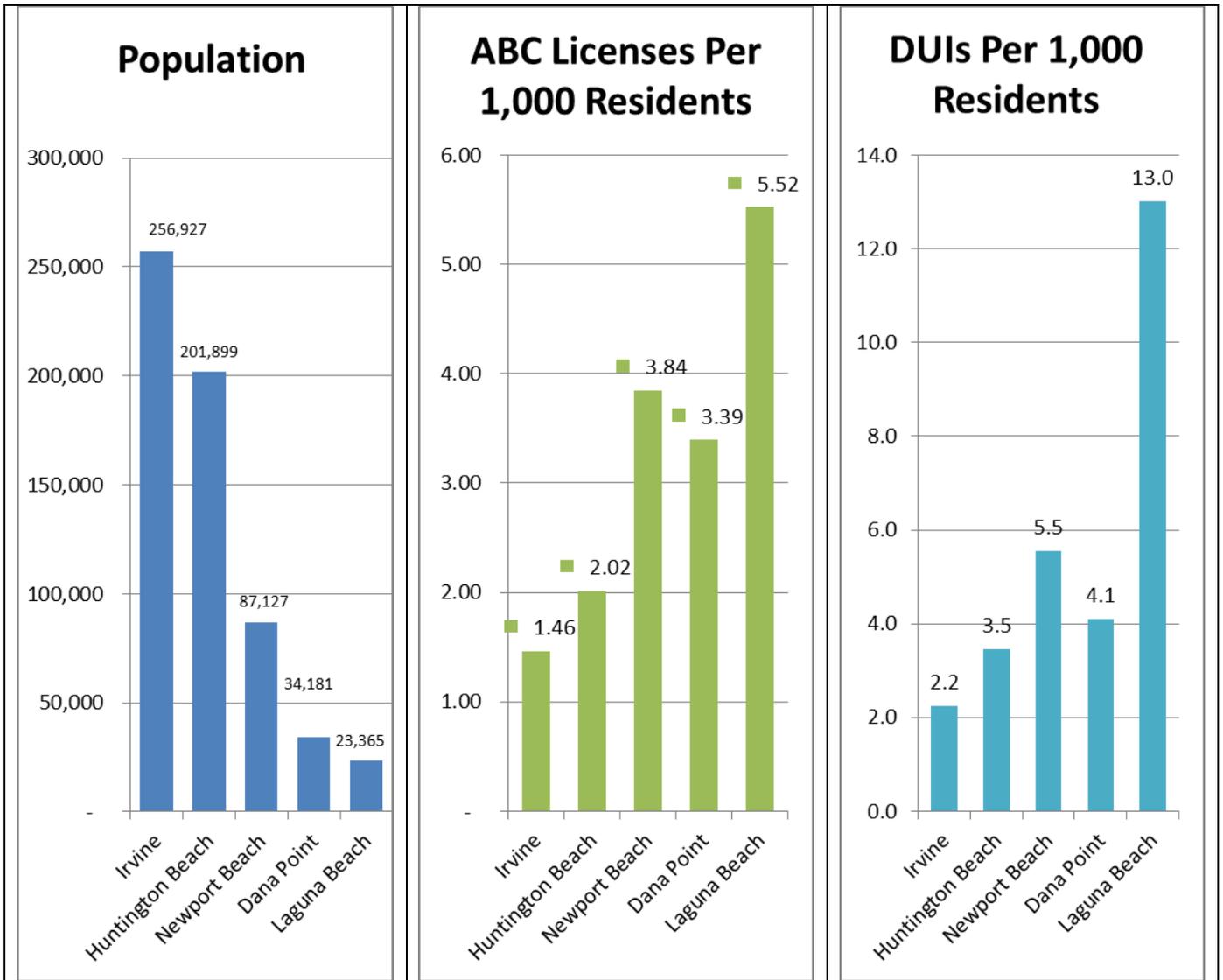
While, according to the Visit Laguna study, visitors may spend \$556,560,000 in Laguna, the vast majority of the people who work in Laguna, who own businesses that cater to visitors in Laguna, and that own commercial property in Laguna do not live in Laguna. And therefore, very little of the revenue received by those businesses stays in Laguna. Unlike the Las Vegas slogan of "What happens in Vegas stays in Vegas", in Laguna, what gets spent in Laguna does not stay in Laguna. Generally speaking, little of the business income from tourist oriented businesses in Laguna benefits residents of Laguna. So, while the city government is responsible for providing services for the visitors and the businesses in Laguna that are here primarily because the visitors are here, there is little ancillary economic benefit to the residents from visitors. Therefore it is incumbent upon the City to make sure that city government revenue collected from visitors and those local businesses focused on visitors be adequate to cover the out of pocket costs of the City to provide services to those visitors and businesses.

Key contributors to higher costs:

- Let's Look at One Significant Area of Cost: Alcohol-related Impacts
 - It could be argued that this is an area where visitor-related costs are especially high...

• COMPARISONS OF ALCOHOL-RELATED STATISTICS FOR LAGUNA AND OTHER BEACH CITIES

City	Population	ABC Licenses	ABC Licenses Per 1,000 Residents	DUIs	DUIs Per 1,000 Residents
Irvine	256,927	376	1.46	576	2.2
Huntington Beach	201,899	407	2.02	697	3.5
Newport Beach	87,127	335	3.84	483	5.5
Dana Point	34,181	116	3.39	140	4.1
Laguna Beach	23,365	129	5.52	304	13.0
Sources:					
Population	https://www.census.gov/quickfacts				
ABC Licenses	https://www.abc.ca.gov/datport/AHCity.asp				
DUIs	http://www.ots.ca.gov/Media_and_Research/Rankings/				
Note: OTC DUI data is for 2014, and reports 304 DUIs in Laguna for that year. Laguna Beach reports DUI arrests in 2015 of 389					



Data, as well as anecdotal evidence from our police, fire and marine safety departments show there are two factors that demonstrably increase the cost of providing city services: 1) high numbers of tourists and 2) alcohol.

In 2015, the City's public safety dispatchers fielded nearly 48,000 calls, up 22% in two years.

A public records request shows that for a four month period in 2015 the majority of Laguna Beach police arrests were of non-residents.

The 2016 Police Department Strategic Plan brought into stark reality just how much of a burden the visitors place on the City government. More and more public safety resources are needed to service the commercial areas, and in some cases that has meant shifting public safety resources to the commercial areas and away from the residential areas.

In many cases the cause is alcohol related.

- There is probably no single industry in Laguna larger than the sale of alcohol.
- Based on data in the City budget, Laguna businesses probably sell \$150,000,000 of alcohol per year.
- Laguna Beach police officers make more DUI arrests per capita (i.e. per our population) than any other law enforcement agency in the State of California.
- Based on FBI statistics, Laguna has about three and one-half times as many DUIs per licensed Laguna Beach driver as the US average.
- Our 130 bars and restaurants and places to buy alcohol, represent approximately three and a half times the state average based on population.
- The California Department of Alcoholic Beverage Control provides guidelines for Concentration of ABC licenses. Laguna has four times the number of licenses compared to ABC guidelines. Over the years, the City has chosen to ignore these guidelines.
- In addition to the DUIs the Laguna police annually report a similar number of public intoxication arrests.
- In the four years 2012 through 2015 the Police department answered over 6,600 calls for service in Laguna bars and restaurants.

Quotes like this in the LB Indy provide anecdotal evidence of the impact and cost of alcohol on Laguna. "If it weren't for alcohol, 80 percent of my job would be gone," police Sergeant Eric Lee, who supervises the South Laguna patrols...

The attached file Comparison of Population ABC Licenses and DUIs 4 15 2107b.pdf clearly demonstrates how disproportionate Laguna's ABC licenses and DUIs are compared to surrounding communities.

The Fire Department will tell you that probably 80% to 90% of its calls are for medical rather than fire issues, and that a high proportion of these calls are to aid visitors.

Marine Safety estimates approximately six million visitors to city maintained beaches annually over the past two years. Laguna Beach lifeguards made 5,560 rescues, and provided medical aid to 3,840 people in 2015. Marine safety will tell you that most of their rescues are of visitors who are not familiar with the dangers of our local waters. And the Department made 67,350 city ordinance enforcements in 2016, including 2,300 alcohol related enforcements.

Solutions

With the direction of the City Council from the Long Term Financial Plan presentation that staff return to the (May) Budget Workshop with an analysis of additional possible revenue sources to be received from visitors, the City has taken the first step. Having recognized the problem, the City needs to focus on finding solutions.

There are solutions: Here are some possibilities: (See Detail in Appendix A)

1. Business Tax/Gross Receipts Tax
2. Tourism Business Improvement District
3. Extend the hotel tax to other hotel revenue
4. Business License Fees
5. Increase local sales tax
6. Parcel Tax on all commercial parcels
7. Community Service District ("CFD" -- Mello Roos)
8. Increased parking fees
9. Festival Tax
10. Trolley Fare
11. Increase fees charged to non-residents for public safety services rendered
12. CUP and/or AUP Annual Fee
13. Annual fee for historic commercial building renovation parking waivers
14. City Income Tax on Businesses
15. Raise Utility Tax on certain uses
16. The State of California

Ballot Measure for general tax or special tax:

One or more of the possible revenue sources described above could require a ballot measure, but considering the overwhelming support of Measure LL by local residents, it is likely a fair and well-conceived tax to address the current imbalance would be approved by local voters.

Jurisdictional Considerations:

Since there may be jurisdictional considerations involving the State Dept. of Alcoholic Beverage Control, rather than tax the business, one approach might be to apply a parcel tax to commercial properties that are zoned for or allow with a CUP a bar or restaurant. The parcel tax could be based on gross receipts, source of revenue, and hours of operation. Rent would reflect any changes in cost to the property owner.

With the recent approval of the ballot measure allowing the sale of medical marijuana, which allows jurisdictions to establish their own guidelines for facilities to sell approved products and to set taxation levels, can this legislation be interpreted to allow the same discretion in setting guidelines and taxation levels for sale of alcohol?

Regardless of the solution, there needs to be a "nexus":

There needs to be a relationship or a link between visitor related revenue and visitor related costs.

As discussed above, there are two factors that demonstrably increase the cost of providing city services: 1) high numbers of tourists and 2) alcohol.

There are businesses in Laguna that primarily provide goods and services for residents and there are businesses in Laguna that are here specifically because of the high number of annual visitors to the City.

Visitors and businesses that are in Laguna specifically to cater to visitors increase the demand for and cost of providing municipal services, and should pay the cost of that increased level of service.

Those businesses that could not survive without tourists and those businesses that could not survive without the sale of alcohol need to factor into their business model a charge to compensate the City for the additional costs to the City attributable to their clientele.

In a letter to the editor in early 2016, the Chamber of Commerce urged the City to make certain changes to accommodate the "declining fortune of retail and the rising fortune of food service." The food service business is the business sector that is the highest cost sector for the City to service. At the same time, as reflected in the Visit Laguna study, with 68% of visitors reporting they eat or drink in city bars and restaurants, the bars and restaurants represent the highest probably of interaction with visitors. So, a tax designed to be collected from visitors, directly or indirectly, in the City's bars and restaurants is the best course of action.

It may also be a little like Willie Sutton and his answer to "Why do you rob banks?" – Because "That's where the money is."

The bars and restaurants are where the visitors are, and a tax levied at the point of interface between visitor and businesses dependent on visitors represents the most appropriate and the most efficient collection device. As further justification, the bars and restaurants are the dispensaries for much of the alcohol that results in the high number of alcohol related incidents that demand so much of the time and attention of Laguna's public safety agencies.

Conclusion:

Recognizing that the City faces increasing costs which are expected to exceed future revenue, and that revenue from visitors and visitor dependent businesses does not cover the costs incurred by the City attributable to these visitors and businesses, the City needs to take action to take corrective action.

With the high number of annual visitors and the high degree of alcohol related incidents contributing heavily to the costs of providing city services, the preferred course of action is for the City to raise additional revenue from visitors and from visitor dependent businesses in Laguna.

There are three general categorical approaches the City can take:

- Voluntary: With a BID or TBID or related approach, the businesses in Laguna that are highly visitor dependent could organize a structure like the existing hotel BID with the intent of eliminating the annual \$20,000,000 subsidy.
- Within city authority: The City, operating within the authority of the City Council, could identify existing city charges or fees that could be adjusted to produce the same result.
- Ballot initiative: One or more ballot measures could be crafted designed to better capture revenue to cover the costs associated with visitors, and with the recent success of measure LL, it is likely that the measure would be successful.

Next Step:

Unless the business community comes forth with a self-imposed fee structure that corrects the problem, the next steps for the City should be:

- a) Move to adopt a combination of those fees and charges it can adopt that are within the authority to do so, and
- b) Develop a plan, which may or may not involve a task force or sub-committee, and assistance of attorneys and/or consultants to craft one or more ballot measures to generate the balance of funds to bring revenue from visitors and visitor dependent businesses in line with costs attributable to visitors and those businesses.

Appendix A with Detail Pertaining to Potential Solutions follows.

• APPROACHES TO CLOSE THE GAP

- Business Tax/Gross Receipts Tax on Restaurants and Bars
- BID/TBID Restaurants and Bars
- Extend the Hotel Tax to Other Revenue Sources
- Restaurant and Bar Business License Fees
- Pageant of the Masters Tax
- Local Sales Tax Increase Parcel Tax on All Commercial
- Community Service District (CFD: Mello-Roos)
- Increase Parking Fees
- Establish Fee on Non-Residents for Public Safety Rendered
- Annual CUP and/or AUP for Food and Beverage Sellers
- City Business Income Tax

Appendix A: Detail Pertaining to Potential Solutions (In More Detail)

1. Business Tax/Gross Receipts Tax:

Many cities, including the City of Los Angeles, impose a gross receipts tax on businesses. And a gross receipts tax can generate substantial revenue.

Based on Laguna's sales tax receipts, the businesses in Laguna generate nearly \$600,000,000 per year in revenue subject to sales tax. A 3% Gross receipts tax would almost generate the \$20,000,000 of revenue needed to cover the current mismatch between visitor revenue versus visitor extra cost.

While sales tax itself provides only a small percentage of total city revenue, sales tax data provide some insight into overall local business activity. Though the City has nearly 4,000 business licenses, the top 25 sales tax producers make up over 44% of total sales tax revenue. And restaurants generate 52% of all sales tax revenue.

A tax could be structured to allow exemptions or very low rates for smaller businesses and businesses that have little involvement with visitors and/or alcohol and higher tax rates on certain categories of business and size of business.

Cities like Beverly Hills have been far more aggressive in generating revenue for the city government from its local businesses. The first page of the Beverly Hills 2016/2017 Budget includes the statement that "Revenues generated from the business sector represent about 65-80% of total General Fund revenues. This allows the City to provide residents with the finest of residential living environments: clearly the City Council's first objective."

With a population that is less than 50% larger than Laguna's, in a physically smaller geographic area, the Beverly Hills budget reflects nearly \$65,000,000 in business taxes and licenses and permits. This does not include sales tax and hotel tax. By comparison, Laguna's business license taxes and licenses and permits total \$2,341,000.

Included in Beverly Hills' \$65,000,000 of annual business tax revenue is \$45,000,000 attributable to a gross receipts tax and it obviously generates substantial income.

Clearly there is an opportunity for the City of Laguna Beach to increase business tax income. And the imbalance between revenue from visitors and the cost to service visitors points to the sector of local businesses that could contribute to the solution.

A gross receipts tax on businesses that are focused on visitors should be a prime consideration for Laguna.

2. BID/TBID:

While Laguna hotels collect a 2% "BID" (Business Improvement District fee) from hotel guests, at last count at least 95 cities in California, including San Diego, have a "TBID" (Tourism Business Improvement District.) In many cases a TBID extends a charge that would be similar to our "BID" to other visitor serving businesses, including restaurants. In some cases, such as Mammoth, it extends to activities like ski lifts as well.

There is an alphabet soup of other variations on the theme of a BID that might be adapted to contribute to a solution by generating revenue from visitors and visitor focused businesses that could go to offsetting costs currently being subsidized by the residents. In addition to TBIDs, there are TIDs (Tourism Improvement Districts), BIDs (Business Improvement Districts), Economic Improvement Districts, Special Service Districts, and Special Improvement Districts. There are Tourism districts, Property Districts (Property and Business Improvement Districts),

Community Benefit Districts, Community Facilities Districts, Maintenance Assessment Districts, Parking Assessment Districts, Restaurant Districts, Business Districts, and Restaurant Improvement Districts. Visit Laguna is already a client of a consulting firm in Sacramento that specializes in these districts. Many of these districts have a voluntary aspect or time limited aspect, but it would seem worthwhile for the City to investigate the possibilities.

3. Extend the hotel tax to other hotel revenue:

As is, the 10% hotel tax, also known as the or the Transient Occupancy Tax or "TOT", plus the 2% Measure LL tax are collected by hotels from hotel guests and are charged based on room rates.

Based on the FY 2016-2017 budget, TOT collections reflect total hotel room sales of \$107,000,000. However, the Visit Laguna study estimates that visitors spend \$200,820,000 in hotels. Presumably, the difference is attributable to other goods and services purchased at the hotels, like food and beverage, spa charges, and event charges.

Extending the combined 12% taxes to this additional revenue would generate more than \$11,000,000 of additional city revenue.

4. Business License Fees:

In addition to its business tax, Beverly Hills generates an additional \$18,667,000 of annual income from business licenses and permits. The business license fee also has a gross receipts component in its formula.

The existing Laguna Beach Business License formula has a gross receipts component, though the tax rates and limits are very low, generating only \$900,000 per year, which is barely 1% of the city budget. In some cities, business license taxes provide as much as 6% of city revenue. 6% of the Laguna budget would be nearly \$5,000,000.

A substantial adjustment to the Laguna Beach business license fee rates and caps, focused on businesses that primarily serve the high volume of visitors attracted by Laguna, could go a long way to correcting the imbalance.

5. Increase local sales tax:

Local sales taxes can be raised as much as 2% from where it is today, and while the City only receives 1% of the 8% currently collected as sales tax, the City would receive all the additional revenue from an increase in sales tax. If, for example, the City were to add an additional 1% to the sales tax, raising the total sales tax to 9%, the City would then receive 2%. Based on the proposed 2017 – 2019 budget an additional 1% sales tax would amount to an increase in city revenue of nearly \$6,000,000 per year.

However, it is likely that residents would pay a large share of any increase in local sales tax. A 2012 Chamber of Commerce survey said an average of 38.25% of Laguna business customers are from Laguna Beach, and the recent Visit Laguna study credits visitors with 69% of sales tax (implying 31% is attributable to residents) so an increase in local sales tax would have a substantial impact on residents with residents paying from 30% to 40% of the cost..

6. Parcel Tax on all commercial parcels:

It may be possible to vote a tax on commercial parcels zoned for certain uses.

7. Community Service District ("CFD" -- Mello Roos)

A city-wide CFD establishing different special taxes for different land use categories could be designed to apply a special tax on commercial properties with a land use targeted at visitor serving businesses.

8. Increased Parking fees

Though parking only generates a modest amount of revenue to the City, an Uber-like demand charge or other increases could contribute to city revenue.

9. Festival Tax

Based on Pageant attendance of 180,000/year, a tax of \$5.00 per ticket could generate nearly \$1 million per year for the City. And a tax on entry to all festivals could help offset costs attributable to visitors to the festivals.

10. Trolley fare (charge):

With nearly 1,000,000 boardings of the summer and weekend trolleys, even a charge of \$1.00 per boarding would add \$1,000,000 per year. Considering that the Summer Festival Trolleys have carried over 6,500,000 passengers since 2000, revenue from a trolley fare could add substantial revenue over time.

11. Increase fees charged to non-residents for public safety services rendered.

The City already has in place the ability to charge for certain aid provided to non-residents. The rates and frequency of these charges could be reviewed and updated to take into consideration cause as well as current costs.

12. CUP and/or AUP Annual Fee:

If the purpose of a Conditional Use Permit, Administrative Use Permit, or Temporary Use Permit is related to visitors or food and beverage sales, an annual fee based on gross receipts resulting from granting the permit would be appropriate.

13. Annual fee for historic commercial building renovation parking waivers:

For commercial buildings requesting parking waivers as an historic renovation incentive, an annual fee based on gross receipts resulting from granting the permit would be appropriate. The amount of the fee could be further dependent on the land use of the property.

14. City Income Tax on Businesses:

The City could impose an income tax on businesses. Rate structures could have thresholds allowing smaller businesses or businesses in certain categories to escape the tax, and the tax rates could escalate with the size of the business.

15. Raise Utility Tax on certain uses:

Since certain businesses may have more impact on utility use, including wet and dry utilities, a review of the rates applicable maybe warranted.

16. Flat Tax -- Cover Charge/Set up Charge: If, for ABC purposes, we need to avoid a tax or fee that is specifically and uniquely in connection with transactions involving alcoholic beverages, could the City adopt a flat fee for bar and restaurant service of, for example, \$1.00 for food without beverage -- maybe if the tab is over something like \$10.00; \$2.00 for food and beverage or beverage without food; and \$5.00 after 9:00PM?

17. Roof-top Tax: Annual per seat (capacity) tax on roof-top dining/drinking facilities.

18. A potential source of Revenue that does not involve taxing local businesses:

Since the State of California has issued what are essentially unfunded mandates that impose costs on Laguna that are not applied to cities that do not have beaches, the City could attempt to have the State of California contribute to costs attributable to Coastal Act requirements.

Revenue Summary

Fiscal Year 2015-16 & 2016-17

All Funds

	<u>FY 2015-16</u>	<u>% of Total</u>	<u>FY 2016-17</u>	<u>% of Total</u>
General Fund				
Property Tax	\$29,731,000		\$30,529,000	
Sales Tax	5,397,000		5,504,000	
Transient Occupancy Tax	6,100,000		6,300,000	
Business License Tax	900,000		900,000	
Other Taxes	1,180,000		1,180,000	
Licenses & Permits	1,328,000		1,328,000	
Citations	11,000		11,000	
Use of Money & Property	1,305,000		1,300,000	
Revenue from Other Agencies	545,100		545,100	
Charges for Current Services	7,638,000		7,736,000	
Reimbursements & Contributions	351,500		351,500	
Other Revenue	28,000		28,000	
Subtotal General Fund	54,514,600	66.27%	55,712,600	67.05%
Capital Improvement Fund				
Transient Occupancy Tax	4,244,000		4,392,000	
Parking & Other Fines	975,000		975,000	
Real Property Transfer Tax	600,000		600,000	
Building Construction Tax	120,000		120,000	
Grants	770,000			
Other Revenue	1,000		1,000	
Subtotal Capital Improvement	6,710,000	8.16%	6,088,000	7.33%
Parking Authority Fund				
Parking Lots & Meters	5,923,000		5,923,000	
Parking Permits	120,000		1,045,000	
Other Revenue	21,000		21,000	
Subtotal Parking Authority Fund	6,064,000	7.37%	6,989,000	8.41%
Wastewater Fund				
Wastewater Service Charges	7,264,400		7,606,000	
Revenue from Other Agencies	3,093,000		2,015,000	
Subtotal Wastewater Fund	10,357,400	12.59%	9,621,000	11.58%

Revenue Summary
Fiscal Year 2015-16 & 2016-17

**All
Funds**

	<u>FY 2015-16</u>	<u>% of Total</u>	<u>FY 2016-17</u>	<u>% of Total</u>
Transit Fund				
State Grants	1,855,000		1,889,000	
Bus Fares & Other Income	199,000		199,000	
Revenue from Other Agencies	150,000		150,000	
Parking Authority Fund Subsidy in Lieu of Tram & Bus Fares	110,000		110,000	
Subtotal Transit Fund	<u>2,314,000</u>	2.81%	<u>2,348,000</u>	2.83%
Gas Tax Fund	960,000	1.17%	963,000	1.16%
Street Lighting Fund	1,286,100	1.56%	1,313,100	1.58%
Disaster Contingency Fund	45,000	0.05%	45,000	0.05%
Transportation Infrastructure	15,000	0.02%	15,000	0.02%
TOTAL ALL REVENUES	<u><u>\$82,266,100</u></u>	100%	<u><u>\$83,094,700</u></u>	100.00%