Agenda Report

July 13, 2026

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: **REVIEW OF CITY REVENUE SOURCES AND OPTIONS FOR REVENUE ENHANCEMENTS FOR THE GENERAL FUND**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the action proposed herein is not a "project" subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 21065 and within the meaning of Sections 15060(c) and 15378(b);

2. Direct City staff on the preparation of any necessary resolutions to place one or more tax measures on November 3, 2026, General Municipal Election ballot for the City of Pasadena;

3. Direct City staff on the preparation of a separate supplemental voter information pamphlet to send to voters in the City of Pasadena for all related City of Pasadena ballot measures for the November 3, 2026, General Municipal Election; and

4. Direct City staff to hold a meeting on July 27 or August 3 to approve the final documents for submission before the August 7, 2026, deadline.

EXECUTIVE SUMMARY:

Staff presented several potential revenue options to the City Council and Finance Committee for consideration as part of the City's long-term fiscal strategy. The Finance Committee directed staff to return with further discussion on three possible tax measures for the November 2026 ballot: a Transaction and Use Tax, a Tax on Parking Occupancy, and a Real Property Transfer Tax. Staff also reviewed additional concepts, including development of a Parcel Tax for City services, such as fire and street maintenance, and modernization of the Business Tax, along with ongoing work on City fee cost recovery. At this stage, all options remain preliminary. Staff is seeking direction on which revenue measure(s) should be advanced for ballot consideration and further legal and fiscal analysis. This direction is essential to prepare the necessary documents before August 7, 2026, deadline.

BACKGROUND:

On June 15, 2026, the City Council approved the General Fund budget that was balanced through a combination of one-time revenues and reserves. Balancing the budget has become increasingly challenging as the City continues to operate in an environment marked by economic uncertainty, persistent inflationary pressures, and concerns about a potential economic slowdown. The City has relied upon one-time revenues and reserves for the past three fiscal years. The widening structural deficit—driven by expenditure growth that consistently outpaces revenue growth—underscores the need for proactive fiscal management. Without adjustments to service levels, staffing, or long-term financial strategies, the gap between revenues and expenditures will continue to expand.

Although, the City's near-term fiscal outlook remains stable, sustaining that stability will require thoughtful planning and policy decisions as Pasadena manages reduced purchasing power, elevated operating costs, and the ongoing structural mismatch between mandated service demands and available resources. In addition to maintaining existing service levels, the City Council has identified five City funding priorities, four of which are funded almost exclusively through the General Fund. The City does not currently have sufficient funds for these on-going services.

- **Modernize fire department facilities & Enhanced Fire Prevention**
  - Training center; Facility upgrades; Long-term capital planning
- **Improve roadways & implement pedestrian/bike safety strategies**
  - Pavement condition, Enforcement, Pedestrian/bike safety
- **Invest in year-round shelter & transitional housing**
  - Year-round facility, Transitional housing, Pathway to stability
- **Implement Economic Development Strategic Plan with placemaking focus**
  - Economic Development Strategic Plan, Streetscapes, Neighborhood plans
- **Move Pasadena decisively toward a carbon-free future**
  - Primarily Pasadena Water and Power, Clean energy procurement, Infrastructure modernization, Resolution 9977

Staff introduced a discussion during the budget process on the potential for additional revenue sources and potential expenditure adjustments. The City Council directed staff to return with a deeper discussion on revenue. On June 22, 2026, the Finance Committee expressed interest in further discussion on a potential revenue tax measure for the November 2026 ballot. A tax may be structured as either a general or special tax and would require majority or supermajority voter approval respectively. The County must receive all necessary documents by August 7, 2026, for a measure to be placed on the November 2026 ballot. Therefore, if the City Council desired to place a measure(s) on the ballot, it is recommended to schedule either the July 27 or August 3 City Council meeting to approve the final documents for the election and designate an

Ad Hoc Committee of the City Council to work on finalizing the ballot language question and related documents.

Transaction and Use Tax

One option for consideration is a ¼ cent Transaction and Use Tax (TUT), similar to prior local Measure I tax measure (¾ cent, approved by voters in November 2018), could generate approximately $11 million per year.

Pasadena's sales tax rate is on par with cities within Los Angeles County. Currently, thirteen other cities in Los Angeles County are above Pasadena. Pasadena's compounded sales tax rate is currently 10.5% but will increase to 11% in the fall with the Los Angeles County Measure ER. The California Legislature approved Assembly Bill 1768 (AB 1768) to allow Los Angeles County to exceed the 2% local sales-tax cap for its June 2026 half-cent sales tax measure; protecting the remaining ¼ cent TUT for local use. The City current structure, prior to the final passage of Measure ER, is as follows:

Pasadena's 10.5% Sales & Use Tax:

Component	**Rate**
State Base Sales Tax	**6.00%**
County Tax (Los Angeles)	**0.25%**
City Tax (Bradley Burns)	**1.00%**
District Taxes (Total)	**3.25%**
* Measure R (Transpt.), sunset 2039	0.50%
* Measure M (Transpt., roads, transit)	0.50%
* Measure A (Homeless Services, replaced Measure H 0.25%)	0.50%
* Prop A (transit)	0.50%
* Prop C (transit)	0.50%
* Pasadena (Measure I)	0.75%

Based on the City's revenue collections, a ¼ cent tax could generate approximately $11 million annually and would allocate the remaining capacity under State law limitations. This revenue option offers comparatively high revenue potential, has voter familiarity, and aligns with many surrounding cities' tax structures. Additionally, given the common structure of updating the City ordinance and drafting ballot materials would be very similar to the November 2018 process. This may be advantageous, given the short turn around to producing ballot language by late July or early August.

<u>Tax on Parking Occupancy</u>
Staff also examined potential Tax on Parking Occupancy (TPO) structures. Several cities in California currently impose a TPO, including Los Angeles, Burbank, Inglewood, and Santa Monica. Several of these taxes were originally adopted before Proposition 218 required voter approval, but most jurisdictions have since sought voter confirmation to maintain or update their ordinances.

These taxes are structured as a gross receipts tax, with rates generally ranging from 10% to 25%. The structure and method of collection are similar to the City's Transient Occupancy Tax (TOT), which imposes a 12.11% tax on the rent charged for transient (hotel and short-term rental) stays. Under a comparable framework for parking, each user of a parking facility in Pasadena would pay a tax equal to 10% of the parking fee. This tax would apply to the full amount of consideration charged for the occupancy or use of parking space, regardless of whether payment is made in money, goods, labor, or other value. It includes all receipts, credits, property, and services without deduction. Parking taxes implemented in this manner typically generate moderate annual revenue, estimated to be between $1 million and $5 million depending on the rate and structure.

A TPO requires careful definition of terms such as "parking facility" and "motor vehicle." A parking facility is generally defined as any space, lot, structure, parcel, yard, or enclosure where a motor vehicle may be parked or stored for a charge. A motor vehicle is typically defined as any self-propelled vehicle suitable for operation on a highway. Definitions for person, operator, and occupant would remain consistent with those used in Pasadena's existing TOT ordinance.

Where cities tend to have the most nuanced differences appear in the exemptions listed. Most common exemptions:

- Deposits of coin(s) into city owned and operated parking meters
- Residential and hotel parking in excess of 30 consecutive days
- If cost of parking is included in hotel bill and not taxed separately (to avoid stacking TOT and TPO)

A sample list is provided in Attachment A as well as each city's tax rates, penalties, and deposit/permit requirements.

Should the City Council wish to pursue this tax option, staff recommend a 10% tax rate, as it is the rate most used in comparable jurisdictions and recommends the administrative structure to mimic closely with the City's existing TOT ordinance. However, the tax rate is not limited to 10%. Staff recommend that the City does not add any specific exemptions within the tax ordinance; instead allows for exemptions to be identified through City Council resolution. This will provide for the greatest amount of flexibility to meet community and business needs and for adjustments over time without returning to the voters to amend the ordinance. An additional consideration would be to set a base flat rate per parking space in parking facilities that currently offer free parking. Staff believe that this is likely to be complicated to administrate and difficult for parking facilities to collect from occupants as there is no current collection method in place.

Real Property Transfer Tax

Staff also evaluated the potential use of a Real Property Transfer Tax. This revenue source is considered volatile, as it can have large market fluctuations year-over-year and can be difficult to forecast, and transfer taxes statewide have faced organized opposition. Transfer taxes may be adopted by charter cities, and the typical rate staff identified is between .22% to .33%. Like Parking Tax, these taxes were typically in place prior to the requirement of voter approval under Proposition 218. In recent years, some cities have also introduced tiered structures that apply higher rates to high-value properties, commonly referred to as a "mansion tax." City of Los Angeles and Santa Monica's "mansion tax" were citizen initiatives, and the funds were directed primarily to fund affordable housing efforts. Although there have been attempts through ballot initiatives and state legislation to eliminate or cap the rate at 1.5%, none have been successful. (See Attachment B for more city details on Real Property Transfer Tax.)

While the City does not levy a separate transfer tax, it currently receives a share of the County's rate of 0.55 per $500, or 0.11%. The estimated revenue potential for a locally adopted tax of 0.1% is roughly $2 million a year. Therefore, the potential revenue at an accumulated tax rate of 1.5% would be an additional $26 million, depending on final rate and annual market conditions. It should be noted that the County will retain the City's share of 0.11% and gain an approximate $1 million from this effort regardless of the tax rate by the City.

Business Tax

The City's current business tax structure is a mixture of a base fee plus an additional charge per employee. Adopted in 1966, the tax increases annually based upon consumer price index generates $7.7 million annually in revenue for the City's General Fund. Recently, cities across California have been taking their Business Tax back to the voters to modernize and streamline their approach by shifting to gross receipts and creating tiers that better reflect profit margins across industries. In addition, cities are also tailoring their tax models to encourage the types of businesses they want to attract. Community outreach and engagement with the local business sector are essential to building understanding, addressing concerns, and securing support for a successful ballot measure. Initial estimates for annual revenue could be an additional $10 to $15 million.

Parcel Tax

A parcel tax in California is a locally approved special tax placed on real property to fund a defined public purpose such as services or infrastructure. A special tax requires supermajority voter approval so that revenue can be dedicated to a specific use. In 2022, Pasadena voters approved the continuation of the Library Special Parcel Tax to support programs and services, generating approximately $2.8 million annually. The measure has a fifteen-year sunset and will require voter renewal before 2038. A parcel tax measure could be used to support City priorities of fire services and infrastructure.

Staff evaluated multiple approaches for determining appropriate funding structures for fire service priorities and street resurfacing and maintenance. As part of this analysis, the City reviewed both assessed-value-based and developed-square-foot parcel tax models. While a formal nexus is not legally required for parcel taxes, establishing a logical relationship between the tax basis and the services provided strengthens the policy justification, and improves transparency and public trust. In this context, a developed square-foot rate structure offers a clearer correlation to service demand, as larger or more intensively developed properties generally require greater fire protection resources and generate higher usage of roadways and sidewalks. This alignment makes the developed square-foot approach a more service-responsive and operationally relevant funding mechanism for these essential public safety and infrastructure functions.

Based on flat rate per developed-square-foot, staff estimated the following budget models:

Parcel Tax Modeling on Residential

Models	Rate per sq ft	Revenue Estimate	Tax Median Residential (1600 sq ft)	Tax Average Residential (1730 sq ft)
Alternative 1	$0.15	$17,489,859	$240.60	$259.50
Alternative 2	$0.20	$23,251,813	$320.80	$346.00
Alternative 3	$0.30	$34,877,719	$481.20	$519.00

Staff further evaluated separate and combined service for fire services and roadway infrastructure. The two estimates evaluated were further evaluated. First, a tax rate of $0.17 per square foot would generate sufficient revenues of approximately $20 million a year to support the long-term Fire plan including fire services, station repairs, and year-round brush clearance. Second, a tax rate of $0.24 per square foot would generate sufficient revenues of approximately $30 million annually for the long-term Fire plan, as well as street resurfacing and on-going maintenance of roadways and sidewalks. The City has 77.4M square feet of residential properties and 38.9M square feet of non-residential properties. At $0.24 per square foot a property owner would pay approximately $240 per 1000 square foot of developed property. Additionally, staff would recommend an inflation component to the tax as well so that the tax continues to meet demands over time.

Parcel Tax Modeling on Residential and Non-Residential

Taxable Land Use	**Rate Per Sq Feet**	**Square Feet**	**Revenue Generation**	***% of Revenue***
Residential	0.24	77,359,933	$18,566,383.92	*67%*
Non-Residential	0.24	38,899,130	$9,335,791.20	*33%*
		116,259,063	$27,902,175.12	

On-going Review of City Fees and Cost Recovery
During Fiscal Year 2027, the Finance Department will be working across departments to develop a cost recovery plan that aligns City fees with the actual cost of providing services. Cost recovery requires that charges reflect the reasonable cost of service, supported by a cost-of-service study that documents direct and indirect expenses and ensures fees remain proportional to the benefit received. A recent example presented to the City Council involved Fire Inspection and Paramedic Services, where fees were found to be significantly below the true cost of delivering those services. This work also creates an opportunity to evaluate new fee structures and improve service delivery. Other jurisdictions, such as San Francisco, have used this process to establish regulatory fees for Transportation Network Companies and commercial delivery services, demonstrating how fees can evolve alongside service demands. By continuing to monitor fees and benchmark against peer cities, Pasadena can strengthen service delivery and ensure adequate funding for essential programs.

Summary
Overall, new tax and fee revenue concepts remain in preliminary review. Below is a table that provides a summary of tax options for consideration of a 2026 or future tax measure; including some other considerations for each tax. (See Attachment C)

1. Voter Approval:
    a. Transaction and Use Tax, Tax on Parking Occupancy, Real Property Transfer Tax, and Business Tax can be a general tax and require 50% plus 1 voter approval.
    b. All taxes can be special tax dedicated to specific purpose requires 2/3 voter approval; it is possible to establish a relationship between tax basis and the services funded by the tax.
2. Support or Opposition

   a. General Tax will likely have neutral supporters; however, Tax on Parking Occupancy Tax and Real Property Transfer Tax may have opposition from special interest.
   b. Special Tax will more likely have supporters; possible to establish a relationship between tax basis and the services funded by the tax; some taxes may generate opposition from special interest groups.
3. Ease to complete ballot documents and ease for ongoing administration
   a. Transaction and Use Tax, Real Property Transfer Tax are common taxes structures that could be mimicked for City ordinance and administration.
   b. Tax on Parking Occupancy and Business Tax are new tax structures that would take more time to draft ordinances and develop the administrative procedures.
   c. Any Special Tax would need to draft the language for the special purpose and administration would depend on the tax and special purpose designation.
4. Potential for annual revenue for
   a. Transaction and Use Tax is $11 million
   b. Tax on Parking Occupancy is $5 million
   c. Real Property Transfer Tax is $26 million
   d. Business Tax is $15 million
   e. Parcel Tax is $30 million

Staff have reviewed potential tax measures that could support City priorities and identified three options with the greatest revenue potential: the Transactions and Use Tax, the Real Property Transfer Tax, and a Parcel Tax. If the Council's goal is to pursue a general tax that can be used flexibly across a wide range of City services, staff recommend the Transactions and Use Tax because it offers stable revenue, is familiar to voters, and is not expected to face significant organized opposition. If the Council prefers to dedicate funding to specific priorities, staff recommends a Parcel Tax, which is a reliable source for services and infrastructure and can be structured around the needs of a defined program. Parcel Taxes often receive strong community support when tied to valued services and typically face limited external opposition, though they require 2/3 voter approval. The Real Property Transfer Tax also offers substantial revenue potential, but it is considered a volatile revenue source as market conditions can vary significantly year-over-year making revenue forecasting difficult. It is also more likely to attract opposition from outside special interest groups and may create unintended effects in both residential and commercial real estate markets. While it may gain more support if structured as a dedicated tax, this would also require a 2/3 vote, making passage more challenging.

At this stage, all options remain preliminary. Staff is seeking direction regarding which revenue measure(s) should be advanced for ballot consideration and further legal and fiscal analysis. This direction is essential to prepare the necessary documents before August 7, 2026, deadline. The County must receive all necessary documents by August 7, 2026, for a measure to be placed on the November 2026 ballot. Therefore, if the City Council desired to place a measure(s) on the ballot, it is recommended to schedule either the July 27 or August 3 City Council meeting to approve the final documents for the election and designate an Ad Hoc Committee of the City Council to work on finalizing the ballot language question and related documents.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City Council's strategic planning goal to maintain fiscal responsibility and stability

ENVIRONMENTAL ANALYSIS:

CEQA excludes, from environmental review, actions that are not "projects" as defined by CEQA Guidelines Section 21065 and within the meaning of Sections 15060(c) and 15378(b). Section 15378 excludes from the definition of "project" the creation of government funding mechanisms and fiscal activities which do not yet commit the lead agency to any specific project and excludes organizational or administrative governmental activities that do not result in physical changes to the environment. The action proposed herein, consideration of proposing new revenues, is budgetary and part of the City's normal administrative process as it takes early steps to prepare for the possibility of undertaking a project and therefore is not, yet a "project" as defined by CEQA. Since the action is not subject to CEQA, no environmental document is required.

FISCAL IMPACT:

A voter approved tax may be structured as either a general tax requiring majority approval or a special tax requiring supermajority approval. A 1/4 cent TUT tax is estimated to generate approximately $11 million annually and aligns with past voter approved measures and regional tax structures. A TPO commonly used in other California cities, could yield an estimated $5 million per year depending on the rate and application. A locally adopted Real Property Transfer Tax could generate an estimated $26 million annually. A Parcel Tax for Fire Services and Street Maintenance could generate an estimated $30 million. Staff will continue pursuing other revenue and expenditure measures to balance the budget over the next year to maintain existing service levels.

Respectfully submitted,

KARIN SCHNAIDER
Director of Finance

Approved by:

MATTHEW E. HAWKESWORTH
Interim City Manager

Attachments: (3)

A: Parking Tax comparison
B: Real Property Transfer Tax
C: Revenue Options