

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Council File No. 25-0029
Council District: All

To: Karen Bass, Mayor
Marqueece Harris-Dawson, Council President
Katy Yaroslavsky, Chair, Budget and Finance Committee

From: Matthew W. Szabo, City Administrative Officer 

Subject: **REVENUE OPTIONS TO PROTECT AND INVEST IN CITY SERVICES**

RECOMMENDATION

That the City Council, subject to the approval of the Mayor:

1. Approve one, or more, of the following general revenue tax options to Strengthen Fiscal Stability and Preserve Core Services for placement on either the June 2, 2026, Primary Nominating Election Ballot, or the November 3, 2026 General Municipal Election:

Tax Measure	Current Rate	Rate Increase	Duration	Annual Estimated Revenue Impact
Sales (TUT) Tax	1.0% City 9.75% Total	0.5%	Permanent	\$327 million
Transient Occupancy Tax	13% General Fund 14% Total	4.0% 2.0%	4% until Dec. 2028 2% thereafter & permanent	\$89 million \$45 million
Parking Occupancy Tax	10%	5.0%	Permanent	\$67 million
Cannabis Business Tax Parity	Various	N/A	Permanent	~\$70 million

2. Should the City Council opt to place one or more of the tax measures on the June 2, 2026 Ballot, on or before January 28, 2026 request that the City Attorney, with the assistance of the City Administrative Officer and the Chief Legislative Analyst, present the necessary resolution and ordinance for the proposed ballot measure for adoption by no later than February 11, 2026;

3. Should the City Council opt to place one or more of the tax measures on the November 3, 2026 Ballot, on or before June 17, 2026 request that the City Attorney, with the assistance of the City Administrative Officer and the Chief Legislative Analyst, present the necessary resolution and ordinance for the proposed ballot measure by no later than June 26, 2026;
4. Instruct the City Administrative Officer to engage on-call consultants to study one or more of the following general revenue tax options for consideration as a measure on the November 3, 2026 Ballot or in a future election:
 - a. Major Event Tax
 - b. Shared Ride Tax
 - c. Vacancy Tax
 - d. Retail Delivery Fee;
5. Instruct the City Administrative Officer to identify funding up to \$100,000 per study for each of the tax and fee revenue options selected by the Council for further consideration, excluding any options selected for the June 2, 2026 Ballot;
6. Instruct the City Planning Department to provide an update to the Budget and Finance Committee on the status of the pending Vacation Rental Ordinance (C.F. 18-1246) including options to increase the citywide cap on vacation rentals, changing the geographic unit subject to concentration caps from Census tracts to community plan areas and increase said cap, increasing the maximum number of days per calendar year a vacation rental may be rented, and implementing a vacation rental application fee to fund enforcement activities;
7. Rescind the Council action (C.F. 22-0392-S1) on requesting the City Attorney to prepare and present an ordinance to amend Ordinance No. 188699 relative to the establishment of a Transportation Communications Network Revenue (TCN) Fund, that would allocated 75 percent of TCN Revenue by Council District based on the percentage of total area (square feet) of operational digital displays located within each Council District, and 25 percent for citywide purposes.

SUMMARY

The City of Los Angeles has been facing recurring deficits, exacerbated by increasing service demands, and a shifting economic landscape that threatens the City's long-term financial solvency. While the City has maintained a commitment to prudent fiscal management, the traditional revenue sources that have supported the operating budget are eroding and/or being outpaced by expenditure obligations. Simultaneously, the City has experienced unprecedented escalating costs stemming from liabilities, increased homelessness intervention services, and recovery efforts in the Palisades community. For several years, the focus on balancing the annual budget and achieving structural balance has been on reducing expenditures, including the elimination of over 2,000

positions since Fiscal Year 2023-24. However, the service needs in the City are too vast to continue budget balancing solely based on reductions. With an increasing demand for services and infrastructure repairs throughout the City and with major international events such as the 2026 FIFA World Cup, 2027 Super Bowl LXI, and the 2028 Olympic and Paralympic Games (2028 Games) on the immediate horizon, the City must consider permanent options, and specifically new taxes, to increase the City's General Fund Revenue.

In order to ensure sufficient funding is available to fully fund the City's operating budget and make needed investments, the Council adopted the Budget and Finance Committee Report (C.F. 25-0029) seeking information on revenue-generating opportunities. Additionally, the Committee report requested information on implementing Mello-Roos Community Facilities Districts and engaging stakeholders; insight on Great Recession-era budget reports and recommendations; proposing infrastructure bonds for the Fire Department and Recreation and Parks; increasing the Charter base formula for Recreation and Parks; and the calendar for including tax measures on the June and November 2026 ballot. This report addresses these specific directives and details the fiscal outlook, the legal constraints, and policy implications of several revenue-generating options. It also evaluates the consequence of prioritizing special purpose spending over the General Fund.

As further discussed in this report, to strengthen the City's fiscal stability and preserve core services, this Office recommends that the City Council and Mayor immediately select one or more general revenue tax increases—specifically Sales, Transient Occupancy, Parking Occupancy, or Cannabis Business Parity Tax—for placement on a ballot in 2026. The timeline for legislative action depends on the chosen election date:

- For the June 2, 2026 Primary Nominating Election, the City Attorney, assisted by the City Administrative Officer (CAO) and Chief Legislative Analyst (CLA), must present the necessary resolutions and ordinances by February 11, 2026.
- For the November 3, 2026 General Municipal Election, the deadline for these documents extends to June 26, 2026.

Additionally, this Office recommends engaging consultants to evaluate additional revenue streams for the November ballot or future elections. These potential measures include a Major Event Tax, Shared Ride Tax, Vacancy Tax, and Retail Delivery Fee. If Council and Mayor choose to pursue any of these options, this Office recommends appropriating funds to the Office of Economic Analysis to conduct studies to analyze each chosen proposal.

Other requested information, including transferring the cost of sidewalk repairs to property owners, needed administrative changes to the transient occupancy tax, stakeholder engagement, tax amnesty program benefits, and the expansion of cannabis-related businesses, have or will be addressed in separate reports.

FINDINGS

California law places significant restrictions on a local government's ability to increase revenue to meet the increasing demand for services or fund capital expenditures. Under Propositions 13, 218, and 26 adopted by California voters, all new taxes require voter approval (often a supermajority vote). Attachment A summarizes the current restrictions on state and local governments to assess new taxes or implement new fees as established by voter initiatives, and the resulting voter approval requirements, including the simple- and super-majority thresholds for general taxes and special taxes used for construction programs and special purpose spending.

Despite these constraints, the City retains several options to increase revenues via voter- approved ballot measures. The 2026 calendar year offers the City two opportunities to place tax measures on a regular Citywide election: the June 2, 2026 Primary Nominating Election, and the November 3, 2026 General Municipal Election. Attachment B provides the 2026 Election Calendar establishing deadlines for both.

This Office has identified eight tax options that the City should consider for placement on the ballots in 2026 or future elections. Details on these tax proposals are provided in the following sections and are summarized in Attachment C. Of the eight proposed options, four measures (Sales, Transient Occupancy, Parking Occupancy, and Cannabis Business Parity Tax) could be placed on the June 2, 2026 Ballot, provided the necessary resolution and ordinance for the proposed ballot measure(s) are acted on no later than February 11, 2026. Further studies are not required at this time, as this Office has sufficient information and data from recent studies to provide reasonable estimates on the fiscal impact resulting from voter approval. More time may be allotted for the consideration of these proposals by opting to place these measures on the November 3, 2026 Ballot.

The remaining proposed tax options require further review and analysis and thus would not be ready for inclusion on the June 2, 2026 Ballot. These options include a Major Event Tax, Shared Ride Tax, Vacancy Tax, and Retail Delivery Fee. This Office recommends that funding be identified to further study all, or some, of these proposals for possible inclusion on the November 3, 2026 Ballot. Any study would need to be completed in time to allow the necessary resolution and ordinance for the proposed ballot measure(s) to be acted on by June 26, 2026.

General Fund Revenue Tax Proposals

Sales (Transaction and Use) Tax

General Fund sales tax revenue was \$662 million in 2024–25. Annual growth in sales tax revenue has been slowed by several economic trends, thus partly responsible for the ongoing funding gap in the operating budget. These include the transition of retail sales from brick-and-mortar stores to online sales that transfer tax revenue to other jurisdictions; the allocation of sales tax collected by third-party sales platforms and delivery services to the Los Angeles County (County) pool rather than the City; and the continuing shift in consumer spending from taxable goods to untaxed

services. These factors pose a continuing risk to the stability of a primary General Fund revenue source. Despite slowing growth, sales tax also provides the greatest potential for increasing unrestricted annual General Fund revenue, estimated between \$164 million and \$649 million, depending on the proposed rate increase.

Anticipated General Fund Revenue by Sales Transaction and Use Tax (TUT) Rate

Local TUT	0.00%	0.25%	0.50%	0.75%	1.00%
Total Sales Tax Rate	9.75%	10.00%	10.25%	10.50%	10.75%
County cities at rate	45	0	1	30	10
Additional GF Revenue in millions*		\$164	\$327	\$488	\$649

* Calculation based on 2024-25 actual receipts less impact to demand (C.F. 13-1100-S6)

The City can propose up to a 1.0 percent local sales tax rate (referred to as a transaction and use tax, or TUT) above the total tax rate of 9.75 percent collected on the purchase of goods within the City. Currently, the City receives only 1.0 percent, while 6.25 percent is distributed to statewide programs and 2.5 percent supports county transportation and homelessness programs. Despite some outliers, such as Lancaster and Palmdale (11.25 percent) and Santa Monica (10.75 percent), most other County cities with a local TUT have total sales tax rates of 10.5 percent, including Long Beach, Glendale, Pomona, Pasadena, and Downey. Voters in many County cities approved local TUT rates in 2018 and 2024 in order to secure the remaining capacity left after the approval of countywide homelessness Measures H and A.

A TUT ballot measure of 0.5 percent represents the most viable path to fiscal stability, generating \$327 million annually. The anticipated amount is sized to offset a declining tax base and ensure the continued funding of core services. These include the City's substantial commitment to homeless services, which now amounts to approximately \$300 million annually without a permanent dedicated revenue source.

Although this increase is 0.5 percent below the local sales tax cap, this increase would keep the City's total sales tax rate below rates of most neighboring jurisdictions. The remaining 0.5 percent capacity may then be earmarked by special tax initiatives or countywide measures in lieu of broader General Fund priorities. Alternatively, the City may wish to propose a 0.75 percent or 1.0 percent increase to generate necessary revenue critical for maintaining city services amidst disaster recovery efforts following the devastation of the Palisades Fire, which is estimated to have caused billions in property losses that will impact the property tax roll for years to come. Council may consider a companion, nonbinding advisory measure on the ballot to prioritize some share of this funding for critical infrastructure, Recreation and Parks, or other purposes.

Moving forward with a City sales tax measure at this time may likely be the last opportunity the City has to secure the remaining capacity left within the TUT. Currently competing for this capacity are three separate 0.5 percent initiatives (two citywide, one countywide) proposed for the November 3,

2026 ballot. Should the City defer its measure to November, it would face direct competition against these initiatives, creating a scenario in which the City’s might not prevail. Therefore, securing approval in June is necessary to preserve some share of this capacity to strengthen the General Fund before it is claimed by competing interests.

Transient Occupancy Tax

The City’s current tax on lodging rates for hotels and short-term rentals is 14.0 percent, with only Malibu, Santa Monica, and Beverly Hills maintaining higher rates in the County. To capitalize on the region’s tourism economy and the influx of visitors anticipated for the 2027 Super Bowl LXI and the 2028 Games, two adjustments to the Transient Occupancy Tax (TOT) are proposed: a permanent 2.0 percent rate increase, raising the base rate to 16 percent, and a temporary 2.0 percent supplementary charge, effective from January 2027 to December 2028, intended to offset the costs associated with the increased tourism burden on City services and infrastructure. The base increase is estimated to generate an additional \$45.3 million annually to bolster the General Fund, and a total of \$89.3 million in annual revenue is anticipated while the supplementary occupancy tax is effective. Additionally, the Office of Finance’s proposal to codify the taxability of online travel companies’ surcharges would generate further revenue. Concurrent with the temporary TOT increase during these mega events, the City may wish to relax existing home-sharing restrictions or implement a vacation rental policy to meet room demand.

Anticipated General Fund Revenue by Increase to Transient Occupancy Tax Rate

TOT Increase	0.0%	2.0%	4.0%
Total TOT Rate	14.0%	16.0%	18.0%
Total TOT + LATMD Rate	16.0%	18.0%	20.0%
Additional GF Revenue in millions*		\$45.3	\$ 89.3

* Calculation based on 2024-25 actual receipts less impact to demand

This proposal does pose some risk to market competitiveness. Currently, hotels with 50 rooms or more are assessed an additional 2 percent by the Los Angeles Tourism Marketing District (LATMD). Under this proposed rate increase, the total charge for guests at these properties would rise to 18 percent permanently, and 20 percent during the 2028 Games supplementary charge period. This would place the City’s effective tax rate above jurisdictions with competing convention centers. Furthermore, when combined with the phased hotel worker minimum wage hike that reaches \$30 per hour by 2028, the cumulative regulatory burden could translate to significantly higher overall room rates. This pricing pressure risks pushing budget-conscious visitors and convention business to neighboring jurisdictions with lower overall costs.

Parking Occupancy Tax

A parking occupancy tax is assessed on fees charged to anyone using a parking facility within the City. Increasing the rate from 10 percent to 15 percent would generate \$67.3 million in additional revenue with the added benefit of incentivizing the use of public transportation or other transport options. The 15 percent rate is between Burbank's 12 percent and Santa Monica's 18 percent. However, other local governments like Pasadena, Glendale and Long Beach do not have a parking occupancy tax.

Unlicensed Cannabis Business Parity Tax

With the legalization of cannabis business activity, unlicensed businesses were initially exempted from the City's gross receipts tax (business tax) as the City transitioned to a legalized market. Over time, this licensing requirement has inadvertently created a significant financial reward for illegal cannabis businesses by exempting them from business tax liability. A Cannabis Business Parity Tax measure would amend the tax code to ensure unlicensed businesses are subject to the same tax liability as licensed operators, closing a regulatory loophole, and allowing the Office of Finance to enforce and collect the tax from both. The Office of Finance estimates revenue between \$60 million and \$80 million annually, dependent upon tax discovery, enforcement, and collection efforts. However, this revenue stream would likely diminish over time as enforcement activities successfully result in the closure of these illegal businesses.

Other General Fund Tax Proposals

As previously identified by the Office of Finance's August 5, 2025 report (C.F. 25-0029), other taxing options are available to the City and are summarized below. The structure, implementation and administration of these tax proposals will require further study and are best suited for the November 3, 2026 Ballot or a future regular election based on the timing of the studies. Additionally, any tax structured to achieve a change in behavior, such as a vacancy tax or ride share tax, inherently limits its own potential for revenue growth.

Major Event Tax

A major event, defined as any gathering with an expected attendance of 5,000 or more for professional or large-scale amateur sporting events, concerts, festivals, or other activities, are typically associated with significant community impacts, including increased traffic congestion, demand on public safety and transportation infrastructure, elevated noise levels, and economic effects on surrounding neighborhoods and businesses. Finance estimates that a 6 percent tax on the purchase price of tickets for major events physically held within the City of Los Angeles during the 2028 Games would generate approximately \$100 million in one-time revenue. Potential ongoing revenue from a permanent tax, post 2028, is preliminarily estimated at \$48 million.

Vacancy Tax

The revisited proposal to tax residential and/or commercial properties that are held unused for a specified period (e.g., less than 50 days in a calendar year) ultimately seeks to increase the housing supply by encouraging owners of vacant or underutilized properties to rent or sell to avoid the tax. Based on a consultant feasibility study that estimated up to \$148 million in initial annual revenue from a vacancy tax and empty homes penalty, a ballot measure was considered by Council in June 2020 (C.F. 19-0623). The proposal was ultimately tabled, as Council-proposed modifications to the policy effectively reduced anticipated revenue to \$4.0 million.

Shared Ride Tax

A tax on fares charged by taxicabs and companies like Uber and Lyft would generate additional revenue while incentivizing the use of public transit to reduce traffic congestion and environmental impacts. Finance reports the revenue generated by similar hired transportation taxes in other jurisdictions generate between \$6 million (Seattle) and \$200 million annually (Chicago). However, further study is warranted to ensure the tax is not punitive; given the current limitations of the City's public transportation network, the fee may have limited ability to alter commuter behavior and simply increase costs for residents lacking viable alternatives.

Retail Delivery Fee

A flat, per-order charge on the delivery of tangible retail goods is intended to offset the infrastructure wear-and-tear caused by the high volume of delivery vehicles. A local delivery fee would need to be integrated into City's existing business tax framework, separate from the State's collection and disbursement of sales tax. Implementation may be administratively complex for retailers, particularly those utilizing third-party services for order fulfillment. Further study is recommended to evaluate the feasibility of collection mechanisms and to address the compliance burden on local businesses before implementation.

Departmental and Policy-Driven Revenue Alternatives

Separate from voter-approved tax measures, departmental and policy-driven revenue solutions, including modifications to the Home-Sharing Ordinance, expansion of the Curb Management Pilot Program, and leveraging Metro Transportation Communication Network revenue for transportation priorities, represent additional revenue generating and preservation opportunities.

Vacation Rental Policy

The adoption of the Home-Sharing Ordinance limited short-term rental activity to owner-occupied properties and imposed other restrictions, nearly halving TOT revenue realized from short-term rental activity, with the current year revenue loss estimated at \$32.6 million. Implementing a vacation rental policy would increase TOT from short-term rental receipts by a lesser amount, depending on the restrictions proposed. At present, there is a Vacation Rental Ordinance pending

consideration by the Planning and Land Use Committee (C.F. 18-1246) that proposes the following changes to increase TOT:

- Increasing the citywide cap on vacation rentals from 3,625 (the equivalent of 0.25 percent of the current housing supply) to the equivalent of 1 percent;
- Changing the geographic unit subject to concentration caps from Census tracts to community plan areas, and increasing said cap from 0.25 percent to 1 percent; and
- Increasing the maximum number of days per calendar year a vacation rental may be rented from 30 to 90 days.

This Office recommends that the City Planning Department provide an update to the Budget and Finance Committee on the status of the pending Vacation Rental Ordinance. As part of this update, the City Planning Department should present options to increase each cap category on vacation rentals above the stated proposal to augment TOT. Furthermore, to fund the enforcement of the Vacation Rental Ordinance and the cost of administering the program, the City Planning Department should propose a vacation rental application fee. The fee amount will require a fee study and annual reviews to ensure full cost-recovery.

Smart Curb Management Program

The Department of Transportation's Curb Management Pilot Program utilizes digitized data and dynamic pricing to optimize loading zones and increase parking revenue. Per the program provider, expanding this program to 2,000 zones could purportedly generate up to \$32 million in net annual parking revenue for the Special Parking Revenue Fund, with surplus receipts available to transfer to the General Fund. Note, however, the Department considers the provider's estimate to be overly optimistic. On December 5, 2025, Council instructed the Department of Transportation (C.F. 25-1232) to report in 30 days on: a) the implementation and outcomes of Smart Loading Zone or similar curb management programs in other municipalities; and b) the steps necessary to initiate a Smart Loading Zone pilot program in the City to improve loading zone access and short-term delivery parking.

Metro Transportation Communications Network (TCN)

The City has entered into a Memorandum of Agreement (MOA) with Los Angeles County Metropolitan Transportation Authority (Metro) to share revenues from the Metro TCN program that allows digital billboard advertising installed on Metro-owned properties within the City. As originally contemplated by the City when approving the MOA, the City would deposit program receipts into a dedicated special fund for transportation and pedestrian safety projects consistent with MOA that would help offset General Fund expenditures for services and infrastructure, including, but not limited to, the following:

- Sidewalks, curb improvements, speed humps, and street resurfacing;
- Traffic lane markings, pedestrian signage, and transit lines; and
- Property acquisition to widen public rights-of-way, thereby creating safer traffic flow, bicycle lanes, and pedestrian routes.

Council subsequently instructed the City Attorney to prepare an ordinance to redirect 75 percent of anticipated transportation-dedicated revenue to Council discretionary funds (C.F. 22-0392-S1). As this redirection would reduce the ability to use special fund monies in lieu of the General Fund for eligible purposes, this Office recommends the rescission of this most recent action.

Capital Construction Program Funding

The financing of a capital construction program typically requires debt issuance secured by a dedicated and stable revenue stream. While this debt can be secured against any type of ongoing revenue, property-based taxes or fees are preferable due to the clear relationship between the levy and the special benefit received by the owner and the closer alignment with ability to pay. Tax and fee assessment requirements and spending restrictions associated with various property-related taxes and charges are summarized in Attachment D.

While this Office does not recommend pursuing measures specific to capital construction programs at this time, the most suitable mechanisms for financing infrastructure bonds for the Fire Department and Recreation and Parks are discussed below.

General Obligation (GO) Bonds

GO Bonds are the preferred financing mechanism for large construction programs due to their lower borrowing costs and equitable cost distribution. Of all property-based charges, the ad valorem property tax used to repay these bonds most closely aligns with the principle of "ability to pay". Because the tax rate is applied to the assessed value, higher-value properties contribute more, offering a more progressive structure than flat-rate mechanisms.

Parcel Taxes

Alternatively, a parcel tax can be scaled to the benefit derived directly from the construction program itself, such as a flat tax for access to new facilities or a square footage tax for service and facility demands attributed to the property itself. Taxes can be structured with tiered or differentiated rates based on factors such as parcel size, use type, or development intensity. While not as precise as ad valorem taxation, differentiating rates based on parcel characteristics (e.g., residential vs. commercial use, square footage, or number of units) reduces regressivity and can better align the tax burden with both ability-to-pay and the specific benefit derived from the infrastructure. In contrast, applying a flat rate to each parcel, regardless of size or use, ensures every property owner pays an equal amount to support essential services, while simultaneously improving voter understanding of the charge and reducing administrative complexity.

Mello-Roos Community Facilities Districts (CFDs)

CFDs utilize a special tax to finance infrastructure like streets and sewers, alongside services such as police, fire protection, or park maintenance. Establishing a district requires two-thirds approval from registered voters, or from landowners in uninhabited areas. While often utilized for new development, the City may initiate CFDs in established neighborhoods to fund facilities and service

enhancements so long as existing General Fund spending is maintained. The formation process is detailed in Attachment E. Although a CFD ensures that beneficiaries pay for local improvements, a citywide measure is preferable for the financing of Palisades projects. Citywide based funding allows the City to leverage its full debt capacity, thereby avoiding the risks of bonding against an area with significant property loss, while providing flexibility to address infrastructure needs in other districts.

Special Assessments

Distinct from taxes, assessments charge property owners specifically for local improvements that provide a direct, quantifiable 'special benefit' to their property, such as sidewalks or lighting. Because property owners can only be legally charged for the specific benefit they receive, any portion of the project that benefits the general public cannot be funded through the assessment and must be paid for by the City. Consequently, for rebuilding efforts in the Palisades, the City would still be legally required to finance the significant share of costs associated with regional or citywide benefits. Implementation of a special assessment district is subject to a 'majority protest' proceeding rather than a general election.

Enhanced Infrastructure Financing Districts (EIFD) and Climate Resilience Districts (CRD):

These tax-increment financing tools capture the growth in property tax revenue within a specific area to fund infrastructure or climate-related projects. While they allow for bond issuance with a lower 55 percent voter threshold, they rely on redirecting future General Fund revenue growth rather than generating a new revenue stream. Additionally, by diverting the natural growth of the property tax base away from General Fund, this financing structure exacerbates the structural deficit rather than resolving it.

Formula Driven Revenue Appropriations

In accordance with the City's Financial Policies, and in the interest of eliminating the structural deficit, unrestricted General Fund revenue streams should not be designated as restricted special funding. This policy is vital because of the significant legal hurdles involved in replacing lost General Fund revenue with new taxes. The policy does not preclude the Mayor and Council from prioritizing specific policy goals through appropriations during the annual budget process. In contrast, mandated earmarks via Mayor and Council-approved ordinance or voter-approved Charter amendment removes necessary fiscal flexibility.

While often presented as new revenue, many proposals to provide dedicated funding to specific priorities result from the redirection of existing unrestricted receipts away from the General Fund. When the City mandates that flexible revenue be diverted to specific uses, it creates a dollar-for-dollar reduction in the General Fund, limiting the City's ability to fund core services like police, fire, and sanitation. Notable reductions to General Fund revenue include the redirection of former Community Redevelopment Agency (CRA) tax increment receipts and Petroleum Franchise Fees into Council discretionary accounts, as well as the mandatory appropriation of TOT revenue

to the Cultural Affairs Trust Fund. These actions reduce the pool of unrestricted funds available for citywide emergencies and changing priorities.

Recreation and Parks Charter Formula

As with the examples above, the proposal to increase the Recreation and Parks (RAP) funding formula in the Charter does not generate new revenue. As set out in Charter Section 593, the RAP charter-mandated appropriation is calculated as 0.0325 percent of the total assessed value of all property in the City (including properties exempt from paying the tax).

It is crucial to understand that increasing the RAP base funding formula via the Charter would merely redirect additional property tax revenue from the City's General Fund to RAP; it would not increase property taxes or create new revenue. Since property tax is a primary source of unrestricted General Fund revenue, increasing the amount mandated for RAP would result in an equivalent decrease in the money available for other city services that may be of higher priority.

The Mayor and Council already possess the authority to prioritize and increase RAP funding above the Charter minimum through the annual budget process. However, by mandating this increase via the Charter, future governments lose the flexibility to allocate limited financial resources according to the greatest needs, particularly during fiscal emergencies, while further widening the structural deficit.

BACKGROUND

Four Year Outlook and Major Expenditure Drivers

To understand the necessity of new revenue, one must first analyze the widening gap between the City's expenditure obligations and its projected resources. The Four-Year Outlook reflects assumptions made for the 2025-26 General Fund adopted expenditures and revenues and includes projections for the subsequent four years.

The risk of deficit is likely understated due to the omission of significant future expenditure obligations for major citywide projects and events as well as persistent upward pressure on ongoing expenditures that are not quantified, most notably:

- **Homelessness Initiatives:** The City's identified General Fund spending on homelessness has compounded annually by 39 percent from \$18 million in 2016-17 to \$350 million in 2025-26. This expense has grown without the identification of ongoing new revenues or expenditure reductions of the same scale, effectively creating a structural hole in the General Fund.
- **Labor, Liability, and Inflation:** Salary projections include cost-of-living adjustments only through 2027–28 (when agreements expire) that exceed the separate 2 percent growth used for staff turnover. Additionally, the City assumes \$200 million annually in litigation losses, though actual costs have exceeded this amount in recent years, presenting a significant variance risk. The Outlook includes no inflationary factor to general operating expenditures; in contrast to the

revenue forecast, which projects 4.1 percent growth based on historical trends that include inflation.

- Disaster Recovery: The City must now contend with the aftermath of the Palisades Fire. While Federal Emergency Management Agency (FEMA) reimbursements are anticipated, they are often delayed and incomplete. The City must front-fund response and recovery, placing immediate strain on cash flow and reserves.
- Capital Projects: The City has approved a \$2.6 billion expansion of the Convention Center to meet the deadline for the 2028 Games. This project effectively locks the City into a long-term General Fund obligation, with debt service payments estimated to average \$116 million annually over the next 30 years, limiting capacity for other capital necessities.
- Mega Events: Crucially, the current Outlook does not yet fully incorporate the costs for preparing for and hosting citywide events like the 2026 FIFA World Cup, 2027 Super Bowl LXI, and the 2028 Games. Independent studies of prior games have concluded that temporary boosts in tax revenues are often insufficient to offset the massive municipal costs associated with security, logistics, and infrastructure preparation.

Revenue Headwinds and Risks

This increasing expenditure growth is occurring as the City is simultaneously experiencing diminished returns due to a combination of current economic threats and ongoing market shifts, a situation confirmed by three consecutive years of below -average growth in General Fund receipts, with actual 2024-25 receipts falling \$159.6 million (2.0 percent) below the adopted budget. These risks include:

- Fire-Related Losses: For Fiscal Year 2025-26, UCLA and Redfin estimate the recent firestorms may result in property and capital losses between \$76 billion and \$131 billion regionally (including \$51.7 billion within City limits). The County Assessor has reported only 3.5 percent growth in the City's assessed property value, versus the 4.1 percent assumed in the budget, potentially reducing property tax receipts by \$12 million.
- Structural Erosion of Tax Base: Larger shifts in the economy are eroding traditional tax bases. Sales tax growth is slowing as consumers shift spending from taxable goods to non-taxable services and revenue is diverted to other jurisdictions with online sales. Similarly, the Communication Users Tax continues to decline as landlines are abandoned, and cannabis tax revenue has dropped 26 percent since its 2021 peak due to market saturation and illicit competition.
- Population Decline: The City's population trend has reversed from steady growth to an average annual decline of -0.8 percent since 2018. A shrinking population directly erodes the tax base and fee revenue that fund essential municipal services.
- Legal Threats: External forces threaten the City's ability to collect existing revenue. Taxpayer advocacy groups are circulating a new initiative to require a two-thirds vote for most local taxes and retroactively repeal Measure ULA. A separate citizen-led initiative has been filed to repeal

the City's gross receipts business tax, which, if passed by voters, would eliminate an estimated \$763 million in annual General Fund revenue.

- City Policy Actions: Broad policies for fee waivers and tax relief can substantially reduce General Fund revenue. Similarly, earmarking General Fund receipts for special purposes (e.g., establishing tax increment districts, mandating appropriations by ordinance, or redirecting receipts to special funds or discretionary accounts) reduces the fiscal flexibility needed to fund the operational budget according to the highest priorities.

Great Recession Strategies

In response to the Council's request for insight on Great Recession-era strategies, this Office reviewed budget reports from 2007 through 2013. The revenue generation strategies developed during the Great Recession focused on full cost recovery for services, maximizing reimbursements, and optimizing special fund transfers. While multiple reports provided recommendations to update departmental fees, assessments, and charges to ensure this full cost recovery, some actions were tabled in the interest of social benefit. The majority of the highest-impact options from that era have already been implemented or are in progress, leaving little remaining capacity to realize substantial new revenue.

- Cost Recovery and Reimbursement Maximization: Focused on returning solid waste fees and street lighting assessments to levels that achieve reasonable cost recovery and maximizing overhead cost reimbursements from proprietary and special funds by utilizing updated Cost Allocation Plan (CAP) rates.
- Optimizing Contractual and Program Receipts: Maximized receipts from large contracts like those with Metro, adjusted ambulance billings for increased efficiency (including using computerized billing or outside contractors), and leveraged renewed activity for programs like the Ground Emergency Medical Transport (GEMT).
- Fiscal Flexibility and General Fund Transfers: Generated savings and increased General Fund capacity by redirecting cable television franchise fees and tax increment to the General Fund, expanding the eligible uses of special funds, sweeping uncommitted prior-year MICLA proceeds, and transitioning staff in General Fund supported positions- to positions funded by non-subsidized special funds.
- Broadening and Modernizing Revenue Streams: Maximized revenue streams from new or recovering sectors by supporting increased receipts from expanding recreational cannabis business activity, pursuing collection of taxes from out-of-state retailers (following the Wayfair decision), and securing or extending tax collection agreements with short-term rental websites, and executing licensing agreements for billboard advertising.

FISCAL IMPACT STATEMENT

There is no immediate fiscal impact on the General Fund as a result of the recommendations in this report; however, recommendations identify potential future actions that may require additional appropriations through interim budget actions subject to Mayor and Council approval.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City's Financial Policies in that the report is for informational purposes only and does not commit the City to any future expenditure of funds without further legislative action.

MWS:BC:MCK: 03260001

Summary of California Tax Measure Voter Requirements and Constitutional Restrictions

State Constitution Restrictions on Revenue

Proposition	Primary Impact	Key Requirement
13 (1978)	Limits property tax rates and annual increases.	Fixed property tax to one percent of a property's value at time of sale and capped annual assessment increases at 2 percent. It further required two-thirds voter approval for local "special taxes" on property.
218 (1996)	Restricts local government's ability to impose taxes, assessments, fees, and charges.	Extended the mandate for majority-voter approval for any new or increased local general tax and two-thirds voter approval for all special taxes regardless of tax structure (e.g., sales tax, utility users tax). Assessments and property-related fees are subject to strict notice, protest, and benefit-allocation rules. Voters may reduce or repeal local taxes, fees, or assessment through the initiative process.
26 (2010)	Redefines what constitutes a "tax" versus a "fee" or "charge" to close loopholes.	Expanded the definition of "tax" to include fees and charges that exceed full cost recovery and thus subject to voting requirements under Proposition 218. Exemptions are provided for property-related fees, regulatory charges, and fines. As a result, existing local fees and charges have been challenged by taxpayers in the courts, further eroding local revenues.

General Tax vs Special Tax Ballot Measures

Measure Type	Purpose / Use	Voter Threshold
General Tax (e.g., sales, business, hotel taxes)	Deposited into the general fund; can be used for any general-purpose governmental needs. A general tax provides Mayor and Council with the most flexibility to allocate funds according to the City's highest priorities.	Simple majority (50%+1)
Special Tax (earmarked, e.g., funding roads, homelessness)	Must be dedicated to specific purposes as defined in measure.	Two-thirds majority (~66.7%) for Council sponsored measures. Simple majority for citizen initiatives.

**ELECTION EVENT QUICK REFERENCE CALENDAR
LEGAL DEADLINES FOR CITY OF LOS ANGELES 2026 ELECTIONS**

These are key election calendar events and their corresponding dates. Some events reflect the practical deadlines, which may differ from statutory deadlines, as explained in the footnotes. It is advisable to schedule activities well in advance of the dates listed to avoid the possibility of missing the deadline.

EVENT		PRIMARY NOMINATING* 06/02/26	GENERAL MUNICIPAL 11/03/26
Recommended last day for proponents to file Initiative Ordinance petitions	E-195¹	11/19/25 ²	04/22/26 ²
Last day for Council to request the City Attorney to prepare resolutions placing measures on the ballot	E-125	01/28/26	06/17/26 ³
Last day for Council to adopt election resolutions	E-110	2/11/26	06/26/26 ⁴
Last day for Council to adopt the ballot order and ballot designation	E-95	02/27/26	7/31/26
Last day for CAO to submit Tax Rate Statements for bond measures	E-88	03/06/26	08/07/26
Last day to file ballot arguments	E-85	03/09/26	08/10/26
Last day to file rebuttal arguments	E-75	03/19/26	08/20/26
Last day to submit CLA Impartial Summaries and CAO Financial Impact Statements	E-70	03/24/26	08/25/26
Last day for Ballot Simplification Committee to submit Ballot Summaries	E-64	03/23/26 ⁵	08/31/26
Last day for Council to approve Ballot Summary	E-60	03/27/26 ³	09/04/26
ELECTION DAY		06/02/26	11/03/26

* Presidential Primaries are held in March (2024, 2028, etc.); Gubernatorial Primaries are held in June 2026, 2030, etc.).

¹ Recommended (not legal) filing date to ensure compliance with deadlines that follow.

² Failure to meet this date does not necessarily mean that the measure cannot be placed on the ballot, but rather, that if this date is not met, other processes may preclude the measure from placement on the ballot. It is also possible that such a measure may be placed on an intervening special election if called by Council action.

³ The legal deadline is Wednesday, July 1, 2026, which is a tentative Council Recess date. In order to provide the City Attorney enough time to draft any resolutions, it is recommended that Council adopt this motion on June 17, 2026, 140 days before Election Day.

⁴ The legal deadline of E-110 falls on an anticipated Council Recess day (7/16/2026); therefore, the deadline is moved up to the Friday preceding the anticipated Council Recess. Resolutions of Necessity for bond measures must be adopted at the meeting before the final election resolutions.

⁵ The legal deadlines of E-64 and E-60 fall on a Holiday (3/30/2026) and during Council Recess, respectively; therefore, the deadlines are moved up to the preceding Monday and Friday ahead of Council Recess days.

**DEADLINES TO PLACE COUNCIL-SPONSORED BALLOT MEASURE (ONLY)
ON JUNE 2, 2026 PRIMARY NOMINATING ELECTION BALLOT***

DATE	ACTION
1/28/26 Wednesday	Last day for Council to adopt motion requesting the City Attorney to prepare resolutions to place a proposed measure on the ballot [Election Code Section 601(a) – min. 125 days before election].
2/11/26 ¹ Wednesday	Last day for Council to adopt all resolutions placing proposed measures on the ballot [Election Code Section 601(b) – min. 110 days before election].
2/27/26 Friday	Last day for Council to approve ballot order and designation [Election Code Section 603(a)– min. 95 days before election].
3/06/26 Friday	Last day for Council to request consolidation with State Primary Election [California Elections Code 10403 – min. 88 days before election]. Last day for City Administrative Officer to submit Tax Rate Statements for bond measures [California Elections Code Section 9401].
3/09/26 Monday	Last day to file ballot arguments with the City Clerk [Election Code Section 605(e) – min. 85 days before election].
3/19/26 Thursday	Last day to file rebuttal arguments with the City Clerk [Election Code Section 605(e) – min. 75 days before election].
3/23/26 ² Monday	Last day for Ballot Simplification Committee to file a Ballot Summary for each measure with the City Clerk [Election Code Section 405 – min. 64 days before election].
3/24/26 Tuesday	Last day for Chief Legislative Analyst to file ballot measure Impartial Summaries with the City Clerk [Election Code Section 604(a) – min. 70 days before election]. Last day for City Administrative Officer to file ballot measure Financial Impact Statements with the City Clerk [Election Code Section 604(b) – min. 70 days before election].
3/27/26 ² Friday	Last day for Council to approve or disapprove Ballot Summaries (if no action by this date, summaries are automatically approved) [Election Code Section 405 – min. 60 days before election].

* Dates based on tentative 2025-26 Council Recess Schedule

¹ The legal deadline of E-110 falls on a date that the City Council does not meet (Thursday, 2/12/26). Therefore, the deadline is moved up to the Wednesday (2/11/26) preceding legal deadline. Resolutions of Necessity for bond measures must be adopted at the meeting before the final election resolutions.

² The legal deadlines of E-64 and E-60 fall on a Holiday (3/30/2026) and during Council Recess, respectively; therefore, the deadlines are moved up to the preceding Monday and Friday ahead Council Recess days.

**DEADLINES TO PLACE COUNCIL-SPONSORED BALLOT MEASURE (ONLY)
ON NOVEMBER 3, 2026 GENERAL ELECTION BALLOT***

DATE	ACTION
6/17/26 ¹ Wednesday	Last day for Council to adopt motion requesting the City Attorney to prepare resolutions to place a proposed measure on the ballot [Election Code Section 601(a) – min. 125 days before election].
6/26/26 ² Friday	Last day for Council to adopt all resolutions placing proposed measures on the ballot [Election Code Section 601(b) – min. 110 days before election].
7/31/26 Friday	Last day for Council to approve ballot order and designation [Election Code Section 603(a)– min. 95 days before election].
8/07/26 Friday	Last day for Council to request consolidation with State General Election [California Elections Code 10403 – min. 88 days before election]. Last day for City Administrative Officer to submit Tax Rate Statements for bond measures [California Elections Code Section 9401].
8/10/26 Monday	Last day to file ballot arguments with the City Clerk [Election Code Section 605(e) – min. 85 days before election].
8/20/26 Thursday	Last day to file rebuttal arguments with the City Clerk [Election Code Section 605(e) – min. 75 days before election].
8/25/26 Tuesday	Last day for Chief Legislative Analyst to file ballot measure Impartial Summaries with the City Clerk [Election Code Section 604(a) – min. 70 days before election]. Last day for City Administrative Officer to file ballot measure Financial Impact Statements with the City Clerk [Election Code Section 604(b) – min. 70 days before election].
8/31/26 Monday	Last day for Ballot Simplification Committee to file a Ballot Summary for each measure with the City Clerk [Election Code Section 405 – min. 64 days before election].
9/04/26 Friday	Last day for Council to approve or disapprove Ballot Summaries (if no action by this date, summaries are automatically approved) [Election Code Section 405 – min. 60 days before election].

* Dates based on tentative 2025-26 Council Recess Schedule

¹ The legal deadline is Wednesday, July 1, 2026, which is a tentative Council Recess date. In order to provide the City Attorney enough time to draft any resolutions, it is recommended that Council adopt this motion on June 17, 2026, 139 days before Election Day.

² The legal deadline of E-110 falls on an anticipated Council Recess day (7/16/2026); therefore, the deadline is moved up to the Friday preceding the anticipated Council Recess. Resolutions of Necessity for bond measures must be adopted at the meeting before the final election resolutions.

General Tax Measure Options to Safeguard the Operating Budget*

Revenue Type	Description/Comments	Current Rate	Projected Revenue Increase
Sales Tax	Tax paid by consumer on the sales price of goods.	1.0% City 9.75% total	0.5% capacity to increase local rate nets \$327m.
Transient Occupancy Tax (hotel) Tax	Tax paid by guest on room rate. 1% each to Cultural Affairs and Convention Center Trust Funds. Hotels with more than 50 rooms pay separate LATMB assessment (2%) also charged to guest.	13% GF 14% total	2% increase nets \$45.3m. 4% increase nets \$89.3m.
Parking Occupancy Tax	Tax paid by user on the parking fee charged.	10%	5% increase nets \$67.3m.
Cannabis Business Tax Parity	Tax paid on gross receipts of cannabis business activity. Unlicensed businesses currently are exempt from the tax.	1% - 10%	\$60m to \$80m preliminary estimate with closed loophole.
Major Event Tax	Structure to be defined.		Preliminary estimate: 6% tax nets \$48m. Further Study Needed.
Vacant / Empty Homes Tax (vacancy tax)	Several CA cities (e.g., San Francisco Proposition M / "Empty Homes Tax") have adopted vacancy taxes in recent years; some face legal challenges.		Preliminary estimate: \$4m to \$148m. Not Implemented.
Shared Ride	Structure to be defined.		No estimate. Further Study Needed.
Retail Delivery Fee	Structure to be defined.		Preliminary estimate \$1 delivery fee nets \$150m and \$200m Further Study needed.

Sales, transient occupancy, and parking occupancy estimates based on 2024-25 actual fiscal year revenue which may be submitted as a General Tax or Special Tax. Sales tax and parking occupancy reduction to demand based on prior studies (C.F. 13-1100-S6, 11-1-357-S1). Transient Occupancy tax assumes -0.72 reduction factor. Vacancy tax estimate based on 2022 consultant study of policy options that will need to be revised (C.F. 19-0623). Other preliminary estimates provided by the Office of Finance.

Property Based Taxes or Assessments

Revenue Type	Description	Typical use (what money may fund)	Voter threshold	Revenue
General Obligation Bond)	Property tax based on assessed value, expires at end	Capital project and program financing for public buildings and infrastructure, (fire stations, parks, etc.)	Two-thirds majority	Sized by program cost debt service, and timeline \$5.65/\$100,000 AV nets \$50 million.
Parcel tax	Property tax amount per parcel, square foot of lot size or improvements, etc.	Public buildings and infrastructure, as well as specified local services	Two-thirds majority	\$3.85/100 sf \$125.75 /parcel nets \$100 million
Mello-Roos / Community Facilities District (CFD) special tax	Parcel tax within a defined district	Core public buildings, infrastructure, and services (streets, sewers, parks, police, fire) in undeveloped areas	Two-thirds approval by landowners or qualified electors depending on district composition	
Special assessments	Assessments are not a tax, but must reflect special benefit to property	Local improvements and related services benefiting assessed parcels (sidewalks, sewers, lighting)	No majority protest of affected property owners in protest proceedings	
Enhanced Infrastructure Financing District (EIFD)	Redirection of existing General Fund property tax increment growth	Public buildings, infrastructure, redevelopment	55% vote for bond issuance	\$0. Redirects General Fund revenue to EIFD.
Climate Resilience District (CRD)	See EIFD, can be coupled with special tax, assessment, or property related fee.	Climate projects Services may be funded with tax, assessment, or fee. Proposed legislation (SB782) will allow use of funds to repair and replace wildfire damaged property.	55% vote for bond issuance	\$0, unless paired with tax, assessment, or fee. Redirects General Fund revenue to EIFD.

CALIFORNIA MELLO-ROOS COMMUNITY FACILITIES DISTRICT (CFD) TYPICAL FORMATION PROCESS

