Agenda Item: 8.e

CITY OF CLAYTON
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STAFF REPORT

TO: CLAYTON CITY COUNCIL

FROM: Dennis Bozanich

DATE: April 21, 2026

SUBJECT: Workshop on Transaction and Use Tax (TUT) and Landscape Maintenance District (LMD) Renewal – Ballot Measure Options and Direction

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RECOMMENDATION

Staff recommends:

- Provide direction on ballot language for a 1% Transaction and Use Tax (TUT) measure on the November 3, 2026 ballot, including:
  - Duration (e.g., general tax in perpetuity)
  - Oversight and accountability provisions
- Provide direction on ballot language for the renewal of the Landscape Maintenance District (LMD), including:
  - Term of extension (recommended 10 years: FY 2027–2037)
  - Adjustment to assessment (e.g., 10% increase to current rate)
  - Confirmation of oversight structure and service levels
- Direct staff to return with finalized ballot language and required resolutions to meet statutory deadlines for the November 2026 election.

BACKGROUND

The April 21, 2026 workshop is intended to refine these options and provide direction on ballot language and structure.

Over the past year, the City has undertaken a comprehensive evaluation of long-term fiscal sustainability and revenue options, including analysis of local tax measures, assessments, and service funding mechanisms.

Key findings from prior budget and revenue studies include:

- The City's General Fund revenues are growing at a slower rate than expenditures, creating structural deficits projected to exceed approximately $1 million annually within the near term.
- Without corrective action, the City will be required to implement service reductions, defer maintenance, or both.
- The City's Landscape Maintenance District (LMD), which funds critical services such as trails, landscaping, and weed abatement, expires at the end of FY 2026–27 and must be renewed to continue funding.

- In December 2025, the City Council provided initial policy direction to:
    - Prepare a 1% Transaction and Use Tax (sales tax) measure to support general municipal services in perpetuity; and
    - Develop options to extend the LMD for a period of ten-years, including a potential modest increase to maintain service levels.

ANALYSIS

The City's financial trajectory reflects a structural imbalance, driven by:

- Escalating personnel costs (CalPERS, health benefits, retention pressures)
- Inflationary impacts on contracts, materials, and services
- Limited elasticity in existing revenue sources

Prior financial modeling demonstrates that, absent new revenues, the City will face a combination of:

- Ongoing operating deficits
- Deferred infrastructure and maintenance liabilities
- Reduced service levels, particularly in public safety support, parks, and community services

A combined strategy of general tax revenue (TUT) and dedicated assessment (LMD) aligns with best practices by:

- Stabilizing core General Fund services
- Preserving dedicated funding for landscape and infrastructure maintenance
- Diversifying revenue sources to reduce fiscal volatility

Transaction and Use Tax (TUT) Measure

Overview

A Transaction and Use Tax is a general tax requiring majority voter approval that applies to taxable retail sales within the City.

- Proposed rate: 1%
- Estimated annual revenue: ~$1.0 million

Key Policy Considerations

a. Duration

- In perpetuity (maximizes revenue stability)
- Fixed term (e.g., 10–20 years, may improve voter acceptance)

b. Accountability Measures
While general taxes legally allocate to the General Fund, voter confidence is typically enhanced through:

- Annual independent audits
- Public reporting requirements
- Informal or formal oversight committees

c. Use of Funds
The proposed ballot language identifies priority uses, including:

- Police and public safety support
- Road and sidewalk improvements
- Parks, recreation, and library services
- Recruitment and retention of City staff

This approach balances flexibility (legally required for a general tax) with transparency and voter clarity.

Landscape Maintenance District (LMD) Renewal

Overview

The LMD provides dedicated funding for:

- Trails and open space maintenance
- Roadway landscaping
- Weed abatement and related services

The current district expires in FY 2026–27, making renewal time-sensitive.

Key Policy Considerations

a. Term

- Recommended: 10-year extension (FY 2027–2037)
- Aligns with prior Measure H structure and voter expectations

b. Assessment Level
Options include:

- Maintain current rate (~$234.84/year per parcel)
- Increase base assessment (e.g., ~10% adjustment as previously discussed)
- Establish updated base with CPI adjustments

A modest increase is supported by:

- Inflation since the last adjustment
- Rising contract and maintenance costs
- Need to avoid service degradation

c. Oversight

- Continuation of a Citizens Oversight Committee is recommended and modifications can

be made.
- Existing model (Trails and Landscape Committee) provides continuity and transparency

d. Service Definition Updates
There is an opportunity to modernize the district description to reflect:

- Current maintenance practices
- Expanded expectations for open space and fire prevention
- Evolving community standards

Integrated Revenue Strategy

The combination of TUT and LMD measures provides a balanced fiscal strategy:

Revenue Tool	Purpose	Estimated Impact
TUT (1%)	General Fund stabilization	~$1.0M annually
LMD Renewal	Dedicated maintenance funding	Maintains existing service levels

This dual approach:

- Addresses both structural deficits and deferred maintenance risks
- Reduces reliance on any single revenue source
- Aligns with prior Council direction and community priorities

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Ballot Timeline and Statutory Requirements

To qualify for the November 3, 2026 ballot, the City must meet strict deadlines:

- May 19, 2026 – Finalize ballot language
- June 2, 2026 – Adopt Resolution of Consideration
- June 16, 2026 – Conduct required public hearing
- August 7, 2026 – Submit measures to County Elections

Failure to meet these deadlines would delay consideration to a future election cycle.

STRATEGIC CONSIDERATIONS

Based on prior revenue option analysis and regional benchmarking:

- A 1% TUT is consistent with actions taken by neighboring jurisdictions facing similar fiscal pressures
- Voter approval is strengthened by:
  - Clear articulation of service impacts
  - Transparency and accountability provisions
  - Demonstrated fiscal discipline by the City
- Pairing a general tax with a renewal (not expansion) of an existing district may improve voter understanding and acceptance

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NEXT STEPS

Subject to Council direction, staff will:

1. Refine and return with final ballot language for both measures
2. Prepare required resolutions and public hearing materials
3. Develop a community engagement and education plan consistent with legal requirements
4. Coordinate with Contra Costa County Elections to ensure timely submission

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CONCLUSION

The City is at a critical decision point. Without new revenues, the City will face increasing deficits and corresponding service reductions.

The proposed Transaction and Use Tax and LMD renewal provide a comprehensive, balanced approach to:

- Stabilizing the General Fund
- Preserving essential community services
- Maintaining critical infrastructure and landscape assets

Timely Council direction is necessary to position these measures for voter consideration in November 2026.

CEQA
The recommended actions are not subject to CEQA.

FISCAL IMPACT
The recommended actions do not result in an immediate fiscal impact.

ATTACHMENTS
TUT & LMD Ballot Workshop.pdf