



CITY OF COMMERCE AGENDA REPORT

TO: Honorable City Council

FROM: City Manager

SUBJECT: Declaration of Fiscal Emergency; Calling a Special Municipal Election; Consolidation with Los Angeles County; Introduction of an Ordinance Increasing the Existing Transactions and Use (Sales) Tax by $\frac{1}{4}$ -Cent, for a Total of a One-Cent *Transactions and Use (Sales) Tax*

MEETING DATE: February 24, 2026

RECOMMENDATION:

The City Council will consider:

1. Adopting a Resolution declaring a Fiscal Emergency pursuant to Article XIII C, Section 2(b) of the California Constitution;
2. Adopting a Resolution calling and giving notice of a Special Municipal Election to be consolidated with the June 2, 2026 Statewide Primary Election conducted by the Los Angeles County Registrar-Recorder/County Clerk for the purpose of submitting to the voters a proposed $\frac{1}{4}$ -cent (0.25%) Transactions and Use (Sales) Tax measure; and
3. Introducing for first reading an Ordinance amending Commerce Municipal Code Chapters 3.09 and 3.26 to increase the existing $\frac{3}{4}$ cent (0.75%) Transactions and Use (Sales) Tax by $\frac{1}{4}$ -cent (0.25%), for a total of a one cent (1%) Transactions and Use (Sales) Tax, subject to majority voter approval.

BACKGROUND:

The City of Commerce has historically maintained a strong level of municipal services supported in significant part by revenues generated from the Commerce Casino. Casino-related revenues currently account for approximately forty percent (40%) of the City's General Fund and generate in excess of \$30 million annually. These revenues support essential City services including law enforcement, emergency response, youth and senior programming, library services, park maintenance, infrastructure improvements, and community services.

Recent regulatory actions by the California Attorney General impacting long-standing gaming operations have introduced substantial uncertainty regarding the future revenue

stability of the Commerce Casino. Namely, these new regulations now prohibit certain types of games (i.e., blackjack and blackjack-style games), as well as prohibit third party player-dealer set-ups. Because of the City's structural reliance on this revenue source, even a moderate decline would have an immediate and material impact on the City's ability to maintain essential public services at current levels. The regulatory actions become effective April 1, 2026, so there will be an immediate adverse impact, and potential large structural deficit due to the sudden decline in revenue, for the coming Fiscal Year 26-27 budget.

The City's total sales tax rate is currently 10.50%, which includes an existing locally imposed Transaction and Use (Sales) Tax (or "TUT") of three-quarters of a cent (0.75%). Under State law, the combined local sales tax rate in Los Angeles County is generally capped at 10.75%, leaving the City with only 0.25% of remaining local taxing authority. If another taxing entity, including Los Angeles County, adopts a competing sales tax measure utilizing the remaining capacity before the City acts, Commerce would permanently lose the ability to implement its own local revenue measure at that rate. Accordingly, staff is recommending that the City Council consider declaring a fiscal emergency and submitting to voters an increase of a ¼-cent (0.25%) TUT measure to diversify revenue sources, protect essential services, and preserve local fiscal control. This will bring the total TUT to a total of one cent (1%), meeting the total sales tax cap of 10.75%.

DISCUSSION:

Commerce's fiscal exposure is concentrated in a single industry revenue source. The potential volatility associated with recent State regulatory changes presents a material financial risk. Should casino revenues decline, the City would be required to consider service reductions affecting, among other areas:

- Police patrol operations and emergency response services
- Senior and youth programming
- Parks, recreation, and facility maintenance
- Street repairs and infrastructure maintenance

Staff has evaluated available revenue alternatives, including transient occupancy tax adjustments, and expenditure reductions. These alternatives would not generate sufficient revenue to offset a material casino revenue decline without disproportionately burdening residents or significantly reducing service levels. A TUT provides the most stable and broadly distributed revenue source available under current law.

Commerce Residents and Sales Tax Revenue: Commerce is fortunate in that a significant majority of sales tax revenue generated in the community is paid by visitors to the community or non-residents. Out of town visitors shop at local retail establishments (the Citadel Outlets are a particularly significant regional draw), dine at restaurants, and purchase taxable goods in the community. Accordingly, over 50% of the sales tax revenue that the City receives comes from non-residents.

Commerce is a destination shopping experience. Visitors contribute to the local economy and help sustain the amenities (parks, recreational facilities, public spaces), services (public safety), and infrastructure (clean streets, landscaped medians) that characterize the

community. This imported revenue structure significantly helps General Fund costs that would otherwise be borne by Commerce residents.

Though spending patterns and non-resident sales tax contributions may vary in the future, the above noted percentages provide insight on how a local sales tax add-on may impact Commerce residents. For example, if voters were to approve a quarter cent (0.25%) TUT, a resident can expect to contribute on average less than \$15.86 per month in new sales tax revenue. The methodology for the per resident averages is below:

<u>Quarter Cent Local Add-On TUT</u>	
1/4 cent transactions and use tax revenue	\$4,500,000
\$4,500,000 multiplied by less than 50% (resident sales tax contribution)	\$2,250,000
\$2,250,000 divided by 11,822 (number of residents)	\$190.32
\$190.32 divided by 12 (number of months)	\$15.86

Additionally, it is important for residents to know that a TUT does **not** apply to common essentials like groceries, prescriptions, medical and dental services, real estate, rent, utilities, education, personal services, and labor.

Furthermore, new revenues generated by a sales tax add-on are locally controlled to benefit the residents of Commerce. Per law, these revenues cannot be taken by the State or the County. The resulting benefit of a TUT to the residents and businesses of Commerce would be maintaining essential City services, while investing in important infrastructure projects that would otherwise be deferred due to the lack of funding.

Timeline and Cost of a Transactions and Use Tax Measure: To initiate a tax measure, State law requires that two-thirds of the City Council, or four out of five council members, vote for the tax measure proposal to be placed on a ballot. Furthermore, State law requires that a tax measure be placed on a consolidated election that includes Commerce council members on the ballot. That being said, the next consolidated election for city council office is November 3, 2026.

Fiscal Emergency: It is important to note that State law provides a caveat to the above outlined process, in accordance with Article XIIC of the State Constitution, if an emergency, such as a fiscal emergency, is declared. There is no specific definition of or defined requirements on what constitutes a “fiscal emergency.” In fact, neither the Elections Code nor the Government Code define the term “fiscal emergency.” At minimum, a fiscal emergency typically involves a sharp, unexpected decline in revenue, coupled with the inability of the City to provide certain essential services or maintain them at an acceptable level in the foreseeable future. In short, a fiscal emergency is an imminent, severe financial situation that threatens the ability to provide essential services. The City must also show that it has taken reasonable steps to address its financial issues prior to declaring a fiscal emergency. Lastly, the City must demonstrate that it has considered available alternatives and that such alternatives are insufficient to solve the City’s financial issues.

A fiscal emergency requires the adoption of a resolution by unanimous vote of the entire City Council, making the required findings discussed above and supported by evidence of the financial state of the City. A resolution declaring a fiscal emergency can be adopted by the City Council at a separate meeting prior to or at the same meeting as when the City Council calls for an election.

If the City declares a fiscal emergency, then it does not have to wait until the November 2026 election to place a tax measure on the ballot. Instead, the City may place a tax measure on the June 2, 2026 primary election (which is also a consolidated election), or the City may hold a special election/stand-alone election.

To ensure the City’s fiscal sustainability and to protect the interests of Commerce residents who have voiced their support for local control of a potential 1/4 cent (0.25%) TUT measure, it is imperative that the City Council consider a sales tax measure concurrent with the County measure.

For this to be accomplished, the City Council would need to call for a consolidated special election to be held on June 2, 2026. The ballot question as presented below would allow voters the option to enact a secure, locally controlled general fund revenue source.

Commerce Essential Services Protection Measure: To protect local funding threatened by State gaming regulations and maintain police services, 911 emergency response, youth and senior programs, library services, parks, streets, and infrastructure, shall the City of Commerce enact a ¼-cent (0.25%) transactions and use (sales) tax, providing approximately \$4.5 million annually for general government use until ended by voters, with annual audits and public disclosure?	YES
	NO

In order to proceed as outlined, all resolutions, ordinances and other election related material would need to be submitted to the Los Angeles County Registrar of Voters and the Los Angeles County Board of Supervisors by March 6, 2026. Based on preliminary numbers, staff estimates the consolidation special election would cost approximately \$50,000 to \$150,000.

As part of the FY 2025-26 Mid-Year Budget Review, staff is recommending a budget amendment to appropriate funds for election-related costs associated with the proposed consolidated special election. Approval of the Mid-Year budget amendment would ensure funding is in place should the City Council elect to proceed with placing the measure on the June 2, 2026 ballot.

The proposed 0.25% Transactions and Use Tax would generate approximately \$4.5 million annually for general governmental purposes. As a general tax, it requires approval by a simple majority (50% + 1) of voters. Revenues would be deposited into the City’s General Fund and would be locally controlled. Although general taxes are not legally restricted to specific uses, the intent of the measure is to maintain essential municipal services and financial stability.

The tax would be administered by the California Department of Tax and Fee Administration (CDTFA) pursuant to Revenue and Taxation Code Sections 7251–7279.6. If approved by voters, the tax would become operative on the first day of the first calendar quarter more than 110 days after adoption and certification of the election results, by October 1, 2026. The ballot question will clearly state the rate ($\frac{1}{4}$ -cent), estimated annual revenue, general governmental purpose, and accountability provisions including annual audits and public disclosure.

NEXT STEPS

If the City Council chooses to call for a Special Election to be held June 2, 2026, the following steps would immediately follow:

Impartial Analysis: The City Attorney or Special Legal Counsel will prepare an Impartial Analysis, explaining what the measure will do if enacted and the impacts. The Impartial Analysis shall be published along with the ballot measure, as provided by law, and shall be filed with the City Clerk no later than March 13, 2026.

Ballot Arguments and Rebuttals: Elections Code Section 9282(b) and 9287 allow (a) the legislative body, or a member or members of the legislative body authorized by that body, or an individual voter who is eligible to vote on the measure, or bona fide association of citizens, or a combination of voters and associations, to file a written argument in favor of the measure; (b) rules for preference and priority if more than one argument in favor of a measure is submitted; (c) arguments in opposition shall be subject to the provisions of Elections Code 9292 and 9287; and (d) Rebuttals shall comply with Elections Code Sections 9285 and 9287.

Designated Authors: City Councilmember(s) may be designated to author, file, and/or sign arguments in favor of the measure and rebuttals, if desired.

Deadlines: The deadline date and time for submitting arguments for or against the measure to the City Clerk is March 13, 2026, by 5:30 p.m. The deadline date and time for submitting rebuttals for or against the measure to the City Clerk is March 23, 2026, by 5:30 p.m.

FISCAL IMPACT:

If approved by voters, the proposed $\frac{1}{4}$ -cent (0.25%) TUT is estimated to generate approximately \$4.5 million annually in new General Fund revenue. The California Department of Tax and Fee Administration will administer the tax and assess statutory administrative fees in accordance with Revenue and Taxation Code Section 7272.

The cost of conducting the consolidated election will be determined by the Los Angeles County Registrar-Recorder/County Clerk. Funding for election expenses will be allocated within the adopted Fiscal Year 2025-26 budget. There is no immediate impact to the General Fund associated with the declaration of a fiscal emergency; however, failure to act may result in significant future fiscal instability should casino revenues decline.

Approval of this item does not obligate the City to long-term expenditures beyond voter approval of the measure. Any revenues generated would be incorporated into future budget deliberations and subject to annual review and appropriation by the City Council.

Prepared by: Pat Jacquez-Nares, Interim City Clerk
Respectfully submitted: Ernie Hernandez, City Manager
Fiscal Impact reviewed by: Alvaro Castellon, Director of Finance
Approved as to form: Noel Tapia, City Attorney

Enclosures: Resolution Declaring Fiscal Emergency
Resolution Calling Election and Consolidation
Proposed Ordinance with Ballot Question