

City of Carmel-by-the-Sea

Preliminary Funding Feasibility Assessment

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Purpose of This Assessment

What This Report Covers

- Identifies California statutory revenue mechanisms available to a General Law city
- Ranks mechanisms from most to least feasible
- Provides revenue generation methodology (formula, data inputs, sources)
- Enables City finance staff to develop internal projections

Outside This Scope

- Detailed revenue modeling or fiscal impact analysis
- Ballot measure drafting
- Stakeholder outreach or district formation
- Revenue projections or rate recommendations

Prepared on an accelerated timeline to support the City's Council discussion. Additional options may be identified through deeper analysis.

City Context



~\$100M

Deferred Maintenance
Backlog



\$6–7M

New Annual Revenue
Target



~\$39M

Total Operating
Expenses



~\$3M

Current Annual
Debt Service

General Law City · Monterey County · ~3,200 residents (per City staff)

Capital project: New police building (cost estimate pending)

Timeline: Up to two election cycles. November 2026 general election is primary target.

Existing structure: TOT + CHID assessment (Visit Carmel, 2% on gross room revenue). ~44 lodging properties.

All financial figures per City staff unless otherwise noted.

How to Read This Presentation

- | | | |
|----------|--------------------------------|--|
| 1 | Statutory Authority | The California code section authorizing the mechanism |
| 2 | Revenue Type | Recurring Annual, One-Time Capital, or Debt Financing Capacity |
| 3 | Revenue Methodology | The formula, required data inputs, and where to find them |
| 4 | Voter Approval | What vote is required — majority, two-thirds, or property owner ballot |
| 5 | Bond/Capital Capability | Whether it authorizes bonds or finances capital projects |
| 6 | Feasibility Tier | High, Moderate, or Low based on legal viability, timeline, and revenue potential |

Transient Occupancy Tax (TOT) Increase

High

Authority: Revenue & Taxation Code §7280

Revenue Type: Recurring Annual Revenue

Voter Approval: General tax: majority (50%+1). Special tax: two-thirds. General tax at Nov 2026 general election.

Bond/Capital: Not independently. Increased General Fund revenue can service GO bond debt.

General Law Eligible: Yes

Revenue Methodology

Revenue = annual gross room rental revenue × TOT rate increase.

Data needed: current annual gross lodging revenue (from City TOT records) and proposed rate increase.

Carmel Applicability

Carmel has ~44 lodging properties and existing TOT collection infrastructure. The CHID levies a 2% assessment layered on top. The current combined guest levy of ~10% is at the lower end of comparable California destinations.

Key Considerations

Any rate increase raises the total guest-facing levy (TOT + CHID). Stakeholder engagement with hoteliers is essential. The appropriate rate is a political judgment for City Council.

Transactions and Use Tax (Sales Tax)

High

Authority: R&TC §7251 et seq.; 2% cap at §7251.1; Measure X exemption at §7297 (SB 705)

Revenue Type: Recurring Annual Revenue

Voter Approval: General tax: majority. Special tax: two-thirds. General tax at Nov 2026 general election.

Bond/Capital: Not independently. General Fund revenue can service GO bond debt.

General Law Eligible: Yes

Revenue Methodology

Revenue = taxable sales within city limits × tax rate.

Data needed: annual taxable sales (CDTFA quarterly reports).

Comparable: Monterey projects ~\$4.5M annually from 0.375%.

Carmel Applicability

0.375% remaining capacity. TAMC Measure X (0.375%) exempt from cap per R&TC §7297. Of the 2.00% in district taxes, only 1.625% counts toward the cap.

Key Considerations

Monterey placed a 0.375% general tax on its June 2026 ballot. Pacific Grove is exploring for Nov 2026. AB 761 authorizes MST to pursue a cap-exempt 0.25%. Confirm capacity with CDTFA before ballot placement.

General Obligation Bonds

High

Authority: Cal. Const. Art. XIII A, §1(b)(3); Gov. Code §43600 et seq.

Revenue Type: One-Time Capital Funding + Debt Financing Capacity

Voter Approval: Two-thirds (66.67%). Council calls election by two-thirds vote per Gov. Code §43608.

Bond/Capital: Yes — direct capital financing. Specifically designed for capital projects such as the police building.

General Law Eligible: Yes

Revenue Methodology

Bond capacity depends on total assessed valuation, project cost, and debt service schedule.

Data: assessed valuation (County Assessor), police building cost estimate, existing debt obligations. Municipal financial advisor models bond sizing.

Carmel Applicability

The only mechanism providing upfront capital for large projects. Pairs with TOT or sales tax: recurring revenue services bond debt while bonds provide immediate construction funding.

Key Considerations

Two-thirds voter threshold is demanding. Polling before placement is standard. Bonds create a debt service obligation funded by property tax levy on all owners — no operating revenue.

Charter City Conversion + RPTT

Moderate

Authority: Charter: Art. XI, §3(a); Gov. Code §34450 et seq. RPTT: R&TC §11911.

Revenue Type: Recurring Annual Revenue (volatile — tied to transaction volume)

Voter Approval: Charter: majority vote. RPTT: majority (general) or two-thirds (special). Both on same ballot possible; RPTT contingent on charter passing.

Bond/Capital: Not independently. Revenue can service GO bond debt.

General Law Eligible: No — charter conversion required as prerequisite

Revenue Methodology

Revenue = total value of real property transfers × tax rate.

Data needed: annual aggregate value of property sales (Monterey County Recorder/Assessor) and proposed rate structure.

Carmel Applicability

As a General Law city, Carmel is limited to the state RPTT rate of \$1.10 per \$1,000. Charter status enables a higher rate. Carmel's high property values could make this meaningful.

Key Considerations

CRITICAL: A statewide initiative ("Local Taxpayer Protection Act") submitted signatures for Nov 2026. If it qualifies and passes, it would prohibit above-cap charter city transfer taxes. Charter status also enables broader home rule authority beyond RPTT — a separate engagement topic.

Community Facilities District (Mello-Roos)

Gov. Code §53311 et seq.

What: Special tax district to finance public facilities and services. Can issue bonds.

Revenue Type: Recurring + Debt Financing Capacity

Vote: Two-thirds of qualified electors within district

Bond/Capital: Yes — can issue bonds and directly finance the police building

Methodology: Revenue = special tax rate × apportionment formula. Requires district boundary, facilities report, Rate and Method of Apportionment.

Note: Most common in new development. Citywide CFD in an established community requires strong voter engagement. Climate/environmental infrastructure is an eligible use.

Enhanced Infrastructure Financing District

Gov. Code §53398.50–53398.88

What: Captures property tax growth above a base year. No new taxes. Can issue bonds.

Revenue Type: Incremental Capital + Debt Financing Capacity

Vote: No public vote required (per AB 116, 2019). Three public hearings with protest provisions.

Bond/Capital: Yes — can issue bonds secured by tax increment

Methodology: Revenue = (current year AV – base year AV) × participating entity share. Data: assessed values, growth projections, project list.

Note: No new taxes and no voter approval is attractive, but revenue depends on property value growth. In built-out Carmel, growth may be modest. Best as a complement, not standalone.

Moderate Feasibility: PBID & Parking

Moderate

Property-Based Business Improvement District

SHC §36600 et seq.

What: Property-based assessments for improvements conferring special benefits to assessed parcels. Separate from the CHID (business-based).

Vote: Property owner weighted ballot. Opposition exceeding support blocks formation.

Bond/Capital: If the Management District Plan provides for it

Methodology: Assessment formula based on proportional special benefit per parcel. Requires engineer's report under Proposition 218.

Note: Narrow application to property-specific improvements. Benefit test will need to be conducted. Limited revenue potential relative to \$6–7M target.

Parking District / Paid Parking

SHC §35100 et seq.; §36500 et seq.

What: Establishes paid parking or a parking district. Fee-based parking may not require voter approval if structured as a regulatory fee under Proposition 26.

Vote: Potentially no vote required (ordinance) if structured as fee

Bond/Capital: Limited

Methodology: Revenue = parking rate × utilization. Data: public parking inventory, turnover rates, proposed pricing.

Note: One of the few mechanisms implementable by ordinance without a ballot measure. Politically sensitive in a tourism-dependent walkable village. Revenue is modest. Best as a supplementary source.

Low Feasibility Mechanisms

Low

Landscaping and Lighting Districts

SHC §22500 et seq.

Authorizes assessment districts for landscaping, lighting, and related maintenance. Proposition 218 property owner balloting required. Very limited revenue potential and narrow scope. Does not address citywide deferred maintenance or capital needs.

Service Fees and Regulatory Charges

Cal. Const. Art. XI, §§7, 9; Prop 26

The City may review its fee schedule for development permits, plan checks, and facility rentals to ensure full cost recovery. Revenue is incremental, not transformative. An optimization opportunity, not a new revenue mechanism.

Existing CHID Assessment — Legal Constraints

Low

Can the CHID (Visit Carmel) assessment revenue be redirected to fund general city services?

- 1 Benefit Nexus Requirement** CHID assessment must fund services conferring specific benefit on assessed lodging businesses (SHC §36600 et seq., Proposition 218). General city services likely do not satisfy this nexus.
- 2 Management District Plan** Current Plan (2021–2031) allocates funds to marketing, administration, contingency, and collections. Redirecting requires new petition and balloting process.
- 3 Hotelier Consent** The top 11 assessed lodging businesses would need to reach the petition threshold to modify the CHID.
- 4 Risk to the District** Using funds for non-qualifying purposes exposes the assessment to legal challenge. A successful challenge could invalidate the entire assessment — eliminating all CHID revenue.

Feasibility Ranking

Rank	Mechanism	Tier	Revenue Type	Bond/Capital	Key Reason
1	TOT Increase	High	Recurring	With pairing	Strongest legal basis, simplest implementation, majority vote
2	Transactions & Use Tax	High	Recurring	With pairing	Clear 0.375% capacity, established process, regional precedent
3	GO Bonds	High	Capital + Debt	Yes — direct	Only mechanism for upfront capital; two-thirds vote
4	Charter + RPTT	Moderate	Recurring	With pairing	Meaningful revenue; two-step process; 2026 ballot risk
5	Mello-Roos CFD	Moderate	Recurring + Debt	Yes	Flexible; two-thirds vote; uncommon in built-out areas
6	EIFD	Moderate	Incremental	Yes	No voter approval; modest revenue in built-out community
7	PBID	Moderate	Recurring	If MDP provides	Narrow application; Prop 218 constraints
8	Parking	Moderate	Recurring	Limited	No ballot if fee-based; modest revenue; sensitive
9	L&L Districts	Low	Very limited	No	Narrow scope, negligible revenue
10	Service Fees	Low	Incremental	No	Optimization only; not a new revenue source
11	<i>CHID</i>	Low	Limited	Yes—with modification	<i>Legally constrained</i>

Combination Strategies

A TOT Increase + GO Bonds

Recurring operating revenue + one-time capital

Cycle 1 (Nov 2026): TOT increase — general tax, majority vote

Cycle 1 or 2: GO bonds — two-thirds vote. May defer to Cycle 2 pending police building cost estimate.

B TOT Increase + Transactions and Use Tax

Recurring operating revenue only

Cycle 1 (Nov 2026): Both on same ballot. Both general taxes, majority vote. Polling essential for two-measure appetite. Add GO bond in Cycle 2 for capital projects.

C TOT + Sales Tax + GO Bonds (Full Package)

Recurring + capital + debt capacity

Cycle 1 (Nov 2026): TOT + sales tax (both majority vote)

Cycle 2: GO bonds (two-thirds vote). Demonstrating new recurring revenue in Cycle 1 strengthens fiscal position and voter confidence for the two-thirds vote in Cycle 2.

Data Inputs for City Projections

Mechanism	Data Needed	Suggested Source
TOT Increase	Current annual gross lodging revenue; current TOT rate and collections; proposed rate	City Finance Dept. (existing TOT records)
Transactions & Use Tax	Annual taxable sales within city limits	CDTFA quarterly allocation reports
GO Bonds	Total assessed valuation; police building cost estimate; existing debt schedule	County Assessor; City Finance; City-commissioned estimate
Charter/RPTT	Annual aggregate value of real property sales; transaction count	Monterey County Recorder or Assessor
Mello-Roos CFD	Taxable parcels; proposed boundary; facilities to be financed	City Planning/GIS; County Assessor; special tax consultant
EIFD	Assessed values within boundary; growth projections; project list	County Assessor; City econ. dev. data; fiscal consultant
PBID	Parcels in proposed district; improvement plan and costs	Registered professional engineer; City Planning
Parking	Public parking inventory; utilization data; proposed pricing	City Public Works; parking consultant

For all bond/capital options: The City will need a preliminary project cost estimate for the police building and a summary of existing debt obligations.

Recommended Next Steps

1

Sales Tax Ballot Measure

Determine whether the City should proceed with the Sales Tax ballot measure.

2

Select 3–4 Mechanisms

Based on feasibility ranking and City Council policy priorities, identify mechanisms to advance to detailed feasibility analysis.

3

Obtain Police Building Cost Estimate

Commission a preliminary project cost estimate to inform bond sizing and capital financing analysis.

4

Conduct Voter Polling

Inform rate-setting for TOT and sales tax and the decision to pair multiple measures on one ballot (November 2026).

5

Authorize Next-Phase Engagement

Should the City wish to advance mechanisms to detailed feasibility, ballot preparation, or implementation, Civitas will prepare a separate proposal.

Questions & Discussion

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