

City of Hesperia

STAFF REPORT



DATE: August 12, 2025
TO: Mayor and Council Members
FROM: Rachel Molina, City Manager
BY: Casey Brooksher, Assistant City Manager
SUBJECT: Sales Tax Discussion Workshop

RECOMMENDED ACTION

It is recommended that the City Council do the following:

1. Receive and file this report and presentation on sales taxes.
2. Provide direction to staff on whether to initiate a formal community engagement process. This process would assess public sentiment and understanding regarding a potential local sales tax measure for placement on a future ballot.

BACKGROUND

During the September 19, 2023 City Council meeting, staff presented a report discussing potential enhancements to General Fund revenue. The goal of the staff report was to explore potential revenue opportunities to enhance the level of service provided. Consistent with the 2023 report, the City still primarily receives General Fund revenue from two primary sources:

- *Charges for Services* – Fees charged to cover the City's cost of providing services such as issuing building permits or utility bills.
- *Taxes* - Voter-approved measures that provide discretionary revenue to support core municipal functions.

During this meeting, the City Council directed staff to conduct a comprehensive review of the City's user fee structure to ensure full cost recovery for services where appropriate.

Charge for Services:

Following the City Council's direction, the City completed a comprehensive review of the citywide fee structure on December 19, 2023. Additionally, the annual revision of fees was presented to and approved by the City Council on August 6, 2024. Furthermore, by September 2025, as part of the yearly update to fees, staff will present recommendations to the City Council to update the schedule to reflect changes resulting from increases in the Consumer Price Index (CPI).

Additionally, based on the City Council's approval, staff have commenced a water and sewer rate study. It is anticipated that the findings will be presented to the City Council in late 2025.

General Fund Tax Revenue:

This revenue source forms the foundation for municipal services. The General Fund tax revenue is primarily comprised of four sources:

- **Property Tax:** The 1978 voter-approved Proposition 13 sets the maximum ad valorem tax on real property at 1% of assessed value. Of this 1% total, the City of Hesperia receives, on average, 1.59% of the 1% ad valorem. This means that for every \$100 million increase in assessed valuation (value of development), the City would experience an annual revenue increase of approximately \$15,900 (\$100 million x 1% assessed valuation x 1.59% City share).

It is important to note that property tax revenue is determined by Tax Rate Areas (TRAs), and the City contains numerous TRAs within its boundaries. Currently, the City receives three distinct average rates. The first rate is the 1.59% average rate. Second, following the County's annexation of the Hesperia Fire Protection District (HFPD), the City retained an additional 1.5% average rate to fund the former District's retirement obligations. These obligations are expected to be fully paid off in seven years. Once satisfied, the 1.5% allocation can be used for any General Fund purpose, effectively increasing the average share to 3.0%. Third, as negotiated by the City during FY 2003–04, the City receives an enhanced 7% share of property tax revenue along the freeway corridor.

To summarize, the City currently receives three average tax rates:

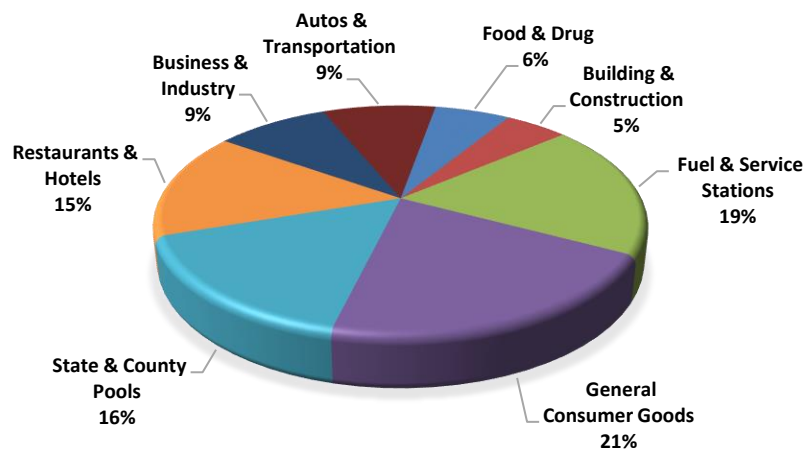
- 1.59% – Average citywide allocation from TRAs (excluding the freeway corridor)
- 1.5% – HFPD retirement obligation (7-year timeframe until added to General Fund)
- 7.0% – Enhanced average along the freeway corridor

Annually, property tax revenue from all sources listed above totals approximately \$1.2 million.

- **Vehicle License Fees (VLF):** Based on the growth of the City's assessed valuation, this revenue is calculated and remitted annually by the State. This revenue source is expected to be \$13.8 million in FY 2025-26.
- **Transient Occupancy Tax (TOT):** A 10% tax on hotel/motel stays of less than 30 days. This tax is levied on visitors for the use of City services during their stay. TOT generates approximately \$1.5 million annually.
- **Sales Tax:** This revenue source is the most significant General Fund tax source. The current sales tax rate in the City is 7.75%, of which the City retains a 1% share. The following is a breakdown of the Hesperia sales tax rate:
 - 6.00% – State of California
 - 1.00% – Local share retained by the City of Hesperia
 - 0.25% – Local Transportation (State assessed)
 - 0.50% – Countywide Measure I (transportation and roads)

Focusing on the City's 1% local share, this equates to \$10 in revenue for every \$1,000 spent on taxable goods within city limits. In FY 2023-24 (audited), the City received approximately \$14 million in sales tax revenue. For FY 2024-25 (unaudited), the projected revenue is \$13.6 million, primarily due to lower-than-expected fuel prices affecting taxable sales.

The following is an approximate makeup of the City's sales taxes by purchase type:



ISSUES/ANALYSIS

Hesperia is not unique among California cities in its reliance on General Fund revenue sources. As such, many cities have turned to a sales tax increase to fund their community's needs.

Sales Tax Trends in California Municipalities:

To demonstrate this trend, in 2023, 72% (348 cities and towns out of a total of 482) had a sales tax rate exceeding 7.75%; this increased to 79% (382 cities and towns) in 2025.

Narrowing in on San Bernardino County, in 2023, of the 24 incorporated municipalities, eight cities had a sales tax enhancement, with the majority tax rate at 8.75%, and the City of Montclair had a rate of 9.00%. In 2025, half of the San Bernardino municipalities had an enhanced tax rate. Of the North Desert region, which includes Adelanto, Apple Valley, Barstow, Hesperia, Needles, and Victorville, only Adelanto, Needles and Hesperia have a sales tax rate of 7.75%. Each of the other cities has an enhanced sales tax of 8.75%, of which the municipality receives a 2% share, as opposed to the 1% share received by the city in the original tax.

Local Trends:

During the September 19, 2023, City Council Meeting, concerns were raised that an increased sales tax would either drive businesses out of the City or alter consumer habits.

- *Impact on Businesses* – Based on Hesperia's own sales data, there has been little to no impact on businesses relocating to Hesperia due to its 7.75% sales tax rate. As mentioned, half of the San Bernardino cities have an enhanced sales tax rate as of 2025. This would mean, outside of the City of Adelanto, the nearest cities with a rate of 7.75% are Rialto and Rancho Cucamonga. The lack of business migration is supported by the fact that a sales tax is assessed on the consumer and not the business.
- *Altering of Consumer Habits* – Like the previous conclusion, there is little to no measurable impact on the alteration of consumer behavior. This takes into consideration that both Victorville and Apple Valley have an enhanced sales tax. While Apple Valley's tax increase is relatively new (effective April 1, 2025), Victorville's enhancement has been in place since

April 1, 2021. In that time, there was no measurable increase in sales tax to the City of Hesperia. Hesperia's sales tax revenue decreased from calendar year (CY) 2022, at \$14.9 million, to CY 2023, at \$14.3 million, and most recently, to \$13.7 million in CY 2024. This decrease is due in part to lower prices in CY 2023 and CY 2024, as well as reduced revenue from the County Pool (online shopping) as pre-pandemic activities returned. It is worth noting that certain items, including most groceries, prescription medications, and some medical devices, are exempt from California sales tax and therefore are not included in these statistics.

Sales Tax Uses:

As discussed, any increase in sales taxes must be approved by voters. A determination would need to be made as to whether the sales tax increase would be a general or special tax. A general tax generates revenues that can be used for any purpose determined by the City Council and requires a simple majority vote (50% + 1). A special tax must be spent on uses specified in the ballot measure and requires 2/3 (66.7%) vote approval. Given the requirements, the majority of the local share initiatives have been a general sales tax.

- **Law Enforcement**—A general sales tax would give the City Council the flexibility to allocate revenue for services as needed. As per the City Council's financial policies, the annual law enforcement allocation is based on 53% of the average of the three preceding years' audited operating expenditures.

The standard for law enforcement staffing is one sworn officer per 1,000 residents, or 0.10%. Moreover, according to the U.S. Department of Justice 2020 data, as reported in 2022, the national average for municipalities with populations between 50,000 and 250,000 was approximately 1.6 officers per 1,000 residents¹. As of FY 2024-25, the City's population was 101,792, with 61 sworn law enforcement personnel, resulting in a staffing ratio of 0.06%. This ratio has remained consistent since 2010. However, while the ratio has been maintained, due to population growth within the City, the staffing gap has widened over time. In 2010, the City would have required 33 additional sworn officers to meet the 0.10% benchmark; by FY 2024-25, this gap had increased to 41 officers.

Assuming an average cost of \$275,000 per deputy (including staffing, vehicles, and equipment), the estimated funding gap has grown from approximately \$9.1 million to \$11.3 million.

- **Street Maintenance** – In addition to increasing law enforcement, a general sales tax would provide revenue for road maintenance and other essential services. Based on the City's 2020 Pavement Management Report, the average City road had a pavement condition index (PCI) of 65 out of 100 (with 100 being perfect). The 2020 report identified a cost of \$126.3 million to fix all the roads, which, given price increases and further deterioration of the roadway surfaces, will be substantially more in 2025. While a sales tax increase would not immediately solve all the City's infrastructure needs, it would allow for an additional investment in road improvements. This increase in revenue could accomplish more timely improvements through contract street maintenance projects, an in-house paving team, or a combination of both. For reference, the City has allocated approximately \$2.0 million per year for street improvements for fiscal years 2023-24 through 2025-26.

¹ <https://bjs.ojp.gov/sites/g/files/xyckuh236/files/media/document/lpdp20.pdf>

Preliminary estimates for an in-house paving team would require an initial equipment purchase of \$1.5 million to \$2.5 million, followed by an annual program cost of approximately \$1.5 million, depending on the program's size, equipment, and materials.

Revenue Impact of an Increased Sales Tax:

Focusing on a 1% increase, the following table details the anticipated increase in General Fund revenue under three scenarios: a citywide increase, a freeway corridor only increase, and a combined increase for Bear Valley Road and the freeway corridor. Note, the average sales tax is based on the averaging of CY 2022, 2023, and 2024.

	1% Enhancement
Citywide - Sales Tax Increase	
Average Sales Tax	\$ 14,302,000
Enhanced Sales Taxes	14,302,000
Total Potential Annual Sales Tax	\$ 28,604,000
Freeway Corridor - Sales Tax Increase	
Average Sales Tax	\$ 14,302,000
Enhanced Sales Taxes	5,344,000
Total Potential Annual Sales Tax	\$ 19,646,000
Freeway & BV Corridor - Sales Tax Increase	
Average Sales Tax	\$ 14,302,000
Enhanced Sales Taxes	7,473,000
Total Potential Annual Sales Tax	\$ 21,775,000

2024 Strategic Plan:

Should the City Council place a measure on the ballot for voter approval of a sales tax increase during a general election, it will provide a funding mechanism for each of the City's five goals, as outlined in the 2024 Strategic Plan.

- *Public Safety* – Ensure public safety resources adequately protect our community.
- *Future Development* – Facilitate balanced growth to ensure cohesive community development and pursue economic development.
- *Organizational Health* – Foster a high-performing organization that provides opportunities for professional growth.
- *Financial Health* – Maintain a balanced budget and adequate reserves.
- *Capital Improvement* – Continually evaluate capital improvement priorities.

In addition, the City Council identified eleven (11) strategies to be completed over the next five years. A sales tax increase would provide the necessary resources to implement these strategies and improve the community for its residents. The following is a listing of the strategies:

1. Update the Municipal Code to help the City enforce and eliminate issues throughout the city and to clarify procedures and requirements.
2. Perform a comprehensive Municipal Code/Development Code update and include the creation of development incentives to promote economic development opportunities.

3. Develop an economic development strategy/action plan to attract new businesses/commercial users to increase sales tax and transient occupancy tax revenue.
4. Develop and maintain a staff training program to ensure optimal performance and service to the community and to support in-house promotions (e.g., emergency management, processes, laws, technology).
5. Improve connections with the community through outreach and educational opportunities (e.g., career opportunities, animal adoptions, City services).
6. Conduct a regular assessment of the approved City fee schedule to ensure City-related costs are recovered.
7. Explore opportunities to improve and upgrade City processes and forms to digital formats (e.g., electronic payments, approval processes, AI technology, procurement processes).
8. Review and adjust Development Impact Fees (DIF).
9. Establish a yearly check-in with the City Council to review critical and essential projects to align budgets and long-term planning.
10. Update the Capital Improvement Program (CIP) planning procedures to increase collaboration amongst departments.
11. Update the City's master plans (sewer, water, storm drain) for developers and City staff to meet the goals and needs of the City.

While a sales tax is not a fee, this workshop does meet the spirit of Strategy 6 by reviewing the City's revenue generation mechanism.

Next Steps:

Based on the information presented above, staff is seeking direction from the City Council on whether to proceed with a public outreach consultant to engage the community on a potential tax measure. Should the City Council direct staff to engage with a consultant, the following is a rough timeline of milestones.

Timeframe	Milestone	Simplified Description
Now - Jan 2026	Consultant	Engage a consultant to develop a public engagement plan.
Feb - May 2026	Public Outreach	Conduct community surveys, meetings, and focus groups to gauge interest in a measure.
June 2026	Draft Ballot Language	Prepare ballot language and legal analysis with the city attorney.
July 2026	Council Resolution	Council votes (2/3 required) to place the tax measure on the ballot.
August 09, 2026	Ballot Deadline	Submit the resolution to the County Registrar to appear on the November 2026 ballot.
August 2026	Voter Guide Finalized	The county prints impartial analysis and arguments for/against.
October 07, 2026	Vote-by-Mail Begins	Ballots are mailed to voters 29 days before election day.
November 03, 2026	Election Day	Voters decide on the measure. General tax requires 50% + 1 to pass.

CITY GOAL SUPPORTED BY THIS ITEM

As demonstrated, each goal would be supported by a voter-approved sales tax increase. With that, the sales tax workshop and discussions satisfy the financial health goal.

- Financial Health: Maintain a balanced budget and adequate reserves.

FISCAL IMPACT

Should the City Council choose to proceed with a public engagement consultant, the City will seek a qualified/experienced consultant. It is estimated that such a consultant could cost between \$50,000 and \$100,000, depending on the number of outreach meetings.

Following the City's purchasing ordinance, if costs exceed \$50,000, a staff report will be presented to the City Council for approval. Furthermore, as this was not included in the Fiscal Year 2025-26 Operating Budget, a budget amendment would be presented to the City Council during the quarterly budget review, should staff be directed to continue with the public engagement phase.

ALTERNATIVE(S)

1. Provide an alternative direction to staff.