



Agenda Item

Orange City Council

Item #: 10.2.

5/26/2026

File #: 26-0304

TO: Honorable Mayor and Members of the City Council

FROM: Jarad Hildenbrand, City Manager

1. SUBJECT

Review and discuss draft resolutions and ordinance documents relating to a 1¢ Sales Tax Measure, Transient Occupancy Tax Measure, and The Contract with Orange

2. SUMMARY

On May 12, 2026, the Orange City Council evaluated several revenue measures. After hearing public input and discussing each revenue option, the City Council directed City staff to bring back the necessary documents for a 1¢ Sales Tax Measure and a Transient Occupancy Tax Measure. Additionally, the City Council directed staff to develop The Contract with Orange, a formal declaration that memorializes and reaffirms the City's commitment to prudent financial practices. The purpose of this item is to review the draft documents and provide direction to City staff.

3. RECOMMENDED ACTION

1. Review and discuss the draft resolutions and ordinances for the proposed 1¢ Sales Tax Measure and Transient Occupancy Tax Measure.
2. Provide direction to staff.

4. FISCAL IMPACT

None. However, the estimated annual revenue for a 1¢ sales tax measure is \$37 million and each 1% increase to the transient occupancy tax is estimated to generate an additional \$600,000 annually.

5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability.

6. DISCUSSION AND BACKGROUND

Over the past several years, the City has implemented operational efficiencies, evaluated service delivery models, reduced expenditures where feasible, and proactively addressed long-term liabilities. Despite these efforts, long-term fiscal pressures remain. As the City of Orange continues to evaluate long-term fiscal sustainability challenges caused by increasing costs for labor, materials, contractual services, and infrastructure needs, the City Council considered several revenue measures at the May 12, 2026, City Council meeting. These revenue measures included:

- Sales Tax Increase
- Transient Occupancy Tax Increase
- Utility User Tax
- Vacant Property Tax

- Cannabis Gross Sales Tax
- Parking Operator Tax
- Documentary Transfer Tax
- Evaluate selling the City's water and sewer utility; and
- Business License Modernization

After hearing public input and individually discussing each revenue measure, the City Council directed staff to:

- A. Develop the draft resolution and ordinance documents for a transient occupancy tax increase.
- B. Develop the draft resolution and ordinance documents for a sales tax increase.
- C. Engage a third-party entity to assess the value of City-owned assets.
- D. Begin the process of modernizing the City's business license program for future City Council consideration (*Note: Given the time to evaluate and recommend appropriate changes to the City's business license program, any potential ballot measure will be after the November 2026 election*).
- E. Evaluate and develop draft commercial cannabis program options for future City Council consideration.

The following analysis focuses on items A and B. Staff will present items C-E at a future City Council meeting.

Transient Occupancy Tax

A Transient Occupancy Tax (TOT) is commonly referred to as a "hotel tax" or "bed tax." It is imposed on guests staying at hotels, motels, or similar accommodations for less than 30 days. The tax is collected and remitted to the City by the hotel, motel, or similar accommodation operators (Operators).

Proposed Rate, Structure, Duration, and Annual Estimate

Pursuant to City Council direction on May 12, 2026, the proposed resolution and ordinance (subject to Orange-voter approval) would increase the TOT rate from the existing 10% to 15% for all Operators with more than 10 rooms. Operators with 10 rooms or less would continue to be subject to the 10% TOT rate. This structure is intended to focus the increase on larger lodging operators while minimizing impacts on smaller operators. Additionally, staff is proposing language that would expand the definition of Operators to include online and other travel companies, thereby expanding the TOT's application to when a room is booked online.

In separating the 10% and 15% TOT rates for different Operators, the City estimates this revenue measure would generate \$3,000,000 annually. However, estimates may vary especially if language expanding the TOT to online and other travel companies is approved by Orange voters. A recent example of this type of TOT expansion occurred in Anaheim with Measure J. Anaheim voters approved Measure J in November 2022, and recent Anaheim budget documents indicate Measure J generated revenues above initial projections. Although Anaheim has more Operators within its boundaries (thereby leading to more online bookings), expanding and modernizing the City's current

TOT language could generate additional revenue.

Lastly, as written, this measure would remain in effect unless amended or repealed by Orange voters.

Request for City Council Direction

Staff are presenting resolution and ordinance documents necessary to place the proposed TOT measure on the November 2026 ballot. Resolution No. 11690 details the proposed ballot question and full ordinance that Orange voters will consider if the City Council voted to place the item on the ballot. Resolution No. 11691 details the process of filing written arguments for or against the measure.

Staff requests City Council feedback and direction on these documents before they are finalized for a formal vote at a future City Council meeting.

Transactions and Use Tax (Sales Tax) Measure

A Transactions and Use Tax would impose an additional local sales tax on the purchase of tangible goods within the City of Orange. Assuming a 1% increase, this measure would add 1¢ to every \$1.00 spent on taxable goods.

This tax differs from the City's existing base 1% Bradley-Burns local sales tax where the allocation is primarily based on the place of sale. By contrast, a voter-approved District Tax (Transactions and Use Tax) is largely destination-based, meaning the revenue generally flows to the jurisdiction where the purchased goods are delivered, shipped, or put into use.

Proposed Rate, Structure, Duration, and Annual Estimate

Pursuant to City Council direction, the draft resolutions and ordinance propose a 1% (1¢) sales tax increase. While the City Council discussed the possibility of submitting a duration of 10 or 20 years, an exact term has not been clearly identified; therefore, the term section is left blank. If a 1¢ measure is submitted to the voters and approved, it is estimated this measure will generate \$37 million annually.

Request for City Council Direction

Staff are presenting resolution and ordinance documents necessary to place the proposed 1¢ sales tax measure on the November 2026 ballot. Resolution No. 11670 details the proposed ballot question and full ordinance that Orange voters will consider if the City Council voted to place the item on the ballot. Resolution No. 11672 details the process of filing written arguments for or against the measure.

Staff requests City Council feedback and direction on these documents, and in particular, the proposed duration, before they are finalized for future City Council consideration.

The Contract with Orange

At the May 12, 2026, City Council meeting, the City Council directed staff to develop The Contract with Orange to reaffirm the City's commitment to responsible financial stewardship. The Contract with Orange is within City Council Resolution No. 11689. It includes nine sections that detail spending priorities with existing or new Orange Community-approved revenues. These priorities include:

1. Preserve Public Safety

2. Independent Citizens' Oversight Committee
3. Annual Public Transparency Reports
4. Infrastructure Improvement Guarantee
5. Fiscal Responsibility and Balanced Budgeting
6. Pension and Other Post-Employment Benefits Liability Reduction and Long-Term Sustainability
7. Continued Operational Efficiency
8. Economic Vitality Support
9. Measurable Performance Standards.

The Contract with Orange builds upon the Fiscal Years 2025-2030 Citywide Strategic Plan (Plan) and adopted Citywide Financial Management Policies. By coalescing the key tenets of both documents into The Contract with Orange, the City will be adopting one actionable contract with the Orange Community that reaffirms the City's commitment to local control, fiscal sustainability, and exceptional service delivery.

7. ATTACHMENTS

- Attachment 1 - Resolution No. 11670
- Attachment 2 - Resolution No. 11672
- Attachment 3 - Resolution No. 11690
- Attachment 4 - Resolution No. 11691
- Attachment 5 - Resolution No. 11674
- Attachment 6 - Resolution No. 11689