


7/14/2020

item 4




City Council Meeting

Item 20-689:
Actions Related to an Increase in the Transient Occupancy Tax (TOT) Rate of Up to 4%

July 14, 2020

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City of Santa Clara
The Center of What's Possible

Background

- November 5, 2019 – Presentation on Potential Revenue Generating Strategies; Additional Study Session Requested
- January 2020 Strategic Priority Setting Sessions:
 - Staff presented the Ten-Year General Fund Financial Forecast
 - Current Capital Budget development with \$190M in General Fund needs identified over next five years
- February 2020 – Council provides direction to conduct voter research on infrastructure bond and transient occupancy tax (TOT) rate increase
- June 2020 – Voter research results presented to Council

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Survey Results

- Constituents feel positively about the job the City of Santa Clara is doing;
- Many anticipate some personal financial impact as a result of COVID-19;
- Constituents not ready to support a bond for infrastructure needs;
- LEG/EMC encourages the City to continue engaging residents on these issues over the long-term; and,
- Interest in a potential TOT measure to maintain/protect vital city services including disaster and emergency preparedness, street and pothole repair, and fire protection services is well above the simple majority (50% + 1 vote) needed for passage (70% approval)

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November 2020 Ballot

- Revenue opportunities are needed to:
 - Continue to deliver key city services
 - Preserve quality of day-to-day life and ensure safety for our community in times of emergency
 - Address some of the critical infrastructure backlog

Note: Due to the COVID-19 economic crisis, a TOT increase would likely protect the General Fund from additional losses and will not result in net new revenue until full economic recovery takes place.

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November 2020 Ballot

- **Increasing the Transient Occupancy Tax rate:**
 - TOT accounts for 7% or approximately \$17m of General Fund revenues
 - Current TOT rate is 9.5%, one of lowest in the County
 - Additional 2% special tax (CFD) applied to 11 hotels near Stadium

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November 2020 Ballot

- In California, 38 of 43 (88%) of hotel tax-related ballot measures passed in 2018, including five in Santa Clara County:
 - Los Altos (11% to 14%, phased over three years)
 - Milpitas (10.0% to 14.0%)
 - Morgan Hill (10.0% to 11.0%)
 - Palo Alto (14.0% to 15.5%)
 - Sunnyvale (10.5% to 12.5%)
- Requires 50% + 1 voter approval

Transient Occupancy Tax by City

City	Rate
Gilroy	9.0%
Santa Clara (w/o CFD)	9.5%
Saratoga	10.0%
Fremont	10.0%
Mountain View	10.0%
San Jose	10.0%
Morgan Hill	11.0%
Los Altos	12.0%
Campbell	12.0%
Cupertino	12.0%
Los Gatos	12.0%
Sunnyvale	12.5%
Milpitas	14.0%
Palo Alto	15.5%

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Potential Revenue (Pre-Covid)

Transient Occupancy Tax Scenarios				
	4%	3%	2%	1%
General Fund Revenue	\$7,000,000	\$5,250,000	\$3,500,000	\$1,750,000

- Rate does not guarantee revenue
- Contingent upon hotel occupancy rates
- Uncertainty in a Post-COVID environment

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Outreach & Feedback

- Multiple meetings with Tourism Improvement District (TID) Advisory Board & Destination Marketing Organization (DMO) Board. Their input is summarized below:
 - Increase in the TOT (of more than 2% at onset) would reduce the TID hotel competitiveness
 - Concern about the need for future change in the TID assessment from \$1.00 per occupied room night to 1.5% to fund DMO activities which results in booked hotel rooms
 - Impact of COVID-19 has been significant and will continue to affect market for many months, if not years to come.
 - Hospitality one of hardest hit industries, need to work in partnership to achieve our mutual goals

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“Up to 4%”

- City’s success in generating revenue depends greatly on economic recovery and the ability of TID and DMO to successfully market Santa Clara as a destination and increase hotel occupancy
- “Up to 4%” strategy recognizes the need for flexibility to adjust to high and low markets
- Given current environment, recommend initial increase of 2% with future increases subject to economic thresholds
- City staff to meet with TID/DMO during the Council recess and provide updates on these discussions with a formal report in either September or December, based on future Council and/or voter action

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Ballot Measure

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Submission of Measure

- To place an item on the November 3, 2020 ballot requires:

	City Clerk Deadline	Registrar of Voters Deadline
Resolution Calling for Election, Submission of Ballot Language & Consolidation of Election	July 14 th	August 7 th
Arguments	July 28 th	August 11 th
Rebuttals	August 7 th	August 18th*

* Inadvertently noted as August 19th in Report to Council.

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Proposed Ballot Question

CITY OF SANTA CLARA MEASURE	
"To maintain and protect the level of essential city services including 9-1-1 emergency medical/disaster preparedness, police and fire protection, bicycle and pedestrian safety, roadways and storm drains and other vital services including parks, recreation, libraries and senior services, shall a measure increasing the hotel rate up to 4%, generating up to 7 million dollars annually, paid only by hotel/motel guests, until ended by voters, be adopted?"	Yes
	No

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Ballot Arguments

- City Charter and the California Elections Code authorize, but do not require, the City Council to write the argument in support of the ballot measure.
 - Council (max of 3)
 - Delegation to Mayor
 - No Designation; City Clerk shall select one of the arguments in adherence to Elections Code Section 9287.
 - Limit of 5 signatures

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Impartial Analysis

- Election Code Section 9280
- City Council may direct City Attorney to prepare an impartial analysis of the measure showing the effect of the measure on the existing law and the operation of the measure.
- Due to Registrar of Voters: August 18, 2020

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Cost

- The Registrar of Voters (ROV) has provided an estimated cost of \$210,798 for General Municipal election and one ballot measure.
- It is anticipated that an additional \$70,000 will be needed to support printing, translation services, publishing of notices and other related costs.
- Funding for these expenses is available in the FY 2020/21 budget.

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Recommendations

- Adopt a Resolution Ordering the Submission of a Ballot Measure to the Qualified Electors of the City; Calling for a Special Election to be Held in the City of Santa Clara on Tuesday, November 3, 2020 For the Purpose of Submitting to City Voters a Measure to Increase the Transient Occupancy Tax (TOT) Rate in an Amount Up to 4%;

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Recommendations (cont)

- Request Consolidation with the Presidential General Election and Election Services from Santa Clara County;
- Direct the City Attorney to Prepare an Impartial Analysis; and
- Set Priorities for Ballot Arguments

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City/TID/DMO/Convention Center Collaboration

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Continued Collaboration

