


2/11/2020

item 8




Item 8

Future Revenue Opportunities/Strategies

February 11, 2020

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City of Santa Clara
The Center of What's Possible

Agenda

- Background
- 10-Year General Fund Forecast Update
- Infrastructure Backlog
- Considerations for November 2020 Ballot
 - Comparison of Infrastructure General Obligation Bond and Parcel Tax Measures

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Agenda

- Considerations for November 2020 Ballot (Cont'd.)
 - Transient Occupancy Tax Increase
- Tourism Improvement District
- Update on Cannabis Regulatory Program
- Feedback

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Background

- In May 2018, the City Council discussed and considered five revenue options:
 1. Increase the Transient Occupancy Tax (TOT) Rate
 2. Increase the Documentary Transfer Tax
 3. Establishment of a Utility Users Tax (UUT)
 4. Establishment of a Cannabis Tax
 5. Establishment of an General Obligation Bond or Infrastructure Parcel Tax
- Establishment of Cannabis Tax (approved November 2018)

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Background

- General Obligation Bond (GO) for Infrastructure was polled in mid-2018 but did not proceed
- November 5, 2019 – Council provided input on TOT, GO Bond and Parcel Tax
- 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
- Ballot measures critical to address unfunded needs

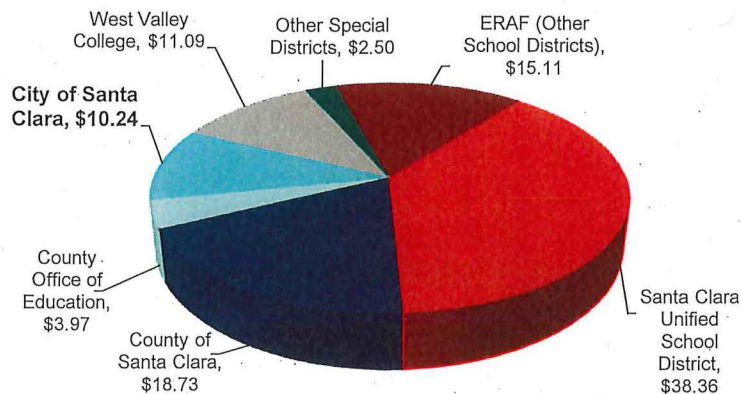
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Property Tax – City Receives 10%

Property Tax Distribution
(per \$100 Collected)

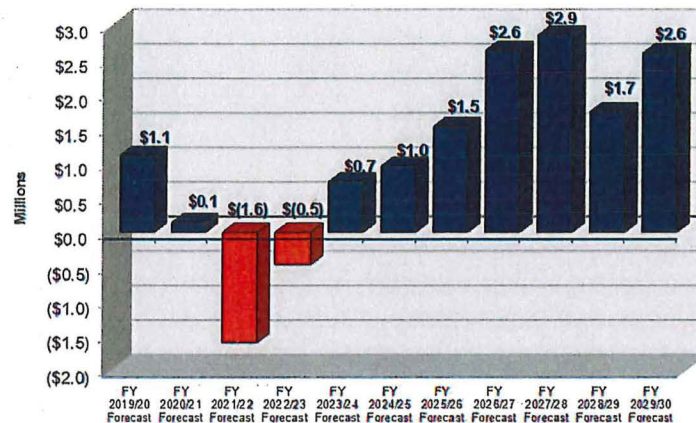


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10-Year General Fund Forecast January 2019 General Fund Net Operating Margin – Base Scenario

- Surpluses represented in the first two years were included and programmed as part of the Adopted Budget
- Deficits were projected in Year 3 and 4 of the Forecast



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Known Risks

- Decrease in Stadium Authority revenue
- Labor negotiations beyond assumptions
- CalPERS actuarial changes or any CalPERS reform actions
- Downturn in the economy
- Infrastructure operating budget impacts
- State and federal legislative changes
- Further refinement of major revenue projections
- Revenue and staffing impacts of development projects



Known risks that have occurred

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Updated Risks/Major Changes = \$11.4M/Year

	Impact Realized	\$ Impact	Continued Risk
Loss of Stadium Authority revenues	✓	(\$2.7 M)	
Labor negotiations/other expenditures beyond assumptions	✓	(\$4.3 M)	✓
CalPERS actuarial changes or any CalPERS reform actions	✓	(\$0.7 M)	✓
Capital/Infrastructure			✓
Economic Slowdown/Recession			✓
Infrastructure operating budget impacts			✓
Further refinement of major revenue projections (Cannabis Tax, Contribution In-Lieu)	✓	(\$3.7 M)	✓
Development Projects (Revenue/Staffing/Capital Maint.)			✓

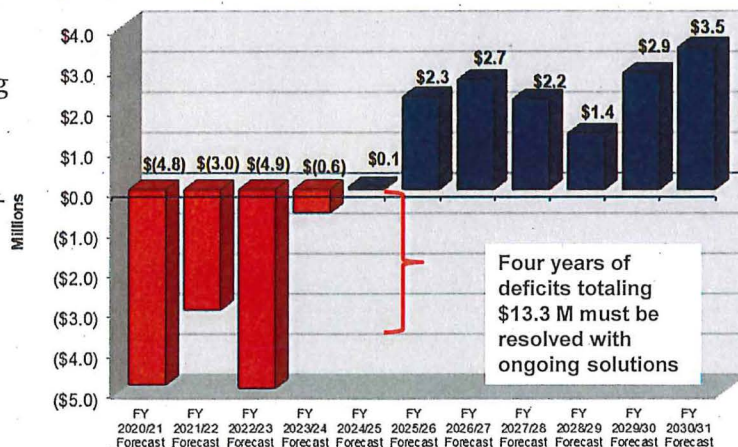
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10-Year General Fund Forecast

January 2020 GF Net Operating Margin Base Scenario

- Annual impact of \$11.4M over four years added to prior ongoing deficits; these must be resolved with ongoing solutions
- FY 2020/21 part of Adopted two-year budget – bring forward budget amendment to balance with reserves
- Deficits in prior forecast have grown to a total of \$13.3 M ongoing over 4 years



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Forecast Assumptions

Major assumptions:

- Current CalPERS direction/methodology for payments
- Modest economic slow down assumed; no recession
- Revenue and expenditure review
- Operating Budget will reflect adjustments for latest salaries and benefits costs

Forecast does not include:

- Capital project funding; unmet/deferred infrastructure needs
- The operating and maintenance costs of capital projects
- Public safety and technology equipment replacement
- Reserve contributions (Council Policy for BSR, Pension)
- One-time revenue and expenditures

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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 critical infrastructure backlog

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November 2020 Ballot

- Consideration of the following:
 1. Issue a General Obligation Bond
 2. Establish an Infrastructure Parcel Tax
 3. Increase the Transient Occupancy Tax (TOT) rate

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November 2020 Ballot

- November 2019 City Council discussion on Capital Projects:
 - General Obligation Bond
 - Infrastructure Parcel Tax

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November 2020 Ballot

- **General Obligation (GO) Bond Key Features:**

- \$200m presented in May 2018 (Parks and Safety projects)
- Used for long-term capital project financing
- Requires two-thirds supermajority vote
- One-time revenue, up front
- Secured by levying ad valorem property taxes in addition to the 1% general ad valorem property tax



Swim Center Boiler



Fire Training Tower

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November 2020 Ballot

- GO Bonds are based on assessed values – four options below assume 30 year amortization

	Bond Issuance Amount	Interest (5%)	Total Debt	Secured & Unsecured - Rate / \$ 1 M	Estimated Annual Debt Service Payment
Option 1	\$ 100 M	\$ 95.2 M	\$ 195.2 M	\$ 142	\$ 6.6 M
Option 2	\$ 200 M	\$ 190.3 M	\$ 390.3 M	\$ 283	\$ 13.1 M
Option 3	\$ 300 M	\$ 285.5 M	\$ 585.5 M	\$ 424	\$ 19.6 M
Option 4	\$ 400 M	\$ 380.6 M	\$ 780.6 M	\$ 565	\$ 26.1 M

Cost to property owner

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Recent General Obligation Bond Measures Approved

City/County*	Approved	Amount	Purpose
San Francisco	November 2019	\$600 M	Affordable Housing
San Jose	November 2018	\$650 M	Public safety, infrastructure, and roads
San Francisco	November 2018	\$425 M	Earthquake/flooding facilities and infrastructure
Berkeley	November 2018	\$135 M	Affordable housing
Campbell	November 2018	\$50 M	Police Emergency Operations Center and library facility
Foster City	June 2018	\$90 M	Levee improvements for flooding
Emeryville	June 2018	\$50 M	Affordable housing
Santa Clara County	November 2016	\$950 M	Affordable housing
Oakland	November 2016	\$600 M	Sidewalks, facility improvements, parks, and affordable housing
Berkeley	November 2016	\$100 M	Facilities, storm drains sidewalks, parks, and recreation centers
San Francisco	June 2016	\$350 M	Earthquake safety, medical and health care services

* Does not include school district measures

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November 2020 Ballot

• Infrastructure Parcel Tax Key Features:

- Could be used for infrastructure, operations and programs
- Requires two-thirds supermajority vote
- Levied on property owner's property tax bill – as a fixed amount or based on square footage (land or building)
- Ongoing or fixed term
- Cannot be used directly for bonds (could be a source to repay a General Fund bond Repayment or Special Tax Ordinance needed)

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November 2020 Ballot

- Alternatives to generate revenue required to cover the annual debt

Option 1: median \$135 (5,850 sq. ft)
Option 1: median \$89 (1,465 sq. ft)

	Parcel Tax Revenue	Fixed Rate	Rate Based on Land Size (per 1,000 sq. ft)	Rate Based on Building Size (per 1,000 sq. ft)
Option 1	\$ 6.5 M	\$225	\$23	\$61
Option 2	\$ 13.0 M	\$450	\$46	\$122
Option 3	\$ 19.5 M	\$675	\$70	\$183
Option 4	\$ 26.0 M	\$900	\$93	\$245

Cost to property owner based on parcel, land size or building size

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November 2020 Ballot

- There is flexibility in structuring parcel tax measures
- Consider complexity and equity issues
- East Palo Alto measure (approved Nov. 2018):

Shall the measure to impose a parcel tax on commercial office space over 25,000 square feet at an annual rate of \$2.50 per square foot, estimated to annually raise \$1,675,000, for affordable and supportive housing programs; programs that facilitate access to job opportunities in the S.T.E.M. sectors, building trades and strengthen First Source Hiring; and for City to administer the ordinance and provide annual reports, which shall continue until repealed by the voters, be adopted?

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Recent Parcel Tax Measures Approved

Agency	Year Approved	Amount	Purpose
La Selva Beach Park District	November 2018	\$50 / parcel	Recreational facilities
East Bay Regional Park District	November 2018	\$12 / single family parcel	Parks facilities and trails
East Palo Alto	November 2018	\$2.50 / commercial sq. foot	Affordable housing
Oakland	June 2018	\$75 / single family parcel	Library services
Union City	November 2016	\$123 / residential parcel	Public safety
Boulder Creek Fire Protection District	November 2016	\$35 / parcel	Fire protection and emergency medical services
Piedmont	June 2016	\$501 / parcel	General services, i.e. police, fire, and City parks
County of Santa Cruz	June 2016	\$49.50 / residential parcel	Library facilities

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GO Bond vs. Parcel Tax

- Breakdown by property type

Property Type	GO Bond Assessed Value	Fixed Parcel Tax	Land Size Based Parcel Tax	Building Size Based Parcel Tax
Residential	58%	94%	57%	53%
Commercial	23%	3%	17%	20%
Industrial	19%	3%	26%	27%

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GO Bond vs. Parcel Tax

Things to consider:

- Types of Projects – What projects to include?
- Equity/Fairness – Who pays?
- Timing of Revenue – Upfront or ongoing?
- Use of Funds – Capital only or Capital/Operating?
- Bond Potential – Direct bond or Special Tax Ordinance?
- Complexity of tax - likeliness of passage based on how voters understand the tax being considered

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Infrastructure Backlog

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Today's Action for Consideration

November 2020 Ballot

1. Review the City's Infrastructure Backlog
2. Determine Type of Revenue Measure Preferred
3. Approve Preliminary Community Engagement Strategy & Schedule

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Infrastructure Backlog

- Initial General Fund Capital requests totaled almost \$190 million over five years to address immediate needs vs. only \$27.5 million available
 - \$10 million of available funding must be used for ADA Settlement
- Significant additional unmet/deferred infrastructure needs beyond CIP submittals (close to \$1 billion)
- Long-term capital/infrastructure funding source will be needed to meet current infrastructure needs

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Infrastructure Backlog

- **Close to \$1 billion of identified capital needs beyond CIP:**
- Parks Assessment (December 2017-Kitchell Report) identified \$100 M of parks grounds and building needs (\$156 M w/ escalation)
- 2015 Storm Drain Master Plan identified \$343 M in projects (2018 dollars), including almost \$68 M in high priority projects
- Transportation infrastructure (e.g., traffic signal infrastructure replacement (\$50 M), uncontrolled crosswalks (\$50 M), Bicycle Plan (\$40 M), Creek Trail Master Plan (\$50 M), pavement (\$9 M annually beyond CIP)
- Public Buildings (New City Hall (\$236 M – \$300 M), existing City Hall (\$39 M); fire stations, historic buildings, corporation yard, ADA plan)
- Expand capacity (e.g., library)

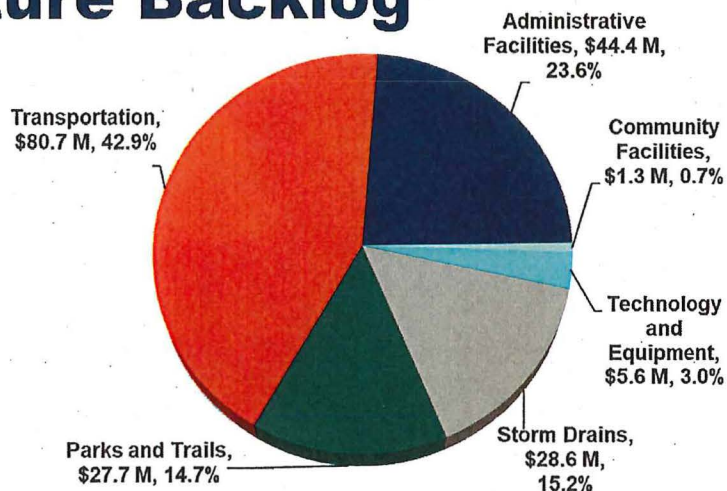
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Infrastructure Backlog

**Initial General
Fund Requests
totaling \$188 M
for upcoming
Five-Year CIP**



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Infrastructure Bond Scenario (\$200 M)

Recreation	Cost	Notes
ISC/CRC	\$90	Construct new ISC. Upgrade existing CRC with aesthetic improvements. Incorporate new ISC buildings into CRC to maximize space and operations. Any additional funds (such as donations) would be added to project budget for additional amenities.
Parks and Trails	\$50	Develop projects based on sites that are currently considered critical or poor.
Library	\$20	Explore addition to the back area and expand Central library or expand Northside Library - (up to 20,000 SF Addition)
Safety		
Fire Station	\$20	Reconstruct Fire Station 5 (\$10 million) and upgrade (HVAC, roof, plumbing, bathrooms, etc.) fire station 7, 9, and 1 (\$3-4 million each)
Flood Protection	\$20	Reconstruct 2 year flood pipes and pump stations

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Critical Infrastructure Backlog

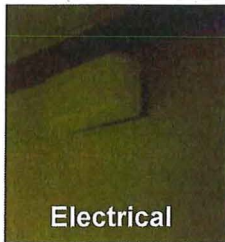


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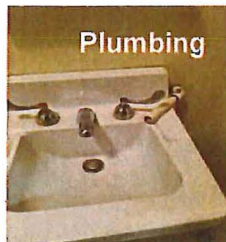
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Fire Stations (1, 5, 7, 9)



Electrical



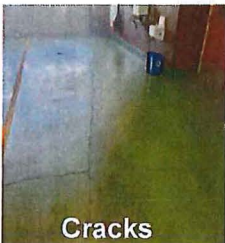
Plumbing



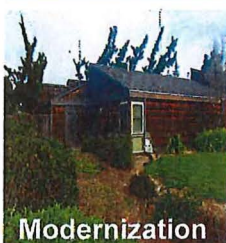
Privacy



Safety



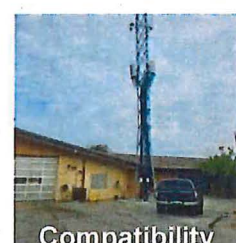
Cracks



Modernization



Moisture



Compatibility

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Fire Stations (1, 5, 7, 9)



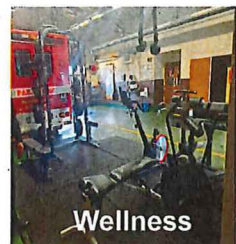
ADA



Work Space



Storage



Wellness



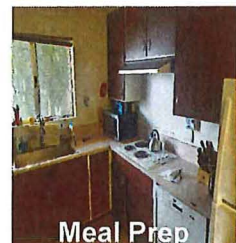
Accessibility



Apartment



Water Damage



Meal Prep

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Flood Protection/Storm Drains



Unsafe



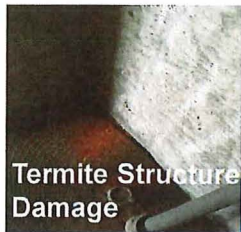
Antiquated
Equipment



Antiquated
Equipment



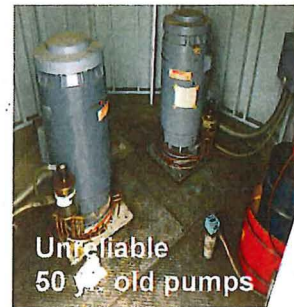
Unsafe



Termite Structure
Damage



Termite Structure
Damage



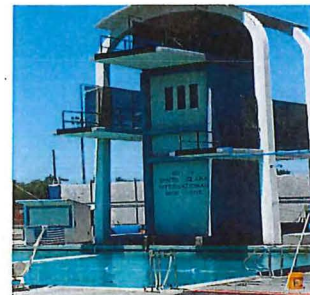
Unreliable
50+ old pumps

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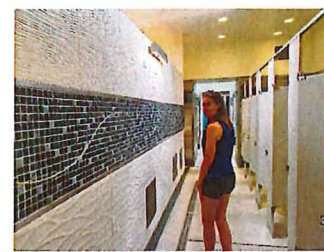
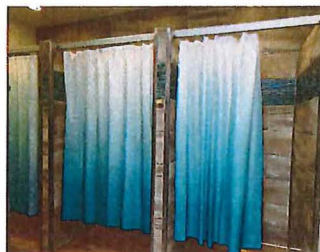
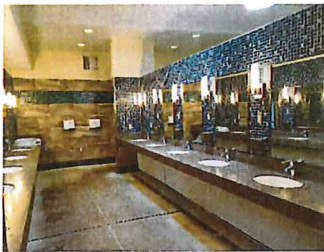
International Swim Center



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Dolores Bengtson Aquatic Center



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Moving Forward

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Community Engagement Strategy

Activity	Timeline
Council Discussion on Preferred Revenue Strategies	February 11, 2020
Finalize Contract for Public Opinion Research Services	February, 2020
Scientific Citywide Survey	March, 2020
Phase I Informational Meetings	April, 2020
Online Survey Tools	April, 2020
Follow-up Telephone Research	May, 2020
Ballot Language Drafted	June, 2020
Presentation to Council	July 14, 2020
Phase II Informational Meetings/Outreach	August – October, 2020
Election Day	November 3, 2020

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Phase 1 Schedule of Meetings

Date	Time	Location	District
April 4	9:30 a.m.	Fire Station #1	5
April 4	Noon	Central Park	4
April 4	2:30 p.m.	Fire Station #9	2
April 18	9:30 a.m.	Fire Station #5	3
April 18	Noon	Henry Schmidt Park	6
April 18	2:30 p.m.	Fire Station #7	4
April 20	6:30 p.m.	City Hall	2
April 23	6:30 p.m.	Maywood Park Building	6
April 29	6:30 p.m.	Don Callejon Elementary School	1
April 30	6:30 p.m.	Bowers Park Building	2
May 2	9:30 a.m.	Lick Mill Park Building	1
May 2	Noon	Montague Park Building	2
May 2	2:30 p.m.	Machado Park Building	3

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Transient Occupancy Tax & Tourism Improvement District

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Today's Action for Consideration

November 2020 Ballot / TID District Plan

1. Review the Transient Occupancy Tax rate
2. Review Tourism Improvement District assessment
3. Provide direction on the TOT ballot measure
4. Provide direction to proceed with a 2% TID funding and an implementation schedule

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November 2020 Ballot

- **Increasing the Transient Occupancy Tax rate:**
 - TOT accounts for 9% or approximately \$23m 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%)
- Additional 2% would bring in additional \$4.7m ongoing
- 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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Tourism Improvement District (TID)

- Currently collects \$1.00 per occupied room night from 11 hotels (approximately \$800k/annually)
- Current district will expire June 30, 2020
- TID hotels have requested a change in their assessment to 2% of gross room revenue
- ***New district plan (assessment amount and timing) requires Council approval***

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TID District Formation

- Petition of business owners in the District
- Petition includes the District Management Plan
- District Management Plan includes among other items assessment rate and timing
- Submittal of petition begins the formation process and triggers Resolution of Intention hearing

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TOT with TID Scenario

Recommend 2% General Base TOT / 2% TID

District	Base TOT	District Assessment	Other Tax/ Assessment	Total on \$100 Room Rate
Tri-Valley ^(a)	8%	\$2.00	-	\$10.00
Gilroy	9%	2%	-	\$11.00
Morgan Hill	11%	1.5%	-	\$12.50
Richmond	10%	\$2.00-\$2.50	-	\$12-\$12.50
Santa Clara (current)	9.5%	\$1.00	2%	\$12.50
Berkeley	12%	1%	-	\$13.00
Concord	10%	3%	-	\$13.00
Santa Clara (w/ potential TOT increase)	11.5%	2%	2%	\$15.50
Oakland	14%	\$1.50	-	\$15.50
Palo Alto ^(b)	15.5%	\$0.15-\$1.00	-	\$15.65-\$16.50
San Jose	10%	\$1.00-\$3.00	4%	\$15-\$17
San Francisco	14%	1.0625%-2.25%	0.3125%-1.25%	\$15.38-\$17.50

^(a) Cities of Dublin, Livermore, Pleasanton and San Ramon, and town of Danville

^(b) Of these fees collected by the TBID for visitor services and marketing, approximately 10% is transferred to the Palo Alto Chamber of Commerce to support local visitor's bureau functions.

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TOT with New TID Scenario

Santa Clara would remain competitive (other cities in the region):

Total on \$100 Room Rate



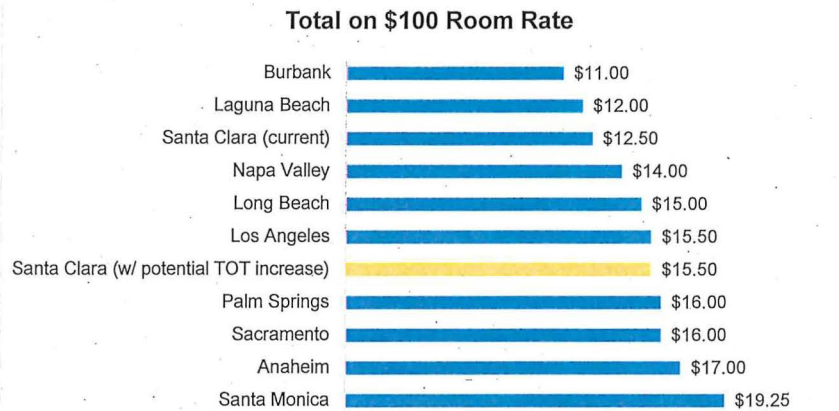
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TOT with New TID Scenario

Santa Clara would remain competitive (other cities in CA):



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Cannabis

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Cannabis: Today's Action for Consideration

1. Present Council with follow up information
2. Determine whether to implement a permanent ban

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Cannabis Regulatory Program Background

- November 2016 – Prop 64 passed in California
- September 2017 – Council directed staff to proceed with a commercial cannabis program
- December 2017 – SCI consulting contract approved
- July 2018 – Council direction to pursue tax on commercial cannabis
- November 2018 – Santa Clara voters approve cannabis tax structure
- February 2019 – Council directed staff return with more information before proceeding

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Follow Up Items

- Angels Care
- Impact on Public Safety Resources
- Cost Analysis
- Information from other cities

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Cannabis Regulatory Program

- Cannabis tax was roughly estimated to generate \$1.2 - \$2.4 million/annually
- Cannabis tax has not met projections at State or local levels
- While there was broad local support for a tax program, there is varied levels of support for the establishment of a cannabis program
- Additional resources needed for implementation of a cannabis program. (PD, Fire, Finance, CAO and CMO)
- While costs can be directed to cannabis business, there are other costs from non-licensed activity that cannot be recovered

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Recommendation

- Decide on GO Bond vs. Parcel Tax direction
- Provide Input on Types of Projects for Infrastructure Tax Measure
- Approve Community Engagement Strategy & Meeting Schedule
- Recommendation to commence preparatory work for a 2% Transient Occupancy Tax increase ballot measure
- Direction to proceed with a 2% TID funding and an implementation schedule
- Recommend to commence preparing for Council action for a Cannabis Permanent Ban

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Item 8

Future Revenue Opportunities/Strategies

February 11, 2020

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