


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

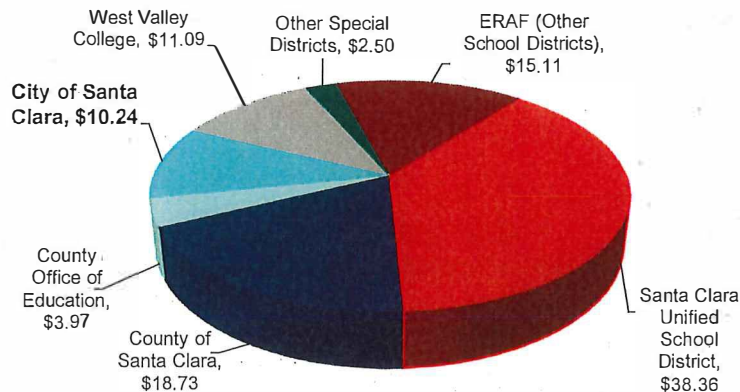
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Property Tax – City Receives 10%

Property Tax Distribution
(per \$100 Collected)

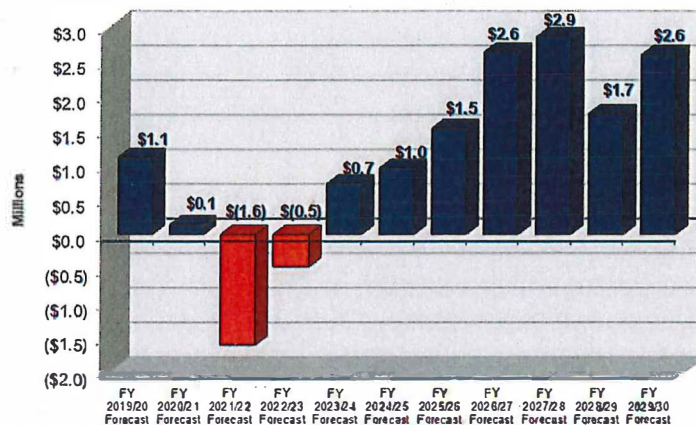


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10-Year General Fund Forecast January 2019 General Fund Net Operating Margin – Base Scenario

- 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.) | | | ✓ |

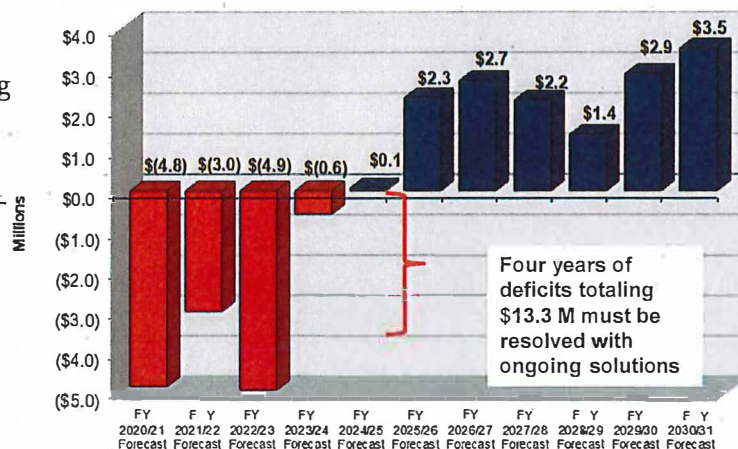
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10-Year General Fund Forecast

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)

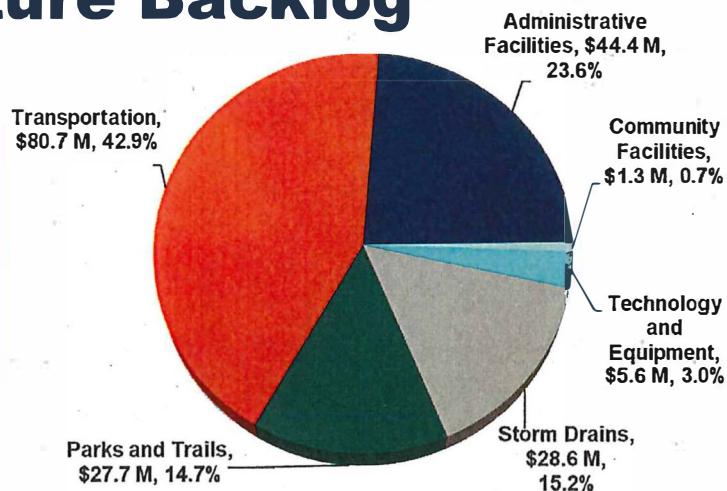
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Infrastructure Backlog

**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

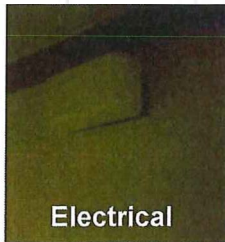


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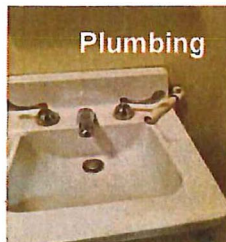
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Fire Stations (1, 5, 7, 9)



Electrical



Plumbing



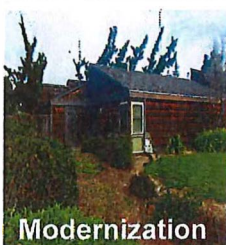
Privacy



Safety



Cracks



Modernization



Moisture



Compatibility

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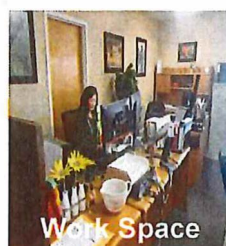
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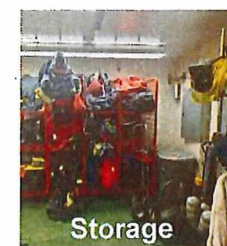
Fire Stations (1, 5, 7, 9)



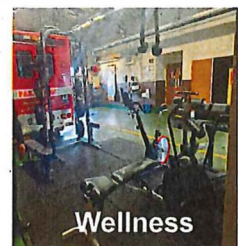
ADA



Work Space



Storage



Wellness



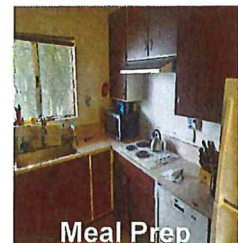
Accessibility



Apartment



Water Damage



Meal Prep

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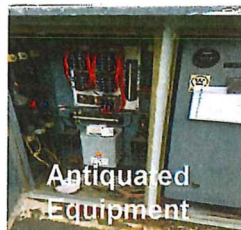
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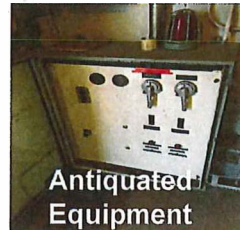
Flood Protection/Storm Drains



Unsafe



Antiquated
Equipment



Antiquated
Equipment



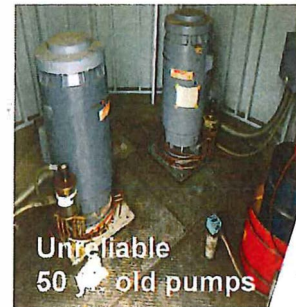
Unsafe



Termite Structure
Damage



Termite Structure
Damage



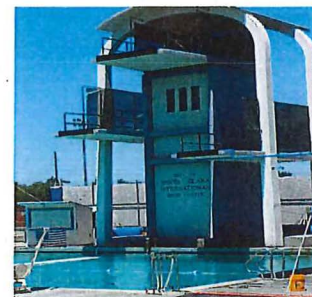
Unreliable
50-year-old pumps

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International Swim Center



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City of
Santa Clara
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Dolores Bengtson Aquatic Center



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City of
Santa Clara
The Center of What's Possible

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



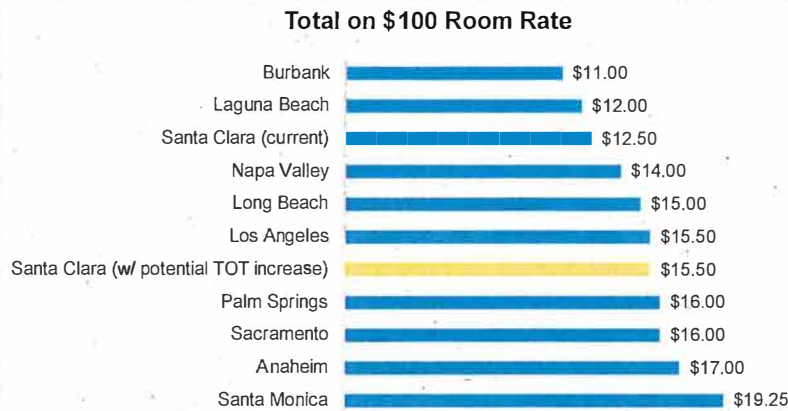
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TOT with New TID Scenario

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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2/11/20

#8C

Julie Minot

From: Kirk Vartan <kirk@asliceofny.com>
Sent: Thursday, February 6, 2020 11:39 PM
To: Mayor and Council
Cc: cityclerk@santaclaraca.gov; Clerk
Subject: ITEM 8C - 20-451 - DO NOT BAN

Mayor and Council,

I hope you do NOT support a permanent ban on all commercial cannabis activity. Support for cannabis in Santa Clara was large when it hit the ballot box and has been promised for years to be implemented in the City of Santa Clara. While it seems the cost of a program is overwhelming, I would rather see opportunity as something that is monitored/reviewed and not just banned. Banning something as unknown as an industry that is trying to find its legal way is not progressive. There are so many unknowns about how industry will evolve.

Why not do some more research and find out if there is a demand for this here (I bet there is). And why limit licensing to three businesses? Not all businesses have to be full blow pot houses, with tons of flower products or grow rooms. They can be medicinally focused creams, extracts, liquids, etc. I fear many just think of Cheech and Chong when they think of cannabis. But this industry is nascent. Why doesn't Santa Clara want to try to build out some of its industrial land in this area? Or maybe even smaller retail locations?

It's easy to ban. And the costs for police are large. Is it possible to see is a "ramp-up" option might be for police...or even a pilot program that will not cost the city a \$500,000+ a year? The program outlined seems very comprehensive and secure, but is that needed day one? Are there any alternatives? For example, maybe it grows as the need for more businesses grow. The framework can be in place, but the staffing resources don't have to be allocated right away. The equipment is relatively minor (\$30,000 or so) even with training included. Can't we start there and add the load to the existing force? Is that too much to ask for a pilot or even a start? If it becomes unbearable and over burdensome, it will probably be because there is a need in the community which means there is demand and funding. But requiring \$530,000 up-front to be put in place to even start a program seems kind of unreasonable. Maybe that is not my place to say that, but that how I feel about it.

I hope you will consider someone other than an outright ban....even if you have to kick the can down the field for another six months.

Thanks for your time,

Kirk Vartan
Santa Clara Business Operator

=====

A Slice of New York
A New York Experience in the Bay Area
The Bay Area's newest worker-cooperative
3443 Stevens Creek Blvd. (San Jose/Santa Clara)
1253 W El Camino Real (Sunnyvale)
SJ: (408) 24-SLICE / SV: (650) 938-NYNY
<https://nam03.safelinks.protection.outlook.com/?url=www.asony.com&data=02%7Co1%7CmayorandCouncil%40santaclaraca.gov%7C2e61522288c14f14948d08d7aba0d0oc%7C28ea354810694e81aa0b6e4b3271a5cb%7Co%7C1%7C637166579498956085&sdata=cRwrfZSpuE7lIorLKayVV1GGVaFPw5oqamvKZkUnl8A%3D&reserved=0>

POST MEETING MATERIAL