CITY OF MOUNTAIN VIEW
MEMORANDUM

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DATE: March 15, 2012

TO: City Council

FROM: Patty J. Kong, Finance and Administrative Services Director

SUBJECT: STUDY SESSION MARCH 20, 2012—LONG-TERM FUNDING OPTIONS FOR CAPITAL IMPROVEMENT PROJECTS

PURPOSE

The purpose of the Study Session is to provide the City Council with information on the long-term options for funding major capital improvements and to obtain City Council input/direction if the City Council desires to pursue an option and the priorities of the unfunded capital improvement projects.

INTRODUCTION

The City has major capital projects with unmet funding needs. These projects have been identified in the Capital Improvement Program on a biennial basis and included in the Study Session report on tonight's agenda—Five-Year Capital Improvement Program (see Attachment A). For Fiscal Year 2011-12, the Council adopted the following goal:

Evaluate alternative long-term financing options to fund future significant capital improvement projects.

This memo provides information for this Council goal.

BACKGROUND AND ANALYSIS

The last general City debt for a major capital improvement was issued for the Civic Center Complex in 1988. The debt service funding source for this debt was the General Operating Fund. The debt mechanism utilized for this issue was Certificates of Participation (COPs) with an original issue amount of $27.9 million and an annual debt service of $2.6 million, but was refinanced in 1992 and again in 2001 with a principal pay down, resulting in the current annual debt service of approximately $1.0 million. However, due to shortfalls in the General Operating Fund, the debt service was transferred from the General Operating Fund to the Construction Conveyance Tax in

Fiscal Year 2009-10 as a budget balancing measure. This debt will be fully retired in Fiscal Year 2015-16.

Any annual debt service amount will be dependent on the issue amount, repayment source, rating and bond market (interest rates) at the time of issuance. For a $50.0 million debt issue, an approximate $3.2 million annual debt service or funding source would be required. Although staff is in the process of updating the five-year forecast, based on the forecast included in Fiscal Year 2011-12 Adopted Budget, there is an insufficient surplus of revenues to support a new debt issue of this magnitude. The forecast projects a $2.0 million Operating Balance for the General Operating Fund in Fiscal Year 2016-17, but this is excluding any cost-of-living increases throughout the forecast period. As there is currently no capacity to fund the debt service that would be necessary to issue debt for a major capital project, the primary alternatives available to the Council are potential revenue or tax measures.

Staff has previously provided the Council with information related to alternatives to generate funds for major capital improvements. The most extensive summary of revenue measures was presented to the City Council at a Study Session on February 19, 2008 (see Attachment B). The major concepts in that memo continue today. More recently, a summary memo was included with the December 13, 2011 Voter Survey Study Session (see Attachment C).

The basic alternatives to fund a major capital project would include the issuance of debt and obtaining a revenue stream for the repayment of the debt. Another alternative would be the lease of property such as the Moffett Gateway property or the Council could choose to dispose of other asset in order to generate enough capital to fund an improvement.

Alternatives

The types of revenue measures most commonly pursued by local governments, the voter threshold for passage and potential revenues are as follows:

Type	Voter Requirement	For $50.0 Million Debt/ Revenue Potential
• General Obligation (GO) Bonds	Two-thirds	$26 per $100,000 Assessed Value
• Mello-Roos Bonds	Two-thirds	$95 per residential $890 per commercial
• Parcel Tax Increase	Two-thirds	$171 per parcel
• Special Assessment and Specific Purpose Benefit Districts	Majority of voters in district	Variable
• Tax Increase	Majority if general purpose/two-thirds if specific purpose	
— Sales Tax Increase		each .25% = $4.0 million
— Utility Users Tax		each 1% = $2.0 million
— Transient Occupancy Tax		each 1% = $400,000
— Business License		Variable

Each of these financing mechanisms has a variety of benefits and challenges associated with them and are more fully addressed in the attachments. The taxing levels of the agencies in Santa Clara County are included in Attachment D. Only one other agency has a sales tax higher than 8.25 percent. Three cities have Transient Occupancy Tax (TOT) higher than 10.0 percent while three are less than 10.0 percent and seven are the same as Mountain View at 10.0 percent. For Utility Users Tax, four cities have a tax higher than Mountain View's 3.0 percent and two are lower.

Time Line

For a tax measure, under Proposition 218, the measure must be placed on the ballot when there is a general election of the City Council. An exception to this is if the Council was to declare a fiscal emergency and there is a unanimous vote to place the measure on the ballot. This provision applies to any general tax, including a parcel tax, but would not apply to a GO Bond, Mello Roos or Special Assessment.

Generally, it is recommended to allow a minimum of 12 to 18 months to have a dialogue with the community about the need for revenue and to fully prepare a revenue measure for the ballot. Realistically, this would mean the next opportunity to place a measure on the ballot would be the November 2014 election. The basic phases in the process could include:

- Community Dialogue on Needs/Priorities
- Surveying/Measure Development
- Education
- Vote to Place Measure on Ballot
- Campaign (non-City resources)

As previously outlined, an early step would be to design a survey to test citizens' support for a bond issue or revenue tax measure. During the surveying/development phase, different formulas and models would be analyzed to determine the most successful financing mechanism to use. Once the Council votes to place a measure on the ballot, the City's role is limited to an informational role. The campaign phase is typically led by a volunteer campaign committee.

Costs

There are costs associated with pursuing a revenue measure. In 2010, the City received confirmation and modifications to its Utility Users Tax (UUT) through a ballot measure. The total external cost associated with the UUT measure was approximately $94,000. If the Council chooses to move forward with a ballot measure, the estimated costs would be as follows:

Survey (for one survey)	$15,000	to $	20,000
Consultant	35,000	to	50,000
Legal	5,000	to	15,000
Registrar of Voters	25,000		25,000
Other	10,000		10,000
Total	**$90,000**	**to $**	**120,000**

The costs associated with a ballot measure are estimated between $90,000 to $120,00, but could be more if an additional survey or surveys are needed, or additional consultant or legal costs are required. This does not include the cost associated with the issuance of debt, which is typically included in the debt issue.

If the Council chooses to pursue this issue further, funds would need to be identified and appropriated. If this is a Council priority, staff suggests it be made a major goal for Fiscal Year 2012-13 and a work plan and budget will be developed.

SUMMARY

Council adopted a goal to evaluate alternatives for the long-term funding of significant capital improvement projects. The primary alternative for long-term funding has been identified, as well as the potential uses, advantages and disadvantages for each of the types of funding options as well as the procedural considerations. Before deciding on a funding mechanism, however, the Council should determine what, if any, project or projects are the highest priorities to be funded. Attachment A shows the most commonly discussed major unfunded projects.

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Approved by:

Daniel H. Rich
City Manager

PJK/5/CAM
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Attachments:
A. Unfunded Major Projects
B. February 19, 2008 Study Session—Overview of Supplemental Voter-Approved Revenue Measures—Capital Projects
C. Overview of Potential Revenue Measures
D. Survey of Tax Rates for Other Cities in Santa Clara County

Project	Project Type and Cost	Description	Total Cost over 5 Years	Funding Source(s)	Proposing Department	Annual O&M Costs

Unfunded Major Projects

Projects moving from the Unscheduled Projects List to the Five-Year Program will require updated cost estimates.

Project	Project Type and Cost	Description	Total Cost over 5 Years	Funding Source(s)	Proposing Department	Annual O&M Costs
UM-01, Community Center/Teen Center	Unfunded Major Project $52 to 83 million	Replacing the existing community center and incorporating a teen center into the new facility is currently estimated to cost $52 to $83 million dollars.	$52 to 83 million	TBD	CSD	Yes
UM-02, New Police/Fire Administration Building	Unfunded Major Project $35 to 65 million	Replacing current facility is currently estimated to cost between $35 and $65 million dollars.	$35 to 65 million	TBD	Police	Yes
UM-03, Emergency Operations Center	Unfunded Major Project $7 to 8 million	Construct freestanding EOC potentially at the Maintenance Operations Center (MOC). Current cost is estimated at $7 to $8 million dollars.	$7 to 8 million	TBD	Police	Yes
UM-04, Rengstorff Park Aquatic Building and Facilities	Unfunded Major Project $9 to 16 million	Replace or renovate aquatic building and other outdated facilities. Current estimated cost ranges from $9 to $16 million dollars.	$9 to 16 million	TBD	CSD	Yes
UM-05, New Fire Station No. 3	Unfunded Major Project $11 to 12 million	Design and construct a new fire station to replace the City's oldest fire station. Current estimated cost is $11 to $12 million dollars.	$11 to 12 million	TBD	Fire	Yes
UM-06, Stevens Creek Trail: Dale Avenue/Heatherstone Way to Mountain View High School, Construction	Unfunded Major Project $15,000,000	Construction of pedestrian/bike trail from Dale/Heatherstone neighborhood to trailhead at Mountain View High School.	$15,000,000	TBD	PWD	Yes

Attachment A

CITY OF MOUNTAIN VIEW
MEMORANDUM

DATE: February 14, 2008

TO: City Council

FROM: Nadine P. Levin, Assistant City Manager
Robert F. Locke, Finance and Administrative Services Director
Kevin S. Woodhouse, Assistant to the City Manager

SUBJECT: FEBRUARY 19, 2008 STUDY SESSION—OVERVIEW OF SUPPLEMENTAL VOTER-APPROVED REVENUE MEASURES—CAPITAL PROJECTS

PURPOSE OF STUDY SESSION

The purpose of the Study Session is to provide City Council with general information about potential supplemental revenue mechanisms, planning and conducting revenue measure campaigns and potential capital projects that might be considered if a measure was undertaken.

INTRODUCTION

During the City Council meeting of September 25, 2007, Council discussed the potential for the location of a heritage farm. At the conclusion of the discussion, Council expressed consensus to schedule a Study Session to hear a presentation about and discuss the mechanics of a possible bond measure for acquiring property for parks and open space, a heritage farm and/or other recreation/public facilities (Attachment 1—September 25, 2007 Council Meeting Minutes). This report provides a preliminary list of potential City projects that might necessitate some type of supplemental revenue measure(s) if they were to come to fruition, summarizes the variety of revenue vehicles available to cities to fund these types of projects and outlines the typical steps involved in planning and conducting revenue measure campaigns. In preparing the report on this topic, a staff team was created representing the Departments of Public Works, Community Services, Finance and Administrative Services and City Manager.

BACKGROUND AND ANALYSIS

Types of Projects

Based on Council comments in September 2007, staff has prepared a list of potential future projects and their rough-estimated costs in today's dollars. The list was developed based on projects that have been discussed by Council during the Capital Improvement Program review, referenced during other Council discussions or have been identified by staff.

Land Acquisition Projects:

- Open Space (estimated cost: $22 million to $56 million)

  Purchase of approximately 10 to 15 acres to be used for a range of uses, including open space, recreation or a combination of a farm and recreation/park use. This could include the potential acquisition of the Franzia Property.

Construction Projects:

- New Community Center and Teen Center (estimated cost: $41 million to $50 million)

  Design and construction of an approximately 42,000 square foot building to replace the existing Community Center. The project would provide underground parking and house program spaces related to a teen center. This estimate includes 8,000 square feet for a social hall. If additional features were desired, the building's square footage would increase along with project costs.

- New Police/Fire Building (estimated cost: $48 million to $51 million)

  This project assumes the demolition of the existing Police/Fire Administration Building, replacement with a new 61,000 square foot, three-story building at the same site and provide for temporary facilities during construction. This building would include the EOC and Communications Center.

- New Emergency Operations Center Building (estimated cost: $6 million to $7 million)

  This project would separate the EOC and Communications Center from the Police/Fire Administration Building and provide for a self-contained, 3,000 square foot essential facility building on 12,000 square feet of newly purchased property located in central Mountain View.

- Rengstorff Aquatic Building Modernization (estimated cost: $6 million to $7 million)

  This project entails the replacement of the existing aquatic building with a new 6,800 square foot building and renovation of the existing ranger/maintenance building at Rengstorff Park.

- New Fire Station No. 3 Building (estimated cost: $11 million to $12 million)

  This project would construct a new 10,000 square foot, two-story building at its existing site. The station was built in 1961 and is nearing the end of its useful life. This project is likely 5 to 10 years away.

Trail/Park/Recreational Use Development

- Stevens Creek Trail/Heatherstone Way to Mountain View High School (estimated cost: $17 million to $18 million)

  This project designs and constructs the extension of the Stevens Creek Trail from Dale Avenue and Heatherstone Way to Mountain View High School. The project requires construction of a new bridge over Highway 85 and acquisition of land for alignment adjacent to Highway 85.

- Cuesta Park Annex Development (estimated cost: $6 million to $7 million)

  This project implements the preferred design concept with the development of a community orchard, community gardens, picnic areas, rest rooms and benches along trails.

The range of total costs for the listed projects total $189 million to $232 million. This list should not be considered exhaustive or a recommendation from staff. Rather, these are examples of potential larger projects that do not have a dedicated and/or identified funding source.

Borrowing Mechanisms

There are many different types of revenue measures/borrowing mechanisms, each with different requirements governing how the revenues can be spent. This section of the report summarizes the main variety of mechanisms available, important requirements and policy considerations of each mechanism.

There are basically four approaches to finance land acquisition and new facility construction:

- General Obligation (GO) bonds.
- Mello-Roos bonds.
- Special tax increase.
- General tax increase.

Each of these approaches requires voter approval. Each of the financing approaches is discussed in this section along with the voter approval level required for each.

General Obligation Bonds

General Obligation (GO) bonds are the simplest type of bond security. In California, GO bonds require two-thirds voter approval to issue and, as a result, are utilized less frequently by many local governments than other types of debt. The ballot measure put to voters includes authorization to increase the property tax rate to generate tax revenue in an amount sufficient to fund the annual debt service payment due on the bonds. Funding an annual GO debt obligation is one of the few exceptions to the 1 percent limit on ad valorem property tax rates established by Proposition 13. Prior to the recent events in certain regions of the State and national real estate market, GO bonds were seen to have little chance of default because the annual debt service obligation is secured by the property tax levy and underlying property in the event taxes are not paid. The limited risk of default results in GO bonds carrying relatively low interest rates depending on the credit rating. GO bonds must be sold to the bidder with the lowest cost of borrowing in an advertised, auction-type process.

In Mountain View, several other public agencies and schools have existing property tax "overrides" (tax rates that exceed the 1 percent Proposition 13 cap) related to debt service and voter-approved GO bonds and other legal obligations. Mountain View's cumulative property tax rate varies depending on where a property is located and a number of agencies whose jurisdictions overlap that area of town and impose authorized property tax overrides.

The State Constitution Article XIII.A, Section 1, states that voter-approved General Obligation-bonded indebtedness to be repaid from an ad valorem tax on real property may only be used to finance "the acquisition and improvement of real property." There is no direct legal authority defining what is and what is not real property for purposes of Article XIII.A and, therefore, the language of Article XIII.A "for the acquisition and improvement of real property," is subject to interpretation in each instance. There is general agreement among bond counsels that the limitation to "real property" means that vehicles, equipment, furnishings, supplies and labor may not be financed with General Obligation bonds. Generally, anything that is truly portable or can be removed from land or a building without causing damage to the land or building may not be financed. Ongoing maintenance may not be financed with General Obligation bonds.

Permitted use of GO bonds include the following:

- Acquisition, construction of parks and streets.
- Seismic upgrades.
- Flood control projects.
- Charter cities may use GO bonds for the real property portion of any municipal improvement, property or structures necessary or convenient to carry out the objectives, purposes and powers of the city.

General Obligation bonds may be used only for the purposes approved by the voters. Taken together, the statutes authorizing the election and issuance of the bonds, the resolution calling the election, the specific language contained in the ballot measure itself create a manner of contract which is binding upon the local agency once the voters have given their consent.

The ballot measure proposed to the voters must recite the purpose for which the proceeds will be used, but the local agency's governing body may choose how precisely or how generally to state those purposes. Courts have held that a general statement of the purpose reserves to the issuer the flexibility to spend bond proceeds as it wishes within the terms of the authorization. This is true despite any specific promises or assertions made by public officials or bond supporters at the time of the election, including those made in official plans, ballot arguments or campaign propaganda. On the other hand, if the ballot measure is too specific in regard to the projects to be financed, the local agency may be bound to build what the voters have approved and may not be able to change its plans in the future despite changes in circumstances or spending priorities.

General Obligation bonds have historically provided issuers with the lowest borrowing costs because the broad security pledge yields the highest possible bond rating and widest investor acceptance. Ongoing administration of payments to investors is not substantial, although the property tax levy for debt service may be recalculated each year as assessed values (AV) change. Annual debt payments are generally level with little year-to-year change. This results in the property tax rate declining each year as AV increases and increasing if AV declines. State law specifies many of the conditions under which the GO bonds are issued allowing the legal documentation to be less complex than other types of bond issues. Lastly, local GO bond issuers are guaranteed that their operating funds will not be diverted to pay the debt service on the bonds.

On the other hand, local agencies may find certain legal and procedural requirements of the General Obligation bonds to be disadvantageous, if not insurmountable:

- Super majority approval needed—Two-thirds voter approval is difficult to obtain, costly and time-consuming.

- Timing requirement—A minimum of 88 days is required to call an election for most agencies. Additional time is needed to certify the election results before the local agency may even begin proceeding to authorize the debt issue.

- General Fund costs for County Registrar of Voters to place a measure on the ballot and conduct election.

For local agencies, the approval process for General Obligation bonds must be included in an election at which at least two-thirds of the qualified electors have approved the issuance of bonds and, in doing so, approve the levy of an ad valorem tax on property to pay the annual debt service on the bonds.

The process for approval of a General Obligation bond issued by a city include the following steps:

- The city council must pass a resolution by two-thirds vote of all its members determining the public interest and necessity demand acquisition, construction or completion of any municipal improvement.

- At a subsequent meeting the city council must adopt an ordinance on its second reading by two-thirds vote of all of its members which places a bond proposition specifying the amount and purposes of the bonds before the city's electors.

- Publication or posting of the ordinance is required.
- The election is conducted on behalf of the city by the county registrar of voters.
- Following passage, the city council adopts a resolution specifying the terms under which all or a portion of the authorized bonds will be issued.

Attachment 2 provides further information and analysis of the GO Bond revenue mechanism.

Mello-Roos Bonds

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") provides a mechanism by which public entities such as cities can finance the construction and/or acquisition of facilities and a portion of city services. The Mello-Roos Act authorizes the public entity to form a Community Facilities District (a "CFD" or "District"), otherwise known as a Mello-Roos District. Once formed, the District can finance facilities and provide services. By approval of a two-thirds vote of the registered voters or land owners within the District, the District may issue bonds secured by the levy of special taxes on property. The City used the Mello-Roos Act for the Library construction financing measure submitted to the voters in November 1993, as it allowed the City to design a tax structure that addressed the concerns of residents and businesses. The measure failed to obtain two-thirds voter approval but was very close.

The special taxes are not assessments and there is no requirement that the special tax be apportioned on the basis of benefit to property. This affords greater flexibility in designing the special tax and how the tax burden is allocated among different types or uses of property which include commercial, industrial and residential uses. A special tax levied by the District is not an ad valorem property tax under Article XIII.A of the California Constitution as it cannot be based on property value. Liens on properties for special taxes levied by the CFD is the same priority as property tax.

The nature of the facilities and services to be financed or paid for largely determines whether special taxes are levied instead of special assessments. Special taxes permit the financing of general benefit to facilities such as libraries which are not authorized by the special assessment statutes. Finally, the flexibility allowed in structuring a Mello-Roos tax formula (also known as the rate and method of apportionment) may make a Mello-Roos financing a more attractive alternative than an assessment district financing.

Compared to GO bonds, Mello-Roos District financings are complicated. Because of the flexibility provided by the Mello-Roos Act, special tax formulas are often quite complex and specific, making it difficult for a property owner to understand the nature of the burden on his property. Great care must be taken in designing the special tax to provide clear and complete disclosure to homebuyers of the burden imposed by the special tax.

The formula for levying special taxes may be based upon a variety of factors, including density of development, square footage of construction, acreage or zoning. Unlike special assessment districts, there is no requirement that the special tax be based upon the benefit a parcel receives from the facilities or services to be financed. However, the tax must be levied on a reasonable basis as determined by the legislative body of the District.

The Mello-Roos Act has been amended several times since it passed in early 1982, adding requirements and increasing the procedural complexity necessary to form a CFD issue. Public information requirements and public hearings are necessary at several steps in the CFD formation process, placing a measure on the ballot and noticing the intent to issue bonded debt. A summary of these requirements is listed in Attachment 3. A financial analysis of a Mello-Roos bond issue is difficult due to the wide range of variables that can be included in the formula that apportions the tax among property owners. A simple formula is shown in the attachment to demonstrate the concept of such a formula based on the debt service payments used in the GO bond analysis.

General and Special Tax Elections

The wording of a ballot measure implementing or increasing a local tax determines whether it is a general or special tax and whether a simple or super majority approval of voters is required. For example, a measure to increase the sales tax rate that does not address how the additional tax revenue will be used (other than for general government purposes) requires simple majority approval by voters. If the measure states the additional tax proceeds are to be used to fund an open space acquisition or other specific purpose, then it is a special tax requiring two-thirds voter approval.

Examples of general taxes that can be increased (or implemented in Mountain View) with simple majority voter approval includes sales tax, utility user tax, business license, hotel, transient occupancy tax, parcel taxes for general government purposes and possibly an admissions tax. Examples of special taxes that could be proposed to fund a special purpose (or secure repayment of debt to be issued) include a parcel tax or an increase in any of the City's general taxes where the additional revenue is limited to a special purpose.

One unresolved question with respect to special taxes is whether a tax which was levied by a general government entity as a general revenue-producing measure but with a specific use in mind (as evidenced by a campaign to approve the tax) or nonbinding advisory ballot measure directing the use of tax is a special tax. It is probably safe to say that so long as the governing body can legally appropriate the tax revenues for any lawful purpose of the taxing entity from time to time, the tax is a general tax for purposes of Proposition 218. However, certain taxes approved by a majority of the voters as a general tax and in conjunction with advisory measures concerning their use, have been challenged in court on the basis that the advisory measure serves to limit the use of the tax revenues to a special purpose and, therefore, requires the two-thirds vote. An advisory measure, if used, must be carefully crafted to avoid such a challenge.

Sales tax measures have additional requirements imposed by the Board of Equalization (BOE) in State law. The wording of the ballot measure needs to be approved by the staff of the BOE to ensure it is consistent with existing sales tax law, covers the types of transactions and items subject to the tax pursuant to law and regulations and is administrable by the Board. State law requires voter-approved increases in the local sales tax be done in 0.25 percentage increments. This means measures to increase the tax rate can be proposed at 0.25 percent, 0.50 percent, 0.75 percent or 1.0 percent.

The amount of revenue generated by tax increases determines the amount of debt service (determined by the amount of debt issued) that can be funded from the revenue received from the tax increase. A tax used to pay a reoccurring cost such as debt service should be characterized by relatively stable, predictable revenues from year to year. It should also be capable of generating sufficient revenues to fund annual debt service from an acceptable increase in the tax rate. As referenced above, the City has several existing general tax sources that include:

- Property Tax
- Sales Tax
- Utility Users Tax
- Business License Tax
- Transient Occupancy Tax (TOT)

New, extended or increased general taxes must be submitted to the qualified electors of the taxing entity in a general election at which governing boards are to be elected. General taxes may be approved by a simple majority of those voting at such an election.

State law requires that prior to the submission of any general tax electorate, the public entity proposing to levy the tax must conduct a public meeting to hear testimony and a public hearing to consider the action placing the tax on the ballot. The public meeting and public hearing must be noticed by display advertisement of at least one-eighth page in a newspaper of general circulation, by mailing notices to those persons who have filed a written request for mailed notices of public meetings or public hearings. After the hearing, majority votes of the legislative bodies are required to place the measure on the ballot.

New extended or increased special taxes may be submitted to the qualified electors of the taxing entity and any special or general election. Special taxes must receive an affirmative two-thirds vote of those voting at such an election. A special tax is not deemed increased for purposes of Proposition 218 if it is imposed within a previously approved maximum rate.

There are both advantages and disadvantages to general taxes as noted below:

<u>Advantages</u>

- Simple majority voter approval.

- Significant revenue potential with limited sales tax increase.

- Flexibility in which tax to propose.

<u>Disadvantages</u>

- Possibility that a general tax increase may be needed in the future for the City's General Fund operations and services and the likelihood of a voter approving two tax increase measures is not likely.

- Ballot measures must be on the ballot of a general election in which Councilmembers are to be elected.

- Potential legal challenges if an advisory measure accompanies a tax measure.

There are advantages and disadvantages to special taxes as noted below:

Advantages

- Can be submitted to voters in any special general election.
- Revenue potential depends on the type of tax proposed.
- Potential legal challenge less likely.
- Depending on which tax is chosen, may or may not impact potential General Fund tax election in the future, but voter reaction to a second ballot measure cannot be known.

Disadvantages

- Two-thirds voter approval required.
- Depending on tax proposed and amount of debt to be issued, revenue potential may not be sufficient to fund the debt service.

Attachment 4 presents an analysis of four types of tax increases. This analysis demonstrates the fiscal impact of the increases to the payer. Additionally, it provides an illustration of the revenue that could be produced under certain assumptions.

The chart on the next page, "Illustrative Impact of Revenue Measures on Tax Payers," provides an overview of the estimated tax impact of the types of revenue measures summarized in this report.

Illustrative Impact of Revenue Measures on Tax Payers

TYPE OF REVENUE MEASURE	IMPACTED SECTOR	REVENUE NEEDED TO SUPPORT:		
		$50 Million in Debt *Annual Debt Service: $2.75 Million*	**$100 Million in Debt** *Annual Debt Service: $5.5 Million*	**$150 Million in Debt** *Annual Debt Service: $8.27 Million*
GO Bond (per 100K Assessed Value)	Property Owner	$22	$44	$66
Mello-Roos CFD (Example: 50% Res., 50% C/I split, per parcel)	Property Owner	Res: $81 C/I: $1,151	Res: $162 C/I: $2,303	Res: $243 C/I: $3,454
Property Tax (per Parcel)	Property Owner	$150	$300	$450
Sales Tax	Purchaser	$0.25 = $4 Million Annual Revenue, supports $65-70 Million Debt $0.50 = $8 Million Annual Revenue, supports $140 Million Debt		
Utility User Tax	Electric, Gas, & Telephone Consumer	2% Increase (from current 3% to 5%) = $3.75-4 Million, supports $55-60 Million Debt		
Business License Tax	Businesses	Insufficient Revenue – Not Recommended		
Transient Occupancy Tax	Visitors	Not Recommended ($400 K per 1% Increase)		

(Preliminary staff estimates, February 2008)

Mechanics of Revenue-Measure Campaigns

This section provides a general summary of the typical processes required if the Council were to decide to proceed with a revenue measure. Revenue-measure campaigns have three major phases: the planning phase, the campaign phase and the postelection phase. A City's role is generally prominent in the planning and postelection phases and not involved during the campaign phase. Although campaign mechanics can vary from community to community and issue to issue, important elements of each phase are briefly summarized below.

The planning phase typically begins by rigorously assessing the community need of the project(s) or service(s) to be funded and the justification for new tax funding compared to reprioritization of existing potential funding sources. Successful campaigns plan for the eventuality that no financial stone will be left unturned by the opponents in seeking to show that the project or service could be afforded otherwise.

Once the project/service need is assessed, the types of revenue measures that might fund this need can be evaluated. At this stage, a professional survey is key to gauge the voting public's opinion on the need for the project/service or comparison of alternatives, the revenue vehicle most acceptable to fund the need and the acceptable tax rate. Such a poll may cost the City $20,000 to $30,000. Public funding can be used for this type of poll as long as the results of the poll are not used to advocate for or against the passage of any resulting revenue measure.

Other factors that are typically evaluated at this point are election timing and data on who typically votes in the community. There are several key questions that should be asked at this point, such as:

- When is it most strategic for the measure to be on the ballot?
- Are there other competing local measures on the same ballot?
- Is the election, such as the November 2008 presidential election, one that is likely to draw opponents or proponents of the revenue measure?

These questions often are difficult to answer, which leads to another critical element of the planning phase—assembling a knowledgeable and effective planning team to guide the planning phase.

The planning team, whether comprised of City staff, external experts or a combination, typically fulfills the following functions before the measure is on the ballot:

- Expertise related to tax election law.
- Financial advisor/bond underwriter expertise.
- Political and/or public relations expertise.

Bond counsel should be retained early in the process of determining the kind of financing that will be proposed to the voters. Different types of financing require different proceedings leading to Council approval of placing a measure on the ballot. A procedural oversight can delay a measure getting on the ballot or create an opportunity for a challenge to a successful measure. When a financing measure is successful and debt is being issued, bond counsel must render an opinion that the debt, its repayment source and required procedural matters have been conducted as required under law. Retaining counsel early in the process is good insurance that procedural issues will be avoided.

Once the measure is placed on the ballot, the campaign phase begins and the City's role is necessarily diminished. This phase is typically led by a volunteer campaign committee. Elected officials can participate as citizens as long as they are not acting in their official elected status. No City funding or resources can be used toward the campaign.

If the measure passes, the postcampaign phase, once again led by the City, typically focuses on communicating to the voters about how the money is being spent, maintaining ongoing communication to the voters as an effective long-term strategy.

CONCLUSION

Council requested at their meeting in September that a Study Session be set to hear a presentation and discuss the mechanics of a possible bond measure for potential capital projects. In preparing for the Study Session, staff has identified potential capital projects to be included in a bond measure and developed estimated costs for each of them. Additionally, staff has prepared this report to summarize the various borrowing mechanisms that are available (e.g., General Obligation bonds, Mello-Roos bonds and special and general taxes) to pay for potential projects. The summary explains the potential uses, advantages and disadvantages of each and their specific procedural considerations. An overview of a revenue (bond or tax) measure campaign is provided to discuss the various stages involved in a campaign.

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NPL-RFL-KSW/9/CAM
608-02-19-08M-E^

Attachments:
1. September 25, 2007 Council Meeting Minutes
2. Analysis of General Obligation Bond Issues
3. Mello-Roos Financing Requirements
4. Analysis of Tax Increases

A Councilmember stated that people want more parks and recreation and a study on whether they need more parks is not required.

One Councilmember commented that there is a consensus that this is a goal for next year and suggested that they revisit it during the next goal-setting process.

A Councilmember gave a reminder that they have funded many similar projects over recent years and considering that they just came out of a fiscal crisis, they need to consider the financial burden of a project like this.

One Councilmember commented that there is a big difference between a heritage farm and a regional park, pointing out that they are different public services. He explained that a heritage farm is more of a private venture where things are sold versus a park that is public, everyone can use and does not cost anything.

A Councilmember explained that an organic heritage farm would be an educational tool that would teach children about where and how our food grows and would bring them in contact with nature. She suggested having the PRC discuss regional parks, look at a potential farm in the meadow by the Stevens Creek Trail and look at a goal-setting procedure to discuss, prioritize and implement goals.

Motion—M/S Means/Pear—Carried 7-0—Refer the topic of a third regional park to the Parks and Recreation Commission for consideration as part of the Parks and Open Space Plan Update and direct staff to investigate the meadow along the Stevens Creek Trail as a possible site for a heritage farm.

There was Council consensus to schedule a Study Session in the future to discuss the timing and mechanics, etc., of a possible bond measure for acquiring property for parks and open space, heritage farm and/or other recreation/public facilities.

Motion—M/S Macias/Abe-Koga—Carried 4-3; Galiotto, Means, Pear no—Approve the continuation of the balance of the agenda.

Vice Mayor Means left the meeting.

7.2—POTENTIAL FORMATION OF A SENIOR ADVISORY BODY

The Recreation Manager explained that this item is in response to a Council request to bring options for the formation of a senior advisory body which would increase community access to and participation in senior programs, services and facilities. He continued that seven Bay Area cities were surveyed to determine what senior advisory structures are used and how they function. He then described four alternative organizational structures for a potential senior advisory body. He noted that following Council direction, staff will assist the Council

ANALYSIS OF GENERAL OBLIGATION BOND ISSUES

Voter approval of a General Obligation (GO) bond issue includes approval of an increase in the ad valorem property rate, on top of the 1 percent maximum rate mandated by Proposition 13, to fund annual GO debt service payments. The portion of the property tax rate exceeding 1 percent is known as a property tax "override." There are existing "overrides" in Mountain View for agencies with voter-approved, GO-bonded debt.

The total property tax rate in the City varies between 1.10880 and 1.14030 of taxable assessed value. For each $100,000 of taxable assessed value (AV), the additional annual tax due to the override rates in excess of 1 percent ranges from a low of $109 to a high of $140 annually depending on the location of property. The agencies that overlap the City and have tax rates shown on the property tax bills are as follows:

Overrides Applied City-wide Agency	Override Rate*
1. Santa Clara County Retirement	.03880
2. Foothill-DeAnza College 1999 Bonds	.01130
3. SCV Water District—State Water Project	.00670
4. SCV Water District—Zone W-1 Bond	.00040
Overrides Applied By Location of Property	
5. Mountain View Elementary 1998 Bonds	.03120
6. El Camino Hospital 2003 Bonds	.01290
7. MV-Los Altos High Bond No. 1	.01590
8. Whisman School Bond No. 5	.03570
9. Los Altos Elementary 1998 Bonds	.05430
10. Sunnyvale School Bond No. 15	.01450
11. Sunnyvale Elementary 2004 Bonds	.02110
12. Fremont High 1998 Bonds	.02410

* Property tax override rates are for every $100 of assessed valuation.

Santa Clara County has a voter-approved override to fund retirement costs of its employees. On the same ballot as Proposition 13 in June 1978, voters approved a property tax increase for this purpose. Litigation ensued and the courts determined the override was legal up to the maximum rate stated in the ballot measure of .03880. Santa Clara Valley Water District imposes two County-wide tax overrides related to financings of water projects. The entire City is within the boundaries of Foothill-

DeAnza College which imposes a City-wide override to fund annual GO-bonded debt service costs.

County-wide, cumulative property tax rates vary depending on the location of property and the number of agencies that overlap the location of a property (mostly schools) with GO debt service override rates. Property tax override rates vary throughout the County from approximately .08 of one percent of taxable value in parts of Milpitas and Santa Clara to .20 of one percent in certain parts of San Jose. Mountain View's range of rates is roughly comparable to the majority of cities in the County, perhaps slightly on the low side.

GO Bond Issue Property Tax Analysis

Annual debt service on various GO bonds issued in the amounts below, sold to the lowest bidders, at the market interest rate listed on *Bloomberg.com* on February 5, 2008 for tax-exempt, AAA-rated, municipal bonds averaged 3.65 percent. Amortizing the issuance amount and assuming two payments per year over 30 years with level annual debt service results in property tax override rates as shown below. The override is calculated to fund the annual debt service amount which is proportionately spread to all property owners in the City based on the assessed value of each property. City's total assessed value for real property and improvements totals $12.5 billion.

Bonds Issued	Debt Service	Tax Rate/ $100 AV*	Tax Amount Per $100,000 AV**
$ 50 million	$2,756,200	.022	$22
$ 75 million	$4,134,312	.033	$33
$100 million	$5,512,416	.044	$44
$150 million	$8,268,626	.066	$66

* By law, the property tax rate is limited to 1 percent of assessed value (AV) plus voter-approved override rates for bond indebtedness. If voters approved bonds that require an override rate of .022, the tax rate on the parcel would be 1.022 percent for each $100 of AV of the parcel. Assessed value must be divided by 100 before applying the override rate to determine the tax amount due.

** These amounts are estimates that will change somewhat based on the size of the debt issuance, the City-wide total assessed at such time as the rate calculation is done and the value of property that is exempt from taxation.

For every $100,000 of assessed value, property taxes would increase between $22 and $66 per year depending on the size of the bond issue.

Voters are asked to authorize the maximum amount of bonds that can be issued; however, the entire amount authorized is not required to be issued at one time. Because GO bonds have a relatively low cost of issuance, it is common for agencies to sell them over time, as funds are needed. It can sometimes take years before the full authorization has been issued; however, the projects for which the bonds are issued must be consistent with the uses identified in the original measure approved by voters. The GO tax rate increase is based on the annual debt service payment. The rates above would not be reached until all the authorized bonds have been issued.

Property tax bills often include charges for assessment districts, parcel taxes, utilities and other purposes. These charges are required to be paid when property taxes are due but are not published by the County as are voter-approved tax rates for each tax rate area in the County. These additional charges should be considered in discussing a tax that will be collected on the property tax bill. Staff is gathering additional information regarding the total property tax bill in Mountain View.

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MELLO-ROOS COMMUNITY FACILITIES DISTRICT FORMATION REQUIREMENTS

1. Adoption of Local Goals and Policies. Local agencies that initiate proceedings to establish districts on or after January 1, 1994 must first adopt local goals and policies concerning the use of the Mello-Roos Act. The policies must at least include:

   - A statement of the priority that various kinds of facilities will have for financing through the use of the Mello-Roos Act.

   - A statement concerning the credit quality to be required of bond issues, including criteria to be used in evaluating the credit quality.

   - A statement concerning the steps to be taken to ensure that prospective property purchasers are fully informed about their taxpaying obligations under the Mello-Roos Act.

   - A statement concerning the criteria for evaluating the equity of tax allocation formulas, and the desirable and maximum amounts of special tax to be levied against any parcel.

   - A statement of the definitions, standards and assumptions to be used in appraisals required by the Mello-Roos Act.

2. Initiating proceedings to form a CFD includes the following requirements.

   A resolution of intention to form a CFD to be adopted must:

   - State that the district is being formed pursuant to the Mello-Roos Act.

   - Describe the proposed boundaries of the district (which need not be contiguous).

   - State the name of the proposed district.

   - Describe the facilities or services to be financed in a manner sufficient to allow a taxpayer within the district to understand what district funds may be used to finance.

   - Describe any financing plan, lease, lease-purchase or installment-purchase arrangement that will be used to finance the facilities.

- Identify any completed facilities to be purchased or incidental expenses to be incurred.

- State that except where funds are otherwise available, a special tax will be levied annually to pay for the facilities and services and that it will be secured by recordation of a continuing lien against all nonexempt property in the district.

- Specify the rate and method of apportionment and manner of collection of the special tax in sufficient detail so each landowner or resident is able to estimate the maximum annual amount to be paid, and if the special taxes will be levied against property used for private residential purposes, specify:

  - the dollar amount of the maximum special tax and state that such amount will not be increased by more than 2 percent per year;

  - the tax year after which no further special tax will be levied or collected (except that a special tax levied in or before the final tax year and that remains delinquent may be collected in subsequent years); and

  - that under no circumstances will the special tax levied against any parcel be increased as a consequence of delinquency or default by the owner of any other parcel within the district.

- Specify the conditions under which the obligation to pay the special tax may be prepaid and permanently satisfied.

- Fix a time and place for a public hearing not less than 30 days or more than 60 days after the resolution of intention is adopted.

- Describe any adjustment in property taxation to pay prior indebtedness.

- Describe the proposed voting procedure.

Report. When the resolution of intention is adopted, the legislative body must direct each officer responsible for providing one or more of the proposed facilities or services to file a report at or before the time of the hearing that contains:

- A brief description of the type of facilities or services required to adequately meet the needs of the district.

- An estimate of the cost of providing the facilities or services.

Following a public hearing regarding formation of the district, a Resolution of Formation of a CFD may be adopted. Additional findings and disclosures are included in this resolution as well as information regarding the election procedures for approval of the special tax. The election may be conducted by mail, or ballots may be delivered by personal service to the voters. A ballot proposition may combine the questions relating to the levy of a special tax and the incurring of bonded indebtedness. Noticing requirements and protest procedures forming a CFD are very similar to assessment district proceedings.

Tax Formula Example

This example is based on the amounts used in the GO bond analysis as follows.

Debt Issued	Annual Debt Service
$ 50 million	$2,756,200
$ 75 million	$4,134,312
$100 million	$5,512,416
$150 million	$8,268,626

There are 17,023 residential parcels in Mountain View and 1,197 commercial/industrial properties.

Example 1

Annual debt service is allocated evenly to each residential, commercial and industrial property similar to a parcel tax.

Bonds Issued	Debt Service	Allocation to Each Parcel
$ 50 Million	$2,756,200	$151
$ 75 Million	$4,134,312	$227
$100 Million	$5,512,416	$303
$150 Million	$8,268,626	$454

Example 2

Annual debt service is allocated 50 percent to residential parcels and 50 percent to commercial/industrial parcels and spread based on number of parcels in each category.

Residential			Commercial/Industrial
	50% Debt Service	Annual Tax	Annual Tax
$ 50 Million	$1,378,100	$81	$1,151
$ 75 Million	$2,067,156	$121	$1,727
$100 Million	$2,756,208	$162	$2,303
$150 Million	$4,134,313	$243	$3,454

Any number of variables can be used to spread the tax, size of property, use, proximity to improvements, density, number of dwelling units, etc. It is helpful if the variables to be used already exist to avoid developing property attributes in the formula from scratch.

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REVENUE ANALYSIS OF VOTER APPROVED TAX INCREASES

Property Taxes

Property taxes are defined to include revenue generated from the 1.0 percent Proposition 13 ad valorem tax, debt service for voter-approved GO bonds that increase the tax rate in excess of 1.0 percent Proposition 13 rate (property tax overrides), parcel taxes and voter-approved Mello-Roos taxes levied on property by a tax allocation formula. The City's ability to increase property tax revenue for general purposes is limited to a voter-approved parcel tax. Parcel taxes cannot be based on the assessed value of properties and must use other factors or attributes of properties to determine the tax amount due from each property owner.

Proposition 218 has complicated implementation of parcel taxes by cities by requiring two-thirds voter approval as quoted below from the Proposition.

SEC. 3. Property Taxes, Assessments, Fees and Charges Limited.

(a) No tax, assessment, fee, or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except:

(1) The ad valorem property tax imposed pursuant to Article XIII and Article XIII.A.

(2) **Any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII.A.**

This section has caused confusion as parcel taxes are commonly approved as a general tax with no limitations on the use of tax proceeds rather than a special tax for a specific purpose.

The City has about 19,195 commercial, industrial and residential parcels. If the tax was structured as a flat amount equally spread to each parcel in order to fund annual debt service on a $50 million debt issuance, the annual amount on each parcel would be calculated as follows.

Debt Service	Total Number of Parcels	Annual Tax
$2,750,000	19,195	$143.25

Annual debt service for a $100 million bond issue would be double this amount or $286.50 per year.

Sales Tax

The County sales tax rate is 8.25 percent, and 7.25 percent is the base rate in all counties in the State. Rates above 7.25 percent are local voter-approved rates. The additional 1.0 percent rate charged in Santa Clara County is the result of two transportation-related measures approved by voters. State law caps the sales tax rate throughout the State at 9.25 percent, providing 2.0 percent over the base rate for local use. Most counties fund transportation agencies with 1.0 percent of the 2.0 percent available. Cities, counties and special districts can pursue voter approval of the remaining 1.0 percent rate available. Because of the rate cap at 9.25 percent, there may be interjurisdictional competition at some point to approve a rate increase.

As a hypothetical example, if Mountain View gained voter approval of a 0.50 percent sales tax increase and the County later proposed a County-wide increase of 0.75 percent, the County would have to implement a lower rate in Mountain View so as not to exceed the 9.25 percent cap. This may create complications for both merchants and the BOE administration of sales tax allocations.

A 0.25 percent increase in the City's sales tax rate would generate approximately $4 million in additional revenue. As a general tax, this change would require simple majority voter approval. If the increased tax revenues were pledged to debt service, two-thirds voter approval would be required.

Four Million Dollars ($4 million) would fund debt service on approximately $65 million to $70 million of bonded debt, somewhat less after providing a coverage factor in the event revenues did not meet the required amount each year.

Utility Users Tax

The City's Utility Users Tax (UUT) is a locally administered tax established in the City Code. A rate of 3.0 percent is applied to consumer/resident monthly service charges for gas, electricity and telephone use (including cell phone charges). Revenue from UUT this fiscal year is estimated to be approximately $5.8 million.

A 1.0 percent increase in the UUT rate should generate approximately $1.9 million and larger percentage increases in multiples of $1.9 million for each 1.0 percent. UUT rates State-wide average between 5.0 percent and 7.0 percent. Increasing the City's rate 2.0 percent would generate additional revenue of approximately $3.75 million to $4 million. This amount could support debt service for a bond issue of approximately $55 million to $60 million.

The UUT ordinance is in need of updating and modernization to reflect changes in technologies it is applied to. The necessary changes will likely require voter approval as the methodology used to apply the tax may change. Proposition 218 requires voter approval of changes in the method of calculating a tax. Staff will be coming forward in the future on this topic.

Business License Tax

The City's business license tax generates revenues of approximately $220,000 annually and has never been revised. For a significant number of cities, the business license tax is a major revenue source and the tax is based on the gross receipts of businesses operating in a city. The Mountain View ordinance is based on the number of employees, type of business and number of locations within the City. Rates range from $30 to $100 per license.

Changing the business license ordinance to generate additional revenue requires voter approval, and a revenue estimate is not possible without the specifics of the tax structure. How a gross receipts tax would be structured and the potential revenue also cannot be estimated. It could be postulated that many of the City's businesses have enormous gross receipts, and the very low rate could generate substantial revenue. Implementing such an ordinance would require additional staff to monitor and audit business compliance.

There are other approaches to increasing revenue from business licenses. However, the revenue potential without major changes to a gross receipts type of tax could not create sufficient revenues to fund debt service of the smallest bond issue.

Transient Occupancy Tax

The hotel room tax rate is currently 10.0 percent of the value of the room, which is usually the amount charged, and this fiscal year will generate an estimated $4 million of revenue. The Transient Occupancy Tax (TOT) rate is competitive in this area compared to other cities and is not low. Palo Alto is considering a ballot measure asking voters to approve increasing their rate to 12.0 percent. This would be one of the higher rates in the region for a city of that size.

A 1.0 percent increase in the TOT rate could generate approximately $400,000 in current market conditions. TOT is a volatile revenue source that has large revenue swings in different economic conditions and would not be a reliable revenue source for recurring debt service payments.

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OVERVIEW OF POTENTIAL REVENUE MEASURES

This attachment summarizes the types of revenue measures that the City Council could consider for voter approval. A previous version of this attachment was provided to the City Council as part of the September 29, 2009 Study Session Report "Achieving a Structurally Balanced General Operating Fund Budget." Each type of measure is generally described and, where possible, a rough estimate is provided for the amount of revenue the measure might produce. More detailed information about revenue measures can be found in previous reports to the City Council—the February 19, 2008 Study Session report Item 2A, "Overview of Supplemental Voter-Approved Revenue Measures—Capital Projects," the January 27, 2009 Study Session report Item 3.1, "Long-Range Financial Forecast and Economic Development Strategy Update" and most recently, the December 13, 2011-Study Session "Voter Survey."

The following types of revenue measures are the most common ones pursued by local governments in California:

- General Obligation (GO) Bonds.
- Mello-Roos Bonds.
- Parcel Tax Increase.
- Special Assessment and Specific-Purpose Benefit Districts.
- Sales Tax Increase.
- Business License Tax Increase.
- Utility Users Tax Increase.
- Transient Occupancy Tax Increase.

The specifics of each of these are complex; the summary information below provides basic information. A common practice in the evaluation of potential revenue measures is to hire outside expertise related to tax election law and financial advice/bond underwriting as well as conduct a professional survey to gauge the voting public's opinion on the need of the project/service to be funded by the additional revenue, the revenue vehicle most acceptable to fund the need and the acceptable tax rate.

General Obligation (GO) Bonds

GO bond revenues can fund the acquisition and improvement of real property, not ongoing maintenance or operations. This kind of revenue measure could be used for capital projects, such as a new community center or public safety building. The ballot measure proposed to the voters must recite the purpose for which the revenues will be used; the local agency's governing body may choose how precisely or how generally to state those purposes. The ballot measure also includes authorization to increase the property tax rate to generate tax revenue in an amount sufficient to fund the annual debt service payment due on the bonds.

Voter Requirement:	Two-thirds.
Revenue Potential:	*Variable.* \$50.0 million in debt would require additional funding of \$3.2 million for annual debt service, which equals \$26 per \$100,000 assessed value for property owned. \$150.0 million in debt would require additional funding of \$9.6 million for annual debt service, which equals \$78 per \$100,000 assessed value for property owned.

Mello-Roos Bonds

The Mello-Roos Community Facilities Act of 1982 provides for a mechanism for cities to fund construction or acquisition of facilities and the portion of City services related to those facilities. A Community Facilities District is formed and then the District may issue bonds secured by special taxes on property in the District. The special tax is not an assessment (which usually requires apportionment on the basis of benefit to the property), nor is it an ad valorem property tax. The formula for the tax may be based on a variety of factors, including density of development, square footage of construction, acreage, zoning or proximity to improvements.

Voter Requirement:	Two-thirds of voters in designated "Community Facilities District."
Revenue Potential:	*Variable.* Depends on how the Mello-Roos tax formula is structured. For example, if debt were to be split evenly between residential parcels and commercial/industrial (C/I) parcels City-wide annual debt service on \$50 million would be \$95 per residential parcel and \$890 per C/I parcel. \$150 million would tax \$285 per residential parcel and \$2,670 per C/I parcel.

Parcel Tax Increase

Parcel taxes can be imposed on parcels, increasing property tax revenue for general or special purposes or to fund debt service on a bond issuance. For example, parcel tax revenue could be dedicated to affordable housing, or library services, or police/fire/EMS services, or generally used and spread amongst many City services. Parcel tax revenue could also be dedicated as debt-service on bonds to fund a capital project. Parcel taxes must use factors or attributes of properties other than the assessed value to determine the tax amount due from each property owner. Unlike the difference between other types of general versus special taxes, parcel taxes require a two-thirds supermajority approval of the voters whether for general or special purposes.

Voter Requirement: Two-thirds.

Revenue Potential: *Variable*. A tax structured as a flat amount equally spread to each parcel to fund annual debt service on \$50.0 million debt would be \$171 per parcel. \$150.0 million debt would triple that amount.

Special Assessment and Specific-Purpose Benefit Districts

Various California laws allow the establishment of Special Assessment and Specific-Purpose Benefit Districts to fund improvements and services such as lighting, landscaping, revitalization of areas, etc. Assessments are based on the benefit to the property.

Voter Requirement: Majority of voters in District.

Revenue Potential: *Variable*.

Sales Tax Increase

Cities have the ability to ask the voters for approval of increases to the local sales tax (called transactions and use taxes) in multiples of .25 percent. Prior to April 2009, combined State-wide sales tax and local transactions and use taxes in Santa Clara County were 8.25 percent. In April 2009, the State increased the State-wide sales tax rate by 1.0 percent, which expired in July 2011. In Santa Clara County, the combined State-wide sales tax and local transactions and use taxes currently cannot exceed 9.25 percent. Therefore, Mountain View currently could ask the voters for approval of increases up to 1.0 percent. Campbell is the only city in Santa Clara County that currently has a local add-on sales tax (1/4 cent).

Voter Requirement:	Majority if for general purposes, two-thirds if special tax where use is specified.
Revenue Potential:	Approximately $4.0 million per one-quarter cent (.25 percent) increase.

Business License Tax Increase

For many cities, the business license tax is a major revenue source. However, Mountain View has one of the lowest rates in Santa Clara County. The Mountain View ordinance is based on the number of employees, type of business and number of locations in the City, with rates ranging from $30 to $100 per license. The City's business license tax generates approximately $245,000 annually. There are many different ways to structure a business tax such as based on gross revenues, payroll or headcount. It is, therefore, difficult to estimate revenue potential without additional detailed analysis of these variables.

Voter Requirement:	Majority if for general purposes, two-thirds if special tax where use is specified.
Revenue Potential:	Revenues would depend on the structure of the tax which could be based on gross revenues, payroll, headcount, etc. Doubling the current rate would raise approximately $245,000 in new revenue per year.

Utility Users Tax Increase

The City's Utility Users Tax is a locally administered tax established in City Code that establishes a rate of 3 percent on consumer/resident monthly service charges for gas, electricity and telecommunication services, generating approximately $6 million in revenues annually (FY 2011-12 Adopted Budget). Utility Users Tax rates State-wide average between 5 percent and 7 percent. The City recently modernized the telecommunication services portion of the UUT, but maintained the 3 percent rate.

Voter Requirement:	Majority if for general purposes, two-thirds if special tax where use is specified.
Revenue Potential:	Approximately $2 million per 1 percent increase.

<u>Transient Occupancy Tax Increase</u>

The hotel room tax rate is currently 10 percent of the value of the room (which is usually the amount charged) and, currently, generates approximately $4 million in revenues annually. It is a volatile revenue source with large swings in different economic conditions and is not recommended as a reliable source for recurring debt service payments. Most cities in Santa Clara County are at 10 percent, with 3 cities at 12 percent and three at 9 or 9.5 percent.

Voter Requirement:	Majority if for general purposes, two-thirds if special tax where use is specified.
Revenue Potential:	Approximately $400,000 per 1 percent increase.

Attachment D

Survey of Tax Rates for other Cities in Santa Clara County

City	UUT	TOT	Sales Tax	Business Tax*
Santa Clara County:				
Campbell	0%	12%	8.50%	$232,424
Cupertino	2.4%	10%	8.25%	$705,604
Gilroy	4.5-5%	9%	8.25%	$575,564
Los Altos	3.2-3.5%	11%	8.25%	$403,338
Los Altos Hills	0.00%	0%	8.25%	$147,330
Los Gatos	0.00%	10%	8.25%	$1,139,107
Milipitas	0%	10%	8.25%	$417,031
Monte Sereno	0%	0%	8.25%	$46,850
Morgan Hill	0%	10%	8.25%	$169,943
Mountain View	**3%**	**10%**	**8.25%**	**$220,567**
Palo Alto	5%	12%	8.25%	$0
San Jose	4.5-5%	10%	8.25%	$40,043,550
Santa Clara	0%	9.5%	8.25%	$843,902
Saratoga	0%	10.0%	8.25%	$420,613
Sunnyvale	2%	9.5%	8.25%	$1,199,364

* Busniess tax shown as FY 2008-09 total revenue (from CA State Controller Cities Annual Report). Business Tax structures vary widely, from per-business charge to per-employee charge to a combination, and some have maximum ceilings. This makes and apples-to-apples tax rate comparison difficult.