

City Council Meeting

Item #2: Study Session
RTC 23-1259

**Overview of Unfunded Needs,
Presentation of Revenue
Options and Workplan for
November 2024 Ballot
Consideration**


October 24, 2023

Agenda

1. Overview of City's Capital Improvement Program (CIP) Challenge
 - Pay as You Go Approach
 - Unfunded Capital Needs – Why We Need a New CIP Approach
2. Overview of Revenue Options
3. Overview of Next Steps and Timelines
4. Council Feedback

Overview of the City's Capital Improvement Program Challenge


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Current CIP Approach – Pay as You Go

- For programs where General Fund is the primary funding source, the City lacks a dedicated revenue stream to support long-term maintenance, repair or replacement of capital facilities
- Capital Projects Reserve (CPR) balances are insufficient and dependent on unknown surplus funds at year-end
- Capital improvements are unplanned and urgent; consequently, expensive and time-consuming
- Resources are re-directed from operations, negatively impacting service delivery



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Current CIP Approach – Pay as You Go

- Current 5-year CIP has only \$9.9 million to fund General Fund CIP projects **CITYWIDE**
- Only the most critical projects can be funded
- **Five-year CIP has identified at least 1/2 billion in infrastructure needs that do not have identified source of funding**

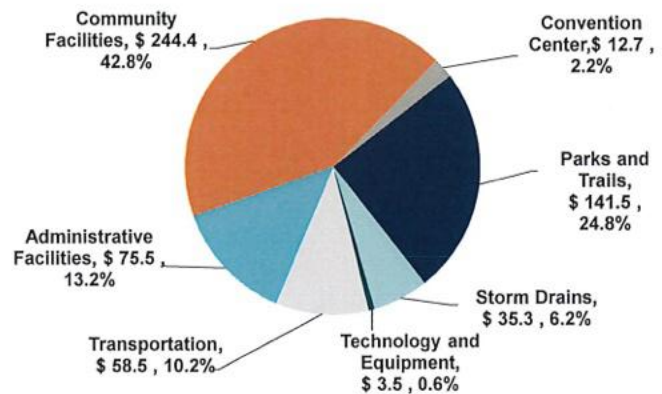


Funding the City's Capital Infrastructure

- **\$571 M unfunded needs over five years**

- Fire Stations
- Storm Sewer System
- Parks, Outdoor Spaces and Trails
- Community Facilities
- International Swim Center
- Streets and Roads Pavement
- Traffic and Bicycle Safety
- City Buildings
- Historical Buildings

Five-Year CIP Unfunded Needs = \$571.4 M



City Needs a New GF CIP Approach

- Current General Fund CIP approach is:
 - Not sustainable
 - Is reactive, not forward-thinking
 - Decades long practice of deferred investment that requires infusion of significant investment to catch up and provide a dedicated revenue source to meet ongoing maintenance needs
 - Not in the best interest of the City

Major Unfunded Capital Needs Why we need a new CIP approach

Impact of 60+ Years Old Infrastructure

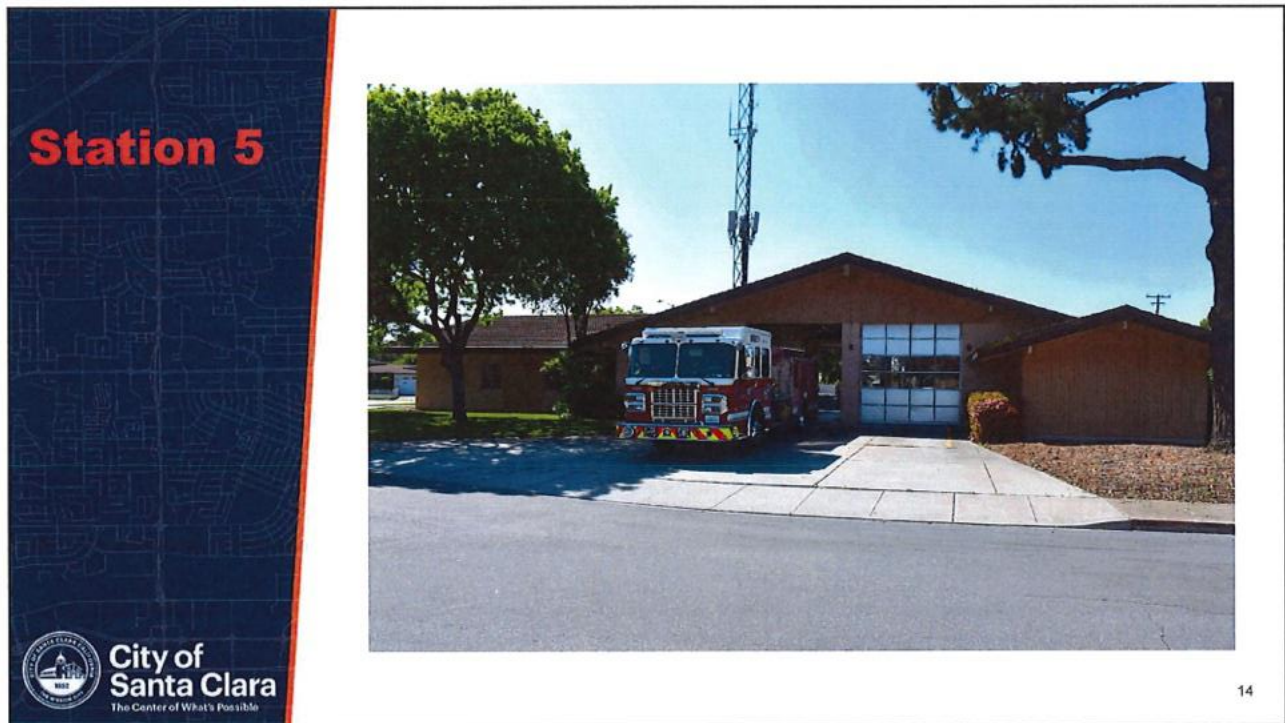
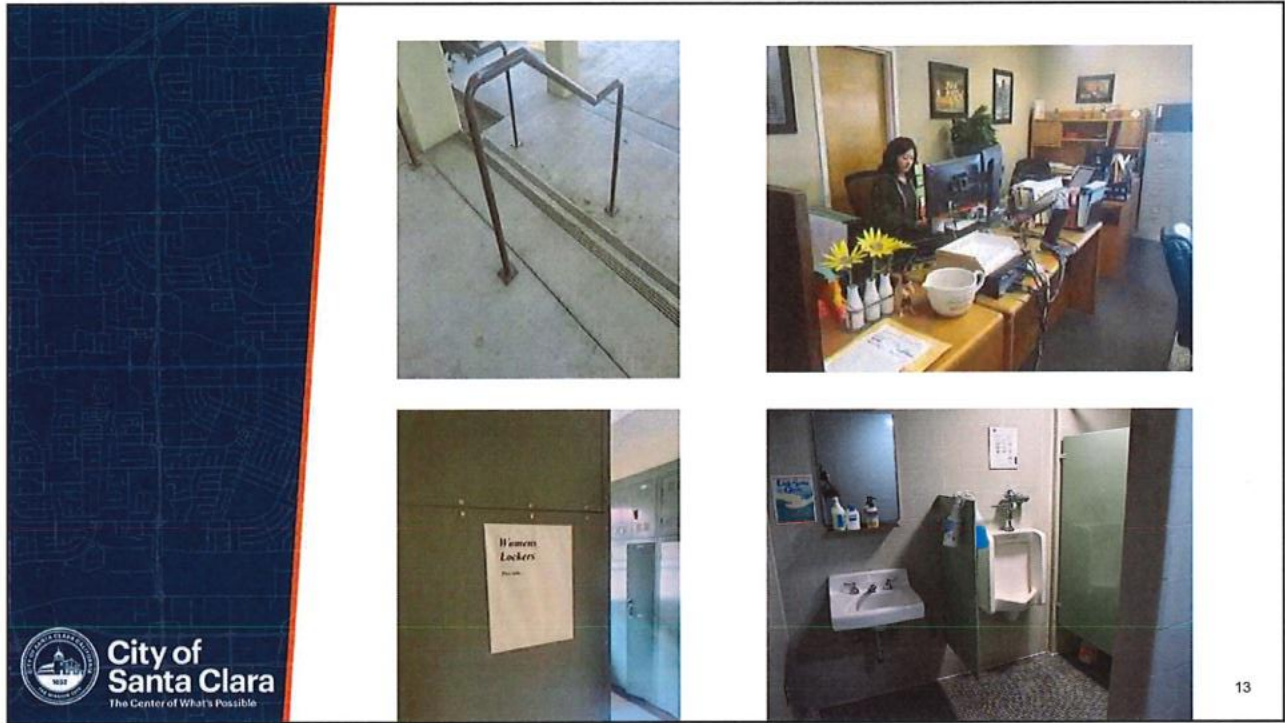
- Does not conform with current building standards
- Health/safety concerns
- Facility closures
- Frustration from the community (service and look)
- Exponential cost increases to replace assets (e.g., maintenance vs. replacement)
- Inefficient facilities do not meet climate and sustainability goals

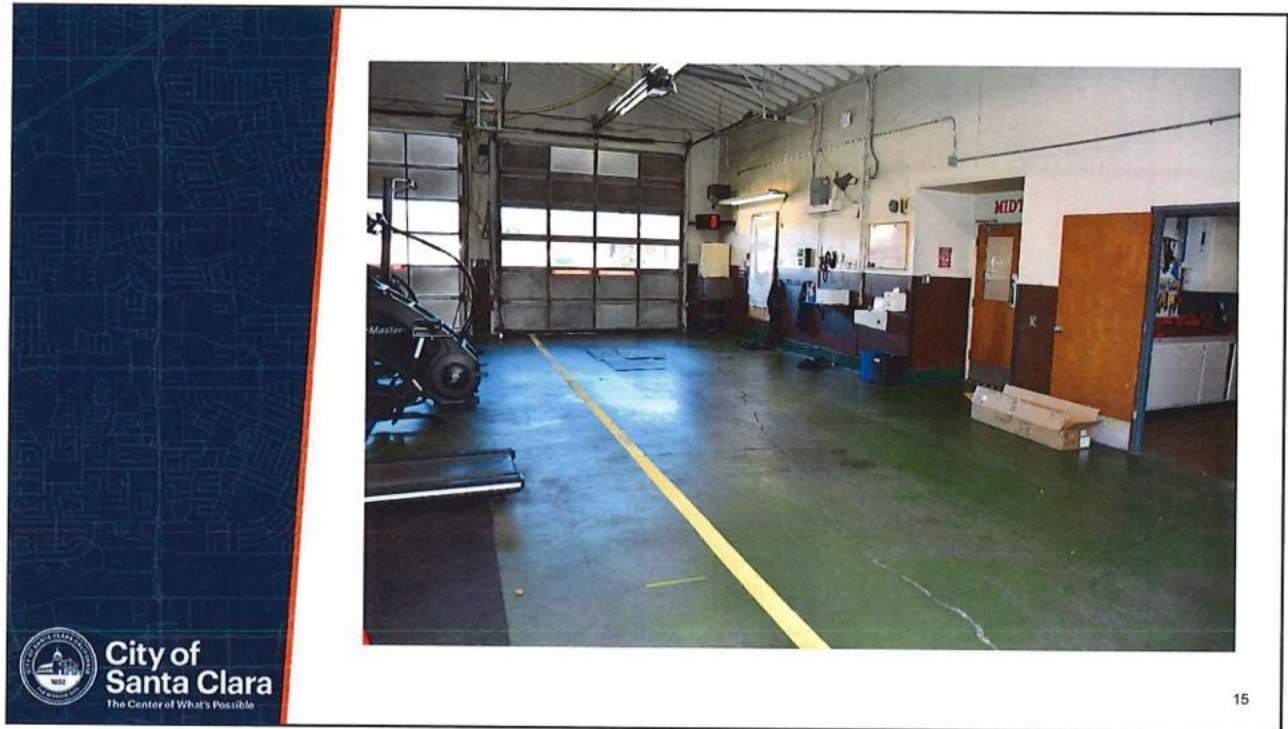


Major Unfunded Capital Needs Fire Department



Station 1








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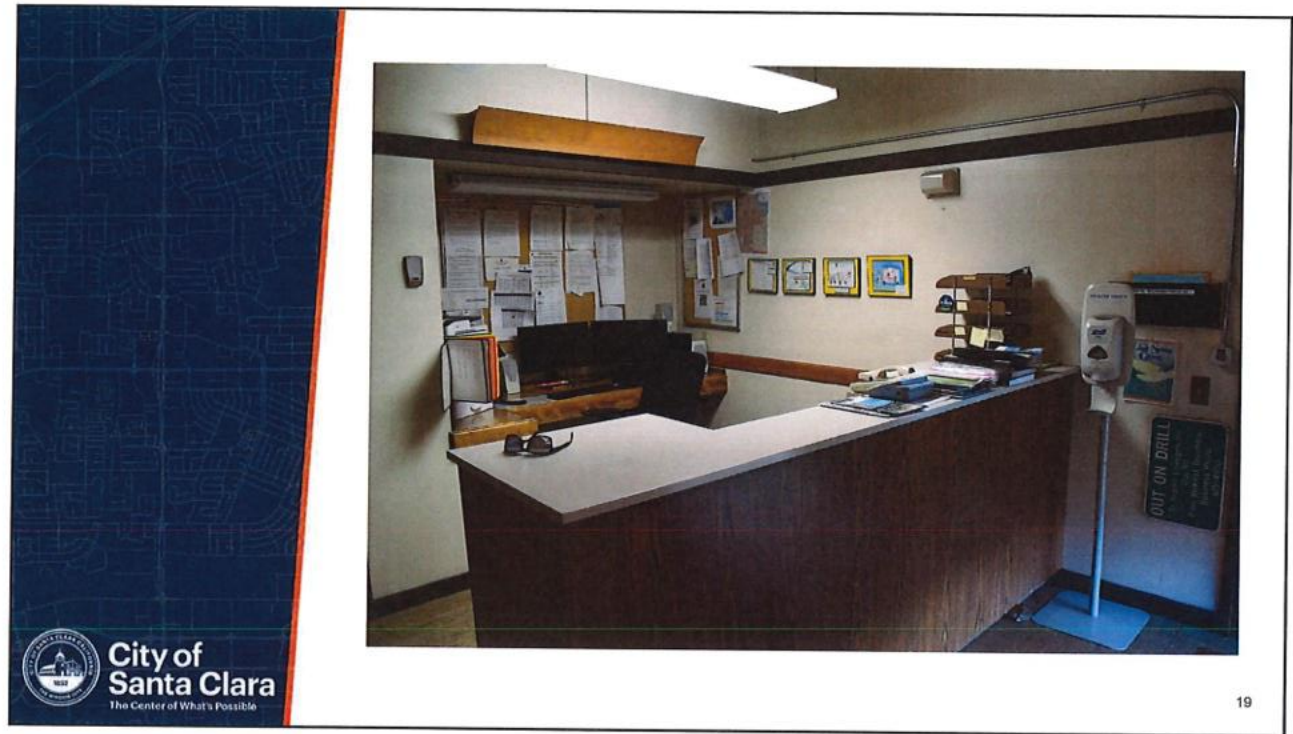
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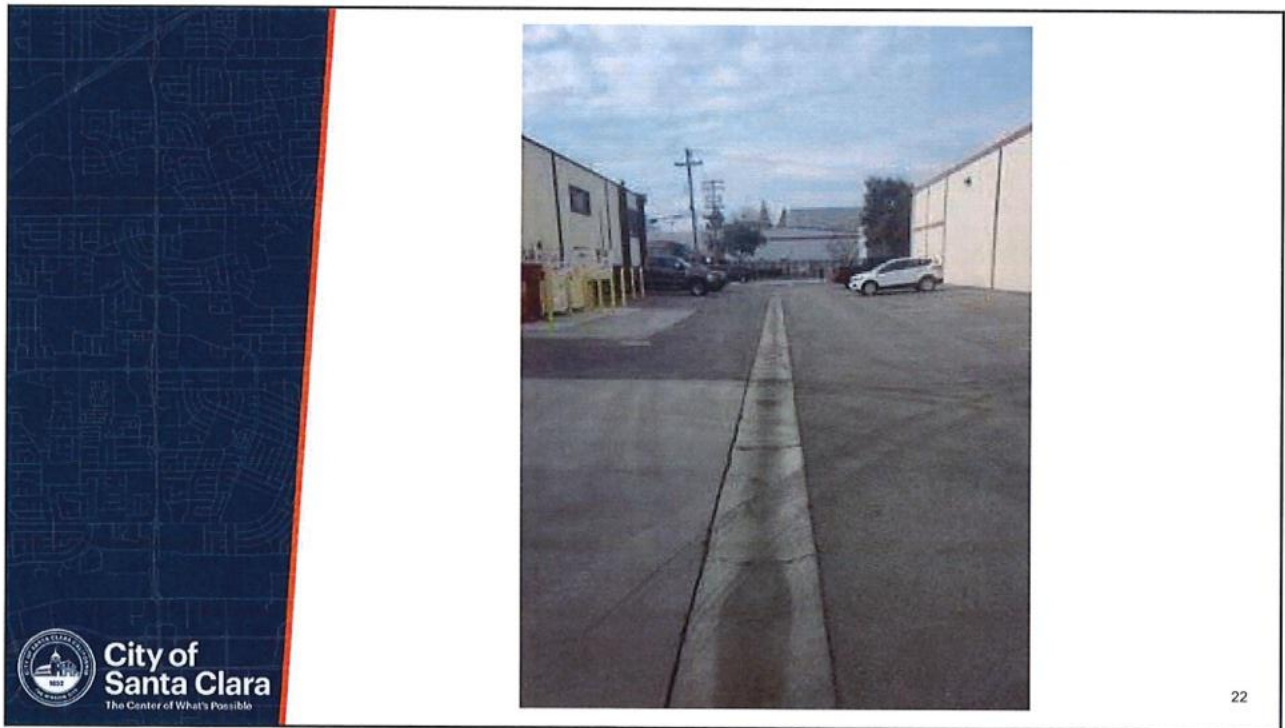
Station 7




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Major Unfunded Capital Needs Parks, Recreation & Open Space




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2017 Facility Condition Assessment



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Overall BCI Grades


Critical	7 %
Poor	17 %
Fair	24 %
Good	52 %



65 Park Buildings
Avg. age = 32

Overall PCI Grades

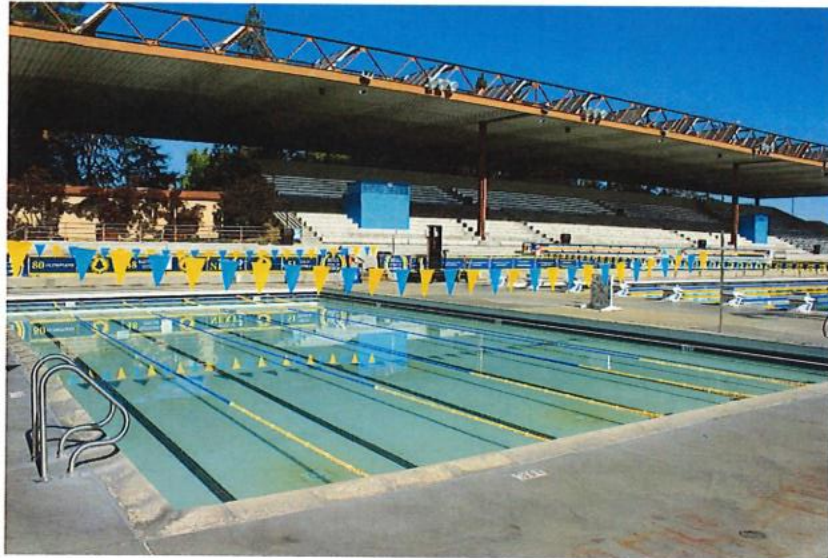
Critical	13 %
Poor	34 %
Fair	17 %
Good	36 %



49 Park Sites
Avg. age = 50

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Aged Infrastructure Affects Service



- Eleven bodies of water: 3 @ ISC, 2 @ Warburton, 1 @ Mary Gomez, 3 @ Senior Center and 2 @ Montague
- Five of eleven are 50+ years old (ISC & Warburton)



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Unfunded Park Needs


- Citywide Master Plan Implementation
- Central Park Master Plan Implementation
- Community Recreation Center Needs
- Future Senior Center Needs
- City/School Joint Use Agreements
- Trail Development



Figure 4-1 Master Plan Water

Major Unfunded Capital Needs Streets

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Bike & Pedestrian Improvements



Traffic Signal Improvements



Safe Street Improvements



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Overview of Revenue Options

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Types of Measures

General Tax Measure

- Levied to be expended on any program, service, or capital need, at the discretion of the local government's governing body
- A simple majority vote (50 percent of voters plus one additional voter) is required for approval of a general tax

Special Purpose Tax Measure

- Dedicated to a specific purpose, including a special tax for a specific purpose that is deposited into a city's general fund
- Requires a 2/3 supermajority vote

Factors to Consider When Evaluating Revenue Options

- Purpose – capital infrastructure, operational services
- Votes Required – supermajority vs majority
- Likelihood of Voter Approval
 - Number of measures (one vs. two)
 - Voter research results
- Revenue Potential
- Stability of Source and Duration – one-time, ongoing
- Financial impact to local community

How Do We Meet Our Need

Options to Consider for November 2024 Election

If one measure and priority is infrastructure:

- **General Obligation Bond**

If second measure is included for ongoing general purposes:

- Library/Community Services Parcel Tax
- Documentary Transfer Tax
- Sales Tax

General Obligation (GO) Bond

Key Features

- Used for long-term capital project financing
- Requires two-thirds supermajority vote
- One-time revenue, upfront
- Secured by levying ad valorem property taxes in addition to the 1% general ad valorem property tax



Swim Center Boiler



Fire Training Tower

General Obligation (GO) Bond

Purpose	Tax Type	Votes	Revenue Potential	Revenue Basis
Capital	N/A	2/3 majority	Up to \$600M	Property

Benefits

- Stable revenue source
- Can generate high dollar amounts
- Revenue is received upfront
- Intergenerational equity
- Dedicated funding for critical capital infrastructure

Drawbacks

- Funding not ongoing
- Higher voter threshold
- Long term debt obligation (to be paid by property owners)

Sample GO Bond Potential Components

\$400 M GO Bond Measure

- Public Safety/Flood Protection (fire/police stations, stormwater, disaster preparedness)
- Community Facilities (parks, community centers, playgrounds, pools, open space, libraries)
- Streets/Transportation (pavement; traffic, pedestrian, and bicycle safety; ADA improvements)
- Sustainability (bicycle lanes, green building upgrades, solar, LED streetlights)

For a bond issuance of \$400 million, assuming a 30-year amortization, the estimated annual cost would be 26 cents per \$1,000 of assessed value. The average assessed value of single-family residence and/or condos in Santa Clara is \$655,000 resulting in a cost of approximately \$14.00 per month.

Library / Community Parcel Tax

Key Features

- Could be used for operations and programs or infrastructure
- Provide stable revenue stream to support consistent service levels in tough economic times and/or enhance services in good economic times
- Ongoing or fixed term
- Levied on property owner's property tax bill – as a fixed amount or based on square footage (land or building)

Library / Community Parcel Tax

Purpose	Tax Type	Votes	Revenue Potential	Revenue Basis
Library/Community	Special	2/3 majority	Varies	Property

Benefits

- Stable revenue source
- Diversifies revenue base
- Can be ongoing funding
- Can be used to address both Operating and Capital needs

Drawbacks

- Higher voter threshold
- Less flexibility of use – must be specified; narrow focus
- Does not provide sufficient funds upfront for infrastructure backlog

Library / Community Parcel Tax

- Dedicated to library and/or parks
- Various options to structure parcel tax
 - flat tax per parcel
 - tax based on land size
 - tax based on building size
 - combined structure (example: per unit rate for single family residence/multi-family residence; per acre for commercial/industrial)

Flat rate of \$50 per parcel per year would generate approx. \$1.5 million annually to restore and maintain service levels at libraries and community centers

Sales Tax

Key Features

- Can be used for any purpose
- 2% cap for county/city district taxes (certain items are exempt); City has a 0.25% additional capacity
- District sales taxes applied based on destination of the goods/location of the customer versus regular sales tax that is applied based on point of sale
- Santa Clara is lower than Campbell, Los Gatos, Milpitas, San Jose whose sales tax is above the base countywide level

City of Santa Clara Sales Tax Breakdown	Rate
CA Base State Rate	7.250%
Exempt from Cap	0.625%
County (Included in Cap)*	1.250%
Current Santa Clara Sales Tax	9.125%
Total Included Under 2% Cap*	1.250%
Remaining Available for Increase	0.250%

Increase of 1/8th of a cent to 9.250% increases revenues by approximately \$6 million
 Increase of 1/4th of a cent to 9.375% increases revenues by approximately \$12 million

Sales Tax

Purpose	Tax Type	Votes	Revenue Potential	Revenue Basis
General	General	50% + 1	\$6M – 12M annually	Consumer

Benefits

- Flexible use (can be used for any purpose; operating/capital)
- Broad tax base – visitor contributions
- Lower voter threshold
- Can be ongoing revenue source

Drawbacks

- Less stable revenue source; sensitive to economic fluctuations
- Regressive tax
- Threshold limit

Documentary Transfer Tax

Key Features

- Can be used for any purpose
- Imposed on the transfer of the title of real property from one person (or entity) to another within the jurisdiction based on the property's sale price
- Current County Transfer Tax is \$1.10 for each \$1,000 sale amount
 - City receives \$0.55 and the County receives \$0.55
- Charter Cities may increase the rate; however, County must receive \$1.10 base rate
- Current revenue of approximately \$1.6 million

Increase of \$3.30 (for a total tax of \$4.40 for each \$1,000) would generate \$8 million annually

Documentary Transfer Tax

Purpose	Tax Type	Votes	Revenue Potential	Revenue Basis
General	General	50% + 1	\$8M annually	Property Transaction

Benefits

- Flexible use (can be used for any purpose; operating/capital)
- Can be a form of non-resident taxation
- Lower voter threshold
- Ongoing revenue source
- 50% of Charter cities in County are above base rate

Drawbacks

- Less stable revenue source; sensitive to economic fluctuations
- Increase to real estate costs

Revenue Options

Revenue Option	Purpose	Tax Type	Votes Required	Revenue Potential	Duration	Revenue Basis
GO Bond	Capital	N/A	2/3 majority	Up to \$600M	One-Time	Property
Parcel Tax	Library / Community	Special	2/3 majority	Varies	Ongoing or Fixed Term	Property
Sales Tax	General Purpose	General	50% + 1	\$6M – 12M annually	Ongoing or Fixed Term	Consumer
Documentary Transfer Tax	General Purpose	General	50% + 1	\$8M annually	Ongoing	Property Transaction

Other Options

Revenue Source
Requires General Voter Approval
Utility Tax (gas, telephone, cable)
Parking Fees/Tax (Tax requires voter approval)
Entertainment/Admissions Tax
Long-Term Cemetery Maintenance Tax
Business Tax (more specific groups)
Construction Taxes
Does Not Require General Voter Approval
City-wide Stormwater Assessment
Assessment Districts/Impact Fees/Public Art Fees
Cannabis Tax Implementation

Pending Legislative Considerations

Legislation	Description	Timeline
Assembly Constitutional Amendment (ACA) 1	Lowers the approval threshold for new special taxes and bonds for affordable housing and public infrastructure from two-thirds majority to 55%.	November 2024 ballot
Assembly Constitutional Amendment (ACA) 13	Requires ballot measures that increase voter approval requirements to also pass by the same threshold.	Likely November 2024 ballot
Taxpayer Protection and Government Accountability Act	Expands definition of 'taxes' to include certain regulatory fees, broadening application of tax approval requirements. For new or increased state taxes currently enacted by two-thirds vote of Legislature, also requires statewide election and majority voter approval. Limits voters' ability to pass voter-proposed local special taxes by raising vote requirement to two-thirds.	November 2024 ballot
Senate Bill 335 - County Sales Tax Thresholds	Authorizes the County of Santa Clara to impose a district sales tax increase of up to 0.625% that, in combination with other district sales taxes, would exceed the combined rate limit of 2%. (If the County brings forward a measure at the max 0.625%, Santa Clara would be limited to a 0.25% sales tax increase).	Passed Senate (May 2023) and Passed Assembly (Sept 2023)

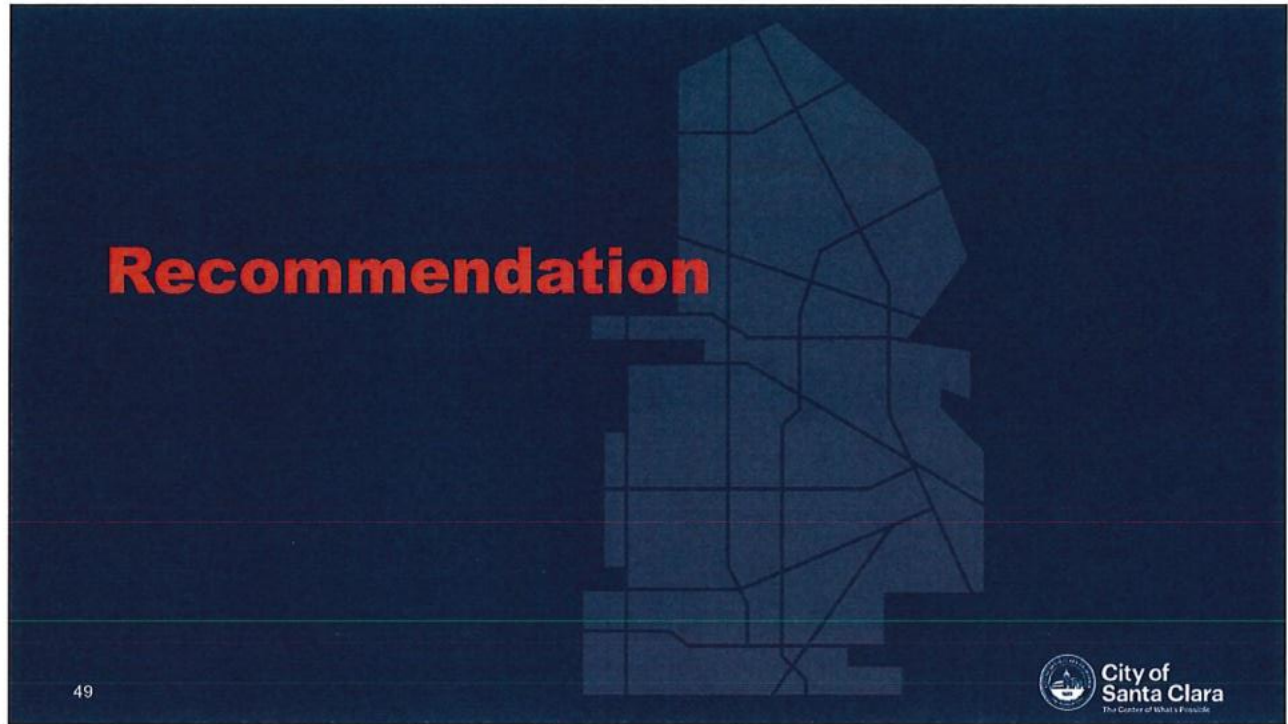
Next Steps & Timelines

Next Steps

- Retain consultant to conduct initial voter research
- Identify priorities of unfunded needs
- Develop educational campaign to communicate need for a new approach to CIP funding
- Based on voter research, determine viability of revenue options
- Following completion of voter research in early 2024, seek Council direction on potential revenue measures for November 2024 ballot

Estimated Timeline for Ballot Measure

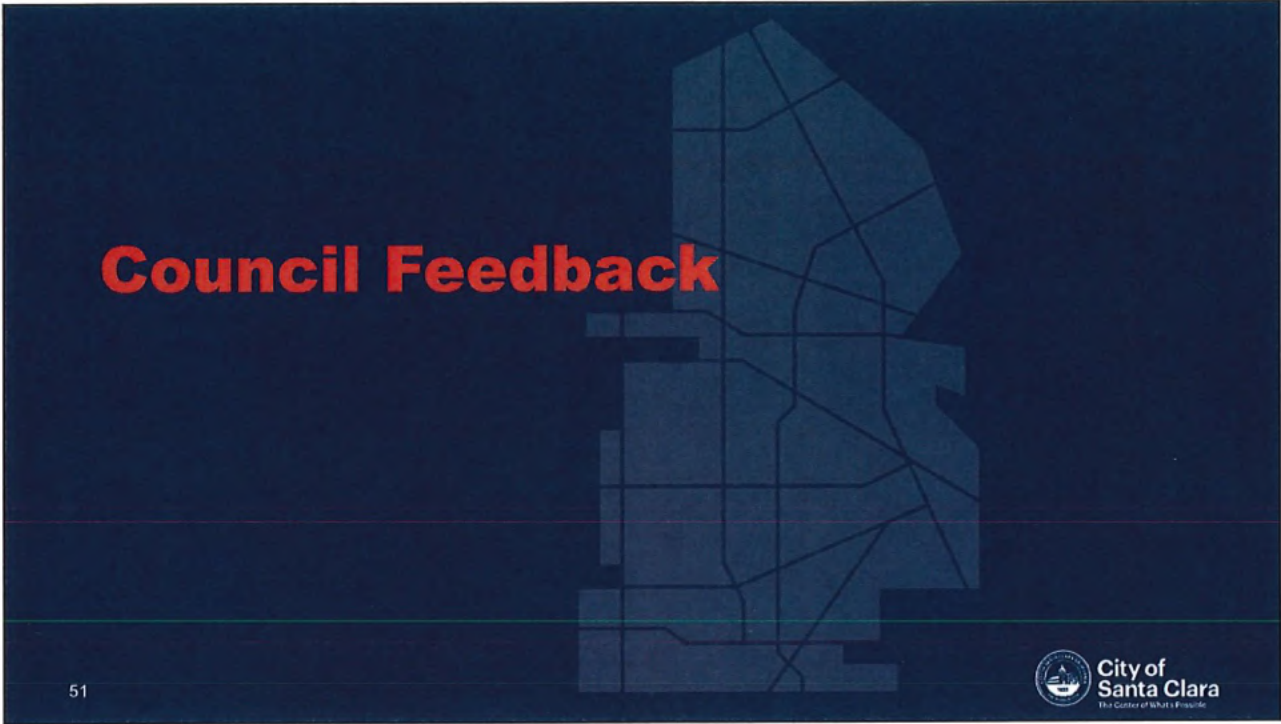
Tentative Actions	Tentative Date
Council Study Session on Unfunded Needs & Revenue Options	Oct 2023
Consultant performs voter research on community interest/potential measures	Jan 2024
Review findings from Consultant	Feb 2024
Conduct community outreach/engagement on City services/infrastructure	Feb – May 2024
Follow-up voter research if needed	May/June 2024
Evaluate options and make final determination	June – July 2024
Submit final measure for Nov. 2024 ballot	July 2024
Community mailer regarding what is on the ballot	October 2024
Election Date	November 2024



Recommendation


- Note and file study session report
- Provide general feedback on proposed work plan for the development of potential revenue measures for the November 2024 ballot

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Council Feedback

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