



DATE: April 17, 2018

CATEGORY: New Business

DEPT.: City Manager's Office

TITLE: **Potential Revenue Measures for 2018 Ballot**

RECOMMENDATION

1. Continue to explore three possible revenue measures for the November 2018 ballot.
2. Appropriate and transfer \$10,000 from the General Fund Reserve to the City Manager's Office for a second public opinion poll. (Five votes required)

BACKGROUND

Since 2013, the City Council has discussed funding options to maintain and improve services in the community, including for significant capital projects. Most recently, on December 5, 2017, the Council provided direction to staff to explore three possible measures for the 2018 ballot: (1) taxation of cannabis; (2) an increase in the Transient Occupancy Tax (TOT); and (3) an employer tax (business license).

On January 23, 2018, the City Council adopted a work plan to explore all three potential measures for the November 2018 ballot. A three-member Council subcommittee comprised of Mayor Siegel, Councilmember Clark, and Councilmember McAlister was appointed to serve in an advisory role to staff in implementing the work plan. In addition, the City Council approved \$72,000 from the General Fund Reserve to the City Manager's Office for a preliminary poll, temporary staffing, and contingency costs to manage this project.

The City's Ad-Hoc Subcommittee on Revenue Measures has met four times since its formation. A professional survey was conducted in March 2018 to evaluate the community's support for the three possible measures passing on the November 2018 ballot. The Committee has focused its discussions on the survey, potential restructuring of the City's business license tax, conducting preliminary community outreach, and refining the revenue measure work plan.

ANALYSIS

Public Opinion Survey

In February, the City retained Fairbanks, Maslin, Maullin, Metz and Associates (FM3) to develop and implement a statistically valid poll of likely Mountain View voters; present results, analysis, and recommendations to the Subcommittee and the City Council; and provide strategic advice on polling, communication messaging, and draft ballot language.

FM3 Research conducted a survey of 1,365 voters in Mountain View likely to cast ballots in the November 2018 elections. Interviews were conducted online, on landlines, and on cellphones between March 9 and March 18, 2018. The margin of sampling error associated with the data is +/- 4 percent at the 95 percent confidence interval; margins of error for population subgroups are higher. The poll tested the community's support for three measures on the November 2018 ballot:

1. 2 percent to 4 percent increase in the Transient Occupancy Tax
2. Up to 9 percent tax on the retail sales of cannabis
3. Employer Tax

The survey also tested various structural elements of the measures, whether or not revenue from the employer tax would be targeted to transportation (or any other specific funding need) or if it should be a general revenue source, spending priorities, and pro-and-con arguments for each measure. The results are intended to inform the City Council on the level of the community's support for the measures in the next General Election in November 2018 and to help shape communications for any measures that move forward. FM3 will present the survey findings and conclusions (included as Attachment 1) at the Council meeting and answer any questions.

Based on FM3's findings, staff recommends continuing to explore all three possible revenue measures for the November 2018 ballot. In addition, staff recommends conducting a follow-up survey on the employer tax, which was less fully developed than the other two. The results of the survey indicated success on the employer tax on the ballot could be contingent on the final structure of the measure as reactions to specific potential provisions varied.

Community Outreach

As community outreach is often a critical component of developing a revenue measure, the Subcommittee developed a preliminary outreach plan and began conducting targeted outreach to hotel, cannabis, and employer stakeholders, as well as the community-at-large. The input is intended to complement the findings of the public opinion survey to inform the City Council's decision on measures moving forward. Attachment 2 provides a summary of the outreach conducted to date and the schedule for upcoming meetings and community outreach. Staff will provide a verbal update on feedback to date at the Council meeting.

A number of interested members of the public have also provided input at Subcommittee meetings. Several community members have expressed interest in keeping the fee low for small businesses, having a high cap or no cap, and advocated for a general tax.

Potential Revisions to the City Business License Tax

Should Council continue to pursue restructuring the City's Business License Tax, developing the methodology is one of the primary challenges. There are a number of different ways to structure an employer tax and determine how it will be applied. The City's current Business License Tax generates approximately \$250,000 annually in accordance with Chapter 18 of the City Code. The City's business license fee schedule is based on the number of employees, type of business, and number of locations within the City. Most businesses pay a flat \$30 per location (plus an additional \$4 for AB 1079) with a maximum amount of \$250 annually. This nominal tax has not been revised since 1985.

There were over 4,100 active business licenses in January, approximately 2,900 of those are located in Mountain View; 82 percent have 10 or less employees. There are approximately 80,000 employees. Under the current Mountain View City Code, organizations or institutions that conduct business wholly for the benefit of charitable purposes are exempt from paying a business license tax. The City's common practice is to request a business license from nonprofits, but the City waives the fee.

Business License Tax structures vary by agency. Staff previously surveyed other Santa Clara County cities to determine how business license taxes are structured and their annual revenue. Most agencies are generating revenues higher than the City. Besides the City of San Jose, the City of Sunnyvale generates the highest revenues from their business licenses.

Over the past several meetings, the Subcommittee evaluated several potential revenue models for restructuring the City's Business License Tax to a new employer tax. Each model set forth different parameters for revenue targets, tax rates, caps, and cost to various business sectors. Attachment 3 provides five potential revenue models and a comparative analysis of the cost to employers with three other local cities (San Jose, Sunnyvale, and Redwood City). These are still preliminary and were developed before any substantive outreach.

Staff recommends not constraining the parameters too much before gaining additional input from the public and stakeholders. After gaining that input, the Subcommittee will make specific recommendations to Council on June 5. In the meantime, the key parameters for the employer tax to consider are:

1. Overall revenue target
2. General versus a targeted tax for transportation or specific purpose
3. Cap for maximum tax
4. Impact to small businesses
5. Inflation factor
6. Rate for employers not located in Mountain View, but who do work in the City
7. Treatment of nonprofit institutions, including medical facilities *

* Upon further review, staff has confirmed that state law prohibits cities from imposing any business license tax or business license fee on nonprofit organizations that are exempted from taxes under state law. To qualify for this exemption, the organization must meet certain legal requirements, such as being a 501©(3) and the organization complies with the requirement to irrevocably dedicate its assets to an exempt purpose.

Potential Revenue Needs and Sources

Council's prior discussions have focused on the potential for a tax measure in conjunction with the Comprehensive Modal Plan to fund transportation capital projects or ongoing revenue for transportation needs. A number of priority transportation projects have been identified. Final costs on these projects are still unknown but are substantial (see Attachment 4).

Key projects include:

1. Automated Guideway Transit.
2. Two rail/road grade separations (Rengstorff Avenue and Castro Street).
3. Transit Center improvements.
4. New Charleston Road undercrossing.
5. Connecting the NASA light rail station to North Bayshore.
6. Bike/pedestrian improvements.
7. Community shuttle.

Mountain View, like all of Silicon Valley, is faced with many other challenges. In addition to transportation, affordable housing, homelessness, public safety, open space, and parks are also important spending priorities for the community. Support for the spending priorities will be an important factor to the success of the measures, particularly the potential employer tax measure.

An annual revenue stream of \$4 million is needed to generate approximately \$50 million in debt proceeds, should the City wish to bond to fund major projects.

Staff is recommending moving forward with further evaluation of a 2 percent to 4 percent increase in the transient occupancy tax and up to a 9 percent tax on cannabis (if legalized). Both measures would be structured as general taxes requiring simple majority approval from voters. It is anticipated that each 1 percent increase in the Transient Occupancy Tax (TOT) will generate approximately \$700,000 annually (2 percent increase generates \$1.4 million and 4 percent generates \$2.8 million annually), based on existing hotels. Additional revenue is expected from planned hotels and if short term rentals are authorized.

While both medicinal and adult-use commercial cannabis activities are currently illegal in Mountain View, the City Council directed staff to develop the regulatory framework to allow and regulate retail sales. Concurrent to preparing the regulations for retail cannabis uses, the City is also evaluating a potential tax on such sales. The one item related to the employer tax that staff seeks direction on at this time is the overall revenue target (\$5 million, \$10 million, or another amount). This will help focus

dialogue and modeling. Staff recommends further evaluating whether such a measure should be structured as a general tax or as a special tax with funds earmarked for specific purposes. A special tax with funds earmarked for specific purposes like transportation would require two-thirds voter approval.

The survey indicated a proposed employer tax appears viable, with approximately two-thirds of Mountain View voters willing to support an employer tax, although support is soft. Organized support or opposition may have a significant impact on the support for the employer tax. Staff recommends additional outreach to businesses and the community prior to narrowing the focus too much at this stage in the process.

Revenue Measure Work Plan

If the City Council recommends continuing to evaluate revenue measures, staff has updated the timeline and schedule, integrating milestones for polling on the employer tax, community outreach, and key decision points for the Council (see Attachment 5). The schedule assumes follow-up polling to be conducted in early to mid-June with final direction on any measures to be placed on the ballot on June 26, 2018.

FISCAL IMPACT

The cost of a second follow-up polling survey to further test the employer tax, including specific ballot language, is approximately \$20,000. There is \$12,000 remaining in the current budget for polling services; therefore, staff is seeking an appropriation in the amount of \$10,000 for FM3 to conduct a follow-up public opinion poll on a potential employer tax. It is anticipated that the cost to place a measure(s) on the 2018 ballot is \$60,000 to \$70,000.

Staff is not asking for appropriations for the placement on the ballot at this time, but would with Council action in June.

CONCLUSION

Council directed staff to explore three possible measures for the 2018 ballot: 1) taxation of cannabis; (2) an increase in the (TOT); and (3) an employer tax (business license). A three-member Council subcommittee was formed to serve in an advisory role to staff in implementing the work plan. An initial baseline survey was conducted in March 2018 to evaluate the community's support for the three possible measures passing on the November 2018 ballot. The City's Ad-Hoc Subcommittee on Revenue Measures has focused its discussions on the survey, potential restructuring of the City's business

license tax, conducting preliminary community outreach and refining the revenue measure work plan.

Staff recommends continuing to explore three possible revenue measures for the November 2018 ballot. Staff is also seeking input on one key parameter for a revenue model for a potential employer tax; the amount of revenue to be generated. Other details will be refined after additional input from local businesses and the community. In addition, staff recommends conducting a second poll to further test the employer tax.

ALTERNATIVES

1. Discontinue efforts on any revenue measures.
2. Focus the effort on only one or two revenue measures.
3. Provide input on more parameters of the employer tax.
4. Provide other direction.

PUBLIC NOTICING

Agenda posting and a link to the report sent to the Chamber of Commerce and posted on social media.

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- Attachments:
1. Voter Support for Potential Finance Measures in Mountain View
 2. Draft Community Outreach Plan
 3. Summary of Potential Revenue Models for Employer Tax
 4. Major Transportation Project list
 5. Updated Revenue Measure Work Plan