

**DATE:** November 5, 2013

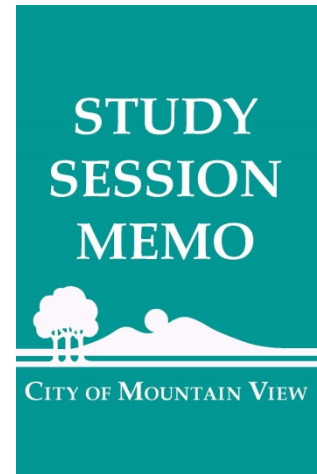
**TO:** Honorable Mayor and City Council

**FROM:** Kimberly S. Thomas, Assistant to the City Manager  
Patty J. Kong, Finance and Administrative Services Director

**VIA:** Daniel H. Rich, City Manager

**TITLE:** **Unmet Capital Improvement Projects – Voter Survey Results and Consideration of Funding Options**

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### **PURPOSE**

The purpose of the Study Session is to provide the City Council with the results of the recent voter survey; to provide supplemental information on the options for funding major capital improvements; and to obtain City Council direction on next steps. This memorandum provides a summary of the survey results and supplemental information requested by the City Council at the Study Session on May 7, 2013.

This memorandum and the Study Session will provide for a discussion of the following, with Sections 1 and 2 as the focus:

1. An executive summary of the survey results. This will be supplemented by a detailed presentation by the consultant at the Study Session.
2. New information requested related to alternative financing options in lieu of raising funds by a revenue measure.
3. Possible refinement of the unfunded major safety project.
4. Updated estimated time line and costs for 2014 ballot and a guideline for a 2016 ballot.
5. Background information on anticipated ballot measures for 2014.

## **BACKGROUND**

For context, the City's five-year financial forecast, which was presented to Council on April 30, 2013, shows that there is an insufficient surplus of revenues to support a new debt issue. As there is currently no capacity to fund the debt service that would be necessary for a major capital project, the primary alternative available to the Council is a voter-approved revenue or tax measure. At the May 7, 2013 Study Session, the City Council directed staff to pursue a baseline voter survey.

Since the Study Session, the City contracted with the professional polling firm Godbe Research to conduct the draft survey; developed a staff team for subject matter input; and staff met with Councilmembers Bryant, Kasperzak, and Siegel as a "sounding board" for feedback on the survey. The Council "sounding board" reviewed the draft of the survey and provided input at a meeting on August 21, 2013, which helped inform the final survey questionnaire. The survey was conducted in September.

The survey was part of the City Council consideration of financing options to fund future significant capital projects. 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 effort was continued in Fiscal Year 2012-13 as a goal/work plan item to:

*Identify significant capital project funding priorities and strategies for funding them.*

- The City Council most recently discussed this topic on May 7, 2013 ([Attachment 1](#)).
- The topic was previously discussed by the City Council on March 20, 2012 ([Attachment 2](#)).

## **DISCUSSION**

### **Voter Survey Executive Summary**

The survey details and analysis will be presented by the consultant in detail at the Study Session. This section will discuss the voter survey in summary form.

- The survey was designed to ask voters a limited number of questions about their satisfaction with City services, but primarily focuses on their priorities and

potential support for a measure of some type for funding seven specific unmet capital project needs.

- The survey scope served multiple purposes with one of the main goals being to provide policy makers with data to consider when determining the viability of further action on a potential voter measure in 2014 or 2016. The survey was not as detailed as a true “ballot measure survey.” Another more specific survey would be necessary if the Council decides to proceed with a ballot measure for a specific project.
- The focus of the survey was on the seven facility needs identified by the City Council at the May 7, 2013 Study Session and what level of support exists for funding one or more of the following capital improvements:
  1. A large new community park.
  2. A grade separation at Rengstorff Crossing.
  3. Renovation of the existing Community Center at Rengstorff Park.
  4. Renovation/replacement of the aquatics facility at Rengstorff Park.
  5. Renovation/replacement of the Police and Fire Operations Center Building.
  6. Construction of a freestanding Emergency Operations Center (EOC) and Dispatch Center.
  7. Replacement of Fire Station No. 3 on Rengstorff Avenue, the City’s oldest station.
- The survey was a statistically valid poll of 700 likely voters. The survey employed split sampling and lasted approximately 18.6 minutes.
- The start of the survey included basic satisfaction questions that are standard preparation for any larger survey. The survey sought to gauge satisfaction with core services, as those programs are the primary way voters see facilities.
- It surveyed a \$50 million bond option that was not meant to be a final figure, but a standardized number used for all of the survey questions—it is in order to gauge relative support levels. The survey polled a number of dollar thresholds,

including \$24, which is a rate estimated to generate approximately \$50 million in bond proceeds.

- The survey also included questions on alternate funding mechanisms such as modifications to the business license or Transient Occupancy Tax (TOT) rate. These revenue sources are well below the thresholds needed to fund \$50 million in unmet capital needs, but the data will help inform the overall discussion of longer-term financing options.

## **Voter Survey Results**

The voter survey from Godbe Research resulted in the following results:

- Satisfaction with the City's overall job performance remains very high.
  - Among likely voters, overall satisfaction is 93 percent, while it is 94 percent among all residents.
- Nearly three-quarters (74 percent) of likely voters have a favorable opinion of the job the City is doing to manage taxpayer funds, and only 10 percent had an unfavorable opinion. This results in a favorable to unfavorable ratio of 7.6 to 1, which is very good.
- Respondents are most satisfied with "fire protection and paramedic services," "Library services," "park facilities," and "Police services."
- When asked to prioritize the importance of seven facilities, respondents indicated that "Grade separating the Caltrain tracks at Rengstorff" was the most important, followed by "Replacing the Fire and Police Operations Center with an Emergency 911 Dispatch and Operations Center," and "Replacing Fire Station No. 3" and "Building a stand-alone Emergency Operations and 911 Dispatch Center."
- When the three bonds tested were averaged, the survey revealed average support at about 54 percent for a bond measure, well below the two-thirds threshold needed for approval.

- While there were differences among the three specific bonds tested, they were not statistically significant; specifically:
  - Park and Recreation Bond = 56.3 percent yes.
  - Public Safety Bond = 54.9 percent yes.
  - Grade Separation Bond = 51.7 percent yes.
- The data indicates that when respondents focus on tax rates, there is sensitivity, with approximately two-thirds support at only \$19 per \$100,000 of assessed value.
- While the park and recreation bond was numerically the highest of the three tested, the features associated with the public safety bond tested highest.

Thus, the consultant and staff analysis of the survey results suggests that current support is limited and voters need detailed information about the specifics of a facilities measure. To achieve the level of support required, the City could consider initiating a comprehensive public engagement process to detail the community's facility needs and financing options.

### **Alternative Financing Options**

At the May Study Session, the City Council asked staff to look at alternative financing options for addressing long-term needs for capital projects in lieu of raising funds by a ballot measure. This section will discuss the various options available as follows:

1. Current available funds.
2. Dedication of a future revenue stream.
3. Securing grants/other funding.

## **Current Available Funds**

The current funds available are dependent on the project or projects selected. The projects considered can be categorized as follows:

- Parks and Recreation
  - A large new community park
  - Renovation of the existing Community Center at Rengstorff Park
  - Renovation /replacement of the aquatics facility at Rengstorff Park
- Public Safety
  - Renovation/replacement of the Police and Fire Operations Center.
  - Construction of a freestanding Emergency Operations/Dispatch Center.
  - Replacement of Fire Station No. 3.
- Transportation
  - Grade separation at Rengstorff Avenue Crossing.

The Open Space Acquisition Reserve was established for the purpose of acquiring open space to meet the needs of the City. As of September 30, 2013, it has a balance of \$2.5 million. The City purchased the property at 771 North Rengstorff Avenue and Council has recently designated this parcel for use as a park. These funds may be needed to repay the purchase of that property. Either way, there are not sufficient funds to purchase a large new park site.

Park Land Dedication funds can be used for park and recreation projects. The balance available as of September 30, 2013 is \$30.4 million. Of the \$30.4 million, \$10.6 million has been designated for specific future projects; approximately \$19.8 million is undesignated. These funds could be designated for any of the park and recreation projects identified above.

The Strategic Property Acquisition Reserve (SPAR) was created for the purpose of setting aside specific funds for the City to use for the acquisition of strategic

property(ies) in order to take advantage of economic development opportunities. The SPAR funded the Moffett Gateway property purchased from the County of Santa Clara. Additional funds have been accumulated for the potential purchase of the other strategic sites.

The balance in the SPAR is currently \$6.7 million. Funds from this reserve were temporarily loaned for the purchase of other properties. The purchase of 449 Franklin Street for \$1.6 million was purchased to remove the “notch” from the City-owned property on Bryant Street to complete that block to be available for economic development. The property lines need to be realigned so that the remaining property on Franklin Street can be sold. It is anticipated that the proceeds from the remaining Franklin Street property will be deposited to the SPAR.

In addition, \$3.4 million was used for the purchase of 771 North Rengstorff Avenue with the intent that once the final use of the property was decided, the funds would be repaid and other appropriate and available funds would be substituted. Council also designated approximately \$577,000 from SPAR to fund the balance owed for the Bryant Street and Franklin Street parcels as a component of the dissolution of the former Mountain View Revitalization Authority. Another potential source of future funds is the parking lot off of El Camino Real for development by Greystar. If the developer receives approval for a project, then almost \$2.0 million would be deposited into SPAR.

The City recently closed the sale of 240 Bryant Street for \$1.1 million. The funds have been deposited into the SPAR. However, the City also holds an option to purchase the property on Franklin Street for \$1.1 million, and it is recommended that the proceeds of the Bryant Street parcel be maintained in order to purchase the property on Franklin Street. The Franklin Street parcel will be desirable if the Authority dissolution proposal is approved and the City retains the adjacent Franklin Street parcel.

A summary of SPAR funds is as follows (dollars in thousands):

Balance as of 9-30-13	\$ 6,655
Rengstorff Property	3,400
Franklin Street Property	1,600
Authority Dissolution	(577)
Dunn Property Exchange	<u>67</u>
Approximate Balance Available	<u>\$11,145</u>

If all funds previously used to purchase properties are returned to the SPAR, there would be a total of \$11.1 million available, as well as another \$2.0 million if the sale of the parking lot on El Camino Real to Greystar occurs. The purpose of SPAR is currently for strategic property acquisition related to economic development and is not identified for use of capital projects, but it would be at Council's discretion to reprogram these funds for another purpose. There is no restriction on which projects these funds could be reprogramed for.

### **Dedication of a Future Revenue Stream**

Another option in lieu of raising funds by a ballot measure would be identifying a future revenue stream and dedicating it for the repayment of debt that could be issued to fund the capital project identified. Certificates of Participation (COPs) are a financing mechanism that could be used to raise capital and does not require voter approval. Based on current market conditions, \$2.0 million annually could produce approximately \$15.0 million or \$20.0 million in bond proceeds based on 10- or 15-year debt, respectively.

Future new revenues could be generated from the development of the Moffett Gateway property or the second phase of San Antonio Center. Neither of these potential revenue streams has been included in the last General Operating Fund forecast as it was deemed too speculative at that stage. However, the potential for these developments continue to mature and although both would be at least three years out, they could be identified and committed to secure a future debt issue.

In addition, there is currently \$1.0 million in annual Construction/Conveyance Tax funds that is dedicated to the repayment of debt service on the 2001 COPs that was the source of funding for the City Hall/Civic Center Complex. This debt will be retired in Fiscal Year 2015-16. The Council could choose to continue to dedicate the annual \$1.0 million towards debt service for 15 years or longer to generate approximately \$10.0 million in bond proceeds.

### **Grants/Other Funding**

Securing grants for brick-and-mortar capital project funding is difficult and unlikely. This type of capital funding is distinct from programmatic grants. There is a limited mix of funding from competitive grants—to distributions based on existing Federal and State formulas based on match or reimbursements to loan programs that are offered by Federal, State, and local funds for programmatic uses. Examples of common formula or competitive grants at the Federal level are Community Development Block Grant Funds



(CDBG); Edward Byrne Justice Assistance Grants (JAG); and Assistance to Firefighters Grants Fire Station Grants (AFG), *et al.* There are also State initiatives that follow a similar pattern of support.

These types of grants serve to provide program support, make facade improvements or enhancements, or fund equipment, but not major capital construction of new facilities. In most cases, there is no surety of funding nor any funding source that will reach the level of a major capital expense. This is why cities look to other opportunities to fund major capital infrastructure.

### **Transient Occupancy Tax and Business License Revenue**

Changing the Transient Occupancy Tax (TOT) or Business License Ordinance to generate additional revenue requires voter approval. Because the City's Business License Tax is so low, increasing the Business License Tax has been identified as a potential revenue source on past occasions. Both the TOT and Business License Tax polled relatively favorably in the latest survey at 63.4 percent and 52.1 percent in support, respectively.

The City's TOT generated \$4.7 million in revenues last fiscal year. The revenue can be volatile, dependent on the economy. The rate of 10 percent was last modified in 1992. Rates of TOT in Santa Clara County range from 9.5 percent to 12 percent ([Attachment 5 to the May 7, 2013 Study Session Memo](#)). San Jose also has a supplemental tax downtown to fund the Convention Center expansion.

For each 1.0 percent increase in the City's TOT rate, an additional \$400,000 to \$470,000 of revenues could be generated.

The City's business license tax generates revenues of approximately \$250,000 annually. The City's tax is based on the number of employees, type of business, and number of locations within the City and the rates range from \$30 to a maximum of \$100 annually.

The amount of revenue that could be generated by updating the City's Business License Ordinance is difficult to identify. The two most common methods would be gross receipts and number of employees.

The City surveyed other Santa Clara County cities to determine the revenue potential of amending the City's business license ([Attachment 3 to the May 7, 2013 Study Session Memo](#)). Besides the City of San Jose, the City of Sunnyvale (Sunnyvale) generates the

highest revenues from their business licenses. Staff obtained the following information from Sunnyvale:

Sunnyvale's business license structure is based on number of employees or rental units as follows:

<b>No. of Employees or Units</b>	<b>Tax</b>
1	\$32.54
2 to 5	\$54.25
Each additional 5	\$54.25

The maximum number of employees is 946 and the cap of rental units is 421.

There are a total of approximately 11,000 active businesses and 1,300 rental units in Sunnyvale. Approximately 52 percent of the businesses are one employee. Based on this fee structure, Sunnyvale generates approximately \$1.5 million annually. They have one person dedicated to business licenses and another 0.75 FTE that actively audits businesses for compliance.

For Mountain View, there are just over 4,100 businesses and 1,385 rental units. Similar to Sunnyvale, 52 percent are single-employee businesses. If the City modified its ordinance with a structure similar to Sunnyvale's, with the same fee and caps, it is estimated approximately \$700,000 in revenues could be generated. After consideration of the current revenue base and the addition of staff to audit compliance, this would net the City an estimated additional \$350,000 in revenues.

Although the additional revenue for either the TOT or business license is insufficient to generate funds for the issuance of debt for capital projects, it could be a potential for additional revenue for the General Operating Fund.

### **Refinement of Unfunded Major Safety Project Options**

The three major public safety projects being considered for significant funding (new Fire Station No. 3, new or expanded Police and Fire Operations Center, and new freestanding Emergency Operations Center) have not yet been the topic of a focused

Council discussion. There are major variables associated with these projects that will have a significant impact on the project scopes and the amount of funding needed. For instance:

- Police/Fire Operations Center: The significant variation in previous estimated costs for this project (\$35 million to \$65 million) reflects a range of possible improvements from renovation and expansion of the existing building to construction of a new building based on the 2010 Space Needs Study. A decision about which option to pursue will help refine the amount of funding needed.
- Emergency Operations Center (EOC): The scope of this project includes a 3,000 square foot building on a new property purchased by the City. There are options for this project that include construction of a new EOC at the City's Municipal Operations Center (MOC) (avoiding the cost of land acquisition) and combining the EOC with Police dormitories to replace the aging structures that currently exist at the MOC. This project also may not be necessary if the Police/Fire Operations Center is expanded or replaced, as that project would also likely include an EOC. Conversely, even if a standalone EOC was built, significant work would still be required at the current building to make it more functional.
- New Fire Station No. 3: While Fire Station No. 3 is the City's oldest station and has been on the "unfunded" list for a number of years, the building is functioning adequately with the recent addition of a modular workout building in the parking lot. While not an ideal facility, staff recommends that the Police/Fire Operations Center be considered a higher priority if the safety projects are prioritized for limited funding.

If Council wishes to pursue funding for any of these projects, staff recommends a separate Study Session discussion to consider alternatives, prioritize these projects, and provide direction that will allow staff to refine the project scope(s) and budget(s).

### **RECOMMENDATION/NEXT STEPS**

As the survey revealed average support at about 54 percent for a bond measure, a significant amount of work would be required to reach the two-third threshold for bond approval. The voter survey results indicate the success of a specific facilities measure would require initiating a comprehensive public engagement process to detail the community's facility needs and financing options.

A general revenue measure like the Transient Occupancy Tax or Business Licensees Tax would only require a majority vote if the revenue were used for general purposes. A general revenue measure would fall short of the revenue needs for financing a major capital project.

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 prepare a revenue measure for the ballot (see Attachment 3 for the basic phases in the process and costs). Given the modest survey results, that there is not clarity on project scope, and that the November 2014 election cycle is just one year away, the viability and costs of such a campaign should be key considerations for the Council. A longer time line for 2016 may also be considered.

Staff recommends a future Study Session to further discuss alternatives for a public safety capital project and, depending on the direction from that session, then spending six months more to fully develop plans. During this time, we would also have a better sense of the likelihood of new, ongoing revenue sources. Further Council direction could be provided then on pursuing a 2016 measure, or moving forward with another funding mechanism.

The Council may alternately wish to identify the one or more priority capital projects and one or more funding options in lieu of raising funds by a ballot measure. This discussion can begin at the Study Session and/or be considered for further follow-up based on Council direction received.

**PUBLIC NOTICING** – Agenda posting.

KST-PJK/7/CAM  
609-11-05-13SS-E

- Attachments:
1. [Consideration of Funding Options for Unmet Capital Improvement Projects, May 7, 2013, Study Session Memo](#)
  2. [Long-Term Funding Options for Capital Improvement Projects, March 20, 2012, Study Session Memo](#)
  3. Updated Estimated Time Line and Costs for 2014 Ballot and a Guideline for 2016
  4. Background Information on Anticipated Ballot Measures for 2014

## Updated Estimated Time Line and Costs for 2014 Ballot and a Guideline for 2016

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. 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 Survey**—An early survey could be helpful to determine citizens' overall satisfaction and priorities of services and facilities. This would be a first step to see what is most important to residents and to begin to gauge support for a bond issue or revenue tax measure.
- **Public Outreach and Information**—After a survey, depending on levels of support, the public outreach effort would continue with a Council Study Session or community forum to discuss the issues, and from this input Council would make a final decision on which project(s) to pursue and a decision to move forward with the next step. A consultant could help with this effort.
- **Additional Polling**—After community input, outreach, and education, additional polling on the preferred project and funding mechanism is recommended. This would test a draft ballot statement and specific funding amount to see if it is viable.
- **Develop and Place Measure on Ballot**—The process of writing the ballot question and the full text of the measure would be conducted and final approval of the Council for placement on the ballot would be secured.
- **Campaign (Non-City Resources)**—This phase does not include City resources, and the City's role is limited to an informational role only. A volunteer campaign committee typically leads the campaign phase.

### 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:

One Survey (cost varies by sample size and measure type)	\$ 30,000 to 40,000
Consultant(s)	50,000
Legal	15,000
Registrar of Voters	65,000 to 70,000
Other	<u>10,000</u>
<b>Updated Estimated Total</b>	<b><u>\$185,000</u></b>

The costs could be more if an additional survey is desired 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.

In addition to direct costs, it should be noted that pursuing a revenue measure is a major undertaking that will require strong Council and community support, significant staff time until placement on the ballot, and then community leadership to run a campaign (as noted above, no City resources can be used at this point).

## Background Information on Anticipated Ballot Measures for 2014

As noted in the May Study Session report (May 7, 2013 Study Session memo (<http://laserfiche.mountainview.gov/WebLink/0/doc/65570/Electronic.aspx>), based on an early survey conducted by the Santa Clara Assistant City/County Managers' Association for the Santa Clara City/County Managers' Association, at least nine cities/the County are at varying stages of exploring a range of potential financing measures for voter approval in 2014. (Source: Survey conducted by SCC ACMA dated March 8, 2013.)

There are also some potential State Constitutional Amendments (SCA) that are still pending before the legislature that could influence voter thresholds for tax measures. (Source: *The League of California Cities*.)

According to Michael Coleman of [CaliforniaCityFinance.com](http://californiacityfinance.com).<sup>\*</sup> “There are 74 local measures on November 5 ballots including 47 measures concerning bonds or taxes. Twelve measures ask for \$790+ million in bonds including a \$394 million for a hospital in Marin and \$374.6 million in 8 school districts.”

He notes, “There are twelve proposals that would extend or increase local sales taxes, including the 3/4 cent general tax proposal in Stockton that is accompanied by an advisory measure for use in law enforcement and bankruptcy recovery. These are majority vote measures except two (Huron, Clearlake) that are attempting to garner two-thirds approval for 1 cent earmarked special taxes. There are 13 parcel taxes including 5 to increase or extend school taxes and 4 for fire districts.”

(\*Source: <http://californiacityfinance.com/Votes1311proposed.pdf>)