

DATE: September 12, 2023
TO: Honorable Mayor and City Council
FROM: Kimberly S. Thomas, Deputy City Manager
Arn Andrews, Assistant City Manager
VIA: Kimbra McCarthy, City Manager
TITLE: **Potential Revenue Ballot Measure for 2024**



STUDY SESSION MEMO

PURPOSE

The purpose of this Study Session is to provide the City Council with an overview of potential revenues to consider placing on the ballot in 2024, including major considerations associated with each revenue type. Staff seeks Council feedback related to the revenue options presented and selection of an ad hoc committee to assist staff during the yearlong ballot initiative process.

BACKGROUND

The Adopted Fiscal Year 2023-24 Operating Budget and General Operating Fund Forecast currently shows sufficient financial resources to maintain the Mountain View of today, but building the Mountain View of tomorrow will require enhanced revenue streams to maintain ongoing fiscal stability and accomplish the bold initiatives under way.

As such, at the June 13, 2023, Council meeting, Council approved the Fiscal Years 2023-24 and 2024-25 Council Work Plan. Included among Priority A work plan items is a project to “explore the feasibility of a potential 2024 revenue measure.”

Overview of Critical Unfunded Mountain View Priorities

The Mountain View of tomorrow will require addressing aging facilities and Citywide infrastructure, building new parks and open spaces, implementing ambitious decarbonization and climate change mitigation programs, and building more affordable housing. The following are examples of critical initiatives that need additional funding:

Public Safety Infrastructure, Emergency Operations Center, 9-1-1 Emergency Dispatch

For more than 20 years, the City has studied and discussed the need for constructing a new public safety administration building, which houses the Police Department, Fire Department administration, the Emergency Operations Center and the 9-1-1 emergency dispatch. The

existing building is antiquated and does not meet current seismic standards. The current estimate for a new building is approximately \$160 million. In addition, the City has two fire stations that are 55 and 61 years old, respectively, that need repairs and modernization.

Parks and Open Space

The City currently has an open space goal to provide three acres of open space for every 1,000 residents. Based on current data, the City is expected to create, on average, one to two new parks per year through the year 2030. The overall park acreage will be growing with these future identified parks; however, there are specific neighborhoods and planning areas within the City that are not reaching the open space goal and do not have identified funding. The forthcoming Parks and Recreation Strategic Plan will help identify strategies to meet the parks and open space needs of the future, which will require a significant financial investment to acquire new land and/or property.

Climate Change Mitigation

In 2020, in response to State, national, and internal action on climate change, the City adopted a goal of carbon neutrality by 2045. Over the next year, the City will develop a decarbonization strategy to achieve significant emissions reductions by 2035. The City's costs will be upwards of \$10 million to implement decarbonization projects and more than \$40 million to increase the City's electrical grid capacity.

Affordable Housing

The City will continue to be a Statewide leader in the development and preservation of affordable housing. The current total pipeline of affordable units (100% affordable and Below-Market-Rate) is approximately 1,690 units. This is a significant pipeline that will double the City's affordable housing supply in the coming years. At this time, there is an estimated gap of approximately \$50 million to fully fund the affordable housing projects in the pipeline.

Castro and Rengstorff Grade-Separation Projects

The City has two large-scale grade-separation projects under development. The Rengstorff project proposes to depress the intersection of Rengstorff Avenue and Central Expressway to enhance safety, traffic flow, railroad operational safety, and traffic movement along adjacent streets and intersections. The Transit Center Grade Separation and Access Project is focused on the Castro Street/Moffett Boulevard/Central Expressway intersection and the Castro Street crossing of the railroad tracks. At this time, there is an estimated gap of approximately \$45 million to fully fund both projects.

Overview of Regional and Statewide Ballot Measures

A review of regional and Statewide election results illustrates the type of revenue measures the electorate has been inclined to support. One important consideration in the advancement of a revenue measure is the voting margin required for passage. Based on State law and the type of revenue measure, governing bodies either pursue a “General Tax” or a “Special Tax.” The following table highlights elements of both.

Table 1: Types of Ballot Measures

	General Tax	Special Tax
Use of Revenues	Unrestricted	Special Purpose
Governing Body Approval Required	Two-Thirds	Majority
Voter Approval Required	Majority (50% + 1)	Two-Thirds

Table 2 illustrates that in 2022, 80% of Statewide General Tax measures were passed by voters compared to 43% of Special Tax measures.

Table 2: Statewide Ballot Measures 2022

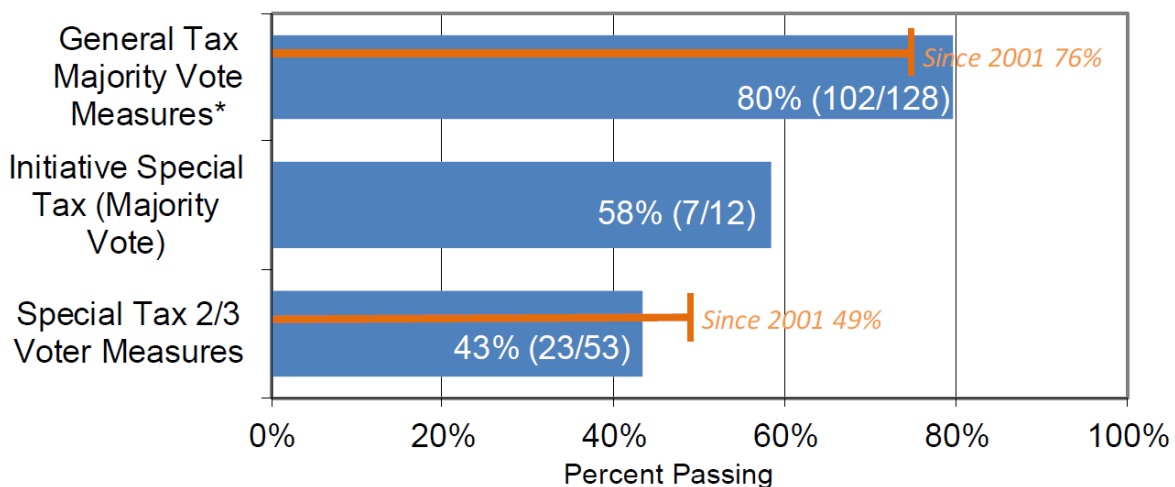


Table 3 illustrates that regional revenue measures in Santa Clara and San Mateo Counties had a similar result for the past three years. A total of 30 Revenue Measures were placed on the ballot, with 25 passing and five failing. Apart from the parcel tax initiatives and one Transient Occupancy

Tax (TOT) measure, all other measures were presented as general-purpose (50% + 1) measures. It is important to note that one failing TOT measure was adopted as a Special Tax.

Table 3: Regional Ballot Measures 2020-2022

Type of Measure	Total Measures/Fail	Average Vote Percentage
Transient Occupancy Tax (TOT)	9 Total/1 Fail	72.5%
Business License Tax	5 Total/0 Fail	64.2%
Sales Tax	5 Total/0 Fail	61.2%
Property Transfer Tax	5 Total/1 Fail	60.1%
Parcel Tax	3 Total/2 Fail	60.1%
Utility User Tax	3 Total/1 Fail	54.0%

Overview of Mountain View Revenues and Rates

Over the years, the City has limited its use of presenting revenue measures to the voting public. Since 1973, the City has adopted five ballot initiatives to increase revenue (in 1973, 1991, 2010, and two in 2018¹).

Property Transfer Tax

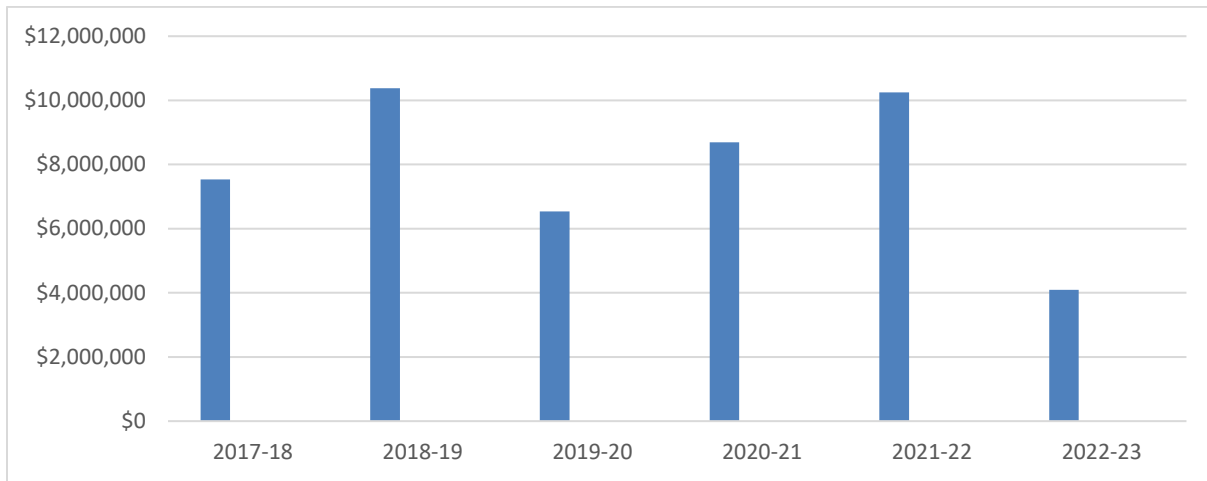
A real property transfer tax is a tax paid on each deed or other recorded instrument transferring real property, such as the sale of real property. In California, counties and general law cities are authorized to impose a Real Property Transfer Tax under the Documentary Transfer Tax Act at the rate of \$0.55 per \$500, for transactions with a value exceeding \$100. Mountain View, as a charter city, has authority under the State Constitution to impose a transfer tax and is not limited to the tax rate specified under the Documentary Transfer Tax Act.

In 1973, the City adopted a property transfer tax at the rate of \$1.00 and \$1.65 for each \$500 or less of the value of the consideration. For comparative purposes, the tax is often referred to as \$3.30 per \$1,000.

For Fiscal Year 2022-23, property transfer taxes are estimated at \$4.1 million compared to \$10.2 million for Fiscal Year 2021-22. The decline is the result of decreased home sale volume.

¹ A Cannabis Business Tax, Measure Q, was passed by the voters in 2018 which imposes a gross receipts tax on cannabis businesses that operate or provide specified services within the City. This tax has not generated any revenue to the City and will not be discussed in this Study Session memo.

Table 4: Property Transfer Tax Actual and Forecasted Revenues



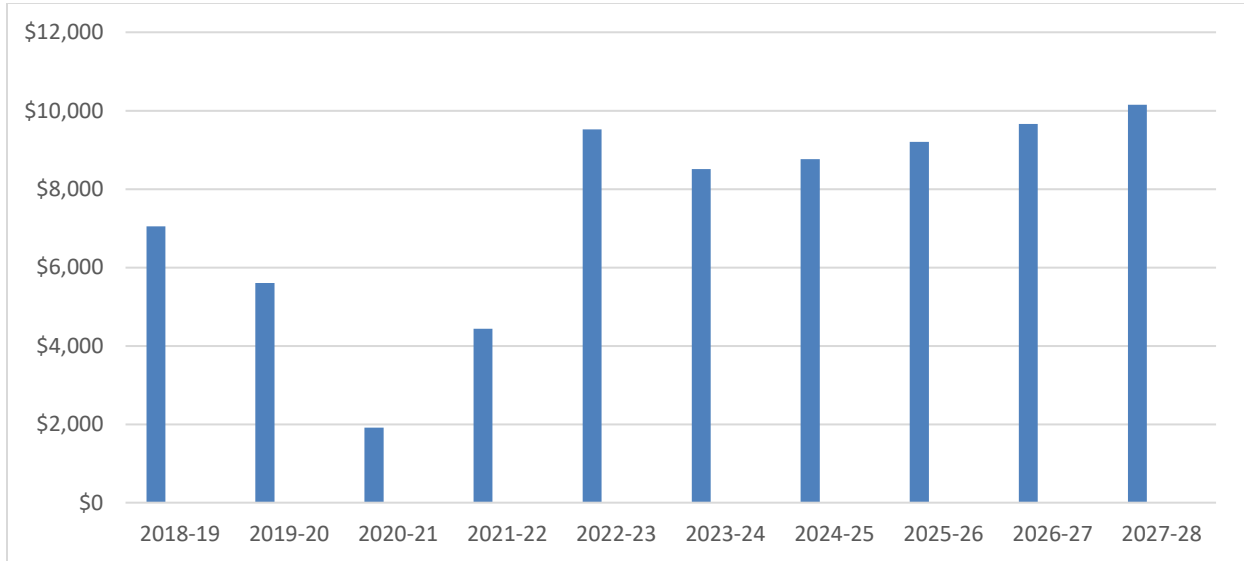
Transient Occupancy Tax

Voters last amended the City’s Transient Occupancy Tax (TOT) in 1991, increasing the TOT from 8% to 10%.

The TOT is a tax assessed on hotel and motel per-room occupancies, paid for by the visitors. Any occupancy by a government employee while on government business, or a stay exceeding 30 consecutive days, is exempt from the tax. This tax is self-reported quarterly by hotels and motels within the City limits, and a compliance audit is performed periodically. On November 13, 2018, the City Council adopted an ordinance related to the short-term rental (STR) of residential property. These rentals are subject to the City’s 10% TOT.

City received \$9.5 million TOT revenue in Fiscal Year 2022-23, which includes \$1.1 million belonging to Fiscal Year 2021-22 but recorded in Fiscal Year 2022-23. The Fiscal Year 2023-24 projected revenue is essentially the same as Fiscal Year 2022-23 (excluding the \$1.1 million adjustment).

**Table 5: TOT Actual and Forecasted Revenues
(Dollars in Thousands)**



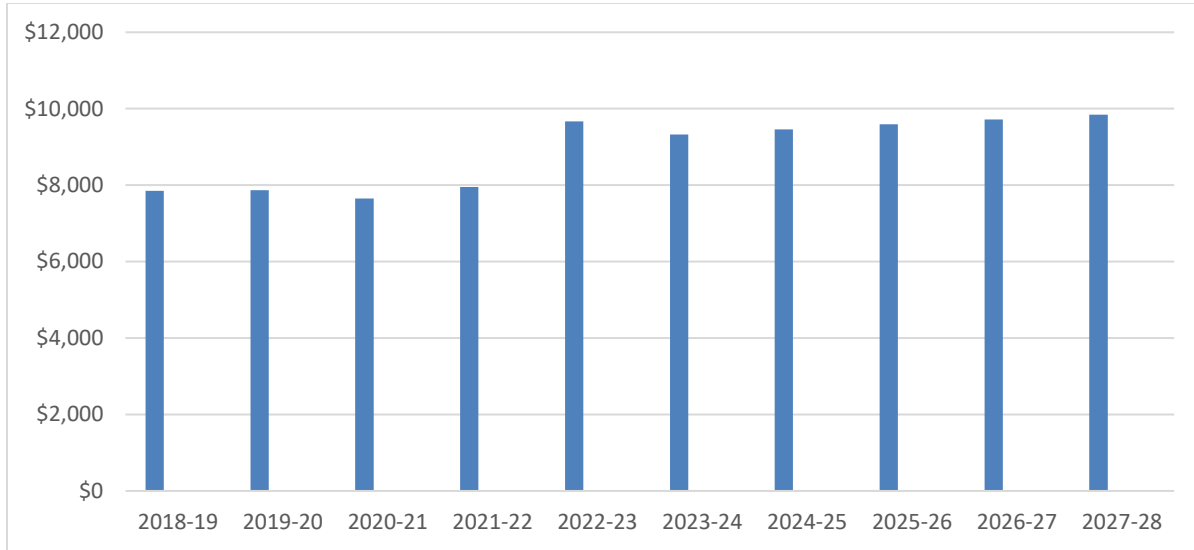
Utility User Tax

Voters approved a ballot measure in 2010 that broadened the base definition of utilities to include all telecommunication services and maintained the 3% rate.

The Utility User Tax (UUT) is a 3% tax assessed on the consumption of all telecommunications (2.5% tax on purchases of Mobile Telephony Services (MTS)), electricity, and gas services. Companies providing taxable utility services remit UUT payments monthly, and a compliance audit is performed periodically.

For Fiscal Year 2023-24, revenues are estimated at \$9.3 million, or approximately 1.3% higher than Fiscal Year 2022-23.

**Table 6: UUT Actual and Forecasted Revenues
(Dollars in Thousands)**



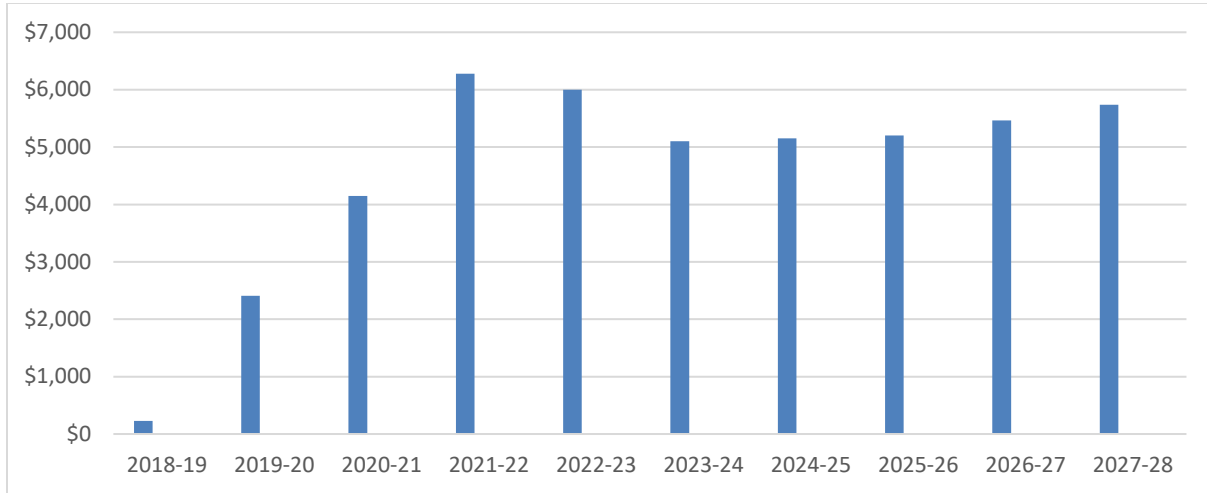
Business License Tax

Voters approved the per-employee Business License Tax in 2018, known as “Measure P.”

The Business License Tax is assessed on all businesses known to be operating in Mountain View and billed annually. Currently, there are approximately 5,200 active businesses licensed. Before Measure P, approved by Mountain View voters in November 2018, the tax rate was generally \$30 per year for most businesses (73%), but reached \$250 for certain types of businesses. The Business License Tax structure changed, effective January 1, 2020, whereby the tax is assessed based on a structure of tiered number of employees. The change was phased in over three years for businesses with more than 50 employees. The City Council earmarked by resolution 80% of additional revenue generated from the restructured tax to transportation and 10% to affordable housing.

The City received \$6 million in revenue in Fiscal Year 2022-23, which represented a 4.4% decrease compared to the prior fiscal year due to fewer employee headcounts being reported by the major employers in the City.

**Table 7: Business License Tax Actual and Forecasted Revenues
 (Dollars in Thousands)**



While the City adopted a per-employee methodology in 2018, other variations of a business license tax could be considered. Another approach to a business license tax is a “gross receipts” model. The benefits of gross receipts-based taxes are the equity of their effective tax rate, ease of calculation, and potential for capturing revenue from growth in the economy. Gross receipts can be calculated using a “single rate” method or utilizing multiple rates based on the category of business. The “single rate” method of taxing on gross receipts provides an even distribution of the effective tax rate because all businesses subject to the tax will pay the same rate.

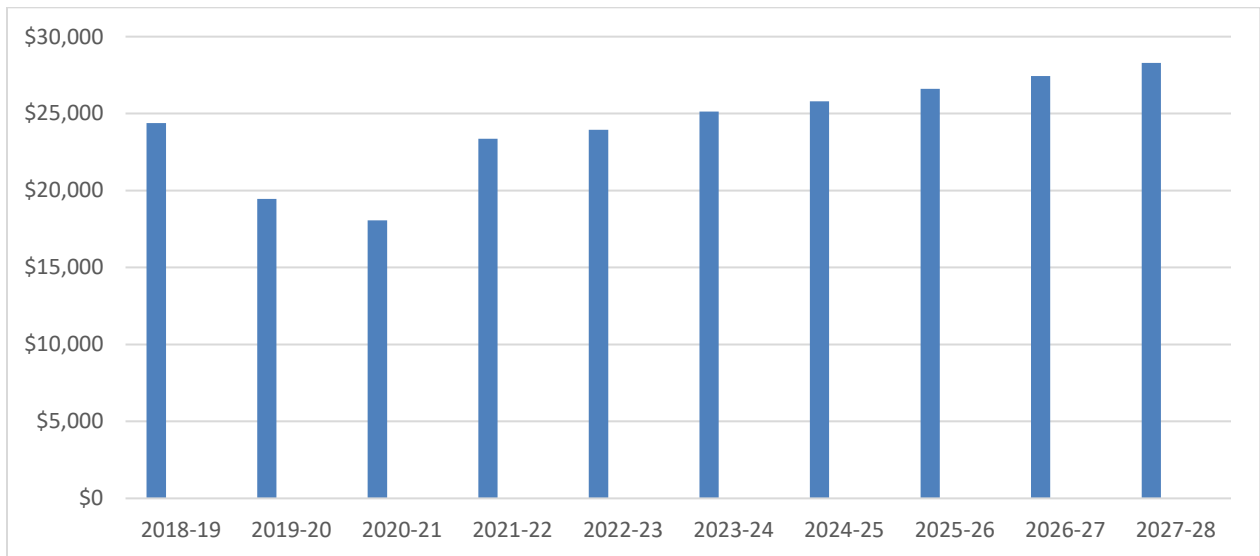
Fiscal Year 2023-24 Business License Tax revenue is projected to decline 15% compared to Fiscal Year 2022-23, due to known and potential layoffs. Currently Fiscal Year 2023-24 revenue is projected at \$5.1 million.

Sales Tax

The City has never presented a dedicated District Sales Tax measure to the community. California, like the majority of states, utilizes a Sales and Use Tax (SUT). The California SUT is comprised of a standard Statewide component (6.25%) and a local jurisdiction component (1.0%) for a current Statewide base rate of 7.25%. The local jurisdiction component allows municipalities and counties, through voter approval, to add additional district taxes. The combined rate of all district taxes in any county cannot exceed 2.0%. County agencies have taken up 1.75% of the 2.00% cap, which would leave the City with the potential of a 0.25% district tax.

Sales tax revenue is currently the third largest single-revenue source of the City’s General Operating Fund. The City is allocated 1% of every sales dollar subject to 9.125% sales tax in Santa Clara County. Fiscal Year 2023-24 sales tax revenue is projected at \$25.1 million, essentially the same as estimated in Fiscal Year 2022-23. The annual forecast projects 2.6% to 3.2% increases in the next few fiscal years.

**Table 8: Sales Tax Actual and Forecasted Revenues
(Dollars in Thousands)**



Overview of Regional Revenue Rates and Potential City Revenue Increase

Property Transfer Tax

In Santa Clara County, all general law cities have a city rate of 0.55% per \$1,000, and a County rate of 0.55% per \$1,000, for a combined rate of \$1.10 per \$1,000. Of the six chartered cities in the county, Mountain View, Palo Alto, and San Jose have adopted additional transfer rates as illustrated below.

Table 9: Property Transfer Tax Rates

Charter Cities	Per \$1,000 City Rate	County Rate	Per 1,000 Total
Mountain View	\$3.30	\$1.10	\$4.40
Palo Alto	\$3.30	\$1.10	\$4.40
San Jose	\$2M—\$3.30	\$1.10	\$4.40
	\$2M to \$5M—\$10.80	\$1.10	\$11.90
	\$5M to \$10M—\$13.30	\$1.10	\$14.40
	Over \$10M—\$18.30	\$1.10	\$19.40

For each additional \$1.10 per \$1,000 in property transfer tax revenues, City revenue would increase approximately \$1.3 million.

- For example, if the City were to increase an **additional \$1.10 per \$1,000**, for a total rate of \$4.40 per \$1,000, it would result in **approximately \$1.3 million** of additional property transfer tax revenue.
- Based on home sales in Fiscal Year 2022-23, if the City were to adopt a **tiered incremental system like San Jose**, it would result in **approximately \$2.9 million** in additional revenue.

Transient Occupancy Tax

Given that the TOT for the City has not been adjusted since 1991, the current 10% rate is significantly lower than other regional agencies as illustrated in the following table.

Table 10: TOT Rates

Cities	TOT Rate
Palo Alto	15.5%
Los Altos	14.0%
Milpitas	14.0%
San Jose	14.0% (10% TOT 4% CCFD)
Santa Clara	13.5%
Sunnyvale	12.5%
Campbell	12.0%
Cupertino	12.0%
Los Gatos	12.0%
Morgan Hill	11.0%
Saratoga	10.0%
Mountain View	10.0%
Gilroy	9.0%

For each additional 1% in TOT revenues, City revenue would increase approximately \$950,000.

- For example, if the City were to **increase the TOT rate from 10% to 15%**, it would result in approximately **\$4.75 million** of additional TOT revenue.

Utility User Tax

In Santa Clara County, for cities that have Utility User Tax (UUT) taxes, the rates range from 2% to 5%.

Table 11: UUT Rates

Cities	Rates
Palo Alto	5.0%
San Jose	5.0%
Gilroy	5.0%
Los Altos	3.5%
Mountain View	3.0%
Cupertino	2.4%
Sunnyvale	2.0%

For each additional 1% in UUT revenues, City revenue would increase approximately \$2.7 million.

- For example, if the City were to **increase the UUT rate from 3% to 5%**, it would result in approximately **\$5.4 million** of additional UUT revenue.

Sales Tax

As illustrated in Table 12, four jurisdictions in Santa Clara County have adopted an additional local district sales tax.

Table 12: Sales Tax Rates

County/Cities	Percentage
Campbell	9.375%
Milpitas	9.375%
San Jose	9.375%
Los Gatos	9.250%
Santa Clara County	9.125%
Mountain View	9.125%

For each additional .125% in sales tax revenues, City revenue would increase approximately \$2.2 million.

- For example, if the City were to **increase the sales tax rate by 0.25%**, it would result in approximately **\$4.5 million** of additional sales tax revenue.

The below table presents a summary of options for the revenue potential for each tax category.

Table 13: Summary of Options

Type of Measure	Who is Taxed	Current MV Rate	Single Increment Value	Rate Option	Additional Revenue Potential
TOT	Hotel guests	10%	1% = \$950,000	+ 5% (to 15%)	\$4.75 million
Sales Tax	Any purchaser	9.125%	0.125% = \$2.2 million	+.25% (to 9.375%)	\$4.5 million
Property Transfer Tax	Typically, home seller	\$3.30 per \$1,000	\$1.10 = \$1.3 million	+ \$1.10 (to \$4.40/\$1000) or Tiered system like San Jose	\$1.3 million \$2.9 million
UUT	Telecom, electricity, and gas ratepayers	3%	1% = \$2.7 million	+2% (to 5%)	\$5.4 million

Overview of the Revenue Measure Adoption Process

Under Article 13c, Section 2 of the California Constitution, a general tax must be submitted to the voters for approval at a regularly scheduled general election, except in the case of a fiscal emergency declared by unanimous vote of the City Council. 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. Staff has developed a work plan, which accommodates placing a measure on the November 2024 election.

The following are the basic phases in the revenue measure process:

- Community Survey—An early survey could be helpful to determine voters’ 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 revenue tax measure.
- Public Outreach and Information—After a survey, depending on levels of support, the public outreach effort would continue with additional Council Study Sessions, and/or community forums, to discuss the issues. With this input, Council would make a final decision on which revenue measure to pursue.

- Additional Polling—After community input, outreach, and education, additional polling on the preferred revenue measure may be appropriate.
- 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.

The below chart shows the preliminary timeline for the revenue measure process:

Date	Process/Activity
September 2023	Initial Study Session, Council direction, and ad hoc committee adoption.
October 2023	Select polling firm from the (Request for Proposals) RFP process. In coordination with the ad hoc committee, refine polling scope based on Council feedback from Study Session.
December 2023	Ad hoc committee reviews initial polling results and provides feedback.
January 2024	Council provides direction on revenue options to pursue. Ballot language drafted.
February 2024	Staff drafts required legal documents and ballot language.
March 2024	Complete additional polling as appropriate.
May 2024	Council approval of the November 2024 ballot measure and specific measure language. Call election, set arguments, author priority, submission date/time for arguments/rebuttals.
June 2024	Final approval, including the ballot measure language, will need to be submitted to the Santa Clara County Registrar of Voters in early August 2024.
August 2024	The last date to withdraw a measure is August 14, 2024.
November 2024	General Election—November 5, 2024.

Council Questions

Question 1: Does Council approve exploring the feasibility of a 2024 revenue measure and creating an ad hoc committee?

As previously mentioned, included in Council’s Work Plan is a Priority A project to “explore the feasibility of a potential 2024 revenue measure.” The breadth of unfunded projects necessary to achieve the vision for the Mountain View of tomorrow warrants placing a revenue measure on the ballot for the residents of Mountain View to consider. In addition, staff recommends that an ad hoc committee would be the most effective and efficient way to gain Council input during the development of the survey and polling process and other elements of the revenue measure process. Notably, included in the Fiscal Year 2023-24 Adopted Budget is funding of \$250,000 for consultant services to assist with polling for a potential revenue measure in 2024.

As part of the preparation for an anticipated ad hoc committee, staff issued a Request for Proposals (RFP) to evaluate qualified firms who can provide all services necessary to conduct a public opinion survey and evaluate the level of voter support for various voter-approved revenue options. Staff anticipates the consultant being available starting late October and working in consultation with the ad hoc committee on the development of the survey.

Question 2: Does Council concur with polling only on general tax revenues?

General Tax measures have higher ballot success rates and provide greater latitude to address multiple City fiscal needs. Staff recommends polling only on City revenues eligible for a majority vote ballot measure at this time.

Question 3: What specific revenue increase is Council interested in pursuing based on the information provided?

The City revenues eligible for a general tax increase include the following:

- Transient Occupancy Tax (TOT)
- Sales Tax
- Property Transfer Tax
- Utility User Tax (UUT)

RECOMMENDATION

Staff seeks Council input regarding the following:

Question 1: Does Council approve exploring the feasibility of a 2024 revenue measure and creating an ad hoc committee?

Question 2: Does Council concur with polling only on general tax revenues?

Question 3: What specific revenue increase is Council interested in pursuing based on the information provided?

NEXT STEPS

With the Council's concurrence on the recommended revenue measure process and schedule, staff will proceed as outlined in the Council report, in consultation with the ad hoc committee.

KST-AA/MS/1/CAM

609-09-12-23SS

203154