

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: ALAN ALTON, ACTING CHIEF FINANCIAL OFFICER
DAVID GOUIN, DIRECTOR
HOUSING & COMMUNITY SERVICES

SUBJECT: CITY OF SANTA ROSA REVENUE OPTIONS FOR AFFORDABLE
HOUSING, INFRASTRUCTURE, AND GENERAL CITY
SERVICES

AGENDA ACTION: MOTION

RECOMMENDATION

It is recommended by the City Council Infrastructure and Housing Finance Ad Hoc Committee that the Council, by motion, a) direct staff to return on July 24, 2018 with a resolution calling for an Affordable Housing Recovery Bond for the November 6, 2018 general election, ballot language, and all necessary materials to seek voter approval for an Ad Valorem property tax on properties within the City limits of Santa Rosa for affordable rental and homeownership housing; and, b) provide direction to staff if the Council wants to expand the scope of the Bond to include infrastructure and/or to also place a quarter cent sales tax for a six year period and/or an increase in the Transit Occupancy Tax in an amount up to 5% for an on-going period for general fund recovery on the same November 6, 2018 ballot.

EXECUTIVE SUMMARY

Additional financial resources are needed to enable the City to meet several unmet needs. Options for generating these additional financial resources include increasing the City sales tax by a quarter-cent; increasing Transient Occupancy Tax (TOT) from 9% up to 14%; a Housing and Infrastructure General Obligation Bond; and/or a Housing General Obligation Bond. All of these options would require voter approval. Sales tax and TOT increases designated for general City purposes would require a majority (50% plus one vote). If designated for special purposes, such tax increases would require a two-thirds vote. A General Obligation bond for Affordable Housing, or for Affordable Housing and Infrastructure would also require a two-thirds vote.

The City engaged the services of two firms to conduct a Community Needs Assessment opinion survey, the results of which were provided in an earlier Study Session. This

survey gauged voter opinion on their overall satisfaction with City services, the importance of individual services, and the likelihood of voter approval of the above-mentioned revenue generating measures.

Staff is requesting City Council direction relative to which measure(s) to put on the November 2018 ballot.

BACKGROUND

Additional financial resources are needed to enable the City to meet the following Council goals:

- Effectively implement the recovery and rebuilding of Santa Rosa;
- Meet housing needs;
- Attain functional zero homelessness; and
- Foster a strong downtown and overall economic development of the community.

To generate the needed funding, the Council may consider one or more of the following new revenue options: (1) Increase City sales tax by a quarter-cent; (2) Increase the Transient Occupancy Tax paid by guests at hotels, motels and other short-term rentals within the City limits from 9% to up to 14%; (3) Approve a Housing and Infrastructure Bond, placing a new Ad Valorem tax on properties within the City and thereby allowing the issuance and repayment of bonds to support affordable housing and municipal infrastructure; and/or (4) Approve a Housing Bond, placing a new Ad Valorem tax on properties within the City and thereby allowing the issuance and repayment of bonds with revenues to be dedicated solely to the production and maintenance of affordable housing. All of the four options would require voter approval.

The City hired Godbe Research and TBWB Strategies to perform an opinion survey and analyze the data resulting from that survey to gauge community support for these various revenue-generating measures. The results of the survey were presented to the City Council in a Study Session.

PRIOR CITY COUNCIL REVIEW

None.

ANALYSIS

A. Financial Needs

The Santa Rosa Housing Trust (SRHT), managed by the Housing Authority, is the affordable housing delivery system for the community. SRHT has produced over 5,600 affordable housing units and has an active portfolio of \$116 million.

On an annual basis, the City has approximately \$3 - 4 million available to support the production and preservation of affordable rental and homeownership units, including special needs facilities. These funds are generated from loan payments received by the City for prior loans, the City Council's policy of directing a portion of the General Fund toward affordable housing, fees some developers pay in-lieu of providing affordable units, and federal grant allocations, including Community Development Block Grants, HOME funds and others. In comparison, when Redevelopment was active in Santa Rosa, approximately \$8 million a year was available for the production and preservation of affordable housing.

After the loss of Redevelopment and prior to the wildfires, Council had indicated its interest in finding new ways to support affordable housing production and preservation through other revenue sources, such as a General Obligation bond. The sudden loss of more than 3,000 homes in the October fires dramatically exacerbated the community's housing needs.

In addition, the City also has a number of critical unmet needs relative to infrastructure and other City services. Additional financial resources would help address infrastructure needs to assist in community revitalization and in the recovery and rebuilding efforts as a result of the October 2017 wildfires.

B. General Obligation Bond – Housing or Housing and Infrastructure

A General Obligation bond would be secured by the City's taxing power and paid for from Ad Valorem property taxes. General Obligation bonds require an affirmative vote of two-thirds of voters, and are considered the most secure of all municipal debt. Bonding capacity is limited to 3.75% of assessed value. For Santa Rosa, the maximum capacity is \$837 million.

The proceeds of a General Obligation Bond could be designated solely for housing development within the City, or could be slated for use for both housing and related infrastructure. In either case, the proceeds of a General Obligation Bond may only be spent on the acquisition and improvement of real property. No Bond monies may be spent on City programs or operations. The additional Ad Valorem tax levy would continue until the bonds have been paid off.

A recent analysis performed by PFM, the City's Financial Advisor, showed that at a rate of approximately \$19 per \$100,000 of Assessed Value (AV), an estimated total of \$80 million of project funds could be generated, assuming repayment of the General Obligation bond over a 30-year period. At \$43 per 100,000 AV, a total of approximately \$180 million of project funds could be generated assuming repayment over that same period.

By way of comparison, an Affordable Housing Bond previously proposed by the County of Sonoma at a rate of \$19.52 per 100,000 of AV was previously estimated to generate approximately \$370 million in project funds. The reason there would have been far more proceeds generated through the proposed County bond measure versus the potential project funds available through a City bond measure is due to the total assessed value for the County, which is significantly greater than that of the City (nearly 4 times greater as of fiscal year 2016-17).

The opinion survey commissioned by the City tested a General Obligation bond for affordable housing and infrastructure projects at the \$43 per 100,000 rate generating \$180 million in project funds. The poll data suggests 64.2% of total yes responses.

A policy framework for a proposed County-wide housing-only bond has been prepared by a local leadership team, including a member of the City Council, a member of the Board of Supervisors and interested members of the community. The most recent version of that policy framework, dated April 6, 2018, is attached as Attachment 1.

C. Sales Tax and Transient Occupancy Tax (TOT)

The opinion survey tested increases to both the City sales tax and TOT.

The sales tax proposal would increase the City's rate by a quarter-cent for a period of six years, expiring March 31, 2025. This proposed tax increase would be in addition to the current quarter cent general tax increase which was extended by the voters in November 2016. That tax increase is set to expire on March 31, 2027. The City also has a quarter-cent special sales tax for public safety which will expire on March 31, 2025.

The proposed increase would provide approximately \$9 million annually of temporary emergency funding. The addition of this proposed tax would bring the overall sales tax rate in Santa Rosa to 8.875%. Local jurisdictions cannot have a combined sales tax rate more than 9.25%, so there is capacity under this threshold for the proposed sales tax increase.

The new funds could either be targeted for special purposes, or be placed in the General Fund to be used generally to help the City recover from the October 2017 fires and to preserve City services. If targeted for special purposes, the tax would constitute a special tax and would require 2/3 voter approval. If designated for the General Fund and made available for any City purpose, the tax would constitute a general tax and require only a simple majority vote. (It should be noted, however, that there may be a state-wide measure on the November ballot to require a two-thirds voter approval for *all* local taxes. If passed, the two-thirds vote requirement would apply to all local tax measures on the November ballot.)

The proposed TOT increase, from 9% up to 14%, would provide ongoing General Fund revenue. The TOT rate is charged to guests at hotels, motels, and other short-term rentals

within City limits. The increase is expected to provide approximately \$2.5 million annually of additional TOT revenue.

The sales tax increase and TOT increase both polled favorability at 66.1% and 65.0%, respectively.

D. Costs

The election cost for a single ballot measures is estimated at \$90,000.

FISCAL IMPACT

Funds have been included in the FY 2018-19 budget to pay for costs associated with the November election, plus three additional ballot measures. There is no additional impact to the General Fund.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The Financing for Infrastructure and Housing Ad Hoc Committee has considered all four revenue options. The Committee recommends advancement of the proposed General Obligation housing bond.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1: Policy Framework

CONTACT

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