

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: ALAN ALTON, DEPUTY DIRECTOR, FINANCE DEPARTMENT
DAVID GOUIN, DIRECTOR, HOUSING & COMMUNITY SERVICES

SUBJECT: CITY OF SANTA ROSA REVENUE BALLOT MEASURES FOR AFFORDABLE HOUSING AND GENERAL CITY SERVICES

AGENDA ACTION: ORDINANCES AND RESOLUTIONS

RECOMMENDATION

It is recommended by the City Manager, Finance, and Housing and Community Services Departments, and the City Council Infrastructure and Housing Finance Ad Hoc Committee that the Council:

- (1) Introduce an ordinance to add Chapter 3-29 to the City Code to establish a temporary .25% (1/4¢) sales tax for a period of six years for general City services, and, by resolution, order the submission of a ballot measure to seek voter approval of the ordinance at the November 6, 2018 General Municipal Election and direct related actions;
 - (2) Introduce an ordinance to amend Section 3-28.020 of the City Code to increase the Transit Occupancy Tax by 3%, from 9% up to 12%, and, by resolution, order the submission of a ballot measure to seek voter approval of the ordinance at the November 6, 2018 General Municipal Election and direct related actions;
 - (3) Select a levy amount and introduce an ordinance to amend Chapter 4-40 of the City Code to authorize the issuance of general obligation bonds for the purpose of funding affordable housing, and by resolution, order the submission of a ballot measure to seek voter approval of the ordinance at the November 6, 2018 General Municipal Election and direct related actions. Voter approval of the measure would result in the placement of an ad valorem property tax on properties within the city limits of Santa Rosa, with proceeds being used for affordable rental and homeownership housing. It is recommended that the Council consider setting the ad valorem property tax levy at a rate between \$19 and \$49 per every \$100,000 of assessed value.
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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 12%, and authorizing an Affordable 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 vote (50% plus one). If tax revenues are to be designated for special purposes, such tax increases would require a two-thirds vote. A general obligation bond for affordable housing would also require a two-thirds vote.

The City engaged the services of two firms to conduct an opinion survey gauging voter opinion on a quarter-cent sales tax increase, a TOT increase, and a Housing and Infrastructure General Obligation Bond. The results of the survey were provided to Council on June 26, 2018. At that meeting, the City Council requested a second opinion survey on a general obligation bond only for affordable housing, and at various ad valorem tax rates.

The purpose of this item is to allow the City Council to consider each of the revenue options for approval and submission to the voters.

BACKGROUND

The City's General Fund has a significant structural deficit, and the General Fund reserves are far below the level required by Council Policy. At the same time, the City is facing significant challenges addressing the costs associated with the October 2017 wildfire recovery effort. Funding is needed to address many unmet needs in the fire-affected areas, including rehabilitating fire-damaged parks, open space and landscape areas. Funding is needed to repair potholes, improve damaged sidewalks and maintain the City's building infrastructure; including in areas which have experienced accelerated decline as a result of intensified use during wildfire debris cleanup and the rebuilding process. The City must develop revenue sources in order to sustain City essential services such as police, fire, parks, recreation, and senior and youth services while the City recovers from the wildfire disaster.

Additionally, financial resources are needed to enable the City to meet the Council goals relative to meeting housing needs and attaining functional zero homelessness.

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 12%; and (3) Approve an Affordable 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 three 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 on June 26, 2018. The Council directed a new survey to look solely at an Affordable Housing Bond as well as various rates for the ad valorem property tax increase.

PRIOR CITY COUNCIL REVIEW

- In May 2016, Council accepted the Housing Action Plan and directed staff to implement the initiatives listed in the plan, including the consideration of bond measure for affordable housing.
- On August 15, 2017, Council indicated its support for a variety of affordable housing measures at the State level, including SB2 - the Affordable Housing Bond Act of 2018.
- On June 26, 2018, the Council directed staff to return with a ballot resolution, ballot language, and supporting materials to place a Housing Recovery Bond on the November 6, 2018 general election.

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 multiple 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

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 and preservation within the City, or could be slated for use for both housing and related infrastructure. 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 \$81 million of project funds could be generated, assuming repayment of the general obligation bond over a 30-year period. At \$49 per 100,000 AV, a total of approximately \$210 million of project funds could be generated assuming repayment over that same period.

The original opinion survey commissioned by the City tested a general obligation bond for affordable housing and infrastructure projects at the \$49 per 100,000 rate generating \$210 million in project funds. The poll data suggested 49.7% of total yes responses.

A policy framework for the previously proposed County-wide housing bond had 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 original Godbe Research/TBWB Strategies opinion survey also 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 (Measure N). That tax increase is set to expire on March 31, 2027. The City also has a quarter-cent special sales tax for public safety (Measure O) which will expire on March 31, 2025.

The proposed quarter-cent ($\frac{1}{4}$ ¢) 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.

The proposed TOT increase, from 9% up to 12%, 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 \$1.5 million annually of additional TOT revenue.

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

FISCAL IMPACT

There are funds included in the FY 2018-19 budget to pay for election costs including additional ballot measures.

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.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1: Policy Framework

CONTACT

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