

Evaluation of New Revenue Strategies



Sunnyvale

Study Issue FIN17-01

Study Session

October 3, 2017

Background



- The City has faced two consecutive years of absorbing large increases in pension costs (\$300M)
- Demand for service is increasing
- Revenues not reacting to the modern economy in the way that might be anticipated
- Need to diversify base and stabilize long term financial position - can't rely solely on property tax

Scope of Study Issue



- Secure stable revenue sources that increase the diversity of the City's revenue portfolio to address unfunded or underfunded programs or projects and to meet increasing demands for service.
 - Public service Infrastructure (fire stations/corp yard/civic center)
 - Branch library and learning center ongoing costs
 - Modernization of city's technology systems
 - Keeping up with sidewalk replacement
 - Increasing regulatory requirements (stormwater)
- Develop a revenue strategy that the City can implement in the near future based on locally controlled revenue sources.

Examples of Potential Revenues



- Real Property Transfer Tax - Rate Change
- TOT - Rate Change
- Sales Tax - Rate Change
- Impact Fees - Rate Change
- Business License - Modernize, Rate Change
- UUT - Modernize, Rate Change, Broaden Base
- Assessment Districts
- Stormwater Fee
- Special Taxes - Parcel tax
- Recreation Non-Resident Fee - Rate Change

Approval Process



- Varying levels of approval dependent on specific revenue:
 - Staff
 - City Council
 - Voter
 - Prop 218 “Right to Vote on Taxes Act” (1996)

Staff Approval - Example



- Recreation, Non-Resident Fee
 - Council Policy authorizes Department Director to set user fees
 - Resident Fees vs. Non-Resident Fees
 - Under \$200 - Non-Residents pay a 25% Differential
 - \$200 & Above - Flat Rate of \$50
 - Evaluate Direct Cost Recovery vs. Full Cost Recovery
 - Fee could be adjusted by staff under delegated authority

City Council Approval - Examples



- Impact Fees (Nexus Study) (AB 1600 Reporting)
 - Affordable Housing
 - Transportation
 - Park Dedication
 - Sense of Place
- Parking Meters
- Franchise Fees
 - PG&E
 - Comcast
 - Wireless Antennas
 - Solid Waste

Voter Approval - Examples



- Stormwater Fee
- Business License Tax
- TOT, UUT
- Real Property Transfer Tax
- Sales Tax
- Construction Tax
- Bond Measures
- Assessment Districts

Stormwater Fee



- Potential Change with Governor
 - Prop 218 - Exempts sewer and water service from voter approval
 - SB 231 - Stormwater would be defined as a sewer service (on Governor's desk)
- Potential Annual Revenue
 - Cost of Maintenance, Replacement, Engineering, Water Pollution Prevention, Regulatory Compliance

Business License



- Modernize
 - Require all Business to have a Business License
- Potential Annual Revenue
 - \$375K
- Rate Change - increase rates
 - Current rates are \$36 to \$11,400 for 1 to >945 (Employees or Units)
 - Existing Rate Increase = CPI
- Potential Annual Revenue
 - \$145K per \$10

Transient Occupancy Tax (TOT)



- Existing Rate
 - Sunnyvale = 10.5% (2013)
 - County Wide Average = 10.6%
 - High = 14% Palo Alto
 - Low = 9% Gilroy
- Effective Rate
 - Includes Hotel Tax Districts in San Jose & Santa Clara
 - County Wide Average = 11.3%
 - Surrounding Cities Average = 11.9% - 12.25%
- Potential Annual Revenue
 - \$1M per 1% increase

Utility Users Tax (UUT)



- Modernize (Electric)
 - Include Solar & Fuel Cell
- Rate Change
 - Existing = 2% on Gas, Electric, & Telecom
- Potential Annual Revenue
 - \$3.5M per 1%
- Broaden Base
 - Include Water, Wastewater, Solid Waste, Cable TV
- Potential Annual Revenue
 - \$2M

Real Property Transfer Tax



- Existing Rate
 - \$1.10 per \$1,000 (\$0.55 City, \$0.55 County)
- Charter Cities can Increase Tax
- Santa Clara County (Above \$1.10)
 - Mountain View, Palo Alto, & San Jose = \$4.40 per \$1,000 (\$3.30 City, \$1.10 County)
- Alameda County
 - Total Average = \$12.10 per \$1,000
- Potential Annual Revenue
 - \$3M per \$1 > \$1.65

Sales Tax



- Existing Rate
 - Sunnyvale = 9%
 - 6% - State Tax
 - 1.25% - Local Tax (1% - City, 0.25% - Transportation)
 - 1.75% - Supplementary Tax
- Maximum = 9.25%
 - Statutory Restriction
 - Exceed Tax Rate Cap Through Separate Legislation
- Potential Annual Revenue
 - \$7.5M per 0.25%

Other Voter Approvals



- Construction Tax
 - Percent of Cost vs. Flat Fee
- Bond Measures
 - Civic Center, Library
 - Community Facilities District
- Assessment District
 - Landscaping
 - Lighting

Likelihood of Voter Success



- High
- Medium
- Low

High Voter Success



- Business and Visitor Impact (Fair Share) Taxes
 - Business License Tax
 - TOT
 - Construction Tax

Medium Voter Success



- Modernization and Minimal/Shared Impact Taxes
 - Stormwater Fee
 - Potential Change Under SB 231
 - Real Property Transfer Tax
 - Bond Measures
 - UUT (Modernization of Electric)

Low Voter Success



- New Taxes and Increase Rate Changes
 - UUT (Rate Change, Broaden Base)
 - Sales Tax
 - Assessment Districts

Voter Approval - Considerations



- General Tax
 - 50% Plus 1 Voter Approval
- Special Tax
 - 2/3 Voter Approval
- Competing Measures
- Revenue Potential vs. Probability of Success

Voting Results



- Local Revenue Measures Across California Since 2001
 - City General Tax (Majority) 74%
 - City Special Tax (2/3 Vote) 51%

Special Tax Results



- 2/3 Voter Measures Across California Since 2002

- | | |
|--------------------------|-----|
| • Library | 54% |
| • Police/Fire | 48% |
| • Parks & Recreation | 47% |
| • Transportation/Streets | 45% |
| | |
| • G.O. Bond | 55% |
| • Sales Tax | 48% |
| • Parcel Tax | 47% |
| • TOT | 38% |
| • UUT | 20% |

Special Purpose Sales Tax Results



- 2/3 Voter Measures Across California Since 2002
 - Library 67%
 - Transportation/Streets 55%
 - Police/Fire 47%
 - Parks/Open Space 47%
 - Other 30%

General Tax Measure Results



- 50% + 1 Voter Results Across California Since 2002
 - UUT (Modernize) 82%
 - Business License Tax 78%
 - Sales Tax (New/Increase) 73%
 - TOT (Increase) 63%
 - Property Transfer Tax 41%
 - UUT (New/Increase) 33%

Steps/Timeline



- Peer Review by Revenue Consultant - October 2017
- Research/Polling (If Needed) - Nov. 2017 to Feb. 2018
 - Council Hearing to Appropriate Polling and Outreach Costs - November 2017
 - Determine Flexibility of Implementation (2020)
- Final Council Direction and Strategy- February 2018

Ballot Measure



- If Moving Forward with Ballot Measure
 - Council Hearing - June 2018
 - Calling for Election
 - Ballot Language
 - Community Outreach - July 2018 to October 2018
 - Election - November 2018

Council Discussion



- Feedback on workplan/timeline
- Any specific revenues Council would like reviewed
- Priorities for review or public outreach
- Other direction as appropriate

Questions

