



*City  
Council  
Report*

Item: 14  
 Category: OLD BUSINESS  
 Meeting Date: May 1, 2018

**TITLE: Civic Center Master Plan – Actions Related to a Potential Revenue Measure on the November 2018 Ballot.**

**RECOMMENDED ACTION**

Provide direction to staff on the following items related to a potential revenue measure on the November 2018 General Election ballot: a) selection of a preferred revenue source to pursue; and b) selection of the total revenue target.

**BACKGROUND**

On April 17, the City Council was presented the results of a public opinion survey conducted to gauge support for a revenue measure on the November 2018, ballot to fund improvements to the facilities utilized by the Library and Police Department. Godbe Research conducted the polling from March 9 – 29, 2018, and contacted 531 likely voters about their support for a hybrid parcel tax measure and general bond obligation measure that would raise various amounts: \$30 million, \$40 million, or \$50 million dollars. The survey found a solid base of voter support for both the hybrid parcel tax and general bond, but only the bond measure reached and exceeded the State required two-thirds threshold. As summarized by the City's consultant:

- Support for the hybrid parcel tax measure was 62.7% on the uninformed test and 61.6% on the informed test—a numerical decline.
- Support for the bond measure was 66.5% on the uninformed test and 71.0% on the informed test, while not statistically different, is numerically higher.

At the conclusion of Godbe Research presentation, the City Council indicated that additional discussion on the project description, amount, and parliamentary requirements to place a revenue measure on the November 2018 ballot was needed.

**DISCUSSION**

An October 2017, Funding Options Memorandum (Attachment 1) from the City's financial consultant, NHA Advisors, provided a property characteristics analysis which noted that out of the City's total 7,977 parcels – the City's largest grouping of properties have assessed values below \$100,000, and the average assessed value is \$593,902.

The report also goes on to say that 89% of the homes are below the City's median home market value of \$1,194,000 (source: Zillow).

Staff prepared the tables below to compare the features and fiscal analysis related to both the General Obligation tax and Parcel Tax that have been analyzed and polled.

	General Obligation Bond	Parcel Tax
Council votes required to place measure on ballot	4	3
Approval Threshold	66.7%	66.7%
Opt Out Provisions for Seniors	None. Ad Valorem assessments do not allow for senior exemptions.	Possible. May be written into the ordinance and measure.
	Ordinance Adoption. First Reading; Second Reading and adoption.	Adopted by resolution.
Amount of Tax	Ad Valorem Assessment - \$XX per \$100,000 in assessed value	<ul style="list-style-type: none"> <li>• Flat for all parcels</li> <li>• Hybrid: flat for single family residential &amp; square footage for other land uses</li> <li>• Other types of hybrid: various rates set by land use type</li> </ul>

	\$30 million	\$40 million	\$50 million
<b>General Bond Analysis</b>			
Max for \$100,000 valuation	\$16	\$22	\$27
Max for Average Home (\$593,902)	\$98	\$129	\$162
Average for \$100,000 valuation	\$11	\$15	\$19
Average home (30-Year Average)	\$68	\$91	\$113
<b>Parcel Tax Analysis</b>			
Residential - flat	\$99	\$129	\$149
Non- Residential – average (based on 5,000 improved square feet)	\$236	\$337	\$533

## FISCAL IMPACT

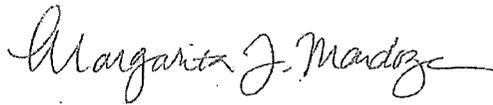
Should the City Council place a revenue measure on the November 2018, General Election ballot, there will be costs associated with the filing of the measure with the Santa Clara County Registrar of Voters. Staff will present those costs at a future

meeting. A City Council action to place a revenue measure on the General Election ballot could result in a significant revenue source ranging from \$30-50 million dollars. However, there is no fiscal impact associated with the staff recommendation in this report.

## ALTERNATIVES

1. Direct staff to analyze other funding levels;
2. Provide other direction to staff; or
3. Take no action

Prepared by:



Margarita Mendoza, Administrative Analyst

Reviewed by:



Al Bito, Deputy City Manager

Approved by:



Brian Loventhal, City Manager

### Attachment:

1. Campbell Funding Options Memo 171010
2. Timeline CCMP

## MEMORANDUM

Date: October 10, 2017

To: Brian Loventhal, City Manager  
Todd Capurso, Public Works Director  
Jesse Takahashi, Finance Director

From: Craig Hill

RE: City of Campbell – Civic Center Master Plan Funding Alternatives and Preliminary Analysis

### Background

The City of Campbell (the “City”) is considering the redevelopment of the civic center complex which includes city hall, police, library, and various other community facilities (the “Project”). The process of determining the facility needs, costs, and funding sources has not yet been complete. The City Council has not taken any action related to the Project nor have they indicated how the Project would be funded.

### NHA Project Scope

NHA Advisors, LLC (“NHA”) is a California-based municipal advisory firm specializing in local government public finance including the development of funding solutions for capital projects of all sizes. NHA has worked on similar projects in Los Altos, Hayward, Gilroy, Newark, Berkeley, and Walnut Creek to determine funding options for various projects.

The City has engaged NHA to develop initial revenue options, tax impacts, and other funding solutions for the Project. The initial phase of work is intended to be a high-level analysis and provide the City with preliminary tax impacts as well as bonding capacity under multiple scenarios.

### Base Assumptions

Based on data provided by City staff and the County of Santa Clara, NHA has developed preliminary analyses based on four revenue alternatives:

- OPTION 1: General Obligation (GO Bond 67% Election)
- OPTION 2: Special Tax (Parcel Tax 67% Special Election)
- OPTION 3: Transaction and Use Tax Increase (50%+1 General Election)
- OPTION 4: Transient Occupancy Tax Increase (50%+1 General Election)

Each structure generates a new revenue source based on ad valorem property taxes (GO Bond), a formula-based parcel tax (Special Tax), a transaction and use tax (TUT), or transient occupancy tax (TOT). Depending on the term of the new revenue authorization, a financing program can be developed to fund the identified capital projects.

City staff has requested that NHA evaluate the funding options for a **\$40,000,000** proposed Project. We have assumed the entire amount is financed with a single bond issue.

### **Property Characteristics**

The table below summarizes the City's residential properties and their distribution for fiscal year ("FY") 2017/18. It should be noted that the largest grouping of properties have assessed values below \$100,000. In addition, more than 89% of homes have assessed values below the City's median home market value of \$1,194,000 (source: Zillow.com). Both of these data points represent significant opportunities for assessed values to increase as property ownership changes hands and reset to market values. The table below summarizes the distribution of residential properties across the assessed value categories.

**FY 2017-18 Residential Assessed Valuation Summary**

2017-18 Assessed Value	# of Parcels	% of Total	Cumulative % of Total	Total Valuation
\$0 - \$99,999	1,059	13.28%	13.28%	\$74,839,659
\$100,000 - \$199,999	655	8.21%	21.49%	\$94,608,895
\$200,000 - \$299,999	613	7.68%	29.17%	\$153,236,626
\$300,000 - \$399,999	758	9.50%	38.67%	\$266,301,919
\$400,000 - \$499,999	585	7.33%	46.01%	\$262,223,959
\$500,000 - \$599,999	514	6.44%	52.45%	\$281,751,545
\$600,000 - \$699,999	645	8.09%	60.54%	\$419,595,069
\$700,000 - \$799,999	724	9.08%	69.61%	\$544,619,414
\$800,000 - \$899,999	665	8.34%	77.95%	\$564,157,135
\$900,000 - \$999,999	541	6.78%	84.73%	\$512,240,225
\$1,000,000 - \$1,099,999	359	4.50%	89.23%	\$375,716,161
\$1,100,000 - \$1,199,999	251	3.15%	92.38%	\$287,455,189
\$1,200,000 - \$1,299,999	163	2.04%	94.42%	\$203,176,184
\$1,300,000 - \$1,399,999	138	1.73%	96.15%	\$186,301,672
\$1,400,000 - \$1,499,999	90	1.13%	97.28%	\$129,738,916
\$1,500,000 - \$1,599,999	58	0.73%	98.01%	\$89,259,507
\$1,600,000 - \$1,699,999	41	0.51%	98.52%	\$67,329,391
\$1,700,000 - \$1,799,999	47	0.59%	99.11%	\$82,178,144
\$1,800,000 - \$1,899,999	32	0.40%	99.51%	\$58,872,308
\$1,900,000 - \$1,999,999	12	0.15%	99.66%	\$23,337,928
\$2,000,000 and greater	27	0.34%	100.00%	\$60,617,205
<b>Total</b>	<b>7,977</b>	<b>100.00%</b>		<b>\$4,737,557,051</b>

Based on the information provided by Santa Clara County, we were also able to determine the purchase date for all parcels, which provides some information on the age of existing home ownership and the potential for turnover.

**Residential Property Transfer Date Summary**

Property Transfer Date	# of Parcels	% of Total	Cumulative % of Total	Total Valuation
1960 - 1969	1	0.01%	0.01%	\$65,052
1970 - 1979	169	2.12%	2.13%	\$18,446,055
1980 - 1989	297	3.72%	5.85%	\$76,279,284
1990 - 1999	1,061	13.30%	19.16%	\$364,115,067
2000 - 2009	2,351	29.47%	48.63%	\$1,346,436,948
2010 to Present	4,098	51.37%	100.00%	\$2,932,214,645
<b>Total</b>	<b>7,977</b>	<b>100.00%</b>		<b>\$4,737,557,051</b>

**Preliminary Bond Analysis**

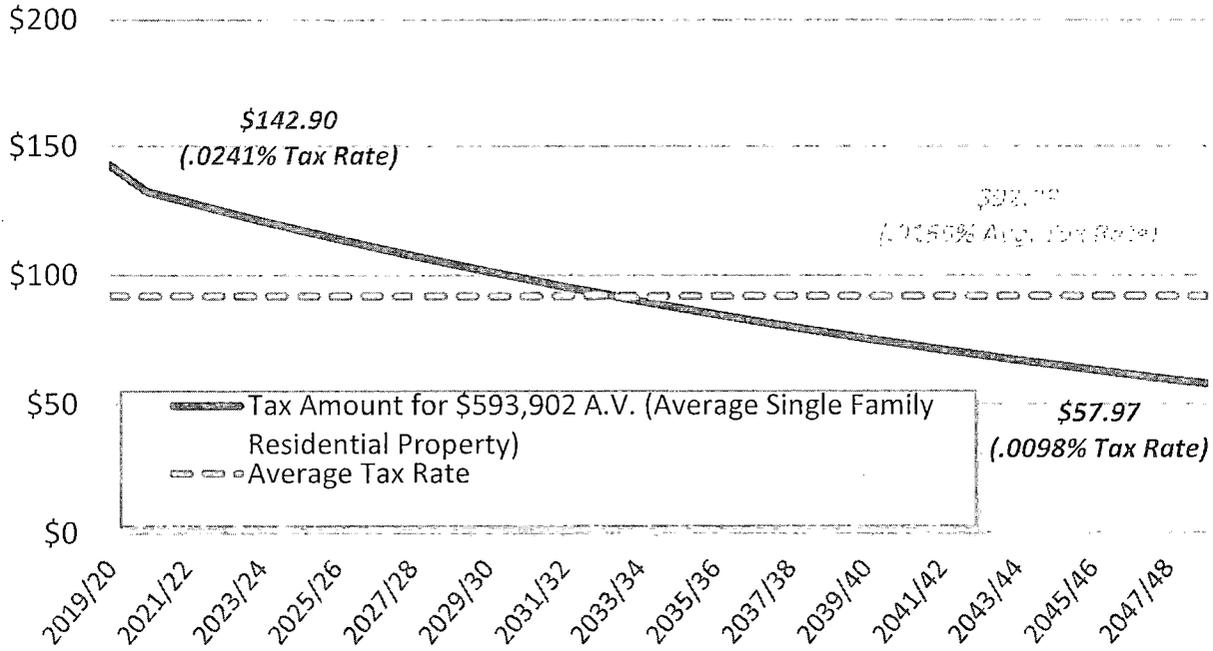
**OPTION 1: General Obligation Bonds** – A GO bond authorization requires 2/3 voter-approval to authorize an ad valorem property tax to be levied on property owners based on assessed valuation (“AV”). The table below summarizes the estimated GO tax rate and cost to property owners under a \$40,000,000 bond authorization. The analysis assumes a 30-year maturity (amortization period) for the bonds at an interest of 4.0% (above current market rates). Furthermore, the estimated tax rates are based on AV growth of 3.0% beginning in FY 2018/19. The 10-year historical average is 5.05%.

**General Obligation Bond  
(2/3<sup>rd</sup>s Voter Approval Required)**

Project Size	\$40,000,000
Term	30 Years
Annual Debt Service	\$2,350,000
Maximum Tax Rate	0.0241%
Average Tax Rate	0.0155%
Max for \$100,000 AV	\$22.38
Average for \$100,000 AV	\$15.45
Max for Average Home (\$593,902)	\$142.90
Average Home (30-year Average)	\$92.08
Median Home (30-year Average)	\$86.93

As shown, the average tax rate is estimated to be 0.0155% for a \$40,000,000 bond issuance. Based upon an average assessed value of \$593,902 for single family homes in the City, the average annual levy is estimated to be \$92.08.

It should be noted that the GO tax levy will decrease over time as assessed valuations increase (debt service stays level). Thus, the maximum tax rates and maximum GO levies are also shown in the table, and should occur in the first year (the lowest assessed value base compared to the annual bond debt service). For a residential property owner with an average assessed value, this means that their annual tax would start at \$142.90 and decrease to \$57.97 by year 30 (See below).



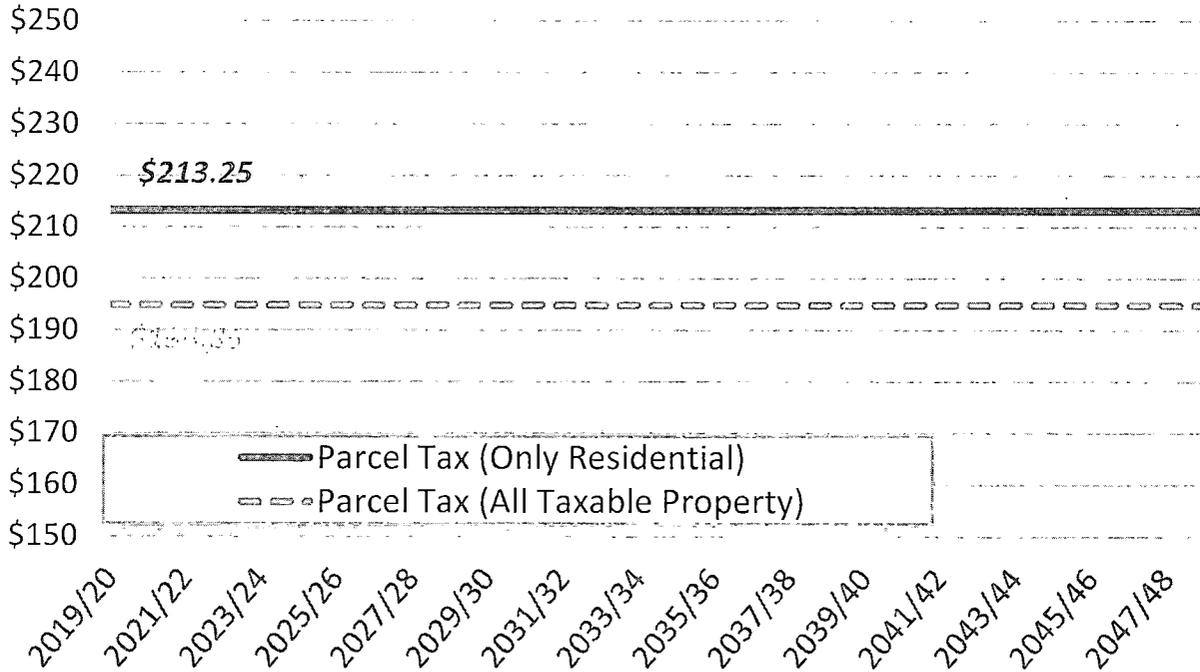
**OPTION 2: Parcel Tax** – Similar to a GO Bond Election, a Parcel Tax Election would require 2/3<sup>rd</sup>s voter approval. However, unlike standard property taxes (including a GO tax levy) that are based on the assessed value of the property, a parcel tax is an assessment based on the characteristics of the parcel (i.e., square footage of property, proximity to benefit, type of land use) and cannot be levied against assessed value.

As shown in Option 1 (GO Bonds), NHA looked at what the estimated average tax per parcel would be under the same sizing scenario (\$40,000,000 bond). There are 12,584 taxable parcels in the City, 7,977 of which are single-family residential (11,498 total residential parcels). In the table below, NHA has calculated the average annual tax assuming (1) only residential parcels are taxed, and (2) all parcels are equally taxed, regardless of land use. These two scenarios are only intended to provide an estimate of how much tax revenue would need to be generated through a parcel tax without regard to property benefits or land use type. If the City is interested in pursuing this structure, NHA will refine the analysis to reflect different parcel tax options.

As detailed on the following page, the average annual parcel tax is estimated to be \$213, assuming only residential parcels are taxed, or \$195, assuming all parcels (residential and non-residential) are subject to the same parcel tax.

Attachment: Campbell Funding Options Memo 171010 (1149 : CCMP - Actions Related to a Potential Revenue Measure)

OPTION 2: Parcel Tax Bonds  
\$40 Million Bond Size - 30 Year Maturity



Parcel Tax  
(2/3<sup>rd</sup>s Voter Approval Required)

Project Size	\$40,000,000
Parcel Tax Term	30 Years
Annual Debt Service	\$2,350,000
Residential Only - Annual Tax	\$213
All Parcels - Annual Tax	\$195

The table above represents the estimated parcel tax charged on each parcel within the City to support a \$40,000,000 bond. This preliminary analysis assumes the same parcel tax on all taxable property, regardless of land use, value or physical size. The blue line represents the parcel tax assuming only residential properties are charged, and the green line represents the parcel tax assuming all land uses are equally charged.

**OPTION 3: Transaction and Use Tax Increase** – The City has the legal authority to increase the TUT to provide a general tax (subject to a 50%+1 voter approval). Under this structure, the City would leverage the new revenue stream through its General Fund for purposes of issuing debt to fund the project. This is different than the two prior scenarios discussed above in that the financing is incorporated into the City’s budget process and financial support (after taking into consideration the new revenue collections from the TUT).

The City has the option to potentially seek voter approval for either a ¼ cent or ⅛ cent sales tax increase. For purposes of our analysis below, we have analyzed the benefit of both a 20-year and 30-year collection period. Based on City staff information, the current ¼ cent tax rate is generating approximately \$2,700,000 annually.

NHA has analyzed the bonding capacity (how much the City can raise) under a ¼ cent and ⅛ cent TUT increase. For purposes of financing against the new revenue, we have assumed 90% of the projected revenue would be applied towards debt service (a conservative estimate). Additionally, we have calculated the bond capacity based on a 20-year or 30-year commitment of the projected new revenues. A summary of the analysis is shown below.

**TUT Revenues  
(General Tax = 50%+1 Voter Approval Required)**

Annual TUT Projection	1/4 Cent Increase (\$2.7M)	
Term	20 Years	30 Years
Par Amount	\$30,605,000	\$37,555,000
Project Fund	\$30,250,000	\$37,150,000
Annual Debt Service	\$2,430,000	\$2,430,000
Total Debt Service	\$49,325,000	\$73,583,000

Annual TUT Projection	1/8 Cent Increase (\$1.35M)	
Term	20 Years	30 Years
Par Amount	\$15,300,000	\$18,770,000
Project Fund	\$15,000,000	\$18,450,000
Annual Debt Service	\$1,215,000	\$1,215,000
Total Debt Service	\$24,650,000	\$36,775,000

As shown in the 20-year maturity scenarios, we estimate that the City could raise \$30,250,000-\$37,150,000 with a ¼ cent increase and \$15,000,000-\$18,450,000 with a ⅛ cent increase.

**OPTION 4: Transient Occupancy Tax Increase** – The City also has the legal authority to increase the TOT from 12% to 14% which is estimated to generate an additional \$760,000 per year based on current transactions (and not assuming any new hotels are developed). Voter approval like a transaction and use tax would be required (50%+1 voter approval). Under this structure, the City would leverage the new revenue stream through its General Fund for purposes of issuing debt to fund the project. This is different than the two prior scenarios discussed above.

For purposes of our analysis below, we have analyzed the benefit of either a 20-year or 30-year revenue stream. NHA has analyzed the bonding capacity based on the increased TOT (2% added to the existing 12% rate), generating approximately \$760,000 per year. A summary of the analysis is shown on the following page.

**Transient Occupancy Tax  
(General Tax = 50%+1 Voter Approval Required)**

Annual TOT Projection	2% Increase (\$760,000)	
	20 Years	30 Years
Par Amount	\$9,570,000	\$11,745,000
Project Fund	\$9,300,000	\$11,475,000
Annual Debt Service	\$760,000	\$760,000
Total Debt Service	\$15,425,000	\$23,015,000

As shown under the 20-year maturity scenario, we estimate that the City could raise \$9,300,000, increasing to \$11,475,000 for a 30-year financing term.

**Next Steps**

The information provided above is intended to demonstrate tax burden thresholds in order to determine the feasibility of moving forward on one or more of the funding options. NHA does not make any recommendations based on this initial analysis and expects that further analysis and discussion will be required as more information is presented to stakeholders and City staff.

We look forward to answering any questions or providing more information on this project.

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to Town and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

*Duty of Care*

- a) exercise due care in performing its municipal advisory activities;
- b) possess the degree of knowledge and expertise needed to provide Town with informed advice;
- c) make a reasonable inquiry as to the facts that are relevant to Town’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to District; and
- d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
  - i. any advice provided to or on behalf of Town;
  - ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by Town, any other party involved in the municipal securities transaction or municipal financial product, or investors in District securities; and
  - iii. any information provided to Town or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

*Duty of Loyalty*

NHA Advisors, LLC must deal honestly and with the utmost good faith with Town and act in Town’s best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with Town as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in Town’s best interests.

**CCMP – Potential Revenue Ballot Measures  
Schedule of City Council Actions  
May – August 2018**

**May 1**

- City Council determination of preferred revenue source and amount.

**May 15**

- Project description discussion to help determine ballot measure language.

**June 5**

- Review and comment of draft ballot measure language (75-word statement and Ordinance).
- Provide cost estimates related to the placement of a measure on the ballot.

**June 19**

- If the City pursues a tracking survey, the results would be presented to the City Council.
- Finalize draft ballot measure language (75-word statement and Ordinance).
- Review and comment of draft ballot measure language (75-word statement and Ordinance).

**July 3**

- Introduction of Ordinance placing a General Obligation bond (if that is the preferred revenue source) on the November 2018 ballot.
- Adoption of a Resolution placing the Parcel Tax (if that is the preferred revenue source) on the November 2018 ballot.

**July 17**

- Second reading and adoption of Ordinance placing a General Obligation bond (if that is the preferred revenue source) on the November 2018 ballot.

**July 31**

- Meeting date reserved, to be used as needed.

**August 10**

- Final date to submit ballot measures to the Santa Clara County Registrar of Voters.

**August 14**

- Arguments in favor of and against the impartial analysis are due.

**August 21**

- Rebuttals to arguments in favor of and against the impartial analysis are due.