



**DATE:** June 5, 2018

**TO:** Mayor and City Council

**FROM:** City Manager

**SUBJECT:** Discussion of Potential November 2018 Ballot Measures

### **RECOMMENDATION**

That the City Council provides feedback and direction on the public engagement plan and next steps related to two potential November 2018 ballot measures.

### **SUMMARY**

Over this past year, the City Council has discussed several strategies to close the City's General Fund structural budget deficit. These strategies include revenue generating and expenditure reduction strategies, alternative service delivery model options, and cost shifting opportunities. This staff report focuses on two revenue generating strategies: the Transient Occupancy Tax (TOT), also known as the Hotel Tax, and the Real Property Transfer Tax (RPTT), which is a transaction tax collected upon the purchase of real estate when ownership transfers from one party to another.

Increasing the TOT and RPTT tax rates would require voter approval. Over the last several months, City staff have been undertaking a program of community engagement as well as discussing and gathering input on the City's fiscal position and potential deficit-closing strategies, including increasing the TOT and RPTT. The next step in this process is to conduct an opinion survey of registered voters to measure support for the two proposals currently under consideration. Depending on results of the survey, staff would return to the Council with a recommendation about whether to place a TOT and/or RPTT increase on the November 6, 2018 ballot.

### **BACKGROUND**

In October 2017, staff presented Council an updated Long-Range Financial Model (Model) for the City's General Fund. The General Fund pays for basic municipal services ranging from public safety and emergency response, to street, sidewalk and landscaping maintenance and repair, to library operations and after-school programs, and general government administration. Staff also presented various strategies to assist with closing the City's projected structural General Fund deficit over the next five years. The strategies fall into four major categories: (1) revenue-generating options; (2) service reduction/elimination considerations; (3) service-delivery changes; and (4) expenditure controls and cost shifts.

At a work session on October 3, 2017, the Council received a presentation of the new Model. The Model was developed by staff and the consultant Management Partners with objectives of providing an updated 10-year forecasting tool and third-party review of City finances. Assuming a baseline budget at current staffing levels and modest economic recessions in Fiscal Year 2020 and 2027, the Model forecasts—without corrective action—massive General Fund deficits that completely deplete the City’s General Fund reserves. Beginning in Fiscal Year 2019, according to the Model, the General Fund reserve, effectively the City’s savings account, will fall below the Council’s 20 percent policy level. By Fiscal Year 2021, according to the Model, the reserve will be exhausted completely—and the City will reach the point of fiscal insolvency.

On October 14, 2017, at a second work session, staff and the consultant presented a menu of strategies to close the structural deficit and to achieve fiscal sustainability. The actions were grouped into combinations of strategies, or tiers, based on relative feasibility. The Model was used to forecast the impact of implementing each of the actions, and the Council provided direction on which actions should receive further consideration and analysis, including revenue-generating options requiring voter-approval, among them potential increases to the TOT and RPTT.

## **DISCUSSION**

To prepare for the possibility of placing TOT and RPTT increases on the November 6, 2018, ballot, staff worked with consultants Clifford Moss and Godbe Research to design and carry out a program of community engagement to gather input, and gauge familiarity with the TOT and RPTT and support for potential ballot measures to increase the taxes.

The effort also has allowed the City to begin to communicate a chief reason for considering TOT and RPTT increases as a budget strategy—that is, because the proposed taxes have little to no impact on the day to day cost of living of Hayward residents. The TOT is paid by hotel guests. The RPTT is a one-time transaction tax collected at the point of purchase of a piece of real estate, as ownership transfers from one party to the next.

### *Public Education and Listening*

Since February 2018, City executive leadership and individual Council members have been meeting one-on-one and in group settings with residents, business and civic organizations. Sessions were scheduled primarily to discuss the City’s budget outlook and potential fiscal strategies, or portions of gatherings were set aside specifically to address these issues.

Additionally, the City mailed to 65,000 people in 34,000 households a brochure containing an explanatory letter from the City Manager, an explanation of the tax increases under consideration, and a survey card that residents were invited to complete and return by U.S. Postal Service, or to respond to online via the project website, [www.HaywardListens.com](http://www.HaywardListens.com). The City is in the final weeks of a community listening survey.

Since mailing the brochure in April and promoting the survey through social media and the monthly e-newsletter, *The Stack*, staff has received more than 550 responses. A handout summarizing the overall responses accompanies this staff report as Attachment II. Staff is also responding to individual concerns and questions that were raised in the responses.

The one-on-one and group meetings, survey brochure and website also have provided an opportunity to explain steps taken and progress made by the City to control General Fund expenses and work more efficiently. For example, staff reported that the City has 22 percent fewer municipal employees than 10 years ago—even though population and demand for services are rising—and that all employees are picking up a greater share of their retirement and other benefits.

### *Measuring Public Opinion*

The main tool for gauging familiarity with and support for increases in the TOT and RPTT are surveys of Hayward registered voters conducted by consultant Godbe Research. Using telephone calls and online data collection via text and email, responses are gathered and tabulated from a representative sample of registered voters large enough to provide statistically significant results within margins of error of plus or minus 3 to 5 percent.

An initial feasibility survey conducted Nov. 5 to Nov. 12, 2017, found 71 percent support for a TOT increase. Support for a RPTT increase was tested at multiple of rate levels and support ranged from 47 percent to 58 percent.

Currently, the TOT is at 8.5 percent on top of the base room rate charged to Hayward hotel guests. The November public opinion survey tested support for an increase in the TOT to 12 percent. Currently, the RPTT, real estate transaction tax, is \$4.50 per \$1,000 of value collected once upon purchase of a piece of real estate. The November survey tested support of increases to \$11, \$9 and \$7 per \$1,000 of value.

The second public opinion survey will test support for a TOT increase from \$8.50 to \$12 and an RPTT increase from \$4.50 per \$1,000 of value to \$10 per \$1,000 of value. The second survey is timed and worded to give the Council as clear a sense of voter sentiment as possible six months out from the November 2018 election and after staff has had an opportunity to share more information with the community about our fiscal circumstances and the impact of TOT and RPTT increases on the cost of living of Hayward residents. Staff will ask Godbe to test voter sentiment for both the TOT and the RPTT increase on the same November ballot.

For reference, Attachment III to this report is an excerpt from the Management Partners report that identifies the potential revenue that could be generated from the tax increases along with tax rate comparison data from other surrounding agencies.

If both measures are successful, the City may be in a position to consider some modest additions to City services. Staff is also looking for preliminary Council input and prioritization of the following services that could be funded if both tax measures are passed in November:

- An additional crew in the Street Maintenance division for street and road repairs
- The addition of a Disaster Preparedness Manager to assist the City in preparations for emergency resilience, response, and recovery
- Consideration of Sunday or other additional operating hours at the new Main Library
- Additional support for the after school homework help centers
- Additional social services funding

Based on the feedback from Council at this meeting, staff will gauge community support for these services and will return at the next Council discussion with further costing information and refinement of this list.

### **FISCAL IMPACT**

The TOT at 8.5 percent generates approximately \$2,000,000 a year in General Fund revenue. An increase in the rate to 12 percent would generate an estimated additional \$838,353 annually, not taking into account approved new hotel construction.

The RPTT at \$4.50 per \$1,000 of value currently generates approximately \$7,154,000 a year in General Fund revenue. An increase in the rate to \$10 per \$1,000 of value would generate an estimated additional \$8,743,778 annually, for a total of \$15,897,778 annually.

The planned public opinion survey will cost \$31,500.

### **STRATEGIC INITIATIVES**

This agenda item is a routine operational item and does not relate to one of the Council's Strategic Initiatives.

### **NEXT STEPS**

With the benefit of Council direction, staff will finalize the second public opinion survey with Godbe Research and field the survey over approximately a week's time beginning shortly after the June 5, 2018 California state primary election.

Staff will return to Council on June 26, 2018, with a presentation of survey findings by Godbe Research and staff recommendations on whether and how to proceed with revenue measures on the November 6, 2018 ballot.

*Prepared & Recommended by:* Chuck Finnie, Communications and Marketing Officer  
John Stefanski, Management Analyst II

Approved by:

A handwritten signature in black ink, appearing to read 'K McAadoo', written in a cursive style.

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Kelly McAadoo, City Manager