



DATE: July 10, 2018
TO: Mayor and City Council
FROM: City Manager
SUBJECT: Review of Polling and Direction on Potential November 2018 Ballot Measures

RECOMMENDATION

That the Council reviews feasibility poll results for two potential revenue measures increasing the City's Transient Occupancy Tax (TOT) and Real Property Transfer Tax (RPTT) and directs staff to prepare for the July 17 Council meeting the necessary resolutions to place TOT and RPTT increases on the November 2018 ballot.

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 options, and cost shifting. This staff report focuses on two revenue generating strategies: increasing 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 sale or 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 to discuss and gather input on the City's fiscal position and potential deficit-closing strategies, including increasing the TOT and RPTT. Additionally, the City contracted with Godbe Research to conduct feasibility polls for these proposed measures to provide a quantitative assessment of voter support.

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 consultant Management Partners with the objectives of providing an updated 10-year forecasting tool as well as 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—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 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.

At its October 18, 2017 meeting, the Council Budget and Finance Committee reviewed and initiated a survey of likely Hayward voters that evaluated the feasibility of two revenue measure scenarios: (1) single real property transfer tax measure or (2) dual real property transfer tax and transient occupancy tax measures. The results of this survey were presented to the Council Budget and Finance Committee at its December 6, 2017, meeting. The topline results of this survey can be found in Attachment II. The survey found 71 percent support for a TOT increase to 12 percent. Support for a RPTT increase was tested at multiple of rate levels and support ranged from 47 percent to 58 percent at the rates of \$11, \$9, \$7 per \$1,000 of property value.

At its May 16, 2018, meeting, the Council Budget and Finance Committee reviewed and initiated a second feasibility poll survey of likely Hayward voters that evaluated the dual measure scenario (TOT & RPTT). This poll included a split sample to evaluate potential ballot measure language. The results will be presented at this meeting by Bryan Godbe, principal of Godbe Research, Inc.

DISCUSSION

Current Policy

The City’s TOT is at 8.5 percent on top of the base room rate charged to Hayward hotel guests. The RPTT, or real estate transaction tax, is \$4.50 per \$1,000 of value collected once upon purchase of a piece of real estate. A comparison of these rates to neighboring municipalities can be found in the two tables below:

Table 1: RPTT Comparisons¹

| City | Rate per \$1000 of Property Value | General Law or Charter City ² |
|-------------------------|-----------------------------------|--|
| Berkeley | \$15.00 | Charter |
| Oakland | \$15.00 | Charter |
| Alameda | \$12.00 | Charter |
| Emeryville | \$12.00 | Charter |
| San Leandro | \$6.00 | Charter |
| Hayward | \$4.50 | Charter |
| Union City ³ | \$0.55 | General Law |

Table 2: TOT Comparisons⁴

| City | County | TOT Rate |
|----------------|----------------|-------------|
| San Francisco | San Francisco | 14.0% |
| San Mateo | San Mateo | 12.0% |
| Berkeley | Alameda | 12.0% |
| Oakland | Alameda | 14.0% |
| Fremont | Alameda | 10.0% |
| Hayward | Alameda | 8.5% |

For reference, Attachment III to this report is an excerpt from the October 2017 Management Partners report that identifies the potential revenue that could be generated from the tax increases along with a more expansive tax rate comparison from surrounding agencies.

Community Engagement and Outreach Update

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 registered voters 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.

In addition to this traditional outreach, the City utilized online advertising and The Stack e-newsletter to maximize reach to Hayward residents. The Stack newsletter was delivered to 40,500 individual subscribers. The digital advertising had an overall reach of 49,846 individuals. While responses to this mailer survey do not allow for a scientific or quantitative

¹ Information provided by California Local Government Finance Almanac

² General Law cities are unable to levy a RPTT larger than \$0.55 per \$1,000 of property value.

³ Union City is evaluating a Charter City measure that would transition the City to a Charter City to increase the local RPTT amongst other considerations.

⁴ Information provided by California Local Government Finance Almanac

analysis of support for the potential ballot measures, they do provide an excellent avenue for qualitative analysis, allowing the City to hear, verbatim, resident's sentiments about the City's overall performance and the proposed revenue measures as potential deficit-closing strategies.

At a June 5, 2018 Work Session, the City Council provided feedback on the public engagement plan and next steps relating to potential ballot measures. A report on total responses to the mailed and online www.HaywardListens.com survey is contained in Attachment IV.

Godbe Research Feasibility Polls

For the past seven years, Godbe Research, Inc. (Godbe) has been providing community survey and data analysis services for a variety of City initiatives. Beginning in 2008, Godbe completed the first of several biennial resident satisfaction surveys with the most recent taking place in fall of 2016. These surveys have given the Council and staff access to longitudinal data measuring Hayward residents opinions on the quality of services and programming provided by the City. In addition to resident satisfaction research, Godbe Research has conducted surveys measuring voter sentiments for tax measures such as the Utility Users Tax (initial levy and renewal) and the 2014 Measure C ½-cent sales tax levy. Godbe conducted the Fall 2017 TOT and RPTT survey.

Surveys are the main tool for gauging familiarity with and support for increases in the TOT and RPTT. 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.

Godbe executed a survey of Hayward voters from June 7, 2018, to June 14, 2018. The survey included a total sample size of 604 likely November 2018 voters, with the sample split in two to independently evaluate two revenue measure ballot question scenarios. The topline results of the survey can be found in Attachment V and a summary of these results will be presented at the July 10, 2018, meeting.

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—the level of increase tested in the second feasibility poll—would generate an estimated additional \$8,743,778 annually, for a total of \$15,897,778 annually.

STRATEGIC INITIATIVES

This agenda item is a routine operational item and does not relate to one of the

Council's Strategic Initiatives.

NEXT STEPS

Based on the information presented as a part of this report, if the Council decides to place any of the proposed revenue measures on the November 2018 ballot, all the paperwork would need to be filed with the County Registrar of Voters no later than August 10, 2018. If the decision is to move forward with one or both of the proposed revenue measures, staff will return to the Council at the July 17, 2018, meeting for approval of the required documents to place the measure on the November 2018 ballot. One remaining question for Council is the level at which to levy the RPTT. After discussion at this meeting, staff will take the Council's feedback on this question and incorporate it into the ballot language below.

The required documents would include the following recommended ballot questions pertaining to potential TOT and RPTT increases:

TOT

To support City of Hayward services, with revenue that cannot be taken by the State, including:

- fixing potholes and repairing streets and sidewalks;
- 911 emergency and firefighter response times;
- neighborhood police patrols;
- disaster preparedness;
- extended library hours and after-school programs; and
- unrestricted general revenue purposes;

shall the City of Hayward increase the ongoing transient occupancy tax paid only by hotel and motel guests from 8.5% to 12%, providing \$3 million dollars annually, with all funds staying in Hayward?

RPTT

To support City of Hayward services, with revenue that cannot be taken by the State, including:

- fixing potholes and repairing streets and sidewalks;
- 911 emergency and firefighter response times;
- neighborhood police patrols;
- disaster preparedness;
- extended library hours and after-school programs; and
- unrestricted general revenue purposes;

shall Hayward increase the rate of its real property transfer tax, collected once upon purchase of real estate, from \$4.50 to \$x.xx per \$1,000, providing \$[xx] million dollars annually, until repealed by voters, all funds benefiting Hayward?

Prepared by: John Stefanski, Management Analyst II

Recommended by: Chuck Finnie, Communications and Media Relations Officer

Approved by:

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

Kelly McAdoo, City Manager