

Capitola City Council

Agenda Report



Meeting: June 23, 2022

From: City Manager Department

Subject: Potential Second Home Tax Follow Up

Recommended Action: Provide direction to staff to either 1) Continue preparing the materials necessary to place a second home tax on the November 2022 ballot; OR 2) Do not proceed with placing a second home tax on the November 2022 ballot.

Background: At the May 26 City Council meeting, City Council received a presentation regarding polling results for a potential second home tax. Based on those results, Council directed staff to research several items and return to Council for further discussion regarding the potential tax. At the June 9 Council meeting, Council provided the following direction to staff:

Motion: 1) Direct City Attorney to begin drafting a vacant home tax ordinance incorporating: the \$4,000/\$2,000 margin, a 90 day threshold, and the staff suggested exemptions; 2) Council to determine, as allowed by the Brown Act, the feasibility of placing such a tax measure on the November 2022 ballot by assessing community support, potentially creating an outreach plan, and analyzing recommended uses of such a tax 3) Commit to directing staff to work to place such a measure on the ballot, or not, at the June 23 City Council meeting.

Result: Passed (5:0)

Discussion: The purpose of this item is for Council to either decide not to proceed with a second home tax for the November ballot, or direct staff to continue working on the measure. The deadline to place on item on the November ballot is August 12.

Based on the polling results, and the fact that the item would be a special tax requiring two thirds voter approval, it will be challenging for a second home tax to pass in November. However, because the concept of a second home tax is new, it is possible (but far from certain), that voter opinions may be less fixed than with more familiar traditional tax measures.

Given the situation, staff suggests the only potential path to a successful measure is if it was supported by a robust community campaign. State law precludes City staff or resources from being used to campaign for a ballot measure. State law does allow the City to produce informational documents that include factual information about a measure, as long as it does not urge voters to vote in a particular way. The City has mailed such informational material to City residents in prior elections.

As was discussed during the June 9 meeting, turnout for this November's election will likely be lower than the turnout for the 2024 election. In general, tax measures perform better in higher turnout elections.

Since this would be a special tax, the City may designate the uses of the tax revenues in the measure itself (as opposed to a general tax, where all revenues must be placed in the general fund). Should Council decide to proceed with a second home tax at this time, Staff would need direction on how Council would like to designate the revenues. Staff recommends that Council designate a portion of the revenues to high priority community needs and a portion of the revenues towards the General Fund. If Council decides to move a measure forward, staff will need that direction either at the June 23 meeting or on July 28. Alternatively, a special meeting could be scheduled to specifically discuss this topic.

At the June 23 meeting, Council members will be able to report their individual assessment of community support for this potential measure.

Lastly, should the Council decide to direct staff to continue working on placing this tax on the November 2022 ballot, staff seeks direction on how to refer to it. Based on feedback from another jurisdiction that

polled this concept, voter support for a “empty home tax” was slightly higher than support for a “vacant home tax,” but regardless of the name, support was in the 50-55% range. Internally, staff for jurisdiction felt that both terms caused voter confusion.

Based on feedback from that jurisdiction, and input from Capitola’s polling professional, our City staff polled the item as a “second home tax.” The City’s polling also suggested potential support in the 50-55% range and suggested potential confusion about the term “second home tax.”

The City of Oakland’s tax was approved by their voters as a “vacant home tax.” The proposed measure in Santa Cruz is referred to as an “empty home tax.” Recently, the City of Berkeley decided to move forward with a similar tax, referring to it interchangeably as an “empty home tax,” “vacant home tax,” and “vacancy tax.”

At this point there does not seem to be a single term used to refer to these taxes. Should Council decide to move forward, staff suggests the tax be named either a “second home tax” or “unoccupied house tax,” however other options are certainly possible.

Fiscal Impact: The cost to place this measure on the ballot is estimated to be less than \$20,000 between ballot costs and staff time. Determining the potential revenue from a second home tax is challenging because it is unknown how many homes would be subject to the tax, and who would qualify for exemptions. However, based on Census data regarding the number of second homes in Capitola, staff estimates the tax could raise between \$850,000 and \$1.5 million annually.

Report Prepared/Approved By: Jamie Goldstein, City Manager

Reviewed By: Chloé Woodmansee, City Clerk; Samantha Zutler, City Attorney