

# Attachment 1

**PURPOSE OF TODAY'S MEETING:** To advise the Council and the public of the Police Facility Subcommittee's work to date.

- SUBCOMMITTEE'S ASK:**
- (1) Determine whether the City should place a Public Facilities Improvement tax on the November, 2022 ballot.
  - (2) Determine the source to support the tax.
  - (3) Authorize staff to:
    - (a) engage the services of professional advisors; and
    - (b) allocate \$200,000 from the general fund to retain those advisors (a municipal advisor, bond counsel, a ballot measure consultant, and a pollster).

**SUBCOMMITTEE'S RECOMMENDATION:** The Subcommittee recommends that the Council direct staff to prepare a ballot measure for the November, 2022 general election proposing a public facilities bond in the form of an *ad valorem* property tax. The Subcommittee also believes that a parcel tax is a viable, second choice.

**SUBCOMMITTEE'S PROCEDURAL ADVICE:** Council should consider and discuss the questions presented and then make its determinations and authorizations at its next regularly scheduled meeting (March 8, 2022).

**Subcommittee's Meetings to Date:**

- |                    |   |
|--------------------|---|
| December 6, 2022:  | Meeting with staff                        |
| December 9, 2022:  | Meeting with staff and investment bankers |
| December 17, 2022: | Meeting with staff                        |

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January 28, 2022:	Meeting with staff and investment bankers
February 3, 2022:	Meeting with staff
February 15, 2022:	Meeting with staff and City Attorney
February XX, 2022:	The Subcommittee anticipates meeting with staff at least once or twice more after the submission of this report but prior to the Council's study session on February 22.

The Subcommittee has also met informally as needed.

### I. **OVERVIEW**

To raise money for a capital project, Los Altos has the option to issue municipal bonds. A municipal bond is a security investment issued by the City and purchased by investors. Municipal bonds are often considered very low risk, and therefore deliver a relatively low return to investors. However, the gain realized by the investors has favorable income tax treatment, making municipal bonds an attractive investment.

One of the advantages to the City to raise capital through a bond as opposed to a commercial loan is that a commercial lender will charge a higher rate of interest. In other words, it is more expensive to borrow money from a commercial lender than to issue bonds.

Bonds must be issued and marketed through the services of an investment banker. The investment banker handles the process on behalf of the City, from issuance through sale. Based on the City Manager's prior dealings with them, the City Manager and the City Attorney recommend that Los Altos use the services of Stifel Public Finance ("Stifel"). The Subcommittee and staff have met twice with Stifel and have confidence in their ability and expertise to serve the City.

To issue municipal bonds, the City must have a reliable source of income to ensure that the bonds will be appropriately serviced. Typically, a municipality either (1)

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increases an existing tax; or (2) establishes a new tax to create the new stream of revenue needed to support the bond.<sup>1</sup>

### II. GENERAL VS. SPECIAL TAX

Assuming the Council desires to proceed with a bond measure, we must determine whether to seek a **general tax** (money is raised for the general fund) or a **special tax** (money is earmarked for a project). Either tax must be approved by the voters; they cannot be imposed by the Council.

#### A. Election Timing:

Absent an emergency declaration by the City Council, a **general tax** may only appear on a ballot that is also **an election for council seats**.

A **special tax** may appear on **any ballot**.

#### B. Advisory Measure:

Some municipalities have placed a tax measure and an advisory measure side-by-side. The advisory measure is used as a referendum by the City Council to obtain voter direction as to how tax revenue should be used. Assuming both measures pass, the Council is not earmarking general funds for a specific project; but, the Council has advice from the voters as established by the advisory measure.

### III. SOURCES OF TAX REVENUE

Stifel identified five (5) sources of tax revenue Los Altos could use to generate funds to support a bond:

- Property tax
- Special tax

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<sup>1</sup> While the new tax must be structured so as to generate enough revenue to pay the bond, Los Altos has several options with respect to the new tax. A new tax could (1) be limited to generating a fixed amount of revenue; (2) sunset after a period of time; or (3) last in perpetuity.

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- Sales tax
- Parcel tax
- Utility user tax

While there are other sources of tax revenue available (such as a transient occupancy tax, etc.), Stifel does not anticipate that they will generate enough revenue annually.

The following chart is reproduced from Stifel's presentation to the Council Subcommittee:

	Property Tax	Special Tax	Sales Tax	Parcel Tax	Utility User Tax
<b>Description</b>	Ad valorem property tax based on a percentage of assessed value (NOT fair market value)	Special Tax Levied on Property Tax Bill	Tax on Goods and Services at the Point of Purchase	Tax can be flat (regressive) or based on characteristics of a parcel (e.g., square footage, etc.)	Tax on consumption of utility services (e.g., water, sewer, trash, gas, cable, etc.)
<b>Voter Approval</b>	2/3	2/3	50%+1	2/3	50%+1
<b>Argument in Favor</b>	Lowest annual cost; least impact for residents on fixed income	Can be tailored equitably; annual payments typically consistent over life	Simple majority needed to pass; unrestricted revenue source	Potentially more equitable than other taxes	Simple majority; city has relatively low UUT rates of about 2.5% - 3.5% (CA average is 4% - 6%)
<b>Argument Against</b>	Requires 2/3 threshold; penalizes new residents	Requires 2/3 threshold; relatively lengthy process; more expensive than GO bonds	Los Altos' modest sales tax base might not generate meaningful revenue	Requires 2/3 threshold; penalizes older residents; and those on fixed incomes (though exemptions are possible)	Regressive; hardest on those with fixed incomes (though exemptions are possible)

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<b>Who Votes</b>	Registered Voters	Property Owners	Registered Voters	Registered Voters	Registered Voters
<b>General or Special Tax</b>	Special Tax Only	Special Tax Only	Either	Either	Either
<b>Collection Method</b>	County Property Tax Bill	County Property Tax Bill	Point of Sale	County Property Tax Bill	Utility Tax Bill
<b>Council Approval</b>	Majority	Majority	2/3	2/3	2/3
<b>Bond Approval Included in Tax Vote?</b>	Yes	No	No	No	No
<b>Type of Bond</b>	General Obligation (GO) Bonds	Special Tax Bonds *	Lease Revenue Bonds **	Lease Revenue Bonds **	Lease Revenue Bonds **

\* Secured solely by special tax revenues paid by property owners. No general fund banking.

\*\* Secured by general fund (city) backing. To avoid additional voter approval, city-owned assets must be leased. (This is the same structure as our existing loan for the community center.)

City staff has not made a recommendation as to which tax the Council should select to support a bond measure.

## IV. AMOUNT THE CITY WILL NEED TO BORROW

City staff is working on a rough cost estimate to build a new police facility. Recently, the City of Campbell built a new police station at their civic center. Campbell's facility cost about \$30 million. The two-story facility appears to be simple in design but functional. The total amount to be raised will depend on Council's ambitions with respect to the scope of what we want to accomplish with the bond.

## V. SCOPE OF BOND

After careful deliberation, the Subcommittee urges the Council to consider the City's public safety needs beyond replacing the police station. The Santa Clara

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County Fire Department estimates that within about five years, the roof on the **Almond Avenue Fire House** must be replaced. Within five years after that, the Department estimates that the **Fremont Avenue Fire House** will also need a new roof.

Funds are needed for other capital projects for which the Council has expressed interest. The library, city hall, the MSC and parts of the Grant Park community center are all in various states of disrepair; funds can be used to upgrade our amenities and make them more ADA compliant and accessible. The City's IT division is in a portable. For public safety and the safety of our first responders and staff, seismic upgrades are needed in our older facilities.

Increasing the scope of the bond means that the City is borrowing more money, thereby increasing the amount of the tax or extending the tax for a longer period of time. *See Appendix A.*

A possible benefit to increasing the scope of the bond is that it has the potential to appeal to a broader segment of the electorate. A plan to raise funds to expand the library will appeal to supporters of the library. But as the proposed tax increase grows, so will the motivation of those opposed to increased taxes.

### VI. CEQA

Depending on the type and/or purpose of the proposed tax, a ballot measure may be subject to CEQA. Bond counsel will advise whether a companion advisory measure affects that assessment.

Even if CEQA is not required for the ballot measure, a new capital project is subject to the normal CEQA requirements prior to construction.

### VII. OTHER ISSUES TO CONSIDER

#### A. **Cost to Borrow.**

Stifel and city staff informed the Subcommittee that Los Altos is expected to have the best or second-to-best credit worthiness rating available to

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municipal agencies (AAA or AA). This would make our bonds attractive to investors and allow us to issue them at interest rates favorable to the City.

However, as interest rates continue to rise, so will the rate of interest Los Altos attaches to its bond. In other words, as interest rates rise, so does the cost of borrowing money (whether through a bond or a commercial loan). If the Council anticipates that interest rates will continue to rise over the foreseeable future, then it behooves the Council to obtain voter approval as quickly as possible. *See Appendix A.*

## **B. Cost to Bring a Measure to Ballot.**

The Council should expect that the cost to bring a measure to the ballot will be at least \$200,000 - \$300,000. These are up-front costs that will have to be paid by the City prior to the election regardless of the outcome of the election. They include (but are not limited to):

- Bond counsel;
- Administrative fees to the County to place the measure on the ballot and administer the election process; and
- Consultant fees.

In accordance with industry standards, Stifel will charge the City a fee for its services, but those fees are contingent on the measure passing.

## **VIII. NEXT STEPS**

The City needs to engage the services of the following professionals to move forward with a ballot measure:

	<b>Pre-Passage of Ballot Measure</b>	<b>After Passage of Ballot Measure</b>
<b>Investment Banker</b>	<ul style="list-style-type: none"><li>• Team management</li></ul>	<ul style="list-style-type: none"><li>• Team management</li></ul>

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	<ul style="list-style-type: none"> <li>Provides strategy and input on ballot measure</li> </ul>	<ul style="list-style-type: none"> <li>Bond feasibility based on revenue measure</li> <li>Structure and sell the bonds</li> </ul>
<b>Bond Counsel</b>	<ul style="list-style-type: none"> <li>Provides legal guidance on ballot measure qualification and approval thresholds</li> <li>Drafts resolutions and council actions to place the measure on the ballot</li> </ul>	<ul style="list-style-type: none"> <li>Provide draft documents and legal opinions necessary to issue bonds</li> </ul>
<b>Campaign Consultant</b>	<ul style="list-style-type: none"> <li>Develops public information campaign</li> <li>Provides strategy and input on the ballot measure</li> </ul>	
<b>Polling Company</b>	<ul style="list-style-type: none"> <li>Develops polling survey</li> <li>Conducts polls and provides analysis / report for polling results</li> <li>Provides data used by the City and its consultants to determine the best strategy to achieve ballot measure success</li> </ul>	
<b>Financial Advisor</b>	<ul style="list-style-type: none"> <li>Provides strategy and input on the ballot measure</li> <li>Helps determine ballot measure suitability</li> </ul>	<ul style="list-style-type: none"> <li>Helps determine bond suitability for the City</li> <li>Reviews and certifies bond terms and rates</li> </ul>

The information for this table was provided by Stifel.

## IX. CALENDAR

Feb. / March, 2022

Council Direction on Tax Measure

April – June, 2022

Community Engagement and Public Outreach

- Workshops



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- Polling and surveys

June 28, 2022                      Council Resolution to Place Measure on Ballot

August 12, 2022                  Ballot Submission Deadline

- Ballot Measure Text (75 Word Limit)
- Resolution
- Ordinance
- Tax Rate Statement (if applicable)

November 8, 2022                Ballot Measure Election Day

February, 2023                    Issue Bonds

Summer, 2023                    Begin Construction

## **X.      SUMMARY**

Based on the foregoing, the Police Facility Subcommittee recommends that the Council move forward with a Public Facilities Bond supported by an *ad valorem* property tax on the November, 2022 ballot. Passage will require a two-thirds majority vote of the electorate. In the alternative, the Subcommittee recommends that the Council move forward with a parcel tax.

The Subcommittee recognizes that this report is dense and anticipates that the Council will engage in a robust discussion. Scheduling a vote in two weeks allows Council Members and the public an opportunity to carefully consider the information presented in this report and the Subcommittee’s recommendations.

Finally, while none of the proposed taxes discussed herein require a unanimous decision from the Council to move forward, the Subcommittee strongly recommends that the City proceed with a ballot measure only if there is unanimous consent to do so. Members of the Subcommittee believe that the success of a ballot measure depends upon unanimous and unequivocal Council support and leadership.

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## **APPENDICES**

The following appendices are attached to this report:

Appendix A..... Estimated Annual Payments based on Various Funding Amounts

Appendix B..... How Revenue Requirements Inform the Ballot Measure Ask

Appendix C..... Summary of 2021 Ballot Measure Results in California

[All appendices are based on data provided by Stifel.]

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### Appendix A - Estimated Annual Payments Based on Various Funding Amounts

The following charts show the annual amounts Los Altos needs to raise from a new tax based on market conditions, the term of the bond and the amount borrowed. For example, if we anticipate needing \$50 million for the project under current market conditions plus 1%, we need to raise \$2.97 million annually over 30 years to achieve that (as shown in the blue circle). Appendix B then illustrates three different tax methods to achieve this same scenario.

CURRENT MARKET CONDITIONS			
Project Fund	\$25 Million	\$50 Million	\$100 Million
20-year term	\$1.73 Million	\$3.45 Million	\$6.90 Million
30-year term	\$1.36 Million	\$2.73 Million	\$5.46 Million
40-year term	\$1.99 Million	\$2.40 Million	\$4.80 Million

CURRENT MARKET CONDITIONS PLUS 1.00% INTEREST RATE			
Project Fund	\$25 Million	\$50 Million	\$100 Million
20-year term	\$1.85 Million	\$3.70 Million	\$7.40 Million
30-year term	\$1.48 Million	\$2.97 Million	\$5.95 Million
40-year term	\$1.33 Million	\$2.66 Million	\$5.31 Million

\* These charts are reproduced from charts provided to the Subcommittee from Stifel.

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## Appendix B - How Revenue Requirements Inform the Ballot Measure Ask

City of Los Altos (2021-22 Tax Year)	
Number of Parcels	11,270
Assessed Value	\$18,778,581,858
Number of Registered Voters	~ 22,100 (based on Nov. 2020 election)
Voter Participated	~ 20,000 (87%)

CURRENT MARKET CONDITIONS PLUS 1.00%	
Project Fund	\$50 Million
20-year Term	\$3.70 Million
30-year Term	\$2.97 Million
40-year Term	\$2.66 Million

G. O. Bond Levy (Property Tax)
<p><b>\$3.07 Million raised annually</b></p> <p>\$15.82 per \$100,000 assessed value</p> <p>\$272.8- annual tax per average single family residence assessed value</p> <p>(\$1.72 Million average SFR assessed value)</p>

or

Parcel Tax
<p><b>\$2.96 Million raised annually</b></p> <p>\$263 annual tax per parcel (\$21.96 per month)</p>

or

User Utility Tax
<p><b>\$2.8 Million raised annually</b></p> <p>Based on +3% increase from the City's current UUT rates of 2.5% - 3.5%</p>

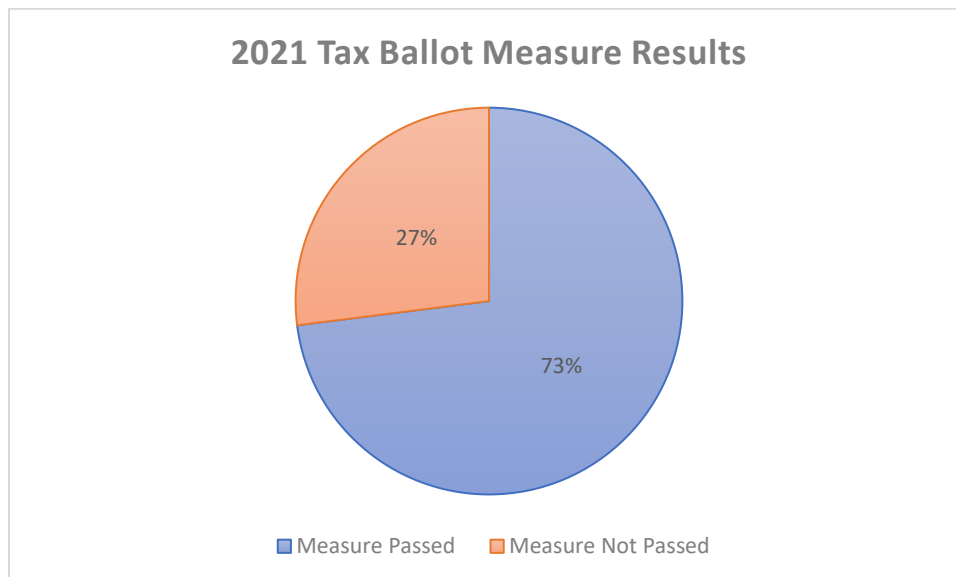
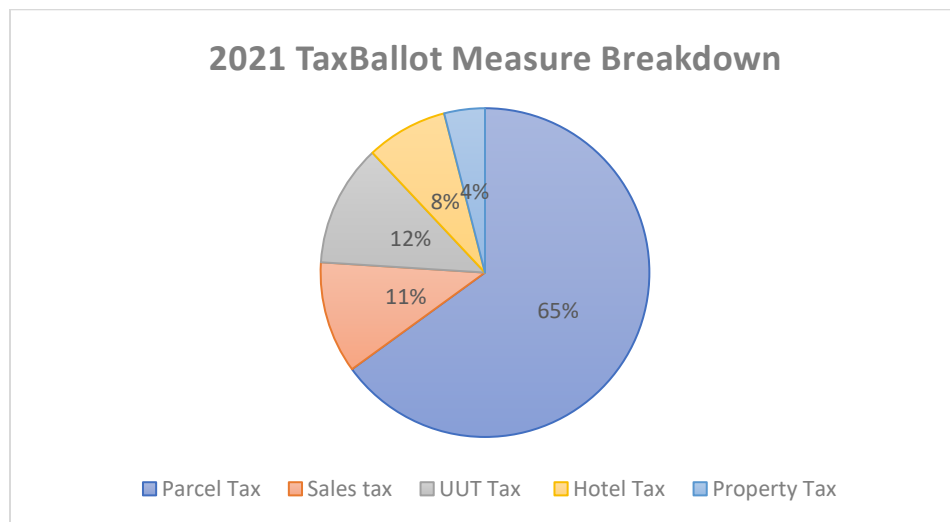


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## Appendix C - Summary of 2021 Ballot Measure Results

- A Total of 26 Different Ballot Measures Were Voted on in the 2021 Election Cycles
- 65% of the Ballot Measures for November 2021 were for Parcel Taxes
  - Sales Tax Represented the Next Largest Ballot Measure Category at 11%
- Nearly 75% of All Measures were Approved
  - Four of the Seven Measures Not Approved were Parcel Taxes



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