



## City Council Agenda Report

**Meeting Date:** January 14, 2025

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**Approved By:** Gabe Engeland

**Subject: Funding Options for Public Safety Infrastructure (Police Building & Fire Stations)**

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### **COUNCIL PRIORITY AREA**

- Business Communities
- Circulation Safety and Efficiency
- Environmental Sustainability
- Housing
- Neighborhood Safety Infrastructure
- General Government

### **RECOMMENDATION**

Staff recommends the City Council discuss and provide further direction.

### **FISCAL IMPACT**

No fiscal impact has been incurred in the preparation of this agenda item. If a ballot initiative were to be placed on the November 2026 ballot, or at earlier elections, ballot additional costs will be incurred by the City. Exact costs are not provided by the County elections office. The City Council may also consider retaining a firm to poll for this and other potential ballot measures, at a cost to be determined.

### **ENVIRONMENTAL REVIEW**

This action does not qualify as a “project” as defined in California Government Code Section 15378(b) of the Guidelines for California Environmental Quality Act (CEQA)

### **PREVIOUS COUNCIL CONSIDERATION**

June 25, 2024

### **DISCUSSION/ANALYSIS**

At the June 25, 2024 City Council meeting, staff was directed to bring back options for funding a new police station. In the past three years the City Council has twice completed a survey of the general population of Los Altos to determine if a special or general tax measure, used to fund a new police station, is supported by the community. Each survey had similar findings that residents in Los Altos are highly satisfied with their quality of life (87%) and have confidence and trust in the operation of the government (74%). However, each survey also showed a highly polarized electorate where ballot measures did not achieve the simple majority required for the approval of

a general tax measure. Polling below the 50% threshold also means any special tax, which would require a 2/3 majority for approval, is unlikely to pass.

The tax measure that polled the highest in the most recent survey was a general purpose UUT measure, which came the closest to achieving a simple majority at 49%. A parcel tax was also surveyed, however, the support for a parcel tax declined as residents were introduced to statements of opposition to applying a parcel tax for funding public safety.

The following services were considered critical by the respondents to the most recent survey:

- Upgrading Fire Stations to accommodate modern firefighting and life-saving emergency medical equipment;
- Updating police/ fire stations to ensure operations during an emergency/rapid emergency response time;
- Providing a police mental health response team for non-violent 911 calls, including suicide prevention, homelessness and substance abuse;
- Providing a modern and earthquake safe emergency dispatch center to ensure communications between police, fire and paramedics remain operational in a disaster.

The thematic elements below tracked closely with the services that scored the highest in the survey, which were centered on emergency response, neighborhood safety, and local control:

- **Emergency 911 response times:** For victims of heart attacks, strokes, accidents and other emergencies, seconds can be the difference between life and death. ...[We must]...help ensure fast emergency response times.
- **Emergency Communications:** [We must]... update and maintain police facilities and technology so we can maintain 9-1-1 dispatch, crime fighting and investigation services, keep neighborhoods safe, and ensure operations during an emergency
- **Updates for Emergency Operations:** Los Altos fire stations have not had adequate updates. ...[and need additional funding to]...ensure that they are operational during earthquakes, wildfires, and storms.
- **Local Control for Local Needs:** Los Altos [must have] control over local funds for local needs - allowing Los Altos to be self-reliant and requiring that our tax dollars be spent for Los Altos residents. No funds can be taken by Sacramento.

The measure tested was to raise approximately \$3.1M annually to pay for public safety improvements as outlined in the services and thematic elements described above. At the time, it was determined that any tax measure would need to raise \$3M-\$4M annually to fund a \$50M bond payable between 20-40 years, with the shorter the term of repayment leading to a higher annual cost. Since this calculation was made interest rates have increased.

The following rules apply to tax measures:

A general tax must be at the same election as the City Council, unless it is an emergency tax. An emergency tax can be placed on a special election, but the City Council must declare a financial

emergency, with findings, to hold a general tax at a special election. A general tax requires 50%+1 for adoption.

A special tax can be on any ballot. However, such a tax 1) must be earmarked for some purpose and 2) requires a two-thirds vote of the electorate for adoption.

Note that a general tax can usually be turned into a special tax by simply creating some restriction on the use of funds. That restriction can be very broad, such as “police, fire, roads, and parks and recreation.” Since money is fungible, and most existing dollars in a city budget are unrestricted, when a special tax is “limited” to a large number of services that comprise a large portion of the overall budget, such a special tax effectively places no more limitations on budgeting flexibility than would an unrestricted general tax.

A tax placed on the ballot by citizen initiative can be a special or general tax and can be considered by the electorate at any election and requires 50% +1 for approval.

As noted in this staff report and in previous surveys, no revenue measure tested achieves the 50% +1 threshold required to approve a general tax. Similarly, no revenue measure tested achieves the 2/3 majority required to pass a special tax. As recommended by the consulting partners at each of the last two surveys, it is not recommended to proceed with any special tax. It is also not recommended the City consider declaring a fiscal emergency as it would be difficult to make the required findings.

Since this item was first discussed, there have been a few notable changes that may cause the City Council to consider moving forward with a new strategy.

#### Financial Position of the City

At the time of the first survey the City did not believe it had adequate unassigned reserve fund balance to participate in the cost of the construction of a new police station. The strategy was to raise 100% of the annual bond financing through some type of revenue measure. The City Council has worked to reduce spending and increase reserves over each of the last three budgets and the City currently has approximately \$15M in unassigned reserve funds in the General Fund. A portion of these funds could be used to reduce the overall financed cost of a new police station, which would in turn reduce the amount of the funds necessary to be raised annually through a ballot measure.

#### Financing Mechanism

If the City Council decides to apply the unassigned reserve funds, it may allow an option of traditional financing to pay for the Police Station without the issuance of bonds. Depending on the rates available in the market, traditional borrowing may be an alternative to bond financing. Should the City Council decide to use some of the unassigned reserves, staff can investigate this option more thoroughly, and compare them to bond financing. It should be noted that if the Council uses this option other projects or programs in the City may not receive funding as future years may require austerity to pay for the Police Station financing. Additionally, this option will not plan for the capital needs of the Fire Station(s) in the future.

### Type of Revenue Measure

If the City Council opts to use the unassigned reserves, and proceed with a tax measure, the City Council could consider a sales tax option as a smaller annual amount of funds would need to be raised. In previous discussions a sales tax measure was not tested as it was not financially feasible with the strategy deployed. This option would provide a new revenue source that could be applied to the capital needs of the Fire Station(s) in future year.

Similarly, the City Council could consider testing the parcel tax again as the lower annual amount may make the tax more palatable to property owners.

### Charter City Option

The City Council may want to consider a charter city initiative with regards to taxation. This option is discussed in detail below. A charter city has the authority to set and apply a Real Property Transfer Tax (RPTT) rate that is greater than what is established for general law cities. Please refer to the agenda item “Charter City and City Council Term Limits Consideration” presented on January 14, 2025 for additional information on Charter City Initiatives.

### Funding Options

Should the City Council decide to move forward with plans for a new Police Station, the total cost of construction is estimated to be around \$50M. Without applying any of the reserve fund balance, a revenue measure would need to raise between \$3-\$4M annually for a term of 20 – 40 years with a total repayment range of \$80-\$120M. Based on current market conditions for construction and the cost of financing, the total repayment range and the required annual amount could have a wider variability than estimated here.

Should the City Council decide to apply some of the unreserved fund balance, the amount of revenue raised annually and/or the term of repayment would be reduced.

The following options exist for the City Council to consider:

- General Tax for full amount
- General Tax with unreserved fund balance applied
- Real Property Transfer Tax rate (Charter City Option)

As a general tax, any revenue raised could go to any governmental purpose. The current identified needs are in public safety. In addition to the Police Station, these needs include necessary modifications, improvements and construction to both of the City’s fire stations in the future. The general tax could not be limited to only public safety uses, but Council could prioritize these uses for the general tax.

### General Tax for full amount:

If the Council elects to move forward with a ballot measure and does not apply unreserved fund balance, the Council should consider the UUT general tax as recommended by the consultant, first prior to considering other revenue measures. As noted in this report, the UUT did not garner 50% + 1 support when tested, but support for the measure did not erode when oppositional statements were introduced, making it the most durable revenue measure polled.

### General Tax where unreserved fund balance is applied

If the Council would like to apply some of the unreserved fund balance, the Council should conduct a survey of likely voters in the 2026 general election to determine the viability of a sales tax measure or property tax measure and compare them to the viability of a UUT measure. A sales tax or property tax may be favored over a UUT if the total amount of funding raised is less than what was surveyed previously.

### Real Property Transfer Tax Rate (Charter City Option)

Alternatively, the City Council could consider moving forward with a vote to establish Los Altos as Charter City. This vote could take place in November of 2026. Charter Cities may set the rate of the Real Property Transfer Tax greater than what is established in State Law.

Some charter cities have enacted a Real Property Transfer Tax that imposes a tax on the conveyance of real property based on the value of the property in addition to the amount authorized by State Law (Revenue & Tax Code §11911). Courts have determined that such charter city taxes do not violate either Proposition 13 or Proposition 62. Although Government Code 37100.5 gives a general law city the authority to impose the same type of taxes that a charter city imposes, a general law city is subject to the restrictions of Proposition 62, which specifically prohibits a transaction tax on the sale of real property. Accordingly, while charter cities may consider additional real property transfer taxes beyond State Law (Revenue & Tax Code §11911), general law cities may not.

For general law cities, this amount of the Real Property Transfer Tax is set at \$0.55 per \$1,000 of property value. Please see attachment #1 for the property transfer tax rate for all cities in California, attachment #2 for the property transfer tax rate for charter cities, and attachment #3 for potential self-funding options.

As a general law City, the City has collected the following revenues from this tax:

FY 2020/21: \$930,000  
FY 2021/22: \$1,000,000  
FY 2022/23: \$690,000

As charter cities, Palo Alto and Mountain View have opted to set their rates at \$3.30 per \$1,000 of property valuation. Mountain View just passed a ballot measure increasing the rate to \$15 per \$1,000 of property valuation for sales above \$6 million. San Jose, also a charter city, has established the rate as \$3.30 per \$1,000 of property valuation, with an additional percentage increase based on the value of the property, ranging from 0.75% to 1.5%.

Please see the chart below for more information:

City	Per \$1,000 of Property Value	County Rate	Total per \$1,000 of Property Value
Los Altos	\$0.55	\$0.55	\$1.10
Mountain View	\$0M-\$6M \$3.30	\$1.10	\$4.40
	\$6M+ \$15.00	\$1.10	\$16.10
Palo Alto	\$3.30	\$1.10	\$4.40
San Jose	\$0-\$2M \$3.30	\$1.10	\$4.40
	\$2M - \$5M: \$3.30 + 0.75%	\$1.10	\$11.90
	\$5M-\$10M: \$3.30 + 1.0%	\$1.10	\$14.40
	Over \$10M: \$3.30 + 1.5%	\$1.10	\$19.40

In Mountain View (for properties under \$6 million) and Palo Alto the total rate per \$1,000 of valuation is 4 times higher than in Los Altos. Other Charter Cities have established rates per \$1,000 of value as follows: Alameda (\$12), Berkely (1.5% up to \$1.5M and 2.5% over 2.5M), Hayward (\$8.50), San Leandro (\$11), San Rafael (\$2), and Vallejo (\$3.30).

If Los Altos had rates similar to Mountain View (for property under \$6 million) and Palo Alto, revenue raised would have been as follows:

FY 2020/21: \$5.58M

FY 2021/22: \$6.00M

FY 2022/23: \$4.10M

Though these rates fluctuate, the amount of revenue raised would allow for the bond payment on the construction of a new police station and would also provide adequate funding for the needs of Fire, 911 services, conversion of police fleet vehicles, as well as other future needs in the City.

At this time, staff considers these three options as the most likely to result in adequate funding for a new police station.

In order to fund the public safety needs of the City, however, the RPTT or some type of new revenue measure should be considered. Should Council provide direction to further explore including a Real Property Transfer Tax as part of a City Charter, staff will engage the services of an expert in this type of taxing to help guide the City through the various options.

### **RECOMMENDATION**

Consider the following options for funding of a new police station:

1. Inclusion of a Real Property Transfer Tax rate in a Charter City ballot measure
2. A parcel tax or other revenue measure for the full amount of police and fire stations
3. A parcel or sales tax for a police station only and use of General Fund Unreserved Fund Balance to pay a portion

## **ATTACHMENTS**

1. California City Real Property Transfer Tax Rates
2. Real Property Transfer Tax rates for various charter cities
3. Self-funding options