



City Council Agenda

City of Campbell, 70 North First Street, Campbell, California

CAMPBELL CITY COUNCIL STUDY SESSION

Tuesday, October 17, 2017 – 6:00 p.m.

Council Chamber – 70 N. First Street

NOTE: No action may be taken on a matter under Study Session other than direction to staff to further review or prepare a report. Any proposed action regarding items on a Study Session must be agendized for a future Regular or Special City Council meeting.

CALL TO ORDER, ROLL CALL

NEW BUSINESS

1. **Civic Center Master Plan**

Recommended Action: Conduct Study Session and provide direction to staff.

PUBLIC COMMENT

ADJOURN

In compliance with the Americans with Disabilities Act, listening assistive devices are available for all meetings held in the City Council Chambers. If you require accommodation, please contact the City Clerk's Office, (408) 866-2117, at least one week in advance of the meeting.

MEMORANDUM



Public Works Department

To: Honorable Mayor and City Council **Date:** October 17, 2017

From: Todd Capurso, Public Works Director *TC*
 Jesse Takahashi, Finance Director *JT*
 Margarita Mendoza, Administrative Analyst *mm*

Via: Brian Loventhal, City Manager *BL*

Subject Study Session – Civic Center Master Plan

PURPOSE

Continue discussion related to the development of a Civic Center Master Plan (CCMP) and associated financing. This memorandum focuses on the review of various financing mechanisms and refinement of the scope as it relates to renovation and/or construction of facilities.

OUTCOMES

At the conclusion of the study session, staff would like feedback from the City Council confirming the following:

1. Agreement on a preferred funding mechanism; and
2. Direction to refine the scope of the project.

BACKGROUND

On September 5, the City Council held a study session to discuss the CCMP. The City Council was presented with information regarding previously completed work as well as new information pertaining to the structural integrity of the two existing buildings. The City Council then discussed potential design and location alternatives for the Police Department and Library buildings, and expressed an interest in refining information as it relates to voter approved revenue measures such as a property-based tax or transactions and use tax.

The City has received an updated financial analysis report related to various revenue measures that require voter approval and could potentially be used to fund a CCMP construction project. As a follow up, staff also conducted additional research related to required legislative action needed prior to the City Council placing a transactions and use tax measure on the ballot.

In the past month, staff has also continued to refine the scope of the project that could result in a mix of renovated and new facilities to house City departments and functions currently operating at City Hall, Police Department Annex, and Library buildings. Discussion related to financing, legislative action, scope, and next steps are provided below.

DISCUSSION

FINANCING

At the September 5 study session, five financing mechanisms were presented – along with the discussion of a possible sixth – self-financing and/or property sales. Since that time, staff recommends the elimination of several of these options from further consideration for the following reasons.

A Utility Users' Tax is recommended for elimination due to the complexity required to establish a new tax and the work required to propose the establishment of differing rates that would apply to different utility uses – including electricity, gas, water, sanitary sewer, cable, and telephones (land lines and cell service). This complexity makes it difficult to refine this revenue source within the timeline for the November 2018 ballot.

Property sales is also not recommended as a financing option at this time. The one property that was identified as a potential sales opportunity – on Civic Center Drive – was previously owned by the Redevelopment Agency (RDA). The property was allowed to be conveyed to the City “for government purposes” and specifically identified in a 2013 RDA property disposition report approved by the State Department of Finance. Should the City Council elect to change that designation and sell the property, the proceeds would be subject to the same distribution formula as property tax revenue resulting in net proceeds to the City of about 10% of the revenue.

A possible consideration is the City's ability to issue Certificates of Participation (COPs), which is another financing tool used by cities to finance capital projects. COPs typically utilize a City asset and a leasing arrangement with a public financing authority to raise needed proceeds. The standard source of lease payments is the City's General Fund. Since the City cannot raise taxes to pay this debt, the lease payments must fit within the operating budget.

The City is currently budgeting in its General Fund an average of \$800,000 annually toward its existing outstanding lease revenue bonds through October, 2028, and will have to increase that budget to \$1.6 million from October, 2029 through October, 2032 in order to repay certain Capital Appreciation Certificates related to the 2002 Refinancing Certificates of Participation (COPs). Accordingly, the City would likely be in the position to assume additional debt capacity after these obligations are fulfilled. It is possible that a 30 year debt issue could wrap around the existing debt, thereby, allowing the proposed debt service structuring to accommodate the City's existing cash flows while providing for needed amount of proceeds necessary for the Civic Center

project. The analysis below does not reflect any use of this future bonding capacity – additional analysis would be required.

There were four remaining financing mechanisms that are viable revenue sources. NHA Advisors has provided the City with analysis of the four revenue alternatives (Attachment 1). The analysis included a property characteristic summary (for residential properties) that shows that the largest grouping of properties in Campbell are for assessed values below \$100,000 and that “...more than 89% of homes have assessed values below the City’s median home market value of \$1,194,000 (source: Zillow).”

Since the tax levied on property owners is based on assessed valuation, and the residential assessed valuation summary found that the largest grouping of properties have assessed values below \$100,000 - it significantly impacts the tax burden on the smaller grouping of properties that have assessed values closer to current market values. These findings are particularly important for the City Council’s consideration of a General Obligation bond. The analysis assumed a \$40 million project.

1. General Obligation (GO) Bond (67% approval threshold)

The average assessed value for a single family home in Campbell is \$593,902. Assuming a 30-year amortization period, the average annual levy to issue \$40 million in bonds is estimated at \$92.08 and results in annual debt service of \$2.35 million for a 30 year term. The GO tax levy is anticipated to decrease over time as assessed valuations increase. As the analysis points out, a property owner with an average assessed value could start by paying \$142.90 in year 1, and decrease to \$57.97 by year 30.

However, since the tax levied on property owners is based on assessed valuation, and the residential assessed valuation summary found that the largest grouping of properties have assessed values below \$100,000 - it significantly impacts the tax burden on the smaller grouping of properties that have assessed values closer to current market values.

General Obligation Bond

Project Size	\$40,000,000
Term	30 Years
Annual Debt Service	\$2,350,000
Maximum Tax Rate	0.0241%
Average Tax Rate	0.0155%
Max for \$100,000 AV	\$22.38
Average for \$100,000 AV	\$15.45
Max for Average Home (\$593,902)	\$142.90
Average Home (30-year Average)	\$92.08
Median Home (30-year Average)	\$86.93

2. Parcel Tax (67% approval threshold)

A parcel tax can be based on the characteristics of the parcel (e.g. square footage, type of land use, etc.). NHA provided two types of analysis, one focusing only on single-family residential parcels and the other if all parcels are equally taxed, regardless of land use. To generate revenue for a \$40 million project, a parcel tax on single-family residential parcels only would result in a \$213 annual tax; or a \$195 tax on all land uses. The annual debt service is estimated at \$2.35 million for a 30 year term.

Additionally, a parcel tax could be structured to allow for a flat rate on residential properties and a per-square-foot rate for non-residential. Implementing a strategy such as this could reduce the parcel tax amount for residential properties. If Council has an interest in a split-rate parcel tax, additional analysis will be performed.

Parcel Tax

Project Size	\$40,000,000
Parcel Tax Term	30 Years
Annual Debt Service	\$2,350,000
Residential Only - Annual Tax	\$213
All Parcels - Annual Tax	\$195

3. Transactions and Use Tax (TUT – 50% + 1 approval threshold)

The amount the City could raise under a ¼ cent and ⅛ cent TUT (also known as a sales tax) was analyzed based on both a 20 and 30 year term. The revenue from a ¼ cent TUT increase is estimated to generate \$30.25 million over a 20 year term; and \$37.15 million over a 30 year term. The annual debt service is estimated at \$2.43 million over the term selected.

The results are shown on the table below. Staff would like to highlight that the difference in revenue from a 20 year to 30 year tax is not significant. For example, an additional 10 years of a ¼ cent TUT tax generates approximately \$7 million in additional revenue. An additional 10 years of a ⅛ TUT tax generates approximately \$3 million in additional revenue. This is a reflection of longer term financing accruing higher interest costs.

Transactions and Use Tax Revenues (TUT)

Annual TUT Projection	1/4 Cent Increase (\$2.7M)	
	20 Years	30 Years
Par Amount	\$30,605,000	\$37,555,000
Project Fund	\$30,250,000	\$37,150,000
Annual Debt Service	\$2,430,000	\$2,430,000
Total Debt Service	\$49,325,000	\$73,583,000

Transactions and Use Tax Revenues (TUT)

Annual TUT Projection	1/8 Cent Increase (\$1.35M)	
Term	20 Years	30 Years
Par Amount	\$15,300,000	\$18,770,000
Project Fund	\$15,000,000	\$18,450,000
Annual Debt Service	\$1,215,000	\$1,215,000
Total Debt Service	\$24,650,000	\$36,775,000

4. Transient Occupancy Tax Increase (TOT – 50% + 1 approval threshold)

These taxes are levied on the individuals who rent lodging accommodations. The City’s current TOT rate is 12%. The City could increase the TOT by 2% to generate an estimated \$760,000 per year for purposes of issuing debt to fund a CCMP construction project. NHA analyzed both a 20 and 30 year amortization period. A 20 year period could generate \$9.3 million, increasing to \$11.48 million for an additional 10 years. The total debt service is estimated at \$15.425 million for a 20 year term and \$23.015 for a 30 year term.

Similar to the TUT, the additional revenue raised from an additional 10 years of amortization would not raise sufficient amount of additional funding by itself to meet the needed project amount. In this case, the additional 10 years results in an additional \$2 million.

Transient Occupancy Tax (TOT)

Annual TOT Projection	2% Increase (\$760,000)	
Term	20 Years	30 Years
Par Amount	\$9,570,000	\$11,745,000
Project Fund	\$9,300,000	\$11,475,000
Annual Debt Service	\$760,000	\$760,000
Total Debt Service	\$15,425,000	\$23,015,000

In May 2016, Godbe Research conducted a public opinion poll gauging support for a General Obligation Bond and a Parcel Tax in varying amounts. The results of the polling were presented to Council in June 2016. The General Obligation Bond had a 58.8% favorable rating at the rate of \$39 per \$100,000 of AV; a 62.8% favorable rating at \$27 per \$100,000 AV; and a 71.0% favorable rating at \$18 per \$100,000 AV. Additionally, the Parcel Tax a 49.7% favorable rating at \$428 per year; 56.5% at \$295 per year; and 68.3% at \$195 per year. Given the 2016 data, there appears to an adequate level of public support to justify additional research and polling on a variety of property-based financing mechanisms. Should the City Council want to pursue a revenue measure, a new public opinion poll is recommended using more specific figures.

TIMING

With all of these funding alternatives, there is opportunity for the City Council to strategically align the timing of the funding and the debt service to meet the needs of the City. For example, when current debt service obligations are paid off in 2032, the City will have additional operating budget capacity. This provides for additional bonding capacity in 2033 and beyond. The financing methodology could be constructed to incorporate and leverage this capacity.

From a timing perspective, there are a variety of options, such as:

- Utilizing multiple funding sources, such as beginning with a TOT tax that can be used to fund a portion of Library and City Hall renovations; and a smaller GO Bond or Parcel Tax to fund the new construction of a Police Department building and Library annex.
- Paying reduced debt service payments until 2033, and then increasing payments thereafter to take advantage of the additional debt capacity. For example, the annual debt service on a GO Bond is \$2.6 million spread equally over 30 years. The City Council can structure this long-term debt by paying less than \$2.6 million in the earlier years, and then making larger payments in the years past 2033.
- The TUT tax and TOT tax do not individually generate enough funds to pay for a \$40 million dollar project. However, by combining these two measures, they can finance a \$40 million project. The timing of either tax can be timed to meet the phasing of the project. Such as a TOT tax in 2018 to fund the renovations to the Library and construction of the Library annex; and then a TUT tax at a later year to fund the remainder of the CCMP.
- Both a GO Bond and a Parcel Tax can be scaled to match the financial magnitude of the project. However, either can be combined with a TOT or in-house bonding capacity to reduce the financial impact to the taxpayers.

LEGISLATIVE ACTION–TRANSACTION AND USE TAX

California’s statewide sales and use tax rate is 7.25%. Additionally, cities, counties, and special districts may impose additional taxes, but the combined rate of the tax cannot exceed 2%, unless specifically authorized by a legislative exemption. The City of Campbell is already at the maximum district tax rate of 2% for the following:

City of Campbell TUT (Measure O)	0.250
Santa Clara County TUT	0.125
Santa Clara County VTA/BART	0.125
VTA Transit and Transportation	1.000

Santa Clara County Measure B	0.500
Total District Taxes	2.000
State Tax Rate	7.250
Total Campbell Rate	9.250

If the City Council would like to place a TUT revenue measure on the ballot, a legislative exemption will be required. City staff has begun researching the necessary steps to obtain such an exemption by speaking with staff from the office of Assemblymember Evan Low.

The legislative year begins in January 2018. Generally, legislation enacted during a regular session of the Legislature takes effect on January 1 of the following year. In the City's case, if a legislative exemption to raise the sales tax cap is approved by the Legislature and Governor through the normal process, it would mean the City could not place a TUT revenue measure on a ballot until January 2019. Thus necessitating a special election in 2019 or waiting until March 2020 to place a measure on the ballot. However, an urgency statute would allow legislation to go into effect immediately after (and if) it is signed by the Governor.

An urgency statute requires a two-thirds majority vote in each house of the Legislature (27 in the Senate and 54 in the Assembly). In order to meet the Santa Clara County Registrar of Voter deadline to submit ballot measures by August 10, 2018, and conform to the City Council's approved meeting schedule, it is ideal to receive approval of the legislative exemption in both houses of the Legislature by mid-May 2018. The Governor will then have 12 days to sign or veto the bill. The City Council would then take formal action to place a TUT revenue measure at its regularly scheduled meetings of June 5 or 19, 2018. Another option is to wait until the Legislative summer recess. In 2017, the last day of session prior to the recess was July 20. This later approval will require that the City Council schedule special meetings during late July or early August for the purpose of taking action to place the TUT revenue measure on the November 2018 ballot.

During the research process, staff found a recent analysis (July 2017) developed by the Transportation Authority of Marin listing 11 bills that have been considered by the legislature seeking exemptions to the sales tax rate (Attachment 2). The analysis notes that the majority of bills seeking exemption from the sales tax cap signed by the Governor were to support county-wide transportation programs or to address fiscal emergencies.

In 2015, there was an attempt by the Legislature to raise the district sales tax rate cap to 3% with the adoption of AB 464 (Mullin). However, Governor Brown vetoed the bill and in his veto message stated that "although I have approved raising the limit for individual counties, I am reluctant to approve this measure in view of all the taxes being discussed and proposed for the 2016 ballot." Based on the bills approved by the legislature prior to the end of the 2017 session, it is anticipated that the 2018 ballot will

propose several tax measures to voters and may impact the Governor's decision to sign a bill increasing Campbell's sales tax cap for a general revenue measure that is not directly tied to a fiscal emergency. At this time staff is aware of the following potential revenue measures proposed for either the June or November 2018 ballot:

- Regional Measure 3 (RM 3) – a nine county measure to increase tolls on all bay area bridges to pay for transit and highway projects. Bill is awaiting Governor's signature.
- SB 797 (Hill) – would increase the sales tax cap by 0.125% in San Francisco, San Mateo and Santa Clara counties to seek funding for Caltrain operations. Bill is awaiting Governor's signature.
- SB 3 (Beall) – Signed by the governor. Authorizes the issuance of \$4 billion in bonds to fund affordable housing programs and infill infrastructure projects.

SCOPE

As discussed with the City Council on September 5, the focus of a CCMP construction project has been guided by previous financing analysis that indicated the possibility of raising approximately \$40 million dollars through a transactions and use (sales) tax, general obligation bond, or parcel tax. Early scenarios that were developed to address the needs at the Civic Center included all new buildings and project costs exceeded \$160 million. As the discussions with the City Council progressed, it became clear that the financial magnitude of the project needed to be greatly reduced. The primary methodology to accomplish this included assessing the condition of the City Hall and Library buildings for a variety of uses. The assessments found that both buildings would be feasible for continued use at the Life Safety standard; however, neither building appears to be a good candidate for a retrofit at the Essential Facility standard. Based on that, staff has crafted a scenario in which both City Hall and the Library would be retrofitted and renovated for continued use. A new building would be constructed to house the Police Department and the Emergency Operations Center (EOC). This scenario is just one possibility and is intended to help validate the feasibility of a project within the limits of the potential revenue sources discussed.

While this strategy does not meet all of the programming needs that were identified early in the CCMP process, it does maximize the use of existing City assets and is more cost effective. A new facility for the Police Department and the EOC function allows for greater space utilization at both existing buildings. At City Hall, relocating Police Department staff into a new building creates up to 8,000 square feet in available space that can be programmed for employee workstations and community meeting space.

Removing the EOC function from the Library building allows for more flexible use of the space as well. The 2014 Civic Center facility / program needs assessment by Anderson Brule Architects found that the Library needed approximately 44,000 square of program

space in a ~50,000 square foot building. Currently, the Library operates in a 24,000 square foot building. However, the use of space by the EOC and configuration of the Library facility does not allow for full access to the existing 24,000 square feet. To increase the Library’s ability to utilize more of the square footage for Library functions, staff consulted with representatives from the Library District to develop a scenario that would provide greater programmable space. The program scenario now proposes a building exclusively for Library programming, and the addition of an Annex to house shipping and receiving functions, book sorting, and staff offices. This scenario would allow for increased utility of the existing space and allow the Library greater flexibility in programming the space.

The table below provides square footage and estimated costs for a CCMP construction project resulting in a renovated City Hall and Library buildings (including recommended life safety seismic improvements); a new Library Annex building; and a new building to house the Police Department, including an Emergency Operations Center (EOC). The costs in the table below represent “order-of-magnitude” estimates. More precise cost estimates would be developed (and could be adjusted) as the project moves forward.

	Sq. Ft.	Cost (per sq.ft.)	Estimated Construction Cost
Renovate City Hall	32,600	\$200	\$6,520,000
City Hall - Seismic - Life Safety			\$393,575
Renovate Library	24,000	\$200	\$4,800,000
Library - Seismic - Life Safety			\$320,950
New Library Annex	3,000	\$450	\$1,350,000
New Police Building/EOC	20,000	\$600	\$12,000,000
TOTAL EST. CONSTRUCTION			\$25,384,525
Construction Contingency (5%)			\$1,269,226
Soft cost (35%)			\$8,884,584
Project Contingency (10%)			\$2,538,453
Site Work			\$1,600,000
TOTAL EST. PROJECT COST			\$39,676,788

It should also be noted that there is some flexibility in these figures. For example, the renovations cost of the City Hall and Library buildings estimate a per square foot cost of \$200. This figure is on the lower end of the cost spectrum. It assumes basic finishes but accounts for the poor conditions of mechanical, electrical, and plumbing systems in both buildings. Additionally, significant investments will be required to address Americans with Disabilities Act (ADA) requirements.

The proposed square footage of the new buildings could also be adjusted. A reduction up or down of 1,000 square feet could impact the overall project cost by as much as \$900,000 after design costs and contingencies are factored in.

NEXT STEPS / TIMELINE

Based on the financing analysis developed by NHA and legislative exemption that is required should the City Council want to place a TUT revenue measure on the November 2018 ballot, the following is a listing of immediate next steps and variables:

October 2017

- Approved a preferred financing method.
- If a TUT measure is preferred, staff will then formally request the support of Assemblymember Low to sponsor 2018 urgency legislation to raise the sales tax cap in the City of Campbell.
- Direction to refine the scope of the project.

November – December 2017

- Approval of project scope and budget.
- Approval of financing strategy (assuming not TUT).
- Approval to hire consultants to conduct public information outreach and polling of preferred revenue measures.
- Approval to move forward with issuing an RFP to hire a design firm and a project manager.
- Compile existing structural condition reports, financing analysis, polling results, prior staff reports to assist with background information to write legislation (if TUT measure is preferred).

January - April 2018

- Pending a legislative sponsor, a bill to raise the TUT (sales tax) cap in the City of Campbell introduced at the beginning of the 2018 legislative cycle.
- City Council and staff attendance at various meetings with legislative committees, Community outreach regarding proposed civic center facility renovations and new facilities; including revenue measure(s) to finance construction.
- Begin monthly updates/discussions with City Council.

May 2018

- City Attorney to draft resolution placing a TUT revenue measure on the November 2018 ballot.
- Ideal timing for receiving legislative approval to raise the sales tax cap.

June - July 2018

- Traditionally, June 5, 19, or July 17 are regularly scheduled City Council meetings. Action to place a revenue measure on the ballot can be taken at either of these meetings; or the City Council could schedule a special meeting at any date for the purpose of placing a measure on the ballot.

August 2018

- August 10, 2018 – final date to submit ballot measures to the Santa Clara County Registrar of Voters.
- 14 days after submitting the ballot measure to the Santa Clara County Registrar of Voters, For and Against Arguments are due.
- 10 days after submitting the For and Against Arguments, Rebuttal Arguments are due.

Based on City Council discussion at the September 5 study session, additional research and financial analysis was conducted and presented for consideration in this memorandum. As discussed in the timeline above, there is a critical path related to certain revenue measures. The desired outcome of this Study Session is to receive feedback and agreement from the City Council regarding the preferred funding mechanism and scope of the project. Staff can then return to the City Council at a scheduled meeting in November with a project plan and budget to execute and refine the City Council's preferred scope and financing plan.

Attachments

1. NHA Funding Analysis (October 2017)
2. Transportation Authority of Marin – List of Local Sales Tax Exemption Bills (July 2017)

MEMORANDUM

Date: October 10, 2017

To: Brian Loventhal, City Manager
Todd Capurso, Public Works Director
Jesse Takahashi, Finance Director

From: Craig Hill

RE: City of Campbell – Civic Center Master Plan Funding Alternatives and Preliminary Analysis

Background

The City of Campbell (the “City”) is considering the redevelopment of the civic center complex which includes city hall, police, library, and various other community facilities (the “Project”). The process of determining the facility needs, costs, and funding sources has not yet been complete. The City Council has not taken any action related to the Project nor have they indicated how the Project would be funded.

NHA Project Scope

NHA Advisors, LLC (“NHA”) is a California-based municipal advisory firm specializing in local government public finance including the development of funding solutions for capital projects of all sizes. NHA has worked on similar projects in Los Altos, Hayward, Gilroy, Newark, Berkeley, and Walnut Creek to determine funding options for various projects.

The City has engaged NHA to develop initial revenue options, tax impacts, and other funding solutions for the Project. The initial phase of work is intended to be a high-level analysis and provide the City with preliminary tax impacts as well as bonding capacity under multiple scenarios.

Base Assumptions

Based on data provided by City staff and the County of Santa Clara, NHA has developed preliminary analyses based on four revenue alternatives:

- OPTION 1: General Obligation (GO Bond 67% Election)
- OPTION 2: Special Tax (Parcel Tax 67% Special Election)
- OPTION 3: Transaction and Use Tax Increase (50%+1 General Election)
- OPTION 4: Transient Occupancy Tax Increase (50%+1 General Election)

Each structure generates a new revenue source based on ad valorem property taxes (GO Bond), a formula-based parcel tax (Special Tax), a transaction and use tax (TUT), or transient occupancy tax (TOT). Depending on the term of the new revenue authorization, a financing program can be developed to fund the identified capital projects.

City staff has requested that NHA evaluate the funding options for a **\$40,000,000** proposed Project. We have assumed the entire amount is financed with a single bond issue.

Property Characteristics

The table below summarizes the City’s residential properties and their distribution for fiscal year (“FY”) 2017/18. It should be noted that the largest grouping of properties have assessed values below \$100,000. In addition, more than 89% of homes have assessed values below the City’s median home market value of \$1,194,000 (source: Zillow.com). Both of these data points represent significant opportunities for assessed values to increase as property ownership changes hands and reset to market values. The table below summarizes the distribution of residential properties across the assessed value categories.

FY 2017-18 Residential Assessed Valuation Summary

2017-18 Assessed Value	# of Parcels	% of Total	Cumulative % of Total	Total Valuation
\$0 - \$99,999	1,059	13.28%	13.28%	\$74,839,659
\$100,000 - \$199,999	655	8.21%	21.49%	\$94,608,895
\$200,000 - \$299,999	613	7.68%	29.17%	\$153,236,626
\$300,000 - \$399,999	758	9.50%	38.67%	\$266,301,919
\$400,000 - \$499,999	585	7.33%	46.01%	\$262,223,959
\$500,000 - \$599,999	514	6.44%	52.45%	\$281,751,545
\$600,000 - \$699,999	645	8.09%	60.54%	\$419,595,069
\$700,000 - \$799,999	724	9.08%	69.61%	\$544,619,414
\$800,000 - \$899,999	665	8.34%	77.95%	\$564,157,135
\$900,000 - \$999,999	541	6.78%	84.73%	\$512,240,225
\$1,000,000 - \$1,099,999	359	4.50%	89.23%	\$375,716,161
\$1,100,000 - \$1,199,999	251	3.15%	92.38%	\$287,455,189
\$1,200,000 - \$1,299,999	163	2.04%	94.42%	\$203,176,184
\$1,300,000 - \$1,399,999	138	1.73%	96.15%	\$186,301,672
\$1,400,000 - \$1,499,999	90	1.13%	97.28%	\$129,738,916
\$1,500,000 - \$1,599,999	58	0.73%	98.01%	\$89,259,507
\$1,600,000 - \$1,699,999	41	0.51%	98.52%	\$67,329,391
\$1,700,000 - \$1,799,999	47	0.59%	99.11%	\$82,178,144
\$1,800,000 - \$1,899,999	32	0.40%	99.51%	\$58,872,308
\$1,900,000 - \$1,999,999	12	0.15%	99.66%	\$23,337,928
\$2,000,000 and greater	27	0.34%	100.00%	\$60,617,205
Total	7,977	100.00%		\$4,737,557,051

Based on the information provided by Santa Clara County, we were also able to determine the purchase date for all parcels, which provides some information on the age of existing home ownership and the potential for turnover.

Residential Property Transfer Date Summary

Property Transfer Date	# of Parcels	% of Total	Cumulative % of Total	Total Valuation
1960 - 1969	1	0.01%	0.01%	\$65,052
1970 - 1979	169	2.12%	2.13%	\$18,446,055
1980 - 1989	297	3.72%	5.85%	\$76,279,284
1990 - 1999	1,061	13.30%	19.16%	\$364,115,067
2000 - 2009	2,351	29.47%	48.63%	\$1,346,436,948
2010 to Present	4,098	51.37%	100.00%	\$2,932,214,645
Total	7,977	100.00%		\$4,737,557,051

Preliminary Bond Analysis

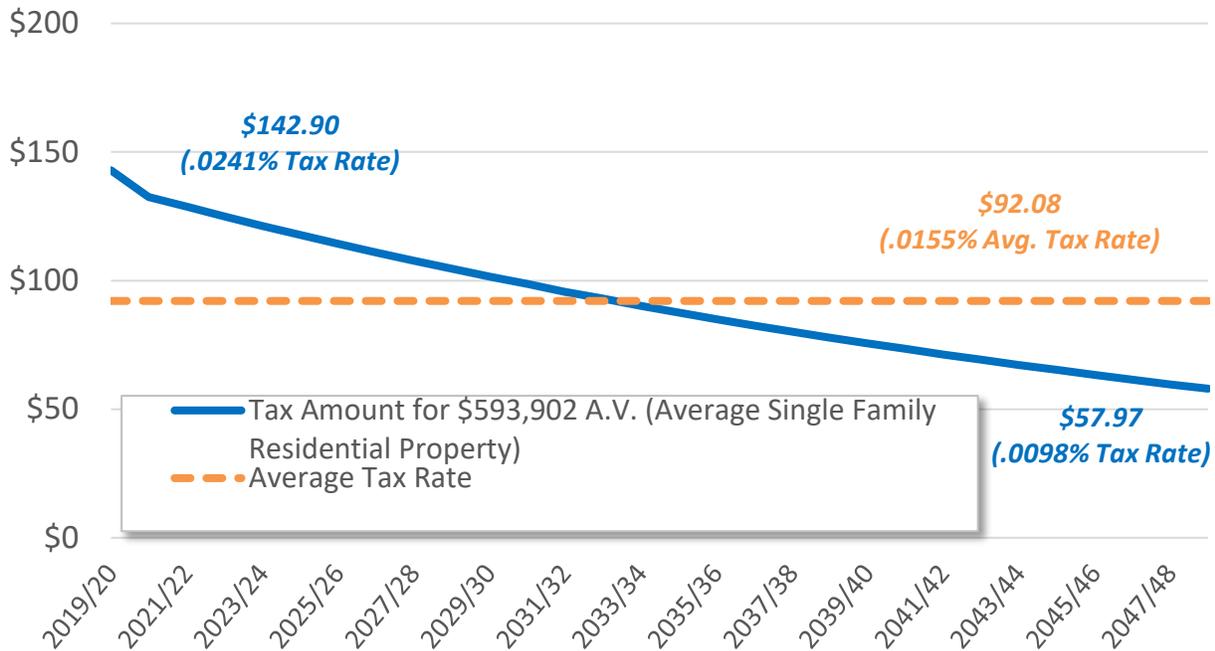
OPTION 1: General Obligation Bonds – A GO bond authorization requires 2/3 voter-approval to authorize an ad valorem property tax to be levied on property owners based on assessed valuation (“AV”). The table below summarizes the estimated GO tax rate and cost to property owners under a \$40,000,000 bond authorization. The analysis assumes a 30-year maturity (amortization period) for the bonds at an interest of 4.0% (above current market rates). Furthermore, the estimated tax rates are based on AV growth of 3.0% beginning in FY 2018/19. The 10-year historical average is 5.05%.

General Obligation Bond (2/3rds Voter Approval Required)

Project Size	\$40,000,000
Term	30 Years
Annual Debt Service	\$2,350,000
Maximum Tax Rate	0.0241%
Average Tax Rate	0.0155%
Max for \$100,000 AV	\$22.38
Average for \$100,000 AV	\$15.45
Max for Average Home (\$593,902)	\$142.90
Average Home (30-year Average)	\$92.08
Median Home (30-year Average)	\$86.93

As shown, the average tax rate is estimated to be 0.0155% for a \$40,000,000 bond issuance. Based upon an average assessed value of \$593,902 for single family homes in the City, the average annual levy is estimated to be \$92.08.

It should be noted that the GO tax levy will decrease over time as assessed valuations increase (debt service stays level). Thus, the maximum tax rates and maximum GO levies are also shown in the table, and should occur in the first year (the lowest assessed value base compared to the annual bond debt service). For a residential property owner with an average assessed value, this means that their annual tax would start at \$142.90 and decrease to \$57.97 by year 30 (See below).

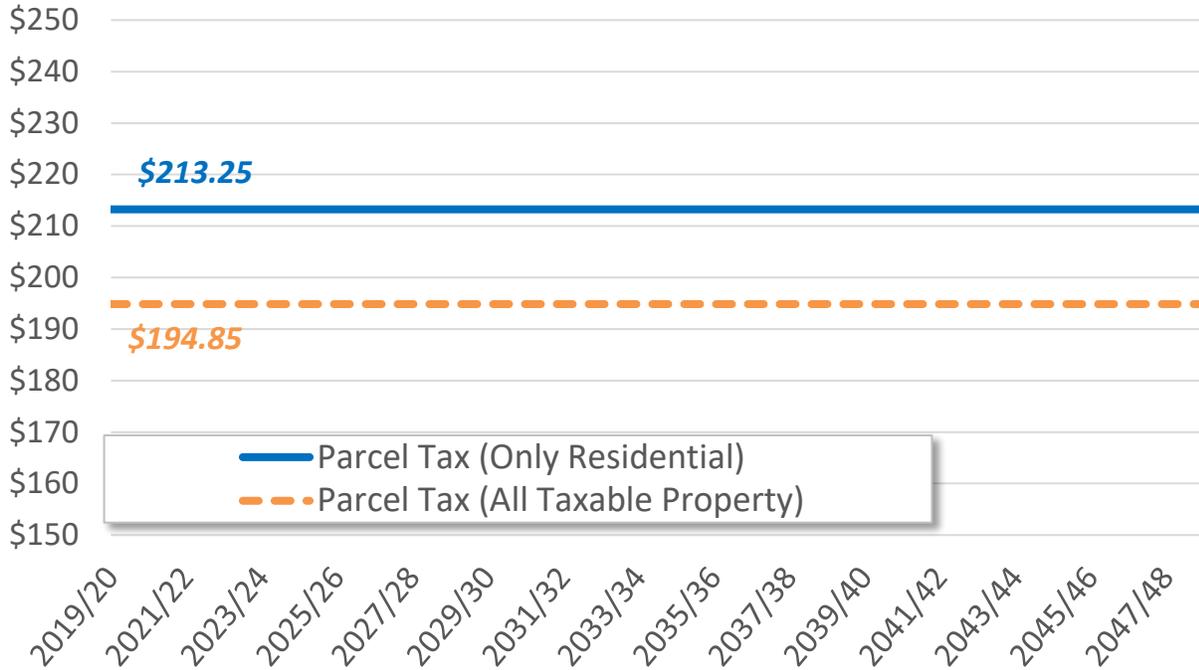


OPTION 2: Parcel Tax – Similar to a GO Bond Election, a Parcel Tax Election would require 2/3rds voter approval. However, unlike standard property taxes (including a GO tax levy) that are based on the assessed value of the property, a parcel tax is an assessment based on the characteristics of the parcel (i.e., square footage of property, proximity to benefit, type of land use) and cannot be levied against assessed value.

As shown in Option 1 (GO Bonds), NHA looked at what the estimated average tax per parcel would be under the same sizing scenario (\$40,000,000 bond). There are 12,584 taxable parcels in the City, 7,977 of which are single-family residential (11,498 total residential parcels). In the table below, NHA has calculated the average annual tax assuming (1) only residential parcels are taxed, and (2) all parcels are equally taxed, regardless of land use. These two scenarios are only intended to provide an estimate of how much tax revenue would need to be generated through a parcel tax without regard to property benefits or land use type. If the City is interested in pursuing this structure, NHA will refine the analysis to reflect different parcel tax options.

As detailed on the following page, the average annual parcel tax is estimated to be \$213, assuming only residential parcels are taxed, or \$195, assuming all parcels (residential and non-residential) are subject to the same parcel tax.

OPTION 2: Parcel Tax Bonds
\$40 Million Bond Size - 30 Year Maturity



Parcel Tax
(2/3rds Voter Approval Required)

Project Size	\$40,000,000
Parcel Tax Term	30 Years
Annual Debt Service	\$2,350,000
Residential Only - Annual Tax	\$213
All Parcels - Annual Tax	\$195

The table above represents the estimated parcel tax charged on each parcel within the City to support a \$40,000,000 bond. This preliminary analysis assumes the same parcel tax on all taxable property, regardless of land use, value or physical size. The blue line represents the parcel tax assuming only residential properties are charged, and the green line represents the parcel tax assuming all land uses are equally charged.

OPTION 3: Transaction and Use Tax Increase – The City has the legal authority to increase the TUT to provide a general tax (subject to a 50%+1 voter approval). Under this structure, the City would leverage the new revenue stream through its General Fund for purposes of issuing debt to fund the project. This is different than the two prior scenarios discussed above in that the financing is incorporated into the City’s budget process and financial support (after taking into consideration the new revenue collections from the TUT).

The City has the option to potentially seek voter approval for either a ¼ cent or ⅛ cent sales tax increase. For purposes of our analysis below, we have analyzed the benefit of both a 20-year and 30-year collection period. Based on City staff information, the current ¼ cent tax rate is generating approximately \$2,700,000 annually.

NHA has analyzed the bonding capacity (how much the City can raise) under a ¼ cent and ⅛ cent TUT increase. For purposes of financing against the new revenue, we have assumed 90% of the projected revenue would be applied towards debt service (a conservative estimate). Additionally, we have calculated the bond capacity based on a 20-year or 30-year commitment of the projected new revenues. A summary of the analysis is shown below.

TUT Revenues
(General Tax = 50%+1 Voter Approval Required)

Annual TUT Projection	1/4 Cent Increase (\$2.7M)	
Term	20 Years	30 Years
Par Amount	\$30,605,000	\$37,555,000
Project Fund	\$30,250,000	\$37,150,000
Annual Debt Service	\$2,430,000	\$2,430,000
Total Debt Service	\$49,325,000	\$73,583,000

Annual TUT Projection	1/8 Cent Increase (\$1.35M)	
Term	20 Years	30 Years
Par Amount	\$15,300,000	\$18,770,000
Project Fund	\$15,000,000	\$18,450,000
Annual Debt Service	\$1,215,000	\$1,215,000
Total Debt Service	\$24,650,000	\$36,775,000

As shown in the 20-year maturity scenarios, we estimate that the City could raise \$30,250,000-\$37,150,000 with a ¼ cent increase and \$15,000,000-\$18,450,000 with a ⅛ cent increase.

OPTION 4: Transient Occupancy Tax Increase – The City also the legal authority to increase the TOT from 12% to 14% which is estimated to generate an additional \$760,000 per year based on current transactions (and not assuming any new hotels are developed). Voter approval like a transaction and use tax would be required (50%+1 voter approval). Under this structure, the City would leverage the new revenue stream through its General Fund for purposes of issuing debt to fund the project. This is different than the two prior scenarios discussed above.

For purposes of our analysis below, we have analyzed the benefit of either a 20-year or 30-year revenue stream. NHA has analyzed the bonding capacity based on the increased TOT (2% added to the existing 12% rate), generating approximately \$760,000 per year. A summary of the analysis is shown on the following page.

Transient Occupancy Tax
(General Tax = 50%+1 Voter Approval Required)

Annual TOT Projection	2% Increase (\$760,000)	
Term	20 Years	30 Years
Par Amount	\$9,570,000	\$11,745,000
Project Fund	\$9,300,000	\$11,475,000
Annual Debt Service	\$760,000	\$760,000
Total Debt Service	\$15,425,000	\$23,015,000

As shown under the 20-year maturity scenario, we estimate that the City could raise \$9,300,000, increasing to \$11,475,000 for a 30-year financing term.

Next Steps

The information provided above is intended to demonstrate tax burden thresholds in order to determine the feasibility of moving forward on one or more of the funding options. NHA does not make any recommendations based on this initial analysis and expects that further analysis and discussion will be required as more information is presented to stakeholders and City staff.

We look forward to answering any questions or providing more information on this project.

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to Town and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

Duty of Care

- a) exercise due care in performing its municipal advisory activities;
- b) possess the degree of knowledge and expertise needed to provide Town with informed advice;
- c) make a reasonable inquiry as to the facts that are relevant to Town’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to District; and
- d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
 - i. any advice provided to or on behalf of Town;
 - ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by Town, any other party involved in the municipal securities transaction or municipal financial product, or investors in District securities; and
 - iii. any information provided to Town or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

Duty of Loyalty

NHA Advisors, LLC must deal honestly and with the utmost good faith with Town and act in Town’s best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with Town as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in Town’s best interests.

LIST OF LOCAL SALES TAX EXEMPTION BILLS

In 1987, the Legislature imposed a maximum combined rate of 1% on all transactions and use taxes (TUT) within any county. That rate was incrementally increased - first to 1.5% in 1990 and then to 2% in 2003. The TUT law authorizes the adoption of local add-on rates to the combined state and local sales tax rate. Under existing law, cities and counties may impose a TUT for general or special purposes, subject to voter approval, provided that the combined countywide rate of tax does not exceed 2%.

Therefore, when a city or district imposes a transactions and use tax, the increased tax rate counts toward the county's cap, which means that the county is restricted in its ability to raise revenues on a countywide basis.

Currently the Counties of Alameda, Contra Costa, Los Angeles, Monterey, and San Mateo have reached the 2% limit and have sought exemptions. The Counties of Marin, San Diego, and Sonoma are near the 2% limit.

These taxes may be imposed either directly by the city or county, or through a special purpose entity established by the city or county. Counties may also create a transportation authority to impose district taxes under the Public Utilities Code or designate a transportation planning agency to impose a district tax, subject to the applicable voter approval requirements.

According to the Board of Equalization, there are 202 local jurisdictions, including cities, counties, and special purpose entities, that impose a district tax for general or specific purposes. Of the 202 jurisdictions, 48 are county-imposed taxes and 154 are city-imposed taxes. Of the 48 county-imposed taxes, 44 are imposed for special purposes. Of the 154 city-imposed taxes, 124 are general-purpose taxes and 30 are special purpose taxes.

The Legislature has previously granted exemptions to the 2% statutory cap for transactions and use taxes to primarily support countywide transportation programs. Governor Brown has preferred to sign these bills into law rather than exemptions for general purposes.

Below is a list of bills that have been considered by the legislature:

1. **AB 1665 (Bonilla), Chapter 45, Statutes of 2016**, removes the existing authority granted to Alameda County and Contra Costa County to impose an additional transaction and use tax (TUT), subject to voter approval, and instead grants Contra Costa County's existing authority to the Contra Costa Transportation Authority (CCTA).

The bill was chaptered in July allowing CCTA time to place Measure X on the November 2016 ballot. It failed by receiving only 62% of the vote.

2. **SB 705 (Hill), Chapter 579, Statutes of 2015**, authorizes Monterey and San Mateo Counties to impose a countywide sales tax for transportation purposes (1/8% and 1/2% respectively) that would, in combination with all other locally imposed sales tax, exceed the 2% tax rate cap if certain requirements are met.

Monterey used its exemption to place a ballot on the November 2016 ballot. San Mateo intends to do so in November of 2018.

3. **AB 464 (Mullin)** would have increased the maximum combined rate of all transactions and use taxes (district taxes) that may be levied by authorized entities within a county from 2% to 3%. This bill was vetoed by the Governor.

In his veto message, Governor Brown stated: **“Although I have approved raising the limit for individual counties, I am reluctant to approve this measure in view of all the taxes being discussed and proposed for the 2016 ballot.”**

4. **AB 1324 (Skinner), Chapter 795, Statutes of 2014**, allows the City of El Cerrito to adopt an ordinance to impose a transactions and use tax not to exceed 0.5% for general purposes that would, in combination with other taxes, exceed the statutory limit of 2%. According to the author, "The City of El Cerrito was hit particularly hard by the recession and the local economy is still struggling to recover. As a result, local property values have declined. The sluggish economy, diminished revenues from reduced property assessments, the loss of redevelopment, store relocations, and other factors are forcing the city to reduce services."

The Governor, sympathetic to the City's fiscal emergency, signed the bill. This bill has been the exception to the types of bills that have been signed.

The City subsequently placed Measure R on the November 2014 ballot to “protect/maintain City services, including fire prevention/ emergency services; emergency response times; neighborhood police patrols; firefighter/ police staffing; crime prevention/investigation resources; after-school programs; library hours/ programs; senior services; open space, parks, paths/ playfields; other general City services.”

5. **AB 210 (Weickowski), Chapter 194, Statutes of 2013**, extends the current authority for Alameda County to adopt an ordinance imposing a transaction and use tax from January 1, 2014, to December 31, 2020, and allows Contra Costa County to adopt an ordinance imposing a transactions and use tax in the same manner as Alameda County. The bill, which was sponsored by the Alameda County Transportation Commission and supported by the Contra Costa County Transportation Authority, was authored for purposes of placing a transportation sales tax measure on each county's respective ballot. Alameda placed Measure BB on the November 2014 ballot, which acquired was approved with over 70% of the vote.

6. **SB 33 (Wolk)** of 2013 would have allowed the County of Sonoma or any city within the County to impose a transactions and use tax for general purposes, and allow Sonoma County, any city within Sonoma County, or the Sonoma County Transportation Authority to impose a transactions and use tax for a specific purpose including, but not limited to the support of transportation and road maintenance programs and library services by up to 0.5% that would, in combination with all other transaction and use taxes, exceed the 2% statutory limit. The bill failed passage.
7. **AB 1086 (Weickowski), Chapter 327, Statutes of 2011**, allows Alameda County to adopt an ordinance, until January 1, 2014, to impose a transactions and use tax not to exceed 0.5% for the support of countywide transportation programs that would, in combination with other taxes, exceed the statutory limit of 2%.
8. **AB 2321 (Feuer), Chapter 302, Statutes of 2008**, amends the Los Angeles County Metropolitan Transportation Authority (Metro) existing authority to adopt a .5% transactions and use tax (sales tax) in Los Angeles County by eliminating outdated deadlines for specific projects and programs and extending the period in which the tax can be collected from six and one-half years to 30 years, subject to a two-thirds approval of local voters.

This bill allowed Metro to place Measure R on the November 2008 ballot. The measure passed with 67% of the vote.

9. **SB 314 (Murray), Chapter 785, Statutes of 2003**, enacts provisions originally authorizing the .5% sales tax, for no more than six and one-half years, for specific transportation projects and programs. That sales tax was never imposed. Metro now believes that the November 2008 ballot may be a viable time to place this sales tax proposal, amended to reflect the changes contemplated in this bill, before Los Angeles voters. This bill was superseded by AB 2321.

Bills currently under consideration (July 2017):

If enacted, **AB 1613 (Mullin)** would allow the San Mateo County Transit District to use the no more than 0.5% capacity created through SB 705 (above).

If enacted, **SB 797 (Hill)** would create new capacity not to exceed 0.125% for Caltrain to pursue a sales tax measure.