



MEETING DATE: 02/18/16
ITEM NO: 2
ADDENDUM

AD HOC CITIZEN COMMITTEE REPORT

DATE: FEBRUARY 16, 2016
TO: AD HOC CITIZENS COMMITTEE
FROM: LAUREL PREVETTI, TOWN MANAGER *Laurel Prevetti*
SUBJECT: REVIEW AND DISCUSS BACKGROUND MATERIALS AND INFORMATION ON TOWN FINANCES, UTILITY USER TAX (UUT), AND TRANSIENT OCCUPANCY TAX (TOT) BALLOT INITIATIVES

REMARKS:

After the staff report was distributed on February 12, 2016, staff received the following comments from an Ad Hoc Citizens Committee Member.

Attachments 1-11 (Previously received with the Staff Report on February 12, 2016):

1. General Fund Expenditure by Department (FY 2007/08- FY 2015/16)
2. General Fund Revenue by Type (FY 2007/08- FY 2015/16)
3. Plan Bay Area and VTP 2040 Draft Project List
4. Utility User Tax Facts
5. Utility User Tax Information
6. Transient Occupancy Tax (TOT) Information
 - Exhibit A – Transient Occupancy Tax Town Code (Sec. 25.30.010-25.30.75)
 - Exhibit B – Ordinance No. 911
 - Exhibit C – Ordinance No. 946
 - Exhibit D – Ordinance No. 1289
 - Exhibit E – Ordinance No. 1362
 - Exhibit F – Ordinance No. 1561-A
7. Estimated cost for the November 2016 Election
8. Historical information for 1996 Measure C Ballot Initiative
9. Staff report from December 22, 2016 Finance Committee Meeting
10. League of California Cities Working on a Ballot Measure Campaign: Some Rules for City of Officials
11. Brown Act and Fair Political Reform Act Presentation

PREPARED BY: STEVE CONWAY Finance Director CHRISTINA GILMORE *CG* Assistant to the Town Manager

Reviewed by: *PC* Assistant Town Manager _____ Town Attorney *SC* Finance

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Attachment 12 received with this Addendum:

12. Communication from Ad Hoc Citizens Committee Member Jak VanNada

February 15, 2016

To: Citizens Ad Hoc Committee

Unintended Consequences

Re: I would hope that our approach to raising revenue is balanced by recognizing that many of our fellow citizens feel that, in addition to seeking additional taxes, we have addressed costs.

At our last meeting, I advocated that we review our costs as well as our task of adding revenues through new taxes. I believe this is necessary practically and to enhance any chance for a tax to pass.

We were being instructed to only look at revenue generating issues. We can do that, of course, but I believe we're setting ourselves, and any tax increase we recommend, up for failure. If we do not acknowledge that we have looked at costs before they are addressed, will we look like those politicians who try to sweep the elephant under the rug, hoping that the constituents won't notice the lump in the floor?

I stated that the big elephant in the room at that point of my statement was the police cost study which seems to have been forgotten. I have been neither for nor against the sheriff. For me, it's a value proposition. I do want to know if we're comparing apples to apples. Are we spending too much? Is our police department efficient, or inefficient? Are we demanding too much of our police? Of our demands, which are necessary, and which are nice, but perhaps not necessary?

Topographically, and without the details, all that many people hear or read is what Mr. Shepardson states about the huge differential between Los Gatos and other surrounding communities of similar size and demographics that are patrolled by the sheriff. He states that essentially all of our fiscal shortages could be solved by going to the sheriff. Even some of the reference materials in Mr. White's report refer to **potentially** large savings by outsourcing – that 30% of all California cities outsource to the sheriff. The University of Michigan study of 2014 states that the average savings of outsourcing is about 40%. These numbers create a question in the voters mind and I believe we need to acknowledge the fact that police costs are (are not?) being addressed by the current administration.

Acknowledging cost doesn't mean I want to outsource, but it may mean that the town needs to look at what drives the cost and what is the value provided by the higher costs? Every municipality and every business should be looking at costs every year.

What bothers me is that Mr. White states that we are fiscally sound, yet we have \$19 million of unfunded pension liabilities and how many 10's of millions more are needed for road and infrastructure improvements? If we're fiscally sound, why do we have unfunded debt? Why do we need more taxes? He knows more than I know, but I don't want to hear that everything is fine, and then be asked to increase taxes without knowing why. If we're going to increase taxes to pay off the forementioned costs, lets state that.

My concern is that we're seeking additional taxes from the residents, and they **may** assume that we haven't reviewed costs first.....that we haven't read Mr. Shepardson's letters in the papers. Speaking for myself, I have been disappointed in the Council's having not addressed the police cost report since it was published. I am concerned about how the following quotes from Mr. Whites opening statements may be perceived by the public.

“As one who has worked for the Town on several occasions and seen the efforts of the current Chief and his command staff to make operational improvements in the department, it is difficult to conclude that based on costs, public support, and effective current operations there is anything to be gained by contracting out police services”

“As a side note because this issue has been repeatedly raised, potential savings (if any) from contract services for police services is not going to solve the capital improvement needs of the Town. And, when one reviews the Town’s long range financing and current reserves, it is difficult to conclude this Town is suffering any financial hardship or structural deficit.” (The voters may then ask: *Why are we so short of funds to fix the roads? Why are we seeking to increase taxes?*)

“Hopefully, this report will reaffirm the Council’s current stance to not pursue contracting and allow the Police Department a chance to continue to operate effectively, while always striving to improve, without the “contracting out” cloud hanging over its head.”

If this was to be an impartial analysis, the opening statement(s) may need to be edited.

Some questions I have of the report are:

One justification for keeping the LG police is that Monte Sereno chose LG over the Sheriff – but why? Was it because the billable rates are 20-25% under the sheriff’s? The billed rates appear to be less than our costs. I need more information. (see below)

We bill Monte Sereno at \$143 per hour (see page 10) but our supposed average cost is \$161 per hour (see page 9).....why is that?

Are we comparing apples to apples? Are we comparing the sheriff’s loaded rate that includes their overhead and profit, to our non-loaded direct cost? Why not compare the loaded rate to the loaded rate to make the comparison’s easier? Are the overhead costs as stated later in the report in line with the numbers in the annual budget? It’s not easy reading nor are the facts linear such that you can follow the reasoning.

Mr. White states that Chief Frisbee is making the changes, but what do those changes equate to in terms of dollars – if any? It is implied that the changes will save money. If so, those need to be visible and quantified to the public when we try to increase their taxes. I think the public will buy into taxes that have a purpose, and they’ll buy in when they know that the town is working on keeping operations costs in line with what they (the public) perceive are needed in terms of services. Our service level is high ostensibly because in the long run, handling the less important calls will help reduce the number of serious crimes. If that is the case, how’s that working? How do we compare to those communities with less service as far as serious crime numbers?

My concern is that if we are raising taxes, we will have a tough row to hoe, and it’s on a steep slope. Voters, in general, want to know what’s in it for them? Any additional taxes need to be countered with all information that the town has done to maximize the return on invested-dollar-costs. The council needs (1) a PR arm (proxy?) to get the information to the public regarding the costs and the benefits of those costs; or, (2) at least be ready for a rebuttal to a statement that the town wants to pay more for police, “add personnel” and now wants to tax us for whatever . I don’t want to be ambushed. It’s all

about being perceived as fiscally responsible. To get tax revenues, we need to prove, or at least be able to defend that the town is operating effectively and efficiently.

Mr. Shepardson is not going away and may lead a charge to vet the police cost report before any tax measure is considered. It would not be difficult to spin a tax increase out of control if a potentially large cost isn't understood first. I feel that by not addressing the study shortly after publication, it leaves an aura of suspicion and could doom any increase in taxes.....especially a tax that hasn't been imposed before, and at a time when all local and county governments have their hands out (see article below). "The most difficult year to pass a new tax is the first year," to paraphrase Mr. Conway.

I believe we are much better off addressing this headwind rather than hoping it is nothing more than a summer breeze. If we ignore it and hope no one notices, we'll be no different than other politicians who try to ignore rather than confront a problem. This political year is as close as I can recall for a demand that things change. The last time people got this riled up was in the 60's. Perhaps we're having a political revolution and I would like for us to be part of it.

The second item I would like to address is that there was an article in the San Jose Mercury News (see below) that addressed San Jose's efforts to raise taxes. I have included it to give us more information as to what other governments are doing, as well as to acknowledge the headwinds in the added tax arena. I would encourage everyone to send informative articles to Ms. Prevetti so that she can forward them to us for reading. Time is extremely short and information is what we need if we want to make this ad hoc time worthwhile.

Jak VanNada

San Jose voters: Get ready for 'El Niño' of tax pitches

By Ramona Giwargis rgiwargis@mercurynews.com

Monday, Feb. 8, 2016 - 5:52 a.m.

SAN JOSE -- One councilman called it the "El Niño of taxes." Another city leader warily cautioned against voter fatigue.

As it's shaping up, the 2016 ballots could indeed flood San Jose residents with a monsoon of new tax pitches. San Jose voters this year face three proposals to increase taxes. Two would hike the sales tax -- from the current 8.75 percent to a potential 9.5 percent. Another proposed measure would raise taxes on large city businesses.

"From a taxpayers' standpoint, we're feeling very fatigued already," said Mark Hinkle of the Silicon Valley Taxpayers Association. "We've generally opposed sales tax increases because they're the most regressive tax. They hurt the poor much more than they hurt the rich."

In the first proposal, San Jose officials are eyeing a city sales tax increase -- either a half-cent or quarter-cent -- to pay for general services such as police and fire protection, parks and roads.

"What I hear on the streets and what we see on the polls is that residents are willing to pay more if they get more in services and traffic relief," Mayor Sam Liccardo said. He'll be supporting a quarter-cent increase for nine years.

The proposed quarter-cent sales tax increase would generate about \$40 million annually and the half-cent would bring in \$80 million, city officials estimate.

A December city poll found more than 60 percent of 850 people surveyed supported a quarter-percent sales tax increase, but the overwhelming majority wanted the money spent on improving public safety. The poll didn't ask about the half-cent increase.

The council is scheduled to decide Feb. 23 whether to place a sales tax measure on the June ballot. If the council says yes, it must then decide between the half-cent or quarter-cent increase and determine its duration. City leaders must act by March 11 to get the measure on the June ballot.

For the November ballot, the Silicon Valley Leadership Group and others are pushing a 30-year half-cent transportation sales tax countywide. The so-called VTA tax would generate an estimated \$6 billion for filling potholes, fixing roads, widening expressways and extending BART to downtown San Jose and into Santa Clara, as well as improving Caltrain service up the Peninsula.

Proponents had no estimate of how much the proposed sales taxes would cost each resident per year. There are no reliable figures for how much of the sales tax revenue is generated by residents' purchases as opposed to visitors to the city or county. The projected \$40 million annual revenue from the city's proposed quarter-cent sales tax would come to an average of \$40 for each of San Jose's 1 million residents.

The \$198 million in anticipated annual revenue from the VTA tax would average out at \$104 for each of Santa Clara County's 1.9 million residents. Combined, that would come to about \$144 a year per San Jose resident.

On Tuesday, the City Council will determine its transportation funding priorities if the VTA tax is approved. City officials have recommended prioritizing street repairs, the BART extension, upgrading and building highway interchanges, and improving pedestrian and bike trail access.

But because the VTA measure's revenue would be earmarked for transportation, it would need approval from two-thirds of voters to pass. General tax increases that government officials can spend as they see fit need only a majority approval.

The leadership group has conducted four surveys related to the measure but declined to release the results of the most recent one. CEO Carl Guardino said he isn't worried about "voter fatigue" from bombarding residents with too many tax measures.

Silicon Valley voters are "quite wise about reviewing a ballot, selecting those measures that they believe are of value, and then vote accordingly," he said.

But if the city chose a half-cent increase and voters approved, it could prevent VTA from also seeking a half-cent increase because together they would put San Jose over the 9.5 cents per dollar cap set by state law. The state Legislature must approve exceptions.

The final tax proposal comes from San Jose State sociologist Scott Myers-Lipton. He and other advocates propose updating San Jose's business tax model -- which hasn't been modified in 30

years -- to tax San Jose businesses with more than \$1 million in annual revenue either 60 cents, 90 cents or \$1.20 for every \$1,000 in revenue, based on their earnings.

The measure carves out exceptions for airlines, nonprofits and businesses open less than two years. The City Council last week approved studying the proposal and its impacts.

The city currently charges businesses \$150 annually, plus \$18 per employee per year for those with more than eight employees, but that amount is capped at \$25,000 a year.

Myers-Lipton says his proposal is different from the other two because it asks businesses to "pay their fair share" -- instead of taxing residents individually. He estimates the tax could generate up to \$70 million in revenue for the city's general fund that pays for public safety services, road repairs, parks and other services.

Business groups are opposed. They say it will discourage economic growth and erode the city's tax base.

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