



CITY OF SAN LEANDRO

CITY COUNCIL ANNUAL PLANNING SESSION Discussion of San Leandro Revenues

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Introduction: KNN Public Finance

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Discussion Objectives

1) PROVIDE BACKGROUND OF SAN LEANDRO REVENUES

- » Current Revenue Sources
- » Prior Voter Approval Successes

2) ESTABLISH LEGAL FRAMEWORK FOR REVENUES IN CALIFORNIA

- » California Constitution
- » Voter Approval

3) REVIEW CALIFORNIA CITY REVENUES

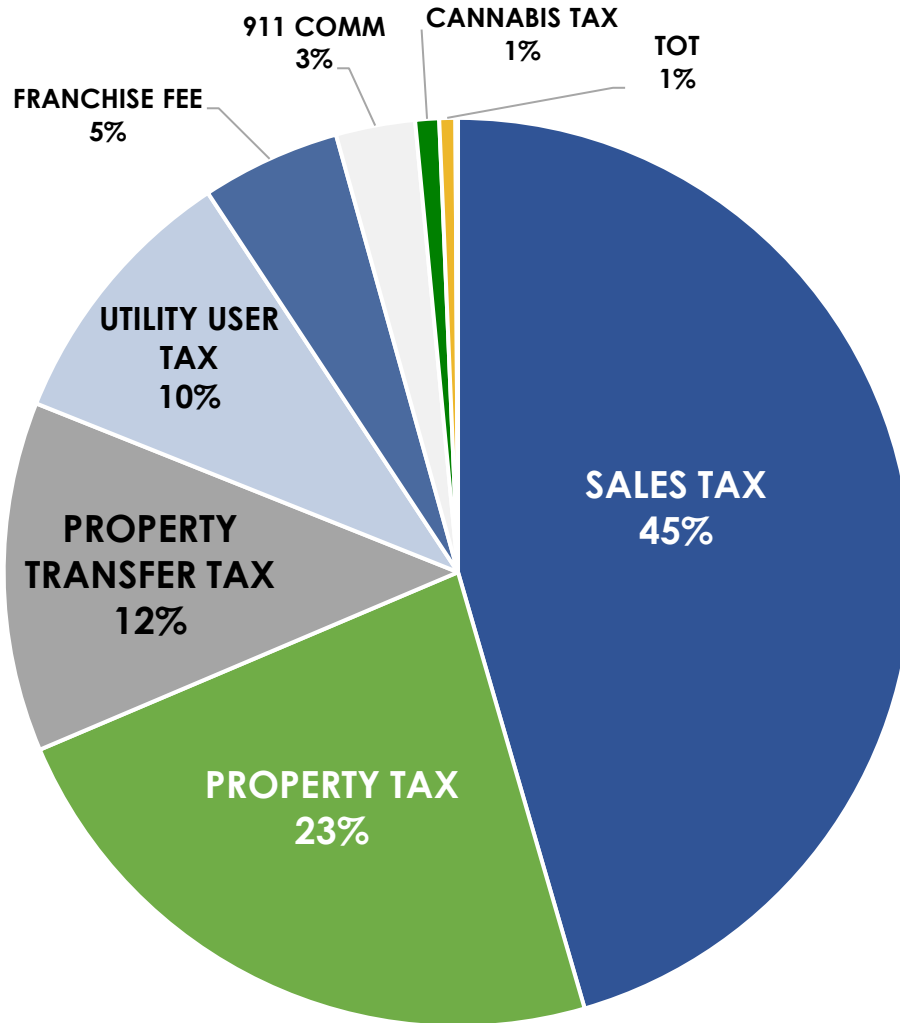
- » Basic characteristics and requirements
- » Observations specific to San Leandro and its tax base

4) HIGHLIGHT FINANCING TOOLS TO LEVERAGE REVENUES



Background: San Leandro Revenues

San Leandro General Purpose Revenue Sources



SAN LEANDRO GENERAL REVENUES FY 2021-22 (\$000)

Sales Tax	\$54,686
Property Tax	27,773
Property Transfer Tax	14,957
Utility User Tax	11,612
Franchise Fee	5,951
911 Communication	3,388
Cannabis Tax	1,020
TOT	685
Other ¹	109
TOTAL	\$120,181

1. Includes various taxes, assessments, charges, and other income.



San Leandro Voter Approval Successes

MEASURE Z (NOVEMBER 2010):

- ¼ cent sales tax, 7-year sunset

MEASURE HH (NOVEMBER 2014):

- Extended Measure Z at ½ cent rate, 30-year sunset
- Maintained existing service levels

MEASURES OO, PP, NN (NOVEMBER 2016):

- Small business license tax reduction, parking lot (10% of gross receipts) & warehouse tax (\$100/\$1,000 square feet)
- Modified T.O.T. (hotel tax) from 10% to 14%
- Cannabis business tax (currently 5% of gross receipts)

MEASURE VV (NOVEMBER 2020):

- Increased real property transfer tax from \$6/\$1,000 to \$11/\$1,000

▪ SAN LEANDRO
VOTERS AUTHORIZED
6 TAX MEASURES
SINCE 2010...



Legal Framework for New Taxes and Fees



What Is a Tax?

- A **TAX** is a charge imposed to fund public services and facilities
 - According to the California Constitution, every local agency charge is a “tax,” unless it falls into a list of specified exceptions:
 - » User fees for specific benefit or service
 - » Regulatory fees for cost of issuing licenses/permits
 - » Rental fees for entrance or use of property
 - » Fines and penalties such as parking and enforcement
 - » Charge imposed as a condition of property development
 - Cities may impose any tax not otherwise prohibited by state law
 - » Cigarettes, alcohol and personal income are prohibited from local taxation (all used for the State’s own purposes)
- A TAX NEED NOT BE LEVIED IN PROPORTION TO SPECIFIC BENEFIT TO A PERSON OR PROPERTY

Types of Taxes

- California Constitution distinguishes between a general tax and a special tax
 - » **GENERAL TAX** revenues may be used for any purpose; although ballot measure can suggest the purposes for which it would likely be used, but cannot commit to specific application
 - » **SPECIAL TAX** revenues must be used for a specific purpose

	GENERAL TAXES (CITIES AND COUNTIES)	SPECIAL TAXES (CITIES, COUNTIES, SPECIAL DISTRICTS)
Use of Revenues	Unrestricted	Specific Purpose
Types of Tax	<ul style="list-style-type: none"> ▪ Sales Tax ▪ Business Tax ▪ Transient Occupancy Tax ▪ Utility Users Tax 	<ul style="list-style-type: none"> ▪ Sales Tax ▪ Parcel Tax
Voter Approval ¹	Majority	Two-thirds

What is a Fee?

- A fee is a charge imposed on an individual for a service that the person chooses to receive
- Cities have the general authority to impose fees, charges, and rates granted by the California Constitution (Article XI, Sections 7 and 9)
- State law sets specific procedures for fee and rate adoption
 - » Proposition 218 provides special rules for property-related fees used to fund property-related services

- A FEE MAY NOT EXCEED THE ESTIMATED REASONABLE COST OF PROVIDING THE SERVICE OR PRODUCT FOR WHICH THE FEE IS CHARGED, PLUS OVERHEAD



Limitations for Raising Local Revenues in California

PRIMARY LIMITATIONS ON RAISING LOCAL REVENUES:

- Property taxes may not be increased except with a two-thirds vote to pay debt service on general obligation bonds
- The allocation of local property tax among a county and cities, special districts and school districts within each county is controlled by the Legislature and based on pre-Proposition 13 historic allocation
- Voter approval is required prior to enacting, increasing or extending any type of local tax
- Assessments to pay for public facilities limited to strict benefit analysis and require property owner approval
- Fees for services such as water, sewer and trash collection are subject to property owner majority protest

- OPTIONS AVAILABLE TO LOCAL OFFICIALS FOR RAISING REVENUES TO PROVIDE NECESSARY SERVICES ARE LIMITED BY CALIFORNIA CONSTITUTION'S REQUIREMENTS FOR VOTER APPROVAL



California City Revenues



City Revenue Categories

- Municipal revenues can generally be separated into two broad categories:

GENERAL PURPOSE REVENUES:

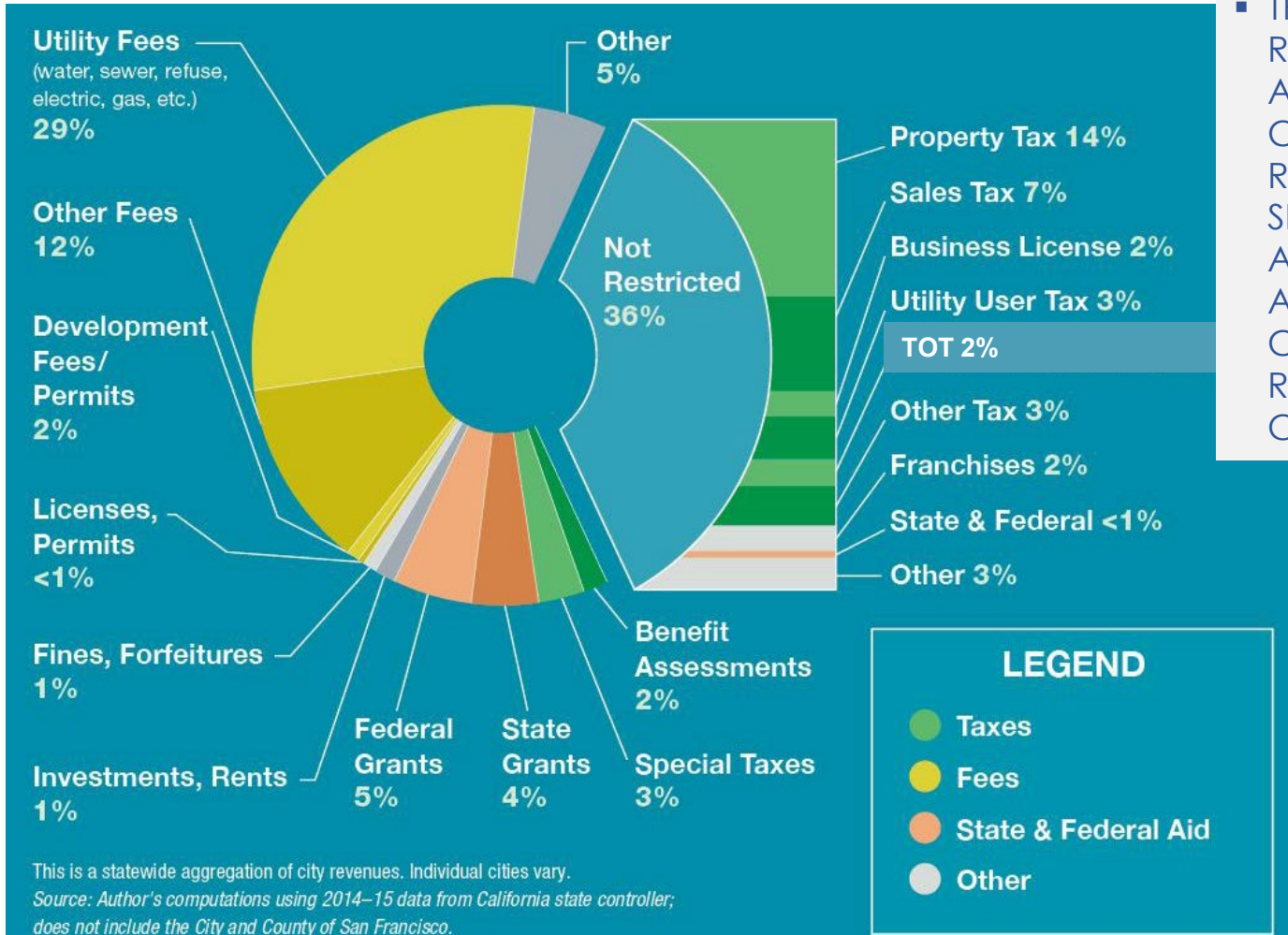
- Can be used for any legitimate public purpose
- General purpose taxes, including property taxes and sales taxes, account for most general city revenues statewide

SPECIAL REVENUES:

- Restricted by law to a particular use
- Include funds derived from fees or rates that the local agency charges for public services, including municipal utilities such as water, sewer, and garbage collection, airports, marinas, harbors and water ports
- Also includes most state or federal grants as they are usually restricted for specific programs

- WHEN A CITY CONSIDERS REVENUE RAISING STRATEGIES TO MEET COMMUNITY AND BUDGETARY NEEDS, GENERAL PURPOSE REVENUES TEND TO BE THE PRIMARY TARGET FOR ENHANCING OR EXPANDING ITS REVENUE FRAMEWORK

California City Revenue Sources



THE MIX OF SERVICE RESPONSIBILITIES AND LOCAL CHOICE REGARDING SERVICE LEVELS AFFECTS THE AMOUNT AND COMPOSITION OF REVENUES FROM CITY TO CITY



Revenue Raising Strategies

ENHANCE EXISTING REVENUE SOURCES:

- Property Taxes: Voter approved ad valorem tax (for capital only)
- Sales Taxes: Incremental general tax or special tax
- Other Taxes and Fees: Utility User Tax, Transient Occupancy Tax, Cannabis Tax, or Franchise Fees through increases to existing rate
- *Most recently, in November 2020, voters approved an increase to San Leandro's Property Transfer Tax Rate to \$11 per \$1,000 from \$6 per \$1,000*

ESTABLISH NEW REVENUE SOURCES:

- Other Taxes
 - » Parcel Tax, Business License Tax (above current regulatory rate)
 - » "Innovative Taxes"...Vacant Property, Property Transfer Wealth Tax, Card Clubs
- Other Fees & Charges
 - » Benefit Assessment, User Fees



Property Taxes

>>Enhance Existing Revenue Sources

- **PROPERTY TAX:** imposed on “real property” (land and buildings) and tangible personal property (movable property such as boats, aircraft and business equipment)
- The property tax rate is applied to the *assessed valuation* (AV) of the property
 - » The property tax rate levied for general purposes is 1% of AV **plus** voter-approved incremental rates to fund indebtedness (general obligation bonds)
- AV of real property is the “full cash value” of the property in 1975-76 or at change of ownership, whichever is more recent
 - » Adjusted annually by CPI, not to exceed an annual increase of 2%
 - » AV becomes the new purchase price upon change in ownership
- Property tax allocations among local agencies vary due to differences in the service responsibilities among agencies serving different areas and differences in the tax rates enacted by those agencies prior to Proposition 13 in 1978



San Leandro Property Tax Base and Rates

- San Leandro's 10-year compound average growth in AV is 5.09%
- Revenue grows as a result of a growing tax base

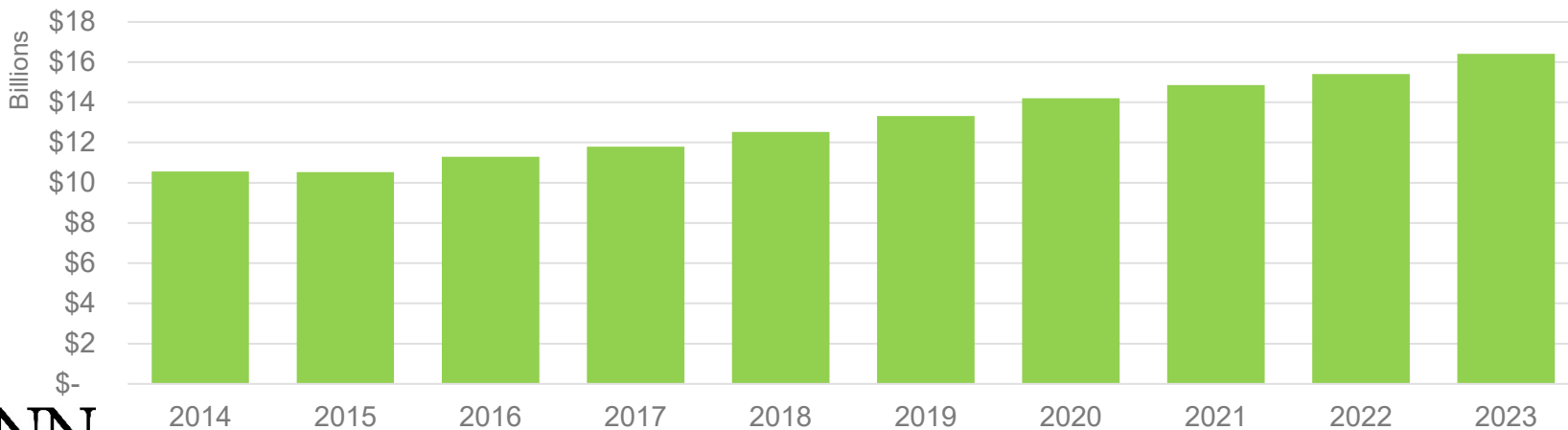
SAN LEANDRO PROPERTY TAX RATE (PER \$1,000 OF AV)

BASIC CITY AND COUNTY	
City of San Leandro	0.157525
County of Alameda	0.150052
School Districts	0.634383
Special Districts	0.058041
Total Basic Levy	1.000000
OVERRIDE ASSESSMENTS	
County GO	0.003600
K-14 GO	0.198400
Transportation and Parks GO	0.015300
Total Override Rate	0.217300
TOTAL TAX RATE	1.217300

SAN LEANDRO HISTORICAL AV

FISCAL YEAR	TOTAL AV (\$000s)	% CHANGE
2014	\$ 10,560,253	-
2015	\$ 10,524,399	-0.34%
2016	\$ 11,295,832	7.33%
2017	\$ 11,795,464	4.42%
2018	\$ 12,516,114	6.11%
2019	\$ 13,315,575	6.39%
2020	\$ 14,205,470	6.68%
2021	\$ 14,848,485	4.53%
2022	\$ 15,407,010	3.76%
2023	\$ 16,409,373	6.51%

SAN LEANDRO ASSESSED VALUATION





Ad Valorem Property Taxes for GO Bonds

- **AD VALOREM PROPERTY TAX** Only mechanism for increasing tax rate is with two-thirds voter approval and only to acquire or improve real property through the issuance of General Obligation Bonds
 - » **Article XVI, Section 18 (Second California Constitution, 1879):** two-thirds favorable vote required for bonds of cities, counties, and school districts
 - » **Article XIII A, Section 1(b) (Proposition 46, 1986):** exception from 1% real property tax limit for taxes to pay voter-approved general obligation bonds
- Property tax revenue is levied and used to pay debt service on the GO Bonds

REQUIREMENTS	
Date of Election	Any Tuesday (except within 45 days of a State-wide election unless at the same time)
Eligible Issuers	Any local governmental entity with statutory authority and the power to tax real property
Eligible Purposes	Acquisition and improvement of real property
Governing Board Approval	Two-thirds vote for cities
Voter Approval	Two-thirds



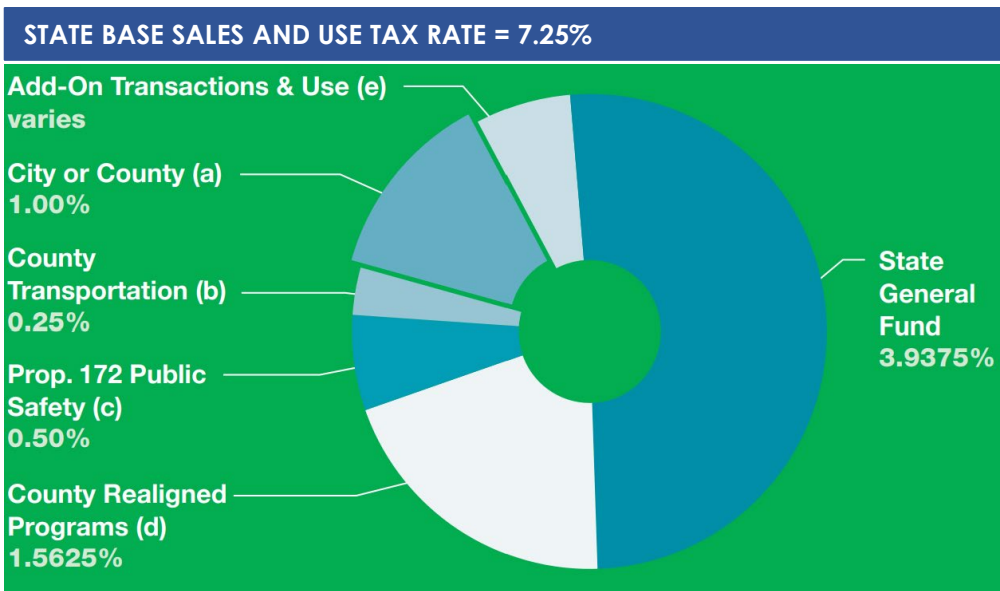
Sales & Use Taxes

>> Enhance Existing Revenue Sources

- **SALES & USE TAXES:** A sales tax is imposed on the total retail price of any tangible personal property; a use tax is imposed on the purchaser for transactions for which the sales tax is not collected
- Comprised of a state sales tax, the 1% Bradley-Burns sales tax for cities, and several other components
- Cities may impose additional sales and use taxes in increments of 0.125% with certain approvals:
 - » Two-thirds City Council approval
 - » Majority voter approval for a general tax
 - » Two-thirds voter approval for a special tax
- The combined rate of the city and county transaction and use taxes is capped at 2% in most counties (Alameda County is 3.5%)



San Leandro Sales & Use Taxes



LOCAL AD-ON SALES AND USE TAXES IN SAN LEANDRO = 3.50%

TAX AREA	DISTRICT NAME	RATE	EFFECTIVE DATE
ALAMEDA COUNTY	Children's Health and Child Care	0.50%	7/1/2021
	Essential Health Care Services	0.50%	7/1/2004
	Alameda County	0.50%	7/1/2021
	Alameda County Transportation Commission	0.50%	4/1/2015
	Alameda County Transportation Commission	0.50%	4/1/2022
	Bay Area Rapid Transit District	0.50%	4/1/1970
SAN LEANDRO	City of San Leandro	0.50%	4/1/2015
TOTAL LOCAL ADD-ON SALES TAX		3.50%	
TOTAL STATE + LOCAL ADD-ON SALES TAX		10.75%	

- Of the State's base sales tax rate of 7.25%, 1% is allocated for cities and the remaining 6.25% is directed toward State and countywide uses
- San Leandro and other cities within Alameda County have the highest sales tax rate in the State at **10.75%**
- Increases to the City's sales tax rate would require State legislation**



Other Taxes

>> Enhance Existing Revenue Sources

UTILITY USER TAX (UUT)

- Imposed by a city on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including cell phone and long distance), sanitation, and cable television

PROPERTY TRANSFER TAX

- Imposed by a city or county when the ownership of a property changes hands

CANNABIS ADD-ON TAX

- The state imposes an excise tax of 15% and a state retail tax of 7.25% on gross receipts
- Municipalities can add on as much as 15% more in local cannabis business taxes

TRANSIENT OCCUPANCY TAX (TOT)

- Imposed by most cities on persons staying thirty days or less in hotels, motels and similar lodgings, including mobile homes



San Leandro Other Tax Revenues & Tax Rates

- San Leandro could consider increasing the rate structure for existing tax revenues
 - » The Property Transfer Tax rate was recently increased in November 2020
 - » TOT is near the maximum rate charged by cities and does not generate meaningful revenues for the City
 - » Increases to UUT would likely provide the biggest impact to City revenues, but not typically popular among voters

	FY 2022 REVENUES (\$000)	SAN LEANDRO TAX RATE	CA CITY MAX TAX RATE
PROPERTY TRANSFER TAX	\$14,957	\$11/\$1,000	\$13/\$1,000
UTILITY USER TAX	\$11,612		
Phone, Electricity, Gas		6.0%	11.0%
Telecom, Cable		5.7%	11.0%
Prepaid Wireless		5.5%	11.0%
CANNABIS ADD-ON TAX	\$1,020		
Dispensaries		5.0%	15.0%
Manufacturers		3.0%	N/A
Lab Testing		2.0%	N/A
TRANSIENT OCCUPANCY TAX	\$685	15.0%	15.5%
TOTAL OTHER TAX REVS:	\$28,274		

Source: CaliforniaCityFinance.com from League of Calif Cities and UUTINFO.ORG Survey Data. Maximum California City tax rates based on various points in time; TOT as of November 2020; UUT as of February 2021; Property Transfer Tax as of March 2022.



Parcel Taxes

>> Establish New Revenue Sources

- **PARCEL TAX:** tax on property levied on a basis other than value
 - » Must be a special tax requiring two-thirds voter approval
- Most useful for operations and services where GO Bonds, which are limited to capital, are not an available option
- Local parcel taxes can be structured in a variety of ways
 1. Flat tax for all parcels
 2. Taxes based on square footage of improvements
 - » Tax for vacant property
 3. More complicated tax structures may have legal hurdles

SAN LEANDRO PARCEL COUNT

- RESIDENTIAL: 22,730
- COMMERCIAL: 2,277
- **TOTAL: 25,007**



Other Taxes and Assessments

>>Establish New Revenue Sources

BUSINESS LICENSE TAX (BLT)

- The City currently imposes a Business License for regulatory purposes but could charge at a higher rate to raise revenues for general municipal purposes (i.e. a “tax”)

VACANT PROPERTY TAX

- Oakland is first city in California to adopt such a tax (Measure W)
- Applies to properties in use <50 days/year; \$6,000 per parcel; \$3,000 for condominiums, townhouses & duplexes

SPECIAL BENEFIT ASSESSMENTS

- Charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services
- The state Constitution requires strict demonstration of benefit and property-owner approval to impose a benefit assessment



Summary

- Raising significant new revenues would require voter approval
 - » All practical options require taxes
 - » Non-tax measures such as assessments have legal and practical barriers

- Taxes for restricted uses (special taxes) require two-thirds voter approval
 - » A general tax, most likely a local sales tax measure, can be passed with 50% approval
 - » Recent court rulings have suggested that a “special tax” initiative by citizen petition can be approved with 50% approval (may still be subject to challenge)

- Primary two-third voter approval options
 - » General obligation bonds, for which ad valorem property tax is raised to finance improvements and service the debt
 - » Parcel tax on property on a basis other than ad valorem
 - » “Special” supplemental local sales tax

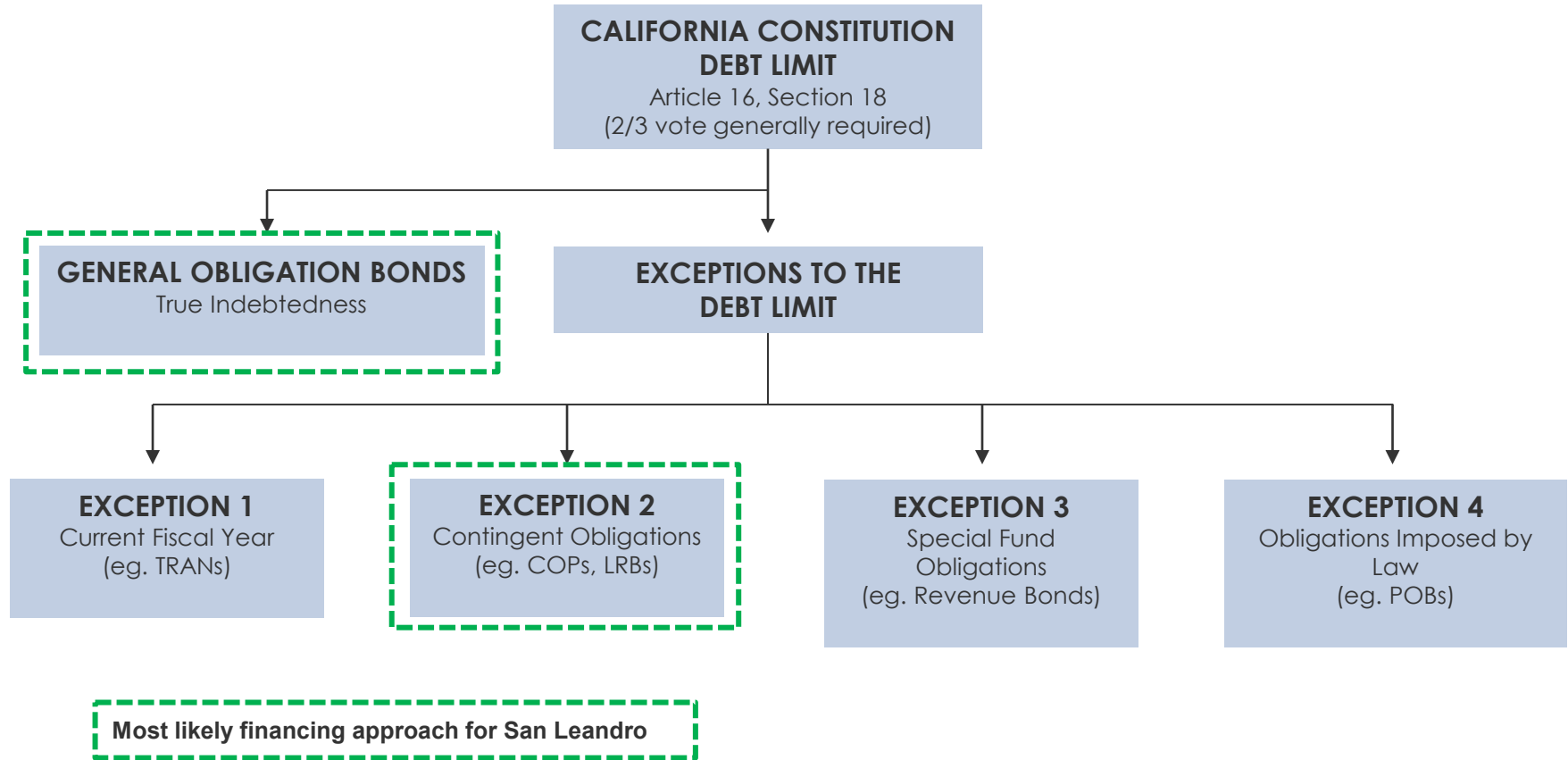


Leveraging Revenue Sources



California Constitution

What is “Debt” and What is Not



Types of Revenues and Financing Mechanisms



REPAYMENT SOURCE	TYPE OF FINANCING	VOTER-APPROVED?
PAID FROM GENERAL FUND	<ul style="list-style-type: none"> Lease Revenue Bonds/Certificates of Participation (COPs) Pension Obligation Bonds Tax and Revenue Anticipation Notes (TRANS) 	No
PAID FROM ENTERPRISE REVENUES (WATER, WASTEWATER, ETC.)	<ul style="list-style-type: none"> Enterprise Revenue Bonds Installment Purchase COPs 	No
PAID FROM SPECIAL TAXES	<ul style="list-style-type: none"> General Obligation Bonds (GO Bonds) Limited Tax Bonds (Sales Tax Revenue Bonds) Special Tax or Assessment Bonds 	Yes



Illustrative Debt Sizing Analysis

>> Lease Revenue Bonds – No Voter Approval

- The City receives Measure BB sales tax revenues (through ACTC) to support local paratransit, streets and roads, and bike/ped programs
- A bond program supported by Measure BB revenues can be implemented in two ways:
 - i. **GENERAL FUND BONDS:** Bonds secured by the City General Fund utilizing the City’s annual Measure BB direct allocation to pay debt service
 - ii. **REVENUE BONDS:** Bonds secured solely by the Measure BB annual direct allocation

MEASURE BB DEBT SIZING AND CAPACITY ANALYSIS			
BOND ASSUMPTIONS			
Bond Term ¹	22	22	22
Interest Rate	5%	5%	5%
Cost of Issuance and Reserves	1%	1%	1%
CAPACITY ANALYSIS			
Leverage Constraint	1.2x	1.5x	2.0x
Measure BB Revenues ²	\$5,900,000	\$5,900,000	\$5,900,000
Maximum Debt Service	\$4,916,667	\$3,933,333	\$2,950,000
Measure BB PAYGO	\$983,333	\$1,966,667	\$2,950,000
Bonding Capacity	\$64,718,096	\$51,774,477	\$38,830,858
Net Proceeds to City	\$64,070,915	\$51,256,732	\$38,442,549

1. Estimated term of the Bonds assumes issuance in 2023 and a final term of 2045, consistent with the Measure BB sales tax term.
 2. Based on FY 2021-22 revenues reported in the Measure BB Special Revenue Fund.



Illustrative Debt Sizing Analysis

>> General Obligation Bonds – Voter Approval

- The City could seek voter approval to acquire or improve real property through the issuance of GO Bonds
- GO Bond authorization would be based on project needs and tax-payer affordability
- Incremental property tax revenues would be levied and used to pay principal and interest on the GO Bonds

GO BOND DEBT SIZING AND CAPACITY ANALYSIS			
BOND ASSUMPTIONS			
Bond Term ¹	20	25	30
Interest Rate	5%	5%	5%
Cost of Issuance and Reserves	0.5%	0.5%	0.5%
CAPACITY ANALYSIS			
Assumed Annual Debt Service ²	\$5,616,981	\$5,676,197	\$5,854,629
Bonding Capacity	\$70,000,000	\$80,000,000	\$90,000,000
Net Proceeds to City	\$69,650,000	\$79,600,000	\$89,550,000
PROPERTY TAX LEVY			
FY 2022-23 Asssed Valuation (\$000)	\$16,409,373	\$16,409,373	\$16,409,373
Tax Rate Per \$100,000 AV	\$34.23	\$34.59	\$35.68

1. Bond terms assumed typical of GO authorizations.
 2. Based on illustrative assumed property tax revenues and debt service consistent with lease example on prior slide.

Types of Revenues and Financing Mechanisms



MAJOR REVENUE OPTIONS AND FINANCING MECHANISMS				
TYPE OF TAX	BASIS FOR LEVY	VOTER APPROVAL REQUIREMENT	FINANCING MECHANISM	GENERAL FUND SUPPORTED?
TAX ON PROPERTY				
Ad Valorem Property Tax	City-wide. A levy on property based on the properties' assessed value and used for voter approved debt.	Two-thirds	General Obligation Bonds	No
Parcel Tax	City-wide or local. A levy on parcels of property, typically set at some fixed amount per parcel. Cannot be based on a property's value.	Two-thirds	Special Tax Bonds	No
GENERAL TAXES				
Sales Tax (General)	City-wide. A levy on the retail sale of tangible goods.	Majority	Pay-go or lease obligator	Yes
Business Tax	City-wide. A levy on operators of businesses.	Majority	Pay-go or lease obligator	Yes
Hotel Tax	City-wide; primarily to visitors. A levy on the occupancy of hotels, motels, or other short-term lodging.	Majority	Pay-go or lease obligator	Yes
Utility Tax	City-wide. A levy on the use of utilities, such as electricity, gas, or telecommunications.	Majority	Pay-go or lease obligator	Yes
SPECIAL TAXES				
Sales Tax (Special)	City-wide. A levy on the retail sale of tangible goods.	Two-thirds	Sales Tax Revenue Bonds	No
Benefit Assessment	Local. A levy on property within a benefit assessment district. Based on calculation of the special benefit.	50% of property owners	Assessment Bonds	No



Appendix I: Revenue Measures in Practice

California Revenue Measure Election Results



- California City Finance, a website maintained by Michael Coleman, tracks results of local revenue measures in California since 2001 (last updated in 2019 for the period of 2002 through November 2018)

BOND AND REVENUE MEASURES: 2002 THROUGH NOVEMBER 2018 CITIES, COUNTIES AND SPECIAL DISTRICTS

TYPE OF MEASURE	TOTAL MEASURES	PASS	PASSING %
GO Bonds	135	73	54.1%
Parcel Tax	670	322	48.1%
General Sales Tax	389	296	76.1%
Special Sales Tax	128	61	47.7%
Business Tax	284	237	83.5%
Transient Occupancy Tax	277	186	67.1%
Utility Users Tax	102	35	34.3%
Property Transfer Tax	23	12	52.2%

California Revenue Measure Election Results



- The California City Finance survey of local revenue measures in California provides some noteworthy observations:
 - » A proposal to increase a general purpose tax is more likely to succeed than a special tax – the additional hurdle of the two-thirds vote exceeds the appeal of dedicating a tax to a specific purpose
 - » Generally speaking, special taxes for broad based public safety services (law enforcement, fire, emergency medical) are more likely to garner two-thirds voter approval than other purposes
 - » For cities and counties, add-on sales (transactions & use), transient occupancy (hotel), and business license tax increase measures all succeed more often than proposals to increase utility user taxes
 - » Most extensions and revisions of existing taxes that do not increase the rate are successful



Case Study: City of Oakland

VOTER-APPROVED SPECIAL TAX REVENUES TO ENHANCE SERVICES			
TAX MEASURE	TAX TYPE	2021-22 BUDGETED REVENUES (\$MILLIONS)	EXPIRATION
Public Safety and Services Violence Prevention (Measure Z)	Parcel tax and 8.5% parking tax	\$26.40	2024
Transient Occupancy Tax for Tourism and Cultural Facilities (Measure C)	3% special transient occupancy tax	\$4.60	None
Library Services Retention and Enhancement (Measure Q)	Parcel Tax	\$18.00	2024
Library Services (Measure D)	Parcel Tax	\$13.40	2038
Parks & Recreation Preservation, Litter Reduction, and Homelessness Support (Measure Q)	Parcel Tax	\$27.50	2040
Paramedic Services on Fire Trucks (Measure N)	Parcel Tax	\$1.90	None
Vacant Property, Homelessness, and Illegal Dumping (Measure W)	Parcel Tax	\$7.00	2040
Emergency Medical Services (Measure M)	Parcel Tax	\$2.40	None
Landscaping & Lighting Assessment District	Parcel Tax	\$19.20	None



Appendix II: Legal Framework



Key Constitutional Amendments Restricting Local Revenues

- A series of amendments to the California Constitution have impacted the ability of local governments to generate revenues to fund services or pay debt service:

PROPOSITION 13 (1978)

- » Limited basic ad valorem tax to 1% of assessed valuation, limited growth in assessed valuation to 2% growth or value at sale, gave the State Legislature responsibility for allocating property taxes, and imposed requirement for two-third voter approval of special taxes

PROPOSITION 218 (1996):

- » Addressed perceived loopholes with Prop 13, requiring simple majority voter approval for general taxes, new requirements and procedures for “property related fees” such as for sewer service, and limited the use of assessment financing

PROPOSITION 26 (2010)

- » In order to restrict the ability to mitigate externalized societal and environmental costs, expanded the types of revenues classified as “taxes,” thereby requiring voter approval