City of Sunnyvale

Agenda Item

16-0077 **Agenda Date:** 5/17/2016

REPORT TO COUNCIL

SUBJECT
Receive Civic Center Modernization Project, Utility User Tax, and Sales Tax Polling Results, Provide Direction to Staff on Next Steps, and Approve Budget Modification 35

REPORT IN BRIEF
The City recently conducted a survey of Sunnyvale voters to test the viability of two potential ballot measures being considered for the November 2016 election. One measure was a general obligation bond that would provide funding for the Civic Center Modernization Project and a second was to modernize the City's outdated Utility User Tax (UUT) with no increase in the tax rate.

Civic Center Bond Measure
This measure would need at least two-thirds support from voters to be successful. Respondent's first reaction to the draft ballot question was to support the measure at approximately 71% with a +/- 6% margin of error. However, as more information was provided about the Civic Center project during the polling interview support levels declined. Considering the overall results of the poll, coupled with the survey's margin of error, the measure is below the two-thirds threshold by the end of the survey. The City's consultant team has indicated that this measure would not be viable if placed on the ballot this year.

Throughout this process, the City Council has taken a series of actions that acknowledges that there is a need to address our civic center facilities. Specifically, the Council took firm action that there was a need to prioritize the replacement of our temporary structures (South Annex building and the Sunnyvale Office Center). Concerns have also been raised about the existing city hall facility, although there was much more openness to either a rehabilitation or replacement option. Staff presents an option for proceeding within the above context and, without new revenues from a bond measure, the Civic Center Project will need to move ahead as a phased project with funding for the first phase focused on existing City assets. Staff recommends pursuing this strategy and preparing a master plan for the entire Civic Center as part of the first phase. A first step in securing funding for the project will be to declare two City-owned properties that are not used for City services as surplus property. Consistent with prior Council direction no land at the Civic Center would be sold or leased to generate revenue for the project.

Utility User Tax Modernization with No Increase in Tax Rate
As telecommunication services have evolved rapidly in the past few years applying the City's current UUT Ordinance has become increasingly difficult. Modern telecommunication services like prepaid cell phones and voice over the internet protocol didn't exist when the City's UUT Ordinance was adopted. Many other cities have updated their ordinances to ensure that all taxpayers, regardless of the technology they use, are treated the same. A draft ballot question was created that focused on how the UUT would apply to telecommunication services without increasing rates. This measure

would need a simple majority to pass. Support for the measure was between 57% - 58% and above the margin of error for the poll. Considering the overall results, a UUT ballot measure that does not increase tax rates would be potentially viable.

Next steps for the UUT ballot measure would be to finalize the ballot measure language consistent with survey findings, and officially place the measure on the November 2016 ballot. Staff recommends adopting Budget Modification No. 35 in the amount of $92,500 to fund voter education materials for the ballot measure.

BACKGROUND

Civic Center Modernization Project

In December 2015, staff presented to Council the final results of a planning and community outreach process for the Civic Center Modernization Project (RTC 15-0445). Final work products included series of site planning prototype designs that illustrated how different project alternatives, such as new vs. renovated buildings and underground vs. surface parking would affect the site and project costs. Staff also presented information on potential revenue sources that could be used to fund the project using both existing city assets and revenue from a new general obligation bond.

Several key actions were taken at this meeting: 1) Council eliminated Prototype G from further consideration which was the most expensive alternative when land purchase costs were included; 2) Council directed staff to eliminate from further consideration the sale or lease of land at the Civic Center as a way of financing the project; and 3) Council approved funding to conduct voter opinion polling to gauge the level of voter support for a general obligation bond to finance the project.

Utility User Tax Modernization

A council study session was held on December 1, 2015 to discuss the City's current Utility User Tax (UUT) and ways to prevent revenues from declining further which could impact service levels funded by the General Fund. As telecommunication services have evolved rapidly in the past few years applying the City's current UUT Ordinance has become increasingly difficult. Modern telecommunication services like prepaid cell phones and voice over the internet protocol didn't exist when the City's UUT Ordinance was written.

At the study session staff presented a range of possible options for updating the UUT, all of which would require voter approval. These included potential rate increases to build revenue, keeping rates the same but broadening the base by applying the UUT to additional utility services such as water that current isn't taxed, or keeping the rate the same and focusing on ways to better address modern telecommunication services. Council comments at the study session favored keeping UUT rates the same, not broadening the base, but updating the ordinance to better address modern telecommunication services. Council supported conducting opinion polling to evaluate levels of voter support for a UUT Ordinance update.

EXISTING POLICY

The Council Fiscal Policy contains several policies related to infrastructure in section 7.1C, *Capital Improvement Policies*:

C.1.3 High priority should be given to replacing capital improvements prior to the time that they have

deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purposes.

C.1.5 Priority will be given to the repair and replacement of existing infrastructure as compared to the provision of new or expanded facilities

C. 1.The decision on whether to repair or to replace an existing capital asset will be based on which alternative is most cost-effective or provides the best value to the City.

Additional Council Policies that pertain to the UUT are found in section B.1 Revenue Base:

B.1.3 Taxes should be held at their lowest possible level, while maintaining
Council-approved service levels.

B.1.4 When considering a new tax or revenue source or an increase in an existing tax or revenue source, the following criteria should be considered:

- Community/voter acceptance
- Competitiveness with surrounding communities
- Efficiency of revenue collection and enforcement
- Effectiveness in generating sufficient revenues in the short and long-term to justify its establishment
- Enhancement of revenue diversity to promote stability and provide protection from downturns in business cycles
- Equity/Fairness in distribution of the revenue burden on various segments of the community

ENVIRONMENTAL REVIEW

The actions being considered do not constitute a “project” within the meaning of the California Environmental Quality Act (CEQA) pursuant to the CEQA Guidelines sections 15378(b)(2) as they concern general policy and procedure making and 15378(b)(4) as they involve governmental fiscal activities (receiving survey results and providing direction on a ballot measure). Potential future actions such as proceeding with construction of a Civic Center Project would require environmental review. This would be considered during the master planning or design phase of the project.

DISCUSSION

The City retained the services of Lew Edwards Group to develop draft ballot language and conduct voter opinion polling for both the Civic Center Modernization Project general obligation bond and a UUT Ordinance update. Likely November 2016 Sunnyvale voters were polled by using online surveys and telephone surveys with both land lines and cell phones. A total sample of 541 respondents were polled. The sample was split so approximately one-half of the respondents were asked questions about the Civic Center bond and the other half about the Utility User Tax. The sample was selected to be consistent with the demographic profile of registered Sunnyvale voters for gender, age, household income and ethnicity. Based on the sample size the poll had a margin of error of approximately 6%.

Civic Center Modernization Project

A general obligation bond was the primary funding mechanism tested with the poll. Voter support of at least two-thirds would be required for the measure to pass. Draft ballot language was developed

for a $220 million bond and tested with the poll. Respondent's first reaction to the ballot question was support at approximately 71% (with a margin for error of +/- 6%). However, as more information was provided about the Civic Center project support levels declined. A smaller bond amount was also tested with a series of questions about estimated tax rates between $10 and $22 per $100,000 of assessed valuation. Voter support levels stayed in the 50s even with the proposed tax rate dropping by more than half. Considering the overall results, coupled with the survey's margin of error, the measure is below the two-thirds threshold by the end of the survey. The City's consultant team has indicated that this measure would not be viable if placed on the ballot this year.

Without new revenue from a bond measure funding for the Civic Center Project will need to be focused on existing City assets. Staff has previously prepared a list of potential funding sources totaling $116 million that could be used for the Civic Center Project (See Attachment 2). This amount is not enough to complete the Civic Center project as defined by the City's Needs Assessment but would be enough to make major improvements. Using a phased strategy would allow the City to proceed with an initial phase of improvements and creating a master plan for future improvements. Priorities for Civic Center improvements will need to be created to define an initial phase within available funding sources. Staff could develop several alternatives for Council consideration and begin master planning work after Council has established priorities.

Based on the Civic Center planning work that has been completed to date, staff feels the highest priority would be to replace the Sunnyvale Office Center and South Annex modular building. This would create a need to provide space for existing City programs and services being provided from those facilities. This would include space for Human Resources, Environmental Services, Public Works Engineering, the City Manager's Office, Public Safety Fire Protection, and NOVA Workforce Services. Given these needs, the first phase of the Civic Center Project should be focused on the renovation or replacement of City Hall, the Annex building. Work to expand or replace the Library and Public Safety building would be considered future phases of the project. To implement this strategy it will be important to create a master plan for the entire campus. This will ensure the entire campus will work well when future phases are undertaken.

A key part of funding Civic Center improvements that was included in the list of potential funding sources was the sale or long-term lease of three City-owned properties as follows: 1) Former Onizuka Air Force Station (two parcels 5.02 acres); 2) 1484 Kifer Road (4.74 acres); and 3) Downtown Charles Street (nine General Fund parcels 1.44 acres). None of these properties have ever been used to deliver City services so selling or leasing them would not impact any City services. A specific use has only been designated for the downtown Charles Street property, which is for an affordable housing project. A request for proposals is currently being developed to solicit interest from affordable housing developers. While the City may retain ownership of the Charles street property, ownership would be transferred from the General Fund to one of the City's housing funds with reimbursement based on the fair market value of the property.

Estimated value of all three of the identified properties based on recent appraisals is $36 million. This would become an important source of revenue for the City to move ahead with a phased Civic Center Project. Next steps to implement this strategy would be for Council to designate the Onizuka and Kifer Road properties as surplus property. This would trigger notices to local school districts, open space districts and affordable housing providers that the properties were available. After considering any offers received, the City could negotiate the sale or lease with a qualified buyer or move forward to sell or lease the property on the open market. This entire process could take up to a year.

No Tax Increase Utility User Tax Ordinance Modernization

Modernizing the City Utility User Tax would require voter approval by a simple majority of voters. A draft ballot question was created to test voter opinion on modernizing the City's Utility User Tax without raising tax rates. Voters that were surveyed initially responded to the draft ballot question with support above the 50% minimum threshold but within the margin of error (+/- 6%). A significant number of voters were undecided as they heard the first question about the UUT. As more information was provided and additional questions were asked, support for the measure increased to between 57% - 58% and is above the margin of error for the survey. Considering the overall results, a UUT ballot measure that does not increase tax rates would be potentially viable.

Next steps for a UUT ballot measure would be to finalize a ballot question based on survey findings. This can be brought back to Council within the next two months for final approval along with the necessary resolutions needed to place the measure on the November ballot.

General Purpose Sales Tax Measure

The poll also included one question to test the viability of a one-quarter cent general purpose sales tax measure. Revenue from the measure would be for a general purpose rather than for a specific project and would only need a simple majority of voter support to pass. If passed, revenue from the measure would go to the City's General Fund and could be used to enhance City services or fund capital projects. As stated in the draft ballot question, the tax would be in place for 30 years and generate approximately $5 million of revenue per year. Polling results for this question were 52% in support which is within the margin of error for the poll.

The overall sales tax rate in California is limited by State law to the 7.5% state-wide rate plus up to 2% for local voter approved taxes. The current rate in Santa Clara County is 8.75%, leaving room for the possibility of 0.75% of additional local taxes. Other local sales tax measures are likely to be on the November ballot including a 0.50% sales tax for transportation projects sponsored by the Valley Transportation Authority and potentially a 0.25% county-wide sales tax for affordable housing/homelessness. Having multiple sales tax measures on the same ballot would likely diminish the chances of passing any of the measures. If Council wanted to pursue a general purpose sales tax measure further, additional polling should be conducted this summer to more thoroughly test a potential ballot measure before any final decisions were made.

Election Timing

In order to place any measure on the November 2016 ballot action must be taken by the City Council not later than July 26, 2016. Action would preferably be taken sooner. Once Council action is taken to place a measure on the ballot, it would be followed by a 14-day period to provide written arguments for or against the measure. This is followed by a 10-day period for rebuttal arguments. Election day is November 8, 2016, and results must be certified by December 8, 2016.

FISCAL IMPACT

Polling services were funded from the Civic Center Modernization Project budget. The preparation and distribution of public education materials for a ballot measure is currently unfunded but was included as an optional service in the City's existing agreement with Lew Edwards Group. Moving forward with a ballot measure will require a budget modification to appropriate funds for voter educational materials. Total costs are estimated to be $92,500 for professional fees to develop materials, with postage, printing and mailing for three mailers to registered voters. Budget

Modification No. 35 has been prepared to appropriate funds from the General Fund Stabilization Fund to a new project.

Election costs will also increase for any measure Sunnyvale places on the ballot. Funds to cover election expenses will be included in the FY 2016-17 budget.

Budget Modification No. 35
FY 2015/16

General Fund	Current	Increase/ (Decrease)	Revised
Expenditures			
New Project – Utility Users Tax Voter Education	$0	$92,500	$92,500
Reserves			
Budget Stabilization Fund	$50,173,334	($92,500)	$50,080,834

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website. Members of the City's Civic Center Modernization Project interested parties list were emailed a notice about this meeting.

ALTERNATIVES

1. Direct staff to return to Council with ballot language for the November 2016 election that would modernize the City's Utility User Tax Ordinance without increasing rates.
2. Approve Budget Modification 35 for $92,500 from the General Fund Stabilization Reserve to fund services needed to provide public education materials related to a Utility User Tax ballot measure and authorize the City Manager to amend the agreement with Lew Edwards Group for these services.
3. Direct staff to return to Council with project alternatives for the Civic Center Modernization Project that would establish priorities and use a phased approach for project implementation.
4. Direct staff to return to Council with a resolution that would declare City-owned properties located at former Onizuka Air Force Station (5.02 acres) and 1484 Kifer Road (4.74 acres) as surplus property.
5. Direct staff to conduct further voter polling to test the viability of a ¼ cent general purpose sales tax measure on the November 2016 ballot for enhanced City services and facilities.
6. Other action as directed by Council.

STAFF RECOMMENDATION

Alternatives 1, 2, 3, and 4: 1) Direct staff to return to Council with ballot language for the November 2016 election that would modernize the City's Utility User Tax Ordinance without increasing rates; 2) Approve Budget Modification 35 for $92,500 from the General Fund Stabilization Reserve to fund services needed to provide public education materials related to a Utility User Tax ballot measure and authorize the City Manager to amend the agreement with Lew Edwards Group for these services; 3) Direct staff to return to Council with project alternatives for the Civic Center Modernization Project that would establish priorities and use a phased approach for project implementation; and 4) Direct staff to return to Council with a resolution that would declare City-owned properties located at former Onizuka Air Force Station (5.02 acres) and 1484 Kifer Road (4.74 acres) as surplus property.

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Reviewed by: Tim Kirby, Interim Director, Finance
Reviewed by: Walter C. Rossmann, Assistant City Manager
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Executive Summary of Polling Results
2. Civic Center Modernization Project - Summary of Existing City Assets and Potential Revenues

Fairbank, Maslin, Maullin, Metz & Associates

FM3

Public Opinion Research & Strategy

Attachment 1

TO: Interested Parties

FROM: Curt Below & Miranda Everitt
Fairbank, Maslin, Maullin, Metz & Associates

RE: Results of a Survey of the Sunnyvale Community

DATE: May 9, 2016

Fairbank, Maslin, Maullin, Metz & Associates (FM3) recently completed a survey in the City of Sunnyvale on public attitudes toward local City services and spending priorities.[1] **Survey respondents expressed high levels of satisfaction with City services and prioritized spending on public safety, road repair, and park maintenance.**

Specific key findings include:

- **Four in five give the City high marks for the quality of services provided.** As shown in **Figure 1** on the following page, four in five (81%) rated City services as "excellent" or "good." Roughly one-quarter (24%) give the highest rating of "excellent" – ten points higher than any who give the rating of "fair" or "poor" (14 percent).

[1] **Methodology:** From April 11 to April 21, 2016, FM3 completed 541 interviews online and via both landlines and cell phones with likely November 2016 voters in the City of Sunnyvale. The margin of sampling error for the study is +/-4.2% at the 95% confidence level, and +/-6.0% for each half-sample, one of which heard the UUT and the other heard a bond measure. Margins of error for population subgroups within the sample will be higher. Due to rounding, not all totals will sum to 100%.

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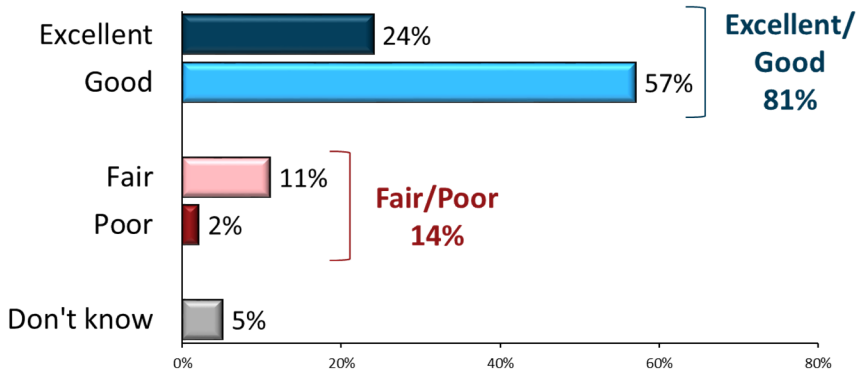
FIGURE 1
Quality of Sunnyvale City Services
How would you rate the quality of services provided by the City of Sunnyvale?

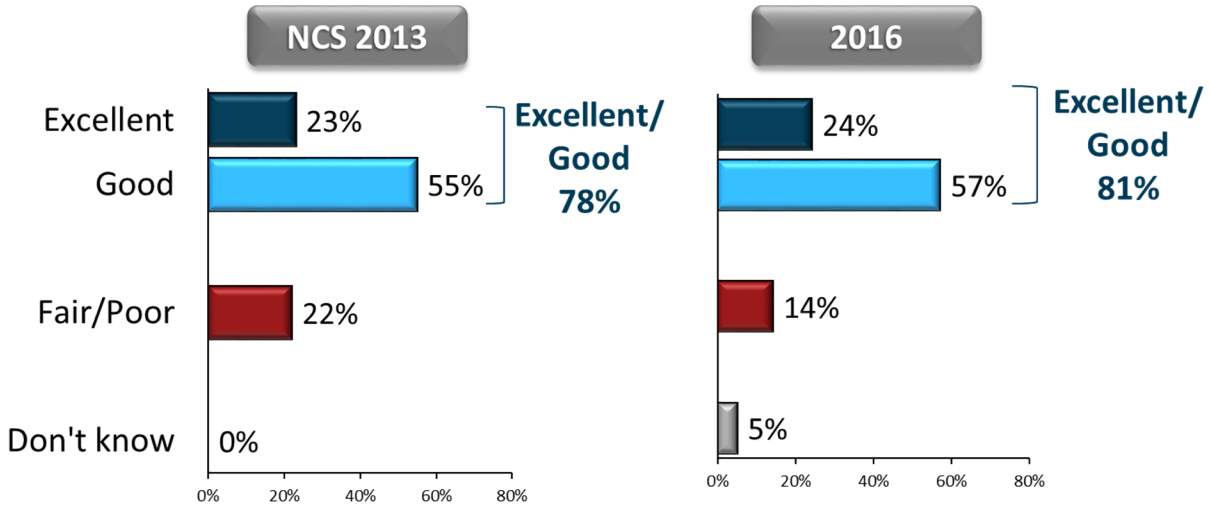


Positive ratings of "excellent" or "good" are shared by respondents across major demographic subgroups, including:

- ✓ *87% of women and 77% of men;*
- ✓ *75% of respondents under 50, and 86% of respondents aged 50 or older;*
- ✓ *81% of Democrats, 84% of independents, and 78% of Republican voters; and*
- ✓ *84% of white respondents, and 83% of respondents of color.*

These findings are consistent with a 2013 poll of Sunnyvale residents conducted by The National Citizen Survey, which found that 78 percent rated City services as "excellent" or "good" (**Figure 2**).

FIGURE 2
Quality of Sunnyvale City Services, Comparison
How would you rate the quality of services provided by the City of Sunnyvale?



- **Survey respondents viewed maintaining the City's financial stability one of the top spending priorities, along with public safety, road repair, and park maintenance.** Fully 87 percent of respondents rated *maintaining police response to violent crimes* as an "extremely" or "very important" priority for the City (**Figure 3**). Other public safety services were also in the top tier, including *maintaining police response to property crimes* (80% "extremely" or "very important") and *ensuring community preparedness for disasters and large-scale emergencies* (71%).

  In addition to public safety services, other top spending priorities included the overall goal of *maintaining the City of Sunnyvale's financial stability* (81% "extremely" or "very important"), *fixing potholes and repairing streets* (76%), *maintaining parks and school open space areas* (71%), and *repairing and maintaining neighborhood parks* (66%)

FIGURE 3
Top City Service Spending Priorities

Priority	Extremely/Very Important
Maintaining police response to violent crimes	87%
Maintaining the City of Sunnyvale's financial stability	81%
Maintaining police response to property crimes, such as burglaries	80%
Fixing potholes and repairing streets	76%
Maintaining parks and school open space areas	71%
Ensuring community preparedness for disasters and large-scale emergencies	71%
Repairing and maintaining neighborhood parks	66%

In addition to testing issues related to service satisfaction and spending priorities, the survey also evaluated potential community interest in three possible local funding measures – a Civic Center bond measure, a general purpose sales tax measure, and a measure modernizing the City's existing utility users tax (UUT). While the Civic Center bond measure did garner support from a majority of survey respondents, this type of finance measure requires a two-thirds supermajority for passage. However, support for this measure at the survey's conclusions was only at 57 percent, suggesting that such a measure is not viable at this point in time.

A new general purpose sales tax measure – requiring majority support for passage – was supported by 52 percent of survey respondents. Though this exceeds the measure's vote threshold, it is within the survey's margin of error, suggesting that it would need additional preparation activities and refinement if considered by the City. Finally, a measure modernizing the City's existing UUT – without raising tax rates – was supported by 65 percent of survey respondents after a brief explanation, and was at 58 percent support at the survey's conclusion, exceeding the measure's majority-vote threshold.

Overall, these findings demonstrate that Sunnyvale voters are remarkably satisfied with the quality of services the City provides and would like to protect them in the future. Significant shares rank maintaining basic services such as public safety, street repairs and park maintenance quite highly. In addition, more than four in five rate maintaining the City's financial stability as one of their top priorities. Finally, while majorities are willing to support a local finance measure benefiting the City, viability of a potential measure depends highly upon a measure's vote threshold and design.

Civic Center Modernization Project
Existing City Assets and Potential Revenues

Description	Potential Revenue (in $ Millions)
Existing General Fund Revenue • Infrastructure Fund - $1.5 M/year currently set a side – unallocated • Facilities Fund ~ $400 K /year for Civic Center repairs. A new or renovated Civic Center would reduce the need for repairs • NOVA Space rental – currently $330 K/year Assume from the three sources above an annual revenue stream of $2 M is pledged for debt service. Assume a 4% interest rate and 30 year term.	$35 M

Land
• Former Onizuka Air Force Station (2 parcels 5.02 acres) $17 M
• 1484 Kifer Road (4.74 acres) $11 M
• Downtown Charles Street (9 Gen. Fund parcels 1.44 acres) $8 M
Total $36 M
• Civic Center
  ○ Office $6.5 M/acre
  ○ Residential $6.5 - $7.0 M/acre
  ○ Hotel $3.5 M/acre
  ○ Civic Center Prototype F assumed 2 acres $0 to $14 M
  ○ Assume no revenue from the sale of land at the Civic Center based on staff recommendation
	$36 M
	
	$0 M

Use of Current General Fund Reserves • Capital Projects reserve $8.6 M currently unallocated • Infrastructure Fund $7.1 M current balance + $1.5 M FY 16-17 allocation = $8.6 total	$17 M

Other Funding Sources
• Park Dedication Fees - Quantities of park space vary significantly among the prototypes. Assume 10 acres of park space and related parking with development costs of $800 K/acre
• Enterprise Funds – This funding source would be available to fund a portion of City Hall. Staff dedicated to providing utility services or development review services are funded by separate enterprise funds. Enterprise funds should pay a fair share the costs related to office space to support those services.
  ○ Costs for City Hall vary among the alternatives from $56 M to $72 M with an average among all prototypes of $64 M.
  ○ Based on a preliminary analysis assume 30% of City Hall space is allocated to enterprise funds
• PEG (TV Broadcasting) – PEG funds are a revenue from cable TV providers for local television broadcasting and can be used to fund capital facilities and equipment.
	$8 M
	
	$19 M
	
	$1 M

Total Estimated Potential Revenue	**$116 M**