



Santa Clara Valley Water District

Revenue Options Assessment

November 2017

A decorative graphic element consisting of a dark teal vertical bar on the left, a red circle, and a horizontal olive green bar containing text.

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

REVENUE OPTIONS ASSESSMENT

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Santa Clara Valley Water District

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OVERVIEW

The purpose of this report is two-fold:

- Provide a “high-level, reconnaissance” assessment of revenue options available to the Santa Clara Valley Water District in off-setting water rate increases or generating added revenues for flood protection and stream stewardship.

The Short Story: While there are fewer non-rate options for special districts compared with cities and counties, there is nonetheless a broad range of reasonable revenue options available to the District. However, the ones with the greatest revenue potential will require either majority property owner approval (property-related fees or assessments) or two-thirds voter approval for special taxes. (Unlike cities and counties, special districts – like the Santa Clara Valley Water District – are not allowed to adopt general purpose taxes, which can be approved with majority voter approval). There is only one significant revenue option available to the District that could be implemented by the Board without some form of voter approval: development impact fees. The results of this analysis are summarized below and presented in detail in Chapter 2.

- Discuss what would be required to successfully implement the new revenue sources under Proposition 218.

The Short Story: Based on the experience of many local agencies in California – including the District – it is possible to successfully pass revenue ballot measures. However, doing so requires effective preparation by the District before placing the measure on the ballot; and an effective community-based group that will campaign for its passage afterwards. These results are further summarized below and discussed in detail in Chapter 3.

BACKGROUND

The District performed a similar assessment 17 years ago: *Funding Mechanism Evaluation: Technical Summary Report for Flood Protection and Stream Stewardship Projects and Programs (August 17, 2000)*. While this report covers similar options, the scope has been expanded to include:

- All areas of the District’s operations (water as well as flood protection and stream stewardship).
- Development impact fee options in funding capital improvements needed to serve new development.
- General obligation bond options in funding capital improvements.
- Benchmark comparisons with eight similar agencies.

However, unlike the prior assessment, this report does not include a detailed analysis of possible fees/assessments (such as that performed for the “pilot” capital project for the

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Calabazas Creek watershed). If there is interest in taking that next step, any such analysis will follow this “high level” assessment of options.

In updating the revenue options assessment, the District contracted with William C. Statler on May 31, 2017 for this work (a summary of consultant qualifications is provided in the Appendix).

Limits on Local Government Revenue Raising Authority

The past 40 years have shown increasing voter-approved limits on local government expenditures and revenues. Proposition 13 did not start this trend, but it certainly resulted from it. Since its passage almost forty years ago in 1978, there have been an increasing number of citizen-approved limits on the ability of elected officials at the local level to make resource decisions on behalf of the community, including Propositions 4, 218, 62 and 26 as part of a long line of expenditure and revenue limitation ballot measures (complemented by various court decisions). The following is a brief overview of the resulting limits on local government revenue raising authority as context in considering the District’s revenue options.

- **Proposition 13 (State Constitution, Article XIII A: Adopted 1978).** Among many other fundamental changes in state and local government finance, Proposition 13 limits general purpose property taxes levied by all local agencies combined to 1% of taxable value. Proposition 13 also limits increases in annual taxable value to 2%, except for improvements and changes in property ownership.

In short, there are no local government options – even with voter approval – for increasing revenues for operating purposes from property taxes based on property value (*ad valorem*).

- **Proposition 46 (State Constitution, Amendment to Article XIII A: Adopted 1986).** As noted above, Proposition 13 limited ad valorem taxes to 1% of taxable value for any purpose (voter-approved indebtedness incurred prior to 1978 was excluded from this limit). With two-thirds voter approval, Proposition 46 restored the ability of local government to issue general obligation bonds for capital improvements secured with ad valorem taxes. (This voter approval threshold was subsequently reduced to 55% for schools in 2000 with the passage of Proposition 39).
- **Proposition 218 (State Constitution, Articles XIII C and D: Adopted 1996).** Proposition 218 sets limits on virtually all forms of local government finance: taxes, fees and special assessments. In some cases, such water, sewer and trash rates, Proposition 218’s requirements are largely procedural: local governing bodies still have the ability to set rates without voter approval. And local government still has flexibility in setting fees for services such as recreation and (subject to the requirements of Government Section 66000, often referred to as “AB 1600”) development review fees.

However, all taxes, property-related fees and assessments are subject to some form of voter approval. (The only exception is ad valorem taxes for general purposes, which are not allowed under any circumstances.)

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The requirements for cities, counties and special districts are the same for property-related fees and assessments. However, there are differences in taxes: with majority voter approval, cities and counties can implement new or increased *general purpose taxes*. However, special districts are precluded from this: they are only allowed to set *special taxes*, which requires two-thirds voter approval (cities and counties have the same two-thirds voter approval threshold for special taxes).

Cities and Counties Versus Special Districts

As noted above, cities, counties and special districts have the same restrictions (and flexibility) for fees and service charges:

- Subject to procedural requirements under Proposition 218, water, sewer and trash fees can be set by the governing body, as well as a wide range of other service charges.
- All taxes, property-related fees and assessments require some form of voter approval.

However, there are two distinct differences between cities and counties compared with special districts:

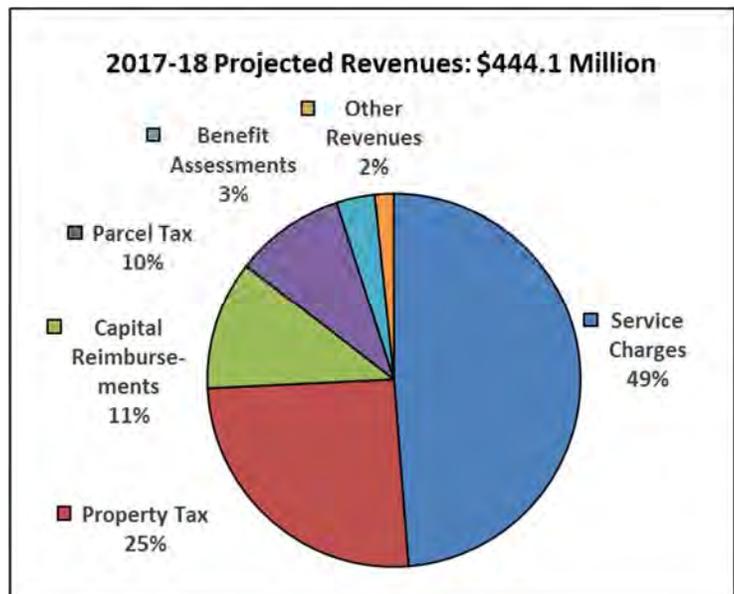
- As noted above, all taxes set by special districts are considered special taxes, and thus require two-thirds voter approval (cities and counties have the option of general taxes, which have a lower, majority voter approval threshold).
- And cities and counties have a broader range of tax options (whether general or special), such as business tax licenses, transient occupancy taxes and utility user taxes. As discussed below, parcel taxes (fixed rate per type of parcel) are the most common and readily accessible form of tax available to special districts.

Current Revenue District Revenue Sources

Compared with many special districts in California, the District has a diverse set of revenues funding its operations, debt service and capital improvements.

The following summarizes projected revenues of \$444.1 million for 2017-18:

- **Service charges** for groundwater production, treated water, surface/recycled water and intergovernmental services are the District's largest revenue source, totaling \$216.5 million (49%).



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- **Property taxes** of \$113.2 million (25%) include the District's share of the 1% general property tax levy (\$87.2 million) and levies for State Water Project voter-approved indebtedness incurred prior to Proposition 13 (\$26.0 million).
- **Capital reimbursements** from local, state and federal agencies for specified capital projects that the District has completed, initiated or will undertake in 2017-18 are projected to be \$49.8 million (11%).
- **Parcel taxes** approved by District voters in November 2012 are projected to be \$42.5 million in 2017-18 (10%).
- **Benefit assessments** of \$14.8 million (3%) consist of levies approved by property owners in 1986 and 1990 to support financing for flood protection capital improvements in four distinct watershed areas: Lower Peninsula, West Valley, Guadalupe and Coyote. (The amount of individual property owner assessments varies in each area and depends on land use type.)
- **Other revenues** of \$7.3 million (2%) include \$3.5 million from investment earnings and \$3.5 million from other revenues such as State water contract reimbursements, rental income, permits and sale of surplus assets.

As reflected above, the District has already implemented two of the possible voter approval options, which together account for 13% of revenues: two-thirds voter approval for parcel taxes and majority property owner approval for assessments.

RESULTS OF REVENUE OPTIONS ANALYSIS

The following summarizes the results of this analysis, which are detailed in Chapter 2:

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Summary of Revenue Options Analysis

Revenue Source	Allowed Use		Required Approval	Restrictions	New Revenue*	Water Rate Offset
	O&M	Capital				
Existing Revenues						
Ad Valorum Property Tax						
Share of 1% general tax levy	■	■	Can't be increased	Unrestricted	None	
Voter approved indebtedness	⊙	⊙	Can't be increased	Amount of annual debt payment	None	
Parcel Tax (Special Tax) \$25 Per EDU \$50 Per EDU \$75 Per EDU	■	■	Two-thirds voter approval Current SFR rate: \$63.11	Largely unrestricted; flexibility in determining parcel rates by type	\$17.0 \$34.0 \$51.0	8% 16% 23%
Special Benefit Assessments	■	■	Property owner majority, weighted by assessment Current SFR rate: \$13.20 to \$39.86	Must be based on benefit per parcel; engineer's report required	Similar to Parcel Tax	
Water Service Charges	■	■	Board	Water service only	Every 1% increase generates about \$2.1 million	
Capital Reimbursements	⊙	■	Board	Eligible project costs	Depends on grant amount	
Non-Property Related Fees/Other Revenues	■	⊙	Board	Not to exceed reasonable cost of providing service	Minor	
New Revenues						
Property-Related Fees Other than Water Rates	■	■	Property owner majority or two-thirds voter approval	Not to exceed proportional cost of service attributable to parcel	Similar to Parcel Tax	
Mello Roos Special Tax: Existing Development	■	■	Two-thirds voter approval	Largely unrestricted; flexibility in determining parcel rates by type	Similar to Parcel Tax	
Mello Roos Special Tax: New Development	■	■	Board (with developer approval)	Largely unrestricted; flexibility in determining parcel rates by type	Depends on CFD Needs	
Development Impact Fees	⊙	■	Board	Must be based on cost/benefit of serving new development; detailed analysis required; collection challenges	\$24.0	11%

* In millions

Yes ■ No ⊙ Depends ⊙

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Revenue Source	Allowed Use		Required Approval	Restrictions	New Revenue*	Water Rate Offset
	O&M	Capital				
New Revenues (Continued)						
Potential Options Requiring Legislation and Further Research						
General Obligation Bond Special Ad Valorem Tax (Fund 50% of Ten-Year, \$2.2 Billion CIP; 2% increase in general levy)	⊙	■	Two-thirds voter approval	Capital improvements only	\$86.0	40%
Local Option Sales Tax ("Transactions and Use") at .0125% (1/8%)	■	■	Two-thirds voter approval	Generally applicable to cities and counties, but "other governmental entities" allowed: 20 approved to-date but all are transportation related; 2% cap on total local rates unless otherwise authorized	\$50.0	23%

As reflected in this summary chart, only three of these revenue options can be implemented by the Board without some form of voter approval:

- For Mello-Roos special taxes for *new* development, the revenues would only be available in new development areas: they could not be used to fund District-wide operations or improvements (only those benefiting the area); and developer concurrence would also be required.
- Development impact fees can only be used for capital improvements benefitting new development.
- The revenue potential from non-property related service charges (such as permit fees) is very small, since these types of revenues account for less than ½% of total revenues.

This underscores the findings of this report that significant new revenues, other than water rate increases and development impact fees, will require some form of voter approval.

Strong Candidates for Further Consideration

In off-setting water rate increases and generating added revenues for creek and flood protection, the following are strong candidates for consideration:

- **Parcel Taxes.** As reflected above, modest parcel taxes of \$25 per “equivalent dwelling unit” (EDU), where a single-family residence (SFR) is one EDU, would raise about \$17

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million annually; and \$75 per EDU would raise about \$51 million annually. If applied to water service, EDU's of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

Follow-up steps include further analysis of the parcels in the District and refined allocation of taxes among different parcel types. This measure could be submitted to voters at any time; however, the “conventional wisdom” is that revenue measures are more successful when placed before voters with general elections. As noted above, the District already levies parcel taxes, generating \$42.5 million annually with the fee set based on land use type. For typical single-family residences, the 2017-18 rate is \$63.11 annually.

- ***Special Benefit Assessments.*** Special assessments could generate similar revenues as a parcel tax (with similar water rate offsets). However, rather than requiring two-thirds voter approval, special assessment can be approved with majority property owner approval (with votes weighed per parcel weighted by the relative amounts of the assessment: a parcel with an assessment of \$1,000 has ten times more votes than a parcel with an assessment of \$100). The proceeds can be used to fund operations, improvements or both.

Follow-up steps include a detailed apportionment of costs among properties based on benefit typically prepared by a firm specializing in this type of analysis. Subsequent public hearings based on this analysis are then required. This measure could be submitted for approval by property owners at any time, subject to notice and hearing requirements. As noted above, the District already levies special benefit assessments in four areas, with annual revenues of \$14.8 million. Assessments are based on land use type: for typical single-family residences, the 2017-18 rates range from \$13.20 per parcel to \$39.86. If applied to water service, EDU's of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

- ***Development Impact Fees.*** The District can set impact fees at any level that will fully offset (but not exceed) the cost of constructing capital improvements needed to service new development. In general, development impact fees can fund a broad range of public facilities, including water, sewer, transportation, parks, cultural facilities, community centers, civic center improvements and public safety facilities. Detailed procedures for developing and collecting impact fees are set forth in Government Code Section 66000 (commonly referred to as “AB 1600”).

Setting development impact fees requires careful analysis of the facilities needed to serve development, their cost and relationship to various land uses (“nexus”). This type of analysis is beyond the scope of this study. However, an “order of magnitude” analysis indicates that development impact fees could generate about \$24 million annually, with a rate of \$3,011 per single family residence. If applied to water service, this would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 11%.

It should be noted that this type of fee is typically collected by cities and counties along with building permit fees. Similar wholesale agencies like the District, which do not

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issue building permits, typically enter into agreements with their retailers to collect these fees on the agency's behalf and remit them monthly. Accordingly, the District's ability to charge and collect such fees is contingent in part on the cooperation of its customers.

Possible Option with Further Research

As discussed below, with two-thirds voter approval, the District *may* be able to issue general obligation bonds for capital improvements. While special districts, including water districts, are authorized to issue general obligation bonds (and many throughout the State have), the District Counsel has deep reservations about the District's ability to do so given limitations in its enabling legislation. While it is likely that any ambiguities could be resolved via legislation, the District Counsel is also concerned that the District may be constitutionally constrained in doing so. Accordingly, if the District is interested in pursuing this option, further research (and possible clean-up legislation) would be required.

However, the voter approval threshold is the same as parcel taxes, which have greater flexibility in funding operating as well as capital improvements. Further, the District has greater flexibility in designing the tax structure.

SUCCESSFUL REVENUE BALLOT MEASURES

Background: Voter Approval Required for Most New or Increased Revenues

As discussed above, other than charges for services - like water use - most new revenue measures will require voter approval at some level:

Special Taxes. For local agencies like the District, new and increased taxes – whether for operating or capital purposes – require two-thirds voter approval.

Special Assessments. Whether for capital improvements or ongoing maintenance services, special assessments require majority approval by those being assessed (who are property owners), with each property owner's vote "weighted" by the amount of their assessment. For example, an owner with a property with an assessment of \$1,000 would have ten votes for that parcel compared with one vote for an owner with a parcel assessment of \$100. Additionally, Proposition 218 sets specific rules for how the benefit of special assessments must be apportioned.

Property-Related Fees. For fees that are levied as "an incidence of property ownership" (just because you own property), majority approval by those who will have to pay the fee is required; or at the agency's option, by a two-thirds vote of the electorate residing in the affected area. There are several specific exemptions under Proposition 218, including development review and impact fees under "AB 1600" (Section 65000 of the Government Code). Additionally, there is consensus that many fees charged by local agencies, such as recreation fees and police reports, are not subject to Proposition 218, since they are usually based on use, not property ownership. Lastly, based on the State Supreme Court "Bighorn" ruling in 2006, while water, sewer and trash services are not subject to voter or property owner approval, they are subject to the procedural and protest provisions of Proposition 218.

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This means that service charges unrelated to property ownership or enterprise operations (like water and sewer) are one of the few funding sources subject to Board decision-making: virtually all others require some form of voter or property owner approval.

Preparing for Successful Revenue Ballot Measures

As discussed in further detail in Chapter 3, one of the major “mega-trends” affecting governance today at all levels is a fundamental change in the way decisions are made. Over the past forty years, there has been a significant shift in voter preference from “representative democracy” to “direct democracy,” especially in local government finance.

Proposition 13 did not start this trend, but it certainly resulted from it. Since its passage almost forty years ago in 1978, there have been an increasing number of citizen-approved limits on the ability of elected officials at the local level to make resource decisions on behalf of the community.

While there are many possible explanations for this change, the fact remains that there is a decided shift to direct citizen decision-making in a broad range of issues previously thought to be too “technical” for this. While this has occurred in a number of areas such as insurance and campaign financing, it is especially prevalent in “ballot box budgeting.” Citizens are no longer willing to give their proxy on financial issues to elected officials or to their interest group representatives on “blue ribbon” committees. Local government finance is an issue they want to decide directly for themselves.

How does this shift affect the District’s revenue outlook? Local agencies now need broad-based community support—in evidence on Election Day—to implement new revenues other than service charges. In this new model of direct democracy, creating support among elected officials and community leaders—even if it broadly crosses a number of interest groups—is no longer enough. With these profound changes in voter approval requirements, local agencies must communicate a compelling vision for new revenues at a grass roots level among likely voters.

While this may seem a high-hurdle, many local agencies throughout the State have been successful in gaining voter approval for revenue measures, even at the two-thirds level.

As shown in the sidebar chart, since 2001 (when school districts were first allowed to pass general obligation bond issues with 55% voter approval, versus the prior two-thirds requirement), almost 2,400 local revenue measures – 69% of those presented to voters – have been passed through November 2016.

Local Revenue Measures Since 2001			
Through November 2016			
	Total	Pass	Passing%
City Majority Vote	832	612	74%
County Majority Vote	94	53	56%
SpecialDistr Fee MajVote	3	2	67%
City 2/3 Vote	373	191	51%
County 2/3 Vote	138	60	43%
Special District (2/3)	424	196	46%
School ParcelTax2/3	351	228	65%
SchoolBond 2/3Vote	50	17	34%
School Bond 55%	1213	1026	85%
Total	3478	2385	69%

Source: California Local Government Finance Almanac

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Even where two-thirds voter approval has been required, about half of local measures have passed (46% for special districts, which includes the District's parcel taxes approved by voters in 2012).

In summary, if the need is compelling, either to maintain current services or to improve them, and it is effectively communicated, the experience throughout the State shows that voter-approved revenue measures can be successful, even those with a high, two-thirds voter approval threshold.

However, this experience also shows that doing so requires a significant commitment of time and resources in preparing for the measure. More importantly, as discussed in greater detail in Chapter 3, it typically requires a strong community-based advocacy group that will aggressively raise funds and campaign for the measure once it is on the ballot.

This last issue cannot be stressed enough. Under State law, local agencies have broad discretion in using their funds for staff and professional assistance in analyzing issues, researching public opinion, conducting public education programs and developing voter support strategies. However, once an issue becomes a formal ballot measure, local agencies cannot participate as an advocate in any way. For this reason, unless there is a strong community-based group that is willing to aggressively raise funds and campaign for the measure, it is not likely to pass, no matter how much preparation was undertaken by the local agency before placing the measure on the ballot.

The first pre-condition—effective preparation—is within the control of the District; the second one—an effective community-based group—is not.

In summary, new revenues require community support—in evidence on Election Day. Gaining this support requires more than a compelling need: it also requires communicating this need in a compelling way. And this requires effective preparation by the District before placing the measure on the ballot; and an effective community-based group that will campaign for its passage afterwards.

SUMMARY

In off-setting water rate increases or generating added revenues for flood protection and stream stewardship, there is a broad range of reasonable revenue options available to the District. However, the ones with the greatest revenue potential will require either majority property owner approval (property-related fees or assessments) or two-thirds voter approval for special taxes. There is only one significant revenue option available to the District that could be implemented by the Board without some form of voter approval: development impact fees.

This report also shows that based on the experience of many local agencies in California – including the District – it is possible to successfully pass revenue ballot measures. However, doing so requires effective preparation by the District before placing the measure on the ballot; and an effective community-based group that will campaign for its passage afterwards.

2 REVENUE OPTIONS

OVERVIEW

This Chapter takes a detailed look at all possible new revenues for the District. In the “Fact Sheets” beginning on page 18, the following information is provided for each of the thirteen possible new revenues identified in this study:

- General description of the revenue source.
- Is it in place in the District at this time? (Would this be a new source? Or an increase in an existing one?)
- Who pays it?
- Who else has it? How does this compare with eight “benchmark” agencies?
- How much new revenue would it generate?
- What is required to implement it?
- Why is this an appropriate funding source?
- How would these revenues be collected?
- How would this added revenue affect the diversity and stability of the District’s revenue base?
- When could the new revenue be effective?
- What approval steps are required under Proposition 218 and other State requirements, such as development review and impact fees under AB 1600 (Section 66000 of the State Government Code)?
- Are there any other special implementation issues?

SUMMARY OF REPORT FINDINGS

The following is a brief overview of the findings of this study, organized by whether voter or Board approval is required to implement it.

Requires Voter Approval

Two-Thirds Voter Approval

- **Parcel Taxes.** With two-thirds voter approval, parcel taxes are allowed in any amount as long as they are not based on property value. They may be set based on either a flat rate per parcel or a variable rate depending on the size, use or number of units on the parcel. In 2012, District voters approved a parcel tax, which varies depending on land use. For single-family residential uses, the 2017-18 parcel tax is \$63.11 per unit, generating \$42.5 million annually.

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For projection purposes, a rate of \$25 per “equivalent dwelling unit” (EDU), where a single-family residence is one EDU, will generate about \$17 million annually; and \$75 per EDU will generate about \$51 million. If applied to water service, EDU’s of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

- **Mello-Roos Special Taxes: Operating or Capital for Existing Development.** Mello-Roos “Community Facilities Districts” (CFD’s) are typically formed to provide services or capital improvements to new developments (when there is usually just one “voter”—the developer/land owner), but they can be formed on an agency-wide basis in already developed areas as well. Depending on how they are structured when approved, Mello-Roos special taxes can pay for operations and maintenance as well as capital improvements.

If there are twelve or more registered voters in the CFD, approval by two-thirds of the registered voters is required. However, if there are fewer than twelve registered voters, the vote is by the property owners in the district. In this case, property owners have one vote for each acre of land they own in the CFD. For this reason, Mello-Roos CFD’s are typically used in financing improvements and services for new development. It is rarely used for developed areas: given the similar two-thirds voter approval requirements, most local agencies use the more straightforward parcel tax approach instead.

Possible Two-Thirds Voter Approval Options with Legislation and Further Research

- **Property Tax Increase as Part of General Obligation Debt.** Adopted almost forty years ago in 1978, Proposition 13 does not allow an increase in general purpose property taxes above the “1% of market value” limit under any circumstances. However, subsequent amendments to this constitutional limit allow for increases in property taxes for general obligation bonded indebtedness with two-thirds voter approval.

While special districts, including water districts, are authorized to issue general obligation bonds (and many throughout the State have), the District Counsel has deep reservations about the District’s ability to do so given limitations in its enabling legislation. While it is likely that any ambiguities could be resolved via legislation, the District Counsel is also concerned that the District may be constitutionally constrained in doing so. Accordingly, if the District is interested in pursuing this option, further research (and possible clean-up legislation) would be required.

- **Local Option Sales Tax.** Under Revenue and Taxation Code Sections 7251.1 and 7285.9 to 7285.92, a city, county and “other governmental entity authorized” are allowed to adopt a “local option” sales tax (transactions and use tax district) with voter approval. However, the tax must be wholly in the city, county or unincorporated area of a county. In short, no new reporting areas can be created.

It is important to note that as an “other governmental entity,” it would take special legislation to allow the District, even with the two-thirds voter approval that would be required, to adopt this tax.

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However, this is not unusual: there are 20 “other governmental entities” in California that have been authorized (subject to two-thirds voter approval) to levy local option sales taxes. However, to-date all of these have been transportation-related agencies.

Accordingly, it would be unprecedented for a water agency to receive this authorization (although the District meets the geographic requirement, since its boundaries are coterminous with Santa Clara County).

Majority Property Owner Approval

Under Proposition 218, the approval process for property-related fees (other than water, sewer and trash rates) and special assessments is very similar: they both require:

- A clear relationship between the costs and benefits per parcel.
- Mailed notice and public hearings.
- Majority approval by those responsible for paying the fee or special assessments. (However, in the case of property-related fees, it is “one parcel, one vote,” whereas special assessment district votes are weighted by each property owner assessment benefit obligation. Additionally, property-related fees have the additional option of two-thirds voter approval rather than majority property-owner approval.)

Accordingly, either approach would be a candidate for funding District services and capital improvements. However, there is a simpler path for water service charges compared with other property-related fees. Accordingly, as an alternative to water rate increases, special assessments make more sense for the District.

Special assessments can be levied for one-time improvements or ongoing maintenance. However, majority approval by those responsible for paying the special assessments, weighted by each property owner’s benefit obligation, is required. Detailed assessment reports prepared by a registered civil engineer justifying the apportionments among properties are required. Under similar ground rules, special assessment districts can be formed for one-time capital improvements.

The revenue potential for special assessments and property-related fees is similar to parcel taxes. However, only majority property-owner approval is required versus two-thirds voter approval for parcel taxes.

Could Be Approved by the Board

The following revenue sources could be set or increased by the Board without some form of voter approval.

- **Mello-Roos Districts for New Development.** Many local agencies require that new development pay not only for the facilities needed to service them, but for day-to-day services as well. This could include park and landscape maintenance, street lighting, street

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sweeping, libraries and fire protection. While this sets up two classes of residents—those who receive what may be perceived as services based on the general-purpose tax and fee revenues they pay, and those who must pay an additional premium for those same services—many local agencies have moved to this out of fiscal necessity. The revenue impact of this is difficult to assess, since it would depend on what services were subject to the special Mello-Roos tax. However, as discussed above, this would require the concurrence of the property owner in establishing this special tax district (assuming there are less than twelve registered voters in the District) before the start of construction.

- **Development Impact Fees.** The District can set impact fees at any level that will fully offset (but not exceed) the cost of constructing capital improvements needed to service new development. In general, development impact fees can fund a broad range of public facilities, including water, sewer, transportation, parks, cultural facilities, community centers, civic center improvements and public safety facilities. Detailed procedures for developing and collecting impact fees are set forth in Government Code Section 66000 (commonly referred to as “AB 1600”). It should be noted that this type of fee is typically collected by cities and counties along with building permit fees. Similar wholesale agencies like the District, which do not issue building permits, typically enter into agreements with their retailers to collect these fees on the agency’s behalf and remit them monthly. Accordingly, the District’s ability to charge and collect such fees is contingent in part on the cooperation of its customers.
- **Higher Cost Recovery for Non-Property Related Services.** This is one of the few remaining areas where the Board has discretion in setting fees that help offset water service charges, taxes and special assessments. Performing a comprehensive cost of services study for these types of special service fees can be a major undertaking on its own and is beyond the scope of this study. However, rental charges and fees for special services like well permits, encroachment permits and copying charges are less than ½% of the District’s total revenues. Accordingly, while periodic review of these types of charges to ensure that they fully recover service costs (including indirect costs) is a prudent business practice, even large increases in these fees (if warranted) will not have a significant offsetting impact on water rates or other major funding sources.

COMPARISON AGENCIES

For each new revenue source, the “Fact Sheets” generally describe the revenue situation for local government agencies throughout the State. In addition to this, where applicable, they also summarize revenue information for the following eight “benchmark” agencies:

Agencies Currently Used by the District for Comparison Purposes

- ***Contra Costa Water District.*** Regional water wholesaler for about 250,000 customers and direct retail water service provider to another 250,000 customers in Central and East Contra Costa County.
- ***East Bay Municipal Utilities District.*** Water provider to 1.4 million customers and wastewater services for 685,000 customers in Alameda and Contra Costa counties.

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- **Metropolitan Water District.** Regional wholesaler delivering water to 26-member public agencies (14 cities, 11 municipal water districts, one county water authority), which in turn provide water to 19 million people in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties.
- **San Diego County Water Authority.** Regional water wholesaler for its 24-member agencies serving 3.2 million customers in San Diego County.
- **San Francisco Public Utilities Commission.** Water, power and sewer service provider to City residents as well as wholesale water to 27 water agencies in southern Alameda, northern Santa Clara and San Mateo Counties.
- **Zone 7 Water Agency, Alameda County Water District.** Regional water wholesaler and flood protection service provider for 220,000 customers in the Livermore-Amador Valley.

Two other benchmark agencies that are similar to the District are also included for broader context:

- **Calleguas Municipal Water District.** Regional water wholesaler to about 75% of the population in Ventura County.
- **Inland Empire Utilities Agency.** Regional water wholesaler and wastewater service provider for population of 875,000 in southwest areas of San Bernardino County (Upland, Montclair, Chino, Chino Hills, Ontario, Rancho Cucamonga and Fontana).

The following summarizes revenue, staffing and service population for each of these agencies compared with the District:

	2016 Revenues*	2016 Employees	Service Area Population
Zone 7 Water Agency, Alameda County Water District	\$119.2	114.5	220,000
Contra Costa Water District	\$128.6	302.5	500,000
Calleguas Municipal Water District	\$129.1	100.0	630,000
Inland Empire Utilities Agency	\$192.3	290.0	875,000
<i>Santa Clara Valley Water District</i>	<i>\$337.3</i>	<i>723.0</i>	<i>2,000,000</i>
East Bay Municipal Utilities District	\$583.8	2,064.2	1,400,000
San Diego County Water Authority	\$602.6	247.4	3,200,000
San Francisco Public Utilities Commission	\$861.3	2,236.0	2,700,000
Metropolitan Water District	\$1,511.2	1,772.0	19,000,000

* In millions

Source: Comprehensive Annual Financial Reports/Audited Financial Statements, Fiscal Year Ended June 30, 2016

PARCEL TAXES

What is a parcel tax?

With two-thirds voter approval, parcel taxes are allowed in any amount and basis as long as they are not based on property value. They may be set based on either a flat rate per parcel or a variable rate depending on the size, use or number of units on the parcel. They can be used for operating or capital improvements.

Why is this an appropriate District funding source?

Many of the District's services are directly related to property. Additionally, at modest levels parcel taxes are usually very straightforward and easy to communicate to the public. On the other hand, at high levels, a flat rate may appear unfair, since it is not based on the value of the parcel (like a property tax) or ability to pay (like sales or income taxes).

Is this tax in place at this time?

Yes. Based on voter approval in 2012, the District levies a parcel tax that generates \$42.5 million annually (10% of total revenues) primarily for flood protection purposes. As shown below, rates are set per parcel based on land use. The typical single family residential annual rate for 2017-18 (Group C) is \$63.11 per unit.

- Group A: Land used for commercial or industrial purposes: \$505.15 per acre, \$126.27 minimum for parcels up to 0.25 acre.
- Group B: (1) apartment complexes, mobile home parks, recreational vehicle parks: \$378.87 per acre, \$94.72 minimum for parcels up to 0.25 acre; and (2) condominiums and townhouses: \$30.73 per unit.
- Group C: Parcels up to 0.25 acres used for single family residences and multiple family units up to four units: \$63.11. The first 0.25-acre of a parcel of land used for single family residential purposes: \$63.11.
- Group D: (1) Disturbed agricultural land, including irrigated land, orchards, dairies, field crops, golf courses and similar uses: \$3.24 per acre, \$32.37 minimum on parcels less than 10 acres. (2) The portion of the parcel, if any, in excess of 0.25 acre of a parcel used for single family residential purposes: \$3.24 per acre.
- Group E: Vacant undisturbed land (1) in urban areas: \$0.95 per acre, \$9.54 minimum on parcels less than 10 acres; and (2) in rural areas: \$0.13 per acre, \$9.54 minimum equal to the Group E urban category minimum.

The District exempts low-income parcel owners over 65 from the special tax. For 2017-18, about 4,800 parcels are expected to be exempt, reducing revenues by about \$277,000.

Annual increases are indexed based on the San Francisco-Oakland-San Jose Consumer Price Index (CPI) for all urban consumers in the preceding year or 3 percent, whichever is greater. The tax has a fifteen-year sunset period.

Who pays this tax?

Property owners within the District pay this tax.

PARCEL TAXES

Can local agencies increase their parcel tax rate?

Yes. As long as the tax is not based on property value, there are no State limits on this revenue source, assuming that it is adopted with two-thirds voter approval.

How much revenue would an increase generate?

This depends on the rate and basis of the parcel tax. While proportionality is required in setting the rate, the “nexus” standard is not as exacting as it is for assessments and property related fees. Typically, agencies differentiate between developed and undeveloped parcels; and for developed parcels, they typically differentiate between single family residential (SFR), multi-family residential (MFR) and non-residential parcels.

If the District pursues this option, an important first step would be to develop the appropriate proportionality of various parcel types. This is typically achieved by creating “equivalent dwelling units” (EDU’s), with developed single family residential parcels equal to one EDU.

The District’s current parcel taxes are based on storm water run-off. While new parcel taxes would likely be based on other factors, the current parcel tax EDU’s provide a basis for “order of magnitude” estimates:

Per EDU	Annual Revenues	Water Rate Offset
\$25.00	\$16,836,000	8%
\$50.00	33,671,000	16%
\$75.00	50,507,000	23%

If applied to water service, EDU’s of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

Do the benchmark agencies have parcel taxes?

None of the benchmark agencies have parcel taxes.

What authority is required to implement this tax?

Parcel taxes require two-thirds voter approval. While this election can be held at any time, the “conventional wisdom” is that tax measures are more successful when presented to voters in conjunction with general elections.

How can these revenues be used?

Parcel taxes can be used for any legitimate government purpose, such as parks, street maintenance, recreation, public safety, water or flood protection. They can be used for operating, capital or debt service costs.

PARCEL TAXES

How are these revenues collected?

They would be collected by the County along with other taxes and assessments on the property tax roll, and distributed to the District on the same remittance schedule.

How would this added revenue affect the diversity and stability of the District's revenue base?

Parcel taxes are a very stable revenue source and would reduce the District's reliance on water service charges.

When could this new tax be effective?

A parcel tax could be effective for the next tax year following voter approval.

BENEFIT ASSESSMENT DISTRICTS

What are benefit assessments?

They are charges levied on property owners on a “benefit” basis for either maintenance or capital improvements for a broad range of activities such as water, flood protection, fire suppression, public safety, tree trimming, street landscaping, streetlights, storm water, traffic signals, and parks and recreation facilities in the community.

Prior to Proposition 218, maintenance assessment districts were widely used throughout California for a broad range of services. However, forming assessment districts today that meet the rigorous “proportionate special benefit derived by each identified parcel” criteria is much more difficult.

Why is this an appropriate District funding source?

Because they are based on benefit, they can help closely match revenues with services.

Does the District levy these assessments now?

Yes. The District currently has four assessment districts approved by property owners in 1986 and 1990 to support financing for flood protection capital improvements in four distinct watershed areas: Lower Peninsula, West Valley, Guadalupe and Coyote. The amount of individual property owner assessments varies in each area and depends on land use type. Assessment revenue for 2017-18 from these four areas are projected to generate \$14.8 million in meeting debt service obligations for the year. These assessments are projected to end in 2030 when the final debt service payments are made.

The following summarizes typical single-family residential (SFR) assessments in the four areas for 2017-18:

Area	SFR Assessment
Lower Peninsula	\$39.86
West Valley	\$13.20
Guadalupe	\$21.16
Coyote	\$21.06

The following provides a more detailed matrix of the assessment in each area by land use:

BENEFIT ASSESSMENT DISTRICTS

Land Use Categories	Flood Control Zones				
	Northwest (Lower Peninsula)	North Central (West Valley)	Central (Guadalupe)	East (Coyote)	South (Uvas-Llagas)
A - Commercial, Industrial					
Rate (\$/Acre)	\$318.90	\$105.60	\$169.25	\$168.44	\$0.00
Minimum Assessment ⁽¹⁾	\$79.72	\$26.40	\$42.32	\$42.10	\$0.00
B - Apartment, Schools, Churches					
Rate (\$/Acre)	\$239.17	\$79.20	\$126.94	\$126.33	\$0.00
Minimum Assessment ⁽¹⁾	\$59.80	\$19.80	\$31.74	\$31.58	\$0.00
C - Single Family Residential, Small Multiples (2-4 units), Condominiums, and Townhouses					
Rate (\$/Acre)	⁽²⁾	⁽²⁾	⁽²⁾	⁽²⁾	⁽²⁾
Minimum Assessment ⁽¹⁾	\$39.86	\$13.20	\$21.16	\$21.06	\$0.00
D - Utilized Agriculture					
Rate (\$/Acre)	\$1.993	\$0.660	\$1.058	\$1.052	\$0.00
Minimum Assessment ⁽¹⁾	\$19.93	\$6.60	\$10.58	\$10.52	\$0.00
E Urban - Non-utilized Agricultural, grazing Land, Salt Ponds, Well Site in Urban Areas					
Rate (\$/Acre)	\$0.598	\$0.198	\$0.318	\$0.316	\$0.00
Minimum Assessment ⁽¹⁾	\$5.98	\$1.98	\$3.18	\$3.16	\$0.00
E Rural - Non-utilized Agricultural, Grazing Land, Well Sites in Rural Areas					
Rate (\$/Acre)	\$0.07	\$0.02	\$0.04	\$0.04	\$0.0
Minimum Assessment ⁽¹⁾	\$5.98	\$1.98	\$3.18	\$3.16	\$0.00
<p>(1) The minimum assessments shown for Categories A, B, and C apply to parcels 1/4 acre or less in size. Category C parcels larger than 1/4 acre pay the minimum assessment for the first 1/4 acre and the remaining acreage is assessed at the Category D rate. For Category D, the minimum assessment applies to parcels less than 10 acres. The minimum assessment for Group E urban parcels is the amount charged for 10 acres of urban undeveloped land; the minimum assessment for Group E rural parcels is the same as E urban but applies to parcels of 80 acres or less.</p> <p>(2) Residential land in excess of 1/4 acre is assessed at the D rate.</p>					

Who would pay these assessments?

The owners of property within the assessment district.

Who would administer these assessments?

The District would establish assessment districts (one or several) and the formulas for apportioning assessments. Given the cost of conducting annual ballots, standard annual adjustment factors (such as changes in the Consumer Price Index) are typically approved when the district is formed. Assessments would be included on the County secured property tax roll and collected by the County on the District's behalf.

BENEFIT ASSESSMENT DISTRICTS

Can local agencies determine the assessment methods and amounts?

Yes. Within the procedural requirements of Proposition 218, local agencies have a wide range of discretion in determining the apportionment methods and the amount to be raised. The only requirement is that the total amount generated cannot exceed the costs reasonably incurred in providing covered services; and the apportionment method must relate to the specific benefit received by each parcel. This assessment report needs to be prepared by a registered engineer.

How much could the District realize from these assessments?

This depends on the nature and scope of services that would be funded from assessments. Within the property owner approval framework of Proposition 218 and its other procedural requirements, there are a wide range of property related services that could be funded through assessments.

That said, there are very stringent methodological requirements under Proposition 218 in linking costs and benefits between parcels. Without this analysis (which is beyond the scope of this study), it is not possible to provide a detailed estimate of revenues.

However, the District's current parcel taxes per "equivalent dwelling unit" (EDU), which is typically based on single family residential units, provides an "order of magnitude" basis for estimates:

Per EDU	Annual Revenues	Water Rate Offset
\$25.00	\$16,836,000	8%
\$50.00	33,671,000	16%
\$75.00	50,507,000	23%

If applied to water service, EDU's of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

How are benefit assessments different than property-related fees?

As discussed in Chapter 1, the analytical requirements and process for setting assessments and property related fees is very similar. The only significant difference is that property-related fees have the added option of being approved by *two-thirds of the voters* rather than *majority property-owner* approval. Additionally, approval of property-related fees is "one parcel, one vote," whereas special assessment votes per parcel are weighted by the relative amount of the assessment obligation.

Do the benchmark agencies have assessment districts?

While assessment districts are widely used by cities, counties and special districts throughout the State, none of the benchmark agencies have assessment districts.

BENEFIT ASSESSMENT DISTRICTS

What is the legal authority for assessment districts

There are at least 18 separate “Acts” governing assessment districts dating back to 1909 (such as the Landscaping and Lighting Maintenance District Act of 1972, Fire Suppression Act and Pedestrian Mall Law of 1960) and Park and Playground Act of 1909); however, the provisions of Proposition 218 override all these.

To start the assessment proceedings, the District must prepare an engineering report by a registered professional engineer. For maintenance services, this includes a description of the work to be accomplished in the following fiscal year, an estimate of the costs for this work, a diagram of the assessment district and the method apportioning costs among specific parcels within the district based on benefit. The Board must then adopt a resolution of intention to establish the assessment district and levy assessments, and to announce a public hearing.

An assessment ballot is then conducted, and majority approval by those responsible for paying the special assessments, weighted by each property owner’s benefit obligation, is required (based on those voting). In this case, the vote is not by “secret ballot,” since the weight (and right to vote to begin with) must be determined publicly. These elections can be held at any time.

How are these revenues collected?

As noted above, they are collected by the County on the secured property roll based on information provided to them by the District.

How would this added revenue affect the diversity and stability of the District’s revenue base?

Assessments are a very stable revenue source and would reduce the District’s reliance on water service charges.

When could these assessments take effect?

Initially establishing a district is time-consuming; and if approved, collection of assessments would be scheduled to start with a new fiscal year.

PROPERTY-RELATED FEES OTHER THAN WATER RATES

What are “property-related” fees?

Under Proposition 218, user fees fall into two general categories: property-related fees and non-property related fees. As discussed below, the main difference between the two is approval requirements: property-related fees (except for water, sewer and trash service charges: these can be approved by the governing body) require some form of voter approval, whereas non-property related fees can be approved by the Board.

Other than water, sewer and trash service charges (which can be adopted by the governing body), fees that are levied as “an incidence of property ownership” (just because you own property) require majority approval by the property owners that will have to pay the fee; or at the agency’s option, by a two-thirds vote of the electorate residing in the affected area. Additionally, there must be a “proportionality” between costs and benefits. Lastly, property-related fees for services generally provided to the public, such as police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners, are not allowed.

Based on the California Supreme Court “Bighorn” ruling in 2006, water, sewer and trash services are also considered property-related fees. However, they are not subject to voter or property owner approval. On the other hand, they are subject to the substantial procedural and protest provisions of Proposition 218.

The District could use property-related fees for any of the services it provides. However, while the District could conceivably pursue property-related fees for water service, using its water rate-setting authority is a much simpler path. Accordingly, the most likely use of property-related fees is for the District’s flood protection services.

How are property-related fees different than benefit assessments?

As discussed in Chapter 1, the analytical requirements and process for setting assessments and property-related fees is very similar. For this reason, assessment districts are more commonly used in funding special services than property-related fees. The only significant difference is that property-related fees have the added option of being approved by two-thirds of the voters rather than majority property-owner approval. Additionally, approval of property-related fees is “one parcel, one vote,” whereas special assessment votes per parcel are weighted by the relative amount of the assessment obligation.

The most common use of property-related fees has been the formation of storm water utilities and establishment of enterprise funds financed by fees, much like water and sewer.

Does the District set any property-related fees now?

Other than water rates, which are not subject to the voter approval requirements of Proposition 218, the District does not have any property-related fees.

Who would pay these fees?

The owners of property benefitting from the service.

PROPERTY-RELATED FEES OTHER THAN WATER RATES

How much could the District realize from these fees?

This depends on the nature and scope of services that would be funded from property-related fees. Within the property owner approval framework of Proposition 218 and its other procedural requirements, there are a wide range of services that could be funded with property-related fees. As discussed above, setting such a fee requires a detailed evaluation of costs and benefits in assuring that there is “proportionality” between the benefits that each property owner would receive and the amount that she or he would pay. However, using the “equivalent dwelling unit” (EDU) basis presented in the “Parcel Taxes” section as an example, the following presents possible property-related fees that would generate between \$17 million and \$50 million annually.

Per EDU	Annual Revenues	Water Rate Offset
\$25.00	\$16,836,000	8%
\$50.00	33,671,000	16%
\$75.00	50,507,000	23%

If applied to water service, EDU’s of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

What authority is required to increase these fees?

Setting or increasing property-related fees requires majority owner approval or two-thirds voter approval.

How can these revenues be used?

They can only be used to offset the costs of providing the service or making capital improvements, including both direct and indirect costs.

How are these revenues collected?

Property-related fees can be billed to users (typically “piggybacked” onto water and sewer bills) or collected on the property tax roll.

How would this added revenue affect the diversity and stability of the District’s revenue base?

Depending on their structure and collection method, these can be very stable revenue sources; and would reduce the District’s reliance on water service charges.

When could an increase be effective?

For property-related fees, this is typically a six to eighteen-month process in preparing the analysis, presenting it to stakeholders and then proceeding with the public hearing and voting process. Implementation afterwards will depend on the collection approach: if piggybacked onto water and sewer bills, implementation can follow shortly after approval. However, it is not clear how the District would bill for this service. If collected with the property tax roll, it will need to be coordinated with the County’s procedures for fiscal year following adoption.

MELLO-ROOS SPECIAL TAX DISTRICTS

What are Mello-Roos special taxes?

They are special taxes set through “Community Facilities Districts” (CFD’s). While they are typically formed to provide services or capital improvements to new developments (when there is usually just one “voter”—the developer/land owner), they can be formed on an agency-wide basis in already developed areas as well. Depending how they are structured when approved, Mello-Roos special taxes can pay for operations and maintenance as well as capital improvements.

Background. If there are twelve or more registered voters in the CFD, approval by two-thirds of the registered voters is required. However, if there are fewer than twelve registered voters, the CFD formation vote is by the property owners in the agency. In this case, property owners have one vote for each acre of land they own in the CFD. For this reason, Mello-Roos CFD’s are typically used in financing improvements and services for new development.

Why is this an appropriate funding source for the District?

Forming Mello-Roos districts to cover the cost of facilities and services for new development is a strategy used by many local agencies to ensure that new development “pays its own way.” In newly developed areas, the cost of all additional police, recreation, parks and flood protection operating services could be covered through Mello-Roos taxes. Likewise, all additional facilities needed, like street, parks water infrastructure, fire station and flood protection projects, could be financed by these levies.

However, this potentially sets up two classes of local agency residents—those who receive what may be perceived as general agency services based on the general-purpose tax and fee revenues they pay, and those who must pay an additional premium for those same services.

Nonetheless, many local agencies have moved to this out of fiscal necessity. The revenue impact of this is difficult to assess, since it would depend on what services were subject to the special Mello-Roos tax. However, as discussed above, this would require the concurrence of the property owner in establishing this special tax district (assuming there are less than twelve registered voters in the District) before the start of construction.

For existing development, parcel taxes (or other special) taxes may be a simpler approach in achieving the same goal (with the same two-thirds voter approval requirement) than forming a Mello-Roos District. Accordingly, the discussion of parcel taxes conceptually covers the use of Mello-Roos Districts for existing development.

Is this tax in place at this time?

No.

Who would pay this tax?

The owners of property within established CFD’s.

MELLO-ROOS SPECIAL TAX DISTRICTS

Who would administer this tax?

The District would have to initially establish the CFD's and the structure of the tax. The tax would be collected on County tax bills in the same way ordinary ad valorem property taxes are collected.

How much additional revenue could the District realize from these taxes?

The revenue impact of this is difficult to assess, since it would depend on what services were subject to the special Mello-Roos tax. However, the "conventional wisdom" is that special taxes (and any other special assessments or tax rates) should not result in a total tax liability that is greater than 2% of assessed value (or 1% more than the 1% general-purpose tax limit under Proposition 13).

- For new development, the amount generated depends on the cost of the facilities needed to serve it and any ongoing operating and maintenance costs that the CFD will be responsible for.
- For existing development, using the "equivalent dwelling unit" (EDU) basis presented in the "Parcel Taxes" section as an example, the following presents possible CFD taxes that would generate between \$17 million and \$50 million annually.

Per EDU	Annual Revenues	Water Rate Offset
\$25.00	\$16,836,000	8%
\$50.00	33,671,000	16%
\$75.00	50,507,000	23%

If applied to water service, EDU's of \$25 to \$75 per year would provide water rate offsets – either reductions from current rates or mitigations of future rate increases – of 8% to 23%.

What other local government agencies impose Mello-Roos special taxes?

Many cities, counties and special districts throughout the State have formed Mello-Roos Districts, almost exclusively to finance infrastructure, facilities and services related to new development.

None of the eight benchmark agencies have implemented CFD's.

What authority is required to implement this tax?

Although Proposition 13 severely limited ad valorem property taxes in 1978, it included provisions allowing local governments to impose other special property taxes with a two-thirds vote of qualified electors affected. The Mello-Roos Community Facilities Act set up the mechanisms for local governments to levy these special taxes.

Establishing a CFD can start by legislative action or by petition of registered voters or property owners. Once a CFD is proposed, the Board must adopt a resolution of intention,

MELLO-ROOS SPECIAL TAX DISTRICTS

hold a public hearing, adopt a resolution of formation and then put the issue to an election of qualified voters within the CFD. The proposition may be included on a general or special election ballot, or the election may be conducted by mailed ballot.

- If there are twelve or more registered voters, the tax must be approved by two-thirds of the votes cast.
- If there are fewer than twelve registered voters, the district vote is by the property owners in the district. In this case, property owners have one vote for each acre of land they own in the District.

If approved under either scenario, the governing body must then adopt an ordinance in order to levy the tax.

Although legislation allows wide flexibility in apportioning Mello-Roos taxes, they may not be assessed in proportion to the value of real property within the CFD, since Proposition 13 specifically precludes additional ad valorem taxation except for voter-approved indebtedness. Accordingly, Mello-Roos taxes are typically based on development density, “equivalent dwelling units,” per parcel, square footage or acreage.

How can these revenues be used?

They can pay for either services or capital facilities. Allowable services are narrowly defined: only additional services beyond those already provided are eligible. and these services can only be in the following areas: police protection, fire protection, recreation and flood protection. Capital facilities may be special benefit facilities such as streets, water, sewer and drainage facilities or general benefit facilities like parks, police stations or administration buildings.

How are these revenues collected?

This tax would be collected by the County on the secured property tax roll.

How would this added revenue affect the diversity and stability of the District’s revenue base?

Special taxes like Mello-Roos collected on the property tax role are a very stable revenue source; and would reduce the District’s reliance on water service charges.

When could Mello-Roos taxes take effect?

At the earliest, the CFD could become effective 150 days after adoption of a resolution of intention. Revenues would then be collected the following fiscal year.

DEVELOPMENT IMPACT FEES

What are development impact fees?

The District can set impact fees at any level that will fully offset (but not exceed) the cost of constructing capital improvements needed to serve new development. In general, development impact fees can fund a broad range of public facilities, including water, sewer, transportation, parks, cultural facilities, community centers, civic center improvements and public safety facilities. Detailed procedures for developing and collecting impact fees are set forth in Government Code Section 66000 (commonly referred to as “AB 1600”). The key requirement is that there must be a “nexus” between the fee and the cost of facilities servicing the new development.

Why is this an appropriate District funding source?

Many communities have policies that new development should pay its fair share of the cost of building new facilities and infrastructure needed to service it. Development impact fees are one of the key tools used by local agencies throughout the State in implementing this type of policy.

Are development impact fees in place at this time?

No. The District has not adopted development impact fees.

Who pays this fee?

New development projects are responsible for paying this fee, typically at building permit issuance.

Can local agencies set their rates?

Yes. Within the guidelines of AB 1600, local agencies have discretion in setting development impact fees.

How much revenue would development impact fees generate?

This depends on the costs of new facilities needed by new development and resulting fee structure. Developing the detailed analysis required under AB 1600 is beyond the scope of this study. However, the following is a high-level, order-of-magnitude assessment of the revenue potential of development impact fees.

Capital improvements. Over the next ten years, the District’s water utility currently envisions the need to fund \$2.2 billion in capital improvements (CIP). While most of these will be needed to meet the needs of existing development, a portion will likely benefit new development. A comprehensive impact fee study would closely assess this and then assign benefit based on land-use type (residential, commercial, industrial, institutional) in setting fees. However, a high-level assessment can be developed by allocating CIP costs between current and new development based on projected growth.

Population growth. As reflected in the chart below, the population in Santa Clara County has grown by 12% over the past ten years: about 1% per year. Based on the parcel tax data base, there are about 650,000 “equivalent dwelling units” (EDU’s) in the District. Assuming the same level of growth for the next ten years (12%), there will be 80,600 new EDU’s in ten years.

DEVELOPMENT IMPACT FEES

This results in 730,000 total EDU's at the end of ten years, with new development accounting for 11% of total EDU's.

Current EDUs	650,000
Ten-Year Projected EDUs	80,600
New EDUs	730,600
Percent New Development	11.0%

If the ten-year CIP is \$2.2 billion, the portion attributable to new development (11%) is \$242,704,000.

Allocating this cost over the 80,600 new EDU's results in an estimated single-family residential (SFR) equivalent of \$3,011. If the new EDU's are evenly incurred over the next ten years, that will result in about \$24 million in annual revenues. If applied to water service, this would result in water rate offsets – either reductions from current rates or mitigations of future rate increases – of about 11%.

Do the benchmark agencies have development impact fees?

Yes. As summarized below, five of the eight benchmark agencies have adopted development impact fees, ranging from \$1,527 per SFR in Inland Empire Utilities Agency to \$40,777 in the Zone 7 Water Agency (Livermore-Amador Valley area). This raises between \$3 million (Calleguas) and \$40 million annually (Zone 7). In most cases, it results in significant water rate mitigation.

	2016 Revenues*	% Total Revenues	SFR Rate Per Unit
Calleguas Municipal Water District	\$2,989	2.3%	\$2,235
Contra Costa Water District	-	-	-
East Bay Municipal Utilities District	-	-	-
Inland Empire Utilities Agency			
Water	997	0.5%	1,527
Wastewater	24,910	13.0%	6,671
Metropolitan Water District	-	-	-
San Diego County Water Authority	15,839	2.6%	5,250
San Francisco Public Utilities Commission			
Water	2,057	0.2%	1,859
Wastewater	7,244	0.8%	5,006
Zone 7 Water Agency, Alameda County Water District			
Water	39,135	32.8%	40,770
Flood Protection	7,409	6.2%	\$1/sq ft of imperv surf

* In thousands

Santa Clara County Population	Population	Percent Increase
2017	1,938,180	0.8%
2016	1,922,619	1.0%
2015	1,903,209	1.3%
2014	1,879,196	1.2%
2013	1,856,416	1.5%
2012	1,828,486	1.4%
2011	1,803,362	1.2%
2010	1,781,427	0.8%
2009	1,767,204	1.1%
2008	1,747,912	1.3%
2007	1,725,066	
Last Ten Years		12.4%

January 1 Each Year

DEVELOPMENT IMPACT FEES

What authority is required to implement these fees?

Subject to the requirements of AB 1600, these fees can be adopted by the Board.

How can these revenues be used?

They can only be used to fund capital improvements needed to serve new development.

How are these revenues collected?

For wholesalers like the District, these are typically collected by the contracting water retailers and remitted monthly. Establishing this collection arrangement would require the cooperation of the District's customers.

How would this added revenue affect the diversity and stability of the District's revenue base?

As a new revenue source, these would strengthen the District's revenue diversity. However, development-related revenues can be highly volatile depending on the new construction market.

When could this new fee be effective?

Based on experience in other local agencies, it is likely to take six to twelve months to develop the fees and engage stakeholders. When they are ready for Board consideration, 45-days' notice is required for the public hearing; and fees cannot go into effect until at least 60 days after adoption.

HIGHER COST RECOVERY: FOCUSED SERVICES

What is higher cost recovery for focused, non-property related services?

Under Proposition 218, user fees fall into two general categories: property-related fees and non-property related fees. As discussed below, the main difference between the two is approval requirements: property-related fees (except for water, sewer and trash) require some form of voter approval, whereas non-property related fees can be approved by the Board.

This is one of the few remaining areas where the Board has discretion in setting fees focused services that help offset water service charges, taxes and special assessments.

Why is this an appropriate District funding source?

It is appropriate for those who receive focused services, such as well and encroachment permits, to pay for the cost of that service.

Is this revenue in place at this time?

Yes. The District collects user fees for a broad range of services such as rentals, well permits and encroachment permits as well as miscellaneous fees such copying charges.

Who pays these fees?

The users of the service are responsible for paying these fees.

Can the District increase non-property related user fees?

Yes. Along with water service charges, the Board is authorized to set non-property related fees without some form of voter approval. Proposition 218 exempted development review and impact fees under “AB 1600” (Section 65000 of the Government Code) from its provisions. Additionally, there is consensus that many fees charged by local agencies – such as recreation fees and police reports – are not subject to Proposition 218 voter approval or other procedural requirements since they are typically based on voluntary use, not property ownership. However, some fees for non-property related services will likely be subject to Proposition 26, which was adopted by the voters in November 2010 and amended Article XIII A of the State Constitution. Among other changes, it limits regulatory fees to the reasonable cost of providing the service for which they are charged.

How much revenue would an increase generate?

Since these types of fees are less than ½% of total District revenues, the likely impact is very minor.

Performing a comprehensive cost of services study for these types of special service fees can be a major undertaking on its own and is beyond the scope of this study. However, rental charges and for fees for special services like well permits, encroachment permits and copying charges are less than ½% of the District’s total revenues. Accordingly, while periodic review of these types of charges to ensure that they fully recover service costs (including indirect costs) is a prudent business practice, even large increases in these fees (if warranted) will not have a significant offsetting impact on water rates or other major funding sources.

HIGHER COST RECOVERY: FOCUSED SERVICES

What authority is required to increase these fees?

The Board is authorized to set user fees for non-property related services.

How can these revenues be used?

They can only be used to offset the costs of providing the service, including both direct and indirect costs.

How are these revenues collected?

Non-property related user fees are typically collected by the operating department before providing services.

How would this added revenue affect the diversity and stability of the District’s revenue base?

Due to the likely minor revenue increase, it will have a corresponding minor impact on revenue diversity and stability.

Do the benchmark agencies have “other” service charges.

Yes. As summarized below, all of the benchmark agencies have minor, non-property related service charges. However, like the District, these play a very small role in their services.

Other Non-Operating Income

	2016 Revenues *	% of Total Revenues
Calleguas Municipal Water District	\$2,321	1.8%
Contra Costa Water District	244	0.2%
East Bay Municipal Utilities District	15,050	2.6%
Inland Empire Utilities Agency	8,762	4.6%
Metropolitan Water District	4,863	0.3%
San Diego County Water Authority	13,664	2.3%
San Francisco Public Utilities Commission	50,219	5.8%
Zone 7 Water Agency, Alameda County Water District	22	0.0%
Santa Clara Valley Water District	1,170	0.3%

* In Thousands

When could an increase be effective?

For non-property related fees, increases can usually be effective upon adoption. However, depending on the fee, 30 to 90 days is typical to ensure a smooth transition to the new fee.

GENERAL OBLIGATION BOND SPECIAL PROPERTY TAX

What is a general obligation bond special property tax?

This is an increase in the property tax rate, levied against the assessed value of properties, in excess of the “1% of market value” limit under Proposition 13, in order to fund the repayment of general obligation bonds for capital improvements. It was authorized by Proposition 46 in 1986, which amended Proposition 13 to allow for general obligation bonds by local governments with two-thirds voter approval.

District limitations. While special districts, including water districts, are authorized to issue general obligation bonds (and many throughout the State have), the District Counsel has deep reservations about the District’s ability to do so given limitations in its enabling legislation. While it is likely that any ambiguities could be resolved via legislation, the District Counsel is also concerned that the District may be constitutionally constrained in doing so. Accordingly, if the District is interested in pursuing this option, further research (and possible clean-up legislation) would be required.

Background. Adopted almost 40 years ago in 1978, Proposition 13 does not allow an increase in general purpose property taxes above the “1% of market value” limit under any circumstances. However, subsequent amendments to this constitutional limit allow for increases in property taxes for voter-approved bonded indebtedness. The proceeds are restricted to specified capital improvements, and as such, cannot be used to fund operating costs.

Why is this an appropriate District funding source?

Along with several other intangible factors, property values reflect the kinds and level of services provided by the District, such as safe, clean reliable water, flood protection and effective stream stewardship. Additionally, essential infrastructure improvements funded by general obligation bonds are directly tied to property-related services, and as such, sharing the cost based on value is a reasonable approach. Lastly, this is a very broad-based revenue source that spreads the funding burden over local businesses and residents as well as out-of-area property owners.

Is this tax in place at this time?

No. The District does not have any voter-approved general obligation bonded debt funded by property taxes.

Who pays this tax?

Property owners within the District limits would pay this tax.

Can special districts increase their tax rate?

Yes, with two-thirds voter approval. But as noted above, there are caveats for the District.

Guidance provided by the State Treasurer as well as the Legislative Analyst’s Office shows that cities, counties and special districts have the ability (with two-thirds vote approval) to issue general obligation bonds supported by an increase in property taxes above the 1%

GENERAL OBLIGATION BOND SPECIAL PROPERTY TAX

limit set by Proposition 13. And many special districts – including water districts – throughout the State have issued general obligation bonds.

However, as noted above, the District Counsel has deep reservations about the District’s ability to do so given limitations in its enabling legislation. While it is likely that any ambiguities could be resolved via legislation, the District Counsel is also concerned that the District may be constitutionally constrained in doing so. Accordingly, if the District is interested in pursuing this option, further research (and possible clean-up legislation) would be required.

How much revenue would an increase generate?

This depends entirely on the amount of general obligation bonded debt that the District incurs. However, as an example, if the District funded one-half of its \$2.2 billion ten-year capital improvement plan via general obligation bonds, the annual debt service (assuming a conservative 4.75% interest rate and 20-year term) would be about \$86 million. With an assessed valuation of about \$388 billion, this would reflect a modest 2% increase above the current maximum general levy of \$3.9 billion. If applied to water service, this would result in water rate offsets – either reductions from current rates or mitigations of future rate increases – of about 40%.

Do special districts have general obligation bond property tax rates?

Many local agencies, including special districts, throughout the State of have passed general obligation bonds approved with two-thirds voter approval.

Only one of the benchmark agencies has issued general obligation bonds: the Metropolitan Water District. However, these were issued in 1966 (before Proposition 13 was adopted in 1978); and revenues from the special tax levy account for only about 1% of their revenues.

What authority is required to implement this tax?

General obligation bond property taxes require two-thirds voter approval. This election can be held at any time. However, the “conventional wisdom” is that revenue measures are more successful when placed before voters with general elections.

How can these revenues be used?

The proceeds from a general obligation bond are restricted to capital improvements as set forth in the ballot measure; and annual property tax revenues can only be used to pay for debt service on the bond issue.

How are these revenues collected?

- Proceeds from the bond issue would be placed with a trustee and disbursed as needed to pay for approved capital projects.
- Annual property tax revenues to pay debt service would be collected by the County along with other taxes and assessments on the property tax roll, and distributed to the District on the same remittance schedule.

GENERAL OBLIGATION BOND SPECIAL PROPERTY TAX

How would this added revenue affect the diversity and stability of the District's revenue base?

Property taxes revenues are typically a very stable revenue source; and while general obligation bond property taxes do not directly affect the revenue base or its diversity, shifting the burden for capital improvements to a stable revenue source has the effect of improving diversity.

When could an increase be effective?

An increase in property tax rates could be effective for the next tax year following voter approval and issuance of the bonds.

LOCAL OPTION SALES TAX

What is a local option sales tax?

Under the Bradley-Burns Uniform Sales and Use Tax Law, the cities and counties statewide levy an effective 1% sales tax rate. In addition to this, under Revenue and Taxation Code Sections 7251.1 and 7285.9 to 7285.92, a city, county and “other governmental entity authorized” are allowed to adopt a “local option” sales tax (transactions and use tax district) with voter approval. However, the tax must be wholly in the city, county or unincorporated area of a county. In short, no new reporting areas can be created.

District Limitations. It is important to note that as an “other governmental entity,” it would take special legislation to allow the District, even with two-thirds voter approval that would be required, to adopt this tax.

However, this is not unusual: there are 20 “other governmental entities” in California that have been authorized (subject to two-thirds voter approval) to levy local option sales taxes. However, to-date all of these have been transportation-related agencies (four of these are located in Santa Clara County: Santa Clara County Transit District: 0.5%; Santa Clara County Valley Transportation Authority: 0.5%; Santa Clara County VTA/BART: 0.125%; and Silicon Valley Transportation Solutions: 0.5%).

Accordingly, it would be unprecedented for a water agency to receive this authorization (although the District meets the geographic requirement, since its boundaries are coterminous with Santa Clara County).

There is no direct limit on the additional rate that an agency can levy; however, the combined local agency transactions use and tax rates cannot exceed 2.0% (for a current maximum countywide rate of 9.25%). However, based on supplemental legislation on case-by-case basis, there are exceptions throughout the State where the combined rate is higher. For the District, this would also be required: the County and four special agencies have a combined rate of 1.75%. The cities of San Jose and Campbell have a local option sales tax of 0.25%. As such, in these two cities, the rate is already at it the statutory limit, absent legislation allowing a higher rate.

Tax Base. While very similar, there are some differences in the tax base between the statewide and local option sales tax:

- The statewide “Bradley-Burns” sales tax is “situs” based: revenues are determined based on where the sale takes place.
- Local option sales taxes are based on where the purchase will be used.

For most retail purchases, there are no practical differences between these two tax bases. However, they result in significant revenue differences for large purchases where there is location information for the buyer via registration with the State, such as automobiles, boats and planes.

LOCAL OPTION SALES TAX

For example, where new car sales are a large component of an agency's total retail tax base due to sales to non-residents, local option revenues will likely be less than those from the statewide rate (even if the rates are the same), since the local option sales tax will only be collected from agency residents: no local option tax revenues will be collected from out-of-town buyers. (However, out-of-town buyers will pay the "statewide" local rate to cities and counties, since it is based on where the sale takes place). Conversely, where new car sales are not a significant part of the agency's retail base, local option revenues are likely to be about the same or higher.

Why is this an appropriate District funding source?

It would further diversify the District's revenue base by introducing a new revenue source rather than an increase in existing ones. Additionally, sales tax is broad-based, and generally reflects the ability of consumer to pay the tax. Because sales taxes do not apply to food, prescription medicines, housing or services, impacts to low income consumers are partially mitigated. Lastly, since it is already in place, there are no significant added costs or administrative effort required.

Is this tax in place today?

Not for the District. However, as noted above, the County, four special agencies and two cities in the county have adopted a local sales tax option.

Who pays this tax?

It is paid by consumers and collected by retail outlets.

Can special districts adopt a local option sales tax?

Yes, with authorizing legislation and two-thirds voter approval.

How much revenue would this tax generate?

This depends on the rate. Based on revenues from other special agencies in the County that have adopted a local option sales tax, a 0.125% (1/8%) rate would generate about \$50 million annually. If applied to water service, this would result in water rate offsets – either reductions from current rates or mitigations of future rate increases – of about 23%.

How does this compare with other agencies?

About 250 cities and counties have received voter approval for local option sales taxes throughout the State, in addition to 20 special agencies.

However, no water agencies (including the eight benchmark agencies) have adopted a local sales tax option.

LOCAL OPTION SALES TAX

What authority is required to implement this tax?

Along with enabling legislation, two-thirds voter approval is required.

How can these revenues be used?

They can be used for operations or capital improvements as set forth in the ballot measure.

How would these revenues be collected?

The State Board of Equalization is responsible for collecting and distributing this tax.

How would this added revenue affect the diversity and stability of the District's revenue base?

This would strengthen the District's revenue diversity and stability by introducing a new major funding source rather than increasing an existing one.

When could the increase be effective?

Following legislative approval, about six months would be required after its passage to coordinate its collection from local businesses by the State Board of Equalization, beginning with the start of a quarter. For example, if approved by voters in November 2018, the soonest it could be implemented is April 1, 2019. Given collection cycles and phase-in, new revenues are unlikely to be available for use until 2019-20.

③ PREPARING FOR A SUCCESSFUL REVENUE MEASURE

OVERVIEW

For the past forty years, California has been on the path to a new era of governance, with fundamental changes in the way that decisions are made. While this is occurring at all levels, it is perhaps most pronounced for local agencies, since they are the level of government closest to the people, and the one most susceptible to these changes. The following is a brief overview of this change and how it directly affects the District's ability to preserve its fiscal health while at the same time deliver current important clean water, flood protection and stream stewardship services and achieve capital improvement goals.

REPRESENTATIVE VERSUS DIRECT DEMOCRACY

One of the major “mega-trends” affecting governance in California is a fundamental change in the way that decisions are made. Over the last forty years, there has been a decided shift from “representative democracy” to “direct democracy,” especially in local government finance.

Proposition 13 did not start this trend, but it certainly resulted from it. Since its passage almost forty years ago in 1978, there have been an increasing number of citizen-approved limits on the ability of elected officials at the local level to make resource decisions on behalf of the community, including Propositions 4, 218, 62 and 26 as part of a long line of expenditure and revenue limitation ballot measures.

There are several possible explanations for this change:

- Lack of leadership (or at least the perception) by elected and appointed officials on important issues to the nation, state and community.
- Increasing distrust of government in general.
- Loss of community identity (and support) as places of work and home have become increasingly separated.
- Increasing frustration with the inability to affect government at the state and federal level, and an over-compensation at the one level – local government – where voters feel they can make a difference.
- Improved information about public issues, resulting in less reliance on others to make decisions on our behalf.
- Increased influence of highly-organized and well-financed special interest groups through the initiative process.

Whatever the reason, the reality is that there has been a major shift to direct citizen decision-making in a broad range of issues previously thought to be too “technical” for this. While this has occurred in a number of areas such as insurance and campaign financing, it is especially prevalent in “ballot box budgeting.” Citizens are no longer willing to give their proxy on financial issues to elected officials, or to their interest group representatives

③ PREPARING FOR A SUCCESSFUL REVENUE MEASURE

on “blue ribbon” committees. Local government finance is an issue they want to decide directly for themselves.

How does this shift affect the District’s long-term fiscal health? Stated simply, the District will need broad-based community support – in evidence on Election Day – to implement most new revenue sources. In this new model of direct democracy, creating support among elected officials and community leaders – even if it broadly crosses a number of interest groups – is no longer enough.

And based on the experience of other local agencies – including the District – achieving this support at the *ballot box* (the only place it matters) requires two key ingredients: a compelling vision of how the new revenues would be used; and an effective way of communicating this vision to likely voters.

PROSPECTS IN THE POST PROPOSITION 218 ENVIRONMENT

Under Proposition 218 adopted in November 1996, the ground rules for municipal finance were fundamentally changed. In short, any major, broad-based revenue program will require some form of voter approval. In the case of tax revenues, majority voter approval is required for general-purpose taxes (this option is available only to cities and counties); and two-thirds voter approval for special taxes (all taxes levied by special districts are considered “special taxes”). Assessments are still possible for selected services; however, they are limited in the kinds of services that can be funded through them (these typically fall into more traditional services such as streets, sidewalks and sewers where costs and benefits can be closely linked); and there are rigorous “assessment ballot” procedures. Any form of wide assessment district with simple apportionment factors is virtually prohibited.

Limited Opportunities for the Board to Increase Revenues

As discussed in Chapters 1 and 2, there are a limited number of areas where revenues can be raised by the Board without voter approval, such as water service charges, development impact fees and very minor, “non-property tax related” fees. Along with these, grant revenues and enhanced economic development efforts can also play a role in augmenting local government’s fiscal capacity. However, grant programs are few and far between; and those that remain are more competitive than ever. Moreover, they are focused (appropriately) on the goals and priorities of the granting agency, which may not be the same as the local agency’s. For this reason, while they can be important in enhancing District projects and in providing funding for “pilot” programs, grant revenues cannot be relied upon as a long-term financing source for high-priority programs and projects.

The same is true for even the most successful economic development programs: these are long-term programs, which can typically take five to twenty years before a community sees the benefits; and the results can never be guaranteed. While the District can be a partner in local economic development efforts, ultimately a healthy economy depends on successful private sector market decisions, which the District (nor any other local agency) does not control.

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Paramount Need for Broad-Based Community Support

Other than these limited resource options, the District will need strong community support – in evidence on election day – for anything else it does in implementing any significant new or increased revenue sources.

Intensive, Community-Based Program Required for Success. Communities in California have been successful in generating broad-based voter support for new revenues when:

- There has been a major community-wide focus on desired programs. In these cases, revenue increases have followed these “visioning” efforts, not driven them.
- There are serious fiscal or service problems of crisis proportions.

Although they were driven by very different factors – hopes versus fears – all of these successful efforts share one thing in common: they were the result of extensive community-based efforts, which included a combination of outreach tools and professional assistance to use them effectively such as:

- Focus groups.
- Professionally conducted, scientific surveys.
- Town hall meetings.
- Direct mailings and/or newspaper inserts – “community budget-building” exercises.
- Strong follow-on advocacy group for ballot measure support.

Based on the experience of many local government agencies throughout the State, if the need is compelling and it is effectively communicated, this effort is likely to be successful. However, it requires commitment, resources (more on this later), time, and most importantly, a strong community-based advocacy group that will aggressively raise funds and campaign for the issue once it is on the ballot.

This last issue cannot be stressed enough. Under State law, local agencies have broad discretion in using their funds for professional assistance in researching issues, conducting surveys, and developing voter support strategies. However, once an issue becomes a formal ballot measure, local agencies cannot participate as an advocate in any way. In short, unless there is a strong community-based group who is willing to aggressively raise funds and campaign for the measure, it is not likely to pass.

ELEMENTS OF A SUCCESSFUL REVENUE MEASURE

There are three major steps that have been successfully used by local agencies throughout the State in preparing for a successful revenue measure:

- ***Feasibility Assessment.*** Conduct public opinion research and assess the likelihood of a successful revenue measure.

③ PREPARING FOR A SUCCESSFUL REVENUE MEASURE

- **Education Program.** If the public opinion research is favorable, develop and implement an educational campaign on why new revenues are needed.
- **Ballot Measure.** Place the measure on the ballot *if* there is a community-based group that will aggressively campaign for its passage.

The following further summarizes the components of each of these steps. It is important to stress that while the District can take the lead on these three tasks in preparing for a possible ballot measure, once it is placed on the ballot it can no longer be an active participant in the process or commit District resources to its passage in any way. For this reason, even if the results of the first two steps may have been positive, placing the measure on the ballot should only occur if a community-based group has emerged that will campaign for its passage.

Feasibility Assessment

The first step many agencies have taken in assessing the feasibility is to hire a qualified team of a public opinion research firm and a public outreach/education advisor. The results of the public opinion research are invaluable in assessing at the very beginning if there is adequate voter support for a new revenue measure. While support can subsequently be built (or maintained) through an education program, if there is very low support initially, an education campaign is unlikely to be successful in gaining voter support on Election Day.

The public opinion survey will typically surface three key issues:

- ***How does the community feel about the agency and the services it delivers today?*** The experience from revenue measures in other communities show that it is very difficult to gain voter support for new revenues where there isn't already a high level of satisfaction with agency services and trust in its governance. In short, if voters do not feel that current revenues are being used wisely, they are not likely to approve more.
- ***What programs and projects are most likely to attract voter support?*** What do voters see as the biggest problems facing the agency and would be likely to approve additional funding? What messages would be most effective regarding the need for additional revenue resources? On the other hand, which service areas are least likely to attract voter support? And what are the reasons why voters would not support a revenue measure?
- ***What revenues would voters most likely support?*** As discussed in detail in Chapter 2, there is a wide range of new revenue options available to the District. Which of these is most likely to attract the most voter support? And how does support change based on the rate and level of revenue generated? In the final analysis, each of these revenue options has underlying philosophical reasons that might make them desirable, such as added revenue diversity, stability or shifting the revenue tax burden to non-residents. However, the best candidate for a successful measure is probably the one that voters are the most supportive of at the outset.

③ PREPARING FOR A SUCCESSFUL REVENUE MEASURE

From the results of this research, the local agencies can evaluate the feasibility of a revenue measure; and if it is, determine the elements of an effective education program (which is the next step).

This step will take 60 to 90 days. Scientific public opinion research like this typically costs about \$25,000.

Public Information Program

Before placing a measure on the ballot, this next step is essential in communicating the need for additional revenues to likely voters. Possible elements include:

- Refining the new revenue purposes and uses.
- Selecting the financing mechanism.
- Developing and implementing a public education program.
- Conducting additional survey research (tracking poll) to assess shifts in support.

Refining the Measure

Based on the result of the public opinion survey, local agencies need to decide which items to fund in the measure. This includes making a key strategic decision: should this be a majority or two-thirds voter approval measure? As discussed more fully in Chapters 1 and 2, general-purpose tax measures, available only to cities and counties, only require majority voter approval, while special taxes (keeping in mind that all taxes levied by special districts are considered “special taxes”), where the proceeds are restricted as to their use by cities and counties (and all uses by special districts), require two-thirds voter approval.

On its surface, passage of a majority voter approval measure would appear “numerically” easier; however, since its proceeds cannot be earmarked for a specific purpose, it can be difficult to communicate the need for the measure, when in essence it calls for raising taxes for no particular reason. On the other hand, while it is obviously a greater challenge to gain two-thirds than majority voter approval, it has the advantage of communicating a more focused (and compelling) reason for added revenues.

However, regardless of whether it is a majority or two-thirds measure, a local agency needs to communicate a compelling reason for why it needs added revenues.

Developing Key Messages

Once the agency has determined the basic strategy (majority or two-thirds voter approval) and refined the funding items, assigned costs and selected a funding mechanism, key messages are developed that:

- Address the need for such a measure, and why now—make the case that this is a necessary, responsible fiscal plan.

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- If a two-thirds measure, include specifics of the items to be funded.
- Establish protections for ensuring money will be spent responsibly, such as outside audits, sunset provisions or citizen’s oversight committee.

Building Community Support

Opinion Leaders. Depending on the funding mechanism and uses identified for the measure, building community consensus is essential. Early in this process, key constituents, stakeholders, business leaders and other public officials should be contacted and their support, questions or opposition evaluated. This also begins to identify possible members of the community-based group that will be essential later in advocating for passage of the measure.

Public Information Program. An effective public information program often includes the following communications components:

- Personal meetings with external “Opinion Leaders” to educate them on the funding needs contained in a possible measure and obtain input.
- A series of non-partisan, information-only mailings to Opinion Leaders, again about the agency’s funding needs.
- A series of non-partisan, information-only mailings to constituents determined by the public opinion survey as needing more information about the agency’s funding needs.
- A “free media” plan that includes (but is not limited to): non-partisan guest columns, “op-eds” and stories in neighborhood newsletters or other local outlets about the agency’s funding needs.
- Where appropriate, “fixed site visibility” activities where constituents and/or agency representatives table or otherwise distribute non-partisan information about a potential revenue measure.
- A speaker’s bureau primarily led by constituents to make presentations to key community organizations as needed.

As part of an agency’s media/communications plan, information-only fact sheets, brochures, letters, newsletters and guest columns are developed for mailing and distribution. Where time permits, these communications seek citizen input in an “interactive” manner.

Ideally, before placing a revenue measure on the ballot, the agency’s public information program has:

- Shifted public opinion further towards support of a possible revenue measure.
- Yielded letters and cards providing it with guidance on how to further refine the measure.
- Answered questions about its funding needs.

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- Generated greater community awareness before taking action to place a revenue measure on the ballot.

Additional Public Opinion Research

Following the public information program, the agency might consider conducting another scientific public opinion survey—an abbreviated version also known as a “tracking poll”—just before placing the measure on the ballot. The purpose of this tracking poll is a final “litmus test” in ensuring that there is substantial voter approval at this point and to confirm financial thresholds: that the agency is not asking for too little or too much money for the measure.

Conducting a tracking poll close to the time that the agency makes a final decision in going forward with a ballot measure is the final opportunity to evaluate where the electorate is, and to make adjustments in the measure as necessary—including not going forward at all.

Timing and Implications of Other Ballot Measures and Issues

If the measure is for general-purpose revenues (majority voter approval), then it must be held in conjunction with governing body elections (unless it unanimously declares an emergency). A two-thirds voter approval election can be held at any time, although the “conventional wisdom” is that revenue measures are more successful when placed before voters with general elections.

Cost and Timing

An effective public information program will take 90 to 180 days. Cost will depend on the scale of the outreach effort, such as direct mailings, tracking poll and professional assistance in preparing the public information program.

Placing the Measure on the Ballot

The agency’s final action is to place the item on the ballot. As noted above, local agencies cannot commit any resources in advocating for its passage. Because of this, even if all the other factors to-date have been favorable, the agency should seriously consider not placing the measure on the ballot if by this time an effective community-based group has not emerged that will campaign aggressively for its passage.

TIMING

The following summarizes the general timing in preparing for a successful revenue measure:

③ PREPARING FOR A SUCCESSFUL REVENUE MEASURE

Task	Time
Select research/advisor team	30 to 90 days
Conduct public opinion research and evaluate results; make “go/no-go” decision in proceeding further.	60 to 90 days
If “go:” Develop and implement public information campaign.	90 to 270 days
Evaluate results and make decision on placing measure on the ballot.	30 days
If “yes:” Vote on measure.	90 to 120 days
TOTAL	10 to 20 Months

As reflected above, from the time a decision is made to seriously *consider* a revenue measure, 10 to 20 months are required to effectively prepare for one.

SUMMARY

Preparing for a successful revenue measure in this era of “direct democracy” requires an approach that engages voters in the decision-making process. Gaining this support—in evidence on Election Day—requires more than a compelling need: it also requires communicating this need in a compelling way.

And this requires effective preparation by the local agency—doing its homework, and allocating adequate time and resources to this endeavor—before placing a revenue measure on the ballot (which is within the control of the agency); and an effective community- based group that will campaign for its passage afterwards (which is not).

APPENDIX: CONSULTANT QUALIFICATIONS

SENIOR FINANCIAL MANAGEMENT

Bill Statler has over 30 years of senior municipal financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. *San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.*
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, *San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.*
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.
- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

CONSULTING AND INTERIM ASSIGNMENTS

Fiscal Forecasts and Long-Term Financial Plans

- City of Salinas
- City of Camarillo
- City of Carpinteria
- City of Grover Beach
- City of Bell
- City of Twentynine Palms
- City of Pismo Beach
- Bear Valley Community Services District

Strategic Plans and Council Goal-Setting

In collaboration with the HSM Team

- Strategic Planning: City of Monrovia
- Strategic Planning: City of Sanger
- Council Goal-Setting: City of Pismo Beach
- Council Goal-Setting: City of Willits

APPENDIX: CONSULTANT QUALIFICATIONS

Organizational Analysis and Policy Advice

- Pro Bono Financial Management Transition Team and Policy Advice: City of Bell
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Fund Accounting Review: State Bar of California
- Focused Financial Review: City of Watsonville
- Construction Project Contracting Review: Central Contra Costa Sanitary District
- Financial Assessment: City of Guadalupe
- Financial Condition Assessment: City of Grover Beach
- General Fund Reserve Policy: City of Lompoc
- General Fund Reserve Policy: City of Willits
- Reserve Policy: State Bar of California
- Budget and Fiscal Policies: City of Santa Fe Springs
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Finance Organizational Review: Ventura Regional Sanitation District
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)

Interim Finance Director

- City of Monterey
- San Diego County Water Authority
- City of Capitola

Other Financial Management Services

- Revenue Options Study: City of Greenfield
- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Greenfield
- Cost Allocation Plan: City of Guadalupe
- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Cost Allocation Plan Review: State Bar of California
- Cost Allocation Plan Review: City of Ukiah
- Disciplinary Proceedings Cost Recovery Review: State Bar of California
- Water and Sewer Rate Reviews: Avila Beach Community Services District
- Water and Sewer Rate Reviews: City of Grover Beach
- Solid Waste Rate Reviews: County of San Luis Obispo, Los Osos and North County Areas
- Joint Solid Waste Rate Review: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

APPENDIX: CONSULTANT QUALIFICATIONS

PROFESSIONAL LEADERSHIP

- Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Board of Directors, CSMFO: 1997 to 2001
- Member, GFOA Budget and Fiscal Policy Committee: 2004 to 2009
- Chair, CSMFO Task Force on “GASB 34” Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Conference: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter: 1994 to 1996

TRAINER

Provided training for the following organizations:

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- National Federation of Municipal Analysts
- Probation Business Manager’s Association
- California Association of Local Agency Formation Commissions
- Humboldt County

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Fiscal Health Contingency Planning
- Financial Analysis and Reporting
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- Transparency in Financial Management: Meaningful Community Engagement in the Budget Process
- What Happened in the City of Bell and What We Can Learn from It
- Debt Management

APPENDIX: CONSULTANT QUALIFICATIONS

- Preparing for Successful Revenue Ballot Measures
- Multi-Year Budgeting
- Integrating Goal-Setting and the Budget Process
- 12-Step Program for Recovery from Fiscal Distress
- Strategies for Strengthening Organizational Effectiveness
- Financial Management for Elected Officials
- Budgeting for Success Among Uncertainty: Preparing for the Next Downturn
- Top Challenges Facing Local Government Finance Officers

PUBLICATIONS

- *Guide to Local Government Finance in California*, Solano Press, Second Edition, 2017 (Co-Author)
- *Setting Reserve Policies – and Living Within Them*, CSMFO Magazine, May 2017
- *Presenting the Budget to Your Constituents*, CSMFO Magazine, July 2016
- *Planning for Fiscal Recovery*, Government Finance Review, February 2014
- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011
- *Fees in a Post-Proposition 218 World*, League of California Cities, City Attorney's Department Spring Conference, May 2010
- *Municipal Fiscal Health Contingency Planning*, Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)
- *Financial Management for Elected Officials*, Institute for Local Government, 2007 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western City Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

APPENDIX: CONSULTANT QUALIFICATIONS

HONORS AND AWARDS

- Cal-ICMA Ethical Hero Award (for service to the City of Bell)
- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Policies: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Leadership and Management Excellence
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors: University of California, Santa Barbara

Visit my web site for additional information at www.bstatler.com

