



## Staff Reports Details (With Text)

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**To:** Honorable Mayor and Members of City Council

**From:** Rick Tooker, Community Development Director

**Prepared By:** Lark Ferrell, Housing Manager

### **TITLE:**

Proposed Ballot Measure to Increase Transient Occupancy Tax to Fund Affordable and Workforce Housing

### **RECOMMENDED ACTION:**

Provide direction to staff on proposed City ballot measure to increase Transient Occupancy Tax by 1% to fund affordable and workforce housing.

### **DISCUSSION:**

#### **Background**

There is a critical shortage of affordable and workforce housing throughout California, including in the Napa Valley. Market rents and home prices continue to increase in Napa and now exceed what low- and even moderate-income households can afford. Vacancy rates remain extremely low. Employers report difficulties recruiting and retaining employees due in part to rising housing costs in the region. Affordable housing was identified in the City's 2016, 2017, and 2018 communitywide surveys as a top concern, and City Council has identified affordable housing as a top priority.

In 2013, an Affordable Housing Task Force, convened jointly by the City of Napa, City of American Canyon, and Napa County, issued a report with recommendations to help address the lack of affordable housing in the community. One of the recommendations was to have major industries help

fund housing. In Napa County, major sectors of employment include manufacturing, which is primarily wine or wine-related production, with over 12,000 workers, hospitality, including lodging, restaurants, and tasting rooms with roughly 11,700 workers, government and education with close to 11,000 workers, and health care and social services with over 8,000 employees.

Over the past several years, the City of Napa has implemented policies to increase affordable and workforce housing. These include:

- Making excess public land available for affordable housing
- Streamlining the approval process for housing projects (with a special emphasis on affordable projects)
- Allocating General Funds for affordable housing
- Increasing the affordable housing impact fees charged for both residential and non-residential development.
- Amending the City's Accessory Dwelling Unit Ordinance to make it easier to create second units
- Fast tracking/prioritizing applications for affordable housing
- Partnering with County of Napa to leverage local housing funds

These policies have helped to secure approvals of approximately 170 affordable units approved in the past year alone. However, the housing challenge cannot be solved by government alone.

### **Proposed Ballot Measure and Next Steps**

Visit Napa Valley (VNV) is the official tourism organization for the Napa Valley. It is primarily funded from assessments on lodging imposed through a Countywide Tourism Improvement District (TID). VNV's members employ a significant portion of Napa's hospitality workforce. Recently, with VNV's support, the County reallocated approximately \$340,000 per year from the County's Special Projects Fund, previously designated for destination marketing, to workforce housing. The discussions with the County on this topic led VNV to a deeper exploration of possible funding mechanisms for affordable and workforce housing. Based on these efforts, VNV is recommending a ballot measure be placed on the November ballot to approve a 1% increase in Transient Occupancy Tax (TOT) to fund affordable and workforce housing.

TOT is a tax levied on operators of "lodging properties" (which is defined to include any property where occupants dwell for 30 days or less, which includes hotels, inns, bed and breakfast inns, and vacation rentals). Each jurisdiction in Napa County, including the City of Napa, currently levies a TOT in the amount of 12% of the room rent charged by each lodging operator. The current TOT levied by the City is a general tax, deposited in the City's General Fund, which may be used for any general revenue purpose of the City.

In addition to the 12% TOT, lodging operators in Napa County supported the establishment of a Countywide assessment in the amount of 2% of the room rent charged by the lodging operator, which was approved by each local agency (including the City of Napa) and the County of Napa in 2010, and is imposed through the TID. The revenue from the Countywide TID assessment is used to fund tourism and destination marketing, with 74% of the revenue allocated to Countywide services, and

26% of the revenue allocated to the local agency in which the revenue is generated.

Therefore, lodging operators in Napa County currently pay a total of 14% of the room rent for TOT and the TID assessment. In addition to this current levy of 14%, VNV has proposed the establishment of an additional TOT of 1%, for a total of 15% of the room rent. The additional 1% TOT is proposed as a special tax, with revenue to be explicitly allocated to the limited purposes of funding services and programs for affordable and workforce housing (as summarized in this report). As a special tax, this would require a 4/5 approval from the City Council to place the measure on the ballot, and a 2/3 vote of the electorate voting in the election.

If Council authorizes placing this proposed 1% TOT special tax on the ballot, and if it is approved by 2/3 of the electorate, there would be an effective TOT rate imposed on lodging operators in the total amount of 15%. A comparison of charges levied on room rates in other destinations competing with Napa for business throughout the country found many other locations have comparable or higher rates. For example, levies total 17% in Anaheim/Garden Grove, 16% in Healdsburg 16%, 15% in Long Beach, and range from 15.3% to 16.75% in San Francisco. Based on discussions with several local lodging operators and comparisons of total levies in other destinations, VNV believes a 1% levy to be reasonable and supportable by the industry and VNV membership.

For the City of Napa, it is estimated that the 1% TOT would generate approximately \$2.1 million per year in new revenue for affordable and workforce housing. This funding would allow affordable housing projects to come on line more quickly. It could also provide funding for a segment of the population earning above 60% of the area median income sometimes referred to as the “missing middle.” After the statewide elimination of redevelopment agencies in 2012, the City lost a significant source of revenue to assist low- and moderate-income households. The City’s Housing Impact Fee program is currently structured to fund low-income households (80% of area median income, or below). However, because the City generally must leverage its funds with State and federal funding sources, in reality, the majority of housing projects are capped at 60% of area median income. Because of this, households earning above 60% often do not have access to affordable housing. Their only alternative is market rate housing, which at current rates is unaffordable to households even at moderate-income (120% of median) or above. Therefore, the proposed 1% TOT special tax would fund services and programs for the low-income households currently funded by the City’s Housing Impact Fee program, as well as “workforce housing” which will be defined to include households of up to “moderate income” units of up to 120% of the area median income. This approach is consistent with a similar ballot measure approved in 2016 in the City of Healdsburg.

If Council directs staff to prepare a ballot measure for the November 6, 2018 election, for a 1% TOT special tax to fund services and programs for affordable and workforce housing, as summarized in this report, staff will plan to return to Council at the regular meeting of June 19, 2018, with the proposed ballot measure. The June 19 Council item will also identify the other procedural steps for placing the measure on the ballot, including a resolution to request the County to consolidate the ballot measure with the General Municipal Election, approval of the ballot question, preparation of the impartial analysis, and preparation of ballot arguments. The deadline for placing an item on the November ballot is very tight; since Council will be required to approve the ballot measure, ballot question, and request the County to consolidate the consideration of the ballot measure with the November election by no later than August 10, 2018.

The request that VNV has made to the City of Napa, as summarized in this report, is also being made concurrently to all other local agencies in the County. Thus, if all local agencies in the County

obtained voter approval for a similar 1% TOT special tax, VNV estimates it would generate a total of approximately \$5 million in annual revenue to fund affordable and workforce housing.

VNV has offered to facilitate a public education campaign and has also offered to facilitate convening a committee of representatives from government officials, non-profit housing representatives, lodging representatives, and other local industry experts to work through details.

If Council directs staff to move forward on preparing a November 2018 ballot measure to approve a 1% TOT for affordable and workforce housing, staff will coordinate the City's efforts with VNV and the other local agencies.

**FINANCIAL IMPACTS:**

There are no financial impacts from the recommended action. However, if a ballot measure is placed on the November ballot and is approved by voters, it is estimated it would generate approximately \$2.1 million annually for affordable and workforce housing.

**CEQA:**

The Community Development Director has determined that the Recommended Action described in this Agenda Report is not in-and-of itself a "project" (pursuant to CEQA Guidelines Section 15378) since it does not result in a physical change in the environment. However, future actions may be subject to environmental review in accordance with CEQA at the "earliest feasible time" prior to "approval" consistent with CEQA Guidelines 15004 and 15352. The larger "project" would be future housing developments or programs funded by the TOT tax. Staff would bring back a CEQA analysis of that project prior to Council approving the housing developments or programs.

**DOCUMENTS ATTACHED:**

None

**NOTIFICATION:**

Visit Napa Valley, the County, and local housing advocates were notified of this agenda item.