



## Staff Reports

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**File #:** 1422-2018, **Version:** 1

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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:**

Transient Occupancy Special Tax for Affordable and Workforce Housing - Proposed for Voter Approval at the November 6, 2018 General Municipal Election

**RECOMMENDED ACTION:**

Approve first reading and introduction of an ordinance amending Napa Municipal Code Title 3 by enacting a new Chapter 3.22 to establish a one percent Transient Occupancy Special Tax for Affordable and Workforce Housing.

**DISCUSSION:**

Affordable and workforce housing has been identified as a high priority by both the community, in recent communitywide surveys, and by City Council. Market rents are becoming increasingly unaffordable for lower income households and median sales prices of homes are becoming out of reach for even moderate-income homebuyers. Employers have identified lack of affordable housing as an issue in recruiting and retaining employees. Visit Napa Valley, the official tourism organization for the Napa Valley, has asked each jurisdiction in Napa County to place a special 1% transient occupancy tax on the November 6, 2018 ballot to fund affordable and workforce housing. Currently, it appears the County of Napa, Town of Yountville, and the Cities of American Canyon, Calistoga, and Napa are each moving forward on this effort.

On May 15, 2018, after hearing a report on the proposed tax, City Council directed staff to prepare an ordinance to enact this one percent transient occupancy tax for affordable and workforce housing. Because this would be a special tax, with all revenue restricted to the sole purpose of providing programs and services for affordable and workforce housing, it would require a 2/3 voter approval in the November 6, 2018 election to go into effect.

The proposed 1% transient occupancy special tax ("TOT") would be levied on visitors at "hotels" (defined in the ordinance to include any property where occupants dwell for 30 days or less, which includes hotels, inns, bed and breakfast inns, and vacation rentals). It is estimated this new TOT would generate \$2.1 million per year to fund affordable and workforce housing in Napa.

This proposed 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 programs and services for the low-income households currently funded by the City's Housing Impact Fee program; as well as "workforce housing," defined to include households of up to "moderate income" units of up to 120% of the area median income (currently \$109,200 for a household of four).

Eligible activities under the proposed ordinance include the construction of new housing, the rehabilitation/renovation of existing housing, as well as the conversion of existing housing to affordable or workforce housing. The funds could be used to assist with rental and ownership housing.

### **Next Steps Following Introduction of the Ordinance.**

After introduction of the proposed ordinance, City staff will return to Council at the meeting of July 17, 2018, to recommend Council approval of the second reading of the ordinance, as well as all remaining steps required to place the ordinance before the voters as a ballot measure for consideration at the November 6, 2018, General Municipal Election. The additional steps include: (1) calling the City's General Municipal Election (including the election of two members of City Council, and the consideration of the TOT special tax ballot measure), and requesting the County to consolidate the City's General Municipal Election with the statewide general election, (2) approving the ballot question, (3) directing the City Attorney to prepare the impartial analysis, and (4) identifying who will be authorized to prepare the ballot argument for the measure and the ballot argument in rebuttal to the argument against the measure.

For the ballot question, prior to this Council meeting, City staff from each jurisdiction in the County reached a consensus on recommending approval of the following language:

**"To increase, improve, and preserve affordable and workforce housing in the City of Napa, shall an ordinance be adopted to levy an ongoing transient occupancy tax (hotel tax) of 1% on hotel charges to visitors of 30 days or less, increasing the maximum hotel tax rate from 12% to 13%, with all revenue from the new tax (estimated: \$2,100,000 annually) to be restricted to providing programs and services for affordable and workforce housing?"**

### **FINANCIAL IMPACTS:**

Subject to voter approval of the 1% transient occupancy special tax on November 6, 2018, the recommended action 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:**

ATCH 1 - Ordinance Enacting Transient Occupancy Special Tax

EX A - NMC Chapter 3.22 TRANSIENT OCCUPANCY SPECIAL TAX FOR AFFORDABLE AND WORKFORCE HOUSING

**NOTIFICATION:**

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