City of Mill Valley

Funding Options Available to the City

July 2023

Increased or new revenues are typically derived from taxes or fees on our residents, visitors, and businesses. Raising revenue through taxes requires voter approval. General taxes require a simple majority and special taxes (like our Municipal Service Tax) require a super majority (2/3 approval). There are also strict limits on the City's ability to recover expenses through charges for services or impact fees related to the actual cost of the activity or service. "Tax fatigue" should be a consideration given the various taxes, assessments, and fees the Mill Valley community members pay. Additionally, many valuable and effective programs and entities compete for tax dollars, and funding measures are a frequent item before our voters. Acknowledging the difficulty of increasing taxes or adopting a new tax, the following revenue enhancement options could be considered.

Transient Occupancy Tax (TOT): Our TOT rate is 10% on short-term stays. TOT rates vary around the Bay Area ranging from 10-16%. Sausalito has a 14% rate while others in Marin are typically at 10%. An additional 1% increase in our TOT rate would increase revenue about $100,000 annually. It should be noted that an additional 2% "assessment" is collected by hotels (about $200,000/year from Mill Valley businesses) and is provided to the Marin Visitors Bureau for regional tourism/visitor promotion. Exploring an increase in our local TOT rate and/or evaluating the benefit of the Visitors Bureau assessment are options to consider.

Sales Tax: Our sales tax rate of 8.25% is among the lowest for incorporated communities in Marin County (9.0% is the maximum allowed by State Law). We generate approximately $3.6 million through this tax. A ¼-cent increase would yield almost $900,000 in additional on-going revenue and ½-cent would generate about $1.8 million annually. Sales tax is subject to fluctuation based upon economic conditions and can be flat or decline during recessionary periods. Sales tax rate increases are the most regressive form of taxation, meaning they impact our most vulnerable community members, and also impact the vitality of our Downtown and local business districts.

Business License Tax: Like most cities in California, Mill Valley requires a license of our commercial uses (ranging from brick-and-mortar businesses, to home occupations, to short term rentals and traditional long-term dwelling unit rental). We issue more than 2,600 licenses each year and generate approximately $550,000 through our Business License Tax. An update of our Business License fee structure, consistent with best practices employed in other Marin communities, would greatly simplify the process for our businesses and staff and increase revenue by an estimated $220,000 per year.

Transfer Tax: Transfer Tax is paid upon the sale of real property and based on the sales price of the property. For cities that are General Law cities, like Mill Valley, there is a maximum tax that can be collected, and we are at that maximum. Current revenue typically ranges between $200,000 and $400,000 annually. If the City were to become a Charter City, the City could establish a significantly greater Transfer Tax. The Charter City initiative and the increased Transfer Tax would require a "simple" majority vote – meaning more than half of all ballots cast.

ATTACHMENT 3

General Obligation Bonds - General Obligation bonds give cities a tool to raise funds for capital improvement projects that are otherwise not funded by City revenue, such as roads, bridges, bikeways and urban trails and parks. As a result, General Obligation bonds are typically used to fund capital improvement projects that will serve the community. If voters approve a bond proposition on an election ballot, the City is authorized to sell bonds up to the amount indicated in the proposition language to fund capital improvement projects that meet the public purpose of that bond proposition. Requires two-thirds threshold to pass. If you have capital improvement or construction needs, this funding mechanism generally provides the most significant infusion of capital needed for your plan.

Special Districts: Community Facilities District (i.e. the City's Municipal Service Tax), Benefit Assessment Districts, and other Proposition 218 Special Districts. CFDs can be used to fund both capital and operational needs. Special benefit assessment districts, such as Lighting, Landscape and Assessment Districts, are frequently used to fund park or street maintenance. An assessment requires a majority vote of the property owners assessed weighted by the amount of the assessment. The City's Municipal Service Tax brings in around $1.8M per year. It will expire in June of 2027, and another iteration of the longstanding tax would require two-thirds voter approval.

Public-Private Partnerships: Private revenue may come in many forms such as dedications, monetary contributions, corporate underwriting, etc. This can be made available to cities through the use of tax-deductible donations to 501 (c) 3 non-profits "friends of" organizations. Larger employers are sometimes interested in partnering with cities on projects where the company can use the publicity for public relation purposes.

Point of Sale Programs: Some cities require infrastructure improvements at the time of title transfer. The City of Mill Valley does this with the sewer lateral ordinance, and could similarly mandate sidewalk improvements at the time of title transfer.

The following is a list of potential funding resources available that public entities have used for accessibility-related improvements:

> **Transportation Equity Act for the 21st Century (TEA-21)**: Federal funds with specific set asides for pedestrian related projects. Most of the major categories of funding in TEA-21 can be used to build or retrofit sidewalks, crosswalks, and other accessible pedestrian facilities such as trails. There are also specific targeted subcategories of projects. These funds have been available through the federal Department of Transportation.
>
> **Community Development Block Grants (CDBG) -** CDBG funds are grants from the federal Department of Housing and Urban Development and are usually allocated at the county or city level. CDBG funds have been used for curb ramp construction by local jurisdictions for many years.

Gas Tax Revenues: Gas Tax revenues are administered by the State of California for transportation and pedestrian related improvement projects. The City receives around $780,000 in Gas Tax revenues.

Safe Routes to Schools Program - The Safe Routes to Schools Program are monies that can be used by local agencies to improve pedestrian routes to schools and is administered through the California Department of Transportation Local Programs Division.

Developer Impact Fees - New developments place a strain on existing public facilities. Developer impact fees are paid by developers to help cover the costs resulting from new construction and can be used to fund pedestrian right-of-way improvement projects. The City's Road Impact Fee and Housing Impact Fee bring in around $1M per year.

Local Ordinances: Some jurisdictions have passed local ordinances that require sidewalk improvements or curb ramp construction when the dollar value of a remodel project on a building exceeds a certain amount.

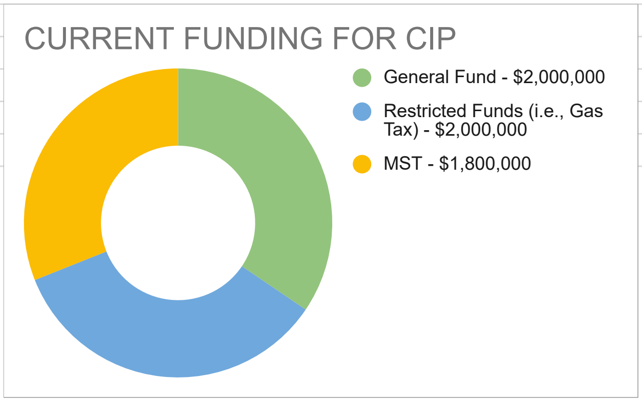
Property Liens: Property owners are responsible for the sidewalks directly in front of their property. Although some cities are reluctant to force this issue, sidewalk conditions can be repaired and reimbursement can be obtained from the owner through the use of liens.

In addition to these funding tools, other revenue generating sources exist. They are an important part of our overall revenue "buckets," but each play a lesser specific role. Still, they too can be examined for potential modification to address the needs. They include:

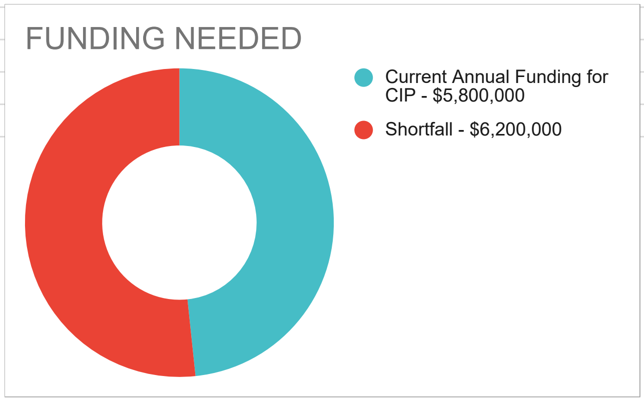
- Flood Control District funds
- Grants and donations
- Tax Allocations Bonds
- Marks-Roos Bonds
- Assessment Bonds
- Mello-Roos Bonds
- Revenue Bonds
- Certificates of Participation

.

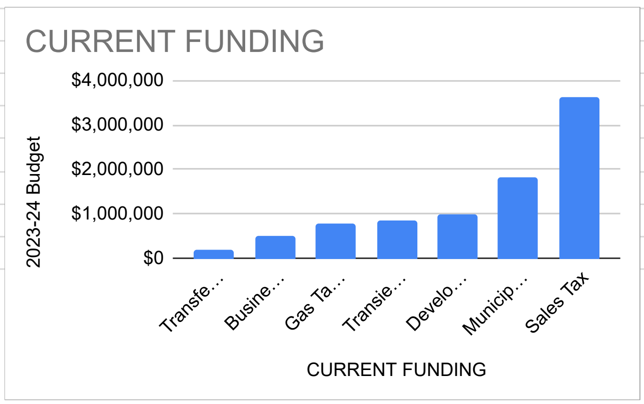
CURRENT ANNUAL FUNDING FOR CIP	
General Fund	$2,000,000
Restricted Funds (i.e., Gas Tax)	$2,000,000
MST	$1,800,000
Total	$5,800,000



FUNDING NEEDED	
Current Annual Funding for CIP	$5,800,000
Difference	$6,200,000
Total estimated amount needed per year for upgrades	$12,000,000



CURRENT FUNDING	
Transfer Tax ($1.10 per $1,000 for property sales)	$210,000
Business License Tax	$520,000
Gas Tax ((Goes to CIP)	$786,233
Transient Occupancy Tax	$840,000
Developer Impact Fees	$1,000,000
Municipal Services Tax (Goes to CIP)	$1,839,830
Sales Tax	$3,630,000



POTENTIAL FUNDING OPTIONS	
Sales Tax (potential 1/4 cent increase)	$900,000
Sales Tax (potential 1/2 cent increase)	$1,800,000
Municipal Services Tax (doubled)	$3,679,660
Transfer Tax	$6,000,000
Total estimated amount needed per year for upgrades	$12,000,000