ADDITIONAL REVENUE SOURCES FOR FACILITIES MAINTENANCE AND CAPITAL PROJECTS

Report of the Piedmont Budget Advisory and Financial Planning Committee

June 12, 2020

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Report Summary and Recommendations

The Budget Advisory and Financial Planning Committee (BAFPC or Committee) is pleased to present this report concerning additional revenue sources for facilities and infrastructure capital projects and ongoing repair/replacement.

Background

The Committee believes a primary objective of long term financial planning for the City is to take steps to ensure that current services are being paid for in the current year, to the extent possible, and that funds for known future requirements (retirement commitments and facilities/infrastructure maintenance) are set aside on a current basis. Current citizens should pay for the current costs of running the City and not defer those costs to future citizens. In its October 2019 report, the Committee recommended finding additional revenues to provide money for ongoing facility and infrastructure maintenance given the likely lack of available funding with existing revenues and expenses projected for the General Fund. The most recent projections indicate a significant shortfall with little to no money available to fund facility and other infrastructure maintenance/replacement - thus violating a core principal and putting the City in an unsustainable financial position. The Committee believes it is inadequate financial stewardship to continue to plan for underfunding the year-to- year depreciation that occurs in the City's infrastructure – even with brand new facilities - and to not plan for their substantial repair/replacement.

Additionally, the City has demonstrated the need to undertake more significant capital projects due to aging/ inefficient/inadequate public facilities (such as police and fire, recreation, aquatics, etc.), and that annual General Fund revenues will never be sufficient to "catch up" or to raise the capital needed for those larger scale projects. It is important to note that capital investments as well as additional ongoing annual revenue will be necessary to provide the City with the resources to both undertake larger facilities replacement projects as well as to provide for ongoing funds to properly maintain those and other City facilities and infrastructure.

Report Summary

Facilities Maintenance and Other Infrastructure Needs

Our facilities maintenance fund, which was established in 2003 to address ongoing and deferred maintenance of city owned facilities, has very little planned funding within our budget beyond FY2019-2020. The committee has recommended in previous budget analyses that in the near term (over the next 5 –10 years), minimum additional funding of approximately $850,000 per year is needed just to maintain the existing condition of City buildings, parks, streets and sidewalks.

To supplement annual revenues to deal with proper funding of facilities maintenance and replacement, the Committee focused on increasing the real property transfer tax (RPTT). This report provides further analysis building on our October 2019 report. Piedmont's current RPTT rate is lower than both Berkeley and Oakland, but higher than most other cities in California. An increase in the transfer tax rate to levels still below or on par with these neighboring cities would provide additional funding for facilities maintenance while impacting a minimal number of residents on a one-time basis. The Committee looked at three rate increase scenarios. According to local real estate agencies, increased RPTT rates do not have an adverse effect on real estate values or demand in the cities that have recently enacted such ordinances.

Fundamentally, the RPTT is not a good source of revenues for annual operating expenses due to the highly volatile nature of real estate sales year to year. However, long term funding of ongoing facilities repair and maintenance does not require consistent annual funding in the same manner that salaries do, and so it is logical that increased RPTT revenues would better provide for such funding.

Capital Projects

The Committee also looked at potential capital projects that represent current needs in the City. This report provides a summary of these projects with preliminary estimates of cost provided by City staff. The estimates have not been verified and could likely be higher depending on commencement dates for the projects. Although there has been much discussion of various recreational facilities in need of enhancement and replacement such as the Recreation Department building as well as the aquatics facility, recent evaluations and analysis have revealed the inadequacy of the Police and Fire facilities as well. The Committee did not feel it was in its purview to makes direct recommendations as to priority. Nonetheless, the Committee felt that essential City Service buildings such as Police and Fire are critical elements of the City and require immediate attention.

These types of projects are of such a scale that they cannot be funded out of traditional City revenue sources and the General Fund. Therefore, the Committee analyzed various property tax structures including traditional general obligation bonds based on assessed values, as well as structures based on parcel size which provide a more level obligation across all parcels. Although the Committee recommends the City pursue parcel size-based structures, and this report provides a couple frameworks, more work needs to be done on the legal and market details of any approach.

Recommendations

The Committee's recommendations are as follows:

Facilities Maintenance and Other Infrastructure Needs

- The Committee recommends an increase in the RPPT in order to meet the needs of the facilities replacement fund and other infrastructure needs on an average annual basis of at least $700,000 - $900,000. The Committee believes this increase should run in perpetuity until otherwise determined by the citizens that it is no longer necessary.

Capital Projects

- The Committee believes that it is necessary and appropriate for the City to pursue debt financing for the City's public building needs. Determining the amount of debt financing, and the scope of facility projects, will require public input and careful consideration by the Council.
- The Committee recommends pursuing a parcel-based tax assessment. This is preferable to an ad valorem tax given that the facilities to be funded include primarily (or potentially exclusively) essential public services buildings benefiting all Piedmont residents.
- Despite current economic uncertainty, the Council should move swiftly in planning for the City's most urgent facility needs, specifically the City's police and fire stations, to take advantage of current low long-term interest rates, and the decline in local debt service burden occurring in 2021 and 2022.

Real Property Transfer Tax as an Additional Revenue Source

Introduction

The Committee was asked to consider additional supplemental revenue sources within and beyond the current primarily property related taxes. Outside of additional or increased property taxes in the form of special assessments or additional voter approved parcel taxes, there are few areas where the city and its citizens can have a direct and significant impact on increasing revenue. Sales and franchise taxes are extremely limited due to the lack of commercial space and businesses in Piedmont. We do receive revenue in the General Fund from other agencies and charges for services such as Recreation Department programs and facility rentals, but all of these areas combined only make up for approximately 30% of the proposed budget, with property related taxes making up the remaining 70%.

Background

Real Property Transfer Tax (RPPT) is a one-time tax levied on a property at the time of sale. Many Bay Area cities, including Piedmont, have imposed this tax on themselves through an amendment to their city charters. Although considered a relatively volatile revenue source due to fluctuations which are highly dependent upon the performance of the local real estate market, RPTT has proven to be an important source of income in supporting city services through the General Fund. For FY 2019-2020, we are currently projecting a 18.8% decrease in the revenue from RPTT from the average of the previous five years, and a 29% decrease in FY 2020-2021. We experienced an approximate 40% decline in RPTT revenues during the Great Recession, with revenues not recovering until four years afterwards.

In the city of Piedmont, the tax was created through Ordinance No. 546 NS, and is currently at the rate of $13.00 per $1,000 on full value, without an increase since 1993. This tax is separate and in addition to the $1.10 per $1,000 Documentary Transfer Tax collected by Alameda County. According to local real estate agencies and title companies, the responsibility of transfer taxes is usually decided by local market customs. In Alameda County, the county transfer taxes are customarily paid by the seller, and the city transfer taxes are typically split equally between buyer and seller. Individual buyers and sellers are free to negotiate any arrangement they wish, but the majority of transactions are conducted in this manner.

Table 1 below shows a comparison of city RPTT rates in Alameda County. Piedmont's RPTT rate is lower than both the neighboring cities of Berkeley and Oakland, in all but the miniscule share of properties that sell for below $300,000 in Oakland. However, when comparing our RPTT rates with other California cities, Piedmont and other Alameda County cities are past the highest threshold by a large margin. Orinda and Hillsborough, two similarly sized cities often used to draw parallels with Piedmont in other aspects of their budgets and city finances, have RPTT rates of $0 and $.30/$1000 for comparison. The majority of California cities have no RPTT. Of the cities that do have a RPTT, only a handful of Bay Area cities, and none in Southern California, exceed a rate of $5/$1000.

Both Berkeley and Oakland had voted to increase RPTT rates in the last few years, as well as to form a tiered transfer tax system. A tiered RPTT system charges progressive rates based upon the full value of the property. Many critics have seen this as an unfair "mansion" tax, penalizing commercial property owners, and those with larger homes. We believe such a system would not be necessary in Piedmont, where the median home value has recently surpassed $2,200,000. RPTT only applies when there is a financial transaction with a money exchange taking place. Transfers between trusts, gifts, governmental agencies, dissolution of marriage, and death, are amongst the list of transfers exempt from RPTT.

Table 1

Alameda County Real Property Conveyance Tax Rate by City

City	Rate per thousand on full value		Ordinance Number
Alameda	$12.00		2987 AMC
Albany	$11.50		02-60
Berkeley	$15.00	($1,500,000 and less)	6072-NS
	$25.00	($1,500,001 and above)	6072-NS
Emeryville	$12.00		14-011
Hayward	$8.50		92-26
Oakland	$10.00	($300,000 and less)	11628 CMS
	$15.00	($300,001 to $2,000,000)	11628 CMS
	$17.50	($2,000,001 TO $5,000,000)	11628 CMS
	$25.00	($5,000,001 and above)	11628 CMS
Piedmont	$13.00		546 NS
San Leandro	$6.00		93-09

The following tables show the amount of transfer tax due based on a range of sales prices. Table 2 compares the transfer tax amounts at the current rates shown above for Alameda County cities. Table 3 compares Piedmont to the Alameda County cities with the highest (Berkeley) and lowest (San Leandro) rates assuming Piedmont's current rate of $13/$1,000 as well as increased rates of $16/$1,000 and $17.50/$1,000 respectively.

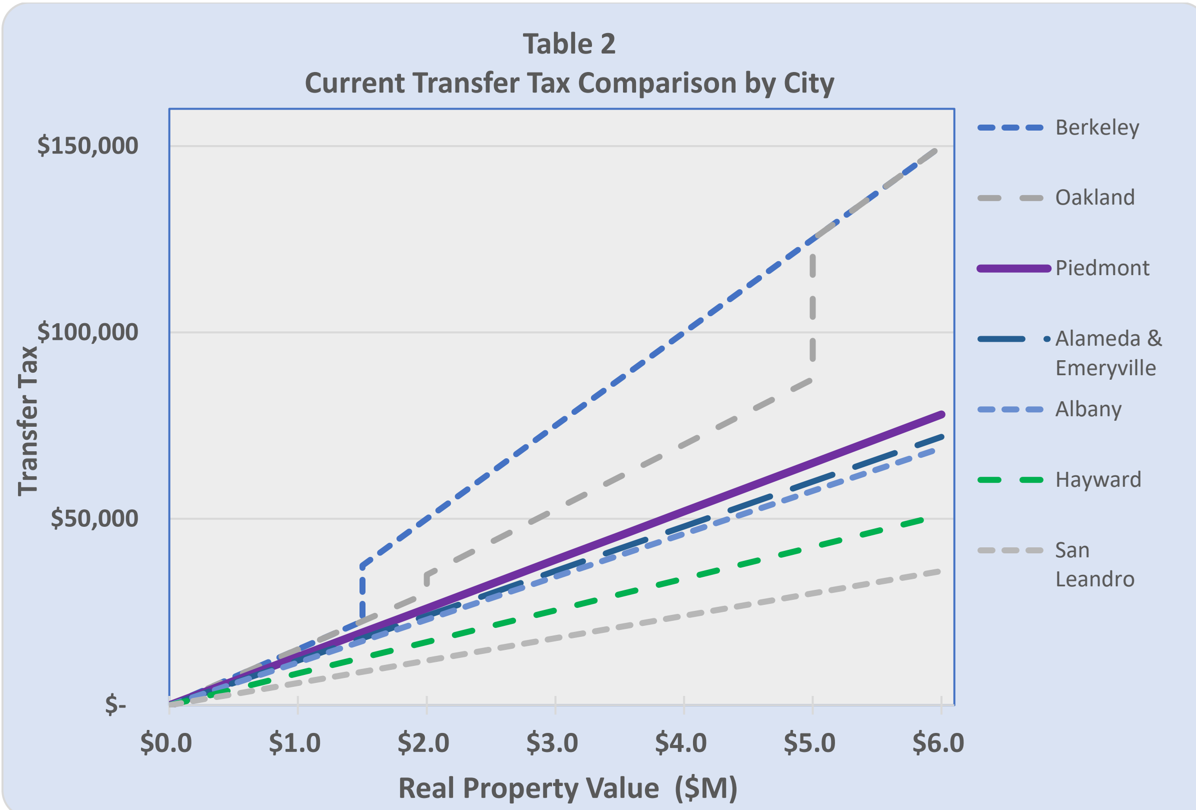
Table 2
Current Transfer Tax Comparison by City
$150,000
$100,000
$50,000
$-
Transfer Tax
$0.0
$1.0
$2.0
$3.0
$4.0
$5.0
$6.0
Real Property Value ($M)
Berkeley
Oakland
Piedmont
Alameda & Emeryville
Albany
Hayward
San Leandro

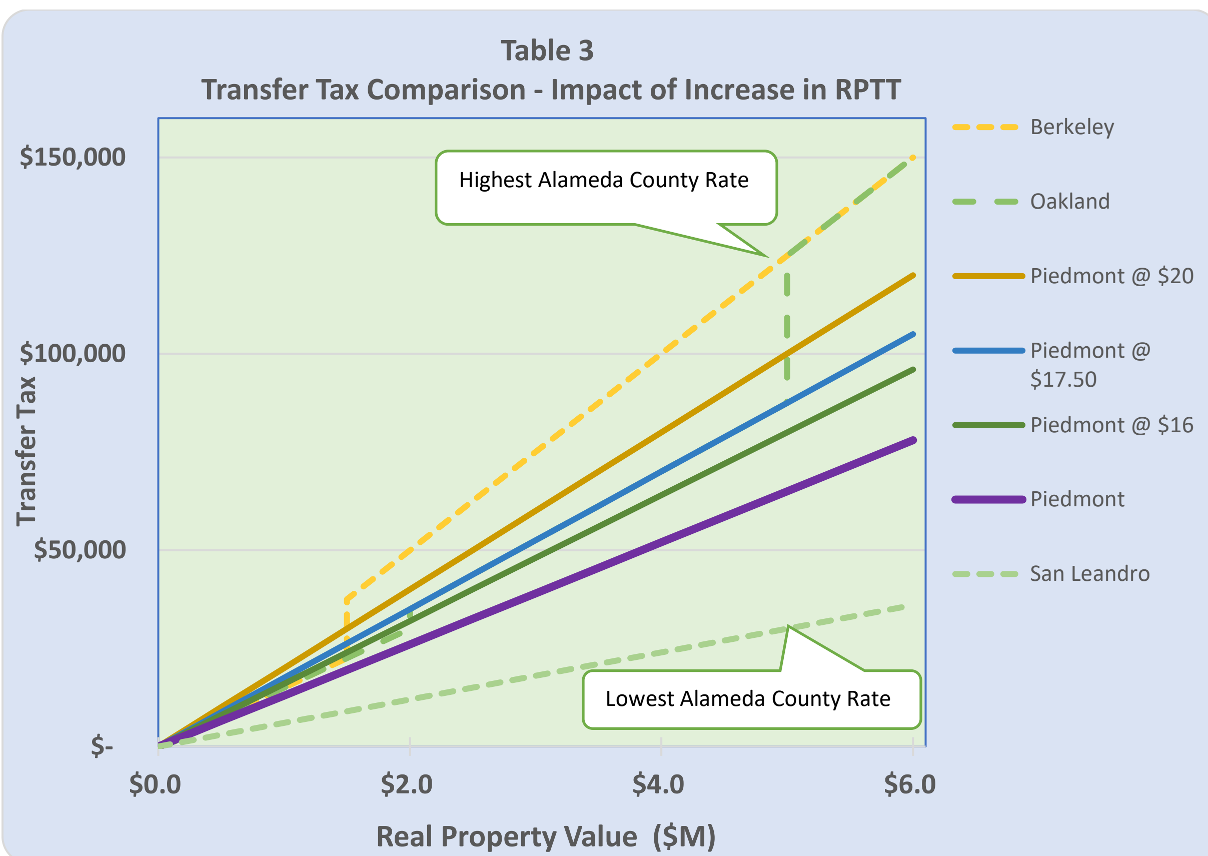
Table 3
Transfer Tax Comparison - Impact of Increase in RPTT
Highest Alameda County Rate
Lowest Alameda County Rate
$150,000
$100,000
$50,000
$-
Transfer Tax
$0.0
$2.0
$4.0
$6.0
Real Property Value ($M)
Berkeley
Oakland
Piedmont @ $20
Piedmont @ $17.50
Piedmont @ $16
Piedmont
San Leandro

Revenue Impact of RPPT Increase

Table 4 below shows the revenue impact of an increase in the RPTT for the following alternatives:

- Scenario 1: $16.00 per $1,000;
- Scenario 2: $17.50 per $1,000; and
- Scenario 3: $20.00 per $1,000

Table 4
City of Piedmont Transfer Tax 2010-2020

Fiscal Year	Est. Full Value	Current rate $13/$1000	Scenario 1 $16/$1000	Scenario 2 $17.5/$1000	Scenario 3 $20/$1000
2019-2020*	$238,461,538	$3,100,000	$3,815,385	$4,173,077	$4,769,231
2018-2019	$295,182,000	$3,837,366	$4,722,912	$5,165,685	$5,903,640
2017-2018	$295,784,462	$3,845,198	$4,732,551	$5,176,228	$5,915,689
2016-2017	$270,929,077	$3,522,078	$4,334,865	$4,741,259	$5,418,582
2015-2016	$239,846,077	$3,117,999	$3,837,537	$4,197,306	$4,796,922
2014-2015	$300,096,308	$3,901,252	$4,801,541	$5,251,685	$6,001,926
2013-2014	$307,770,154	$4,001,012	$4,924,322	$5,385,978	$6,155,403
2012-2013	$245,077,000	$3,186,001	$3,921,232	$4,288,848	$4,901,540
2011-2012	$207,763,462	$2,700,925	$3,324,215	$3,635,861	$4,155,269
2010-2011	$202,224,692	$2,628,921	$3,235,595	$3,538,932	$4,044,494
Total RPTT		$33,840,752	$41,650,156	$45,554,858	$52,062,695
Incr. Revenue over 10 FYs			**$7,809,404**	**$11,714,106**	**$18,221,943**

Based on the projected $2,200,000 of RPTT receipts in FY 2020-2021, these amounts would result in estimated annual increases of $507,692, $761,538, and $1,184,615 respectively. If RPTT receipts are instead at the long-term historical average of approximately $3,100,000, the three scenarios above would result in annual increases of about $715,000, $1,073,000, and $1,669,000 respectively.

At the median home sales price of $2,200,000, an RPTT rate increase to $16/$1000 would add $6,600 in taxes, at $17.50/$1000 it would add $9,900, and at $20/$1000 it would add $15,400. All of these amounts would typically be split between the buyer and seller of the property.

CITY OF PIEDMONT FACILITIES NEEDS

Introduction

The following is a summary of City of Piedmont facilities currently in need of major renovation. The information is derived from numerous studies and independent reports commissioned by the City Council over the last several years. Estimates are based on dollar values from the years the reports were produced, and therefore do not reflect a constant current dollar value. The estimates have not been verified and could likely be higher depending on commencement dates for the projects.

The projects described below range from essential services that ensure the health and safety of the Piedmont community, to recreational facilities that contribute to its quality of life. To give a sense of magnitude, if all the projects were approved, the cost would be an estimated **$53.9 to $76.5 million**.

Table 5

CITY OF PIEDMONT FACILITIES NEEDS SUMMARY

Essential Services	Low Estimate	High Estimate
Police Department	$ 11,000,000	$ 18,000,000
Fire Department/City Hall*	12,000,000	21,000,000
Subtotal	23,000,000	39,000,000
Recreational Services		
Aquatics Center	$ 12,000,000	$ 15,000,000
Coaches Field	4,000,000	5,000,000
Linda Beach Playfield and Park	8,700,000	10,500,000
Recreation Building	4,200,000	5,000,000
Veterans Memorial Building	2,000,000	2,000,000
Subtotal	30,900,000	37,500,000
TOTAL	**$ 53,900,000**	**$ 76,500,000**

** Note that the wide estimate range is due to several variables, including options to renovate (more costly) versus new construction (less costly)*

Needs by Facility Type

Essential Services

<u>Police Department</u> - (*$11 million to $18 million)*

Background

The Piedmont Police Department (PPD) has been housed since 1983 in the Piedmont Veterans Memorial Building, which was constructed in the 1950s. Moreover, the Department is located approximately one mile west of the Hayward Fault Zone – Northern Hayward Section, as well as the Chabot Fault Zone just east of, and parallel to the Hayward Fault. Although some seismic retrofit work was completed in the late 1990's to enhance the stability of the Emergency Operations Center (EOC), the Dispatch Center was not included in that scope of work.

The Police Department primarily utilizes the entire ground floor of the Veterans Memorial Building. In addition, the Department occupies portions of the lower floor of the Fire Station/City Hall building.

Current Situation

The PPD's current facility in the Veterans Memorial Building is not in compliance with the Essential Services Buildings Seismic Safety Act of 1986. Police stations and emergency communication dispatch centers are, by definition, essential services buildings that must meet the requirements of the Essential Services Buildings Act. Furthermore, as law enforcement services, crime, legislative requirements, laws, public expectations and technology evolve, the Dispatch Center and Police Department facilities have become sorely deficient.

A partial list of these deficiencies include: **insufficient site security**, with the building open to any passersby, no secure parking for Department vehicles and unsecured public access to administrative parking, the emergency generator and the Temporary Holding Area of the Police Department; **insufficient lobby security, privacy and ADA compliance** such that the public must traverse the Temporary Holding Area to access the livescan (fingerprint) equipment; **undersized Dispatch, radio equipment and IT rooms,** with no immediately adjacent restroom for female staff, radio equipment racks sharing a room with Records storage, which in itself is undersized, and no room to accommodate new technologies as the Department prepares for Next Generation 911 requirements or the opportunities of the Public Safety Camera program; **Emergency Operations Center issues** that include its dual role as the Community Conference Room, community meeting space, interview room and more; **office areas** that are all undersized for their current use and capacity, inadequate Property and Evidence storage, and no designated briefing, report writing or staff break rooms resulting in confined and combined use of space; **personnel areas**, including staff locker rooms and restrooms that are undersized and not well arranged or laid out; and a **temporary holding area** that is small and limited in that there is no way to separate juveniles from adults or males from females as required in such facilities.

Proposal

A formal proposal to renovate the Piedmont Police Department, or perhaps to construct a new single facility in combination with the Piedmont Fire Department (see discussion below), is pending.

Cost

A preliminary cost estimate for a Piedmont Police Department renovation, without understanding possible efficiencies that could be achieved in combining its facilities with the Piedmont Fire Department, is estimated at **$11 to $18 million**.

Fire Department/City Hall - *($12 million to $21 million)*

Background

The Piedmont Fire Department (PFD) and City Hall share approximately 20,320 square feet of space in a building originally constructed in 1910. The Fire Department occupies the entire two- story eastern part of the building as well as a portion of the basement level of the building and about one-half of the lower garage area. City Hall occupies the western, single story portion of the building as well as most of the basement level and approximately one-half of the garage area.

Current Situation

A February 2020 review of the joint Fire Department/City Hall building revealed many deficiencies. It shares many of the general security and parking issues as the Piedmont Police Department building, but with the following additional concerns:

For the Fire Department, the overarching issue is the lack of adequate space to expand the Apparatus Bay and co-locate the support spaces necessary for efficient and safe operations. In addition, due to the non-compliant seismic features of the fire station, vehicles in the garage could be trapped inside and egress for the occupants blocked following an earthquake. Other vital safety features are absent such as fire sprinklers and hazardous chemical storage.

The current Fire Department facility also suffers from inefficient adjacencies between the Apparatus Bay and Decontamination Shop, Laundry and Turnout Gear Storage areas, as well as inadequate separation of apparatus exhaust, dirty turnout gear and associated contaminants from working and living quarters. Further, the review identified substandard dormitory and restroom facilities, numerous ADA accessibility issues, lack of an elevator and various code compliance issues. The design challenge is that simple renovation of the existing facility might not achieve the desired operational functions and efficiencies.

For City Hall, the needs are less urgent and can be achieved, with adequate additional space, with thoughtful planning and design. However, the review did identify numerous code violations and exiting issues, ADA-accessibility issues, undersized support facilities and records storage, and poor public interface and service.

Proposal

As noted above, a formal proposal for a facility that would combine the Piedmont Police Department with the Piedmont Fire Department is pending.

Cost

A preliminary cost estimate for a Piedmont Fire Department and City Hall renovation, without understanding possible efficiencies that could be achieved in combining Fire Department facilities with the Piedmont Fire Department, is estimated at **$18 to $21 million**. The cost of constructing an entirely new Fire Department (without combining with Police) would be lower -- **$12 to $14 million**.

Recreation Services

Aquatics Center- *($12 million to $15 million)*

Background

The existing Piedmont Community Pool opened in 1964 and is now in its 56th year. With careful management, it has surpassed by six years the usual lifespan of most outdoor pools. While the pool currently provides swim lessons, and recreational and lap swimming, and serves as the venue for competitive swimming, its age and facility design are inadequate to meet the community's full range of aquatic needs.

Current Situation

The Piedmont Community Pool will not last much longer without serious financial investment. Previous analyses have explored short- and long-range strategies that would eke out additional years of life for the pool, but the community now faces a starker decision: to invest in a new aquatic facility that will adequately serve it for the next 50-plus years or to phase out operations entirely.

Previous analyses, most recently in 2018, identified a host of problems with the existing facility, including the pools, decks, mechanical and chemical systems, and equipment efficiency with respect to codes, regulations, conditions, and repairs. Relatively small issues, such its depth and the narrowness of its six lanes, are outweighed by more critical leakage, maintenance and health and safety concerns. These deficiencies have a direct and ongoing impact on the City of Piedmont budget by requiring ongoing operational subsidies which are growing year over year just to maintain status quo. The operational deficit for 2019-20 will be roughly $380,000. Assuming no catastrophic failure of the pool vessel structures themselves, the City over the next ten years would spend roughly $4.5 million in repairs and equipment to keep the pool functional and continue to be faced with large annual operational shortfalls.

Proposal

Under a conceptual master plan adopted in 2017, a new Piedmont Aquatics Center would be expanded at its existing footprint. The new facility would include a larger and deeper competition pool that expands programming versatility.

The new facility would also include a recreation pool with zero depth entry, shallow play areas, and teaching space. The new layout would allow for more programming for residents of all ages and abilities. The plan also calls for a new two-story bath house that would include locker rooms, restrooms, mechanical rooms, reception area, offices and 2 multi-purpose rooms.

The bath house would also be accessible from the tennis courts so tennis players can have a bathroom and place to change if needed.

Cost

The cost for a new aquatics facility is estimated at **$12 - $15 million**. Operational analysis of the conceptual master plan indicates a favorable operational recapture rate of 88-93% depending on fee structure. After adding an annual capital replacement fund contribution of $62,000 the total subsidy for operations and maintenance of the new facility is projected to be $185,000 in Year One decreasing to $107,000 by Year 5.

<u>Coaches Field</u> - ***($4 to $5 million)***

Background

Coaches Field, located off Moraga Avenue, is a popular natural grass play field frequently used by local youth soccer, softball and baseball teams. It includes a Skate Park that was opened in 2001.

Current Situation

While a popular and well-used sporting venue, Coaches Field has several deficiencies. Poor drainage results in a soggy field, and its size and shape can only support U10 soccer. Conditions mean that the field must be closed in the winter months (November through February). The cinder infield restricts the use of a significant portion of the field only to softball and baseball.

Proposal

A 2018 proposal would expand the field and replace the grass with artificial turf. Lighting would be installed to allow for weekday evening practices, which must now occur in Alameda. Soccer opportunities would be expanded, providing for U12 and U14 soccer as well as for other sports, including lacrosse, rugby and ultimate frisbee. The cinder infield would be eliminated to allow for multiuse of the entire field. In addition, access and parking would be improved.

Cost

The cost for Coaches Field renovations is estimated at **$4 to $5 million**.

<u>Linda Beach Playfield and Park</u> - ***($9.7 million to $10.5 million)***

Background

Linda Beach Playfield & Park sits adjacent to Egbert W. Beach School and has been an active play space for roughly a century. The current playfield has seen significant transformation in recent decades. In 1989, natural grass replaced a bi-level asphalt playground and basketball court. In 2004, artificial turf replaced the natural grass.

Current Situation

Despite these relatively recent renovations, the spaces surrounding Linda Beach Playfield and Park have received little attention over the years. In particular, the area adjacent to the Oakland Avenue Bridge has never been developed and the outdated bathroom building is not ADA-compliant. The tennis courts are undersized and the “tot lot,” while one of the most used and appreciated City recreation facilities, suffers from old, outdated equipment as well as lack of ready bathroom access.

Proposal

A 2019 master plan proposed a three-phase approach to renovate Linda Beach Playfield and Park. Its plan features include a “California Playscape” designed with landscape buffers near the Oakland Avenue Bridge, a new enclosed “tot lot,” new restrooms, and flex space, as well as a sport court flex space to serve as a multipurpose outdoor recreation program space. In addition, the renovations would provide for an artificial turf bocce ball court, multiple picnic areas suitable for small family gatherings, new modern and ADA-accessible restrooms and storage. Tennis court offsets would be expanded. A third phase plan would add a multi-purpose recreation building.

Cost

The cost for Linda Beach Playfield and Park renovations is estimated at $2.5 to $3 million for phase one; $3 to $3.5 million for phase two; and $3.2 to $4 million for phase three. Total estimated cost: **$8.7 to $10.5 million.**

Recreation Building - ***($4.2 million to $5 million)***

Background

The existing Recreation Department Building is a converted 1879 residential property that was rebuilt in 1912. It was acquired by the City in 1949 to house its recreational needs.

Current Situation

The building configuration is largely unchanged from the original residence. The result is inefficient use of space, significant ADA access issues, and minimal use of the third floor or basement due to fire safety concerns. The current design forces the City to adapt programs to space and constricts the City's ability to expand recreation programming that would better serve the community.

Proposal

Under a design proposal developed in 2017, the Recreation Department Building would continue to be housed in the existing building, but with renovations that would create six multipurpose classrooms, reception area, connected offices and a conference room. It would provide ADA access to the third floor, install appropriate fire exits on all floors, and increase space efficiency to allow for expanded recreational opportunities to the Piedmont community.

Cost

The cost for Recreation Department Building renovations is estimated at **$4.2 - $5 million**.

<u>Veterans Memorial Building</u> - *($2 million)*

Background

The upper floor of the Veterans Memorial Building, constructed in 1950, is utilized by the Recreation Department for its programming.

Current Situation

The 70-year-old Veterans Memorial Building, like the Recreation Department Building, was not designed to meet current operational and programmatic needs. It suffers from space inefficiency issues; outdated, underutilized event rental space and kitchen; and decrepit bathrooms.

Proposal

Under a design proposal developed in 2017 in conjunction with a new Recreation Center design, Veterans Memorial Building would be renovated. The stage would be removed to allow for three new multipurpose classrooms without losing the large event space; bathrooms would be renovated; and the kitchen would be downsized and updated. To enhance revenue-producing event rentals, new restrooms would be equipped with changing rooms, the patio area would be improved, and the auditorium would retain a similar square footage but with new ceiling, floor and wall finishes.

Cost

The cost for Veterans Memorial Hall renovations is estimated at **$2 million**.

Debt Financing Options for Public Facilities

Regardless of the type and structure of debt financing used by the City, the cost of repaying the debt will need to be borne by Piedmont taxpayers through additional property taxes. In this section, the Committee evaluates potential debt financing options, the resulting incremental tax burden on Piedmont households, and how the additional tax burden may be distributed among households.

Bond Financing

Cities may turn to the capital markets to finance capital improvements. Such financing may be achieved through the sale or "issuance" of debt as a municipal security (bonds). The two types of bonds which could appropriately be used to finance the public facilities the City is seeking to renovate or construct are:

- General Obligation (GO) bonds. GO bonds are repaid through ad valorem taxes on real property in the City, assessed at a rate necessary to repay the bonds as determined annually based on the aggregate assessed value of real property in the City.

- Community Facilities District bonds. For this type of bond issue, the City would form a City-wide assessment district, and bonds issued for the district would be repaid through an assessment on each property in the district (City). The City may determine the rate and method of apportionment of the assessment (tax) for such bonds, to be collected through property tax bills.

In the following sections, the Committee takes a closer look at the tax burden City debt financing would impose, as well as the distributional impact on household property taxes in Piedmont as a result of issuing bonds backed by ad valorem taxes associated with a GO bond, or by parcel-based taxes associated with a community facilities district bond.

Local Debt Service Tax Burden

The Committee's October 2019 Report included a section on capital improvement bonds, including projections (see Table 6 below) showing ad valorem tax rates required to service existing local debt. Local debt currently consists solely of general obligation bonds issued by the Piedmont Unified School District, repaid through ad valorem taxes. The City, which has not undertaken any significant facility capital improvement projects in decades, has no public debt outstanding.

As shown in Table 6, the total tax required for local debt service decreases by nearly 30% in 2021, from approximately $7.6 million to $5.4 million, then decreases very slightly the following year before gradually increasing an average of 5.6% per year over the following decade. If the City were able to essentially "capture" that $2.2 million in annual debt service toward City-issued debt, that would provide sufficient tax to service approximately $35 - $40 million in debt, assuming a 30-year term and a rate of approximately 4%. Of course, if the City were to incur a greater amount of debt, or if PUSD were to issue additional bonds prior to 2034 when PUSD bond debt service again declines substantially, then City taxpayers would experience an increase in their aggregate tax burden.

Table 6

Piedmont Schools Outstanding (and Expected) Bonds											
										4.0%	
Period Ending Aug 1,	**2006 Series D**	**2014 Refunding**	**2015 Refunding**	**2017 A Bonds**	**2017 Refunding Bonds**	**2017B Refunding Bonds**	**H1 2019 Series**	**Remaining H1 (est)**	**Total Tax for Debt Service**	**Assessed Value Assumption**	**Implied Tax Rate**
										-	
2020	640,000	2,441,100	1,134,450	1,172,150	651,575	-	1,520,000	-	7,559,275	4,728,125,344	0.160%
2021	790,000		1,200,650	941,150	651,575	-	1,810,000	-	5,393,375	4,917,250,358	0.110%
2022	915,000		1,266,400	941,150	651,575	-	980,306	506,667	5,261,098	5,113,940,372	0.103%
2023	1,040,000		1,352,150	1,011,150	651,575	-	989,600	603,333	5,647,808	5,318,497,987	0.106%
2024	1,175,000		1,426,650	1,047,650	651,575	873,038	1,017,850	326,769	6,518,531	5,531,237,906	0.118%
2025	1,260,000		1,535,450	1,082,150	651,575	873,038	1,044,350	329,867	6,776,429	5,752,487,422	0.118%
2026	1,355,000		1,648,250	1,119,650	651,575	873,038	1,074,100	339,283	7,060,896	5,982,586,919	0.118%
2027			1,748,050	1,159,800	651,575	2,373,038	1,101,850	348,117	7,382,429	6,221,890,396	0.119%
2028			1,858,650	1,202,650	1,366,575	1,813,038	1,132,600	358,033	7,731,546	6,470,766,012	0.119%
2029			1,974,600	1,242,650	1,515,825	1,773,038	1,166,100	367,283	8,039,496	6,729,596,652	0.119%
2030			2,100,600	1,284,900	1,510,825	1,733,038	1,197,100	377,533	8,203,996	6,998,780,518	0.117%
2031			2,101,200	1,329,150	1,753,825	1,693,038	1,230,600	388,700	8,496,513	7,278,731,739	0.117%
2032				1,380,150	4,395,388	1,653,038	1,261,350	399,033	9,088,958	7,569,881,009	0.120%
2033				1,427,400	4,673,200	1,623,038	1,294,350	410,200	9,428,188	7,872,676,249	0.120%
2034				1,475,900	4,960,800	1,593,038	1,331,350	420,450	9,781,538	8,187,583,299	0.119%
2035				1,525,400		2,573,038	1,371,700	431,450	5,901,588	8,515,086,631	0.069%
2036				1,580,650		2,702,738	1,405,250	443,783	6,132,421	8,855,690,096	0.069%
2037				1,636,150		2,836,738	1,447,150	457,233	6,377,271	9,209,917,700	0.069%
2038				1,691,650		2,979,738	1,487,100	468,417	6,626,904	9,578,314,408	0.069%
2039				1,751,900		3,131,288	1,525,100	482,383	6,890,671	9,961,446,984	0.069%
2040				1,811,400		3,285,938	1,566,150	495,700	7,159,188	10,359,904,864	0.069%
2041				1,878,200		3,449,532	1,610,100	508,367	7,446,198	10,774,301,058	0.069%
2042				1,945,200			1,651,800	522,050	4,119,050	11,205,273,101	0.037%
2043				2,012,200			1,696,250	536,700	4,245,150	11,653,484,025	0.036%
2044				2,079,000			1,743,300	550,600	4,372,900	12,119,623,386	0.036%
2045				2,155,400			1,787,800	565,417	4,508,617	12,604,408,321	0.036%
2046				2,230,800			1,839,750	581,100	4,651,650	13,108,584,654	0.035%
2047				-			3,018,850	595,933	3,614,783	13,632,928,040	0.027%
2048							3,111,200	613,250	3,724,450	14,178,245,162	0.026%
2049							3,203,300	1,006,283	4,209,583	14,745,374,968	0.029%
2050								1,037,067	1,037,067	15,335,189,967	0.007%
2051								1,067,767	1,067,767	15,948,597,566	0.007%
2052									-	16,586,541,468	0.000%
	7,730,000	4,774,950	20,422,150	42,651,558	25,834,693	37,832,419	46,616,306	15,538,769	201,400,845		

Ad Valorem Tax Rates and Distribution

Appendix A of the October 2019 Committee Report, A Brief Primer on Taxes, explains how ad valorem taxes are determined, and provides some historical data on the components and amounts of ad valorem taxes in Piedmont. As the October 2019 Committee Report also explains, the actual ad valorem rate that is assessed in future years is highly dependent on the rate of increase in the total assessed value of real property in Piedmont. Furthermore, the assessed value growth rate is highly dependent on home sales, since increases in assessed value for homeowners is capped at 2% (absent sale or improvement of the property). The current aggregate assessed value in Piedmont is approximately $4.7 billion, translating to an average home value of $1.2 million. Given that recent home sales in Piedmont average over $2.2 million, the aggregate assessed value is likely understated by half, as compared to market value.

However, when it comes to evaluating the impact of a new ad valorem tax on households in Piedmont, looking only at averages can be misleading. The Committee analyzed FY19-20 assessed value data from the County Assessor’s office and found that there is dramatic variance in the assessed value of homes in Piedmont. While date of sale is difficult to determine from the readily available County data, a review of the data set and spot checks against property-specific public sales data online indicates that the most significant factor determining assessed value is the date of the most recent market sale of the property. Given that fewer than 5% of Piedmont homes are sold in any given year, many properties have not been sold in decades and have assessed values significantly below market value. In fact, over one quarter of the properties in Piedmont (approximately 1,000 properties) have an assessed value below $450,000.

To evaluate how a new ad valorem tax to support a GO bond would be distributed across Piedmont households, the Committee considered a hypothetical GO bond of approximately $45 million, with a 30-year term and interest rate of approximately 3.75%, resulting in annual debt service of approximately $2.5 million.[1] Based on the current aggregate assessed value of $4.7 billion, the incremental ad valorem tax rate to service this debt would be 0.054%, resulting in an average additional tax of $650 per year for the average assessed value of $1.2 million.

Using the County data set, properties in Piedmont were divided into quintiles based on assessed value.[2] As shown in Table 7 below, one fifth of properties in Piedmont have an assessed value below $340,000; three fifths of properties have an assessed value below the average of $1.2 million; and over four-fifths have an assessed value below the average recent sales price of properties in Piedmont. Table 7 also shows the median tax that households in each quintile would pay based on the hypothetical GO bond above. The median incremental ad valorem tax for one-fifth of the properties in Piedmont would be $79 per year, while the median incremental tax for those in the highest quintile would be over 17 times as much. Looked at another way, the fifth of properties with the lowest assessed value would pay, in aggregate, 3% of the bond debt service, while the households in the top quintile would pay, in aggregate, 47% of the bond debt service.

Table 7

Incremental Ad Valorem Tax by Assessed Value
For Hypothetical $45 Million General Obligation Bond

Assessed Value by Quintile	Median Tax in Quintile	% of Total Tax Borne by Quintile
Quintile 1: $0 - 339,000	$79	3%
Quintile 2: $339,001 - 740,000	$293	9%
Quintile 3: $740,001 - 1,175,000	$526	16%
Quintile 4: $1,175,001 - 1,855,000	$802	25%
Quintile 5: $1,855,001 +	$1,355	47%
Total		100%

[1] Note that bonds are highly structured and complex, consisting of a series of term bonds with differing maturities and rates. This example is an oversimplification for illustration purposes.
[2] Tax-exempt properties were excluded; however, for simplicity, this analysis did not attempt to discern and extract single family homes from other the relatively few other use types such as commercial or multi-family residential.

While GO bonds backed by ad valorem taxes are commonly accepted and widely utilized debt structures, especially for school facilities, the distributional tax impact illustrated above raises two concerns for the Committee. First, with respect to essential services facilities benefiting all residents, the vast disparity in payment burden seems difficult to justify. Second, the financial incentive to not sell a home when the home's assessed value is substantially below market is exacerbated when new taxes are added on an ad valorem basis. Given the City of Piedmont's dependence on property tax revenues, the growth in overall assessed value is critically important to Piedmont's finances. In turn, Piedmont's finances, including that of the school district, are very dependent on the continued turnover of homes every year.

Parcel-Based Tax Rates and Distribution

A Community Facilities District (CFD) bond structure, while potentially more complex, offers the City flexibility in determining a tax rate structure that may be more appropriate for the City. The City could conceivably assess the tax based on a range of factors (i.e., parcel size, number of bedrooms, improved square footage, etc.) or a have a single flat tax for each assessed property. Due to the availability of parcel size data, its familiarity to residents as a basis for taxation in Piedmont, and the reasonableness of tying the cost of police and fire facilities to lot size (although many other measures would also have a basis in reason), several tax rate and distribution scenarios based on parcel size are presented below.

The Committee looked at two CFD allocation structures. Option A would be to use the parcel-based tax structure used for the City's Municipal Services Parcel Tax (MSPT), shown below:

Table 8

Option A – Parcel Size Allocation using MSPT Structure		
Parcel Size	Estimated % of Homes	Option A CFD Rate
0 to 4,999 sq. ft.	27%	$563
5,000 to 9,999 sq. ft.	51%	$633
10,000 to 14,999 sq. ft.	13%	$730
15,000 to 20,000 sq. ft.	4%	$834
Over 20,000 sq. ft.	5%	$950
	Average:	**$650**

Note that the rates needed in Option A to support the hypothetical $45 million bond are just slightly larger than the current MSPT rate.

In Option A, the majority of homes are assessed at the same rate, for the 5,000 – 9,999 square feet parcel size category. For the hypothetical $45 million bond, just over half of households would pay $633 annually and over three-quarters would pay less than the $650 average. Note that in our hypothetical scenario, annual debt service is held constant and thus the annual tax assessed would not need to increase year over year. Of course, an actual bond could be structured differently, such as with gradually increasing debt service, resulting in a lower initial tax and scheduled annual increases.

Option B would be to create a more even distribution of households among parcel size categories. For example, instead of the five categories above set in 5,000 square foot increments, parcels could be divided into quintiles based on parcel size. The average tax would be set for the middle quintile, and then the tax for the upper and lower quintiles could be set higher and lower, depending on the amount of variance among groups that is desired (which would presumably be less than the 17x differential imposed by an ad valorem tax). Table 9 below shows scenarios based on a differential from the lowest tax bracket to the highest of 2x, 3x, and 4x.

There are, of course, limitless other options that could be explored, including a method other than parcel size to determine tax brackets, more or fewer brackets, greater or lesser variation across brackets, etc.

Table 9

Tax Distribution Scenarios by Parcel Size Quintiles For Hypothetical $45 Million Community Facilities District Bond				
Parcel Size	Estimated % of Homes	2x Differential	3x Differential	4x Differential
0 to 4,500 sq. ft.	20%	$433	$325	$260
4,501 to 5,775 sq. ft.	20%	$541	$488	$455
5,776 to 7,150 sq. ft.	20%	**$650**	**$650**	**$650**
7,151 to 10,500 sq. ft.	20%	$759	$813	$845
Over 10,500 sq. ft.	20%	$867	$975	$1,040

Other Debt Financing Options

Cities may also borrow funds through other arrangements that do not constitute the issuance of a security. These transactions are usually structured as leases or loans and are based upon contractual agreements between the city (as the borrower) and the lender (usually a financial institution like a bank).

The advisability of loan financing would depend upon lender interest and terms. To obtain the most favorable terms, it is assumed that the City would need to approve and pledge as the repayment source an assessment similar to that which would be required for a community facilities bond above, again with voter approval. While loans generally carry a higher interest rate than bonds because municipal bonds are sold on a tax-exempt basis, the fixed costs of issuing bonds may outweigh the interest rate differential, particularly for a smaller bond issue that may not achieve economies of scale. Given that long-term interest rates currently offered by banks are at historic lows, a private loan may provide a viable financing option in this case.

Debt structures other than municipal securities may also include public-private partnerships and build-lease agreements. While the Committee does not consider public-private partnerships or build-lease agreements appropriate financing structures for essential public services buildings, such structures should be considered among available options if the City decides to pursue debt financing for the City's pool facility.

Average Tax Burden for Different Debt Amounts

The above analysis focuses on the distribution of tax impact across Piedmont households under different debt structures. Each scenario was evaluated based on a hypothetical $45 million bond with an interest rate of 3.75% and constant annual debt service over a 30-year term, resulting in an average tax per household of $650 per year. Of course, the bond amount (and interest rate) may be higher or lower, resulting in a higher or lower average tax needed to service the debt. To provide a sense of how that average tax would vary for different bond sizes and interest rates, the table below calculates the estimated average tax per household associated with interest rates ranging from 3.0% to 4.0%, and bond amounts ranging from $30 million to $60 million. As in previous estimates, all calculations assume a 30-year term and level debt service, for ease of analysis.

Table 10

Average Additional Household Tax, by Debt Amount and Interest Rate				
	Debt Amount			
Interest Rate	$30 million	$40 million	$50 million	$60 million
3.00%	$394	$526	$657	$788
3.25%	$407	$543	$678	$814
3.50%	$420	$560	$700	$840
3.75%	$433	$577	$722	$866
4.00%	$446	$595	$744	$893