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To: Governing Board
San Francisco Bay Restoration Authority

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Subject: **Analyses of Selected Revenue Measure Options**

Introduction

This memo reports on analyses of selected revenue measure options for the San Francisco Bay Restoration Authority, including those which staff was directed to report upon by the Governing Board at its December 10, 2014 meeting. The memo is provided for information and discussion. The Governing Board may wish to provide direction regarding further research and reporting.

Analyses of Selected Revenue Measure Options

1. Options for Accelerating Revenue-Generation and Increasing the Total Amount of Revenue Generated

Since the last Governing Board meeting, there has been further discussion among members of the Baylands Steering Committee (which includes Save The Bay, Resources Legacy Fund, Santa Clara Valley Water District, Moore Foundation, Bay Area Council, Silicon Valley Leadership Group, and a few others) about options for a regional measure for Bay restoration. They concluded that a revenue measure that would raise a larger amount earlier than the previously contemplated $9 parcel tax could potentially generate additional support among key constituents.

One option that could serve this purpose is a general obligation (GO) bond, perhaps with a charge of a few dollars per $100,000 of assessed value. In light of potential support for a GO bond, Save The Bay is analyzing a GO bond for feasibility in terms of revenue generation, level of support, and the Restoration Authority's current powers. Save The Bay's preliminary analysis of the feasibility of a bond measure and a recap of previous polling on parcel tax measure rates and duration are provided below.

a. Preliminary GO Bond Analysis from Save The Bay

A bond measure approach utilizes the existing bonding powers of the Restoration Authority (Government Code §66704(e)(2)) to generate significantly greater funding than a flat parcel tax. The table below shows that a bond measure would generate two to five times the revenue of a flat $9 parcel tax over the same geography. Structuring a measure in this manner distributes the tax more equitably, with owners of more highly assessed parcels paying a greater amount.

Additionally, this approach allows for large projects to be funded in a much shorter timeframe, providing the Restoration Authority greater flexibility in granting funds for large-scale projects.

	$9 Parcel Tax	**$300 million Bond**	**$300 million Bond**	**$750 million Bond**
Term	10 year	20 year	30 year	30 year
Regional Revenue	$150 MM	$300 MM	$300 MM	$750 MM
Cost to Voters*	$9 per parcel	$2.84 per $100k	$1.93 per $100k	$4.38 per $100k

*Note: Annual Cost is illustrative and subject to revision.

It is worth noting in the chart above that doubling the term of the parcel tax would increase the total revenue to $400 million. Unlike bonding options, however, it would not all come in at once. An initial legal review by and on behalf of Save The Bay of the ability for the Restoration Authority to pursue a regional bond measure is encouraging. Save The Bay's work to date has focused on addressing the following areas of inquiry:

- Evaluation and recommendations for legislative changes in 2015 to allow the Restoration Authority to move forward with a regional bond measure in 2016. Current thinking is that limited changes to existing statute are required. These would be focused on extension of sunsets and elimination or relaxation of the current cap on bonding authority (which limits bonded indebtedness of the Restoration Authority at any point in time to 10% of the previous year's revenue)
- Analysis of the Authority's ability, under its existing grant program structure, to use bond revenue to fund projects on land not owned by the Restoration Authority. Additional work is needed in this area, but research by Save The Bay to date indicates that use of bond funds financed by an ad valorem tax for restoration improvements (consistent with Article 13A of the Constitution and the Restoration Authority's statute) is allowable both on property owned by other public agencies and on private property.
- Research addressing use of bond funds to meet staffing and overhead expenses associated with administering the Restoration Authority's grant program, estimated to be less than $600,000 annually. Bond counsel is poised to begin working to answer this and related technical questions with support from Save The Bay and other staff.

b. Higher Parcel Tax and Longer Duration

Another option that could accelerate generation of revenue and increase total receipts for Bay restoration is a higher parcel tax, a longer duration, or both. Since 2010, two voter research firms, Fairbank, Maslin, Maullin, Metz & Associates (FM3) and EMC Research, have included varying parcel tax amounts and durations in their voter surveys regarding a possible Restoration Authority parcel tax measure. The table below summarizing survey results shows the strongest support for a $9 measure, ambiguous results when comparing a $9 measure to a $14 measure and, though the information is now four and one half years old, a significant reduction in support for a $25 measure. The same research showed that duration seems to have negligible effect on voter support.

Survey Firm/Date	Parcel Tax Rate	Duration	Total Yes
FM3-February 2014	$9/year	10 years	68%
FM3-February 2014	$9/year	20 years	68%
FM3-February 2014	$14/year	10 years	63%
FM3-February 2014	$14/year	20 years	68%
FM3-June 2013	$10/year	Not specified	66%
EMC-May 2013	$9/year	Not specified	65%
EMC-July 2011	$10/year	Not specified	59%
FM3-August 2010	$25/year	10 years	58%
FM3-August 2010	$25/year	20 years	56%

Source: Fairbank, Maslin, Maullin, Metz & Associates

An additional indicator of voter response to varying tax amounts is that many participants in focus groups convened by EMC in May 2011 voiced support for a measure at $10/year and marked weakening of support at $20/year.

2. Impacts of Placing a Measure on Ballots in Less than the Entirety of the Nine Counties

The Restoration Authority has considered three principal configurations for a voting/taxing area encompassing fewer than all nine counties or only portions of counties. In response to direction from the Governing Board, the impacts of each on the vote count and the amount of revenue to be generated are summarized below. A brief discussion of collateral impacts follows that summary.

a. Excluding Napa and Solano Counties

Napa and Solano are the lowest polling counties, but together they only comprise 7% of likely voters. According to an analysis drawn from past voter surveys, exclusion of Napa and Solano Counties would result in the following changes to cumulative voter support:

Parcel Tax Amount	Duration	Yes Vote in Nine Counties	Yes Vote in Seven Counties
$9/year	10 years	68%	69%
$9/year	20 years	68%	69%
$14/year	10 years	63%	64%
$14/year	20 years	68%	68%

These changes in voter support fall within the margins of error for the voter surveys.

The exclusion of Napa and Solano Counties would result in a reduction of approximately 158,000 taxable parcels, lowering annual receipts on a $9 regional parcel tax from approximately $15,000,000 to approximately $13,578,000.

b. Excluding Eastern Contra Costa County

Depending upon the specific delineation of the taxable geographic area, exclusion of the portion of Contra Costa County east of the hills would result in a reduction of approximately 242,609 taxable parcels, lowering annual receipts on a $9 regional parcel tax from approximately $15,000,000 to approximately $12,816,549. According to EMC's 2011 poll (see also 2.c. below), respondents both in the entire county and in the portion east of the hills showed 56% support for the measure tested.

c. Excluding Areas Beyond the Bay Perimeter

EMC's 2011 poll was designed to test support for a ballot measure in the entirety of the nine counties with support in areas closest to the Bay—roughly bordering the Highway 101 and Interstate 80 corridors and extending north and south include only the largest population centers in Sonoma, Napa, Solano, and Santa Clara counties —called "Area B." The full nine counties polled at 60%, with Area B at 62%, a difference that fell within the +/- 2.5% margin of error for that poll. In EMC's January 2014 poll, those respondents in Area B continued to show only a slightly higher level of support than those in the entirety of the nine counties. After their 2010 poll, staff asked FM3 to "rerun" their results along similar lines; this yielded similar results, i.e. within the margin of error of the poll.

d. Possible Collateral Impacts

Concerns about collateral impacts of placing a measure on ballots in less than the entirety of the nine counties have also been noted by the Governing Board, consultants assisting with development of a ballot measure, and by Save The Bay. These collateral impacts on prospects for passage could include degrading the concept of a revenue measure being a regional solution to the regional need for Bay restoration; raising the issue of taxing low-income urban communities ringing the Bay (e.g., Richmond) while sparing wealthier outlying communities (e.g., Orinda and Walnut Creek); and significantly increasing the complexity and cost of delineating and monitoring voting and taxation areas. In the event that Napa County, Solano County, and/or eastern Contra Costa County were excluded, some important shoreline restoration projects (outside the Delta Primary Zone) would also likely need to be removed from the Restoration Authority's project list.

3. New Approach to Determining Passage and Allocating Funds

At the December 10, 2015 Governing Board meeting, a new alternative for determining measure passage and allocation of revenue was proposed by Director Sutter and discussed. Under this alternative, votes would be calculated by county, with only those counties passing the measure being eligible for project funding from revenue-measure receipts, and at least six counties would need to pass the measure for it to become effective. The intent of this alternative is to neutralize the impact of less robust support in Napa and Solano Counties, while striving to retain the regional concept of the measure. Based upon early advice to the Restoration Authority from outside counsel, passage of a measure could be calculated either county-by-county or cumulatively. The polling discussed in 2.a. above suggests that using a county-by-county approach to determining passage of a measure would not provide a significant advantage over a cumulative approach. Disadvantages of this new alternative could include confusing voters due to the increased complexity of the measure, some degradation of the regional nature of the measure, and increased costs of communicating with voters due to variations in the assigned letter and title of the measure. Additional research would be needed to determine if the legislation enacted in 2014 to reduce ballot measure costs would apply if this new alternative were pursued.

4. Potential for the Restoration Authority to Participate in an Enhanced Infrastructure Financing District

A state law which became effective January 1, 2015 (SB 628 Beall) provides a new public-infrastructure-financing tool known as “Enhanced Infrastructure Financing Districts” (EIFDs). Staff has explored the new law for possible relevance to the Restoration Authority.

Under the new legislation, cities and counties can form EIFDs and then finance a wide range of infrastructure projects, using revenue-raising measures including issuance of general obligation bonds. Issuance of bonds is subject to 55% approval of a bond measure. Prohibited uses of funds raised pursuant to an EIFD include operation and maintenance and services of any kind.

While EIFDs hold promise for cities and counties, a preliminary review of the new law finds that, absent amendment, the Restoration Authority may not be eligible to form or join an EIFD. Further investigation would be needed to determine whether it would be advantageous for the Restoration Authority to participate in a local agency EIFD in another manner, such as through a joint powers agreement, and whether interest would exist among local agencies for such an arrangement.