

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council Members
FROM: Dylan Feik, City Manager
DATE: May 15, 2018
SUBJECT: Discussion and Consideration to Increase the City of Calistoga Transient Occupancy Tax by one percent (1%) for Housing that is Affordable.

APPROVAL FOR FORWARDING:

Dylan Feik, City Manager

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2 **ISSUE:** Discussion and to Increase the City of Calistoga Transient Occupancy Tax by one
3 percent (1%) for Housing that is Affordable.
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5 **RECOMMENDATION:** Provide direction to staff and to direct the ad hoc housing
6 committee to participate on countywide 2x2 meetings on the same subject
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8 **BACKGROUND / DISCUSSION:** Since 2014, the Calistoga City Council has adopted
9 annual goals addressing the community's housing needs. Initially, these goals primarily
10 focused on activities addressing existing housing units within the community. Staff actively
11 pursued funding mechanisms such as the HOME grant, Community Development Block
12 Grant Program (CDBG) and providing local support to groups like Fair Housing Napa
13 Valley and Calistoga Affordable Housing and their "Rebuilding Calistoga" efforts.
14 Additionally, staff has actively partnered with non-profit housing developers on sites to
15 construct new workforce, farmworker and low-income housing units within the City.
16

17 In September 2016, the Council created a temporary ad hoc Housing Committee to further
18 identify possible solutions to address housing needs. This committee meets as needed
19 and provides recommendations on possible changes to City rules, regulations, and/or
20 programs which would promote new housing development. Examples include allowance
21 of Accessory Dwelling Units (ADUs), reduced parking requirements, and many more. The
22 committee also compiled a list of "Housing Opportunity Sites" which provides guidance to
23 staff and the community on which properties should be considered for new housing.
24

25 In 2017, the Council performed a connection fee study which identified that higher density
26 housing projects, when utilizing green development strategies, are using far less water and
27 wastewater resources than originally estimated. The Council subsequently amended
28 connection fees for multi-family housing projects, resulting in a 33%-66% reduction in water
29 and wastewater connection fees for multi-family housing. Council also reduced impact fees
30 associated with ADUs to encourage the promotion and use thereof.

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32 The City of Calistoga has considered the many challenges to constructing housing that is
33 affordable and spent considerable time removing barriers and obstacles while also
34 promoting small-town character, sustainability and efficient use of water and wastewater
35 resources. In summer 2017, Council adopted a \$12,000 affordable housing impact fee
36 which would be assessed on every single family residential project (new construction).
37 After receiving considerable feedback from the community that such an impact fee was
38 infeasible and would antagonize Council efforts to promote responsible housing, the
39 Council rescinded the ordinance and directed staff to pursue other funding alternatives
40 including an increase to the City's Transient Occupancy Tax, or TOT.

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42 Funding for Housing that is Affordable

43 Over the course of the last several years, the City Council has discussed an urgent need
44 for a permanent source of funds to meet the City's current and future affordable housing
45 needs and objectives. Currently, the City collects an Affordable Housing Impact fee for
46 certain commercial projects which is based on new development. Seeking a sustainable,
47 long-term funding mechanism is desirable and such a funding mechanism could enhance
48 the City's housing efforts by: providing financial assistance and services; creating programs
49 to increase, improve and preserve the City's rental and for-sale housing stock affordable
50 to households of extremely low, very low, low, moderate, and especially workforce units,
51 and; provide a long-term funding tool for current and future needs.

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53 For Council discussion and consideration this evening, staff – with the assistance from the
54 City Attorney's Office – is requesting the City Council consider a proposed increase to the
55 Transient Occupancy Tax (TOT) rate of 1% and place the proposed increase on the
56 November ballot as a special revenue tax. The City Council has the authority to increase
57 the TOT from the current maximum rate of 12% of the room rent to 13% of the room rent.
58 The Council would effectively be seeking voter approval of an Ordinance that will cause
59 any revenue generated from an increase in the amount of TOT beyond the current
60 maximum rate of 12% to fund affordable housing programs and services. If a voter-
61 approved Ordinance passes, the City of Calistoga's TOT rate will be 13%.

62
63 As this is presented, the additional 1% tax will appear on the ballot as a special tax,
64 requiring a 66.7% affirmative vote. Prior to placing the proposal on the ballot, Council is
65 required to adopt a resolution and ordinance which include a description of the use of funds
66 and the actual ballot language. The funds would be allocated to affordable housing
67 programs and services including, without limitation, land acquisition, land donation,
68 building acquisition, building rehabilitation, housing construction, maintaining the
69 community's supply of mobile homes, providing housing subsidies to lower income

70 residents, providing financing to developers, and/or preserving existing public subsidies for
71 developments facing conversion to market rates.

72
73 A resolution or ordinance for a proposed tax increase must be delivered to the County no
74 less than 88 days prior to an election. The final date to submit a measure to the County is
75 Thursday, August 9, 2018. The last regularly scheduled Council meeting before this date
76 is the regular meeting of August 7, 2018. If the Council does not approve the proposed
77 resolution and wants to consider other funding options requiring voter approval, it is
78 recommended that the entire alternative process be initiated in time to meet election
79 deadlines.

80
81 There is currently countywide discussions going on regarding similar proposals. Staff is
82 requesting the City's ad hoc Housing Subcommittee (Canning, Dunsford) attend one or
83 more meetings with the other agencies in the county to discuss and report back. Council
84 could consider an actual ordinance or resolution at an upcoming meeting.

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86 **COUNCIL GOALS:** The project conforms to Council Goal 2: Address the community's
87 existing and future housing needs as shown below -

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89 Objectives

- 90 1. Expand balanced housing opportunities including workforce housing and mixed use
91 residential housing.
- 92 2. Protect and promote special needs housing for such groups as seniors, low-income
93 earners and persons with disabilities.
- 94 3. Maintain the existing housing stock in good condition.
- 95 4. Promote and expand use of Accessory Dwelling Units

96 Priority Projects

- 97 1. Support the "Rebuilding Calistoga" housing rehabilitation efforts by Calistoga
98 Affordable Housing and continue to implement the HOME and CDBG residential
99 rehabilitation loan programs.
- 100 2. Consider deleting allowed commercial activities from appropriate residential zoning
101 districts in order to maximize the inventory of sites available for housing
102 development.
- 103 3. Consider reclassifying appropriate potential development sites to residential land
104 use classifications or higher-density land use classifications.
- 105 4. Consider increasing the qualifying income for inclusionary ownership housing units
106 from 120% of area median income (AMI) to 150% AMI to facilitate development and
107 increase the feasibility of their purchase by households with sufficient income.
- 108 5. Modify the "multi-family residential" definition to allow detached units in order to
109 provide more design flexibility.

- 110 6. Subsidize or defer connection fees for ownership units affordable to households with
111 incomes less than 120% of area median income.
- 112 7. Review and consider using 1.25 persons/household when calculating the potential
113 population for senior projects under the Growth Management System in order to
114 create additional growth management allocations.
- 115 8. Acquire suitable properties for residential development targeted to local employees
116 and partner with developers to provide housing.

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118 **CEQA REVIEW:** Under California Environmental Quality Act (“CEQA”) Guidelines section
119 15378(b)(4), the tax is not a project within the meaning of CEQA because it creates a
120 government funding mechanism that does not involve any commitment to any specific
121 project that may result in a potentially significant physical impact on the environment. If any
122 project is to be funded by revenue from the approved tax, analysis will be performed for
123 the project prior to approval in accordance with the then-applicable CEQA provisions.
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125 **FISCAL IMPACT:** The Fiscal Year 2017-18 Original Budget includes \$6,147,902 for total
126 TOT tax collections. This amount represents all 12% of general fund revenue collected by
127 the City. An additional 1% increase is estimated to be \$512,325 annually.
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129 **ATTACHMENTS:**

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- 131 1. NA
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