Martinez General Plan Element 2.0: Land Use

When our previous City Manager, Brad Kilger, was leaving, he gave an interview to the Gazette, which as of this writing, is still available on the Gazette's website at https://martinezgazette.com/martinez-city-manager-brad-kilger-announces-he-will-be-retiring-in-january/.

In addition to listing the many important internal organizational issues that he addressed during his tenure, two overarching priorities he mentioned that he felt still needed to be addressed stood out:

1) Update the City's vision, mission and goals statement, together with the Council's Strategic Plan, and

2) Implement a proactive economic development program, which would develop long-term fiscal forecasts and enhance City revenue.

These comments address item 2), the City's Land Use Element as it pertains to City revenue.

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As former City Manager Kilger mentioned above, the City needs more revenue. A few of the more obvious examples:

- Marina
    - The harbor is again approaching inaccessibility during low tide. Only part of the harbor will be dredged, due to expense.
    - The seawall needs to be replaced and repositioned to reduce siltation.
    - The berths on the east side of the harbor are not only inaccessible, but are falling apart.
    - The Marina Enterprise Fund has not accumulated any significant capital improvement funds, so significant outlays must come from the City's General Fund, or be put on hold.
    - The Mayor has confirmed that major decisions regarding the Marina will have to be made in the not-too-distant future.
    - The auditor has asked every year for a number of years when the City is going to shut down the Marina.
    - The City makes interest-only payments to the state on Marina debt.
    - Even a wealthier city like Benicia, on the inside bend of the river, with low siltation and a well-maintained Marina, doesn't make a lot of money from it, so Martinez not only doesn't currently have money to make necessary repairs and upgrades, but needs to plan for a continuing average expense from the General Fund.

    - A recent ballpark figure to address the issues above for Martinez' Marina: $12,000,000.
- Water System
    - The water system is aging. The Howe Road event back in June of 2020, when a main line broke, sending up a huge geyser of water that closed Howe Road and severely damaged Cresco, is just an example of what can be expected in the future.
    - Like the Marina, the water system has an enterprise fund that, again like the Marina, does not have a substantial capital improvement fund set aside for major repairs, so when serious events occur, the City must transfer money to the Water System.
    - The City has not addressed the state of the Water Sytem in any serious, systematic way, only saying that necessary repairs and upgrades will cost "millions and millions."
- Alhambra Hills
    - The acquisition of the Alhambra Hills is a truly historic opportunity – all the more so considering John Muir lived in Martinez, and the acquisition includes property that john Muir himself once owned. Although it's natural for a large acquisition such as this to be funded by bonds, the City had no money available from unassigned reserves to help bring down the bond amount to make it more palatable for voters, who showed price sensitivity in the range of tax increases being proposed.
    - The majority of citizens are in favor of the acquisition. The East Bay Times also endorsed it, but raised the issue of how Martinez would pay for the maintenance. The same issue already exists for the popular Measure H parks upgrade – how to keep up the higher standard of maintenance now that the condition of our parks have been approved?
    - With a $19M+ price tag overall, a few million dollars' reduction from the general fund might help voters to approve. It is hoped that Measure F passes.

There are a number of other, perhaps less obvious, but still important financial concerns as well:

- <u>City Hall</u> – The City Hall itself is mortgaged in order to get money to pay a debt from the Joint Facilities Agency formed with Pleasant Hill. This was done to avoid digging into emergency reserves, the only other available resource.
- <u>Annexation</u> – RSG consultants back in late 2020 found that all four areas being considered for annexation were financial losers for the City, and advised against pursuing annexation. For whatever reason, the City is still interested in annexation – how will it be paid for?
- <u>Measure D</u> – While it's great having our roads starting to get paved, is a regressive sales tax that hurts business really the best way to pay for it? When the tax sunsets, will the roads again need to be paved so Measure D will have to extended? How could we replace the approximately $4M per year? Our sales tax is the second highest in the

County, only behind El Cerrito, which is struggling and has been dipping into its reserves in the recent past.

- Measure X – This was an existential necessity for Martinez, rather than a revenue enhancement for improving safety, parks and infrastructure, as it had been advertised. While it's good that it passed, so we didn't have to start paying operating expenses out of our emergency reserves, which is what had been planned if it hadn't passed, how does the City plan to deal with its sunset? Like Measure D, it represents approximately $4M per year. That's about 14% of our general fund expenditures. The same comments regarding sales tax for Measure D apply to Measure X.
- Parking – Like the Marina and the Water System, parking has its own enterprise fund, which is meant to be operated like a separate business: self-sustaining, with long- and short-term financial expenses covered by revenues, and revenue only spent on its particular mission. But like the Marina and the Water System enterprise funds, the Parking Enterprise Fund violates the enterprise fund hermetic principle as well, having cash flow between it and the City's general fund – but in this case, revenues go to the City's general fund. The original mission was to accumulate revenue towards a parking structure, which is an increasingly important downtown need, but the systematic diversion of Parking Fund revenue has put that out of reach. The last information showed parking funds diversion to the general fund exceeding total downtown sales tax revenue going to the general fund. Like Measure D and Measure X revenues, parking tickets hurt business, but the City needs the money.
- Police – Measure X allowed the City to restore staffing without dipping into reserves, but the percentage of the general fund devoted to the police still hovers around 50%, unlike other nearby cities that are around 40%.
- Pensions/OPEB (Other Post-Employee Benefits) – The last time that CalPERS dropped its rate of return, the resulting increased premiums for cities were a huge shock, including for Martinez. Although Martinez worked out a bond scheme to cover the increased obligation, it is waiting until bond market conditions improve to implement it. At the same time, CalPERS did not reduce its stated rate of return to the full amount that calculations indicated it should, for political reasons. If its rate of return is again dropped, Martinez' premiums will again be increased by millions. How are we increasing City revenue to handle that eventuality?

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Taken together, these things, along with former City Manager Kilger's comments, point to the need for more City revenue. Without an income tax, the only two sources of revenue significant enough to make a difference are property tax and sales tax, so any substantial increase in City revenue must come from these two sources. Both property tax and sales tax depend on land use, so it's important that the General Plan's Land Use Element supports increasing these sources of revenue.

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HOUSING

Here are calculations for per capita General Fund revenue for $1,000,000 and $750,000 homes with 2.4 residents in TRA 5000 (tax rate area 5000), which has one of the highest property-tax-to-general-fund return rates in the City. Also included are VLF revenue, sales tax and franchise fees to approximate the total General Fund impact of adding housing:

A set of calculations very similar to this was sent to City staff and the Council over a year ago, but received no response. Corrections are welcome.

Property tax (for TRA 5000):

Fraction of assessed value transferred to general fund = .159227 x 1% = .00159227

VLF (Vehicle License Fee) revenue treated as property tax fraction = .0006039

Total per capita = $1,000,000 x (.00159227 + .0006039) / 2.4 = $915 per capita

Sales tax (approximate) :

(Bradley-Burns $ + Measure X $) x retail % x Martinez resident % / residents =

($4,418,000 + $4,000,000) x 0.75 x 0.80 / 36827 = $137 per capita

Franchise fees (approximate) = $45 per capita

Total per capita general fund revenue = $915 + $137 + $45 = $1097

General fund expenditure per capita (2021 CAFR) = $28,012,806 / 36827 = $760

Net general fund income per capita for $1,000,000 home with 2.4 residents = $337

To make up only Measure D and Measure X revenue with $1,000,000 homes =

($4,000,000 + $4,000,000) / ($337 x 2.4) = **9,891 homes**

To make it up with affordable $750,000 homes =

($4,000,000 + $4,000,000) / ($108 x 2.4) = **30,864 homes**

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SALES TAX

As mentioned, Martinez already has the County's second-highest sales tax rate, and sales tax revenue added by adding residents is only $137 per capita.

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THE OTHER ALTERNATIVE – ECONOMIC DEVELOPMENT

During former City Manager Kilger's tenure, he assembled an Economic Development team, and they produced an Economic Development Action Plan (EDAP), which is still on the City's website. While the merits of the plan and the findings involved in shaping it can be argued, its idea of setting aside sections of the City for economic development is a good one, and, in builtout Martinez, areas that have the potential of generating high revenue should be designated for business in the General Plan.

Real estate devoted to business is an effective, but long-term solution to increasing City revenue. It brings in property tax with much smaller general fund costs than housing. Business-to-business taxable sales from high-productivity activity are both higher and less volatile than small-volume retail, and generate their higher sales tax revenue via higher sales, rather than a higher sales tax rate. The jobs they provide generate retail sales tax from non-resident employees, as well as increase the average socioeconomic status of the community with their educated, higher-income resident employees.

Having more well-paying jobs for residents would increase Martinez' livability, and would reduce traffic burdens across the region, going along with Supervisor Glover's Northern Waterfront Economic Development Initiative (NWEDI) and a number of East Bay Times editorials to the point that, although housing is needed all over the Bay Area, our north-central portion needs jobs much more than housing, as is obvious to anyone who has experienced Highway 4 at commute time.

Getting businesses to locate in a city isn't easy, and requires steady, long-term effort – exactly the kind of effort that a General Plan is meant to foster. At the NWEDI Jobs Conference, one of the participating panelists put out the idea of "agglomeration" – businesses with symbiotic needs and offerings, including a skilled, fluid labor pool, tending to locate near one another, in a virtuous circle of co-location and expansion as word spreads of the benefits of being part of that city's business neighborhood.

Silicon Valley didn't happen overnight. Silicon Valley wouldn't have happened if the entire South Bay had been filled with housing. Martinez can improve its bottom line if it starts planning now with a forward-looking General Plan.