



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo
Councilmember Lan Diep
Councilmember Pam Foley

SUBJECT: SEE BELOW

DATE: November 27, 2019

APPROVED:

DATE: 11/27/2019


NH


ML



SUBJECT: POTENTIAL REAL PROPERTY TRANSFER TAX MEASURE

RECOMMENDATIONS

1. Accept staff's recommendations adopting a Resolution of the City Council to place a real property transfer tax measure on the March 3, 2020 ballot, with the following modification to the statement of the measure to be printed in the ballot – underlined text reflects an addition and strike-through text represents a deletion:

To fund general City of San José services, including ~~providing~~ affordable housing for seniors, veterans, disabled, and low-income families, and helping homeless residents move into shelters/permanent housing, shall an ordinance be adopted enacting a real property transfer tax including unrecorded transfers at these rates: EXEMPT transfers under valued up to \$2,000,000 ~~EXEMPT~~, adjusted for inflation, \$2,000,000-~~01~~ to \$5,000,000 at 0.75%, \$5,000,000.01 to \$10,000,000 at 1.0%, and over \$10,000,000 at 1.5%; generating approximately \$70,000,000 annually, until repealed, with all money staying local?

2. Direct the City Attorney, working with City staff, to include in the proposed real property transfer tax ordinance the Consumer Price Index for All Urban Consumers (CPI-U) as predictable indexing of the under \$2 million exemption floor, adjusted every five years and rounded to the nearest \$100,000. The San Francisco-Oakland-Hayward, CA area index should be used until an index for the San José metropolitan statistical area is included in the CPI-U tables from the Bureau of Labor Statistics found at https://www.bls.gov/regions/west/data/cpi_tables.pdf, or until a more suitable alternative

is identified by the Director of Finance. This indexing will allow for the exemption floor to increase with inflation to protect first-time homebuyers from the tax.

Background

Our deep appreciation to the City Manager's Office, City Attorney's Office, and Finance for their diligent efforts to bring forward for Council consideration potential ballot measures to generate additional General Fund revenue.

While the most viable option is a real property transfer tax that will generate General Fund revenues for any governmental purpose, we have the opportunity for the public to invest in the City to address our most pressing issues at this time including affordable housing and homelessness.

As we stated in our memorandum for the 11/19 Council meeting, this general tax levy is a necessary but not sufficient means to boost City's General Fund with additional resources to combat this affordable housing and homelessness crisis, and we will return to Council to discuss a commercial linkage fee and other options in the weeks and months ahead.

Indexing the \$2-Million Exemption Floor

Indexing the under \$2-million exemption floor ensures that we will not create, in future years, a barrier to entry for first-time homebuyers as median home prices increase.

The most commonly known index is the Consumer Price Index (CPI) published by the U.S. Department of Labor's Bureau of Labor Statistics (BLS). Both current and historical indices are published on the BLS website and are readily available to the public. However, the index for the San José metropolitan statistical area is not included in the published CPI tables on the BLS website (https://www.bls.gov/regions/west/data/cpi_tables.pdf) and only the San Francisco-Oakland-Hayward area has readily available current and historical data for the San Francisco Bay Area.

There are two types of CPI – for All Urban Consumers (CPI-U) and for Urban Wage Earners and Clerical Workers (CPI-W). CPI-U is a broader category and more appropriate of an index. For administrative simplicity, we recommend that the adjustment occurs every five years, and that it is rounded to the nearest \$100,000.

For example, if we were to adjust the exemption floor this year, we would look at the San Francisco-Oakland-Hayward area CPI-U data for the last year (2018 - 285.550) and five years ago (2014 - 251.985). We see an increase in the index of 33.565, a percentage increase of 13.3%. We apply this percentage increase to the exemption floor, and after rounding to the nearest \$100,000, we have a new exemption floor of \$2.3 million.