


CITY COUNCIL ACTION REQUEST

Departments: City Manager's Office	Date: 3/6/19	Coordination: City Attorney's Office, Budget Office, Finance and Housing	Dept. Approval: /s/ Lee Wilcox CMO Approval: 
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SUBJECT: SB 5 (Beall and Maguire) Local-State Sustainable Investment Incentive Program

RECOMMENDED POSITION: Support

RECOMMENDED ACTION:

1. Adopt a position of support for SB 5 (Beall and Maguire).
2. Recommend this item be agendized for the March 19, 2019 City Council Meeting so that the City's Legislative Representatives can advocate the City's support for SB 5.

BILL SYNOPSIS:

SB 5 (Beall and Maguire) would establish the Local-State Sustainable Investment Incentive Program to allow local governments to voluntarily apply to a state committee to fund housing, infrastructure, strong neighborhood, and sea-level rise projects through Education Revenue and Augmentation Fund (ERAF) revenues.

In 1992, the state experienced a deficit and enacted ERAF to transfer property taxes from counties, cities, and special districts to school districts to fund education to Proposition 98-specified levels. Counties contribute roughly 70% and cities contribute roughly 16% of ERAF funds.

SB 5 would allow cities, joint powers authorities, enhanced infrastructure financing districts, and other local government entities to apply to a state committee to use a share of that local government's ERAF payment for state-approved project plans. If the committee selects the application through a competitive process, the State would allow the local government to use a share of that jurisdiction's ERAF funds and backfill the same amount to school districts.

SB 5 would fund projects in five categories:

- 1) Workforce and affordable housing, with a priority going to communities that adopt plans to streamline development,
- 2) Transit-oriented development that maximizes density and transit use,
- 3) Infrastructure that supports infill development including transit, street, water, and sewer services,
- 4) Strong neighborhoods through supporting local community planning and engagement efforts including repairing infrastructure, parks, and small business and job growth for local residents, and
- 5) Sea-level infrastructure construction and maintenance.

Additionally, fifty-percent of the funds must be spent on workforce and affordable housing, and fifty-percent of any housing development is required to include affordable homes. At least twenty-percent of the funds would be set aside for rural counties. SB 5 revenue could not be used to fund market-rate homes.

Local governments could apply to the State Committee for a multi-year commitment of funds, referred to as “local-state sustainable investment amount”, for a package of eligible projects.

The state committee would consist of appointees from the Legislature, the Governor, and state entities including the Strategic Growth Council, the Workforce Investment Board, and the Department of Housing and Community Development.

Under SB 5, the State will cap SB 5 applications at \$200 million from 2020 to 2025 and raise the cap until the fund reaches \$2 billion in 2029. In the case of a financial downturn when the State dips into the rainy day reserve, SB 5 would suspend any new fund applications. SB 5 requires the State to preserve any previous funding agreements.

IMPACTS TO CITY OF SAN JOSE:

In Fiscal Year 2017-2018, the City’s General Fund property tax distribution was reduced by \$53 million and transferred to the State to fund the City’s ERAF obligation. Of this \$53 million, the State returned \$8.4 million in excess ERAF revenues to the City. The State returns excess ERAF funds to local jurisdictions when the State has sufficient revenue to meet its Proposition 98 school minimum funding levels. Beginning in 2013-2014, the City began receiving excess ERAF revenue. The Administration currently estimates that excess ERAF revenue will be \$13.8 million in Fiscal Years 2018-2019 and 2019-2020. The Administration has factored this excess ERAF revenue into the Property Tax revenue estimate for the General Fund for Fiscal Years 2018-2019 and 2019-2020.

Senator Beall is working on language to amend SB 5 to establish a “base ERAF” for local project funding requests that is based on the net ERAF amount contributed by a local jurisdiction (total ERAF funds contributed by the jurisdiction minus the excess ERAF revenue returned to the jurisdiction). In Fiscal Year 2017-2018, the City’s base ERAF was approximately \$45 million. With a base ERAF approach, SB 5 would have no impact on the excess ERAF that the State returns to the City and the City uses as a General Fund funding source.

SB 5 contemplates that a local government that receives the state committee’s approval to use the “local-state sustainable investment amount” may bond against those funds to finance the approved projects. The Administration, working with the City Attorney’s Office and bond counsel, would need to evaluate the mechanics and feasibility of pledging these funds for the repayment of bonds.

SB 5 provides an additional tool for local governments to finance projects that align with the City’s priorities around housing and infrastructure. For housing proposals, these funds could be combined with other local, regional, state, and federal sources of housing funds including the 2016 Santa Clara County Measure A affordable housing bond, the 2018 statewide Propositions 1 and 2 housing bonds, and city funds. While the focus of SB 5 funding is on housing, SB 5 also allows infrastructure applications that support infill development and sea-level rise mitigation.

POLICY ALIGNMENT:

SB 5 aligns with the Legislative Guiding Principle to “Protect and increase funding to deliver city services, build infrastructure, and serve the San José community.”

SUPPORTERS/OPPONENTS:**Supporters**

California State Pipe Trades Council
California State Association of Electrical Workers
City of Eureka
First Community Housing
International Union of Operating Engineers
League of California Cities
Northern California Carpenters Regional Council
State Building and Construction Trades Council, ALF-CIO
Western States Council of Sheet Metal Workers

Opponents

None on record

STATUS OF BILL:

SB 5 is awaiting a hearing in the Senate Governance and Finance Committee.

FOR QUESTIONS CONTACT: Bena Chang, Intergovernmental Relations, at 408-975-3240.