



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Lee Wilcox

SUBJECT: SEE BELOW

DATE: May 22, 2019

Approved

D. DSL

Date

5/22/19

SUBJECT: POTENTIAL 2020 BALLOT MEASURES – AFFORDABLE HOUSING AND HOMELESSNESS

RECOMMENDATION

- a) Accept the staff report on potential 2020 ballot measures that could help provide affordable housing and address homelessness.
- b) Direct the City Manager to conduct additional survey research regarding potential 2020 ballot measures and to return to Council in August 2019 with an update.

OUTCOME

With Council's approval, the Administration and its survey consultant Fairbank, Maslin, Maullin, Metz & Associates (FM3) will conduct additional survey research regarding different approaches to raise revenues. Revenues could be used to build affordable housing and to help homeless residents move out of neighborhoods and into long-term, services-enriched housing.

BACKGROUND

Over the past decade, housing has become harder and harder for the average San José resident to afford, and the rate of homelessness has risen significantly. In San José, over the past ten years:

- The median price of a single-family home has risen by \$715,000, a 174 percent increase. Currently, the median single-family home costs \$1,125,000 and requires an income of \$224,395 to purchase. In 2009, the median home price was \$410,000 and required an income of \$81,780 to purchase.¹

¹ Source: Santa Clara County Association of Realtors, based on March 2009 and March 2019 data.

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- The median price of a condominium /townhome has risen by \$556,000, a 252 percent increase. Currently, the median condominium /townhome costs \$776,000 and requires an income of \$169,783 to purchase. In 2009, the median price of a condominium/townhome was \$220,000 and required an income of \$58,882 to purchase.²
- The average rent increased from \$1,599 per month in 2009 to \$2,463 per month in 2019, a 54 percent increase.³
- According to the Silicon Valley Index inflation-adjusted average wages in Silicon Valley increased by 21 percent between 2010 to 2018.

According to the American Community Survey, 27 percent (or 84,285) of San José's 314,295 households are lower income, earning 80 percent of the area median income of \$93,550 (for a three-person household). Of these, 13 percent (or 40,320 households) are extremely low-income, with incomes at or below 30 percent of the area median income, \$39,550 (for a household of three). San José has 21,441 deed-restricted affordable housing apartments. This equals approximately 6 percent of the City's 367,370 total housing units.

Every two years, the City of San José completes a "Point-in-Time"(PIT) count of people experiencing homelessness. The most recent PIT, completed in January, identified 6,172 homeless residents (83 percent of whom are unsheltered) in the City.

Since the State of California ended redevelopment in February 2012, the City of San José has lacked new revenue sources to fund the construction of affordable housing. Prior to dissolution of redevelopment, 20% of tax increment property tax revenue collected in the project areas was set-aside for affordable housing and in 2011 this amount totaled approximately \$40 million for the City. In November 2018, San José voters considered Measure V, a \$450 million general obligation measure, that would have funded the construction and rehabilitation of affordable housing. To pass, Measure V required two-thirds of voters to vote "yes." The measure obtained 64 percent approval, just short of the two-thirds requirement.

Through feasibility analysis and survey research, the Administration has begun to explore a variety of ballot measures for Council to consider placing before the voters at either the 2020 presidential primary (March 3, 2020) or 2020 presidential general election (November 3, 2020), per Council direction. These measures would offer solutions to serious issues facing San José residents.

From May 3, 2019 through May 9, 2019, FM3 conducted a survey of 1,251 San José registered voters asking about potential measures to address housing and homelessness. The survey was conducted via email and by phone in English, Spanish, and Vietnamese. The margin of error was +/- 2.8 percent.

² Source: Santa Clara County Association of Realtors, based on March 2009 and March 2019 data.

³ Source: Costar, Average Effective Rents for Q1 2009 and Q1 2019.

ANALYSIS

This memorandum presents the results of the May 2019 housing survey and recommends next steps for Council consideration. The survey asked each registered voter about one of three potential ballot measures:

- 1) A general obligation bond measure to provide affordable housing and housing for the homeless near transit;
- 2) A general obligation bond measure to provide housing for the homeless; and
- 3) A real estate transfer tax measure that could fund general San José city services, including development of affordable housing and services for homeless residents, cleaning up graffiti and trash, and preventing pollution.

General Obligation Bond Measures

The State of California Constitution provides that a city may issue general obligation bonds for the acquisition and improvement of real property if authorized by two-thirds of its voters. General obligation bonds are payable only from ad valorem property taxes, which are required to be levied in an amount sufficient to pay interest and principal on the bonds coming due in each year. These property tax revenues are generated from an additional property tax that is distinct from general property tax collections and are dedicated to paying debt service on the bonds and cannot be levied or used for any other purpose. General obligation bonds are generally issued over a period of years and then repaid over a 20- to 30-year period from the date of issuance.

A city or county general obligation bond measure requires two-thirds approval and proceeds may only be used to purchase land or improve land, such as the construction or renovation of a facility.

With the two-thirds vote requirement becoming increasingly difficult, counties and cities are looking at a variety of funding streams to address the growing need to fund affordable housing developments. At the State level, the Legislature is considering Assembly Constitutional Amendment 1 (ACA 1) that would lower the approval rate to 55 percent for local bond or tax measures for affordable housing or public infrastructure investment. (Under the State Constitution, school district bond measures have a 55-percent threshold for approval.)

At a local level several cities placed real property transfer taxes on the ballot in 2018 to address general city services, including addressing the need for affordable housing and homelessness. The results of these efforts are discussed later in the memorandum.

As shown in Table 1 and Table 2 (below), the two potential general obligation bond measures that the Administration tested were significantly below the required two-thirds threshold for approval. Based on the levels of support for each of the potential bond measures, and the results from Measure V last year, the Administration does not recommend moving forward with additional feasibility analysis for an affordable housing bond measure in March 2020. This recommendation is based on the initial survey question, follow-up questions, and the very small number of undecided voters.

Table 1: Survey Results for Potential Affordable Housing + Homelessness General Obligation Bond Measure

Sample 1: Housing + Homeless Services (66.67% threshold)	
<p><i>To provide housing near transit stops, to minimize traffic congestion, that is:</i></p> <ul style="list-style-type: none"> • <i>Affordable for working families, veterans, seniors, teachers, nurses, paramedics, and other workers; and</i> • <i>Helping homeless residents get off of local streets and out of neighborhood parks and creeks;</i> <p><i>Shall San José issue \$500 million in general obligation bonds with an average levy of 12¢ per \$1,000 of assessed value, averaging \$ 33 million annually until repaid, requiring community oversight and annual audits?</i></p>	
Total Yes	55%
Definitely yes	27%
Probably yes	25%
Undecided, lean yes	3%
Total No	40%
Undecided, lean no	1%
Probably no	13%
Definitely no	25%
Undecided	5%

Table 2: Survey Results for Potential Homelessness General Obligation Bond Measure

Sample 2: Homelessness Specific Measure (66.67% threshold)	
<p><i>To help homeless residents move into housing quickly and out of neighborhood parks, creeks, underpasses, bridges, cars, and other unsafe areas; and</i></p> <p><i>To improve neighborhood safety and clean up trash and pollution;</i></p> <p><i>Shall San José issue \$500 million in general obligation bonds with an average levy of 12 ¢ per \$1,000 of assessed value, averaging \$33 million annually until repaid, requiring community oversight and annual audits?</i></p>	
Total Yes	59%
Definitely yes	31%
Probably yes	25%
Undecided, lean yes	3%
Total No	38%
Undecided, lean no	3%
Probably no	9%
Definitely no	26%
Undecided	3%

Real Property Transfer Tax

A real property transfer tax is a tax paid when a property is sold or ownership transfers. State law exempts certain transactions from paying the tax, such as when a property is transferred due to inheritance, divorce, gift, or certain government transactions.

San José currently charges a real property transfer tax (the Real Property Conveyance Tax, Chapter 4.58 of the Municipal Code) at a rate of \$3.30 per \$1,000. Conveyance tax funds are allocated to libraries, fire protection facilities, parks, maintenance yards, communications facilities, and general municipal improvements. This tax may be paid by either the buyer or the seller of the property, or may be split between the two. Table 3 shows comparative rates of real property transfer tax in the largest Bay Area cities.

Table 3: Real Property Transfer Taxes in Major Bay Area Cities

City	Current Rate
San José – current conveyance tax	\$3.30 per \$1,000
San Francisco*	\$5 per \$1,000 up to > \$250,000 \$6.80 per \$1,000 \$250,000 to >\$1 million \$7.50 per \$1,000 \$1 million to >\$5 million \$22.50 per \$1,000 \$5 million to >\$10 million \$27.50 per \$1,000 \$10 million to >\$25 million \$30 per \$1,000 \$25 million or more
Oakland**	\$10 per \$1,000 up to \$300,000; \$15 per \$1,000 \$300,000-\$2 million; \$17.50 per \$1,000 \$2 million-\$5 million \$25 per \$1,000 over \$5 million

* Rate applies to the full value of consideration.

**Levied as a percentage of the value of consideration.

In November 2018, voters in five Bay Area cities⁴ approved new or amended real property transfer taxes to fund essential services. All of these taxes were general taxes. The City of Berkeley’s measure included addressing homelessness as a key priority. Tax rates varied from city to city as shown in Table 4.

⁴ Berkeley, Oakland, Hayward, Richmond, and El Cerrito.

Table 4: Bay Area 2018 Transfer Tax Measures

City	Rate (percentage)	Rate per \$1,000	Voter Outcome
Berkeley Measure P (tiered rate*)	1.5% under \$1.5 million 2.5% over \$1.5 million	\$15 per \$1,000 under \$1.5 million \$25 per \$1,000 over \$1.5 million	72.37% Approval
Oakland Measure X (tiered rate**)	1% up to \$300,000; 1.5% \$300,000-\$2 million; 1.75% \$2 million-\$5 million; 2.5% over \$5 million * discounts for first- time buyers and seismic/solar retrofits	\$10 per \$1,000 up to \$300,000; \$15 per \$1,000 \$300,000- \$2 million; \$17.50 per \$1,000 \$2 million-\$5 million \$25 per \$1,000 over \$5 million	69.48% Approval
Richmond Measure H (tiered rate*)	0.7% under \$1 million 1.25% \$1 million-\$3 million 2.5% \$3 million-\$10 million 3% over \$10 million	\$7 per \$1,000 under \$1 million \$12.50 per \$1,000 \$1 million-\$3 million \$25 per \$1,000 \$3 million- \$10 million \$30 per \$1,000 over \$10 million	64.89% Approval
El Cerrito Measure V (flat rate)	1.2%	\$12 per \$1,000	54.47% Approval
Hayward Measure T (flat rate)	0.85%	\$8.50 per \$1,000	59.21% Approval

* Rate applies to the full value of consideration.

**Levied as a percentage of the value of consideration.

Based on the success of these measures, the Administration tested the potential of a real property transfer tax that could be used for essential general San José City services, such as: addressing homelessness among seniors, veterans, and people with disabilities; helping homeless residents move from streets, parks, and creeks into emergency shelters and permanent housing with supportive services; and cleaning up graffiti, trash, and pollution.

Such a general tax would require approval of a simple majority of voters, or 50 percent plus 1 vote. This tax would be in addition to the existing Real Property Conveyance Tax that would remain unchanged and would continue to be allocated as required in the San José Municipal Code. At a rate of \$4.99 per \$1,000 (or 0.49%), the measure is projected to generate

approximately \$54 million dollars annually based on recent market conditions (sales price and number of property transfers).

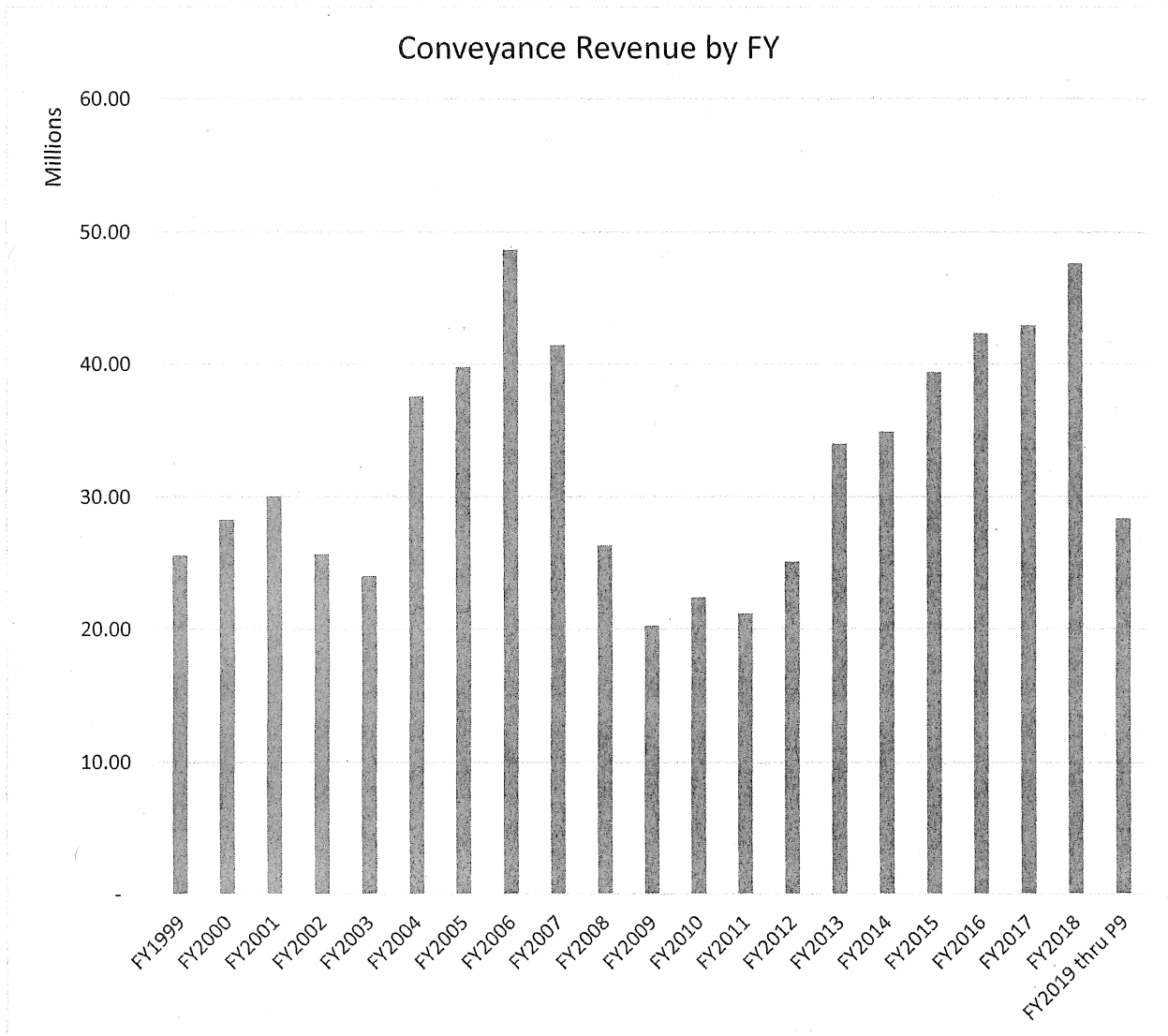
The survey results in Table 5 show likely support for this potential measure.

Table 5: Support for a New Real Property Transfer Tax in San José

Sample 3: Real Property Transfer Tax (50% +1 threshold)	
<p><i>To fund essential general San José City services, such as:</i></p> <ul style="list-style-type: none"> • <i>Addressing homelessness among seniors, veterans, and people with disabilities;</i> • <i>Helping homeless residents move from streets, parks, and creeks into emergency shelters and permanent housing with supportive services; and</i> • <i>Cleaning up graffiti, trash, and pollution;</i> <p><i>Shall an ordinance be adopted implementing an additional real property transfer tax at the rate of \$4.99 per \$1,000 providing about \$54 million annually, requiring community oversight and annual audits?</i></p>	
Total Yes	59%
Definitely yes	30%
Probably yes	25%
Undecided, lean yes	4%
Total No	38%
Undecided, lean no	3%
Probably no	8%
Definitely no	26%
Undecided	3%

It must be noted that real property transfer tax is highly volatile and subject to market conditions. Table 6 shows how the existing conveyance tax has fluctuated over the past twenty years, with highs of \$48.7 million in 2005-2006 and \$47.6 million in 2017-2018 to the low of \$20.3 million in 2010-2011 during the Great Recession. On average, the existing conveyance tax generated \$32.7 million annually from 1999 to the present.

Table 6: San José Conveyance Tax Revenue



As a general tax, these tax revenues would be available to fund general city services and cannot be bonded against. Due to the volatility of the real estate market, long-term ongoing projects would need to be monitored closely. Still, given the limited alternatives for generating revenues to address the significant problems facing the City, including homelessness, litter, graffiti, and illegal dumping, the Administration recommends further exploration of a potential general ballot measure. The City is currently facing a crisis of homelessness, requiring both near-term and permanent supportive housing solutions, as well as a need for citywide funding for efforts like BeautifySJ that address illegal dumping, litter, and graffiti.

EVALUATION AND FOLLOW-UP

If Council approves the staff recommendation, the Administration will return to Council in the fall of 2019 with recommendations for placing a potential real property transfer tax measure on the citywide ballot in March or November of 2020.

PUBLIC OUTREACH

The City's research consultant FM3 conducted a scientific survey of 1,251 San José registered voters asking about potential measures to address housing and homelessness. The survey was conducted via email and by phone in English, Spanish, and Vietnamese. The margin of error was +/- 2.8 percent.

This report will be posted on the agenda website for the June 4, 2019 City Council meeting.

COORDINATION

This memorandum has been coordinated with the Finance Department, the City Manager's Budget Office, and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission action is affiliated with this item.

FISCAL/POLICY ALIGNMENT

Since the loss of Redevelopment in 2012, the City has lacked an ongoing source of revenue to invest in affordable housing, end homelessness, address neighborhood blight, and respond to other critical issues. Securing additional revenue sources has been critical to address City needs in a sustained manner.

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CEQA

Statutorily Exempt, File No. PP17-001, CEQA Guidelines Section 15262, Feasibility and Planning Studies with no commitment to future actions.

/s/
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Chief of Staff, Office the City Manager

/s/
JACKY MORALES-FERRAND
Director, Housing Department

For questions, please contact Michelle McGurk, Assistant to the City Manager, Office of Administration, Policy, and Intergovernmental Relations, at (408) 535-8254.