



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmember Sergio Jimenez

SUBJECT: Potential 2020 Ballot Measures-
Affordable Housing and Homelessness

DATE: June 3, 2019

Approved by:

Date: June 3, 2019

Recommendation

1. Approve the memorandum dated May 31, 2019, from Councilmember Johnny Khamis and I;
2. If Council chooses to conduct additional analysis regarding potential 2020 ballot measures, include survey research on the following:
 - a. Non-residential parcel tax;
 - b. Vacancy tax; and
 - c. Per-employee business tax

Analysis

There is no denying that our City is facing a housing crisis. The results of the recent Homeless Count demonstrate that we are struggling at preventing homelessness and that we must look at every option to provide services and housing to our most vulnerable residents. San Jose is one of the most expensive cities in the country, with an average median home price of over \$1,058,000 and average rent for an apartment at \$3,064.00. Our residents are already paying an extraordinarily high price to live here.

We as elected officials have taxed our residents to address the problems that plague our City, allowing for pavement maintenance, increased public safety, and

the protection of open space. Though these are worthy causes, which I supported, we cannot continuously place the full burden of funding solutions on our residents. We need to find more equitable solutions to our growing problems and ask all sectors of our community to be part of the solution and share proportional responsibility.

Tax fatigue is prevalent and very real in all segments of our community. From fast food workers to tech workers, the burden is real. Voters across San Jose and the State are showing signs of weariness due to continuously giving while feeling that progress is slow. Having a robust dialog on the implementation of fees and taxes on businesses in a time of growing economic prosperity in California is the equitable thing to do.

Non-Residential Parcel Tax

A parcel tax that explicitly exempts homeowners and residential properties is a potential solution to the City's lack of financial resources. Focusing on commercial and industrial properties will alleviate public concerns about the continued reliance on residential property taxes to address affordable housing and homelessness. When the City of East Palo Alto proposed a non-residential parcel tax in 2018 (Measure HH) to address homelessness and affordable housing, it was approved with 79.6% of the vote.

Additionally, by creating a progressive structure, we can ensure smaller non-residential property owners pay less than larger owners who can afford a higher rate. We can align rates with the City's broader economic goals by levying a reduced tax on retail and industrial parcels, which are more likely to produce additional sales tax revenue and middle-wage jobs, and a higher one on professional office parcels. San Jose voters have responded positively to a progressively structured parcel tax before, including in 2014 when voters overwhelmingly approved the Library Parcel Tax by 81.47%. The library tax included a similar progressive structure, except it charged a small tax to residential parcels. This proposal takes the principles of the 2014 Library Tax one step further.

Vacancy Tax

A vacancy tax could achieve multiple objectives. Such a tax could be used to address homelessness and increase funding for affordable housing. Additionally,

levying a tax on vacant non-residential property would create an incentive to develop underutilized land and/or occupy vacant buildings.

Per-Employee Business Tax

In November 2018, 71% of voters in Mountain View approved Measure P, a progressively structured per-employee business tax. The success of Measure P demonstrates overwhelming support for taxing large corporations and businesses.

Businesses Located in Mountain View

Number of Employees	Incremental Tax/Fee	Annual Cost	Cost Range	
			Low	High
1	0	75 (base rate)	\$75	\$75
2-25	\$5	\$75 + \$5/per employee over 1	\$80	\$195
26-50	\$10	\$195 + \$10/per employee over 25	\$205	\$445
51-500	\$75	\$445 + \$75/per employee over 50	\$520	\$34,195
501-1,000	\$100	\$34,195 + \$100/per employee over 500	\$34,295	\$84,195
1,001-5,000	\$125	\$84,195 + \$125/per employee over 1,000	\$84,320	\$584,195
5,001+	\$150	\$584,195 + \$150/per employee over 5,000	\$584,345	No Cap

Out of Town Businesses*

5 Days or Less	6-29 Days	30-89 Days	90-119 Days	120 Plus Days
0%	25%	37.5%	50%	100%

*Out-of-town businesses pay the same incremental tax rate based on number of employees, but prorated based on the average number of days working in the City.

The nexus between employee growth and increased housing costs is clear: as more jobs are created and filled, the demand for housing increases. Given fierce competition for limited housing supply, rents and ownership housing costs skyrocket. A progressive per-employee business tax dedicated to affordable housing and addressing homelessness would be a powerful mitigation measure that ties the problem of high housing costs directly to its source.

As we welcome new jobs, we also have to adequately plan for rising rents, gentrification, and the displacement of residents. The business community should contribute its fair share to solving the problems that result from continued prosperity and economic growth.