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# EXPLORATION OF A POTENTIAL REAL PROPERTY TRANSFER TAX MEASURE

MARCH 3, 2020 ELECTION

ITEM 3.3, NOVEMBER 19, 2019

# POTENTIAL MEASURE: REAL PROPERTY TRANSFER TAX

## What it is

- Paid when real property is sold or transferred
- Exemptions for spouses/domestic partners, divorce, foreclosure, etc.

## Who pays

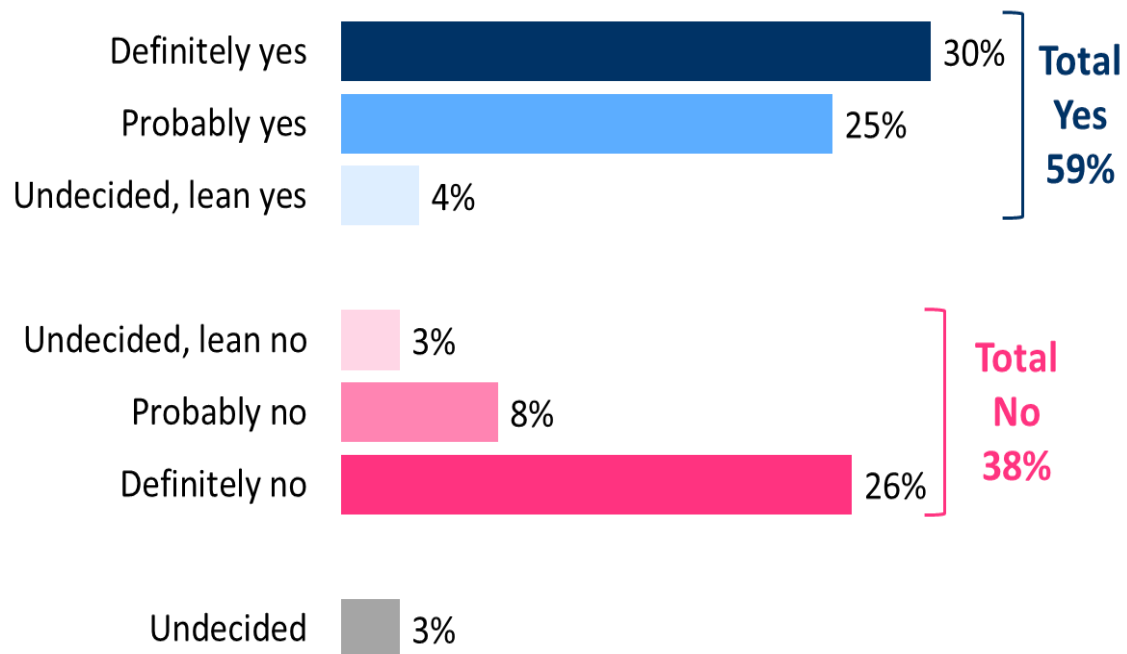
- In Santa Clara County, buyer & seller jointly share responsibility
- Typically negotiate for one to pay

## Current

- San José Real Property Conveyance Tax = \$3.30/\$1,000
- Dedicated to capital needs (parks, libraries, fire, other city facilities)

# MAY 2019 POLL: REAL PROPERTY TRANSFER TAX

## Property Transfer Tax (50% + 1)



## Ballot Question

To fund 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;
- 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?

# JUNE 2019 CITY COUNCIL DIRECTION

1

Explore parcel tax on commercial properties only

2

Explore a parcel tax on vacant properties

3

Explore variations on Real Property Transfer Tax, such as tiered tax rates, exemptions for transfers under a certain value

# PROPOSED REAL PROPERTY TRANSFER TAX MODEL

Transfer Value	Proposed Tax Rate in %	Proposed Tax Rate in \$
\$0 to \$2 million	EXEMPT	EXEMPT
>\$2 million to \$5 million	0.75%	\$3.75 per \$500
>\$5 million to \$10 million	1.0%	\$5 per \$500
>\$10 million	1.5%	\$7.50 per \$500

*\*Rate would apply to full value of consideration.*

# COMPARATIVE TRANSFER TAX RATES

San José*		San Francisco*		Oakland**	
<u>Rate</u>	<u>Transfer Value</u>	<u>Rate</u>	<u>Transfer Value</u>	<u>Rate</u>	<u>Transfer Value</u>
Exempt	Up to \$2M	0.5%	up to \$250,000	1.0%	up to \$300,000
0.75%	>\$2M to \$5M	0.68%	\$250,000 to >\$1M	1.5%	\$300,000 to \$2M
1.0%	>\$5M to \$10M	0.75%	\$1M to >\$5 M	1.75%	\$2M to \$5M
1.5%	>\$10M	2.25%	\$5 M to >\$10 M	2.5%	\$5M or more
		2.75%	\$10 M to >\$25 M		
		3%	\$25M or more		

\* Rate applies to the full value of consideration.

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

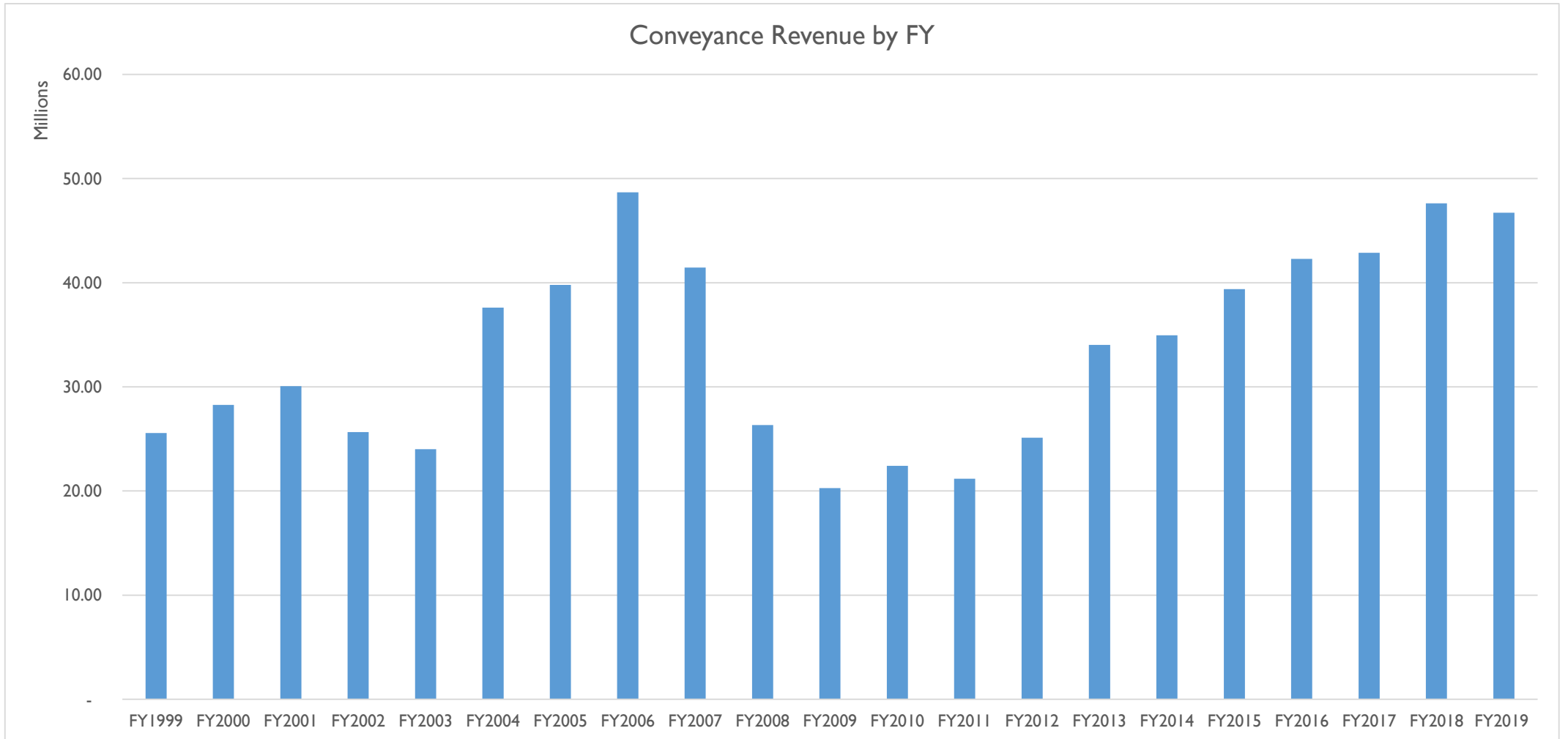
# POTENTIAL TRANSFER TAX + EXISTING CONVEYANCE TAX

San José*		San Francisco*		Oakland**	
<u>Rate</u>	<u>Transfer Value</u>	<u>Rate</u>	<u>Transfer Value</u>	<u>Rate</u>	<u>Transfer Value</u>
0.33%	Up to \$2M	0.5%	up to \$250,000	1.0%	up to \$300,000
1.08%	>\$2M to \$5M	0.68%	\$250,000 to >\$1M	1.5%	\$300,000 to \$2M
1.33%	>\$5M to \$10M	0.75%	\$1M to >\$5 M	1.75%	\$2M to \$5M
1.83%	>\$10M	2.25%	\$5 M to >\$10 M	2.5%	\$5M or more
		2.75%	\$10 M to >\$25 M		
		3%	\$25M or more		

\* Rate applies to the full value of consideration.

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

# CONVEYANCE TAX REVENUE BY YEAR





# POTENTIAL REVENUES

Transfer Value	New Tax Rate	Projected New Revenue		
		Recessionary Scenario	20-Year Average Scenario	2017-2018 Tax Year Model Scenario
Up to \$2M	Exempt	0	0	0
>\$2M to \$5M	0.75%	\$5M	\$6.2M	\$9.1M
>\$5M to \$10M	1.0%	\$2M	\$2.5M	\$3.7M
Over \$10M	1.5%	\$15.1M	\$41M	\$60.3M
Total Projected New Revenues		\$22.1M	\$49.7M	\$73.1M

# SCENARIOS

## Condominium \$560,000

- Transfer tax: \$0
- Exempt under \$2M

## Single-family home \$1.2 million

- Transfer tax: \$0
- Exempt under \$2M

## Single-family home \$2.7 million

- Transfer tax: 0.7%
- \$18,900

## Retail center \$6.8 million

- Transfer tax: 1.0%
- \$68,000

# San José Voter Views of Potential Finance Measures

*Key Findings from a Survey of San José Voters  
Conducted November 5-10, 2019*



OPINION  
RESEARCH  
& STRATEGY

# Methodology

- ✓ 806 interviews with San José voters likely to participate in the March 2020 election
- ✓ Conducted November 5-10, 2019, online and via landline and cell phones in English, Spanish and Vietnamese
- ✓ Margin of sampling error of +/-3.5% at the 95% confidence interval
- ✓ Due to rounding, some percentages do not add up to 100%
- ✓ Selected comparisons to prior research among residents in the city

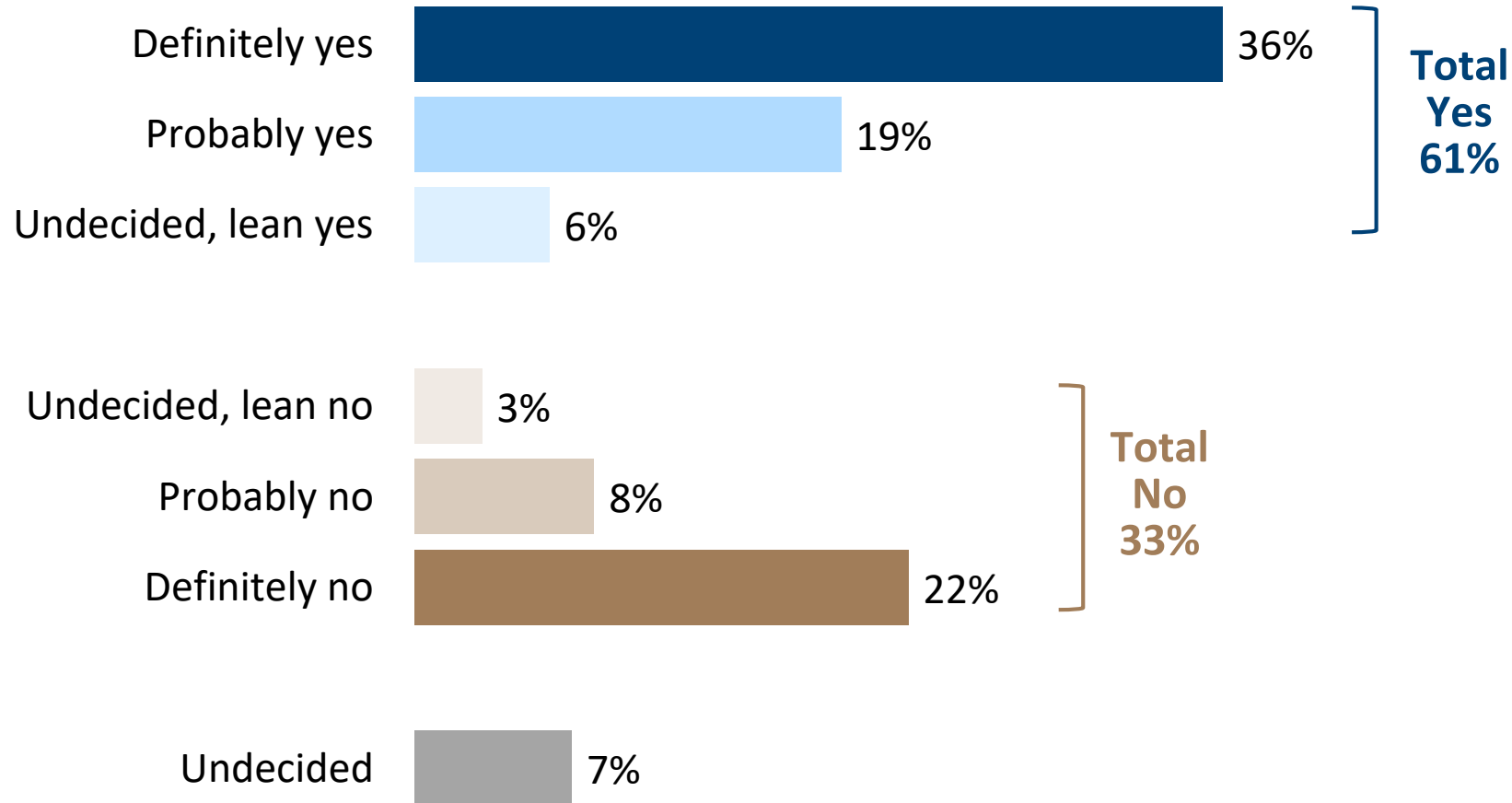
# **Voter Reactions to a Transfer Tax Measure**

# Ballot Measure Language Tested

*(General-purpose; Majority Vote Threshold)*

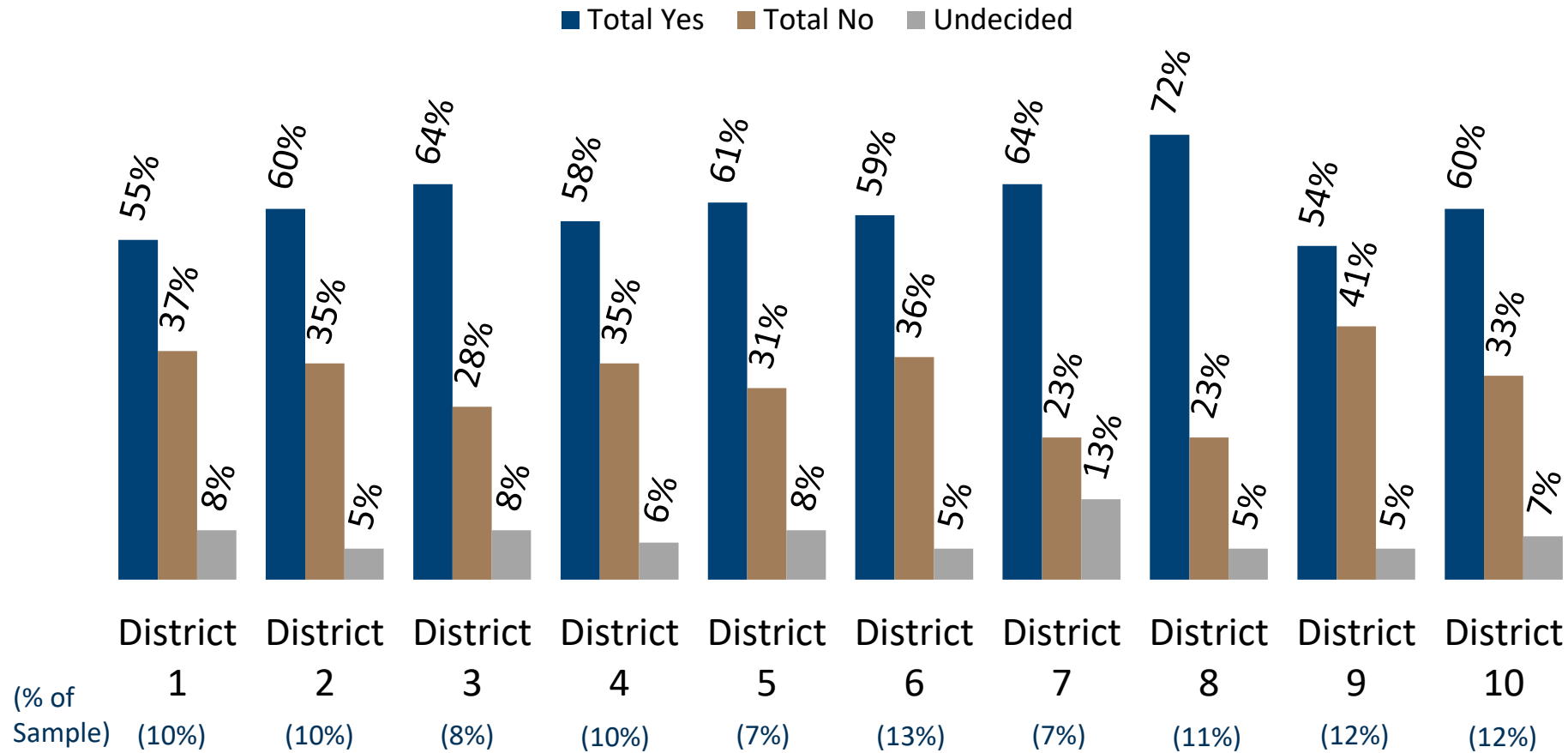
To fund general San José City services, like providing affordable housing for seniors, veterans, disabled, and low-income families and helping homeless residents move into shelters/ permanent housing, shall an ordinance be adopted enacting a real property transfer tax including unrecorded transfers at the following rates: transfers valued under \$2,000,000 exempt, \$2,000,001 to \$5,000,000 at 0.75%, \$5,000,001 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?

# Three in five back this measure, with more than one-third “definitely” voting yes.



# Support exceeds a majority in every council district.

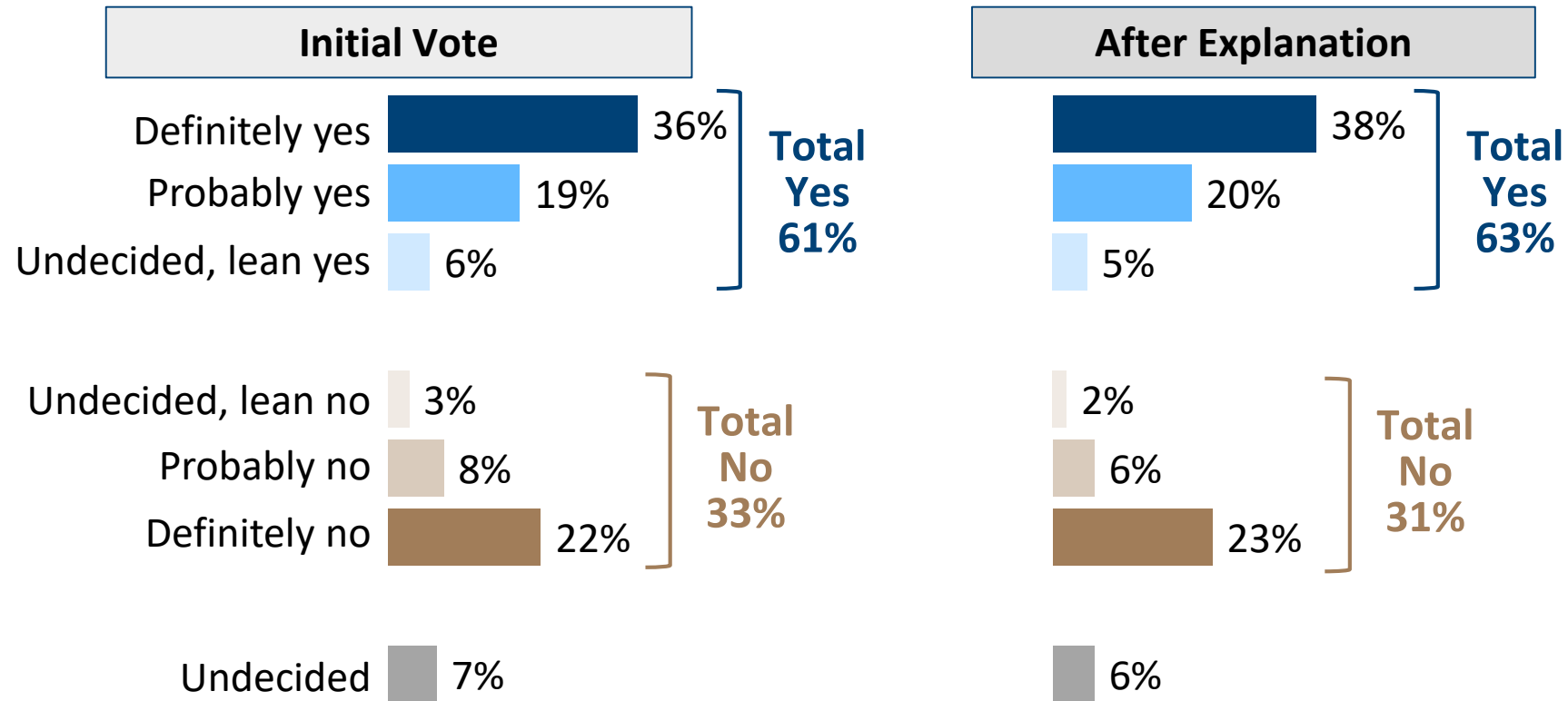
*Vote on Transfer Tax by City Council District*





# Given a plain-language explanation, there was no significant shift in vote totals.

*This measure would raise the transfer tax on San José homes and commercial properties with a price of over \$2 million—with higher rates for properties over \$5 million and \$10 million—to help fund general City services, including affordable housing, homeless housing, and other related services. The transfer tax is only paid when a property changes hands, and San José currently has one of the lowest transfer taxes among major cities in the Bay Area.*



# Conclusions

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- ✓ A general-purpose, real-estate transfer tax measure (with a majority vote threshold) appears viable for the March 2020 ballot.
- ✓ Supporters are motivated by their sense that something must be done to address high housing costs and homelessness in the city and that wealthier residents can afford to pay more.
- ✓ Opponents are more generally anti-tax, or don't trust government to manage the money.
- ✓ A majority says they would be more likely to support a measure with protections for small, family-owned businesses for sales of \$5 million or less.
- ✓ Top priorities for revenue investments include affordable housing for people with disabilities, seniors, and seniors and people with disabilities who are homeless. Training and preparation for PG&E power shutoffs rank lower on the list.

# For more information, contact:



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## RECOMMENDATION & NEXT STEPS

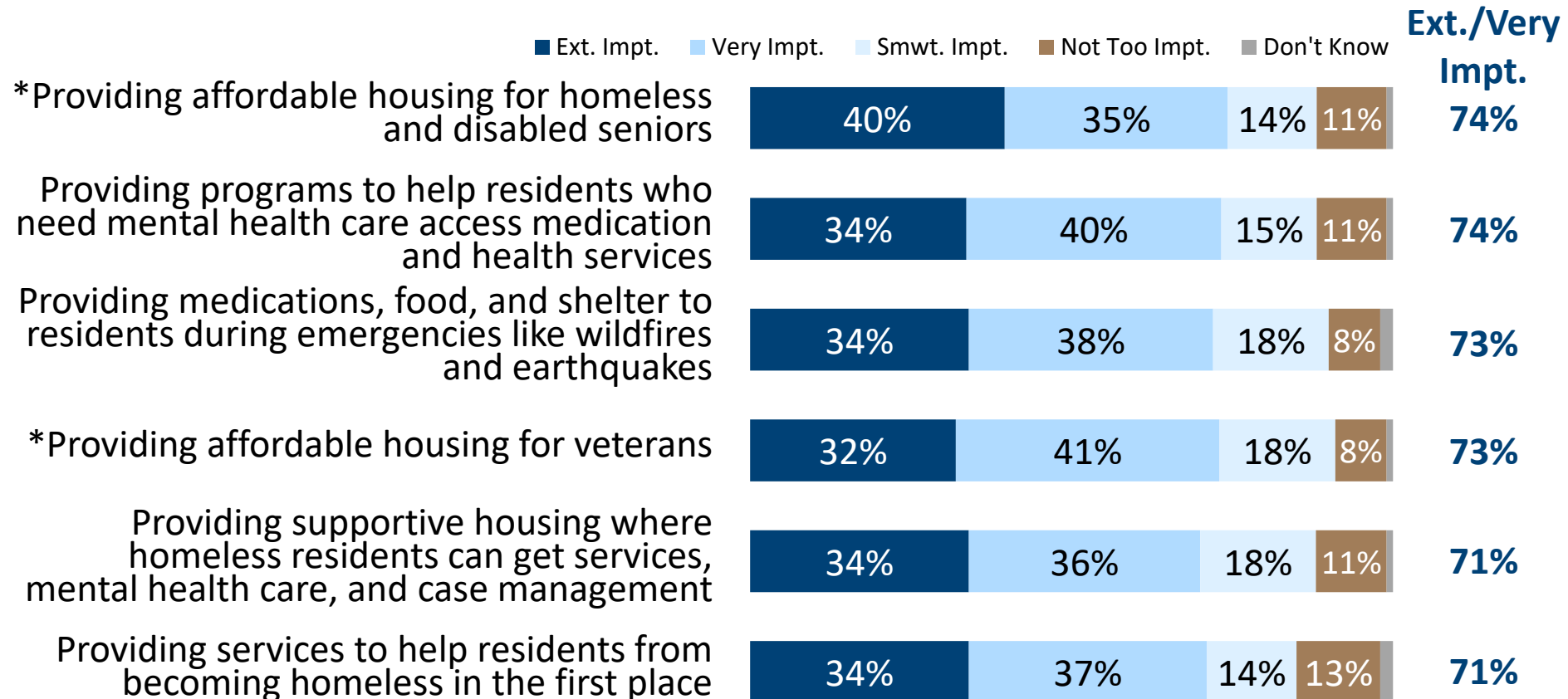
- A) Accept the staff report regarding the outcome of recent public opinion polling on a potential real property transfer tax measure for March 3, 2020
- B) Direct the City Manager and City Attorney to return with a potential real property transfer tax measure on December 3, 2019 with a proposed ballot question, ordinance, resolution, and other items required for the City Council to call an election to place the tax measure on the March 3, 2020 ballot.

# Voter Spending Priorities

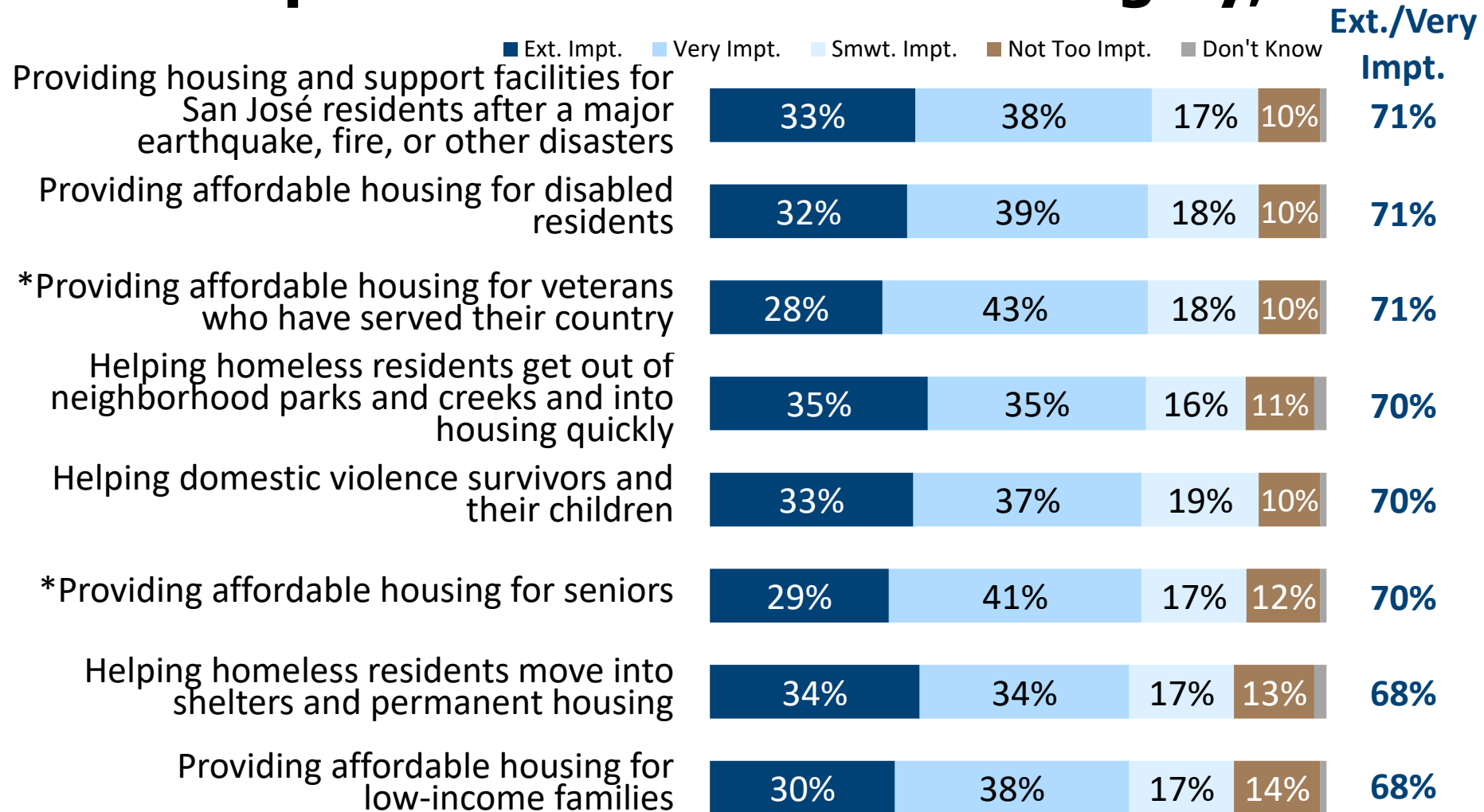
- ✓ Prior research conducted for the City in recent years has explored a variety of voter spending priorities for additional funding, including police, fire, emergency response, park and street maintenance, libraries, etc.
- ✓ This survey took a closer look at other potential spending priorities that have elevated in their urgency, including housing, homelessness, PG&E power shutoffs, and blight.
- ✓ Another recent survey, whose findings will be summarized in the near future, took a closer look at potential spending priorities related to parks, recreation programs, stormwater, local water quality, and green infrastructure.

# Affordable housing for homeless and disabled seniors and veterans, as well as mental health programs and wildfire shelter, ranked highly.

*I am going to read you a list of City projects that could be funded by this ballot measure. Please tell me how important each project would be to you personally: extremely important, very important, somewhat important, or not too important.*



# Housing for residents displaced after disaster and helping homeless residents get out of parks and creeks ranked highly, too.





# Less-urgent priorities have to do with PG&E power shutoffs and reducing graffiti.

