



Memorandum

TO: RULES & OPEN
GOVERNMENT
COMMITTEE

FROM: Mayor Sam Liccardo
Councilmember Raul Perez
Councilmember Lan Diep
Councilmember Pam Foley

SUBJECT: SEE BELOW

DATE: November 26, 2019

APPROVED:

DATE: 11/26/2019

**SUBJECT: SPENDING PRIORITIES FOR POTENTIAL GENERAL FUND
REVENUE FROM A REAL PROPERTY TRANSFER TAX MEASURE**

RECOMMENDATIONS

1. Place on the December 10, 2019 Council meeting agenda a budgeting discussion and consideration of spending priorities for potential General Fund revenue that may result from the passage of a real property transfer tax measure.
2. Direct staff to provide the necessary amendments to Council Policy 1-18, *Operating Budget and Capital Improvement Program Policy*, for the outcome of the Council's deliberations on this budgeting decision.
3. Include within the Council Policy the following spending priorities for General Fund revenue flowing from the potential real property transfer tax measure:
 - a. Up to 5% set-aside for City administration of funding related to increased workload resulting from more robust homeless prevention efforts and the creation of more affordable housing, and
 - b. Of the remaining revenue, allocate:
 - i. 10% for homelessness prevention and rental assistance for homeless college and school-engaged students, victims of domestic violence, seniors, and families,

COUNCIL AGENDA:

ITEM:

Page 2

- ii. 45% for permanent supportive and affordable rental housing for extremely low-income (ELI) households—defined as earning less than 30% of area median income (AMI),
 - iii. 35% for affordable rental housing for 30%-80% AMI households, and
 - iv. 10% for below market-rate for-sale housing and moderate-income rental housing—up to and including 120% AMI—including rent-restricted ADU forgivable loans, down payment assistance, and first-time homeownership opportunities for households up to 120% AMI.
4. We also propose further transparency and accountability of the City Council's spending decisions relating to revenue from the real property transfer tax revenue, in addition to the already-directed requirement of a two-thirds Council vote amending any spending priorities and establishment of an Oversight Committee:
- a. Requiring a 60-day notice and at least two public hearings prior to the Council taking action on any proposed change to the annual spending plan that could shift any funding, and
 - b. Creating a separate accounting for the revenues generated by the measure for the purposes of oversight by the Oversight Committee.

Background

Thanks to the leadership of this Council, we have the opportunity to champion a March 3, 2020 ballot measure to fund general City services via a real property transfer tax. While more than 95% of all residential home owners will remain exempt from paying the tax, this measure can still generate nearly \$50 million annually, on average, to enable the City's General Fund revenue to better address the City's most urgent issues.

The most urgent problem of all is our affordable housing crisis. Homelessness and the lack of affordable housing now comprise the most daunting challenge of our generation. While the real property transfer tax will generate General Fund revenues, this ballot measure gives the City the opportunity to significantly invest in affordable housing development and homelessness prevention and intervention. Since the City of San José lost about \$40 million in annual affordable housing funding with the demise of redevelopment agencies statewide in 2011, we recognize that current General Fund resources are not sufficient to address affordable housing issues. Not coincidentally, we have seen our crisis deepen in that time.

Council Policy 1-18, *Operating Budget and Capital Improvement Program Policy*, outlines the guiding principles and conventional budget processes. This memorandum acknowledges that

COUNCIL AGENDA:

ITEM:

Page 3

extraordinary opportunity to increase revenues within the General Fund and that Council, through amendments to Council Policy 1-18, should express the Council's spending priorities for this potential increase in General Fund revenue for future budget development to address housing and homeless issues. Accordingly, we propose budgeting for potential General Fund revenues by prioritizing funding for affordable housing and homelessness prevention and intervention.

Lastly, we support the ongoing staff outreach to labor representatives and nonprofit affordable housing developers regarding ongoing negotiations on workforce labor standards if any housing construction is funded through potential revenues generated by this general tax.