

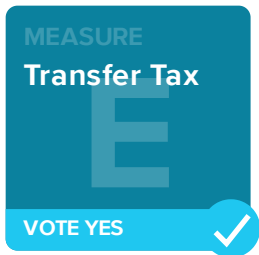


IDEAS + ACTION FOR A BETTER CITY

a member-supported nonprofit organization

San José March 2020 Voter Guide

Ballot analysis and recommendations



SPUR provides analysis and recommendations on one local ballot measure for the March 3, 2020, San José election.

Our San José Policy Board heard arguments from both sides of the issue, debated the measure's merits and provided a recommendation to our San José Board of Directors. The board then voted, with a 60 percent vote required for SPUR to make a recommendation.

Published on February 12, 2020

Measure E Transfer Tax

ORDINANCE

Real Property Transfer Tax

Creates a transfer tax for both commercial and residential properties to provide a new revenue source to the City of San Jose General Fund.

Vote YES



What the Measure Would Do

Measure E would establish a permanent tax on the sale or transfer of commercial and residential property in San Jose. The transfer tax would be imposed on properties assessed and sold at \$2 million and above; both this threshold and the fee structure would be adjusted over time for inflation. Transfers would be taxed at the following rates:

Property Value	Tax Rate
Less than \$2,000,000	exempt from tax
\$2,000,000 to \$5,000,000	0.75%
\$5,000,000.01 to \$10,000,000	1.0%
\$10,000,000.01 and higher	1.5%

For example, on a home or commercial property that sold for \$11 million, the tax owed would be \$165,000.

Because Measure E is a general tax, the revenue it generates would be deposited into the General Fund and could be used for a variety of services. However, the San Jose City Council has passed a series of resolutions directing that the funds be used to provide affordable housing for seniors, veterans, disabled and low-income families and to help homeless residents move into shelters or permanent housing.

The Backstory

In a region already struggling to address its housing shortage and affordability crisis, San Jose stands out as one of the most expensive cities in the world. Nearly 43% of current households in San Jose are cost burdened, with 23% paying between 30 and 50 percent of their income toward housing costs and 20% paying more than 50% of their income towards housing costs.¹

While San Jose has traditionally been a good actor with regard to approving new market-rate and affordable housing, it has not been immune to the regional housing shortage. Home prices and rents have risen sharply, pricing out many low- and middle-income households that have traditionally found San Jose affordable.

Homelessness has become an increasingly visible tragedy on the streets, and overcrowding (multiple families living in a single-family home) has become more and more common. A 2019 analysis by Santa Clara County found that in San Jose the number of people considered chronically homeless was 1,579, an increase of 374 from 2017. The percentage of homeless residents who were unsheltered was 83%, up from 74% in 2017.²

In recognition of the housing shortage in San Jose and around the region, in 2017 Mayor Liccardo launched a five-year plan to build 25,000 housing units, of which 10,000 would be made affordable.

The city estimates it would need \$548 million to meet the plan's goal of 10,000 affordable units by 2022. This is in addition to funding anticipated from Santa Clara County's \$950 million general obligation bond for affordable housing, passed in 2016 (Measure A). While San Jose projects can generally compete well for Measure A funding and other state funding programs, far more funding is needed than is currently available.

In 2018 the City of San Jose put a measure on the November ballot that would have authorized up to \$450 million in general obligation bonds for affordable housing. As a bond, the measure required two-thirds of voter approval to pass, but received 64% of the vote, failing by a very small margin. Over the past year, the city worked with partner organizations to conduct significant outreach and analysis on how to structure a new ballot measure that would support the mayor's housing agenda and address the growing housing crisis. Based on that analysis, the city concluded that a general tax, which only requires a 50% vote, would have a higher chance of success than proposing a bond measure again. Because a general tax measure cannot earmark

funds, the City Council adopted a separate series of resolutions that would direct Measure E funds toward affordable housing and homelessness services.

Pros

- Measure E could support up to \$70 million dollars in dedicated funding for affordable housing and homelessness prevention, critical needs that San Jose is struggling to address.
- Because it is equally distributed between commercial and residential properties, the tax would not overly burden one sector of the real estate market.
- The threshold has been set at property sales of \$2 million and greater to ease the burden on first-time home buyers.
- Measure E is unlikely to have a negative economic impact for the city because transfer taxes don't affect job creation or business attraction.
- While Measure E would generate additional revenue to support affordable housing, it would not remove the process barriers that currently make such housing hard to build. The city also needs to refine its policies regarding land use, zoning and permitting to better facilitate the production of affordable housing.
- Because Measure E is a general tax, the revenue it generates cannot be designated for a specific purpose. While the San Jose City Council has adopted a series of resolutions to protect how the funds are used, there is a chance that in the future the council could decide to allocate these funds to other needs.
- Transfer tax revenue tends to be cyclical and somewhat volatile depending on how the real estate market is performing. It can be problematic to direct uncertain funding toward an ongoing need, and the city should forecast future revenue conservatively to account for this.

Cons

SPUR's Recommendation

There is a critical need to proactively address and finance affordable housing and homelessness prevention in San Jose. The city is substantially behind on its goal to produce 25,000 housing units, and homelessness has spiked nearly 42 percent in two years. Measure E is a key potential funding source that could help to alleviate the housing shortage by enabling the creation of thousands of affordable homes for all kinds of San Jose residents.

While Measure E's aim is an important one, the SPUR Board of Directors was torn over whether a general tax is the right mechanism since its revenue could not be designated for a specific purpose. Although the City Council adopted a series of additional resolutions to ensure how these funds would be used, we have concerns about the security of the revenue over time. That said, considering the gravity of the current housing crisis and the time lost on a previous funding measure that didn't pass, we support the city's efforts to ensure passage of this measure and secure funding for these critical needs.

Vote YES on SJ Measure E - Transfer Tax



FOOTNOTES

¹ City of San Jose, "Analysis of Impediments to Fair Housing Choice, 2016–2020," <https://www.sanjoseca.gov/home/showdocument?id=13869>

² County of Santa Clara, "City of San José Release Results of 2019 Homeless Census," May 16, 2019, <https://www.sccgov.org/sites/opa/newsroom/Documents/2019%20Homeless%20Census%20News%20Release.pdf>

