

June 2, 2017

Real Property Transfer Tax

Affordable Housing Allocation Plan

Background

Like many cities throughout the state and the nation, the City of Santa Rosa faces an unprecedented housing crisis. This crisis is arguably the result of inadequate funding for affordable housing construction over previous decades, coupled with the City's and County's strong adherence to environmental principles and open space, such as community separators. Although community separators are a critically important growth policy that inhibits sprawl and preserves our desired open space, this policy, among others, does contribute to this crisis by limiting available space for housing construction. Compounding this problem is Proposition 13, which causes cities throughout California to impose fees on construction and permits to meet ever-increasing service costs once covered by residential and commercial property taxes, thus driving up housing construction costs further. Finally, the California Tiger Salamander removes a significant number of spaces once deemed available for development within the city. Should the City of Santa Rosa wish to encourage more housing construction to meet the rising needs of the City's low-to-moderate-income populations, and do so in a way that promotes inclusionary housing practices, the City will need to make incentive funding available (i.e. subsidies).

Proven Results

On May 23rd, 2017, the Santa Rosa City Council awarded \$2.75 million in funds to developers proposing to build affordable housing – either as a stand-alone project, or as a part of a larger market-rate development. This initiative, known as the *Affordable Housing Incentive Fund Pilot Program* (AHIFPP), targets funding to projects that:

- 1.) Contain the most affordable housing;
- 2.) Requires the least amount of City funds;
- 3.) Target the lowest income levels;
- 4.) Have affordability covenants that last the longest period of time.

AHIFPP received 8 applications, four of which were chosen to receive funding - either as a loan to be repaid to the City, or as a grant. The only reason all 8 were not selected was due to the limited resources available to the City, which was a total of \$3 million. Due to the \$2.75 million appropriated under AHIFPP, 56 new units will be built in Santa Rosa containing a mix of affordable rental units and affordable homeownership units. The remaining \$250,000 from the \$3 million total was set aside for emerging housing and homelessness needs. This experience exemplifies the significant impact a permanent funding stream for affordable housing construction can achieve on annual basis.

Proposal

Currently, the City of Santa Rosa realizes over \$4 million every fiscal year from the Real Property Transfer Tax (RPTT). In fiscal year 2017/2018, the City realized \$4,406,434. This money is directed into the General Fund to fund city services, but currently, 25% of these funds are appropriated to the City's Housing and Community Services Department to fund homeless services. What's more, during the 2017/2018 Budget Session, the Council decided to appropriate an additional 5%.

Given the strong nexus between this fee, levied on Real Estate transactions, and affordable housing construction, we propose that the City of Santa Rosa increase the amount of RPTT funds dedicated to affordable housing construction. We believe this is crucially important, as it will preemptively and proactively help the City avoid housing crises in the future that will inevitably lead to unattainable housing prices and increasing rents.

However, recognizing the impact such a policy will have on the City's General Fund Budget, we do not recommend making this appropriation at once. Rather, we propose making an additional 5% appropriation every fiscal year until RPTT funds are 70% committed to the City's Affordable Housing Trust Fund, while maintaining the existing 30% that are currently dedicated to homeless services. Under this plan, RPTT would be fully dedicated to these purposes by 2032, leaving roughly \$1.3 million every year for homeless services and \$3.1 million for affordable housing construction from 2032 on.

% of RPTT Appropriated	Year	Total Housing Funds Available
30% (Current Amount)	2017/2018	\$0 (\$1,101,609 for Homeless)
+5% (\$220,321.70)	2018/2019	\$220,321.70
+5% (\$220,321.70)	2019/2020	\$440,643.40
+5% (\$220,321.70)	2020/2021	\$660,965.10
+5% (\$220,321.70)	2021/2022	\$881,286.80
+5% (\$220,321.70)	2022/2023	\$1,101,608.50
+5% (\$220,321.70)	2023/2024	\$1,321,930.20
+5% (\$220,321.70)	2024/2025	\$1,542,251.90
+5% (\$220,321.70)	2025/2026	\$1,762,573.60
+5% (\$220,321.70)	2026/2027	\$1,982,895.30
+5% (\$220,321.70)	2027/2028	\$2,203,217.00
+5% (\$220,321.70)	2028/2029	\$2,423,538.70
+5% (\$220,321.70)	2029/2030	\$2,643,860.40
+5% (\$220,321.70)	2030/2031	\$2,864,182.10
+5% (\$220,321.70)	2031/2032	\$3,084,503.80
Total: 100% (\$4,406,434)	2032	Total Affordable Housing Funds: \$3,084,503.8 (annually)

Conclusion

As a result of this approach, low-to-moderate-income residents and our workforce will have continued opportunities to access affordable housing well into the future, even as our population continues to grow. Not only will this policy result in over \$3 million made available every year for affordable housing construction from 2032 and beyond, but the City will have successfully generated a total of about \$23,133,776 between 2018 and 2032, also. What's more, this policy is achievable and predictable. Santa Rosa City Staff, which operates with very little revenue and ever-increasing demands on the General Fund, will be able to anticipate this expected annual change as they prepare future budgets.

Increasing Access to Homeownership for Local Residents and Renters

One of the most persistent problems among low-to-moderate-income residents is the inability to find financing options to achieve homeownership due to the region's high housing costs. This is particularly true among young professionals and public service employees (i.e. police, firefighters, teachers, and other city employees). For many, the 20% down payment can be unachievable, especially when rents frequently consist of 50% of a person's income. In fact, a 1-bedroom unit costs roughly \$1,800 per month in Santa Rosa, meaning a person earning \$43,200 per year will spend half of their annual income on rent.

As an addition to increasing the RPTT funds for the City's Housing Trust, we propose that the Santa Rosa City Council provide staff in the Housing and Community Services Department direction to create a 5% down payment homebuyer-assistance program what will help our public service workers, young professionals, and other low-to-moderate income residents achieve homeownership. As a result of this program, the City will effectively give people the opportunity to build equity in an appreciating asset and pay into a mortgage, which acts as a forced savings account. More importantly, this policy will create continuing opportunities for younger generations and the workforce to have a future in Santa Rosa, and remain part of our community.

City staff can explore many options and model a local homebuyer program after existing programs, such as San Mateo County's HEART program. Under the heart program, residents earning \$150,000 or less can place 5% down on a home up to \$781,875. San Mateo achieves this by partnering with a local lender that provides a 30-year fixed-rate loan, and the trust provides a second mortgage. Like the HEART program, the City's Housing Trust would be repaid as the borrower repays the loan, enabling other families to have access to this program in the future. Of course, the loan amounts will differ based on Santa Rosa's own cost of living, area median income, and access to financial resources.