

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JACK TIBBETTS, VICE MAYOR

SUBJECT: POLICY TO APPROPRIATE REAL PROPERTY TRANSFER TAX
TO AFFORDABLE HOUSING TRUST FUND

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended that the Council, by resolution, adopt a policy to increase the annual appropriation of Real Property Transfer Tax (RPTT) to the Affordable Housing Trust Fund in amount of five percent (5%) each fiscal year, beginning FY 2018-19 and ending FY 2032-33.

EXECUTIVE SUMMARY

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 as well as economic recession. 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).

BACKGROUND

On May 23, 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 eight 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 eight 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 an annual basis.

PRIOR CITY COUNCIL REVIEW

June 20, 2017: Item 10.2.1 Request for Agenda item to consider increasing the amount of Real Property Transfer Tax funding for Homeless and Affordable Housing Production per council Policy 000-48.

ANALYSIS

Currently, the City of Santa Rosa realizes over \$3 million annually from the Real Property Transfer Tax (RPTT). In FY 2017-18, the City estimates revenues of \$4,406,434 in RPTT. This money is directed into the General Fund to fund City services, but 25% of these funds are currently appropriated to the City's Housing and Community Services Department to fund homeless services and affordable housing programs.

Given the strong nexus between this fee, levied on real estate transactions, and affordable housing construction, I propose that the City of Santa Rosa increase the amount of RPTT funds dedicated to affordable housing construction. I 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, I do not recommend making this appropriation at once. Rather, I propose making an additional 5% appropriation every fiscal year until RPTT funds are 75% committed to the City's Affordable Housing Trust Fund, while maintaining the existing 25% that are currently dedicated to homeless services. Under this plan, RPTT would be fully dedicated to these purposes by 2033, leaving roughly \$1.1 million every year for homeless services and \$3.3 million for affordable housing construction from 2033 on. What's more, the City's General Fund has grown by about \$4 million every year, if calculated across a 15-year average. This is important to note because it is reasonable to assume that this change will not cause other departments and City services to be restricted in their ability to grow over the next 15 years as a result of this policy

Real Property Transfer Tax/Affordable Housing Allocation Plan
Page 3 of 4

Fiscal Year	Proposed TRF To Aff. Housing	Proposed Funding to Aff. Housing	% TRF to Homeless Svcs	Funding to Homeless Svcs	Total Yearly TRF to HCS
2018-19	5%	\$ 220,322	25%	\$ 1,101,609	\$ 1,321,930
2019-20	10%	\$ 440,643	25%	\$ 1,101,609	\$ 1,542,252
2020-21	15%	\$ 660,965	25%	\$ 1,101,609	\$ 1,762,574
2021-22	20%	\$ 881,287	25%	\$ 1,101,609	\$ 1,982,896
2022-23	25%	\$ 1,101,609	25%	\$ 1,101,609	\$ 2,203,217
2023-24	30%	\$ 1,321,930	25%	\$ 1,101,609	\$ 2,423,539
2024-25	35%	\$ 1,542,252	25%	\$ 1,101,609	\$ 2,643,861
2025-26	40%	\$ 1,762,574	25%	\$ 1,101,609	\$ 2,864,182
2026-27	45%	\$ 1,982,895	25%	\$ 1,101,609	\$ 3,084,504
2027-28	50%	\$ 2,203,217	25%	\$ 1,101,609	\$ 3,304,826
2028-29	55%	\$ 2,423,539	25%	\$ 1,101,609	\$ 3,525,147
2029-30	60%	\$ 2,643,860	25%	\$ 1,101,609	\$ 3,745,469
2030-31	65%	\$ 2,864,182	25%	\$ 1,101,609	\$ 3,965,791
2031-32	70%	\$ 3,084,504	25%	\$ 1,101,609	\$ 4,186,113
2032-33	75%	\$ 3,304,826	25%	\$ 1,101,609	\$ 4,406,434

Total Cumulative Transfers to each fund:	\$ 26,438,604	\$ 16,524,128
--	----------------------	----------------------

Grand Total Cumulative Transfers to Housing & Community Services:	\$ 42,962,732
---	----------------------

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 2033 and beyond, but the City will have successfully generated a total of about \$26,438,604 between 2018-19 and 2032-33 for additional affordable housing construction. 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.

FISCAL IMPACT

RPTT revenue will be restricted to homeless and housing services (25%) and the Housing Trust (75%) from 2032/2033 fiscal year on. Shifting general purpose revenues within the General Fund to fund a specific program will require reductions to expenditures within other General Fund programs or additional revenue sources to keep the General Fund budget in balance.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution

CONTACT

Jack Tibbetts, 543-3010